

# The Morality of Radical Economics



Ron P. Baiman

# The Morality of Radical Economics

Ghost Curve Ideology and the Value Neutral  
Aspect of Neoclassical Economics

palgrave  
macmillan

Ron P. Baiman  
Benedictine University  
Illinois, USA

ISBN 978-1-137-45558-1      ISBN 978-1-137-45559-8 (eBook)  
DOI 10.1057/978-1-137-45559-8

Library of Congress Control Number: 2016940311

© The Editor(s) (if applicable) and The Author(s) 2016

This work is subject to copyright. All rights are solely and exclusively licensed by the Publisher, whether the whole or part of the material is concerned, specifically the rights of translation, reprinting, reuse of illustrations, recitation, broadcasting, reproduction on microfilms or in any other physical way, and transmission or information storage and retrieval, electronic adaptation, computer software, or by similar or dissimilar methodology now known or hereafter developed.

The use of general descriptive names, registered names, trademarks, service marks, etc. in this publication does not imply, even in the absence of a specific statement, that such names are exempt from the relevant protective laws and regulations and therefore free for general use. The publisher, the authors and the editors are safe to assume that the advice and information in this book are believed to be true and accurate at the date of publication. Neither the publisher nor the authors or the editors give a warranty, express or implied, with respect to the material contained herein or for any errors or omissions that may have been made.

Cover image © edie raff / Alamy Stock Photo

Printed on acid-free paper

This Palgrave Macmillan imprint is published by Springer Nature  
The registered company is Nature America Inc. New York

*To my lifelong partner, Michelle, and children, Jeremy, Rachel, and Rebecca, for their unwavering support of my radical economics journey, and to my mother, Sydney, and late father and brother Jerome Giora and Jonathan, for starting and accompanying me on my path.*



## ACKNOWLEDGEMENTS

I would like to acknowledge the help of my son, Jeremy Baiman, and student assistants Caitlyn Prosapio and Yalin Wang, who reviewed earlier drafts of some of the chapters and performed miracles by producing, at very short notice, many of the figures in this book.

I would also like to thank present and past Chicago Political Economy Group (CPEG) friends and colleagues Bill Barclay, Peter Dorman, Luis Diaz-Perez, Mehrene Larudee, Joe Persky, Mel Rothenberg, Sidney Hollander, Bruce Parry, Sharon Post, and many others; Democratic Socialists of America (DSA) friends and colleagues Michael Baker, Tom Broderick, Nurtan Esmen, Alec Hudson, Bob Roman, Jan Sansone, Joe Schwartz, Peg Strobel, and many others; Ethical Humanist and Ethical Culture friends Tom Hoepfner, Steve Julstrom, Alan Kimmel, Yafim and Lena Kotlyar, Oliver Pergams, Jim White, and many others; and my too-numerous-to-enumerate past work colleagues and friends and Union for Radical Political Economy (URPE) and New School for Social Research friends, colleagues, teachers, and classmates for their support and encouragement along the path that led to this book. A special thanks goes to fellow radical economist Vince Snowberger who found an error in my first progressive pricing paper that induced me to publish the second corrected paper cited in Part III of this book.

Finally I would like to acknowledge the support of past and present Palgrave Macmillan editors Leila Campoli, Sarah Lawrence, and Allison Neuburger and my indexer Suzanne Sherman Aboufadel for their faith, encouragement, and patience in allowing me to initiate and complete this project, and the financial support of the Benedictine University Faculty Development Fund and the encouragement and support of my Benedictine University colleagues for my work on this book.





# CONTENTS

<b>Part I Economics as a Moral Science: The Philosophy and Science of Morality</b>	<b>1</b>
<b>1 Introduction</b>	<b>3</b>
<i>Introduction</i>	3
<i>The Mainstream or NC Economics Position</i>	9
<i>The “Radical” or Progressive “Heterodox” Economics Position</i>	13
<i>The Goal of This Book</i>	14
<i>A Short Outline of the Book</i>	18
<i>My Own Encounters with NC Economics</i>	19
<i>Bibliography</i>	23
<b>2 The Philosophy and Science of Morality</b>	<b>27</b>
<i>The General Case for Avoiding Socially “Bad” Outcomes</i>	30
<i>A Bad Life</i>	31
<i>The Good Life</i>	31
<i>A Comparison</i>	32
<i>A Short Excursion into the Philosophy and Science of Morality</i>	36
<i>“Hume’s Law”</i>	38
<i>“Tolerance of Intolerance”</i>	36
<i>“Moore’s Open Question Argument and Well-Being”</i>	39
<i>“Rawls and the New Contractarian Approach”</i>	40

<i>Morality and Economics</i>	44
<i>Is It Preposterous to Claim That Mainstream NC Economics Is Immoral?</i>	47
<i>Bibliography</i>	49
<b>3 Economics as a Moral Science</b>	53
<i>Epistemology: Realism vs. Instrumentalism</i>	55
<i>Ontology: Organicism or Structuralism vs. Methodological Individualism</i>	56
<i>Rationality: Procedural vs. Substantive</i>	57
<i>Focus of Analysis: Production vs. Exchange</i>	58
<i>The Political Supposition: Markets vs. Social Choice</i>	60
<i>PK Economic Methodology</i>	62
<i>General Radical Economics Methodology Points</i>	64
<i>The General Economics Lay of the Land in the USA</i>	67
<i>Conclusion</i>	69
<i>Bibliography</i>	70
<b>Part II Textbook Fables Support Immoral Policies: Economics Is Not About Supply and Demand or Aggregate Supply and Demand</b>	73
<b>4 The Supply and Demand Story: A Dystopian Counter-Factual</b>	75
<i>If PCFMs Existed, Would They Be Moral?</i>	77
<i>Allocating the Product of a Hoe</i>	78
<i>A PCFM-Based Economy Would Contradict Liberty and Democracy</i>	80
<i>A PCFM Is Not Based on “Voluntary Equal Exchange”</i>	81
<i>Morality Requires Taking Large Parts of the Economy Out of the Market</i>	84
<i>Market Determination of Broad Macroeconomic Allocations Is Unjust and Inefficient</i>	84
<i>Overriding Market-Determined Wages and Incomes</i>	86

<i>Democratizing Investment, Corporate Decision Making, and Central Bank Policies</i>	87
<i>Direct Price and Profit Controls</i>	89
<i>Conclusion</i>	90
<i>Bibliography</i>	90
<b>5 Ghost Curve Ideology: The Supply Curve Generally Does Not Exist, So Why Is It a Core Concept in Almost Every Economics Textbook?</b>	93
<i>The (Mostly Fake) Supply and Demand Story</i>	94
<i>SCs Generally Do Not Exist</i>	105
<i>The (Mostly Real) Demand and Cost Story</i>	108
<i>Game Theory and Social Choice Hierarchy in the Economy</i>	124
<i>Even Where SCs Exist, the SDM Often Does Not Apply</i>	125
<i>Externalities and Public Goods: SDM Violations Recognized by NC Economists</i>	131
<i>Conclusion: The New Rentier Economy</i>	133
<i>Bibliography</i>	135
<b>6 Aggregate Supply and Demand in the Macroeconomy: An Ill-Defined and Misapplied Fiction</b>	139
<i>The “Classical” ADAS View</i>	141
<i>The Short-Run Disequilibrium Adjustment Problem</i>	144
<i>SDM Short-Run Disequilibrium Adjustment Cannot Be Applied to ADASM</i>	146
<i>The Alternative NC ADASM Short-Run Disequilibrium Adjustment Story</i>	149
<i>The Keynesian/Post-Keynesian (PK) Critique of the NC Dynamic Adjustment Story</i>	152
<i>What Is the AS Curve and Does the Phillips Curve Exist? If It Existed, Could the ADASM Work?</i>	156
<i>Keynesian Macroeconomic Modeling</i>	159
<i>Kaleckian Macroeconomic Modeling</i>	160
<i>Inflation and Antiausterity Policies</i>	161
<i>Bibliography</i>	165
	168

<b>7</b>	<b>The Money Supply and Demand Market: The Greatest Myth of Them All</b>	173
	<i>Money as a Public Good</i>	174
	<i>Externalities and Fractional Reserve Money</i>	175
	<i>The Central Bank and Government Borrowing</i>	179
	<i>The “Money Market” Does Not Exist</i>	181
	<i>Does Fractional Reserve Money Creation Make Sense?</i>	185
	<i>Other Systems of Money Creation</i>	187
	<i>A Brief History of Post-World War II Financial Regulation and Deregulation</i>	189
	<i>Bibliography</i>	193
<b>8</b>	<b>The International “Free Market” for Trade and Investment: Capital’s Global Power Play</b>	195
	<i>Empirical Critiques of “Free Trade”</i>	197
	<i>Ricardo’s Comparative Advantage Parable Does Not Support “Free Trade”</i>	200
	<i>Why Have These Problems with the Comparative Advantage Parable Been, for Almost Three Centuries, Ignored?</i>	207
	<i>Further Rejoinders to Hypothetical Free Trade Arguments</i>	208
	<i>Did Meade Resolve Ricardo’s Inconsistency?</i>	212
	<i>International Free Trade Is a Generally Mathematically Infeasible Doctrine</i>	216
	<i>Bibliography</i>	217
<b>Part III</b>	<b>The Morality of Radical Economics: Investigating the Value Neutral Aspect of Neoclassical Economics</b>	219
<b>9</b>	<b>Equity Cannot Be Separated from Efficiency</b>	221
	<i>The General Theorems of Welfare Economics (GTWE)</i>	221
	<i>Pareto “Optimality” and “Initial Endowment” Redistribution</i>	224
	<i>Production Is Not (Even Highly Idealized) Consumption</i>	225

<i>Producer Prices Are Greater than Marginal Cost and Generally Regressive</i>	226
<i>The Fundamental GTWE Are Fundamentally Invalid</i>	228
<i>Bibliography</i>	229
<b>10 From Amoral High Theory to Immoral Applied Theory</b>	231
<i>Social Welfare Optimization in Introductory NC Economics</i>	232
<i>Advanced “Second Best” Applied NC Microeconomics</i>	234
<i>NC Second Best Theory Leads to Immoral Outcomes</i>	237
<i>Ramsey Pricing Is Directly Linked to Immoral NC Economic Policy</i>	239
<i>NC “Equity Neutral” Assumptions Cause Second Best Theory’s Immoral Outcomes</i>	241
<i>A Progressive Social Pricing Rule</i>	243
<i>More Policy Implications</i>	246
<i>In Summary</i>	247
<i>Bibliography</i>	251
<b>11 The Morality of Radical Economics</b>	253
<i>Left Group Discussion</i>	261
<i>Bibliography</i>	272
<b>Conclusion</b>	275
<b>Appendix A</b>	279
<b>Appendix B</b>	285
<b>Bibliography</b>	287
<b>Index</b>	303



# LIST OF FIGURES

Fig. 3.1	PPF	59
Fig. 3.2	Trends in post-WWII recession in employment-to-population ratios assuming that population age cohorts (16–24, 25–54, 55 and over) are fixed at March 2015 shares	61
Fig. 5.1	SDM equilibrium	96
Fig. 5.2	SDM demand increase	97
Fig. 5.3	SDM demand decrease	98
Fig. 5.4	SDM supply increase	100
Fig. 5.5	SDM supply decrease	101
Fig. 5.6	SDM producer and consumer surplus deadweight loss from price ceiling	102
Fig. 5.7	DCM possible price and quantity outcomes	111
Fig. 5.8	DCM demand increase	112
Fig. 5.9	DCM demand decrease	114
Fig. 5.10	DCM cost decrease	115
Fig. 5.11	DCM cost increase	116
Fig. 5.12	DCM consumer and producer surplus and deadweight loss: the importance of social choice in the economy	120
Fig. 5.13	The prisoner’s dilemma	124
Fig. 5.14	SDM shifting vertical SC	129
Fig. 6.1	Neoclassical vertical long-run $AS = AD$	141
Fig. 6.2	Credit market supply and demand model	143
Fig. 6.3	Neoclassical AD shortfall relative to AS	146
Fig. 6.4	Downward sloping AD and vertical AS	150
Fig. 6.5	Downward sloping AD and temporarily upward sloping AS	152

Fig. 6.6	AS with Keynesian, intermediate, and classical regions	157
Fig. 6.7	Phillips curve	158
Fig. 6.8	Backward sloping AD shifts along horizontal AS curve	160
Fig. 6.9	Keynesian cross	162
Fig. 6.10	Kaleckian cross	164
Fig. 7.1	Upward sloping supply and demand for credit graph	184
Fig. 10.1	SDM consumer and producer surplus	233
Fig. 10.2	Consumer surplus loss from price increases for high and low-elasticity markets.	243
Fig. 10.3	Profit gain from price increase for high- and low-elasticity markets.	244
Fig. 11.1	Public social expenditure as a percent of GDP OECD Countries 2014	266
Fig. 11.2	General government revenue as a percent of GDP OECD Countries 201	267
Fig. 11.3	International comparisons of hourly compensation costs in manufacturing, 2011	271



## LIST OF TABLES

Table 11.1	“Design Your Own Utopia” four-group example outcome	257
Table 11.2	Rights of a Swedish citizen vs. the rights of a US citizen	268