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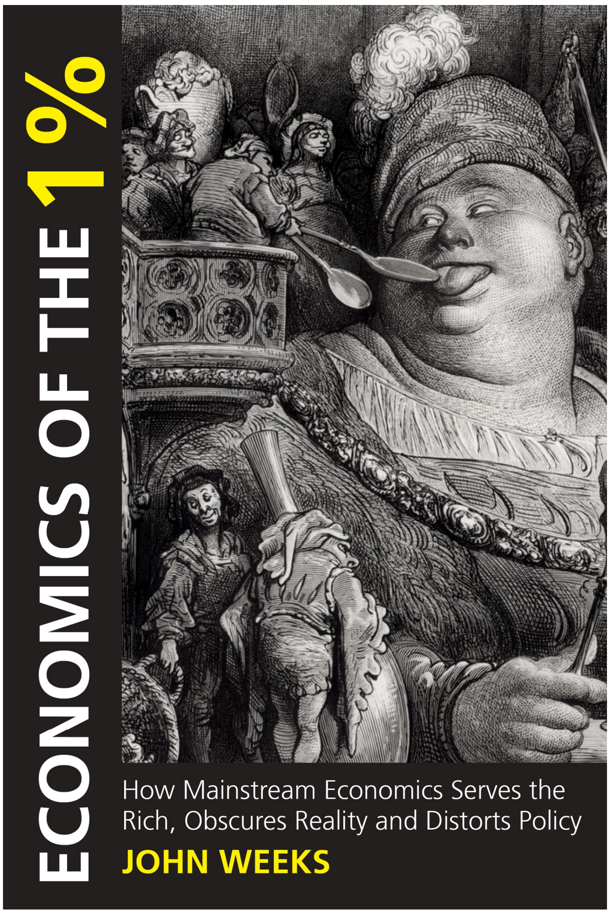


Idolatry of Competition

From tiny acorns great oaks grow. In a case of dogma imitating nature, from low and banal theory mainstream economists ascend to extreme ideological heights. With superficial and simplistic propositions, the economics mainstream constructs a great and complex ideological edifice from which it issues oracle-like judgments over the affairs of humankind. The employment, inflation and anti-government parables of the current mainstream derive from a short-list of putatively incontestable propositions that can be found in almost all introductory and many advanced textbooks.

1. Desires and preferences are unique to each person.
2. On the basis of these desires and preferences people enter into exchanges of their free will, seeking to satisfy themselves through market exchanges with other people.
3. These market activities, including the exchange of a person's capacity to work, are to obtain the income to buy the goods and services dictated by the person's desires and preferences.
4. Many people seeking simultaneously to buy and sell generates competition; and this competition ensures that people buy and sell at prices that are socially beneficial.
5. Action by any collective or individual authority, private or public, that restricts the potential for people to buy and sell reduces the social benefits generated by markets.
6. In the private sector monopolies (sellers) and monopsonies (buyers) reduce welfare. Much more pernicious are the welfare reducing actions of governments, which proclaim good intentions while restricting freedom. These restrictions include all forms of taxation, which reduce people's incomes, alter market prices of goods and services, and lower the incentive to work below its "natural" level (that is, its market level). Many government expenditures have the same effect, such as unemployment compensation reducing the incentive to work, and subsidies to public schools that distort individual choice among potential providers.

I can summarize this short list of these anti-social generalities briefly. People have a desire for goods and services beyond their current earning capacity, requiring them to make choices. Choice occurs when they allocate their incomes among their wants in the manner that will best fulfill those wants. For all people added together, wants are unlimited and the resources to satisfy them are finite. Economics is the study of the allocation of scarce resources among unlimited wants to maximize individual welfare. Government actions restrict, limit and distort the ability of people to make their choices. Its role should be strictly limited to minimize those restrictions, limits and distortions.

In the ideological myopia of big money and its economic priests, markets are not only more efficient than alternative methods of allocation and distribution, they are the *only* efficient method. Even more, markets are efficient if and only if they are not regulated in any manner. "Controlled" economies (socialist and communist) are by far the worst, but regulated markets in capitalist countries are almost as destructive of individual welfare.

Economic life organized through free markets is not merely the Best, it is the only Good. Irrefutable evidence for this assertion is demonstrated in the fact that markets cannot be eliminated even in the most draconian communist state, they can only be "suppressed". As a result, attempts at regulation of markets, even more the banning of them, does no more than drive them underground ("black markets"), distorting the natural tendency of people to "truck, barter and exchange" (Adam Smith). Human activity is market driven: There Is No Alternative, the most fundamental of the many TINA principles so commonly found in the public pronouncements of mainstream economist.

Teflon Pseudo Science

> The difficulty lies, not in the new ideas, but in escaping from the old ones, which ramify, for those brought up as most of us have been, into every corner of our minds.
> [J M Keynes, *The General Theory of Employment, Interest and Money*, 1935, preface]

Many people would disagree with and even be disgusted by the political and policy conclusions of mainstream economics (e.g. all unemployment is voluntary). However, the same people who disagree with the conclusions might reluctantly accept the premises of the argument. These should not be accepted. They are wrong, no more than ideological pretenses.

First, market choices by people are not the result of preferences and desires arising at the individual level. An individual has choices in markets as a result of living in a society with a division of labor that has organized its production and distribution in a specific historical manner. The existence of markets is a social phenomenon. Second, whatever the source of people's wants and needs, whether or not they enter into exchanges "willingly" is a matter of definition. For example, no one is forced through physical coercion to decide to forego medical treatment because it is too expensive. None-the-less it is a choice many people make in most countries, and a choice that would not be presented to a person in a humane society. Third, because preferences arise from a person's social interaction, and many choices are forced upon us, the collective actions of people to improve their societies by government interventions cannot be condemned in general as restricting freedom.

Opponents and critical supporters of markets have made these arguments many times. They never "stick". As with cooking utensils made of Teflon, the ideology of the mainstream can be wiped clean of criticism with astounding ease. No appeal to justice or decency has a long term or fundamental impact on the hegemony of mainstream economic ideology. It should be obvious that this ideology serves the interest of wealth and power. That has been true for two hundred years, and during some of those years the current, absurd version of economics was not hegemonic. Why now? Before that question can even be asked, I must demonstrate the absurdity of this hegemonic mumbo-jumbo.

The ideology preaches that "the market", omniscient and omnipresent, is both tyrannical and benevolent, like one of the ancient gods of the Greeks and Romans. It manifests its tyranny in its relentless control over production, distribution and allocation of the necessities of human life. Its benevolence is sublime through the boundless pleasure it can deliver in personal consumption of the commodities it distributes. Like all gods it demands disciplined obedience to its fundamental laws. It rewards the obedient with riches and punishes the rebellious with misery in a myriad of forms such as unemployment, that all result from vain-glorious attempts to challenge its will.

Like gods, it issues pronouncements, "judgment of markets", which are accepted in reverent passivity (see below for obvious examples). Be they about executive salaries or the price of heating oil, all the judgments carry the same divine authority “you can't argue with supply and demand". These are universal laws of human interaction that can no more be altered than preventing water from running down hill.

We know that these laws are universal and inexorable because their operation has been theoretically explained and that explanation empirically verified by the science of the market, "economics". At the root of the current triumphant return of the nineteenth century anti-social arguments for "the market" is the ingrained belief, even among most progressives, of the logical power, technical strength and empirical validity of mainstream economic theory. As much as we may criticize the reactionary views of economists, at the end of the day, "you just can't deny market fundamentals".

That's wrong. There are no "market fundamentals" in the sense that the mainstream has coined the phrase. Mainstream, "neoclassical" economics is not logically powerful, technically strong and empirically valid. On the contrary, its logic is contradictory, its techniques sloppy, and the real world economy refutes its generalizations with startling regularity.

Resources are Scarce

> Economics is the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses.
> [Lionel (Lord) Robbins, *An Essay on the Nature and Significance of Economic Science* 1932, p. 16]

The ideology of this fakeconomics derives from a major illogical inference, a syllogism: the resources of each country and the world are insufficient to meet human needs, and, therefore, decisions on how to allocate those limited resources for human satisfaction dominates human existence. Economics is the science that studies the allocation of limited resources to achieve unlimited human needs.

Can any sane person disagree that resources are limited? The effect of human activity on the global climate should alone make that obvious. Scarcity is equally obvious when you reflect on the challenge of meeting the basic needs of the increasing population in face of natural resource limits (e.g., "peak oil"). This scarcity is compounded by the aging of the population that leaves fewer workers to support more retirees. Because scarcity is real, economics must study how to set the guidelines for allocating our limited resources to best achieve the needs of all humanity.

This definition of the economic problem confronting humanity is the *raison d'etre* of mainstream economics. It is the intellectual virus that drove its mutation into fakeconomics. The analytical importance to fakeconomics that scarcity rules human existence cannot be exaggerated. It is the necessary foundation of the market parables summarized in the phrase "supply and demand". The principle of scarcity underpins commonplace statements of the type, "executive salaries are determined by supply and demand", or "supply and demand dictate the prices at supermarkets".

"Supply and demand" statements are incantations that convey messages at several levels of consciousness, some of which we do not completely realize. Most profoundly (profanely?) they attribute a naturalism to markets, that the commercial relationships we observe, and the prices associated with those relationships, do not result from the arbitrary actions of men and women. Supply and demand stories preach that natural laws of economics control us and dictate specific outcomes. Because they arise from forces beyond individual discretion, tampering with these specific outcomes leads to an accumulation of economic maladies too disastrous to contemplate. The comparison to religious dogma should be obvious.

Incantations of "supply and demand" also ward off the critics of market much like Doctor van Helsing used The Cross to repel Dracula in Dram Stoker's famous novel. The S&D incantations expose critics them as ignorant dreamers of a communitarian Never-Never Land or the nefarious purveyors of authoritarian collectivism. The naïve and the nefarious have ignorance in common, perhaps willful, ignorance of basic human nature that manifests itself in the mundane setting of the supermarket.

The prices we pay result from unlimited human wants and finite resources to satisfy them. Further, buying and selling are inherent in human nature like the instinct to mate. An authority for this economic naturalism is Adam Smith himself, the mal-appropriated icon of these econfakers, who wrote "the propensity to truck, barter and exchange one thing for another is common to all men" (*Wealth of Nations…*, Book 1, Chapter 2, paragraph 1). The human propensity to exchange implies that markets arise from human nature itself. From this naturalism to the conclusion that regulating markets ("interfering") contradicts human nature is a short step.

The natural tendency of individuals to exchange produces the Law of Supply and Demand, though only the expert can fully understand the operation of the scissors of wants and resources. I provide a child's guide to help the untutored grasp the great natural forces of supply and demand, which we might call the Fable of Virtuous Market.

> **The human problem**: People want many things. As Consumers they demonstrate what they want through markets. As Producers they observe these wants and purchase the resources to obtain the goods and services in order to produce the things other people want. These resources are limited in supply. This means that people and nature together cannot produce all the things people want.

If the story ended at this point, it would be a quite sad and unsatisfactory: unlimited wants, scarce resources, and most people left unsatisfied and unhappy. However, market magic provides for a happy ending.

> **The market solution**: Being both consumers and producers, people find themselves in a virtuous circle (to coin a cliché). As Producers we sell our scarce resource (laboring time and "entrepreneurship"). This sale provides us with incomes that allow us to realize our wants through consumption. Guided by market prices, each of us decides how much he or she wishes to work. That decision determines the overall supply of productive resources. It also establishes each person's income. As Consumer each person allocates his and her income to obtain the combination of purchases that bring the greatest personal satisfaction.

The dual function of people as producer and consumer allows for a state of grace that all humankind can achieve:

> **The Magical Optimum**: Through the simultaneous choices of work and consumption, each person achieves the maximum potential for happiness, allocating the scarce resource (working time) to fulfill unlimited wants to the maximum possible.

To put the matter simply, we cannot have everything we want, but by balancing work and leisure, and allocating our expenditures rationally, we can achieve the best outcome consistent with the scarcity inherent in nature and infinity of human desires. Few people understand this subtle and sublime optimization process even when they act it out in real time. Little does the individual realize that each trip to the supermarket, excursion to a department store and stop to fill the tank of the car is but a small part of a grand scheme to resolve the tension between the scarcity of resources and the infinity of wants. Though individuals may grumble at the prices they pay to achieve their state of grace, those prices are the outcome of millions of people seeking bliss through market relationships.

The Virtuous Market Fable is false. Every part of it is wrong. Resources are not scarce, except for what Marx named "the produce of the earth". Wants are not unlimited. There is no "law of supply and demand". It is all nonsense, figments of the imagination of econfakers.

The Supply & Demand Scam

The phrase "supply and demand" is used in daily discourse to convey the idea that economic events are beyond the influence of individuals, determined by "market forces". For example, in March 2007 in *The Guardian*, an article invoked the law of supply and demand to "explain" grain prices in the United Kingdom, with details left to the reader's imagination.

> The reasons behind the price surge [in grains] are well documented, world shortages and perceived increased demand from the supposedly burgeoning biofuel industry are putting a true floor in the wheat commodity market as more buyers come to the market. Fortunately, the laws of supply and demand that I learned in my formative years still hold true.
> [http://www.farmersguardian.com/supply-and-demand-rules-still-hold-true/7849.article]

We find similar insight, that a price rises when more people want more of something, in discussions of petroleum prices. Here it appears that it is price that affects demand, rather than demand affecting price:

> Supply and demand remain among the most influential components of oil-market behavior. Unlike in most other markets, though, drastic changes in oil prices do not necessarily kindle changes in demand. "Prices can fall a long way without stimulating demand," says Tim Evans, an energy analyst at Citigroup.
> Supply issues, on the other hand, can have considerable impact on oil prices. Geopolitical events that threaten oil supplies, such as troubles between Venezuela and the United States or Turkey and Kurdish Iraq, can spook investors and lead to price volatility.
> [http://www.cfr.org/energy/oil-market-volatility/p15017]

In the same rather incoherent vein, we could read in the *Economist*, "Two factors determine the price of a barrel of oil: the fundamental laws of supply and demand, and naked fear" (March 2011). These statements have implications both proscriptive and ideological, that markets produce "fundamental" outcomes that are beyond the power of individuals, groups or governments to change, and that they have done so as long as people have traded things. Attempts to interfere with "the fundamental laws of supply and demand" are misguided and doomed to failure.

To evaluate this market fundamentalism, I restate the essence of these quotations without using the words "supply" and "demand".

> When businesses and people want to buy more of something at the current price, that price is likely to rise. If a business cannot sell all of its inventory, it can lower its price and might sell more. How much more depends on the characteristic of each commodity.

As predictions of actual behavior these assertions may or may not be true. For example, in 2011 the exhaustion of retail inventories of iPad2 devices in the United Kingdom did not result in an increase in price. This was because the producer, Apple, used its market power to hold retail prices constant. Was this a violation of the "fundamental laws of supply and demand", or proof of its operation? Or both?

Whether true or false, the quotations above bear no relationship to what economists or econfakers mean by the "supply and demand". "Naked fear" may or may not impact on the price of oil as the *Economist* speculates. Without knowing fear of what, it is impossible to assess this banality. But no competent economist (and few econfakers) would suggest that "the fundamental laws of supply and demand" determine the price of a barrel of oil, as I shall explain.

The "supply" of a commodity or service and the "demand" for it are theoretical constructions. These theoretical constructions exist only in the imaginary world of perfect competition, a non-credible concept that I dissected previously. Sufficient here is to explain that buying and selling, prices rising and falling, and gluts and shortages of commodities are not the operation of any economic law, and certainly not something that could legitimately be called the law of supply and demand, or the "law" of anything.

Commodities are produced and delivered to wholesale and retail distributors. People, companies and governments demonstrate how much they want of these commodities by purchasing them from the distributors. In this simple, everyday sense commodities have a supply and there is a demand for them. The words mean nothing more than "someone sells" and "someone buys". The real world activities of buying and selling are not the "law of supply and demand" made infamous by econfakers, and eagerly misrepresented by free market ideologues in popular outlets such as the *Economist*.

Real world production, distribution and exchange are subject to manipulation through market power by both buyers and sellers. To take the obvious example, producers of petroleum do not passively accept prices. They manipulate prices directly through collusive agreements or indirectly by adjusting what they offer for sale. Supply and demand do not determine oil prices. Quite the contrary, monopoly administered oil prices determine how much will be bought, and the petroleum producers match their "supply" to that demand.

As any freshman learns in introductory economics (more accurately, introductory fakeconomics), the "supply" in the "law of supply and demand" does *not* mean an amount. The word refers to a list of quantities of a commodity that a producer would *offer* for sale at different prices. These are not actual sales or deliveries to the retailer. The quantities on the list or schedule are planned or anticipated amounts that might be supplied were various anticipated prices to appear in the market. They are quantities for hypothetical prices when the actual selling price is *unknown* to the vendor.

For example, a tailor might plan to produce and deliver five custom made shirts over a week at a price of fifty dollars each, eight if the price rises to sixty dollars, and so on. It might appear obvious that a producer will offer more when prices rise. This simple relationship proves extremely difficult for the econfakers to establish as a general rule, as I shall explain.

These offers and the anticipated prices cannot be observed. They are imaginary, sometimes called "notional" supply in the fakeconomics jargon. When producers match the imaginary quantities with imaginary prices, this matching has an extremely important property. The producer must believe that each planned quantity will be entirely sold at the anticipated price (i.e., the price in the quantity-price match). Formally stated, the "supply" of "supply and demand" consists of the quantities of beer, computers, *etc*. that each company offers at each conceivable price, firm in the belief that sales are potentially unlimited. But if potential sales have no limit, from where come the quantities to match the prices? Why not "supply" until the tailor shop operates twenty-four hours with as many assistants that the master tailor can pack in? "Aye, there's the rub", as Hamlet might say were he an economist, a very serious "rub", pursued below.

The layperson can justifiably ask what relationship does this imaginary matching of quantities and prices have with actual production and distribution of commodities and services? The answer is, "nothing". Any CEO or sales manager acting on the belief that whatever offered will be sold would soon be seeking alternative employment, having driven her or his company bankrupt. As unlikely as a belief in no sales limit might be, let me pursue this illogic of fakeconomics to the end of the story, because it yields the true tale of supply and demand.

If each unit of an item a company produced were the same, for example a DVD of the *Titanic*, we would expect each unit to have the same cost of production as output increases. Let us try combining this reasonable generalization about unit costs with the improbable idea that companies decide their supply offers firm in the belief that they have no sales limit.

The combination, constant unit cost and unlimited sales, implies that the profit-seeking DVD company would run its machinery twenty-four hours a day, 365 days a year, producing all it possibly could. We should observe producers, from the tailor to the multinational, operating continuously at maximum capacity. We do not observe this, quite the contrary. Idle capacity shows itself frequently, even continuously. Either the logic is incomplete or it is wrong.

As for almost every fakeconomics generalization, what began as an apparently simple idea, markets generate prices determined by the supply and demand for what people buy and sell, proves exceedingly difficult to establish in logic, much less in practice. The solution to the "supply and demand" puzzle requires additional pieces unanticipated when we began, some with very strange shapes. With unlimited demand and constant unit costs, there would be only two levels of production ("supply"). If the selling price is below unit cost, the company makes losses and drops the product from its sales list (zero supply). If the price rises above unit cost, the company produces at full capacity output.

Any other production level, between zero and maximum, would mean that the quantity produced and offered came from an estimate of the company's anticipated sales. While this inference seems reasonable and realistic, it has a devastating impact on the "fundamental law of supply and demand". When anticipated sales not anticipated prices determine production, the anticipated quantity demanded dictates the actual quantity supplied. *Supply and demand are the same thing*.

This tautology makes the putative law of supply and demand no law at all, just a banal redundancy. If company owners believe they have no sales constraint, then they will keep building larger and larger production facilities until one, or very few, of them controls the entire market. At that point, the buyers find themselves the passive recipients of prices posted by powerful monopolies or "oligopolies" (one seller and a few sellers, respectively).

If supply and demand determine prices, then supply and demand must be independent of each other. To use common metaphor, the "scissors of supply and demand" must have two blades, not one. Buyers ("consumers") determine demand and sellers determine supply. If constant unit costs characterize a company's production, anticipated (predicted) sales determine supply. "Supply" and "demand" coincide. Independence of supply from demand (predicted sales) requires that the company believe that the demand for its product is limitless. If demand is limitless and unit costs constant, supply is independent of demand, but we have only two possible outcomes, zero and maximum.

To repeat the dilemma yet again, the famous law of supply and demand paints itself into a tautological corner. If at the going price sales are potentially unlimited, then production will always be a full capacity. As a result, "supply" is one unique amount, unaffected by price unless it falls below unit cost. If price is above unit cost, price increases have no impact on the amount produced ("supply), they affect only unit profit. If sales are not unlimited, the amount supplied is not known until after sales are made. Supply and demand are the same thing.

An escape route exists from this descent into market concentration, if we get rid of constant unit costs. We must be careful in doing so, because a misstep out of constant costs can have fatal consequences. Consider the opposite cases, rising unit costs and falling unit costs. If a company's unit costs continuously rise as output increases, then it does not have long to operate. Under pressure of price competition, the company managers would discover that to lower unit costs they must reduce the level of production, driving output and sales down, down, until closure. The opposite case is, if anything, even worse for the putative Law of Supply and Demand. Continuously declining unit cost leads to monopoly. Each company will increase its scale of operations until one company can satisfy the entire market. Railroads in the

United States during the nineteenth and first half of the twentieth centuries provided clear examples of falling unit costs, as the huge fixed investment spread over larger and larger scale of operation. As a result, the railroads in every country in the world are either a public monopoly or publicly regulated private monopolies.

What can salvage the Law of Supply from tautology? Constant unit costs cannot generate a meaningful supply curve, nor can falling or rising unit costs. The process of analytical elimination leads to a solution, albeit rather absurd. We require a plausible explanation of why unit costs might first fall, then level off, and subsequently rise, resulting in "U-shaped" unit cost. If this unlikely sequence could be justified and generalized, it provides hope for the concept of "supply". A "U-shaped" company would have a minimum unit cost resting somewhere between the falling and rising portion.

A supply and demand story might go as follows. On the belief that they can sell as much as they can produce, companies set their production at the cost level that maximizes profit for each price. As the market price increases, this compensates for rising unit costs and induces the company to offer a larger quantity for sale. Over time, competition among producers forces companies to their lowest unit cost point. If the level of output for each company at the minimum unit cost contributes a small fraction to total consumer sales, then the industry can support many companies.

The mechanism to avoid monopoly on the one hand and zero production on the other has been found, in the simple letter "U" applied to unit costs. An unfortunate difficulty remains. U-shaped unit cost structures do not exist in the real world. The "solution" is shamelessly *ex machina* step. In the absence of a known mechanism for such a cost structure, econfakers make one up and repeat it endlessly as if it were credible. The inventive creation is the fakeconomics Law of Diminishing Returns. This new law states that if we combine more of a "variable input" (i.e. workers) with a "fixed input" (plant and machinery, "capital"), "output increases but at a diminishing rate". Out of thin air this "law" generates the U-shaped production story so desperately needed.

Before going further, I must stress that this putative Law, snatched like a rabbit from a hat, bears no kinship with David Ricardo's early nineteenth century concept of diminishing returns, though econfakers invoke him for credibility. In his famous work, *Principle of Political Economy and Taxation* (1817), Ricardo argued that the fertility of land in every country varies. Capitalist farmers will first plant on the most fertile land, which generates the highest profit, then move to the less fertile where profit will be lower, which is the principle of "decreasing returns at the extensive margin", to use the jargon.

Economic and social historians have demonstrated beyond doubt that Ricardo was wrong, due to social and cultural constrains on the allocation of land. But at least the idea has some superficial credibility, which "U" shaped unit cost does not (sometimes given the dignity of the phrase "diminishing returns at the *intensive* margin"). Anyone knowledgeable of the work of Ricardo must feel sympathy for a great thinker to a great extent remembered through gross misrepresentations of two of his ideas, diminishing returns and "comparative advantage" (the next chapter confronts the latter).

This approach, "we need U-shaped unit costs, let's call it the Law of Diminishing Returns", should not impress a rational person. How to make it believable? Wikipedia tried.

> A common sort of example is adding more workers to a job, such as assembling a car on a factory floor. At some point, adding more workers causes problems such as getting in each other's way, or workers frequently find themselves waiting for access to a part. In all of these processes, producing one more unit of output per unit of time will eventually cost increasingly more, due to inputs being used less and less effectively.
>
> The law of diminishing returns is one of the most famous laws in all of economics. It plays a central role in production theory.
>
> [http://en.wikipedia.org/wiki/Diminishing_returns]

The last two sentences are true. The rest is garbage. I infer that the Wikipedia author visited some quite unusual car factories. It may well be that as more and more workers squeeze into an automobile plant, they begin to step on each other's toes and generally disrupt operations. I doubt that any factory manager has experimented to find out. Companies staff their factories on the basis of technically determined equipment-to-worker rates, on farms, in offices and at other places of work.

The famous Law of Diminishing Returns suffers from misnaming, because "diminishing returns" do not yield the necessary U-shape for costs. This magical shape requires that "returns" first *increase* (the declining or first part of the "U"), then begin to decrease or "diminish" (the rising or second part of the "U"). Mere "diminishing returns" leave the company with a fatal case of continuously increasing costs, discussed above. The Law of Increasing-then-Diminishing Returns is imaginary, a Rube Goldberg attachment to a Heath Robinson "Law of Supply".

The Law of Supply and Demand that allegedly determines market prices has no existence except in the feverish imaginations of econfakers. The "supply" part cannot be logically specified or empirically verified. If companies believe they have no sales constraint, they would always be at full capacity. If they estimate their sales constraint, then the amount offered and sold are the same. The solution to this quandary is the Diminishing Returns scam. The (in)famous "supply and demand" finds relevance only in a very special and absurd case, when a company's production unit costs that show a U-shape as output grows. A little non-ideological common-sense reveals as non-sense all that complicated stuff about supply and demand, unnecessary obfuscation of how companies make decisions and markets operate.

Something akin to economic "laws" exist, but they are deeply embedded in the institutions of society, which I treat in the last chapter. The costs and prices of commodities and services are not arbitrary. They have objective constrains. The amount of goods and services people and corporations buy and sell are not arbitrary. But simplistically viewing production and distribution as solely economic and determined by natural forces beyond the control of people and their collective actions comes from the metaphysics of fakeconomics, not sound thinking. I am hardly the first economist to point that out.

> If the wealth distribution which the automatic working of the system brings about is accepted [uncritically], behavior that interferes with the adjustment of relative prices is dysfunctional…and can be condemned on ethical grounds. Academic economists have been the high priests of this ethic.
>
> (Axel Leijonhufvud, *Keynesian Economics and the Economics of Keynes*, 1968, page 102)

To most people, and certainly all econfakers, the name Karl Marx provokes dark images of socialism and communism. Be that as it ideologically may, Marx provides important insight about the fakery in adulation of "supply and demand". Using the term "vulgar economy" for what I call fakeconomics. Marx wrote that "vulgar economy"

> …confines itself to systemizing in a pedantic way, and proclaiming for everlasting truths, the trite ideas held by a self-complacent bourgeoisie with regard to their own world, to them the best of all worlds.
>
> [Capital, Volume 1, Chapter 1, footnote]

Replace "bourgeoisie" with the "one percent" and we see how little has changed in fakeconomics over 150 years.

Resources Abundant, Wants Limited

> For idle factories and idle workers profit no man.
> [Franklin D. Roosevelt, Message to Congress 1938]

As illogical and contradictory as supply and demand may be, a more serious problem faces fakeconomics. The generalization that resources are scarce underpins its entire analytical structure. The problem is that resources are not scarce in a market economy. To the contrary, they are abundant. As for wants being unlimited, that comes from the pipe dreams of marketing departments.

The people of a country and their working capacity constitute the most important resource in every society. This is a rare case in which fakeconomics displays some link to reality, because its use of the words "scarce resources" always refers to what it calls the "labor input". Within this framework labor can produce all the other resources or substitutes for them. Scarcity of human labor implies an overall scarcity of goods and services, because every product requires labor.

To assess whether labor is scarce, I look first at statistics from the United States, which cover in a consistent manner a longer time period than in any other country. During the Great Depression of the 1930s, civilian unemployment in the United States reached a peak of twenty-five percent of the labor force in 1933, one out of every four working people. It persisted in double digits, ten percent, until 1941, the eve of the United States entry into the Second World War (Congress declared war in early December). During 1943-45 the rate edged below two percent, and would never again fall so low. For the sixty-two years, 1950-2011, the annual unemployment rate dropped below four percent in only eight years, and not once after 1969. If that record seems inconsistent with full employment, consider unemployment for African-Americans. During the fifty-two years, 1960-2011, the African-American rate never fell lower than six percent, and not once lower than seven after 1970.

In 2007, on the eve of the Great Financial Collapse, after almost fifteen years of steady economic expansion, 4.5 percent of all males 16 or older and the same percent of females were unemployed. Many econfakers would argue that 4.5 percent unemployment is actually full employment, with those four-and-one-half people out of every one hundred between jobs, lacking the skills to match what employers seek, or waiting for a better offer. So, perhaps we should use five percent as "full employment", in which case eighteen years since 1950 would qualify, or 5.5 that divides the six decades equally with 31 years above and 31 below?

Could US society suffer from an extraordinarily large number of shirkers, living high on unemployment benefits, so that six percent unemployment brings everyone willing to work into work? If this were true, why is that from 1950 through 1979, six percent or more of the labor force "chose" unemployed in fifteen percent of the years (about one year out of every seven), and during 1980-2011 this occurred in almost thirty-six percent of the years (more frequently than one in three). Could we be observing a long term rise in laziness (see the box, "Idle factories and idle workers profit no man"), and the term "unemployment rate" should be replaced with "shirkers' index"? The laziness epidemic seems to infect management as well. Since 1960 the level of utilization of productive capacity has shown a downward trend. Capacity utilization declined during each successive boom and bust, with both the maximum and the minimum lower with each business cycle.

The laziness malady must also affect the United Kingdom, though with wider swings from maximum to minimum (perhaps due to different definitions of the unemployed or laziness in the two countries). During forty-one years, unemployment fell below four percent in only four, all consecutive (1971-1974). After 1974 unemployment averaged almost 7.5 percent of the labor force.

For all reasonable observers (which excludes econfakers) a more obvious answer than laziness presents itself. Some major change occurred over the after the 1970s to render society less capable of providing employment for those who seek it. That change occurred as a result of the implementation of fakeconomics policies by governments all over the world, policy imitating bad theory. With an average unemployment rate since 1990 of six percent in the United States and seven in the United Kingdom, only econfakers and their business patrons look over the land and see scarce resources (and probably not the patrons, who, after all, live in the real world).

When something is in surplus, it is not scarce. The remote possibility that labor could suffer from a shortage at some time in the future does not make scarcity economics plausible. If you cannot use all of something, there is no danger of running out of it (rocket science). In most countries in most years we find no scarcity of labor and no lack of the machinery to employ that labor. Only rarely does the problem of how to allocate scarce resources confront a market economy, usually during wars. How to mobilize and use productively the available resources plagues market economies. Statistics over as long as one cares to look demonstrate that markets do not solve the resource use problem.

Econfakers respond to the obvious absence of labor scarcity by attempts to show that any level of unemployment, no matter how high, is actually zero. Whatever the statistics might show to the contrary, market economies always enjoy full employment in the eyes of the mainstream. The always-full-employment arguments fall into three categories, the tautological, the statistical and the absurd. All three derive from the dubious division of unemployment between voluntary and involuntary. Beginning with this false dichotomy, the econfakers proceed to demonstrate their own satisfaction that all of the unemployment we observe is "voluntary".

The "voluntarily unemployed" themselves fall into three categories. First and least reprehensible are those between jobs ("structural unemployment). Second, we find the lazy, politely described as rejecting work because they assign a high price to their leisure time. Third come those who do not work because of the lavish benefits bestowed on them by the nanny state in unemployment payments, disability benefits, and welfare handouts in general.

In February 2011 the prominent British television presented John Humphrys provided BBC viewers with examples of the second and third forms of voluntarism, in a programme titled, "The Future State of Welfare". The enticing trailer for the programme informed the prospective watcher,

> {John Humphrys] returns to the area where he was born - Splott in Cardiff - to show how attitudes to work and welfare have changed in his lifetime. When he was growing up, a man who didn't work was regarded as a pariah; today, one in four of the working-age population in Splott is on some form of benefit.
>
> [http://www.bbc.co.uk/programmes/b016ltsh]

The BBC broadcast the program when Mr. Humphrys was sixty-seven years old. A bit of arithmetic implies that he "was growing up" in the 1950s. Mr. Humphrys neglected to mention during his hour long programme that when he grew up, during the post-war boom, about *three percent* of the labor force in Wales was unemployed. He might have compared this to close to *ten percent* in 2011 (also reported on the BBC, though not in the same program). During the worst recession in eighty years, one of the leading broadcasters on a publicly owned television station attributes unemployment to personal motivation. In Mr Humphrys the econfakers have a potential follower.

In fairness I should add that two years later the BBC management took Humphrys to task for the program,

> The BBC Trust said that a programme called the Future of Welfare, written and presented by John Humphrys, breached its rules on impartiality and accuracy. It found that the programme had failed to back up with statistics claims that there was a "healthy supply of jobs". [http://biasedbbc.org/blog/2013/07/30/bbc-too-right-wing/]

The presenter's patronizing slander of the unemployed calls to mind an article in *The Guardian* in late 1931, citing a speech by then Prime Minister Ramsay McDonald. In the depths of the world depression, the Prime Minster explained to the nation that that the growing number of people out of work resulted from the onset of the holiday season,

> It is not, however, likely that the [unemployment] figure will continue at quite this level, as the rise is to a large extent owing to the temporary closing down of works for extended holiday stoppages…
>
> A large increase in the "temporarily stopped" always occurs in the last week of the year, and a temporary rise of a quarter of a million is not unusual. [http://century.guardian.co.uk/1930-1939/Story/0,,126796,00.html]

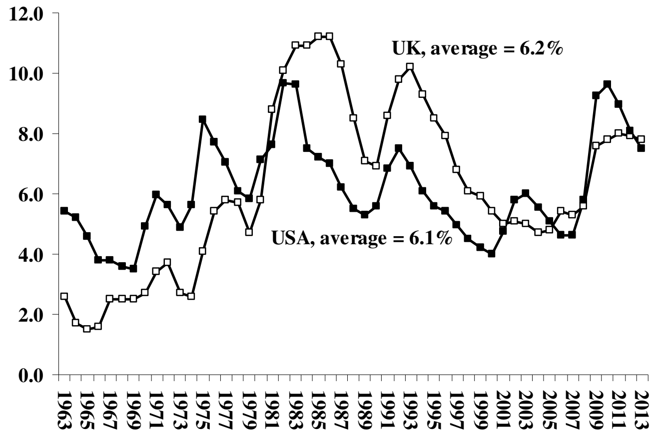
The ideology of scarcity demands the "voluntary" or "temporary" unemployment absurdities of the econfakers, because the political stakes are so high. If people (including television presenters) come to recognize the reality of unemployment, then what passes for economic wisdom would be recognized as ideology.

Resources may not be scarce, but surely, the other half of the fakeconomics definition is true, that people's desire to consume is unlimited. Marketing shysters all over the world strive to turn this assertion into fact. It should be viewed very skeptically. If I stop a large number of people on the street and ask if they want to improve the quality of their lives, the vast majority would answer "yes". To equate or reduce this hope for improvement to an unlimited desire for things that can be bought and sold turns a triviality in a slander on human nature.

A shockingly large proportion of the populations of the most developed countries in the world lives in poverty. Whether or not their "wants are unlimited" is foolish and reactionary conjecture. Poverty means that people lack the income or means to the income that would purchase the minimum required for a decent life. The desire to change that should surprise no one, nor would any intelligent person interpret that desire for change as demonstrating some universal truth about consumption behavior.

At top of the income and wealth scale, households have the opposite problem. While austerity reigns for the poor, over-indulgence guides the rich. How do you spend $1.3 million dollars a year (average for those in the top one percent in the United States) or one million pounds (about the UK figure) *in a year*? The rest of us are left to imagine the *angst* of those at the top as they come to 31 December and discover, yet again, income unspent.

Idle factories and idle workers profit no man.
[Franklin D. Roosevelt, Message to Congress 1938]
50 years of Idle Men and Women in the United States and the United Kingdom, 1963-2013



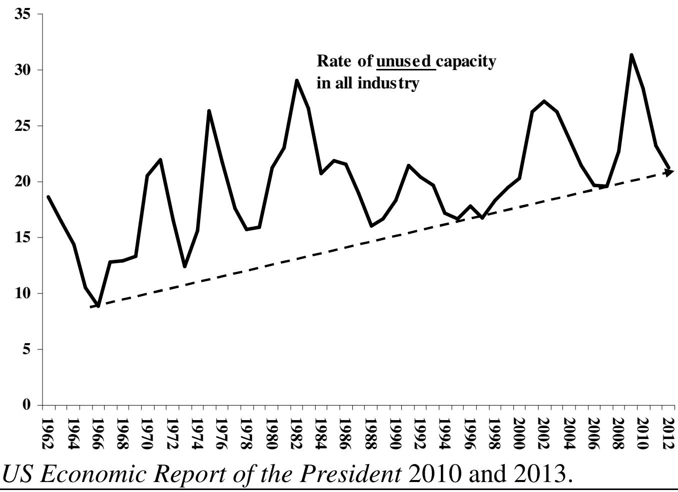
These are the so-called harmonized or standardized rate reported by the Organization of European Cooperation and Development (www.oecd.org). The rates for 2013 are for January-June.

Unemployment rate, USA & UK

From 1963 through 2011, the US civilian unemployment was above 5% in 36 of the 50 dull years with an average of 6.1%. In only 10 of 50 years did it fall below four percent.

In the United Kingdom for the average was almost the same, 6.2%, with lower rates than the US before 1980 and higher rates subsequently. During the 33 years after the election that made Margaret Thatcher Prime Minister, unemployment fell below 5% only twice (2004 and 2005, under "New Labour" Prime Minister Tony Blair).

Spot the trend:
50 years of factory idleness in the United States, 1960-2012 (percentage)



US Economic Report of the President 2010 and 2013.

Industrial utilization, USA

People find themselves unemployed because companies lay them off (not rocket science). From 1962 through 2012 the factories and other producing units in the industrial sectors of the US economy operated on average with 20% or more of their capacity idle in 27 years. Looking at it the other way, in only 7 years did private industry have 15% or less of its buildings and equipment idle, and 10% or less in one (1966).

The trend towards increasing idleness is obvious and helps explain the declining US investment ate.

Wealth Accumulates and Democracy Decays

Ill fares the land, to hastening ills a prey,
Where wealth accumulates, and men decay:
Princes and lords may flourish, or may fade;
A breath can make them, as a breath has made;
But a bold peasantry, their country's pride,
When once destroyed can never be supplied.
…
But times are altered; trade's unfeeling train
Usurp the land and dispossess the swain;
[from Oliver Goldsmith's *The Deserted Village* 1770]

The enforcement of fiscal austerity qualifies as the single most important public policy consequence of the abandonment of economics in favor of fakeconomics. Acceptance of austerity by the public in almost every major advanced country is even more perversely impressive than the austerity itself. Anyone born after 1960 must find it hard to believe that once, long ago it seems, the belief in balanced budgets did not drive public finances, nor did governments agonize over and quake in breathless anticipation of the "verdict of financial markets" on their policy decisions.

The overthrow of rigor and commonsense in what we once called the economics profession did not cause this seismic shift in the ideology of public policy. We can trace the chronology of causality quite clearly, especially in Britain and the United States. The cause lies in the secular decline of trade union influence and the parallel rise in the power of capital. Aneurin ("Nye") Bevan, tireless Welsh campaigner for the rights of working people, stated the danger succinctly. Unless the working majority organizes to prevent it, “it is an axiom, enforced by the experience of the ages, that they who rule industrially will rule politically". In the twenty-first century we can replace "industrially" with "financially".

The influence of trade unions declined beginning in the 1970s in the United States and in the 1980s in Britain as a direct result of concerted attacks by employers. These attacks came most obviously in legislation to make organizing more difficult and bargaining rights harder to obtain and defend. In 2012 the UK journalist Polly Toynbee, who had left the Labour Party in the early 1980s in part due to anxieties about excessive union strength, accurately captured the consequences of union decline,

> The late 70s saw the most equal time in British history, but since then the rich have got richer and the poor poorer. The City [of London, the world's largest financial center] burst its bounds in the 1980s, its hubris still unabashed by scandal, far mightier than mere politicians. Strong unionism had its dysfunctions, but unions prevented the explosion in unfair pay that followed their abrupt decline.
>
> [*The Guardian*, 30 July 2012]

But perhaps the clearest and most powerful contemporary statement of the consequences of declining unionism in the United States comes from Jeff Faux, former director of one of the only progressive think tanks in the United States (the Economic Policy Institute).

> With [union and New Deal] protections gone or greatly diminished, class lines will harden and social mobility in America—already below that of many other advanced nations—will decrease further. The humiliations of working life under raw capitalism before the New Deal will return. Bosses will be more arrogant and demanding. Overworked bureaucrats at shrunken government agencies will be less responsive. The distinction between service and servitude will blur.
>
> [From *The American Prospect*, June, 2012, http://jefffaux.com/?p=254]

The decline of trade union membership and the associated increase in the wealth of the one percent brought on a malady even more serious than income stagnation, the decline of democracy itself. As John F. Kennedy said while president, "Those who would destroy or further limit the rights of organized labor - those who cripple collective bargaining or prevent organization of the unorganized - do a disservice to the cause of democracy".

The unregulated rise of markets undermines democracy through two inter-related processes enabled by the deregulation of capital. First, so-called free markets result in rising inequality in income and wealth. This increasing inequality itself leads to fusion of political power with economic power, leaving the vast majority of the population without effective political voice as elections and politicians become commodities bought and sold.

"Free markets" themselves render it impossible to organize society in the interests of the many. The liberation of market forces establishes an anti-social tyranny that enforces its own version of Hobbes' "state of nature". Imagine that a foreign power attempted to convert the United States or Britain into a political dependency in which that foreign power demanded the right to veto decisions of the democratically elected governments.

We require no strain of the imagination to conjure up such a nightmarish world. We live in it. In Britain and the United States, politicians are told that the economic policies they would implement must receive the prior endorsement of "markets", a euphemism for financial capitalists. Far more powerful than any foreign country, these men and women (most of them the former) demand and receive the unlimited right to restrict the choices that both the electorate and the politicians can consider, much less implement. Not since the era of divine right of monarchs have populations suffered under the tyranny of such unaccountable power.

An example demonstrates the unrestrained dictatorship of finance, as well as the arrogance of those who wield its power. In 2008 almost all major banks in the United States and Britain, and many in continental Europe, teetered on the verge of collapse. Only the intervention of governments rescued these speculating utensils of the mega-rich from their own feckless behavior. For some of the most important of these miscreants, the US or British government acquired majority ownership in the process of "bailing them out".

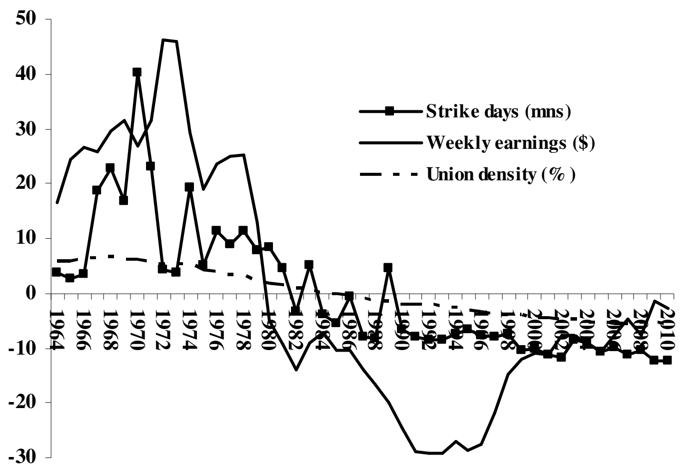
In 1991 a similar banking crisis struck Sweden. With the support of the opposition Social Democrats, the conservative ("Moderate Party") government nationalized the Swedish banking sector and created the Banking Support Authority to bring financial decision making under public authority (*New York Times*, September 22, 2008). Neither the British nor the US government took any serious step to assert the obviously needed public control over the banks they *de facto* owned. The banks almost collapsed due to their own reckless speculation. Governments rescued them but took no serious step towards controlling their obviously unreliable behavior. In addition, neither the UK or the US government prosecuted even anyone for these financial crimes.

In Spain the failure to take control of the financial sector descended into farce, albeit a farce that devastated the 99%. True to their inner nature as houses of speculation, major Spanish banks entered the US "sub-prime" mortgage market with a gusto. When the global financial crisis brought them to the brink of bankruptcy, the social democratic government of Spain saved them through re-capitalizing their asset base. As in the United Kingdom and the United States, the Spanish government did not assume control, which resulted in a textbook case of "no good deed goes unpunished" (putative source is Clare Booth Luce, US playwright, Congresswoman and ambassador). The refunding the banks switched the Spanish fiscal balance from surplus to deficit in 2008. The bankers used their gift from the Spanish public to speculate on the bonds that had saved them. This speculation brought down the Socialist government and was the direct cause of the rising interest rates that prompted the new, right wing government's austerity policies.

Whether the financiers themselves designed these betrayals of the public, or the governments created and implemented it themselves, is of little importance. If the former, some limited hope exists for change. But more likely is that the president and Congress in the United States, Parliament and the prime minister in Britain, and allegedly left-of-center Spanish Socialists did it on their own, needing little prompting. An institution's power approaches hegemony when it no longer need issue orders, but can rested assured that its underlings voluntarily act as expected of them. We have reached that point in most of the advanced world, where all major politicians know their place and function under the rule of finance.

Democracy in the advanced countries remains alive, but severely restricted. From the last years of the twentieth century onwards, the Troglodyte right in the United States labored hard to restrict the right to vote in hope that this would bring electoral victories to the overwhelmingly Caucasian Republican Party. Venal as this anti-democratic strategy may be, it pales to the point of the ludicrous along side the success of financial interests in reducing democracy to a sham. For the bankers voting serves as no more than a side show. Elections are marginal events that they can buy and sell with their massive riches. Will Rogers, perhaps the greatest American political comedian quipped, "a fool and his money are soon elected", which in the twenty-first century might be enhanced as "a fool and his financial sector backers are sure of election".

Strikes, Unions and Earnings, USA 1964-2010



Guide: Each line is the year's value minus the average for all years as a percentage of the average. For example, weekly earnings equaled their average for all years in 1980. Earnings are measured in prices of 1982-84. *Economic Report of the President 2012* & Bureau of Labor Statistics, US Department of Labor.

People must fight to protect their incomes. If you need convincing, look at the chart to the left. Inflation adjusted average weekly earnings of all US employees hit their peak in 1972. They have been below their fifty year average since 1980 (30 consecutive years). The association between the continuous fall until 1993 and the equally continuous decline of strikes is obvious.

After 1993 earnings began a slow recovery as the decline in strikes slowed down. But in 2010 earnings still remained below the average for the 46 years, and almost 20 percent below their peak in 1972 (over *forty* years ago!).

Inflation adjusted earnings reached $342 per week in 1972, with an average for the 46 years of $296. Days lost to strikes hit a maximum of 52.8 *million* working days in 1970, falling to 302 *thousand* in 2010, less than one percent of the peak value. Meanwhile, the proportion of private and public workers in trade unions, "union density", declined from its high of 23% in 1968, to barely ten percent in 2010.

Fakeconomics and Class Struggle

> The institution of a leisure class has emerged gradually during the transition from primitive savagery to barbarism; or more precisely, during the transition from a peaceable to a consistently warlike habit of life.
> [Thorstein Veblen, *Theory of the Leisure Class*, 1899, p, 7]

The current mainstream of the economics profession, what I call fakeconomics, faithfully serves the rich and the powerful. Even those among the econfakers of good will and good intentions do so. Perhaps even more than self interest, the theoretical method of fakeconomics dictates an anti-social world view. Frequently the political Right accuses progressives of preaching and advocating class struggle. This is false. The Right advocates class struggle, and fakeconomics carries class conflict as a central, distinguishing characteristic.

Fakeconomics, the current mainstream, carries a simple message: dog-eat-dog, and the one percent hound far out weighs the ninety-nine percent mutt. The analytical dismantling of the "law of supply and demand" reveals that message. All fakeconomics generalizations derive from the assumption of "scarcity", the generalization that resources are fully employed. From this assumption it necessarily follows that one person can have more of a good or service only by accepting less of another.

Transubstantiated from products to people, this means that the economy operates as a zero sum game. At any moment, one person can enjoy a higher income only by someone else suffering a lower income. As I explained in an early chapter, introductory textbooks define the "economic problem" as the attempt by people to satisfy unlimited wants with scarce resources. This definition of economics carries a simple message: "grab what you can before someone else does, because there is only so much to go around".

The word "individual" functions as a central element to disguise the class message in fakeconomics. The textbooks, the professional commentators on economic events and the media in all its forms tell us that markets provide for individual choice, for the individual to pursue her/his personal ambitions and dreams, and that a great body of theory supports this benign interaction between individuals and markets.

The common belief that current mainstream economics provides a theory of individual behavior is wrong. No individuals exist in this theory. All "microeconomics", the study of markets, proceeds analytically by use of stereotyped and uniform behavior, captured in the term "representative agents". The theory creates the "representative consumer", the "representative worker" and the "representative firm".

How do we encapsulate a theory in which a homogenous collection of workers faces a homogenous collection of employers? If this does not qualify as a theory of class struggle, what would? The trick is to disguise this theory of confrontation as harmony. Fakeconomics creates the disguise by adding to the *faux*-individual its flexible and duplicitous use of the word "competition".

As I showed way back in Chapter 2, the reality of the famous saying from Welsh rugby sums up competition in markets, "get your retaliation in first". In reality as opposed to fakeconomics fantasy, unregulated competition disintegrates society into alienated and mutually suspicious individuals, and *de facto* divides these individuals along class lines. The degeneration of society into competitive individualism results not from human nature. It emerges slowly, as the 1% destroys the basis of social cooperation, through the ideology of "the individual" and the reality of a stagnant or declining standard of living.

In the 1980s British Right wing prime minister Margaret Thatcher showed great fondness for accusing those favoring greater income equality as practicing "the politics of envy". Fakeconomics contains "the politics of envy" in its purest form. Resources are scarce. Grab your share. Trust no one, and grab before the others do.

To put it simply, fakeconomics offers the choice between its pro-capital version of the class struggle or the Marxian pro-labor version. But another possibility exists. Human life need not follow the dictates of unregulated markets, "solitary, poor, nasty, brutish, and short".

Open Debate in Economics

Economics need not be the servant of the 1%. It has not always served the narrow interest of the rich and powerful and need not in the future. The conversion of 1% economics to the economics of the majority begins with the most fundamental premise: resources lie idle and economics has the task of explaining that idleness, then proposing public policies to end the waste of human skill and productive wealth.

Recognition of reality, that unemployment characterizes market societies except in rare moments, transforms economic analysis as profoundly as the replacement of alchemy with chemistry, of geocentric astronomy with heliocentric. This does not involve a choice between completing theories. Alchemy does not compete with chemistry to explain the composition and properties of matter. We do not need to produce an alternative to the current mainstream, but to rid ourselves of its pernicious dogma.

A reader might think me dogmatic and intolerant of alternative opinions. I hope this book has shown the contrary. In all fields differences of analysis emerge through intellectual inquiry. For example, some cosmologists continue to defend the Steady State theory of the universe against the mainstream Big Bang framework. However, no cosmologist argues that the earth stands at the center of the universe and the stars hold stationary positions in the firmament. Analogously, historians debate fiercely the nature of New World slavery, but none any longer attributes it to the natural inferiority of the non-Caucasian races. On the contrary, most would reject the concept of "race" as a legitimate analytical category.

These examples indicate that over time both the physical and social sciences advance by discarding the demonstrably wrong, though we should not view this process as a purely intellectual one (as famously argued in Thomas Kuhn, *The Structure of Scientific Revolutions* 1962). After eliminating the demonstrably wrong, debate should dissect and challenges what remains in a never ending process. Maintaining and defending the demonstratively wrong is not tolerance, it embraces ignorance as equivalent to knowledge.

The current mainstream in economics proudly claims the astounding characteristic of holding to the same analytical framework for 150 years. The principle elements of this framework are scarcity (full employment), unlimited wants (hedonism), and rational behavior of individuals (atomized society), all achieving unchallengeable status by the end of the nineteenth century. Many economists, conservative, progressive and radical, sought to modernize and transform this anachronistic framework and render it relevant for industrial societies. A short list of progressives and radicals includes the Europeans Karl Marx, J. A. Hobson, J. M. Keynes, Michal Kalecki, Gunnar Myrdal and Joan Robinson; and Americans

Thorstein Veblen, John R. Commons and John Kenneth Galbraith. An equally short list of non-European progressives must include Raul Prebisch (Argentine), Makot Itoh (Japanese) and W. Arthur Lewis (Saint Lucia). At the top of the list of conservative modernizers is Joseph Schumpeter.

All these major thinkers shared an implicit or explicit rejection of the assumption of full employment as appropriate to market societies. Abandoning the full employment assumption and with it mainstream fakeconomics does not limit debate. On the contrary, it opens debate to progress, with progress now almost totally constrained by the full employment straight jacket. When I and others advocate that economics jetson the dead weight of fakeconomics, this is little different from chemistry leaving the alchemists behind, the astronomers abandoning horoscopes, and genetics rejecting creationism.

When the econfakers fade to the margins, like astrologers buried in the newspapers next to the crossword puzzle and Agony Aunt columns, economics for the majority becomes possible. The econfakers found themselves on the margin of the profession throughout the world in the 1950s and 1960s. We can build on the scientific advances in economics during that brief period, plus the subsequent work of the outcasts and exiles, from narrowly technical "Keynesians" to radical Marxians.

I place Keynesians in quotations marks because the term is invariably misused by the econfakers and the media to refer to those who explain idle resources by the level of aggregate demand. This identification of all who address the problem of inadequate demand as "Keynesian" is the equivalent of identifying heliocentric astronomy as "Copernican".

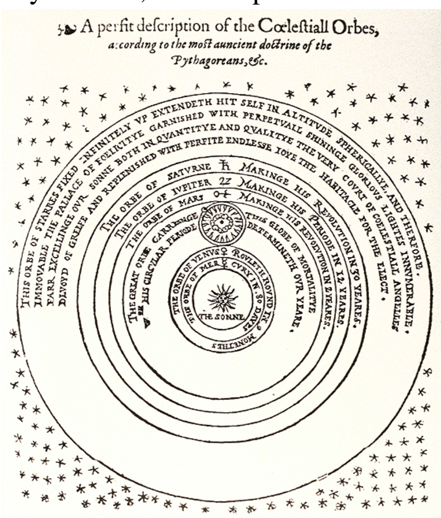
"Keynesian" Economics and "Copernican" Astronomy

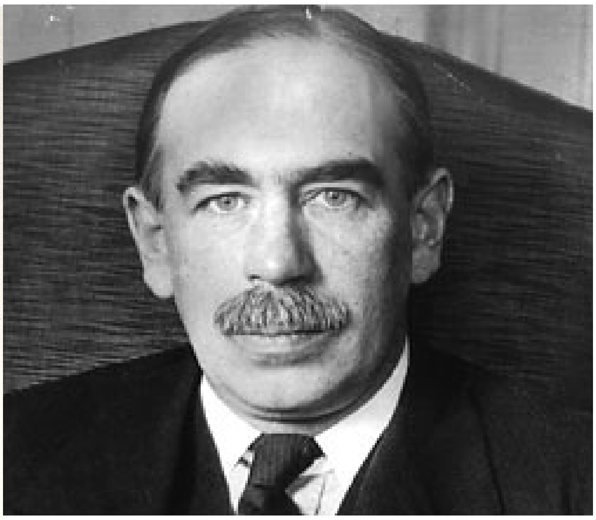
In the third century BC Aristarchus from the island Samos proposed that the earth circled the sun, rather than the other way around. Plutarch, writing 300 years later, tells us that contemporaries demanded he be charged with impiety for such heresy. While not the only ancient writer to propose a heliocentric solar system, the view of Aristarchus made no headway. In the second century AD Claudius Ptolemy elaborated an internally consistent, though extremely complex, version of the geocentric system in his still extant work the *Almagest* ("Treatise"). This model remained the basis of astronomy for over 1000 years. In 1543 Nicolaus Copernicus revived the heliocentric hypothesis and by the end of the following century no serious astronomer defended the Ptolemaic system.

The early economists, Adam Smith ("invisible hand"), Thomas Malthus (population growth leads to general impoverishment), and David Ricardo (of "comparative advantage" fame) constructed their arguments in the context of idle resources. Karl Marx continued this approach, as did his contemporaries. However, in 1871 a book by William Stanley Jevons, *The Theory of Political Economy* set the profession firmly on the full employment analytical road. By the end of the century full employment gained ideological (if not intellectual) hegemony among those calling themselves "economists".

After the First World War, as Britain and several other European countries suffered severe unemployment, with the United States to follow in 1929, many in the economics profession sensed that the full employment approach contradicted reality. Prominent among these were several Swedes (e.g., Knut Wicksell), Americans (e.g., John Maurice Clark), and the much neglected Michael Kalecki. The formal return to reality came in the famous book by J. M. Keynes, *The General Theory of Employment, Interest and Money* (1936), in which the word "general" refers specifically to the construction of theory beyond the special case of full employment.

The "Keynesian Revolution" proved short, over by the 1970s and virtually purged from the mainstream by a Full Employment Counter-Revolution in the 1980s. Subsequently those making analytical arguments within the context of idle resources would earn the designation "Keynesian economists". To my knowledge no astronomer refers to him- or herself, or anyone else, as a "Copernican".





The Copernican Revolution in astronomy and the Keynesian Revolution in economics, one victorious, the other defeated by counter-revolution.

Economics in a Decent Society

I begin the ending of this book with the appropriate definition of economics, "the study of the causes of the underutilization of resources in a market society, and the policies to eliminate that resource waste for the general welfare". Many ways to pursue that study present themselves. I shall focus on 1) the cause of unemployment, 2) the source of inequalities, and 3) policies to minimize these maladies consistent with the institutional and ownership structure of a market (capitalist) society.

In every advanced country many factors influence the composition of the unemployed, requiring a country specific analysis. For example, in the United States three important characteristics determine who is or is not unemployed: ethnicity, age and gender. In 2010 the civilian unemployment rate reached its highest level since the end of the Second World War, 9.8 percent. For those 16 to nineteen years old unemployment climbed to an appalling twenty-six percent. Unemployment for the statistical category "white" stood slightly below the overall average, at 8.7 percent, compared to sixteen percent for "black or African American".

At first glance the statistics indicates a lower unemployment rate for women than men, 8.6 compared to 10.5. Here we have a clear case in which averages deceive, because the rate for married men with a spouse was only 6.8 percent, while for women heads of households the rate almost doubled, to 12.3 percent. In one of those ironies that thrives in market economies, the Great Recession actually compressed the inequalities in unemployment rates. For example, in the low unemployment year 2000, female household heads had suffered at rate three times greater than that for male heads of household (all numbers from the *Economic Report of the President 2013*).

A clear message comes from America: if you are black, young and female with a family, the chances of unemployment are very high. Analogous unemployment inequality appears in the European countries, with different compositions of those suffering because of ethnic discrimination.

Whatever the composition of the unemployed at any moment, what determines the aggregate rate? Once we abandon the full employment framework, the answer jumps off the page: the level of aggregate spending in the economy. In every economy spending has four sources, each with its own specific terminology. Households consume, businesses invest, exports respond to demand from other countries, and governments spend to provide public services, administration and defense. Each source has its specific motivations for spending and specific source of funding.

Household consumption is the largest component of aggregate demand, varying from 60 to 75 percent across countries. All but the richest households spend for consumption primarily from their current incomes, which come from their employment or public sector transfers when they are unemployed or retired. The great majority of the expenditure goes to day-to-day costs of food, transport and housing. In brief, household expenditures cover immediate necessities with current income.

The rest of aggregate demand consists of three components. Businesses spend on buildings and equipment, defined as "investment". Businesses fund this investment from their profits, through borrowing, or by selling new equity shares. Anticipated profits provide the motivation for this spending. In contrast to households, businesses spend to create capacity for future production, and go into debt to do so. Foreign demand derives from causes and motivations outside the influence of domestic households and businesses. Finally, public sector expenditure results from legislation, current and past.

I repeat these well-know relationships because they have important analytical and practical implications. Households with members holding jobs in the private sector receive their incomes when businesses successfully sell the goods and services the employees work to produce; i.e., household incomes derive from the revenue of businesses except for those households with members in public employment. The taxes paid by businesses and private sector employees also come from business revenue *via* wages and salaries. Over the medium term the growth of public revenue determines the growth of public employment

Businesses, in turn, receive their revenue from sales to households, other businesses, overseas buyers and the public sector. First take on these relationships suggests that we have a loop. Most household expenditures, "consumption", come from business-generated income, but business revenue comes in great part from sales to households, consumption. How can household consumption serve as both a cause and a result of business sales revenue? The answer is quite simple. The spending outside this business-household-business loop determines the business revenue that generates the wages and salaries that make up most of household income.

To be more specific, export demand (coming from outside our economy), business investment (based on predictions about future sales), and public expenditure (set by legislation) *via* businesses determine household incomes and, therefore, household consumption (see box, Demand and Incomes). Put the four together, the three independent sources of demand plus the dependent one, and we have total expenditure in our economy.

A simple way to understand the relationship between consumption and the other components of aggregate demand is that the former is *dependent* on current income while the latter are *independent* of current income. The vast majority of households, the 99%, has little choice but to tailor its current expenditure to its current income, except for large expenditures such as purchasing a house or an automobile. Even these purchases link closely to current income, as anyone who has sought a mortgage knows. The infamous sub-prime crisis arose because unscrupulous lenders weakened or abandoned the income link.

No rational businesses invest on the basis of their current incomes. An investment will have a productive life of many years or it would not be untaken. Therefore, its motivation comes from anticipated future sales and profits. Exports are sold abroad with no link to domestic demand. As I explained in Chapter 7, public expenditure can be less (budget surplus) or more (budget deficit) than current public revenue. The balance between expenditure and revenue is a political decision guided by economic circumstances.

The relationship between the independent and the dependent shows that the idea of a "consumer led growth" involves fundamental confusion. For example, on a BBC website we could read,

> Because goods could be produced in greater numbers and at much lower prices, more people were able to afford them. This led to huge increases in the sales of products such as cars, refrigerators, radios and cookers.
>
> [http://www.bbc.co.uk/bitesize/higher/history/usa/boombust/revision/1/]

People buying more goods because those goods are cheaper is, quite literally, impossible. Lower prices mean lower business income, lower business income means lower wages and salaries, lower wages and salaries result in lower consumption. No less nonsensical is the suggestion that exit from the Great Recession could come from a "consumer-lead recovery". From where would this net increase in household spending come?

It would not come from saving by households. Of the four largest advanced country economies in 2011 in only one, Germany, was the ratio of saving to household income after tax in double digits (10.4 percent). For the other three countries the saving rates were considerably lower, United States (4.2), Japan (2.9) and the United Kingdom (6.0). And these numbers use disposable income as the denominator, meaning that the ratio of household saving to GDP was lower still. For example, it falls to barely three percent for the United States. When you add to this that the rich account for almost all household saving, the suggestion that any advanced economy would receive a substantial boost from "consumers" qualifies as fanciful.

However, could the "consumer recovery" come from borrowing? Indeed, it could, and that bit of neoliberal magic helped plunge us into the Great Recession. In 1990 with the US economy in recession (it lost George Bush I the election of 1992), household debt was about ninety percent of household income. It rose to over 160 percent in 2007. We should hope that this version of a "consumer boom" has little chance of recurring.

What about an export-led recovery? When a country increases its exports, some other country or countries must increase imports. It takes no specialist knowledge to understand that very country could not successfully pursue an export-led growth strategy. More important than this obvious limit to the strategy, when a large country follows this strategy catastrophe follows in its wake. Germany presents an infamous and appalling example of what happens when a large country takes this route to growth, as demonstrated in Chapter 9. The euro crisis of the 2010's resulted directly from Germany's export-led growth.

In 2011 the US trade deficit weighted in at almost $750 billion, and the combined deficits of France and the United Kingdom totaled US$265 billion. To put these numbers in perspective, the trade deficits of these three countries, all in recession in 2011, represented over fifteen percent of the exports of all other countries in the world combined. An attempt by these three advanced countries to recover through exporting without importing would drive many other countries from a trade surplus into deficit, or deeper into deficit. The net importing countries would fall into recession as they sought to reverse their own unsustainable trade balances. Exactly this happen in the euro zone in the 2000s. When economics talked sense instead of nonsense, we used the term "fallacy of composition" to describe export-led growth, or more forcefully, "exporting unemployment" and "beggar-thy-neighbor growth".

If "consumers" and foreign demand cannot extract us from recession, all we have left are business investment and public expenditure. If an increase in business investment offered a viable option we would never have dropped of the "growth cliff" into recession in the first place. By definition recessions occur when business optimism and investment plans collapse.

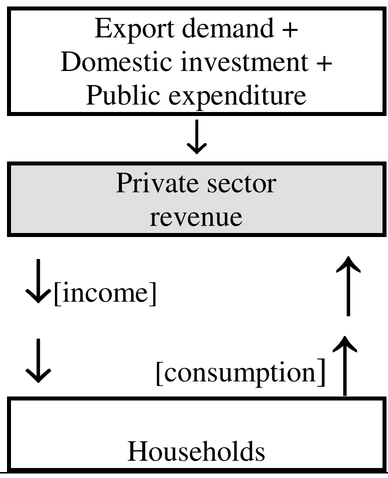
When export expansion brings false hope and the domestic private sector fails to generate growth, only the public sector remains. That is the economics of the 99%.

Demand and Incomes: How the private economy works (or doesn't):

Spending prompts the production of goods and services. For household, the reverse also holds, but not for businesses. A market economy has three sources of demand that do not result from the current level of domestic income: foreign demand (obvious), domestic investment (based on future profits), and public spending (legislatively mandated).

Together, these determine simultaneously business revenue (sales), household income and household expenditure (consumption). In addition (and not shown in the diagram), a large portion of public expenditure goes directly to households that are employees of governments, retired and receiving pension payments, or unemployed and receiving unemployment insurance benefits. The two independent sources of domestic demand, public spending and private investment, are closely linked. Governments pay business to construct social and economic infrastructure, as well as to conduct research (military and health sector research are major examples).

More important, because its spending can compensate for declines in exports and investment within the private sector, governments have the ability to determine the overall level of prosperity. Expectations by businesses about the future are a major determinant of private investment demand. When governments successfully foster current prosperity, they give business expectations a boost.



Implementing Economics for the 99%

At the level of the entire economy the public sector should function as the social institution responsible for maintaining full employment, so that very one who wants a job can find one. A government that fails in this task qualifies for Roosevelt's description of Republican administrations during 1920-1932:

> For twelve years this Nation was afflicted with hear-nothing, see-nothing, do-nothing Government. Powerful influences strive today to restore that kind of government with its doctrine that that government is best which is most indifferent.
> [Franklin D. Roosevelt in a speech on October 31, 1936 at Madison Square Garden, New York City]

Exactly this type of government held sway in most of the advanced countries at the end of the twentieth century and into the twenty-first, whatever the political parties in power called themselves. Keeping the economy close to full employment involves well-known policies practiced in the United States by all presidents, Democrat or Republican for twenty-five years, 1945-1970. The same holds for the United Kingdom, and throughout Western Europe for considerably longer.

Public sector implementation of full employment needs no innovation, just adaption of principles and practice well known long before John Maynard Keynes. The public sector increases its expenditure to achieve the level of aggregate spending that reduces unemployment to its practical minimum. As the economy recovers, the public sector scales back its spending to match the private sector increases.

The policy package is technically simple, easily implemented and as feasible in the twenty-first century as during the immediate post World War II decades of the twentieth century. Governments stopped applying these policies because they abandoned the commitment to full employment, not because implementation became any harder or the need declined. As radical a change as it would appear in the twenty-first century, maintaining full employment only begins the task of a government responding to the needs of the 99%.

A fully employed work force with a large portion receiving wages inadequate to meet basic human and social needs does not serve the interest of the vast majority of working people. On the contrary, a low-wage, fully employed labor force might better meet the interests of the 1% that the scandal of unemployment in the advanced countries since Great Recession. A society whose economic institutions function for the many, not the few, requires the public sector to design and implement policies for an equitable distribution of income with no person and no household below the poverty line.

Achieving equity without poverty involves more complicated design and imaginative implementation than reaching and maintaining full employment because of institutional and demographic differences among countries. Despite these differences and complexities a few generalizations stand out clearly. First and foremost, poverty *reduction* differs fundamentally from poverty *alleviation*. The latter involves reducing ("alleviating") the misery of the poor, while the former seeks to eliminate poverty itself.

The US "food stamp" program, later named the Electronic Benefit Transfer, which provides people with the means to purchase food and non-alcoholic drinks in supermarkets and fast food outlets, falls into the "alleviation" category. The British system of housing benefit also fits this category. At least two characteristics of these programs identify them as "alleviating": 1) they were income ("means") tested, so only those defined as poor receive them, and 2) they do not directly enhance the income earning potential of the recipient.

Successful poverty reduction programs enhance earning capacity and protect people against falling into poverty once out of it. For neoliberals education serves as the most important, sometimes their only, poverty reduction mechanism. While educating people to enhance skills should occur in any decent society, it does not in itself reduce poverty. The newly skilled person must find a job with take-home pay above the poverty level, as well as enjoy protection against difficulties large and small that would provoke a return to destitution. Improving people's education may contribute substantially to poverty reduction if a society that provides health care for all, ensures a living wage, and adequately supports workers when they fall into unemployment. Without full employment, a national health system, minimum wages and unemployment protection, more education only results in more highly skilled population in poverty.

With very few exceptions, discrimination in its many forms presents a formidable barrier to poverty reduction even in a society with a national health system, wage floors and unemployment insurance. Ethnic and gender discrimination prevent people from full participation, resulting in inequalities that can and do include social banishment to poverty. Experience indicates that "market forces", however they are ideologically packaged, do not eliminate or even substantially reduce the economic effects of discrimination against ethnic groups. Obvious examples are African Americans in the United States and the Romani in Europe. Because if anything "markets" make such discrimination worse, societies face no alternative to combating discrimination through direct legal imperatives, "affirmative action".

Discrimination against women in their work and throughout society characterizes all countries. Few people may realize how recently women achieved even formally equal rights in the advanced countries. In Britain it was not until the Labour governments of 1945-1951 that women approached equal treatment under inheritance laws, as a result of "A Married Women (Restraint Upon Anticipation) Act" of 1949.

While as severe as ethnic discrimination, simpler methods exist to reduce the denial of equal opportunities to women. These include a range of measures to make the care of children more gender balanced. In the Scandinavian countries work release for child rearing applies to both men and women. Parts of the Swedish Left argue for mandated equal distribution between father and mother of the guaranteed sixteen months "parental leave". In few other countries do the laws even approach this degree of anti-discrimination. In the United States and Britain public sector provision of child care remains appalling inadequate.

Anti-discrimination laws and restrictions themselves fall far short of ensuring equal access to the benefits of economic prosperity. As Jeff Faux, quoted above on the US trade union movement has cogently said, "in the United States your employer cannot fire you for being an African American, for being gay or for being too old, but can fire you for no reason at all". Effective pursuit of full employment and work place rights represents the necessary condition to reduce all forms of economic discrimination.

Eliminating ethnic and sex discrimination requires clarity in language in order not to implicitly endorse anachronistic stereotypes. We find a clear example of such implicit endorsement in the use by progressives of the term "working families", especially in the United States. Whatever the user may mean by this term, many listeners would conjure up an image of two heterosexual parents with children. Even if the more tolerantly inclined included gay or lesbian parents in the image, the term remains inaccurate. Many people in the United States and Europe do not live in "families" by any common interpretation of the word. But more important, what of the "non-working families", the unemployed, pensioners and those unable to work due to physical and mental maladies?

In practice "working families" serves as a euphemism for "working class", and a potentially reactionary one. For example, David Cameron, the right wing prime minister of Britain in the early 2010s, frequently referred to "hard-working families" who "do the right thing". He sought to convey the not-so-subtle message that in contrast to "working families", out there lurk shirkers and slackers in dysfunctional "not-working families" that live on welfare "doing the wrong thing", parasites on "hard working families". This terminology has no place in a decent society.

Along with "working families" my fellow progressives in the United States should abandon the term "people of color". This term is only a preposition and word transformation away from how Southern segregationists referred to African Americans when I grew up in Texas in the 1950s, the loathsome term "colored people". Society is not divided between the normal, colorless European descendants and vast masses of "others" of "color". The implementation of the economics for the 99% requires an end to social categories that implicitly divide us between insiders and outsiders.

Discrimination represents but one of the many transgressions of fakeconomics against the welfare of society. Among its worst obfuscations for the future of humanity is its mis-treatment of the gathering environmental disaster. Its method of analysis compares the cost of restrictions to protect our planet against the benefits of those restrictions. Many books devote themselves to demonstrating how this approach misleads and misinforms decision making in general. For the environment this so-called cost-benefit approach is completely inappropriate and pernicious.

"Cost-benefit" claims to calculate the "trade off" between costs and benefits on the assumption that these apply to the entire range of possible outcomes. As a necessary condition, this type of calculation requires that the balance between costs and benefits remain constant for future changes small and large. For the process of environmental change this approach contradicts the scientific analysis and evidence on environmental change. For our climate, oceans and quality of the air itself, changes are not "marginal"; i.e., they do not involve "more of the same".

These are chaotic systems, in which repeated small changes, previously having no noticeable effect, suddenly produce a chaotic or catastrophic outcome. A frequently invoked example of a non-marginal process is the common ocean wave.

As the tide comes in, the surface of the water first produces increasing swells. The swells do not recede as they expanded, but suddenly "break". The environment in general has this characteristic, such that the *faux* scientific calculations the econfakers not only suffer from irrelevance, they actively mislead us. The next little bit of pollution may not have the same social cost as the previous. It could bring catastrophe.

In a decent society people look after and protect their environment to render it sustainable. Economists, much less econfakers, provide little technical expertise for the protection of a sustainable environment. The same applies to the allocation of resources for different elements of health care, and levels and types of education. In a decent society allocation of these human necessities requires technical expertise to inform public and its representatives in making these decisions.

It is unlikely that economists have much to contribute to that expertise. We should take seriously the suggestion of the greatest economist of the twentieth century, "if economists could manage to get themselves thought of as humble, competent people on a level with dentists, that would be splendid" (J M Keynes, "The Future" Ch. 5, *Essays in Persuasion* 1931). We should consult doctors about medical care, not management of the economy. Substitute "economists" for "doctors" and reverse "medical care" and "the economy".