Neoclassical (Mainstream) Economics is Immoral

(With "Design Your Own Utopia" Workshop Instructions)

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1. General Introduction

In the following essay, after a brief ethics introduction (Section 2), and introduction to the "lay of the land" in the economics profession in the U.S. (Section 3), I first show that the Neoclassical economics (NC) claim that that its "high theory" is objective and value-free, or "*amoral*" in the sense that "equity" can be separated from "efficiency," is delusional (Section 4). I then proceed to show (Section 5) that the NC "fall-back" practical and applied, "second-best" theory is (on its own terms) "*immoral*" as it explicitly supports socially harmful (static) welfare transfers from low-income to high-income consumers. *This leads to a deeper and broader discussion (Section 6) of the "deep immorality" of NC economics, much of which is based on a description and analysis of a participatory group exercise "Design Your Own Utopia" developed by U. Mass ("radical") economics graduate students in the 1980's.* Finally, in concluding remarks (Section 7), I point out that the only form of economics that forthrightly and openly adheres to widely shared human values of social equity, democracy, and solidarity, is "democratic socialist" so-called "radical economics" (broadly defined - in the U.S. and U. K.) and that this is what all true "economics science" should be directed toward. In particular, though it pretends to be a value-free and objective "science", NC economics is a thinly-veiled system of apologetics for a blatantly *immoral* social system, and thus clearly an *ideology* rather than a school of thought that represents a reasonable and meaningful *value-based* "economic science".

2. Ethics Introduction

Is it preposterous to claim that mainstream, or Neoclassical (NC), economics is immoral? I don't think so. Following the work of Sam Harris (2010) whom I believe has compellingly argued that an objective and empirically grounded "scientific" basis for a universal morality can be, at least in principle established for many current moral questions, and that this domain of scientifically grounded morality is likely to expand in the future with further advances in neuroscience and other behavioral sciences, I believe that an objective evaluation of the moral basis for Neoclassical economics (and other schools of thought in political economy) can be, at least in broad outline, undertaken. [1] Harris bases universal morality in a notion of human well-being that he contends is no less amorphous and evolving than the commonly accepted understanding of physical health. I will not attempt to summarize the extensive philosophical and mostly neuroscience argumentation provided by Harris in this essay (I urge interested and/or skeptical readers to consult Harris's book), but instead assume that, at least in broad outlines with regard to many moral questions, a universal scientifically grounded morality along the lines that Harris suggests can be applied to Neoclassical (mainstream)

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[1] Readers who disagree with Harris may substitute their own version of, and justification for, a set of universally valid general moral principles such as, for example, those of John Rawls (1971), Jurgen Habermas (1990), or the "United Nations Universal Declaration of Human Rights" (see: http://www.un.org/en/documents/udhr/). For the purposes of the discussion that follows it only important that a universal set of moral principles exist. Their justification and precise articulation is, for our purposes, unimportant as long as they are supportive of basic principles of justice and democracy that are widely shared by all major religious and philosophical moral systems.

economic theory as currently taught in the overwhelming majority of economics departments in the U.S. and around the world.

A further initial caveat to avoid misunderstanding. I am not claiming that I or any other non-Neoclassical or "heterodox" economist is more personally virtuous than the average Neoclassical or mainstream economist. The issue at hand is not one of personal morality, but rather an evaluation of the values upon which a school of thought and its derived policy conclusions are based. As Harris, and many ethical philosophers before him, especially Hume, Smith and other members of the "Scottish Enlightenment" have noted, the vast majority of us are quite immoral by reasonable objective standards, as our "moral sentiments" are much too acutely influenced by our personal life histories and immediate and proximate sensations and observations, especially with regard to close family or friends, at the expense of more distant and less direct affects of our actions. How many of us would sacrifice our child so that two children whom we do not know might live?, ten children?, one hundred? As Smith notes we would likely be more upset over the loss of our little finger than a natural disaster that befell hundreds of millions of people in China (Smith, 1759, p. 192-3). How many of us in the U.S. would give an arm or an eye so that a million Indians might live? – possibly most of us, but it would not be easy. More mundanely, how many us who live in relative comfort, would sacrifice our nights out, or our family vacation trips, and contribute these funds to the desperately poor in our own or other countries? There are some significantly more moral persons in the world, the Princeton philosopher and ethicist Peter Singer for example (Singer, 1999), and most of us offer up some charitable donations, but by any objective human standards, those of us fortunate enough to live in relative comfort are profligately immoral considering the much greater human well-being that could be obtained from (for example) the money that we spend on food for our pets that we choose not to donate to charity.

As will be seen below this point can be carried much further. Do we who live in relative comfort work as hard or as long as persons whose products and services we routinely consume and use? Is our economy based on roughly equal exchange of effort relative to our enjoyment of the bounty of human production?[2] The truth is that living in an immorally constructed national and global economy makes it nearly impossible to be truly personally virtuous.[3]

This last statement serves to illustrate an important point. The fact that almost all individual behavior is so colored by personal experience and bonds of family and friendship as to be hopelessly immoral in an objective sense, does not mean that we should not attempt to do better than this when it comes to questions of broad social policies that ultimately have a much greater impact than our individual behavior that does not relate to these critical questions of collective choice. Or to put this differently, following Harris, our almost universal less than perfect personal morality does not mean

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[2] See (Baiman, 2006, 2011) for models showing the workings of "unequal exchange" of labor, and "rentier" extraction of resources with (almost) no exchange for labor, in the world economy.
[3] Readers who have been exposed to the work of one of the most insightful and influential "worldly moral philosophers" of all time, Karl Marx, will recognize these concerns as driving his withering critique of bourgeois "equal exchange ideology".

that we should not attempt to use what we know from behavioral and brain science to better determine the relative morality of different social and economic policies. And this is especially important, as the pretense that Neoclassical economics is an objective and "value neutral" "science" like physics, that can be divorced from "inherently subjective" political considerations, is such a staple of mainstream economic thinking.

3. Economics Introduction

Though many mainstream economists are loath to admit this, it's been long known that many of the most important issues of economic policy cannot be meaningfully addressed through value neutral "positivist" economic "science" but rather are fundamentally questions of values and morality (see Friedman (1953) on "positivist" economics).

Classical political economists were well aware of this as they tried to base economic policy on a realistic view of moral behavior rather than religious moral precepts following the thinking of famous atheist moral philosophers like David Hume (1742) and Jeremy Bentham (1818).[4] Though not an atheist himself, Adam Smith for example, was building on the thinking of Hume and the "Scottish Enlightenment" when he tried to fashion a "Theory of Moral Sentiments" and promote competition that through an "invisible hand" would channel (inevitable) self-interested behavior toward the (unintended) service of the public good and promote the "welfare of nations" (Smith, 1776).[5] Almost all of modern day "NeoClassical" (mainstream) economics can be viewed as a footnote to this idea of Smith, as through elaborate mathematical formalisms attempts are made to model "micro-economic foundations" based on the self-interested (profit and utility maximizing) behavior of "homo-economicus" or "methodological individualism and rational action (MIRA), that supposedly underlies all fundamental aspects of the economy (Taylor, 2004).

Heterodox economists, have also been well aware of the value basis of economic theory and policy and have railed against the reigning Neoclassical "natural science" paradigm insisting that it's attempt to turn economics into a kind of "classical mechanics" based on "value free" methodological individualism is nothing more than an ideological form of "sciencism" that masks a very distinct set of values (efficiency, primacy of private markets and capitalism) for which mainstream economics serves as a "social legitimation theory" that justifies the dominant economic and political order much in the same way that Soviet style "Marxism" sought to justify State Communism with a claim that its' particular brand of Marxism was a "science" of human history (Mirowski, 2001) (Habermas, 1975).

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[4] See for example (Hume, 1742). In spite of his status as one of most preeminent philosophers of his time, David Hume was not permitted to teach at a Scottish University, or be buried in a public (religious) cemetery due to his atheist views which he refused to recant. Similarly, Jeremy Bentham , though not as publicly outspoken an atheist as Hume, made his views clear through such works as Bentham (1818).
[5] Though Smith (1776) is his most famous book, Smith scholars, including the late Robert Heilbroner, ,author of probably the most influential 20th book on the History of Economic Thought (Heilbroner, 1999) that would I think support many of the contentions of this paper, believed that the *Theory of Moral Sentiments* (Smith, 1759) was at least as important in laying out the basis of his ideas.

However, recognizing that some elements of mainstream economics could be useful tools, particularly in analyzing markets and market behavior when these are reasonably competitive, and with a view to exposing students to the kind of ideas that most other economics students are being (exclusively) taught, "Heterodox" economics departments, like other more open minded (and not coincidentally of lower status and of less importance for the legitimation of the social order) social sciences like Sociology, Anthropology, and even Political Science, have tended to offer a range of different kinds (and often conflicting) economic theories and policies based on the ideas of key thinkers. The most important of which are: Neoclassical (mainstream) Economics (as noted based on – at least some of – the ideas of Adam Smith)[6], Keynesian Economics (or more properly "true" Keynesian, often referred to as "Post Keynesian," economics based on the work of John Maynard Keynes (not U.S. style "Neo-Keynesian", or "Bastard Keynesian" in Joan Robinson's well-known characterization,[7] based on a kind of "Neo-Classical synthesis" which tries to shoehorn Keynes into a Neoclassical "rational individualist" framework by providing proper "micro-foundations" for the kind of "institutional rigidities" that under special circumstances would make a basically "free market" economy at least temporarily respond to Keynesian policy prescriptions), and finally Marxist Economics based on the ideas of Karl Marx who emphasized capitalist class oppression and exploitation and, in line with the most progressive pro-democracy enlightenment ideas of his day, the need to construct a truly democratic, political *and* economic, social order.[8] In turn these three "schools of thought" are said to be based on different and distinct sets of values emphasizing respectively, efficiency, employment, and fairess (Bowles, et. al., 2005).

In addition, Austrian Economics, particularly emphasizing Joseph Schumpeter's "creative destruction" and an "evolutionary economics" based on a view of society as an "evolving organism" over time, rather than trending toward maximal efficiency based on fixed laws at any given point in time as in the Neoclassical view, is often added to the mix, with an understanding that one of the prominent "Austrian" economists, Joseph Schumpeter was (very consciously) strongly influenced in this regard by Marx's similar views on the importance of a dynamic and historical understanding of capitalism.

In heterodox departments (as is the case in many Sociology, Anthropology, and Political Science programs) students are nominally encouraged to "think for themselves" and select the theory (and its associated policy emphasis) that best fits their own understanding of what's most important based on their own values and the specific political economic issue(s) at hand. Implicitly of course, teaching in heterodox departments tends to be strongly critical of Neoclassical theory in most contexts, and supportive of Post Keynesian and Marxist theory as being more relevant and consistent with economic reality in advanced capitalism.

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[6] Smith was actually a much more subtle and realistic "enlightenment" philosopher than "free market" and "small government" ideologues and economics departments generally give him credit for, supporting among other things, progressive taxes, public education, and strong government regulation of business – see for example (Bowles, et. al., 2005).
[7] See (Robinson, 1962)
[8] For an insightful, comprehensive, highly formalized mathematical comparison of Neoclassical, Neo-Keynesian, and Neo-Marxist, schools of thought see Marglin (1984).

The problem with this social science education in cognitive "dissonance," as the theory and policy prescriptions of these disparate schools of thought often directly conflict, is that it leaves open the question of what should be the preferred policy recommendation? - as in "on the one hand, but on the other hand" well known joke about economists.

The world and U.S. economy is currently in the midst of a severe crisis – the worst since the Great Depression. The world is crying out for answers. I will argue in this paper that the root causes of our economic illness lie in the fundamental immorality of our economic structure. A "mainstream" economics that refuses to acknowledge the value basis of its own theoretical constructions and policy recommendations, and worse, professes ignorance about its own apologetic function as core legitimator of a clearly immoral (as will be seen below, based on any reasonable set of moral standards) economic system and social order, will remain at best impotent, and at worse a major obstacle, to formulating and implementing the fundamental policy changes necessary for economic and social revitalization. Hence the imperative to expose the immoral basis of mainstream economics.

4. The Mainstream, or Neoclassical (NC), Economics Delusion that "Equity" can be Strictly Separated from "Efficiency"

NC values-opacity is rooted in the most refined mathematical formalisms of General Equilibrium Theory considered to be at the core of the theoretical foundations of the Neoclassical vision. The three "General Theorems of Welfare Economics" supposedly provide irrefutable proof of Adam's Smith's vision that individual agent utility and profit maximization will optimize social welfare in a purely competitive market economy under assumptions that are thought to be ideal approximations of how such an economy would work if all individuals behaved as rational individual maximizers of their own self interest in a purely competitive market under ""constant returns to scale production," no "market externalities" in production and consumption, "diminishing marginal utility" and "diminishing returns" to capital and labor, and numerous other highly idealized simplifying assumptions.[9]

One of the key assumptions of this model and a core assumption of NC economics is that a technically neutral and value free definition of "efficiency" and "welfare optimality" can be strictly separated from concerns about "equity" or fairness with regard to the distribution of goods and services.[10] It is upon this pillar that NC economics largely rests its claim of value neutrality.

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[9] I make no attempt in the following discussion to provide a precisely accurate or comprehensive overview of NC (Advanced Microeconomic) theory. Rather this is simply an effort to highlight some of its most essential elements. See Dorman (2001) for a good review of some of the modern day problems that have arisen even in this highly idealized and purely theoretical Neoclassical economic model.

[10] A discussion of the narrowness of this definition of fairness – as having to do exclusively with distribution – would lead us too far astray at this point. This issue will be addressed below.

But this pillar, upon close inspection, turns out to be a mirage. At the level of high theory "welfare" is defined as a purely ordinal measure of individual agent "utility" or "satisfaction" from either consumption of goods or services (for a human person) or profit (when the "agent" is a business).[11] The basic premises of the theory in this regard are: First, an ordinal measure of individual welfare can be assigned to an individual agent but not compared across agents (when agents are persons). Second, welfare optimality is defined as a condition of "Pareto Optimality" whereby no agent can be made better off (get to a higher individual utility ranking: or "indifference curve" or "isoqunat curve"[12]) without some other agent being made worse off (being forced to a lower curve). Third, in a perfectly competitive economy (where no agent has market power over any other agent) that is free of all "externalities" (extra-market affects like pollution or aesthetic improvement) and where all agents are trying to maximize their respective utility or output levels, all exchanges in both "product" (for goods and services used for consumption) and "factor" markets (where labor and capital to be used for production are bought and sold) will tend toward:

(1)   price = marginal cost

exchange ratios that will (Pareto) optimize social welfare.[13]

Perfectly voluntary exchanges, that by definition (as they are voluntary) increase the utility or output of at least one agent without reducing these for any other agent, will produce an outcome that cannot be improved upon through a voluntary exchange, as if there were such a possibility the exchange would have taken place. An "optimal" market system is "efficient" in that it has arrived at a state where there are no voluntary "unrealized" exchanges.

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[11] And one can see immediately the path from defining businesses as "agents" to the "corporate personhood" doctrine recently upheld by the U.S. Supreme Ct. in the Citizen's United decision (Hartmann, 2010).

[12] "Indifference curves" map "consumer bundles" or "choice sets" of consumer goods that give the same satisfaction or "utility". "Isoquants" map producer selections of "factor inputs" like labor and capital that (together) have the same cost. If either consumers or producers could get to higher indifference or isoquant curves without going over their consumer or factor cost "budget constraints" they would be able to get more utility or profit by being more "efficient" in their selections without reducing the utility or profit of any other consumer.

[13] Technically in a two consumer, two producer, two factor of production, two good model: the ratio of the "marginal rates of substitution" between commodities for the two consumers as determined by their demand preferences (i.e. the slopes of their respective indifference curves) must be equal to the ratio of the "marginal rate of product transformation" as determined by choice of technique along convex production isoquants that determine a "contract curve" of equalized "marginal rates of technical substitution". All of these ratio equalities can be satisfied (subject to an arbitrary fixed constant multiplier or "numeraire") if and only if price equal marginal costs in product markets, and returns (wages and profits to labor and capital) equal marginal revenue products (of labor and capital) in factor markets (Mansfield, 1994, Chap. 16-17.). A related critique of aggregate NC "production functions" shows that the concept of "aggregate capital" cannot be defined until prices are determined, but according to NC theory these cannot be derived in without "marginal products of capital". See Nell (1980) for a good review of this "re-switching debate" and Marglin (1984) for alternative take on it.

If this strikes you as a rather vacuous intellectual game, you may be right. But it serves a solid ideologically purpose. It projects an image of an economy as an ideal market that though the operation of free and voluntary exchanges arrives at a (very narrowly defined) "optimum" state that cannot be improved upon by free and voluntary exchanges.[14]

At this point readers, especially those who have not been subjected to rigorous graduate training in economics, will immediately protest that this is no "optimality" at all!

What if Donald Trump is a passive owner of all of the businesses (so they still compete with each other) who as owner of all of the capital and "renter" of all of the labor, receives all of the non-labor income in the economy and spends it on say an ever growing fleet of enormous yachts (trying to outdo the current owners of the largest yachts in the world: Russian Billionaire Roman Abramovich, the Sultan of Oman, and King Abdulla of Saudi Arabia, respectively – based on quick Wikipedia search) while due to the enormous (free and voluntary) competition for any kind of work (as no other source of income is available and many people are unemployed), wages are extremely low and most other people are starving. How can this be construed as in any way "optimizing" social welfare?

To this the committed NC has a ready answer etched into the brain circuitry of every student of mainstream economics: through a suitably chosen "initial allocation of endowments," any distributive outcome whatsoever can be arrived at through perfectly competitive markets under the conditions delineated above. Presto! Let political scientists, sociologists, anthropologists, and other "soft" social scientists worry about values and distribution. Economists need not concern themselves with this as they worry about how to "optimize" markets, or maximize "efficiency" without regard to initial (or final) distribution.[15]

However, there is one major problem with all of this. This story has virtually nothing to do with real market capitalist market economies - not even approximately under all of the presumed ideal assumptions and conditions. This is a "whole cloth" fabrication, or fairy

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[14] This is basic mainstream microeconomic theory as taught in college and high school textbooks and applied in "applications" of economics to law, utility regulation, and other fields, in descriptions of what a market economy does in much of mainstream (especially in Conservative and Libertarian) political science. Interestingly, few current mainstream theoretical micro-economists continue to work on General Equilibrium Welfare Theory as numerous technical problems have arisen, even under stringent NC assumptions (Dorman, 2001). Many NC micro-economists now hold a "Game Theory" approach to micro-economics that (to my knowledge) doesn't even try to justify allocations as "welfare maximizing" in any sense (Gintis, 2009). But regardless of what professional micro-economists work on or believe, the precepts and conclusions of General Equilibrium Welfare Theory are completely hegemonic in text books and in (at least U.S.) political and legal discourse in the minds of the public and "policy experts", most of whom are not professional economists, who have had any exposure to introductory economics courses.

[15] The first result, that an ideal competitive market will generate a Pareto Optimal equilibrium is referred to as the "First Fundamental Theorem of Welfare Economics". The second result, that a suitable allocation of initial endowments can be found that will produce any desired (final) market equilibrium allocation through an ideal competitive market process is referred to as the "Second Fundamental Theorem of Welfare Economics" (Hahnel and Albert, 1990). The third fundamental theorem is the proof of the *existence* of an equilibrium for an idealized capitalist market economy, similarly defined and under similar assumptions.

tale – the precise choice of language probably depending on one's feelings about the ideological implications of this elaborate hoax. While no one disputes the need for simplifications and abstractions in modeling, for the resultant idealized construction to have any value it's got to have some relationship to the real phenomena being modeled – at least "at the limit" when approximate ideal assumptions are fulfilled. This idealization fails at the gate. It doesn't get to first base.

Though there are numerous problems related to the unreality of the simplifying assumptions, the "static" and "exogenous" nature of both the preference rankings and production choice sets, the assumptions of no externalities and no market power, the assumptions of no "indivisibilities" or "lumpiness" in production and , and of uniform smooth and continuous "convexity" of indifference curves and isoquants requiring diminishing returns and eventual rising marginal and average cost curves[16], to name a few problems that have highlighted by numerous critics, see for example (Hahnel and Albert, 1990), and some of these can be perhaps considered useful "perfect market" simplifying assumptions and others are perhaps derivative of these, the core underlying ideological gambit behind this model is an attempt to shoehorn a capitalist *production system* into an idealized competitive voluntary equal-exchange barter system or *consumer market*.[17]

The problem is that *production*, even under ideal competitive conditions does not fulfill the price equal marginal cost condition – not even remotely or approximately, because real cost of *producing* something (just about anything) as opposed to *exchanging* something is not its "*marginal*", or incremental cost, but rather the *total* cost of production which includes overhead or "*fixed* costs" such as plant, equipment, research and development and "set-up" costs that need to be paid for through the sale of the product. Business that are forced to price at marginal costs are typically facing "ruinous" competition" and are not long for this world as their plant and equipment cannot be replenished even if it has been fully paid for in its current state.

Needless to say this is not a brilliant insight – but rather an elementary fact of production that is discussed in every introductory microeconomics textbook. How can the enormous

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[16] Sraffa's (1926) critique of the assumption that all production must exhibit long-run "diminishing returns" which cites Alfred Marshall's (a founder of Neoclassical economics) more realistic analysis of production as possibly exhibiting increasing, constant, or diminishing returns, as the quantity produced increases, dependent on the sector and business in question, is particularly well known. As substantial "fixed costs" generate increasing returns to scale, the critique (in text below) in many ways follows this original Sraffian critique.

[17] This is of course a key part of the Marxist critique of capitalism and it can be carried much farther – see below. Interestingly, the "transformation problem" of orthodox Marxist economics, somewhat analogously, creates irresolvable complications in deriving a practical prices-to-labor-value algorithm because of heterogeneity of capital intensity in production, which mainstream economists readily acknowledge (Samuelson , 1971) . So both major forms of political economic ideology founder on a plausible modeling of production, but Marx's insights into the workings of capitalism as a class-based system of production and exploitation have been "realistically" (without unfounded abstractions and simplifications) modeled through "Neo Marxist" surplus theory constructions, see for example (Baiman, 2006) (Roemer, 1988) (Marglin, 1984). As will be shown below, similar efforts to construct a (relatively) realistic mainstream economic theoretical foundation end up as efforts to ideologically justify *immoral* outcomes.

NC theoretical edifice be built on such a patently false premise? A claim that this is a "simplification" or "abstraction" is patently false, as this assumption almost *never* holds in reality. This is just pure "make believe" mythology that should not be treated seriously – and in fact *is not* by most practicing NC economists – a point we shall discuss below.

In almost every case of real production:

(2)   Price > marginal cost

And this deviation is not random, but systemic.[18] Profit maximization thus implies that firm's that produce more than one product, or that can sell the same product in relatively separable markets (perhaps under different brand names) e.g. almost all firms, will attempt to take advantage of (price inelastic) consumers of products that are *less* price-sensitive by raising their price mark-up (price above marginal-cost) higher, relative to prices for products sold to *more* price sensitive (price elastic) consumers. For a monopoly firm the "profit maximizing" formula for this kind of "discriminatory" price setting is well known:

(3) $$\frac{p_i - mc_i}{p_i} = \frac{1}{E_i}$$

Where p_i, mc_i, and E_i are price, price-elasticity, and marginal cost, respectively, for product i for a monopoly firm that produces multiple products and are all positive (E_i defined as the positive price elasticity) - see for example Chiang, 1984:365-9. The price

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[18] An analogous inequality holds on the "factor market" side as the real wage will be less than the "marginal revenue product" of labor: w < MRP$_L$ (for all workers except possibly the most recently hired "marginal worker) and similarly real interest payments, or the return to creditors (or the "cost" of capital) will be less than the marginal revenue product of Capital: i < MRP$_K$ (for every "unit of capital " except possibly for the last "marginal" unit) for every *non-linear* production function which exhibits "diminishing returns" to labor and capital – a standard (short-term) micro-economic assumption which is a realistic consequence of "overhead" and "setup" costs in production. This "unequal exchange" in factor markets is the source of profit, a residual that *cannot* therefore be modeled as a some kind of proportional return to "entrepreneurship" or "risk" that follows the rules of "marginal productivity" - rules that can only hold for a *linear* production function with no fixed overhead or setup costs. This residual is after all, as this discussion shows, a result of "unequal exchange" for labor (and capital), or what can only be called "exploitation" based on "marginal productivity" rules. Of course all of this begs the question of why the passive owners of capital should (even in theory) receive any kind of income, not to mention a return that is in any way related to the "marginal product" of the real or financial "capital" (machines, office buildings, bond or stock portfolios, etc.) that they "own" as, by definition, they do nothing productive – they just "own" claims to the output of their real or financial assets. In this view only current "direct", or past "indirect" labor embodied in tools of production, can produce goods or services that are of value to humans, and capitalist (passive or active) derive profit and "return to capital" from systematic exploitation or "unequal exchange" of labor, a fundamental exploitative class relationship that is at the core of the Capitalist mode of production. See Schweickart (1993) Chapter 1,for an exceptionally comprehensive and clear discussion of this Marxist view that does not suffer from the contradictions and shortcomings of the muddled and confused NC ideological story addressed in this paper - see text below for further discussion of these deeper issues.

over marginal-cost markup will thus be inversely related to the price elasticity. The higher the (positive) price elasticity E_i (the more elastic or more price sensitive consumers of this product are) the lower the markup over marginal-cost.

Of course in competitive markets there will be constraints on the ability of firms to raise their mark-ups – but since they *have* to be able to cover their overhead costs, no matter how competitive the sector, prices are going to be higher than marginal costs, and as all firms are biased toward raising them more for price inelastic products and less for price elastic products, this systemic pattern will on-average prevail in the overall economy.[19]

Moreover, as lower income consumers will spend a higher share of their income on "necessities" over which they have little or no "exit", or "no-purchasing", choice (for example for: public transportation, food, housing, heat, etc.) and therefore little price sensitivity (low elasticity) compared to higher income consumers who will purchase a larger share of "luxuries" (yachts, second homes, jewelry, fancy clothes, fine wine, etc.) which are more likely to be discretionary "purchases of choice" of goods and services of higher elasticity and higher proportional mark-ups over marginal cost, relative to competitive pressures. Lower income consumers will therefore, on average, pay more relative to marginal cost, than higher income consumers.[20]

So what happens when our erstwhile NC economist sets initial endowments based on the "Fundamental Welfare Theorems" (let's say for argument's sake) to equalize final distribution of resources. No matter all the other idealized assumptions, production pricing will immediately act to contravene this as consumers who happen to have a higher preference for low-elasticity products will lose income and vice-versa for consumers with a disproportionate preference for high elasticity products. This in-turn will cause income inequality to increase, as these now lower real income (low elasticity preference) consumers devote their remaining income disproportionately to (generally lower elasticity) necessities and conversely for the high-elasticity preference consumers. Inequality in resource distribution will thus snow ball through "cumulative causation" undermining any hope of reaching an equalized final distribution of resources.[21]

The Fundamental Theorems in other words fundamentally fail – there is no, even approximate idealized competitive market economy, in which they can succeed. Pareto "efficient" voluntary market-driven "equal exchange" mechanisms will undermine efforts to obtain the chosen "equitable" resource allocation based on initial endowment

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[19] This is actually a stronger than necessary claim for the refutation of the General Theorems. As long as mark-ups over marginal cost are not uniform (in their proportions) across products, the equal exchange premise of the General Theorems is violated and their outcome is vitiated. But there is no reason for these mark-ups to be uniform and (1) suggests that these mark-ups will be systemically biased as described below (in the absence of highly unlikely countervailing conditions like inelastic markets being always more competitive than elastic markets and just by the right amount to perfectly off-set (1)).

[20] Except, as noted in the previous footnote, under very unlikely circumstances reflecting highly unusually and specific conditions that would certainly be inadequate to support the *general* conclusions of the Fundamental Theorems.

[21] More generally, any deviation from a uniformly proportionate mark-up will cause the Fundamental Theorems to fail – see prior footnotes.

choices. The ideal "efficient" competitive markets that NC economics promotes as a key goal of neutral technocratic "amoral" economic "science" will impact "equity." Even "Pareto Efficiency" cannot therefore be a stand-alone economic objective that can be divorced from moral or "equity" considerations.

4. From Amorality to Immorality

However, surprisingly, given the substantial resources in time and energy that mainstream economics departments devote, and require grad students to devote, to these kinds of "high theory" scholastics, the vast majority of economists (basically all those who do not explicitly work on "General Equilibrium" or "Welfare Theory") pretty much ignore the General Equilibrium Theory discussed in Section 3 as so much "window dressing" that makes mainstream economics look more like a natural science and serves as a useful "gate keeper" to select out students who after spending considerable time and energy plowing through the advanced mathematics necessary to derive these theorems are more likely to become attached to their underlying ideological message.[22] Why else would one be required to spend so much time and effort on this? The "Neo-Platonic" ideological massage being implicitly conveyed is that as these theorems are derived from dazzlingly fancy (for most economics students) mathematics, they must reflect some "deep" underlying "natural economic reality" common to all societies throughout history – a "timeless" and "apolitical" vision of how "normal" economies are supposed to work.

But though useful as a tool of ideological indoctrination, this "vision" is patently useless for any kind of practical policy analysis, and cannot really justify in any concrete and practical sense, the single minded focus on "efficiency" and competitive market exchange that characterizes NC economic "science". For this a more practical and realistic "second best" theory is necessary. Unfortunately, though it makes no claims of "objective" value-free "amorality," this "second best" NC applied microeconomics is even more destructive of human well-being than the amoral high theory as it is based on a theoretical framework that generates real-world policy (not just theory) that that is concretely "*immoral*", i.e. that directly supports policies that reduce the "well being" of real human beings.

This second and more practical (and more widely disseminated) layer of the NC economics edifice begins, as every student of introductory microeconomics knows, by defining consumer and producer welfare as "consumer surplus" (CS) and "producer surplus" (PS) and overall "social welfare" as the sum of these over individuals and businesses. Consumer surplus is defined as the area between the demand curve and the horizontal equilibrium price line, and producer surplus is the area below the price line and above the producer's "average total cost curve".[23]

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[22] In fact, though the fundamentals of General Equilibrium Welfare Theory are taught as bedrock economic principles in introductory and intermediate, economics, public policy, law, political science, and other mainstream social science textbooks, most current theoretical NC microeconomics themselves ignore General Equilibrium Welfare Theory, focusing instead on game theory applications that eschew any concern for "general welfare" – see earlier footnote.

[23] See any standard introductory microeconomic text , for example (Mankiw, 2008) for further explanation.

Both consumer surplus and producer surplus are measured in dollars. Needless to say, this "work around" washes away the "non-comparability" General Equilibrium Theory assumptions from which the claim of amoral "separability" of equity and efficiency is derived. In this "second best" applied welfare economic world, not only can individual gains and losses be compared and added up (in terms of $ utils) but consumer welfare measured as the sum of CS in dollars can be, and in fact is, weighted equally with the sum of profits or PS. This revisionist adaptation is not surprising as the high theory model of non-comparable ordinal utility is completely unworkable in practice where economic policies almost always involve "cost benefit analysis" or tradeoffs between winners and losers rather than gains for all. Real policy decisions almost always involve normative judgments for which the Pareto Optimality "gains for all" criterion is quite useless.

Conveniently, the sum of the areas of the consumer surplus and producer surplus triangles is maximized in a simple idealized supply and demand graph for a "perfectly competitive" market at the equilibrium price. (The triangles above and below the horizontal price line and to the left of the intersection of the demand and supply curves that the equilibrium price line runs through). And this graph, with a downward sloping demand curve and an upward sloping supply curve equal to an upward sloping supply curve is so pervasive in introductory economics texts that in the popular imagination economics is often thought of as "the study of supply and demand". In this case any form of "forced" deviation from the perfect equilibrium price through a mandated price floor or ceiling, or tax, will result in "deadweight loss", or net loss of CS+PS (Mankiw, 2008).

But this simple graphical exercise which appears to support an *applied* welfare economics facsimile of the first Fundamental Theorem is more of a didactic exercise for introductory economics indoctrination purposes than a serious theory. For to work as a justification of the "price equal marginal-cost" foundational equality of welfare economics (and this is how it is used in introductory texts – see Mankiw (2008)), it, like the high theory that it is supposed to represent, must *assume* that "perfectly competitive' firms price at marginal cost.[24] And this, as we have pointed out above, is a nonsensical assumption, even in the "ad hoc" applied welfare economics world of comparable dollar valued CS and PS utils.

OK you may ask, we can understand why this applied welfare approach is no longer "amoral" but why is it necessarily "immoral"?

It is immoral because the answer that "second best" theory offers in response the fundamental critique discussed above (that almost no business can price at "marginal cost") is immoral.

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[24] This is necessary so that the assumption of "diminishing returns" or "increasing marginal costs" will generate an upward sloping supply curve. If the supply curve is not upward sloping the equilibrium price will not be stable, and in the long run their will be no limit to the optimal scale of production or size of the firm as Sraffa (1926) pointed out.

By equally weighing[25] CS and PS and by simply summing equally weighted CS over households, "second best" theory is able to claim that market pricing maximizes total (static) CS by relying on the little known (by non specialists) *Ramsey pricing theorem*.

This core mathematical result shows that for any fixed level of PS (or overall revenue minus overall costs – not just "marginal costs"), CS will be maximized when a firm pays for its overhead and other "non-marginal" costs by raising price above marginal costs for its i products (or i separable markets) so that (following the notation of (3) with k a positive constant):[26]

(4) $$\frac{p_i - mc_i}{p_i} = k\frac{1}{E_i}$$

If k is set to 1, it can be readily seen that (4) will be equivalent to (3). Voila! The profit maximizing behavior described in (3) appears to maximize CS. "Second best" theory (unlike the "first best" Fundamental Theorems) appears compatible with common sense, i.e. the fact that most firms are multi-product (if not in actual products, at least in customized pricing and perhaps "brand differentiation," for different markets – e.g. airline ticket prices) with prices that will (depending on their market power) tend toward "inverse elasticity" pricing along the lines of (3) and (4).

How do Neoclassical economists square this apparent convergence of "price discrimination" (3) with maximizing CS (4)? They don't.[27]

In their classic article on Ramsey pricing Baumol and Bradford (1970, p. 267) note that:

"This [Ramsey Pricing] result is surely not immediately acceptable through intuition. It strikes us as curious, if for no other reason, because it seems to say that ordinary price discrimination might well set relative prices at least roughly in the manner required for optimal social welfare in the presence of a profit constraint."[Brackets mine]

And then offer the following confusing non-explanation (Baumol and Bradford 1970, p. 267):

"Since the objective of the [Ramsey pricing and profit maximizing pricing] can be described as the determination of the optimally discriminating set of prices needed to obtain the required profit some degree of resemblance is perhaps to be expected. The case studied here is, thus, in a sense the obverse of the problem of profit maximizing price discrimination and while the two solutions bear some qualitative resemblance [Mathematically identical formulas subject to a constant would appear to be more than "qualitative resemblance."], it can be shown that they may in fact differ substantially in

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[25] An arbitrary weighting that does not address issues of either "dynamic" efficiency over time as opposed to purely "static" efficiency at one point in time, or the question of how and who should determine the proper level of investment and benefit from it.
[26] See (Ramsey, 1927).
[27] The following citations and discussion follows a more detailed illustrated presentation in Baiman (2000).

quantity [But they can only differ "in quantity" only up to a constant which is a negligible quantitative difference from an economic point of view as only perfect monopolists will follow (1) precisely. All other price discriminating firms will practice "inverse elasticity" pricing patterned on (1) up to a constant, i.e. the difference between (1) and (2) for most firms for practical purposes is inconsequential.]"

Moreover, when this theory really counts in terms of supporting real policy decisions, theoretical subtleties regarding "qualitative" versus "quantitative" difference, whatever this means, disappear as in this Edison Institute funded white paper by three of the most prominent applied micro-economists of the day, Baumol, Joskow, and Kahn that was submitted to the Federal Energy Regulatory Commission (FERC) in support of California's 1996 electricity deregulation (remember this? Skyrocketing rates overnight, widespread blackouts and rationing, requiring state bailouts of regulated utilities even as unregulated holding companies including Enron made off with billions?) that in no-uncertain terms posits an equivalency between "Ramsey Pricing" for high fixed-cost oligopolistic markets and "marginal cost pricing" for perfectly competitive markets (Baumol, Joskow, and Kahn 1994, 19, note 7:[28]

"Economists have derived a formula for the (second best) efficient prices in these [average costs above marginal costs] circumstances; these are referred to as *Ramsey prices* (after their discoverer).
        Henceforth, *whenever we refer to prices set at marginal costs in this paper, we will mean either what the term literally implies, or, instead, we will be referring to Ramsey prices,* whatever is appropriate under the circumstances in question at that point in the discussion. [*italics* and brackets mine]"

Baumol, Joskow, and Kahn employ this Ramsey pricing-based marginal-cost pricing principle in a later section of their paper on "Allocative Efficiency" where they argue that, in contrast with regulated utility pricing regimes, competitive markets will exert pressure to achieve the afore mentioned "second-best" efficiencies of inverse-elasticity Ramsey-like pricing – although they (as noted in the cited footnote above) substitute the more palatable term "marginal cost" pricing instead of the more accurate "Ramsey pricing" (Baumol, et. al, 1994, p. 23):

"Moreover, regulatory commissions have traditionally imposed price structures that grossly increased allocative inefficiencies. For example, if fixed costs (e.g. capital charges) were recovered from customers via a lump sum charge and variable or short run marginal (e.g. fuel) costs recovered in usage sensitive charges, *or if mark-ups or mark-downs from marginal costs were varied by category of customers roughly in inverse proportion to the elasticity of their demands, inefficient under-use or over-use of electricity would be reduced.* The adoption of such technically more efficient price structures has, however, been largely obstructed by the severe political difficulties they would raise, because they would essentially involve increased electric bills for the smallest, least mobile, customers; instead and for the same reason, regulators have often done the opposite imposing rate structures that subsidize the least elastic (e.g. residential)

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[28] The following discussion follows a more comprehensive presentation in Baiman (2001) p. 210-212.

demand by the more-elastic (e.g. industrial) customers, *in direct violation of the dictates of allocative efficiency* [*sic!*].

  A more competitive order will exert pressures to minimize these distortions. It will tend to drive <u>average</u> prices closer to the long-run marginal cost of production; and by driving the prices currently paid by overcharged customers closer to the *marginal cost* of serving them, it will tend to undermine the cross-subsidizations (*itlalics and brackets mine).*"

And the rest is history. Needless to say, I don't believe that Baumol, Bradford, Joskow, Kahn or any other Neoclassical economists were assessed any portion of the cost of damages of this fiasco, nor have the official Neoclassical doctrines that led to this been (to my knowledge) modified in any way in leading economics journals and textbooks, though the Governor of California at the time (Democrat, Gray Davis) lost his job in large part because of it (Lusvardi, 2011).

What *is* the story here?

A detailed (illustrated) explanation is provided in Baiman (2000), but the short version is as follows.

Ramsey pricing maximizes CS only when individual CS from consumers with different incomes (or wealth) are summed up *without weights* on a dollar for dollar basis, *and* when this dollar sum of CS is also equally weighed with the dollar sum of PS (or revenue minus costs). With this kind of flat summing of CS and PS (see (Baiman, 2000, Figures 31.1 and 31.2, p. 279 and 281):

  a) Price increases (relative to marginal-cost) do indeed lead to larger PS (or profit) *gain* in low-elasticity markets than in higher-elasticity markets.
  b) And the intuition that this will cause larger CS *loss* in low-elasticity markets than in higher elasticity markets *is* correct.

But standard Ramsey pricing provides an allocation, *not for maximizing an absolute level of CS, but rather for realizing an allowable level of PS (or profit) with the least possible loss of CS.* In other words, the issue here is *relative*, not absolute, PS/CS gain/loss. And the *counter intuitive* standard Ramsey pricing outcome is a result of the fact that:

  c) *Relative to PS gain,* CS loss in low-elasticity markets in *less* than in high-elasticity markets.

So that *if PS and CS are summed up without any weights in the same dollar units,* a given level of PS or profit (compared on a dollar to dollar basis with CS) can be with realized with minimal CS loss (thus maximizing the CS remaining) by raising prices *higher* above marginal-costs in low-elasticity markets than in high-elasticity markets.

So the "flat" dollar for dollar CS weighting scheme and equal weighing of PS surplus in the Lagrangian objective function –see Appendix A, Equation A5, leads to a clearly

immoral pricing formula that stipulates *higher* prices for (generally) lower income customers and *lower* prices for (generally) higher income customers. And this triumph of "second-best" practical *applied* Neoclassical microeconomic theory over regulatory common sense led directly to catastrophic electricity price gouging in California.[29]

Interestingly, a "moral" common-sense short-term static allocation pricing theory has been available in theory, even as it has been ignored in applied microeconomics practice, for a long time. *These "Progressive Ramsey Pricing" rules are based on a simple common-sense weighing of consumer welfare benefits (or utils) of CS by income or wealth that, even if compared to an unweighted sum of PS, leads to the opposite and intuitive common-sense outcome: lower prices for (generally) low-income consumers and higher prices for (generally) higher-income consumers.*

Feldstein (1972) and Atkinson and Stiglitz (1980) both provide "*progressive* Ramsey Pricing" formulations that are equivalent, or generalizations, of that provided in Baiman (2001, equation 2.13, p. 208), (Appendix, Equation A6), though neither Feldstein, or Atkinson and Stiglitz, provide a complete proof of this formula as they don't demonstrate that all of the necessary inequalities hold, or prove that "second order" conditions are satisfied.[30] However, Baiman (2001, Appendix A) provides a complete and definitive proof of the validity of the progressive Ramsey pricing formula by demonstrating in detail the validity of all of the necessary inequality conditions and proving that the second order conditions hold. [31]

Why was the "progressive" Ramsey pricing formula ignored? One can only surmise that the utility sponsored "Edison Institute" was not about to fund a white paper discussing consumer welfare loss from "competitive market" pricing – and this kind of theory would not help bolster the endowments of business schools and economics departments.

There was one additional (neither stated or proven) missing theoretical link. Neither Feldstein, or Atkinson and Stiglitz, proved that in practical cases "equity factors" will generally outweigh (narrowly conceived) "efficiency" factors in the income weighted Ramsey pricing formulations that they formulated. However, this missing step has been proved (see Appendix A Equation (A7) and following discussion, or Baiman (2002) for a complete proof. *In fact Baiman (2002) demonstrates that in almost every case, not only inverse elasticity pricing, but even "flat" non-progressive pricing is short-term welfare inefficient (See Appendix A, Equation A7 and discussion following).*

It is important to note that this is more than just an issue of utility regulation. If applied to the entire economy (as one firm that produces multiple products), the progressive social pricing result shows that once an overall level of profits is determined (based on a desired

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[29] And similar in terms of legitimating impact – but more complex in the details - "triumphs" of Neoclassical free market ideologically driven "Efficient Market Theory" led to the even more catastrophic financial collapse of 2007 (Crotty, 2011).

[30] A gap which turns out to be non-trivial as the progressive welfare maximand on its own (without the constraint) in this case is clearly convex rather than concave.

[31] By showing that the concavity of the (PS) constraint outweighs the convexity of the welfare term, so the that the overall Lagranian maximand is concave – see previous footnote.

level of current consumption versus necessary investment for growth and future consumption) optimal short-term (static) allocation can be best achieved through progressive rather than market-based pricing.[32] This result thus flatly contradicts the "practical" "second best" effort to show that market prices maximize (short-term) social welfare. Rather the progressive Ramsey pricing theorem shows that both market-led "inverse-elasticity" and even "flat" pricing are immoral based on standard NC short-term welfare optimization criterion as they both cause utility transfers from lower elasticity (generally lower income) consumers to higher elasticity (and generally higher income) consumers. And as shown above, the "high theory" "first best" effort to prove that market based static allocation is optimally efficient based on supposedly "amoral" non-comparability assumptions, is vacuous.

For the mathematically disposed, the key equations are provided in Appendix A (for detailed proofs see Baiman (2001, 2002). The publication history of these papers is, I think, in itself an instructive example of the insularity and (non-scientific) dogmatic rigidity of mainstream economics.[33] Readers who have had enough (or more than enough!) with the technical arguments may jump to the next section without any loss of continuity.

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[32] In this more general application "cross-price" effects (for the most part ignored in standard "flat" or progressive Ramsey pricing and for that matter in standard "marginal cost" theory as well) are likely to be more important. But though the formulas are more complex, Baiman (2001, Appendix B) shows that the same progressive pricing results hold with cross-price effects (with or without "Slutsky symmetry") .

[33] As the subject matter of these papers directly addressed prior published papers by prominent mainstream economists and included the kind technical content highly encouraged in mainstream economics journals, with the intention of reaching broader exposure, I initially submitted (earlier drafts) of these papers to a number of mainstream economics journals. However, after repeated cursory rejections that showed no evidence (to me anyway) that any serious review of the papers (with one exception –see below) had actually been conducted (even after appeals to the Editors challenging the specious argument – when any were given at all – for rejection), as I was running out of time on a tenure decision (a common problem for younger and often more productive academics), I abandoned this futile effort to "bore from within". This exercise was not entirely futile however, as James Mirlis, a Nobel prize winning Cambridge University Microeconomist, to whom I sent an early draft of the manuscript before submitting it for publication, did send me a thoughtful note (this was all in "snail mail" correspondence) advising me that the convexity of the Welfare function could be overridden by the concavity of the constraint to make the overall Lagrangian properly concave, which turned out to be the case. Another (future) Nobel prize winner, Joe Stiglitz, also sent me an encouraging note, and for the record, William Baumol also responded kindly to my inquiries on an earlier draft (that did not include references to the Edison Institute paper – I had not found it yet). I was grateful to be able to eventually publish in the *Review of Radical Political Economics* (RRPE) and I think this example shows the importance of maintaining (even just a small number) of "heterodox" journals in economics like the RRPE though those of us serving on the Editorial Boards of these "renegade" journals often wonder if our efforts to preserve this marginalized and ignored intellectual production ultimately serves any useful purpose. I am also indebted to Vince Snowberger of the Colorado Public Utilities Commission, a fellow radical economist (and MIT alum, formerly at the Univ. of Colorado at Boulder) who discovered an error in Equation 2.15 Baiman (2001, p. 208). This led to the corrected derivation of Equation A7 Appendix A, or (Baiman (2002, Equation 5, p. 315). *Postscript and warning to future radical economists*: though my "radical" economics publication record was perfectly fine in the eyes of my "radical" economics department colleagues (I had been lucky to have been hired to teach at one of the small number of "radical" economics departments in the U.S.), it did not prove adequate in the eyes of (non-economist) administrators who insisted that my research was "mediocre" and (twice) overruled the faculty to deny me tenure for this and (ostensibly) for other reasons.

5. The Deep Immorality of Neoclassical Economics

But Neoclassical economics is much more than an elaborate consumer welfare "bait and switch" from "amoral" in theory to "immoral" in practice, operation. And the immorality of mainstream economics runs much deeper than the simple (though technically complex) issues of the proper weighing of CS and PS discussed above. The deeper moral questions, which a *moral* economics would address, can perhaps best be concisely and schematically grasped by describing the following participatory exercise.

Over the years I have had the opportunity to lead many inter-active participatory (5 to 50 person) workshops in the United States to, varied age and background, college classes, "Chautauqua" and other activist workshops, non-profit leadership training youth groups, public elementary and "Ethical Humanist" Sunday School and youth retreats, Union for Radical Political Economics (URPE) Camp kids, and groups of friends and their families, on the relationship between economics and values. These workshops are built on an exercise called "Design Your Own Utopia" taken from a workbook for the second edition of a radical economics textbook: *Understanding Capitalism: Competition, Command, and Change*, by Samuel Bowles and Richard Edwards (both founders of URPE, the umbrella organization of "radical" economists in the U.S.), now in its third edition with Frank Roosevelt added as a author (Oxford Univ. Press, 2005). The workbook, long ago out of print, is listed as being authored by Mehrene Larudee, though Mehrene insists that though she is listed as the author it was actually a collective product of a group of (then) U. Mass. economics graduate students including herself. [34]

I start this exercise by handing out a copy of "Design Your Own Utopia" instructions (see Appendix B). I then divide participants into groups of 2-6 each and give each group a number (or some other "neutral" name). I then ask each group to imagine that they are an Oligarchy that has complete control over the allocation of resources in society and an omnipotent ability to measure with rough accuracy the following six criterion as applied to working adults in their society, described in the "Design Your Own Utopia" handout, with italicized short descriptors in parentheses added, as follows:

- The value of the services or products that they produce (*productivity*).
- The amount of time and effort they spend (*effort*).
- Their level of need (*need*).
- The value of their property or wealth (*wealth*).
- The social status of their parents (for example: "caste" or "nobility" level; or racial or ethnic background if this is tied to social status) (*social status*).
- How much they have received as a result of luck (*luck*).

I then ask the group to make a *collective* decision as to how to allocate currently produced resources of their society based on these criteria. As noted in the handout, each group thus needs to agree on a weighting scheme in the form of percentages that adds up

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[34] U. Mass Amherst offers one of the five (as of 2012) "radical" economics Ph.D. programs in the U.S., the others are: The New School for Social Research in New York, The University of Missouri at Kansas City, The University of Utah, and American University in Washington D.C.

to 100%. Each group is also asked to designate a spokesperson who will explain the rationale for the group's allocation scheme - though others in the group should feel free to comment on the spokesperson's summary. Groups have up to an hour (though usually it takes less time than this) to come up with a collectively agreed upon scheme noting that if there are irreconcilable differences in the group, a "minority" report is also acceptable. I strongly discourage groups from simply "averaging" individual choices as this method does not generally produce an outcome that can be based on *collective* reasoning and ranking of priorities, the development of which is the real point of the exercise.

In my experience, working, as noted, with kids and adults age nine and older, of many different backgrounds in the United States, most groups give the highest proportions of their resource allocation weights the three criterion: a) productivity, b) effort, and c) need, with sometimes, but less often, a significant allocation for d) wealth and almost always insignificant or zero allocations for e) luck, or f) social status.

The later makes perfect sense as *social status* smacks of feudal inherited entitlement, an allocation factor that has been thoroughly discredited from the menu of "acceptable" claims on resources in the U.S. , a country with an over two century dominant ideology of "anti-royalist" republicanism, more recently furthered by the Civil Rights, Women's Rights, and Gay Rights, movements that all built on the legitimacy of the bed rock (classical) liberal principle of inherent race, gender, and sexual preference "status blindness" in allocation of resources. This is not to say, of course, that the U.S. has in practical terms reached this liberal bourgeoisie "nirvana" but that as a practical ideological matter this principle is well established.

Similarly the small allocations given to *luck* reflect a wide spread sense that resource allocation should, at least in principle, be justifiable or "deserved," e.g. based on some rationale that makes sense in terms of basic values and not (for the most part) simply be a matter of "luck".

Allocations for the four remaining criterion generally reflect more interesting and revealing choices. Groups typically place a great deal of weight on "productivity" and "effort," placing these two criteria in the top two or three in terms of weight, from 20% to 50% each.

Productivity is, of course, the basic distribution criterion of a market economy where each factor of production (Land, Labor, and Capital) is supposed to receive in accordance with what it produces (at the margin). Ignoring "Land" and "Capital" for the moment (see discussion below), a common and pervasively disseminated (in required High School economics classes, more subtly in College social science classes, and in the popular culture) view of market transactions is one of "quid pro quo" exchanges based on market values, so that the value of wages is equal to the worker's contribution to production, just as the price of a loaf of bread is "worth" the currency used to buy it that could equivalently buy something else of equal value.

Interestingly, many groups give *effort* similar weight to productivity in an apparent effort (excuse the pun) to give a "deserving" moral rationale to the market.

A fair number of groups will also give a substantial weight to *need* in recognition that after all the economy is supposed to satisfy human need.

Finally, more conservative groups, will give some weight, though generally not as much as is assigned to productivity or effort, to *property*.

When groups have completed deliberating, I ask the appointed spokesperson from each group to tell me be the group's allocation scheme and give a short rationale for it, with particular focus on its rank ordering, e.g. why did productivity for example get the *largest* weight, effort the *second* largest, etc. I write down the group's allocation for all to see in a column on a black board or poster board. If there is a "minority" report I write it down in a "sub-column" for the same group. I try to concisely summarize the most important rationales, when they differ from those that have already been offered, in small phrases in relevant group columns. When all of the group allocations have been listed, I select the most extreme "Left Group" - with the highest allocations for need and effort and/or lowest for productivity and property, and conversely the most extreme "Right Group" with the opposite choices – see four group example in Figure 1 below. (Note that I don't designate the groups as "Left" or "Right" right away, and sometimes never, to avoid immediate political "labels" that might offend members of the groups and/or diminish open and constructive discussion.)

Figure 1: "Design Your Own Utopia" Four Group Example Outcome

Allocation Criterion/Group	1		2		3		4	
Inherited Social Status	5%		0%		0%		0%	
Luck	5%		2%		2%		0%	
Need	30%		38%	Output must satisfy needs	20%		70%	
Productivity	30%	Need to produce something useful	20%		35%		0%	
Property or Wealth	5%		5%		8%	The wealthy invest in growth for the future	0%	
Time or Effort	25%		35%		35%		30%	Effort should be rewarded
Sum of Weights	100%		100%		100%		100%	
						"Right" Group		"Left" Group

A. Right Group Discussion

I then begin to discuss these two allocation schemes usually starting with the "Right" group, for example as in Figure 1 with 35% weights for "productivity," 35% for "time and effort," and another 8% for property. My first question to the spokesperson for this group will often be to ask her/him to explain the group's large allocation for productivity. I ask (all participants) what makes a job more "productive"?

I note that though education, talent, and effort are always important, when looking at average *sector* productivity, a key factor is physical capital. For example jobs in *retail services* will almost always be less "productive" than jobs in manufacturing.[35] In fact, I point out that the sector (often called "industries" by economists) that a person happens to work in often has much more bearing on her or his "market productivity" and compensation than anything else. For example across national economies, average market measured "value added" in manufacturing and wages are higher than value-added and wages in retail services.[36] So although it makes sense that compensating "productivity" (in some sense) should be important for the economy as a *whole*, it is less clear why it should have a large weight as an *individual* resource allocation factor.

This productivity discussion offers a segue into a discussion of *effort* as groups often have a difficult time distinguishing between productivity and effort, and have a tendency to conflate these two factors. Here I point out that though rewarding effort makes moral sense, effort is (on average) quite divorced from productivity in a market economy, both due to the sector value-added issue discussed above, and because of vast differences in the innate talent and skills of persons making the effort. For example Michael Jordon could, when he was in his prime as a basket ball player, make millions from one lay-up basketball commercial that he could execute with very little effort. Of course, innate talent must typically be supplemented by training and education in order to generate, even narrowly defined (see discussion below), market valued productivity. But this education and training is often easier, or at least more glamorous and interesting, than the hard work in less pleasant environments that is typically engaged in by the lowest paid workers. For example, compare the work, including the time spent on education, of doctors, lawyers, and business executives, to that of janitors, farm-workers, and retail clerks.

A useful distinction in this regard is that made by (Neo-Marxist economist) John E. Roemer between *internal* and *external ownership* (Roemer, 1988). The former includes

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[35] For the purposes of this discussion I generally define "productivity" in the standard market economy sense as "market value-added" produced, though discussions of the differences between "market" productivity defined in this way and "real" productivity that takes into account the actual human benefits of what is being produced (including more or less standard distinctions between private and "public" goods and services, and market "externalities") does often come up, and can be, at least partially to the extent that there is time, engaged in.

[36] More extreme sector "productivity" differences can be drawn, as between workers in Finance for example, who receive greatly out-sized compensation and to whom are attributed enormous market value-added, and "home-makers" who, in standard National Income accounting produce zero market value-added and who receive no market compensation, see for example (Baiman, 2011) and (Mutari, 2000).

one's innate genetic and environmental (family, social background, etc.) given endowment as well as one's formal education and training (or "human capital" in mainstream economic terms). In terms of (at least in large measure) genetic endowment, some people are intelligent, athletic, beautiful, etc. while others are less so. Ideal Liberal (in the classic sense) market allocation that places a very large weight on equality of opportunity to realize one's "highest potential" in terms of market productivity of output ignores the *unequal* ability of all to succeed at this game, no matter how much effort, due to *inherently* unequal ability.[37]

Finally to cap off discussion of "Right" group allocation, I introduce Milton Friedman's well-known designation of the dominant resource allocation criteria in a *capitalist* market economy (Friedman, 1962, Chap. X, fifth sentence):

"To each according to what he and the instruments he owns produces."

I point out that placing a high value on productivity (as Friedman does) means, in classic mainstream economic theory, giving free reign to largely unrestrained competitive market outcomes of the sort that are imagined to result from "small-government free - market" capitalism.[38] But, notice that Friedman's criterion also includes a return to "the instruments that he owns," i.e. *property* as a major resource allocation factor. And this comports with data on actually existing capitalist societies, particularly those without strong redistribution policies, like the U.S. in the last 35 years where 120.6% of real family income gains from 1973 to 1978 have gone (on average) to the top 10% of families so that average real family income for the bottom 90% of families has declined by -6.4% (Baiman, 2011). Moreover these outsized gains in real family income are concentrated at the very top 0.01% of families (9,000 families with incomes of over $9,141,190 in 2008) who on average increased their real income more than fivefold (544.8%) over this period. The Saez (2008) data on which this is based shows that in 2008 that less than a fifth (19.9%) of the income of these top 0.01% families came from labor.[39]

But income from profit, dividends, interest, and rent, and a large portion of capital gains income, i.e. income from "income earning assets" is generally (directly or indirectly) dependent on *labor*. Put more simply, in a capitalist market economy, a component of the "things that you own" directly or indirectly includes the "labor" or "output from rented labor time" (what Marx called "labor power") of other people. Distribution

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[37] See for example: *Second Treatise on Government*, John Locke, 1690, Barnes & Noble Publishing.
[38] Though, as noted in the prior section of this paper, even in an ideal competitive market, there are substantial technical difficulties with actually equating value-added productivity with "factor" returns (wages, profits, and rents) due to the problem of assuming that "marginal" output is a good approximation of "average" output, similar to the marginal cost equal price conundrum (Schweickart, 1993, Chap. 1).
[39] See data from Emmanuel Saez, Economics, University of California, Berkeley, Tables A7 and A8 at: http://www.econ.berkeley.edu/~saez/TabFig2008.xls. Based on this data, 44.8% of all income of these top 0.01% of filers came from capital gains, and 64% of all their income exclusive of capital gains came profits, dividends, interest, and rent, so that (1-0.448)x(1-0.64)=0.199 share of their income came from labor.
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weights in existing capitalist market economies thus include (as an ideal) a large weight for productivity and (in practice) a large weight for property. Though capitalist market economies no longer permit outright human "ownership" or slavery, they are based on a wage-labor system that is (certainly in the most capitalist economies like the U.S. without "co-determination" and other "stakeholder" corporate forms that have become common in Europe (Hill, 2010, Chap. 3) – see discussion below) undeniably undemocratic. Workers in U.S. corporations, and the communities where they are based, do not have the right to vote for their managers or have any significant influence on company investment and other decisions which typically have a much greater impact on them than on the mostly absentee stockholders who nominally "own" and are awarded all of the residual profits and capital gains income from the company. For a clear and systematic comparison of "wage-labor" to "slavery" and "workplace democracy" see (Archer, 1995, Chap. 2). For a comprehensive discussion of the benefits of "economic democracy" in relation to capitalism, including a review of examples of existing large-scale, fast growing, and highly successful worker cooperatives like the Mondragon Cooperative Corporation in Spain, see (Schweickart, 1993, 2011) (Whyte and Whyte, 1991).

Some Right groups also assign a high value to "property," with the standard justification that "savings" need to be encouraged so that they can be invested to support invention, innovation, and growth. In this regard, Schweickart and others who have studied the Mondragon network, for example, point out that the link between private wealth and saving under capitalism is a social construction that is unnecessary and counter-productive. A tax (or "user fee" in Schweickart's model) could be levied to create a "social investment fund." This fund could be managed by a system of decentralized public development banks that would use employment and possibly other "social productivity" criteria, in addition to private rate of return or profit, for lending or "savings allocation" purposes. Other "market socialists" like Roemer (1994) and Bowles and Gintis (1998), and non-market socialists like Pat Devine (1988), and Albert and Hahnel (1991) and Ellman (2004) offer other schemes for (real) savings and lending, or for generating and allocating claims on investment resources.[40] All agree, however, that the conventional capitalist arrangement that awards all of the residual benefits of production and power to dispose of this residual to capitalists (Ellerman, 2007), and the almost exclusive power to "create" credit (though "fractional reserve" banking – see for example Stretton (1999) and borrow and finance investment from financial savings based on a massive accumulation of these (unnecessary for consumption) resources by (mostly

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[40] Though Bowles and Gintis express a concern about a possible excessive "risk adversity" public investment problem, it would appear that this can be overcome through appropriate institutional structures, given the Mondragon experience of extraordinarily rapid and successful invention, entrepreneurship and innovation (Schweickart, 1993 and 2011, Foote and White, 1991). The later in fact emphasize the much greater efficiency of the more "rational" and planned "collective entrepreneurship" practiced by the Mondragon compared to the large scale waste of human and physical resources typical in conventional capitalist "hit or miss" individual "risk taking" entrepreneurship, and the environmental benefits of an "economic democracy" with locally rooted worker cooperatives who will be more concerned about point of production environmental impact and better able to regulate the pace and allocation of growth to serve economic justice and environmental sustainability goals (Schweickart, 1993, 2011). Finally, it should be noted that many commentators (including myself) believe that the "non-market" allocation mechanism proposed by Albert and Hahnel is unworkable , for example see Schweickart (1993).

already) extremely wealthy individuals and families, is simply an historic "class society" residue, that has no real economic or social justification. Though, as has been noted, there are differences of opinion regarding the social benefits of different levels of private ownership and control of the "means of production," ranging from a fairly large proportion by some who are concerned that too much social investment would be excessively "risk averse," (Bowles and Gintis, 1998), to others who believe that allowing any scope for traditional market behavior will inevitably, through "endogenous preference formation," continue to nurture the kind of excessively competitive and self-serving, morally undesirable, and individually and socially, destructive human behavior characteristics of capitalism (Hahnel and Albert, 1990), and no market socialist believes that the inheritance of massive "income earning" assets (and the power and control over human labor and political power that directly and indirectly comes with this) serves any useful social purpose.

For our purposes however, the point is that the validity of the current social arrangement that results in a private "class monopoly" over savings and investment should not be taken as "natural" or apologized for as "necessary" or "inevitable" as it is in NC economics , but rather evaluated from a moral-economic perspective. This brings us to "Left Group" allocation criteria.

B. Left Group Discussion

Left groups typically place high valuations on "need" and "effort". These groups apparently hold the *bizarre* (sic!) view that the economy should support "human well-being" in Harris's terminology. Strange as this may seem, assume for the sake of argument that most people agree with this proposition. This view is probably best encapsulated by the age old socialist motto (popularized by Marx)[41]:

"From each according to his ability, to each according to his need"

When stated in this way and contrasted with Friedman's market capitalist motto, above, I have not found a single group object to my, fairly obvious, statement that this expression of socialist economic values clearly expresses a higher moral standard than Friedman's earlier statement of the underlying values of a capitalist economy.

In fact one group, at a 2002 Jim Hightower "Rolling Thunder Chautauqua" in Chicago, placed a 100% valuation on "need" and zero on all other factors. Apparently a member of the group and well-known progressive and ex-CP member from Hyde Park, convinced the entire group to follow the socialist motto to the letter.

The issue is thus really whether this ideal is at all realistic or feasible. Can resources be directly allocated with these goals in mind or is this just a "pie in the sky" fantasy, that however laudable in theory, cannot usefully serve as a practical guide for direct resource allocation? This was, or has been taken as, Adam Smith's key point after all. Economic

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[41] *Critique of the Gotha Program*, Part 1, (Marx, 1875). This was reportedly a well-know Socialist slogan at the time that may have originated with "utopian" socialist Luis Blanc (1839).

productivity and growth is best secured by appealing to self-interest within "freely" competitive markets, not through altruistic moralizing and heavy handed government "intervention". The real issue for Left Groups is not their laudable intentions but whether this idealism is naïve and misguided?

The answer in a nutshell is *absolutely not*. The entire history of economic thought from the time that humans began to realize that economic development is for the most a result of *human* activity[42] shows that social and economic *policy,* not a God in heaven (Yahweh), or a God on earth (the Free Market), is the key factor driving economic development. Erik Reinert (2007) provides extensive evidence for this from centuries of economic policy documents (generally not economic textbooks or academic tracts) going back to 15th Tudor economic policy in England, and the Renaissance: Giovanni Botero and Antonio Serra in Italy in the late 15th and 16th centuries, Barthelemy de Laffemas and Jean Baptiste Colbert in 16th and 17th century France, and Von Hornick in 17th century Germany, and forward in history through: Fredrick List, the German Historical School, Marx and Schumpeter in Germany and Austria; Scmoller and Sombart in France; and Alexander Hamilton, Daniel Raymond, M. & H. Carey, Veblen, the Institutional School, and Keynes in the U.S. and the U.K. (Reinert, 2007, Figure 3, p. 33). Eamonn Fingleton has demonstrated this by analyzing the "Asian Model" of state led economic development, originating with Japan and culminating with China (Fingleton, 2008). Similarly, Ha Joon Chang shows that *all* developing countries, including most prominently the U.K. and the U.S., consciously and deliberately employed extensive "mercantilist" trade policies and that these policies played a central role in their economic development, noting that successful modern developers like S. Korea have done the same (Chang, 2008). Ian Feltcher provides extensive historical and empirical corroboration of this point with a particular focus on the history of U.S. trade policy (Fletcher, 2009). Finally, Stephen Hill describes, again with comprehensive and detailed documentation, the critical role that far-reaching social, industrial, and trade policies, have played in the most successful and well-off (in terms of almost every general indicator of "human well being") *social democratic* "social market" societies and economies that the world has ever known in northern Europe such as: Denmark, Sweden, Norway, Finland, and Germany (Hill, 2010). Hill highlights the role of the advanced "workfare" (a more accurate description than "welfare") state policies, environmental policies, long term quasi-public "middle level" financing, and advanced training and education systems jointly financed by industry, unions, and government (as in Germany), and last but not least institutional policy designed to foster democratic "stakeholder" (rather than "shareholder") economies like "works councils" and "co-determination," or laws that mandate that in large companies large percentages of Corporate Boards of Directors must represent the workers at the company (Hill, 2010, Chap. 3).

As Reinert, Chang, Fletcher and others have noted, when compared to the centuries old record of economic policy debate and implementation, current NC economic text book renditions portray a highly ideological, and mostly imaginary, history of economic thought that has little relationship to actual policies pursued by the most successful

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[42] Exclusive of natural forces beyond the powers of human anticipation or control, powers that have exponentially increased over millennia of recorded human history.

economies during their most successful periods of growth and development. For example, the highly reviled (in mainstream economic texts) "mercantilists" dominated economic policy in 18th century Europe and the U.S.**,** while the Neo-Classical theorists of (classic) "liberal" "free market" thinking were in policy ascendency only during brief periods in the U.K. and U.S. *after* these countries had become world economic leaders, and these NC policies bear great responsibility for the subsequent declines of these economies. The *dominant* economic policies that were deployed by successful countries can only be gleamed from the real history of parliamentary and legislative debates and policy implementation, not from the now sanitized mainstream textbooks that espouse a re-written ideological historical mythology.

Faced with this centuries old world-wide economic history and history of economic thought, the elaborate and highly formalized Neo-Classical *microeconomic* theory focused on in the first three parts of this essay, and the complementary equally elaborate (and even more fanciful) Neo-Classical *macroeconomic* constructions ring hollow. These theories, from: "Comparative Advantage" rationales for "free trade," to "Chicago School" "rational choice" economics, to Walrasian New Keynesian doctrines, to "real business cycle theory", "permanent income hypothesis", and financial "efficient market theory" doctrines, have been selected as examples of the greatest achievement in economics science "high theory" by the economics "Nobel" prize Committee.[43] But they have been shown, for example in a comprehensive review by Lance Taylor in *Reconstructing Macroeconomics* (Taylor, 2004) (with a more summarized update in *Maynard's Revenge* (Taylor, 2010)), to be fantasies of the imagination, based on hypothetical and ad-hoc mathematical assumptions that have no bearing in the real world. Given the vacuity of both Microeconomic and Macroeconomic mainstream economics "high theory," it is simply not possible to give this system of capitalist apologetics much credence as a rational and scientific inquiry, even if they were based on a more humane system of values (see discussion below).

In fact there are at least two eminently practical ways to increase the allocation of resources based on need and effort. Both have been tried and have been highly successful. Increased allocations for *effort* can be fostered through comprehensive wage and income distribution policies. Greater allocations based on *need* can be achieved through social programs (education, health care, fully socialized pension systems, human services and culture) *that allocate resources away from markets* and toward politically determined social need.

The most successful practitioners of *effort* rewarding policies are the advanced Scandinavian "workfare" societies (with the highest labor force participation rates relative to their populations in the world) that have been able to markedly reduce inequality from labor income through high levels of unionization and (at least in the

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[43] That is the "Nobel" Committee sponosred by the Swedish Bank that awards the Economics "Nobel" not the real Nobel Prize committee that awards Nobel prizes in natural science. See Baiman (2010b, 2012) for demonstrations that Ricardian "Comparative Advantage" supports "managed trade" rather than "free trade," and the mathematical impossibility of "self adjusting free trade" even if all of the assumptions of the "Free Trade" doctrine are assumed to hold.

past) "solidarity wage" policies that have led to a greater equalization of pay from similar work (regardless of the employer profitability), and higher, more equitable pay for what would be largely low-wage service sector work in the more market oriented Anglo-U.S. economies. Though the "solidarity wage" campaigns are now less successful than they were in the past, and the "Meidner Plan" originated "wage earner funds" do not own a majority of private sector shares as they would have if the original plan had been fully implemented, there is abundant evidence that due to policy based redistribution of earnings and strong centralized collective bargaining, income levels in these countries are more equitable and "effort" based (Huber and Stephens, 2001).

Similarly, in terms of *need*, the advanced social democratic countries have the highest levels of social spending relative to their GDP's funded through high but progressive tax systems, see Figures 2 and 3 below.

Figure 2: Public Social Expenditure as a Percent of GDP (OECD Countries)

OECD Factbook 2009: Economic, Environmental and Social Statistics - ISBN 92-64-05604-1 - © OECD 2009
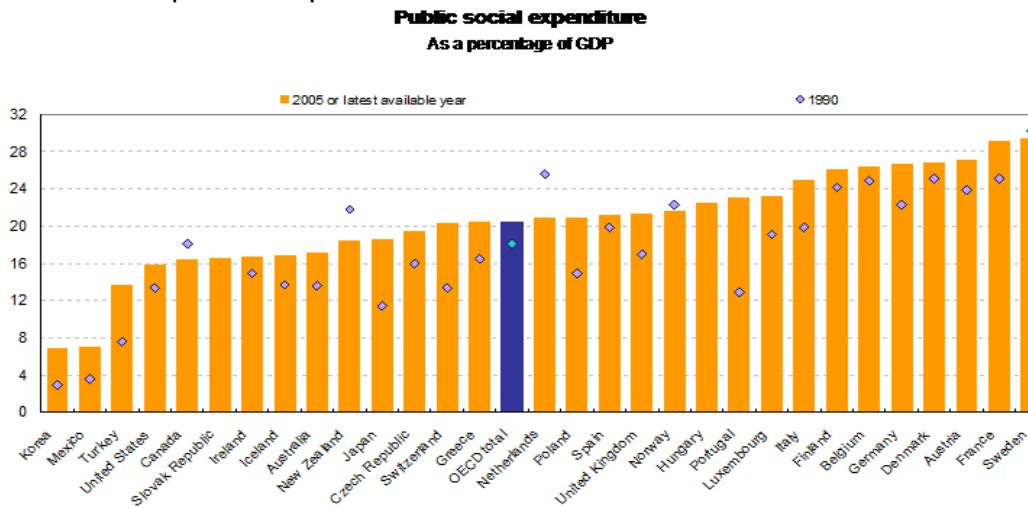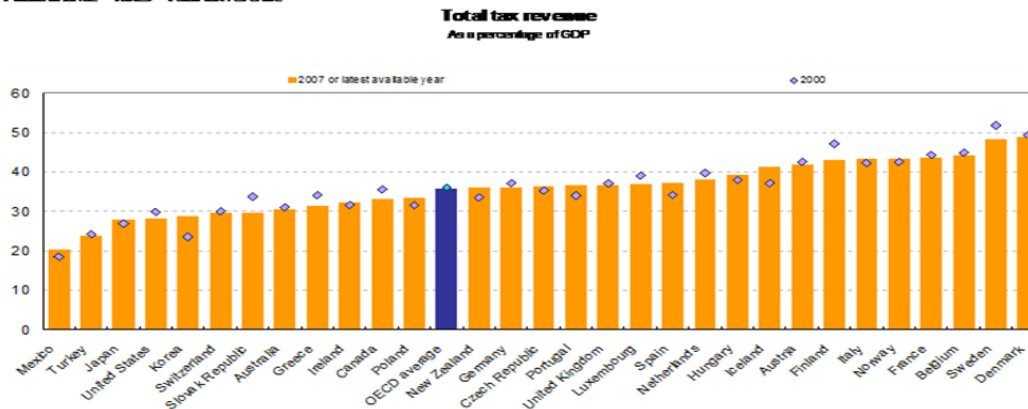Public finance - Public expenditure - Social expenditure

Public social expenditure
As a percentage of GDP

Figure 3: Tax Revenue as a Percent of GDP (OECD Countries)

OECD Factbook 2009: Economic, Environmental and Social Statistics - ISBN 92-64-05604-1 - © OECD 2009
Public finance - Taxes - Total tax revenue

Total tax revenue
As a percentage of GDP

This social spending funds a level of needs-based resource allocation that is hard to imagine in the U.S., Figure 4 below provides a detailed comparison.

Figure 4: "Rights of a Swedish Citizen vs. the Rights of a U.S. Citizen"

	SWEDEN	U.S.
Parental Leave	All parents have the right to stay home and care for an infant for up to one full year per child at 90% of normal salary. All parents also receive a child allowance to cover the costs of raising children.	All parents have the right to six weeks of unpaid leave to care for a newborn child. Some parents receive monetary assistance for a limited period of time if they are very poor.
Vacations	*All* workers get at least five weeks of paid vacation per year plus extensive sick leave benefits	U.S. workers may get at least two weeks of paid vacation per year if they are permanent employees; there are no mandatory vacations (paid or unpaid) for temporary employees, and no sick leave guarantee.
Health Care	All citizens receive high quality health care and dental care, with modest co-payments up to a maximum co-payment. Care is generally so good that even the wealthy use public health care.	Medicare and Medicaid provide health insurance to the elderly and very poor. Many workers receive health insurance through their employer, but over 43 million Americans including 10.7 million children and many of the working poor, have no health insurance.
Education	Free education is provided for all citizens at all levels including college, vocational and adult education (for people who want to explore new careers). Adult student receive time off from work and a stipend. The quality of education is so universally high that even the children of the Swedish King attend public schools.	Free primary and secondary education is available to all citizens, with the quality varying widely depending on where one lives. People living in a poor school district generally receive an inferior education. Some limited funding is available for college students, but college is often beyond the reach of the poor and lower middle class. What funding is available is often in the form of loans, creating a large debt for most.
Job Training	Free training is provided to all citizens who desire it. Those undergoing training receive a stipend from the Government.	Some training programs exist but they are limited in nature, and usually only for the poor or unemployed. Trainees do not usually receive a stipend.
	SWEDEN	U.S.
Employment	The Swedish government	*Some* of the unemployed

	believes that every citizen has the right to meaningful work. Unemployed persons receive unemployment benefits, retraining or a job in a public works project.	receive up to 6 months of unemployment benefits and job search assistance. During severe recessions this can be extended, depending on State of residency, up to 99 weeks or longer. After this period unemployment benefits are cut off.
Social Security	All Swedish citizens receive a pension from the state which pays people at least 75% of what they earned when they were working, or a guaranteed minimum amount if they did not work.	Most U.S. citizens receive social security benefits, but often the payments are not enough to live on.
Housing	If Swedish citizens cannot afford a house they are given a housing subsidy. Sweden does not have a problem with homelessness due to the success of their housing and anti-poverty programs, and they have no slums.	Some U.S. citizens receive housing subsidies or spot in public housing. But many citizens do not qualify for these benefits, and the U.S. has a significant number of homeless people. Every major U.S. city has slums.

From: "The Middle Way: Swedish Social Democracy," Chap. 9, p. 238-9, in *Introduction to Political Economy*, by Charles Sackrey, Geoffrey Schneider, and Janet Knoedler with contributions by Hans Jensen, Published 2005, Economic Affairs Bureau.

And these high taxes, that in the U.S. come from "out of pocket, or paycheck" expenditures for private health care, education, pensions, etc., come from workers that receive often higher gross (before tax) real wages, which very concretely reflects greater rewards for "effort" (that is labor) and less for "property," see Figure 5 below. This is particularly true if the often much higher health care, education, savings for retirement, and other costs paid for privately in the U.S. are compared to more efficiently provided and generally higher quality comparable public services paid for through taxes in the Social Democratic countries.

Figure 5: Gross Hourly Wages (2004 dollars)

Gross wage in national currency 2004	Exchange rate to dollar 6/30/2004	Dollar wage	% US Wage	
327.192	6.103	$53.61	153.5%	Denmark
34.088	0.821085	$41.52	118.8%	Germany
4205.596	109.43	$38.43	110.0%	Japan
29.449	0.821085	$35.87	102.7%	Finland
		$34.93	100.0%	US
251.282	7.525	$33.39	95.6%	Sweden

Source: *OECD Economic Outlook* December 2004.
Historic exchange rates:
http://www.x-rates.com/cgi-bin/hlookup.cgi

Finally, it is worth noting that Sweden currently has the highest GDP growth rate of all the advanced countries (Krugman, 2012)[44] and that the Social Democratic countries in general, unlike the more "free market" Anglo-American societies, have been able to maintain advanced productive capacity and high-value competitive exports at a sufficient level to pay for their way in the world and maintain and increase domestic living standards (Baiman, 2010a)[45].

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[44] See: http://www.nytimes.com/2012/02/27/opinion/krugman-what-ails-europe.html?_r=1
[45] See: http://www.cpegonline.org/workingpapers/CPEGWP2010-1.pdf

Conclusion

Orienting an economy toward human need and effort in a way that induces more socially productive economic activity is a perfectly practical goal. The problem for mainstream Neo-Classical economists is that this is a fundamentally value-based, or moral, goal that *cannot* be derived from an amoral or immoral theoretical apparatus.

If economists began to view themselves properly (again) as "moral philosophers" deriving best practices from widely understood and agreed upon morality conducive to "human well-being," based on evidence from societies and economies that have been most successful at this rather than trying to "explain away" success that does not fit NC ideological precepts, the profession could rise above its current lap-dog apologetic status and become the vital and essential moral social science that humanity in the early 21st century so desperately needs.

Such an economics would forthrightly condemn (as the best of the Classical Political Economists including Smith, Ricardo, Marx, Veblen, George, and Kenyes, did) "unearned income" for unproductive "rentier" activity and rewards for the already obscenely wealthy that serve no social purpose, arguing that resources should be directed toward real needs (with motivational resources for productive effort that are just sufficient to induce such effort and not more) (Baiman,2011). Can there really be any morally justifiable argument against minimizing the advantages of inherited "external ownership" (or wealth) and ameliorating as much as possible the advantages of inherited "internal ownership" (or genetic endowment) subject to supporting overall productivity and well-being with optimal but not excessive incentives for entrepreneurship, discovery, and the cultivation and utilization of one's skills and talents to benefit others? (Roemer, 1988). Can one really make a moral case that some humans should be able to control and benefit from the labor of others because they can afford (directly or indirectly) to "rent" this labor, while others have no alternative but to "sell" their labor to them?[46] Is there any question that such an economics as a branch of "scientific moral social philosophy" would be strongly supportive of social democracy, democratic socialism, and ideal communism (as feasible within a democratic society)?

The only way that the current "capitalist" ("to each according to what they and the instruments they own - like the labor of other people - produce") economics, as opposed to the "democratic socialist" ("from each according to their ability, and to each according to their need,") economics, can be justified is through an "ends justifies the means" argument common to NC economics and conservative thought more generally. That is through an extension of the 18th Adam Smith rationale that postulates that self-interest and the use of the labor of others for one's own gain is justified because, in spite of the fact that this social arrangement is based on patently unethical, undemocratic, and exploitative relationships, it "delivers the goods" - that is it fosters innovation, growth

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[46] That is undemocratic class power based on ownership of capital and the "renting" of "labor" – though it's hard to see how labor or "labor power" can be separated from the will and well-being of the humans who deploy it (Ellerman, 2004).

and prosperity, e.g. "human well being," and political democracy *overall and in the long run* and there is no other practical economic system that will do this.

But even if this "means justify the ends" thinking were supportable[47], where is the evidence for this particular claim that evil will eventually produce good?

The Chinese "market opening" cannot, for example be used as a good historical example as China is practicing its own - highly politically repressive and bordering on fascism (see (Fingleton, 2008) (Mann, 2007) (Navarro, 2008)) - version of the "Asian Model" of "state capitalism" that is not "free market" capitalism and certainly not a good example of an *advanced* democratic economy and society like those of Northern Europe and the Mondragon Cooperatives which also provide direct "really existing" and highly successful counter examples to the claim that "there is no alternative" (TINA) to capitalism (Schweickart, 1993, 2011).

The collapse of Soviet style "central planning" cannot be used as supporting evidence, as advanced Social Democracies and most current democratic socialist models (as noted in the text) do *not* attempt to do away with markets, but rather try to tightly constrain, regulate, and guide them through political means to directly serve the goal of human well- being. Moreover again, by almost every indicator: empowerment of women, political participation, breadth and depth of public political debate, and the empowerment of citizens rather than money, these societies are much *more* democratic than the U.S. and the U.K (Hill, 2010, Part Five).

So a properly moral "mainstream economics" would be a "democratic socialist" (Neo-Marxist, Left Post-Keynesian, Radical Political Economics) economics, rather than the current NC "capitalist" economics. And this kind of economics would not be (and is not) "ideology" but true "economic science" based on generally accepted, scientifically grounded, basic understandings of what is good for human well-being like: satisfying need, rewarding effort, caring for the environment, and fostering economic democracy; unlike the truly ideological mainstream or Neo-Classical economics that now masquerades as "amoral" economic science, but is based on, and attempts to justify, morally unsupportable capitalist values like the sanctioning of "rentier" exploitation.[48]

Economics cannot be a "value free" natural science, as it is inherently a moral science. The real question is whether it should be based on scientifically supportable moral values that foster human well-being, or be a thinly disguised system of capitalist apologetics that

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[47] As noted, Hahnel and Albert (1990), for example, make a strong case that capitalist individualist and competitive "means" including the fostering of human exploitation of other humans (or the "treatment of others as means and not ends" for those with a Kantian bent) reinforce the worst aspects of human behavior and thus produce "ends" that however "prosperous" in market-based consumer-values terms, generate increasingly brutal and barbaric economies that tolerate widespread exploitation, poverty, and inequality, and undermine the most valuable aspects of human behavior.

[48] As the most forthright Neo-Classicals will occasionally openly admit. For example, a fellow member of the "Ethical Humanist Society of Chicago" (a person who is thus otherwise publicly committed to secular humanistic values) and faculty member of the University of Chicago Business School once stated in a public debate with me on these issues, that: "Of course, my job is to promote capitalism."

pretends to be amoral. Only the former, that is democratic socialist economics - referred to as "radical political economics" in U.S. and U.K., can be justified as scientific in the sense that these approaches explicitly attempt to improve social and human well-being based on widely shared values of social equity, democracy, and solidarity, rather than pretending to be amoral but in practice functioning as a fundamentally *immoral* "legitimation theory" for capitalism.

What purpose does the persistence of extraordinary levels (for a wealthy and advanced economy) of clearly unmet human needs and aspirations, due to: poverty, unemployment, and lack of: health care and educational opportunity, housing, and even food, serve, even as unheard of wealth and economic and political power is showered on a tiny minority and their families and heirs?

Is there any way to reasonably justify this kind of late-capitalist, largely "rentier" based, global Neo-Feudalism?

There isn't. There is no reason and no excuse for us not to do better.

Only by sticking its collective head in the sand and refusing to allow basic human morality to "intrude" in any way, can mainstream Neo-Classical economic thinking pretend that the current, largely unfettered, market capitalist status quo is justifiable.

Appendix A

Consider an enterprise that produces i = 1, 2, 3, …n goods and sells them at prices p_i to households with income y who buy $q_i(p_1, …. , p_n, y)$ and have consumer surplus $S(p_1, …. , p_n, y)$. If N denotes the total number of households in the market, f(y) the relative density function for the numeric share of households by income, and u'(y) marginal social utility of household income (assumed to decline with increasing income/wealth), than aggregate consumer welfare, or total weighted consumer surplus, W will be (Baiman, 2001, (2.2), p. 206):

$$(A1) \qquad W = N \int_0^\infty S(p_1, …. , p_n, y) \, u'(y) f(y) dy$$

And aggregate consumption of good i will be (∞ could be replaced with maximal income $\hat{y}$, but in order to replicate the equations in the papers I'm sticking with ∞) (Baiman, 2001, (2.3), p. 206):

$$(A2) \qquad Q_i = N \int_0^\infty q_i(p_1, …. , p_n, y) \, f(y) dy$$

Following Feldstein we define the "*distributional characteristic*" of good i as, a marginal utility of income weighted, average of aggregate household utility from the consumption of good i (Feldstein 1972, p. 33) (Baiman, 2001, (2.10), p. 207):

$$(A3) \qquad R_i = \frac{N}{Q_i} \int_0^\infty q_i(y) u'(y) \, f(y) dy$$

Diminishing marginal utility from increases in income will cause R_i to be greater for goods consumed relatively more by low-income households for u'(y) is larger than for goods with a relatively high share of high-income consumers for which u'(y) is smaller. In other words, the higher the income elasticity of demand (that is the more demand there is from higher income consumers) the lower the value of R_i.

For constant income elasticity of demand household consumption: $q_i(y) = b_i y^{\alpha_i}$, marginal utility of income $u'(y) = a y^{-\eta}$ where η is a policy determined elasticity of marginal-utility of income with respect to income, and lognormal income distribution with $\bar{Y} = mean \ of \ \log(y)$ and variance $\sigma_{\bar{Y}}^2$, Feldstein estimates that (Feldstein 1972, p. 35): [49]

$$(A4) \qquad R_i = exp\left[-\eta \bar{Y} + \left(\frac{1}{2}\right)(\eta^2 - 2\alpha_i \eta)\sigma_{\bar{Y}}^2\right]$$

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[49] Note that Baiman (2001; 216; Footnote 19) mistakenly adds a constant to this formula.

Note that according to the formula for any given positive value of η (assuming similar variances $\sigma_{\bar{Y}}^2$), goods with higher income elasticities of demand α_i, and goods whose consumers have higher average incomes $\bar{Y}$ will have lower R_i.

Subject to these definitions (Baiman, 2001, p. 208 and 206, eq. 2.13 and 2.5) provides a complete proof that (when cross-price effects are negligible[50]) total weighted CS, or W, in A1, is maximized subject to:[51]

$$(A5) \qquad C(Q_1, \dots, Q_n) - \sum_i p_i Q_i = \delta_0$$

Where δ_0 is a (negative) constant that fixes the overall level of (positive) profit for the firm when the *Progressive Ramsey Pricing* formula:

$$(A6) \qquad \frac{(p_i - mc_i)}{p_i} = \frac{1}{E_i}\left(\frac{\lambda - R_i}{\lambda}\right)$$

is satisfied, where $E_i > 0$ is (defined as positive) own price demand elasticity for good i, $\lambda > 0$ is a constant Lagrange multiplier, and $\lambda - R_i > 0$ (Baiman, 2001, p. 208).[52] Note that (A6) reverts back to the standard "flat" Ramsey pricing formula (2) when income distributions of customers of product segments i are identical (so that the parameters in (A4) are equal across product segments i), or when the marginal utility of income does not decline ($\eta = 0$), as in both of these cases from (A4) $R_i = c = $ constant, so that:

$$\frac{(p_i - mc_i)}{p_i} = \frac{1}{E_i}\left(\frac{\lambda - R_i}{\lambda}\right) = \frac{1}{E_i}\left(\frac{\lambda - c}{\lambda}\right) = \frac{1}{E_i}k$$

Where k is constant across all goods i:

$$k = \left(\frac{\lambda - c}{\lambda}\right)$$

Finally, (Baiman, 2002, Equation 5, p. 315) determines when (A6) stipulates that CS maximization requires "progressive pricing" *in the usual sense*, e.g. that prices (relative to marginal costs) for goods consumed more by lower income consumers are lower than prices (relative to marginal costs) for goods consumed more by higher income consumers. This is again not obvious from (A6) as there may be cases in which the Ramsey inverse-elasticity "efficiency" effect may override the direct-elasticity (through R_i) "equity" effect.

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[50] See (Baiman, 2001, Appendix B) for analogous but more complex formulas when cross-price effects are not negligible.

[51] Specifying the profit constraint in this way is necessary for a positive Lagrangian multiplier $\lambda > 0$ in (A6) below - see (Baiman, 2001, p. 215-6, Footnote 17).

[52] Formulas (12-14, 372), (12:38; 378), (12-58, 388) and (15-25; 470) in Atkinson and Stiglitz (1980), and Feldstein (1972; 33) equation (6a) , are equivalent, or generalizations, of (A6) above. However, as is noted the text above, these derivations are incomplete as, even though the consumer welfare maximand is clearly *convex* in price, they do not include a demonstration that second order conditions, necessary to *maximize* the Lagrangian, are satisfied.

The question is when does $\frac{R_i}{R_j} > 1$ imply that: $\frac{(p_i - mc_i)}{p_i} < \frac{(p_j - mc_j)}{p_j}$, or: $\hat{p}_i < \hat{p}_j$? (where $\hat{p}_i = \frac{(p_i - mc_i)}{p_i}$ for all i). It turns out that the necessary and sufficient condition for this is that (Baiman, 2002, Equation (5), p. 315)[53]:

$$(A7) \qquad\qquad \frac{1}{\hat{p}_i} - E_i < \frac{R_i}{R_j}\left(\frac{1}{\hat{p}_i} - E_j\right)$$

The following are different ways in which weighted CS maximization requires that prices be "*progressive in the usual sense*" or that $\frac{R_i}{R_j} > 1$ imply that $\hat{p}_i < \hat{p}_j$ for all products i of a monopolistic single firm, or economy, operating under a fixed profit constraint:

(a) $E_i \geq E_j$, e.g. when price elasticities of demand, in the normal price ranges, for products consumed more by lower-income consumers are greater or equal to those products consumed more by higher-income consumers, "progressivity in the usual sense" always holds.

(a) In particular, if $E_i \approx E_j$ can be approximated by a constant elasticity E, e.g. when price elasticities are approximately equal, "progressivity in the usual sense" always holds.

(b) When $E_i < E_j$ (the most interesting case), if E_i does not get *too small* relative to (R_i/R_j) and E_j as determined by (A7), "progressivity in the usual sense" holds. It turns out that, given the very unequal income and wealth distributions of capitalist economies, even when E_i is *substantially lower* than E_j, (A6) has to stipulate a very high mark-up over marginal-costs $\hat{p}_i$ before (A7) is violated, *so that even in this case, (A6) will generally dictate that "pricing progressivity in the usual sense" must be followed if (static) welfare optimality is to be obtained.* This can be seen by using (A7), instead of the invalid Baiman (2001; 209, Equation (2.17), to rework (the erroneous) footnote 22 in Baiman (2001; 216-7).

Using (A4) above, for any policy determined $\eta > 0$, (conservatively) assuming consumers of goods i and j have roughly equal *income* elasticities of demand α_i, and that the distribution of household incomes of these consumers have roughly equal variance $\sigma_{\bar{Y}}^2$, we have:

$$\frac{R_i}{R_j} = \frac{\exp(-\bar{Y}_i)}{\exp(-\bar{Y}_j)}$$

But since for a log normal distribution the actual mean $\bar{y}$ has the following relationship to the mean of log(y), or $\bar{Y}$:

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[53] Note that Equation (2.15) in (Baiman, 2001; 208) is erroneous. Equation (5) in (Baiman, 2001: 315) is the correct replacement formula. This error was pointed out by Vincent Snowberger - see Baiman (2002) Footnote 2.

$$\bar{y} = \exp\left(\bar{Y} + \frac{\sigma_{\bar{Y}}^2}{2}\right)$$

Under the assumption of roughly equal variance:

$$\frac{R_i}{R_j} = \frac{\bar{y}_j}{\bar{y}_i}$$

Where $\bar{y}i$ are the actual means (not the log means) household incomes for consumers of goods i and j respectively.

So if we assume that good i is consumed mostly by consumers in the two *lowest* quintiles of household income (quintiles 4 and 5), which in 2006 (in 2007 dollars) had an average after-tax income of \$20,200, and good j is consumed mostly by consumers in the second highest quintile of household income (quintile 2) with average after tax income of \$74,700 (Wolf, 2010, p. 46), we have:

$$\frac{R_i}{R_j} = \frac{R_{4-5}}{R_2} = \frac{\$74,700}{\$20,200} = 3.698$$

So that in this case, even if $E_2=0.5$ and $E_4=1$, from (A7): for welfare maximization prices for goods i and j need to be "progressive in the usual sense" as long as:

$$\widehat{p_{4-5}} < 0.84$$

So that as long as the mark-up over marginal cost for good i is less than 640% (1/ (1-0.84)), prices for goods i and j need to be progressive in the usual sense. Thus in most cases, for static welfare maximization, even with extreme price elasticity differences, prices need to be progressive in the usual sense.

If we do the same calculation using 2007 *wealth* distribution (Wolf, 2010, p. 46), we have (again in 2007 dollars):[54]

$$\frac{R_i}{R_j} = \frac{R_{4-5}}{R_2} = \frac{\$291,000}{\$2,200} = 132.3$$

And:

$$\widehat{p_{4-5}} < 0.96$$

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[54] I'm using (Wolf, 2010) household income distribution data so that income and wealth data come from the same source.

So that as long as the mark-up over marginal cost for good i is less than 26,355% (1/(1-0.96), prices for goods i and j need to be progressive in the usual sense. Thus *in almost every case*, for static welfare maximization, even with extreme price elasticity differences, prices need to be progressive in the usual sense.

(c) Finally, (A7) provides a condition for the static welfare optimality of *flat* mark-up pricing under (usual) downward sloping demand curve, average-costs higher than marginal-costs, conditions. In this case $\widehat{p}_i = \widehat{p}_j$ is welfare optimal *if and only if* $\frac{1}{\widehat{p}_i} - E_i = \frac{R_i}{R_j}\left(\frac{1}{\widehat{p}_i} - E_j\right)$ holds. This can be deriving (A7) with equalities instead of inequalities (Baiman, 2002; 316). *Thus, in almost every case, even flat marginal pricing, not to mention "standard" Ramsey "inverse-elasticity" regressive pricing, is suboptimal.* Thus even a generalization of the Neoclassical price doctrine encapsulated in (1) that static welfare maximization occurs when prices *are proportional* to marginal cost is wrong in any market where average costs are higher than marginal costs, i.e. *in almost all markets.*

Appendix B

Design Your Own Utopia[55]

Assume that you are a member of an Executive Committee of elected representatives with the power to restructure your nation's economy so that it allocates economic resources to working adults in a way that is as fair to individuals, and as beneficial to society, as possible. Assume also that your committee is "omnipotent" in the sense that it has detailed knowledge that allows for an accurate measurement of the level of each of the criteria below for each working adult. In other words assume that you have yearly data for all the people in your country (remember, you're omnipotent!) that measures:

a) The value of the services or products that they produced.
b) The amount of time and effort they spent.
c) Their level of need.
d) The value of their property or wealth.
e) The social status of their parents (for example: "caste" or "nobility" level; or racial or ethnic background if this is tied to social status.)
f) How much they have received as a result of luck.

Given this data, you want your staff (who will work out all the details of *how* to do this) to set up an economy that will allocate resources based the criteria listed below with weights, or levels of importance, given to each criteria so that sum of the weights adds up to 100%. You also want to be able to explain your choice of weights to your staff.

Criteria for Allocating Resources	Weight or Importance
a) **Inherited Social Status**	_____
b) **Luck**	_____
c) **Need**	_____
d) **Productivity**	_____
e) **Property or Wealth**	_____
f) **Time or Effort**	_____
Sum of Weights:	100%

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[55] Adapted from an Instructor's Manual edited by Mehrene Larudee for the 2nd edition of an introductory economics text: *Understanding Capitalism* by Samuel Bowles and Richard Edwards (1993: New York, Harper Collins). A new 2005 third edition of this text has been published by Oxford University Press with Frank Roosevelt added as a co-author. A revised Instructor's Manual for the third edition is not available.
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