



free'Scool economics, Fall 2012

Exploring the Economy

Outline of the altermondial
alternative to neoliberal economics

Part I

Prelude to Altermondial Economics

We all observe the human condition and the world around us as collages created by subjective experiences and perceptions.

The collages arise from unique positions in socio-cultural contexts, arrived at by equally unique path travel through the socio-cultural continuum.

Based on the recognition of unique positions, altermondial economics propose the concept of social complementarity: since each agent see the economic fields' probability content from angles given by their unique cognitive collages, the value preferences they form do not exist in a value space fully commensurable with that of other agents interfacing in the field.



Economic relations are therefore non-linear and arise in fields governed by social complementarity, which is symbolized by the yin-yang symbol of ancient Chinese philosophy.

When economic values arise in such social contexts they cannot be described by objective, common measures, but only by conceptual frameworks that recognize that value are bound to subjective positions.

The unavoidable conclusion is that there are no social condition that can be described by objective terms only.

When other people express differences from ones own perspectives and beliefs, it is a natural consequence of the fact that they see the world as a different collage.

In economic contexts, that means that economic values always are created by complementarity relations that changes as relations of market positions and power framing change.

Social sciences, including economics, must be based on the realization that all studied social topics are embedded in dynamic structures created by complementarity relations with no objective core of absolute values.

Socio-economic topics can therefore only be studied in broad non-linear contexts where all cultural aspects and social relations are included.

Western social sciences are based on the contrary belief in the existence of objective truths (or measures) about social conditions from which linear socio-economic laws and systems of beliefs can be drawn.

Accordingly, value conflicts can potentially always be reduced to a 'true' theoretically determined value.

When mindsets are based on an assumption of objective truths, it will tend to lead to assumptions that one's collage of perceptions and beliefs are superior to others.

This tends to foment combative approaches to social conditions and encounters.

The assumption of objective truths blocks the ability to develop critical thinking and the realization that all socio-economic values are determined by interacting sets of individual perspectives.

Thus, socio-economic data aggregation can never be fully linear, but is dependent upon which perspectives were dominant and acted upon during given events.

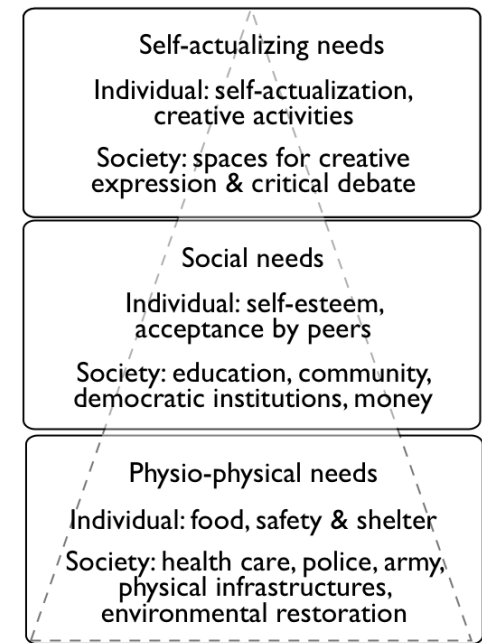
Part 2

The Neoliberal Economy

What is the economy? A short answer is:

The private and public activities that produce and distribute the utility items whose consumption sustain the human needs. The economy also (should) include the activities that restore the environment for the damage these activities incur.

The human needs according to a 3-level Maslowian hierarchy. Gratified individually & through social institutions.



Economic utility items will during travel through social market networks possess exchange values, which in part are determined by the interacting agents' economic beliefs and the networks distributions of market power.

In public social networks, value is identical to cost of facilities and executing activities.

When values are expressed through private market exchanges, exchange ratios express the economic value of item 1 in terms of item 2, and vice versa. These are always subjective valuations driven by the needs gratifying capacity of the items (\approx neoclassical utility value), estimated individually by the interacting agents.

If one have a preference for pears, holding them to taste better than apples, this will skew the subjective exchange ratio to the advantage of holders of pears. However, individual;y preferences do not necessarily influence general price levels unless the subjective preferences are part of trends.

When items are exchanged for money, the money (which can be thought of as a store of deferred needs gratification) express the value. However, even money exist in subjective perceptions: a rich person will hold a dinner that costs \$50 for cheap, while a minimum wage earner will think it very expensive.

Choices about which needs are important, and how to gratify them, are dependent upon subjective positions as these have been formed by the experiences that accumulate during path-dependent life-travel embedded in social contexts, which include the historical path-phase of the surrounding society.

Value perceptions and beliefs are often the target of manipulations that employ hidden techniques, causing targeted persons to be unaware of the origin and purpose of the manipulation. Of course, these are well-recognized techniques in both corporate marketing and in politics, however their impact upon economic value percetions is generally ignored in modern economics.

Socially contexted positions determine the market power possessed by interacting agents in social bargaining situation.

Positions can be subordinated to roles in organizations and institutions, whose structures also follow path-dependent travel in social time-space.

Economic value is thus formed by contexts arising from three levels of social existence:

- A) the individual's path-dependent habitual beliefs and acquired preferences (habitus),
- B) institutional role actuation which normally doesn't strive to optimize agency goals but only to satisfice them (Simon),
- C) general social relations and structures the events embed in.

In economic fields, product differentiation - which can exist because of inherent product or field dependent conditions, but also artificially created by corporate advertising - change the point of marginal substitution to the advantage of the seller. With effective differentiation, a higher price can be charged before substitution occurs. This possibility raises profits to levels above the competitive market expectation.

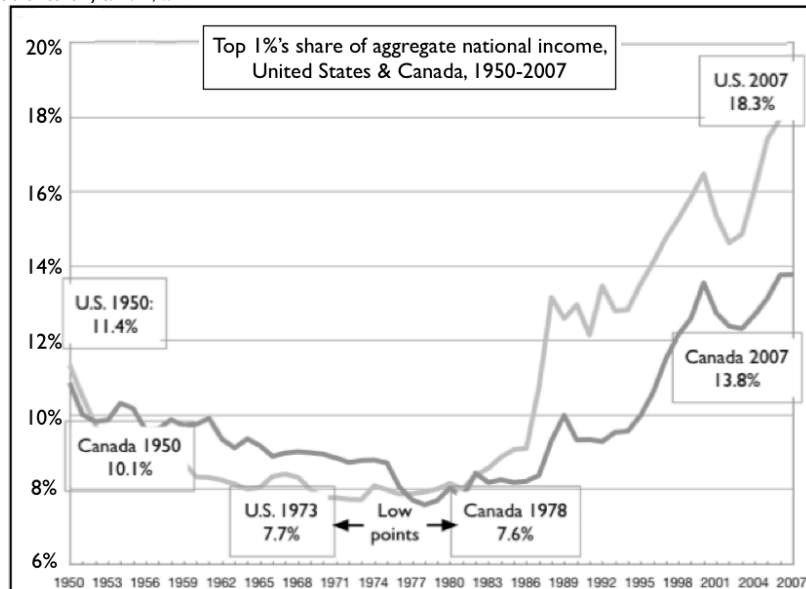
Neoclassical economics is often 'proven' by linear mathematics. Normally, these are based on core assumptions of:

- A) Self-maximizing rational agents who deal with equally rational self-maximizers, causing the flow of exchanges to bring about equilibrium and market clearing.
- B) These rational agents operate in socially and culturally inert markets, thus various social powers structures can have no decisive influence on outcomes.

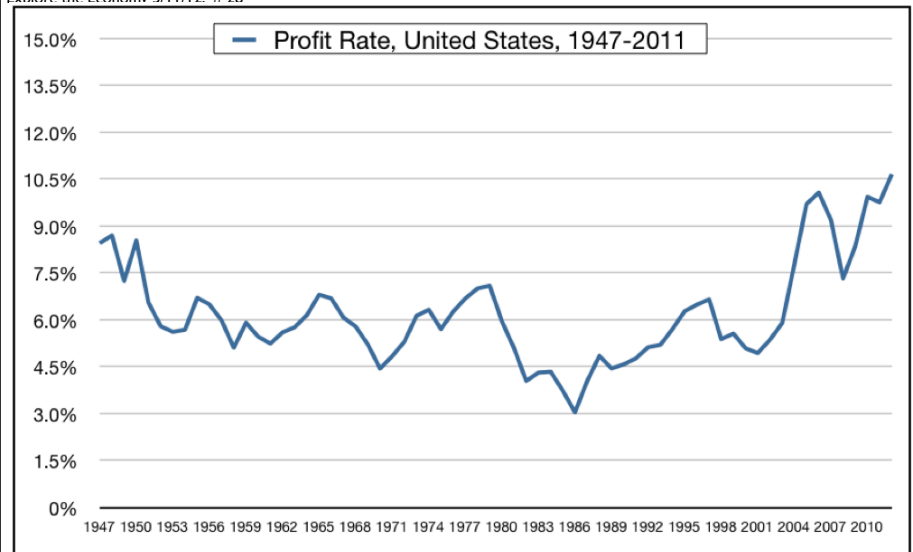
In the real world, the current capitalist market economy engenders:

- Growing economic and social inequalities.
- Political power and information control wielded by high-wealth individuals and corporate CEOs enable them to distort the market structures to their advantages.
- Deregulation spur environmental neglect and erode democratic institutions.

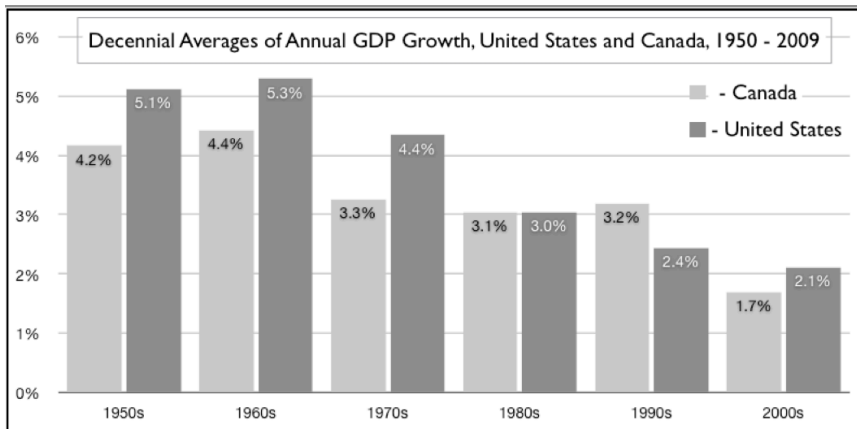
The following four figures show how top income shares and corporate profits have been rising, but real growth and investments falling in the neoliberal economy.



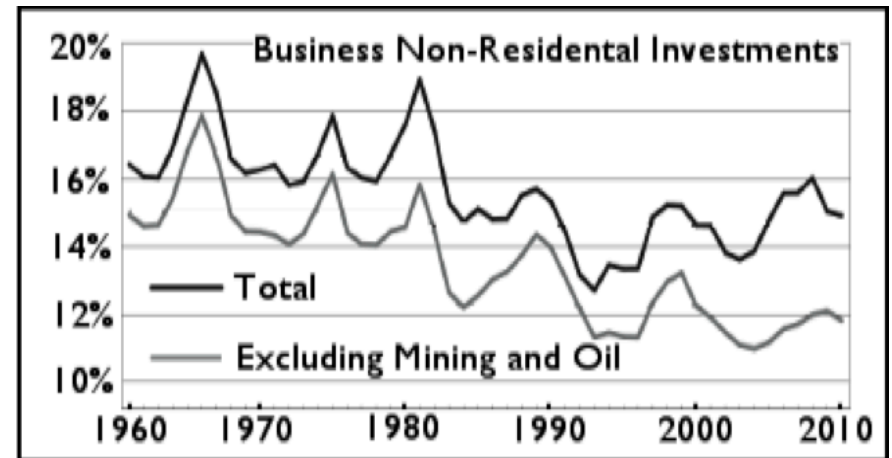
Income disparities reverted to a rising trend after 1980



The profit rate accelerated, especially in the 2000s where profits in the financial sector played a rising role.



Contradicting trickle down economics: average inflation adjusted GDP growth has been falling



In Canada, investments in the domestic real economy have been falling, especially in non-resource sectors.

The trends shown in the diagrams correlate to the shift to neoliberal policies taking place in the Anglo Atlantic countries around 1980. The economic outcomes they represent, however, refute the claim these policies were based on: that smaller government, lower taxes, and unregulated markets lead to the most efficient use of resources and potentials.

Part 3

Price setting in Monopolistic Markets

Market events are inextricably shaped by social relations, power structures and prevalent social norms and behavioural patterns these lead to. This create propensities to bias outcomes in direction of the interests of dominant force constellations, and often cause deteriorating conditions to develop in the general social fields (e.g. the mentioned rising income inequalities, neglect of externality effects, etc.).

During bargaining events in markets, supply and demand relations are formed by dynamic social forces that trend along evolutionary paths in structured socio-cultural spaces. Such forces, if not checked by countervailing powers, will tend to institutionalize into inequality relations that dominant force constellations impose.

Marginality is an important economic concept. In the case of price/wage relations it is:

The highest (lowest) price/wage a buyer (seller) is willing to pay before an offer is substituted with another choice. This can be a null substitution, i.e. a choice not to transact, or even an inability to do so.

At the level of individual activity, inequality relations during bargaining events are functions of differences in opportunities and substitutions that the prevailing structures of power relations make available to confronting agents.

Neoclassical economics expects marginal price/wages to be a function of marginal utility (in the case of consumption goods and services) and marginal productivity (in the case of capital goods and labour as a market commodity). However, if opportunity sets are disparate, the bargains will favour agents with more opportunities and choices for substitution, endowing such agent with superior market forces.

When a worker apply for a job in a large corporation, the consequence of saying 'no' to an offer is far worse for the worker than for the corporation. The worker has few substitutions available, thus is often compelled to accept offers below fair wages, just to hang on to a job in economies with chronic unemployment. In contrast, the corporation normally have many possibilities for substitution if it doesn't like a worker's wage demand.

John Bates Clark, an early NC economist, contended: “.. the distribution of income .. is controlled by a natural law .. if it worked without friction, [it] would give to every agent of production the amount of wealth which that agent creates .. the rates of pay that result from bargains freely made between individual men tend, it is here claimed, [to] equal that part of the product of industry which is traceable to the labor itself.” ..

Echoing Clark, Robert Lucas, the founder of the rational expectation hypothesis, a pillar of modern market fundamentalism, wrote: “To explain why people allocate time to a particular activity - like unemployment - we need to know why they prefer it to all other available activities.”

Thus, Lucas considers unemployment always to be voluntary.

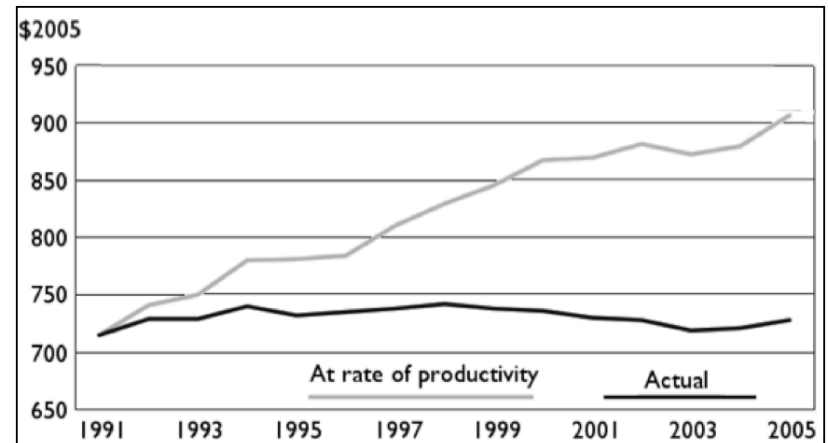
However, in market capitalism countervailing power and institutions are required to rein in market power and inequality relations. For instance:

- Government bodies providing oversight over economic activities.
- Labour unions that raise bargaining positions of workers.
- Investigative journalists writing in independent mass media.
- Uncorrupted political institutions.

After the rise of neoliberal policies, the countervailing forces that had kept the inherent inequality relations of capitalism in check during the post-war decades, have been under constant attack:

The ratio of union membership is falling, oversight bodies have been deregulated, and money and lobbyists have overwhelmed all levels of public institutions, thereby threatening democracy itself.

Due to the changed conditions in the neoliberal economy, productivity gains - instead of following Clark's optimistic contention of being distributed according to factor productivity contributions - have been distributed according to the emerging neoliberal economic and political power relations.



After: Rising Profits Shares, Falling Wage Shares. By Ellen Russell and Mathieu: Dufour. 2007

Inflation adjusted Canadian weekly wages 1991-2005, compared to what wages would have been if productivity gains had been distributed according to Clark's claim.

The result is that most of the rise in aggregate national income stemming from the economy's productivity gains have concentrated among the 1%.

Moreover, the subsidiary claim that inequality trends are not really harmful because they foster rise in productive investments (trickle-down postulate) has been throughoughtly disproven by facts.

In conclusion, the verdict is that economics as currently taught in academe is based on a reversion to market fundamentalism that mainly is built upon claims that have been falsified.

Thus, by claiming that inequality and environmental inactivity are necessary consequences of inexorable market 'laws', it has become an apologetics for these trends.

Part 4

Doxa or Critical Thinking

Symbolic violence is a concept developed by French sociologist, Pierre Bourdieu.

In a society, symbolic violence is the ability to control means of social attitude formation - media, academe, etc. - to impose misrecognitions (doxa) that obfuscates the origin and implication of the experienced economic inequality relations.

Modern economics is an example of symbolic violence, in consequence of its denial of the current economy as a dynamic system framed framed by inequality relations. By claiming to be 'objective' science while putting the blind eye to the deteriorating trends, it has become an element of the increasingly effective belief manipulations and doxa formations that obfuscates the reality.

Economic outcomes cannot be adjudicated by reference to impartial measures.

They can only be properly evaluated by critical thinking directed by ethical views that takes a stand with regards to current socio-economic problems and conflicts.

Humans can always choose to reject the destructive role of the relentless self-maximizer—the role ascribed to us by neoclassical economics—and instead adopt socially responsible choices that aim at economic sustainability, and at expanding the scope for self-actualization and creativity in the social fields.



Thank you for your attention.

Following websites have further information about the free'Scool and altermondial economics:

freescool.com

occupyeconomics.ca