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The End of Rational Economics

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Front picture: Panic in Wall Street, 1907

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Preface

A fact of life in modern societies is that the perceptions most people have about the economic events they encounter, both as consequence of direct life experiences as well as in the news they receive, are more likely than not to be shaped by the narratives that the politicians and the mass media propagate.

In recent decades, these narratives have increasingly been shaped by an interpretation of economics, which as its central claim expounds that impartial markets are the main drivers of society's economic activities. If that leads to inequalities; well, so be it, because there is nothing one can do about it, since tinkering with the market's natural laws can only lead to even worse conditions than the ones that the good wills might want to remedy.

This radical interpretation of society's socio-economic relation, due to its postulate of impartiality of markets, has been called market fundamentalism. The actors it assumes—its societal heroes—are rational self-maximizers, who as part of their rationality have no social conscience but are content to live by the law of the market.

However, the reality of the capitalist economic system that we face is that its markets are not ruled by an abstraction of impartiality, but by very real power relations embedded in path dependent social histories. Currently, the prevalent power relations have produced a society in which the accumulation of obscene wealth go hand in hand with disregard for mounting social and ecological discords. Seen from this reality, market fundamentalist economics is not much more than an obfuscating attempt to protect an economic elite, and the postulate of rational actors, a vacuous concept.

The fact is that if we are to take rationality in any substantive meaning, it can only be conceived as an attitude that rejects the current political economy, with its threatening collapse on all fronts, cultural, economic, ecological.

In lieu of this, as a social science economics must be reformatted to be based on views that consider how social skills, cognitive abilities and moral habitus of the economic agents shape their economic roles. Men and women don't suddenly become automatons having equal skills when they react to impartial market forces, but neither will they be devoid of all ethical dispositions when they interact in economic relationships. On the contrary, their previous experiences, social skills and moral habitus—for the better or the worse—are crucial determinants in the shaping of all economic interactions.

The study of economics must discard the current reliance on econo-mathematics in the market fundamentalist sign. Instead, we must develop a paradigm that begins with observations of the practices of human beings: how they actually interact with each other in social relationships.

Chapter I

Society as a Set of Social Skills

Social Skills and Economic Activity

One of the conditions shaping economic life is the extent to which economic agents have acquired an ensemble of appropriate social skills. Social skills are the skills that we must acquire in order to participate in the activities in the social fields of societies. Among the social skills relevant for life in modern highly complex societies, few are more important than the skills pertaining to participation in economic activities; upon which the individuals' socialized existence has become increasingly dependent. The fact is that in modern societies almost all human needs can only be gratified if there first has occurred an economic transfer or exchange event through which access to the utility objects or services that can gratify the needs are gained.

Standard economics largely neglects the role that social skills have for the actuation of economic roles. It is true that the concept of human capital is part of standard economics, but this is considered a quite specific condition: possessing a formal education, training or experience that is characterized by a high degree of standardization. This imbues it with measurable aspects that can be described by cost-benefit analyses in the neoclassical fashion. Beyond that, scant reflection is accorded to the requirement for mastering the broader set of social skills required when we participate in society's economic activities. Nor is much thought given to how these skills might be acquired, or what consequences it might have for economic interactions that some people might not have acquired the social skills required by a given situation, or perhaps only have acquired them very imperfectly. The assumption is that we all—like the brewers, butchers and pin-makers in Adam Smith's proto-industrial world governed by the invisible hand—possess an innate inclination to tuck and barter that allow us to effortlessly perform the roles which the theory proscribes to us as rational utility maximizers.

The reality is that agents interacting in the economic fields (as private individuals or as agency representatives of firms, organizations, etc.), before they can do so efficiently must have acquired a set of adequate social skills that will enable them to understand complex social phenomena such as money, wages, and prices. Without that basis, they will not be able to manage and communicate the relevant aspects and perspectives of their interests in society's economic activities, nor interact efficiently with other agents.

Contrary to the neoclassical expectation—or rather lack of conceding that the aspect of social skills can have any significance beyond marketable human resources—individuals do not acquire social skills pertaining to economic activities at an equal pace nor will they reach equal levels across specific groups of interacting economic agents. Thus, within economic institutions—such as markets but also within other economic mechanisms—the participating individuals will in the nature of human diversity master

the matching skills with different levels of accomplishments. Furthermore, this is not only the case with regards to skills directly related to the economic activities (say, specific job skills or understanding of financial products), but also the case for a number of general social skills that act as auxiliaries in the execution of economic roles. For instance, literacy and computational proficiency are important auxiliary skills needed to accurately understand prices, written contracts and to calculate the value components involved in market exchanges.

An Evolutionary Order

One aspect of social skills is that they, as all the other elements found in the social dimension, ultimately are products of culture. In the context of a specific cultural environment, it is of significance how the economic skills are embedded within the culture's systems of more general social habits and norms. The importance of cultural norms when executing economic roles might not be noticeable during daily life in an accustomed social environment, but it is something that will at once spring to mind if one travels to countries with different cultures. If one happens, for instance, to visit a country where bazaar markets remain the dominant economic institution for the distribution of consumer goods, one will find price haggling a ubiquitous feature of their distribution systems. In such cultures, haggling is fine-tuned to an art that will incorporate general facets of the given society's codes for behavioural norms and ethics. It creates circumstances where the needed social skills and related cultural norms are installed in the individuals during their upbringing and will therefore be of a second nature to them, something few give much thought to. But it will perplex a Western visitor who doesn't possess the requisite social skills and therefore constantly will get suboptimal deals; not necessarily because the tradesmen and women in the bazaars are out to take advantage of the Westerner, but because it is the only way in which they are accustomed to transact consumer goods and services.

This indicates how social skills and economic institutions interconnect through cultural mediation, which occurs at several levels. In general, we acquire skills that target gratifying physiological and social needs in an order that develop in a bio-evolutionary pattern, having a parallel to the Maslowian hierarchy of needs (for a diagram of the Maslowian hierarchy of needs, see p.129). The basic needs for sustaining life, or the physiological needs, are the first the infant reacts to, but the small child quickly develops the needs for security and belonging. Somewhat later small children develop socially dependent self-awareness and with that a rudimentary form of the needs for status and esteem (the social needs). Finally, at an age that under normal circumstances generally corresponds to the early teens, the needs for self-actualization, creativity and aesthetic experiences will start to gain strength.

The specific conditions found in the surrounding social micro environment (say, family, school, etc.) are important for the formation of social skills at all stages, but they appear to rise in importance in step with the rise in complexity of the social skills. Thus,

when the children reach the stage where creative and more complex social skills should be a preponderant focus, the response provided in their social microenvironment takes on a crucial role.¹

The social skills contain many elements of a very specific and formal nature that typically first will be developed fairly late during a child's upbringing, and some that only will be developed selectively during formal studies and vocational training. Others will not be developed in a detailed form before a person has a concrete need, but when that need arise most social agents will quickly assemble the needed details, due to the possession of some general social skills such as the ability to read, to perform basic arithmetic computations, etc.

For instance, few will be in possession of the detailed knowledge of the precise steps involved in a voting procedure before the need becomes immediate in the voting hall during an election, and anyway procedures might change slightly from case to case. At the moment of actual execution, voters will find the requisite information posted, which can be further augmented by instructions from the electoral staff. Thus, the ordinary literate citizen will quickly be up to speed about the actual steps needed. After having performed the process most of these steps will probably be forgotten again and have to be reacquired in the same fashion next time one faces that specific need. Many social skills are of this nature, which can be called latent skills: we possess knowledge about their basic functions, but depend on our general abilities to read and process information when we actually are in situations where we have to execute the given socialized functions.

In contrast to that, when people learn to drive it is normally a skill used so frequently that it seldom needs to be reformed. Rather, it is a process where refining the skill will go on for a long time, subsequent to the initial learning. Skills belonging to the self-actualizing level of experience, for example skills of workmanship, sports participation, or skills responding to artistic needs are generally of a similar character.

Another category of social skills is related to social interacting, or maintaining relations within the networks to which one belongs and within which one performs one's social roles. These inter-personal skills have variations that partly depend upon the level of dedicated economic content of the networks in which the skills are constituents of interactions. In the social networks that constitute a workplace, the dedicated economic content will obviously tend to be high, while it is somewhat lower in the environment of a vocational school or a university. It is still lower in the social networks that form around leisure activities, such as for instance in chess clubs or on the golf course, or within social movements. Sometimes social networks form as the consequence of an accidental condition of shared location; a case in point is the networks that will form in a neighbourhood between the residents. In other situations the relationship might be of a transitory nature, for instance between people sharing a

¹ This is of course a very complex question and here skills are viewed narrowly in their social operational contexts. A contrary observation is that many of the basic traits of personality that are deposited in the habitus appear to form very early, probably already within the first four to five years.

long journey together. In all cases of social network interacting, the networks' specific purposes will require somewhat different patterns of interacting, which will proceed with modalities dependent upon the inter-personal skills and habitus of the participating individuals.

Since cultures exist in evolutionary timespace, it follows that all economic institutions also have evolutionary properties. An important aspect of the evolutionary timespace is that institutions over time will reformat and push earlier methods employed in gratifying needs and utility enhancements to the sidelines, or even totally eradicate them. Thus, a farmer and his household for, say, 500 hundred years ago would produce almost all of the foodstuff, clothes and daily utensils they consumed. Their economic contacts with the surrounding world would most likely be reduced to rare trips to the local market town, and paying tithes and levies to the masters of the feudal social relations. The very low levels of market relations they participated in also meant that if a collapse of the societal infrastructures around them took place, for instance during wars, it would not threaten their livelihood as long as the local district where they lived were not ravaged and their own house and land thus left physically intact.

In contrast to his medieval predecessor, the modern farmer is no longer engaged in subsistence farming but is a specializing economic agent, just like everyone else. Under such conditions, even a partial collapse of some of the infrastructures and the institutional networks that interconnect all the needed economic and social functions will disrupt the ability of most members of a society to adequately gratify their daily needs, including even the life sustaining needs of those who till the land in modern societies.

We thus see that complex social skills are dependent upon social institutions into which the activities are embedded and without which it becomes next to impossible to actuate the functions the skills carry forward. The specific format a given set of social skills has taken, its level of development and complexity, can be seen as related to the societal phase of the society in which it exists. For instance, in hunter-gatherer societies where life typically revolves around a daily fight for accessing enough food, children will consequently develop a set of elaborate social skills enabling them to acquire food and survive in a harsh wilderness. In contrast to this, food in a modern metropolitan culture is normally acquired by buying it in supermarkets and not by hunting in the wilderness, causing the focus in modern societies to be on developing skills in children that will enable them later in life to earn money and deal effectively with all the economic interactions needed for sustaining life within such a socio-economic context.

In this regards, it is worth remembering that in the modern global web of cultures we can still find peripheral cultural complexes in which acquiring hunting skills remains essential. This also means that in our time there still exist cultures in which the skill of using money does not exist, or at best remains very rudimentarily understood and probably only used as commodity money in gift exchanges of a reciprocal nature, or during occasional contacts with the outside world, perhaps at a mission station on the

edge of the territory of the culture.² This underscores the evolutionary nature of money, and economic institutions in general.

The notion of a connection between social skills and specific societal phases means that the particular set of social institutions responsible for the reproduction of a society can be seen as a state-phase of a path dependent evolutionary cultural process. As with all other evolutionary processes, the long-term trend is from simple to complex forms, albeit it is also possible that socio-cultural regressions reverse trends and require reformation of the lost skills. Severe regressions can sometimes cause quite long periods to pass before lost skills reform; as for example was the case with the some of the technologies and socio-economic institutions of the Roman Empire.³

Institutional Transfer of Social Skills

In the context of the phenomena that occur at the level of organization (here taken to include firms), an important aspect of modern societies is that individual mastery of social skills in many cases can be substituted by organizational routines. The advantage of organizational routines is that agency operatives can perform their job roles without necessarily having to understand the rationales or all aspects of the technical complexities that the routines encapsulate. Routinization thus constitutes a socioeconomic phenomenon that allows for agency transfers of social skills. Workplace activities normally will include large doses of routinized activities, whose executions are dependent upon design by agents at higher levels of organization; agents with the specific expert knowledge—or expert social skills—that are embodied in the routines, and whom the lower level agency operatives are instructed to contact if situations arise that contain aspects that are beyond the variations of the routinized actions they are trained to cope with.

Organizational structures dependent upon routinization are widely employed both by private firms operating within market structures, and by public bodies. Within private firms, the car salesperson on the floor in the dealerships doesn't have to master all the calculations that turns a future stream of payments into a net present risk-weighted value comparable to a cash price for the car, nor to be able to analyze the marginal relationships between fixed and variable cost factors incurred by the firm in each car sale; he or she is simply given some guidelines from superiors that ultimately reverts to calculations made by specialists at corporate headquarters, or maybe even hired outside experts.

² Recently, some of the last tribes surviving at Neolithic cultural stages have become tourist attractions for the rich and adventurous, which surely will hasten the demise of their cultural identities. See <http://www.papuatrekking.com/>

³ On the technological side, a case in point is that Romans understood how to make concrete, a skill first reformed during the industrialization period of the 19th century. The disappearance of literacy in England for several hundred years after the Roman collapse is of a somewhat different character, as it was caused by a population shift.

A key aspect of the agency question in economics is how organizations frame the work routines that enable the employed individuals to efficiently perform the specific task required by agency goals, including in cases where the executing agents individually have low social skills. This aspect of routinization has been perfected in the neoliberal economy where in particular the large service sector corporations, for example Walmart, McDonalds, and Tim Hortons, by routinizing work procedures to minute detail have reduced requirements to the effective individual level and complexity of the social skills that operational level employees need to master. This allow these corporations to offer rock-bottom wages, confident that there always will be a new marginal groups of workers, a new wave of recent immigrants with poor social skills (at least in relations to the new culture of which they now are members) and consequently few other job opportunities than the low-wage jobs, which are left open to them by corporate profit maximizing strategies relying of extreme suppression of labour costs.

The requirement is simply that the design of work routines and interactions are perfected to a level where no one ever needs more than few easily learned specimens of corporate parole in order to execute the required steps of the work. Thus, not even a language barrier is a serious problem under such conditions, as long it is not total. In fact, such barriers are often welcomed since it creates a very inelastic job situations for such workers, meaning that they can be expected to be a very compliant work force, not likely to clamour for higher wages at each turn of the road, or fight back against the structured exploitation by attempting to develop countervailing forces, for instance by unionizing.

In this way we can see that mastery of social skills, including basic skills such as command of language, proficiency in arithmetic, and general literacy are among the factors that define market power in many functional contexts. Efficiency during everyday economic events is not defined by high theories, but by the set of social skills that the participants master. Low mastery of relevant skills disadvantages participants during economic exchanges, by among other things reducing their scope of opportunities, but also by creating individual inelasticities in the available market responses. For instance, a person who cannot read, or perhaps only reads poorly, will have difficulties in gathering comparative price information in a modern society. He or she is thus eliminated from the scope of the neoclassical assumption of perfectly informed agents, an assumption which ignores the two-sided facet of information: it not only has to be accessible, but market agents receiving information must posses the social skills needed to decode it.

To enhance the organizational goal of agency efficiency within the current neoliberal political and economic institutions, the standard method has been to internally erect hierarchical structures, which compartmentalize the various specialized social skills that are required to achieve organizational goals. As a rule, the sum of information needed to execute given operations, including that which is relevant for the decision procedures of a hierarchically structured organization, is concentrated at the executive level where managers—besides whatever skills they might or might not possess themselves—have access to expert staffs, all mastering a specific ensemble of business related social skills. What subsequently is transferred from the executive level

to the employees performing the routinized actions at the operational level is in general highly selective.

This creates situation where individuals who actuate routines do not possess the knowledge required to understand how the activities embodied in their delegated agency roles add to the forward structuring of the economy and society in general. Work environments are even often seen to contain deliberately constructed organizational impediments designed to block access to such knowledge. This is in particular the case in industries when activities incur substantial externalities that might create boomerang effects adversely impacting actuating agents private economic opportunities, and even broader aspects of health and life quality.

A special emphasis should be put on the cases of selective information dispersal that arise within organizations where working conditions contain known aspects that impair workers' health or negatively impact the surrounding ecology, but which it would require expert knowledge to uncover and understand. Indeed, cases have been uncovered by media and social activists where complex knowledge about serious health hazards for workers, or adjacent local communities, were deliberately withheld by top managers in order to keep costs down.⁴

Similarly, managers at mid-level positions, who often play key roles in the processes that perpetuate the economic inequalities of the neoliberal economic structures, seem to be oblivious to the fact that the totality of the inequality structures have reached levels where only the very top of the hierarchical structures reap the benefits of having expanding access to consumption that is non-debt financed. Mid-level managers, with real-term squeezed middle class incomes, are therefore working against their own economic interests when they loyally execute the CEOs or equity fund owners' strategies, invariably designed to reduce other socio-economic stakeholders' share of gross surpluses.

An aspect of the agency question—indeed a critical one but nevertheless seldom touched upon—is to what extent corporations should be allowed to suppress individual life-style preferences (for instance for dress) or social attitudes, when these run counter to the goals of an organization, or sometimes simply private preferences of executive level managers or owners. In this respect, a number of large corporations are known to enforce dress codes and office environments that must be considered to be, quite straightforward, violations of the employees' human rights. One example is the Japanese robotics maker Fanuc, which forces its employee to submit to the pathological obsession of the company's founder with the colour yellow, both in work uniforms and all interior design.⁵ Another well-known case is the Swiss investment bank UBS, which forces an absurdly strict and ultra-conservative dress code upon its employees.⁶ Interestingly, this attempt to give the appearance of conforming to 'the good, old values'

⁴ In the popular culture, two such real-life cases are chronicled in the movies "Erin Brokovich" and "A Civil Action".

⁵ http://www.businessweek.com/magazine/content/10_49/b4206044280596.htm

⁶ <http://www.dailymail.co.uk/news/article-1347961/Swiss-bank-UBS-revises-underwear-dress-code-staff-modest-booklet.html>

through a dress code was bared for the veneer it is when it came to light that UBS has none of the good old values of social ethics. One of the world's leading managers of 'high-net' wealth, it performs this role with scant regards for 'ethics': in the late 2000s it was indicted for massively abetting wealthy Americans with hiding tax liable assets.⁷

The Sum of Social Skills

One result of the myopic rejection of the importance of social factors that characterizes modern economics is that the science doesn't include a description of how social skills (and other behavioral aspects) develop in relation to economic actuation; nor how such aspect either might facilitate or conversely constrain agents' participation in economic life. Thus, the consequence of differences in attained social skills for the outcomes of economic participation is a blank page in modern textbooks.

The reality is that even the most fundamental aspect of markets, the price mechanism, can only function if the individuals in the society in which it is at work possess a set of relevant and matching social skills. Therefore, the information inherent in price signals must be seen against the backdrop of the social skills and social roles of the agents producing and receiving the signals. If the skills with which social goals are pursued are widely different, the price signals can lead to misrecognitions, and even be a source of manipulation and predatory economic activities, if one side recognize the difference but the other doesn't. The fact is, of course, that such manipulations are the bread and butter of many business strategies.

Take for instance the housing market in the U.S. leading up to the Great Recession. A large number of the so-called subprime mortgages were created as result of aggressive mortgage originators who took advantage of social subgroups (including ethnic minorities) with low social skills, which meant that they only had imperfect understandings of price-interest relations in housing markets, and—and perhaps in particular—the possibility that a market reversal might throw not only house prices but also their incomes off track.

In conclusion, it can be said that an important factor in the functional aspects of an economy is provided by the state of the social skills that its participants master, both as private individuals and in their various agency roles. This includes many social skills that are encapsulated in routines developed within organizations, where those within large corporations following maximizing business strategies are particularly important under the current economic conditions. The implication is that individuals might develop social skills related to work routines that encapsulate business aims that stand in contradiction to their private life-quality goals, but where the contradictions are prevented from being recognized due to information distortions and politicized narratives that aim at obscuring the factual conditions.

⁷ In February 2009, UBS agreed to pay \$780 million to settle criminal charges in a tax evasion dispute with the U.S. government. <http://www.reuters.com/article/2009/08/12/us-ubs-tax-idUSTRES7B2CF20090812>

If a society is defined by the sum of the social skills that its individuals possess, it means that this sum in its various expressions set boundaries for the development of varieties in the expressions of culture. A boundary of culture—of art, craftsmanship or science—are always likely to be broken in time by a new expression, but that momentum can only be created by someone who have developed skills that have taken them up to the edge of the current expression, and discovered a point where the boundary can be broken.

Chapter 2

The Social Construction of Doxa

Habitus and the Propensity to Self-maximize

One of the classical concepts that modern sociology has revived is habitus. It is the base of the cognitive faculties where an individual's dispositions and cultural tastes are deposited. To a considerable extent, habitus is determined by early life experiences and includes the framing of the personality that typically class-based conditions of the social surroundings install in the individual. This means that habitus principally is formed on the subconscious level, where it is modulated by the cognitive capacities as these develop within a path dependent social framing. It thus becomes a person's socialized temperament and dispositions through which the impacts of the world are absorbed and from which reactivity arises.

When habitus has formed and solidified, it will determine how social interpretations—dominant in the surrounding social class or other contexts of socially determined sub-groups—are integrated into the individual's life experiences, as well as determining how the elements of socialization combine into patterns of habitual attitudes, heuristics, and action modalities.

Behavioural economics, notably prospect theory⁸, has experimentally shown that there exist a number of human characteristics playing significant roles in shaping economic preferences. They include aspects such as risk tolerance and endowment effects (the experimentally verified tendency to put a higher subjective value on owned objects than on identical non-owned objects), as well as responses driven by a sense of fairness. Prospect theory hasn't taken any position on how these characteristics arise, but just pointed out that they contravene an objectivist rationality assumption upon which expected utility—the core element of neoclassical economics' rational actor theory—is built.

Projecting the findings of behavioral economics into more general views suggests that the activity patterns—such as risk aversion, etc. that violates the rational actor assumption—reside in the habitus. They will therefore appear with different strength, and in different patterns from individual to individual.

The preference-shaping characteristics residing in the habitus that are in contravention of the dictates of the rational actor hypothesis might also select opportunities based on ethical attitudes or concern for the impact on the ecology of one's activities. Such attitudes can obviously sharply reduce an individual's scope and propensity to self-interest maximize in a money-equivalent sense. This stands in contrast to the neoclassical maxim that when faced with scarcity (or other consumption constraining factors) we are not inclined to attempt to deal with the scarcity by reducing

⁸ Daniel Kahneman and Amos Tversky: Prospect Theory: An Analysis of Decision under Risk. *Econometrica*, Vol. 47, No. 2 (Mar., 1979), pp. 263-291

our own consumption of the scarce resource or good (self-rationing), but rather by producing strategies that ensure that we, as self-maximizing individuals, will have more access to the scarce good than others.

It is not necessary to determine to what extent such differences in attitudes are caused by upbringing, social class, or other factors embedding predispositions for specific choice patterns in order to observe that non-maximizing strategies are ubiquitous components of the revealed habitus of large numbers of individuals that even at times can be identified as coalescing into social groups or movements. It is thus widespread attitudes encountered in the social fabric that contravene the neoclassical axiom of the universality of rationality and its portrayal of rational self-maximization as the driver of all aspects of socialized behaviour.

It should be noted that the aspects of actions governed by habitus are different from ordinary habitual actions of the well-known repetitive type such as for instance smoking pipe or going to the bakery every morning to buy bread; in other words, routinized habits in the common sense of the word. Habitus governs reactions to social impacts, how we internalize information and impulses into action triggers. The difference can be adduced from the fact that if a person has the habit of smoking pipe it is incidental to how he or she reacts to social and political news. Conversely, habitus is not incidental in this respect: it exists as a mental disposition that merges beliefs and attitudes in a combination that is specific to the deeper personality that the individual has formed, and is therefore instrumental in forming reactivity to events in the social fields.

Misrecognitions and Doxical Beliefs

Experiences and observations of the world are presumably processed by the part of consciousness in which factual knowledge and logical thinking resides: the mental universe where analyses of verifiable facts and discourse according to the logic of argument drive our interactions with the world. This is at least how we prefer to view our own relationships with the surrounding social fields, and it is certainly how standard economic theory assumes that its (representative) agents engage in society's economic activities, and how they form their preferences and arrive at decisions to buy and sell.

But as with many other things, when faced with reality, delusions come to naught. In no other cases is that so than with the delusions we have about how we ourselves come to grips with the world around us. Instead of reacting to facts with logic and arguments, we often react driven by habitus (for instance, whether reacting aggressively or not) and rest upon preconceived beliefs. Pierre Bourdieu, a sociologist who developed habitus into its modern meaning, also gave another classical concept, doxa⁹, a new life as a descriptive term for the preconceived beliefs that guide our interactions with the world.

⁹ For instance, doxa lives on in the modern words orthodoxy and heterodoxy.

Doxa, in this interpretation, is the basic layer of beliefs that people develop about the social relationships they perceive to exist in the world around them. Such beliefs emerge partly on basis of previous experiences, partly in consequence of situational roles in socially structured fields. But, most importantly, their active forms are often shaped by inculcations inserted into the social domains by various factors, such as inherited class-distinctive norms, culturally dominant narratives, political spin, etc.

Quite commonly, doxa represents beliefs that have become so deep-seated that their validity or appropriateness for the encountered social and economic contexts are seldom, if ever, re-examined. Thus, doxa is the beliefs and misrecognitions that have been transfixed into inflexible states in the minds of the participants in a social continuum. Moreover, doxa shared by dominant social groups (dominance in this respect can be both a quantitative or a social power measure) has a strong impact upon how economic, social, cultural and political structures shape society's forward transformations.

Habitus, the deeper level of dispositions that drive interactions with the world, will decide to what extent a person engages in social encounters on the basis of critical and fact-based discourses (in its broadest sense), and shape communication and preferences selections in social and economic fields as positive engagements. Conversely, a person's habitus might allow doxical beliefs to push fact-based discourse to the background, in which case participation in public discourses becomes disruptive by being impervious to facts, and empirical states of the involved social fields and relationships. Typically, it will be dismissive of the arguments that others bring forward even when these are based on factual observations and states of the world.

If people have developed strong repertoires of doxical beliefs, it progressively will block their ability to deploy the faculty of logical thinking in the examination of observable facts and their relations to knowledge (taken to be a body of falsifiable memory data). Thus, a habitus containing a strong repertoire of doxical beliefs will also determine how social skills are deployed, having the potential to severely suboptimize skills by misdirecting them and causing stagnation of facultative abilities to set in.

Habitus, as noted, determines the extent to which stated opinions, rationalizations, and heuristic (in their role as mental models that guide actions in the social fields) either are constituted by doxa, or by critical discourse and fact-based arguments. Bourdieu depicted the division between doxa and logic of arguments in the figure 2-1.

Moreover, as doxical beliefs take over and erode the ability to employ arguments of reason, this lack is often seen compensated for by aggressive attitudes during social encounters and participation in the discourses of civil society.

An important characteristic of doxa is that it plays a fundamental role in constituting social groups. In general, social groups are formed by people who share certain socially constituted commonalities. These can be of a passive nature, such as living in a given neighbourhood, working in the same workplace, being born in a country with a specific set of cultural norms, belonging to an ethnic minority, etc.; or they can be

of an active nature, such as having joined a social sub-group because of shared opinions or life-style interests, or, perhaps, perceptions of having shared economic interests.

When someone, for whatever reason, has become part of a socially structured group it creates shared experiences, which when retained in the common memory (as group specific enabling myth-histories, narratives, etc.) will create a socialized path history of the group. In turn, the group will produce social paroles: a set of speech, bodily comportments and symbolic markers that signal shared beliefs about the social world, its order, and interpretations of its observed events. The symbolic markers can be both physical objects but also, as indicated, specimens of speech, defined broadly as combinations of coded vocabulary. Finally, social paroles often contain certain patterns of publicly exhibited attitudes, tastes and action-rituals. Doxical group identification is thus exemplified by the way the adherents of specific ideologies or narrative-dependent social sub-groups are able to identify each other, not only by visible symbol markets, but also by couching communication and interactions in specific social paroles, broadly conceived.

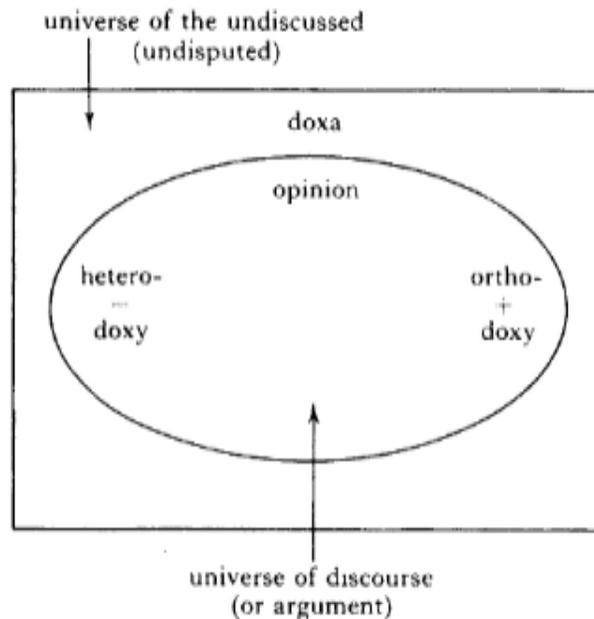


Figure 2-1. The relationship between doxa and discourse.
From: Pierre Bourdieu, "Outline of a Theory of Practice" (1972).

The shared opinions formed by social path history—whether established through direct experience, or by enabling myths linked to a general culture or a specific social sub-group—will in turn influence key parts of the forward reconfiguration of the doxa deposited in the members of the group. It will shape the doxa, or the beliefs inculcated as part of social existence that have become a second nature; in other words, views and beliefs that no longer are discussed or doubted but taken for granted in the context of the group. This means that social sub-groups can be defined by attributes of shared

doxa; that is, the mostly unquestioned beliefs than are identifiable by the symbolic markers and social paroles adopted by the group.

This indicates that there is a reflexive relationship between doxa and habitus: how one's continuing life experience evolves shape personality dispositions and beliefs, which thus are bounded by each other. In this way, we will find that individuals who, say, work on Wall Street, or are doctors volunteering for "Doctors Without Borders", or belong to a biker gang, all will have, most likely, class-based habitus that have led them toward the specific character of the engagement with the world that these disparate activities entail. Furthermore, during engagement in the chosen activities, the habitus and indicated social beliefs that at first steered them to the specific social engagement will often tend to become cumulatively reinforced.

Since doxical beliefs and misrecognitions typically contain large elements that are formed by the subconscious layers of cognition, they tend to be very stubborn. Thus, doxa that controls actions and reactions during social encounters are seldom changed in any major way, even when the subjects repeatedly are being confronted with observations and experiences that contradict the misrecognition; that is, confronted with a reality in which the doxa-dependent behaviour never reaches the expected goals.

If changes to doxa occur, it is therefore normally not because of being persuaded by the logic of arguments put forward by others, or even by everyday observable facts (since these are already subsumed and thus neutered by the misrecognition), but only if adverse experiences prove to be so costly (in a material or a mental sense) that the fallacious nature of action or attitudes demanded by the doxa becomes inescapable.

As modern vocabulary, the concepts of doxa and habitus originated within sociology. While ignored by economics, behavioural sciences are increasingly coming to similar conclusions. Thus, a 2010 article, "How facts backfire", details how recent research, which included neurological studies, confirms the existence of cognitive reactions similar to the ones indicated by the concept of doxa:

"[we] like to believe that our opinions have been formed over time by careful, rational consideration of facts and ideas, and that the decisions based on those opinions, therefore, have the ring of soundness and intelligence. In reality, we often base our opinions on our beliefs, which can have an uneasy relationship with facts. And rather than facts driving beliefs, our beliefs can dictate the facts we chose to accept. ... Worst of all, they can lead us to uncritically accept bad information just because it reinforces our beliefs. This reinforcement makes us more confident we're right, and even less likely to listen to any new information."

"...[i]t appears that misinformed people often have some of the strongest political opinions."

"...[when] 1,000 Illinois residents were asked questions about welfare...more than half indicated that they were confident that their answers were correct — but in fact only three percent of the people got more than half of the questions right. Perhaps more disturbingly, the ones who were the most confident they were right were by and

large the ones who knew the least about the topic. (Most of these participants expressed views that suggested a strong anti-welfare bias)."¹⁰

The conclusion is that social preferences to a large extent are governed by doxa and thus inflexible, even in situations where adverse outcomes repeatedly occur. While unyielding beliefs in some cases can underpin useful heuristics and practical social responses, in most cases the main result is to reduce the ability to respond positively to new facts and arguments. By such reductions, they lower the flexibility needed when confronted with new or emerging problems. Therefore, strong doxical inculcations often cause social groups to form inadequate responses to new challenges arising in the surrounding world.

To give an example on the social macro level, pre-modern religions often inculcated adherents with beliefs that supported high rates of childbearing. This formed a rigid, but important social heuristic in earlier times when modern health technologies were not available, and high rates of child mortality and short lifespans made matching high rates of child bearing a necessity for the perpetuation of the tribal or ethnic group. In modern times, however, Western medicine have spread rapidly throughout the world, with substantial impacts on child mortality rates, even in the most impoverished and isolated nations. As result, child mortality rates have dropped dramatically all over the world. Western medicine has in effect created a mismatch between traditional norms for childbearing and child mortality rates, causing populations to grow at explosive rates in many developing nations where traditional norms encapsulated in strong doxical misrecognitions (often embedded in religious narratives, which tends to make misrecognitions particularly stubborn) combine with low literacy rates that impair access to new information. Together, such conditions severely counteract knowledge about, and execution of, family planning and population control strategies. Consequently, in some developing nations populations growth rates are unsustainably high, in some cases doubling in cycles as short as twenty years. Coupled with widespread initial poverty, the resultant population pressures have proven to defeats all economic development strategies, in the process creating dysfunctional states, as well as causing extremist movements to emerge in response to the dysfunctions, which, as we have seen it, instead of formulating viable new social strategies often double down on the inherited misrecognitions.

Feedback Loops and Doxa Circles

When preferences crystallize into actions in the social world, they will often create effects that rebound as inputs to the next set of activities, or the next cycle. Incorporating Bourdieu's view of the dichotomy between doxa and logical discourse, the

¹⁰ "How facts backfire. Researchers discover a surprising threat to democracy: our brains/". By Joe Keohane. Boston Globe, July 11, 2010.
http://archive.boston.com/news/science/articles/2010/07/11/how_facts_backfire/

circular cumulative nature of these processes is tentatively shown in the figure 2-2 on the next page.

The ovals at the top, consisting of an oval within an oval, represent the cognitive faculties of an individual (as depicted in fig. 2-1, above). The individual, under the influences of the social relations existing in the fields in which he or she are network participants, develops preferences, some of which are manifested by decisions to communicate and engage in actions in social fields.

When preferences are executed, they will however also encounter constraints and countervailing forces, which will impinge upon the effects that the actions entail in the interlocking social fields, and within ongoing cycles of socio-economic activities.

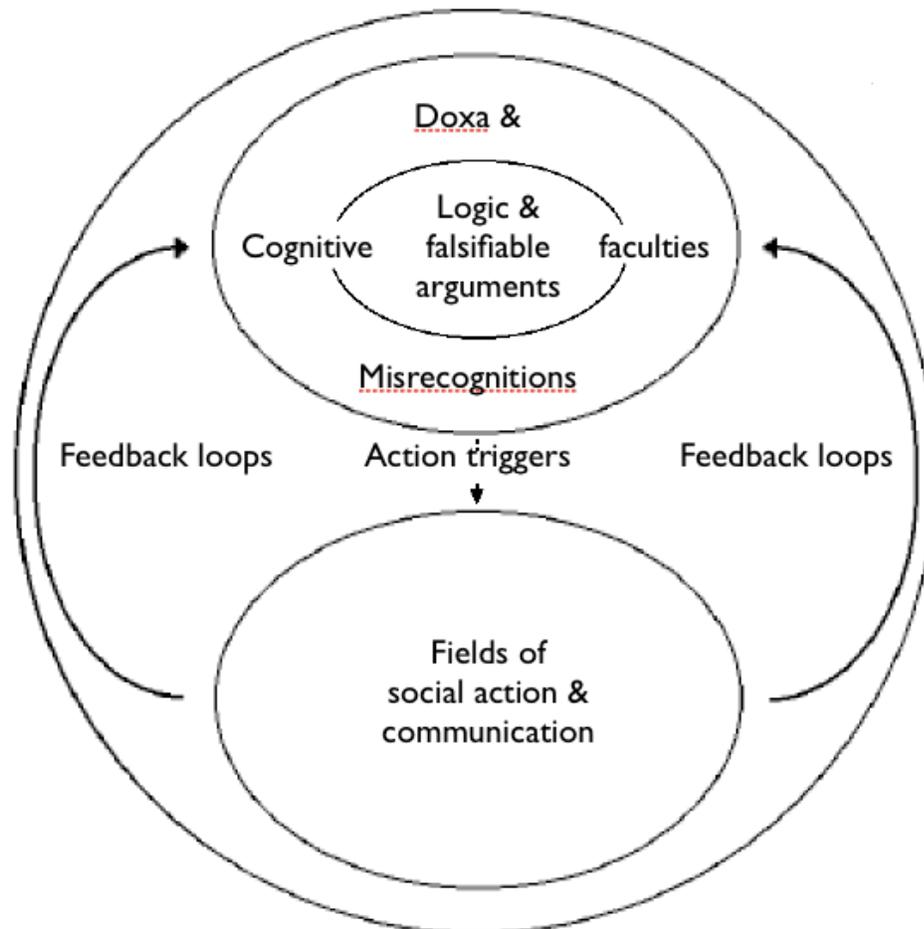


Figure 2-2. A doxa circle with feedback loops.

The decision faculty of humans that produce activities can in this way be seen as constituted partly by doxical beliefs, that acts as a filter before inputs (information and observations) are subjected to critical thinking based on the logic of arguments and falsifiable knowledge. The combinations and differences in the weights there exist between these mental aspects can, as indicated above, be radically different from individual to individual; primarily dependent upon the individual's habitus, as this has

been modulated by social group and class relations. Some people filter all preference-guiding information and data through a thick layer of doxa, others let common sense, and recourse to facts and objective knowledge dominate in the processes that lead to the formation of preferences and actions.

According to the balance of these aspects, people will form heuristics—or set patterns of operational approaches—to recurring decision problems, which will be based on what they perceive as practical and, in their mind, sensible solutions to recurring problems and decision situations, notwithstanding whatever level of doxical misrecognitions the solutions in fact might be based upon.

When decisions are formed, they create impulses to actions and communication. The loci of action and communication are the social fields, represented by the lower oval. In the social fields, actions intertwine with the actions of other individuals, and are subjected to the constraints and the power structures existing in the fields. How path dependent structuration under the conditions of the real world embeds purposes into the fields are in this respect important for the way that the modalities of actuation engage. To give a simple example, if one wants to buy a loaf of bread, the operational approach will be different if the field of relevant actuation is framed by bazaar markets or by modern supermarkets.

The effects of actions are also exposed to exogenous impacts (war, crime, natural disasters, financial crises, etc.) that can burst into a field of activities with effects that totally can throw current heuristics and expectations off the track. However, since, in the nature of things, such occurrences are seldom predictable they insert a so-called 'black swan' factor into all expectations to normal events: they are very unlikely to occur, but if they do, everything changes. These conditions of the social fields are among the factors that create the uncertainty that always exist between decisions and the goals of actions, and are partly responsible for the inevitable combination of intended and unintended consequences that all actions incur.

When non-fulfilled consequences of an action enter into a feedback loop, they will impact existing preferences and the next set of decisions with the potential to set cycles of cumulation in motion. In many cases, if a preference is based on a strong doxical belief, and action triggered by the preference therefore doesn't produce the expected result, a common tendency is to stubbornly repeat the action in the forlorn hope that the repetition will produce a different result. However, such stubborn repetitions of activities directed by doxical misrecognitions can cause vicious cycles laden with down-spiralling effects to dominate.

Doxa-Triggers in the Postmodern Triviality

As indicated, doxa plays an important role in the formation of social groups. Nationality and culture bind people together not only by language, but also by sets of customs and social norms that are based on shared conceptions about how social events and structures interrelate. When shared conceptions contains misrecognitions,

perhaps in the form of belief in relationships that once had positive content but during the process of history have lost all factual relevance, they solidify into doxa that might accumulate within a social group, or more broad-based within a culture, or some other definable social stratum of individuals. They become “that which goes without saying”¹¹, which might create strong effects of coherence within the given social group (at whatever level it operates), but in reality—because of a basis in misrecognitions, or belief in a social relationships which history has made non-relevant—becomes a barrier to progress.

In this way, social activities are often modulated by beliefs embedded as commonly shared doxa among the actors involved in a given role-actuating network. As a function of the strength of the misrecognitions, doxa can, as indicated, feed into social macro processes of cumulative causation that turn into vicious cycles.

Propaganda and advertising—the first aiming at social and political preferences, the second mostly at economic preferences—are two related phenomena that employ techniques that influence people by creating memes attempting to change the direction and strength of current preferences, or to prod new preferences to emerge. These techniques are based on behavioural research that often as a primary technique search for ensembles of already existing doxa, for instance by exposing focus groups to variously formulated messages carrying the sought impact, in order to gauge how different formulations most effectively connect to existing perceptions and biases. On this basis, memes are created that then attempt to create trigger effects that release shifts in beliefs and preferences in a desired direction. It often means that existing misrecognitions (and in particular negative misrecognitions, even those fueling discriminatory attitudes) are exploited and strengthened. The power of negative misrecognitions is that they often link to unfulfilled aspirations, feelings of inferiority, etc. that people might develop during participation in the social world, which has proven to produce strong emotional responses when prodded. If memes can piggyback on such misrecognitions, they often will gain in efficacy.

The doxa-trigger technique appears to become particularly effective under socially stressed conditions, a case in point is how fascist propaganda of the 1930s successfully exploited the stressed social conditions created by the Great Depression. In the field of politics, propaganda is a common method for creating or sustaining existing doxa so that it will produce support for social structures that are misaligned by power relations favouring specific minority interests (often an entrenched elite class), or a competing social group vying for power. Chances of success rise exponentially if the propaganda is able to exploit widely shared beliefs and social norms. For instance, by exploiting people’s aversion against paying taxes, or car-owners’ aversions against street-level public transport, conservative memes and spin have been very successful in massively strengthen certain existing misrecognitions, to the point where people persistently oppose their own interests, if these were to be evaluated in broader perspectives based on facts and critical thinking.

¹¹ A favourite phrase used by Bourdieu to explain doxa.

In modern societies, the reproduction of the attitudes upon which propaganda and marketing feed is increasingly the domain of the corporate entertainment industries. In this connection, commercialized entertainment creates two distinct impacts. First, the entertainment industry, including the new element of the digital gaming, in their direct content often tend to reproduce negative social attitudes—for instance, violence as problem solver, unsafe driving, consumption fetishism, etc.—since such content creates more titillating entertainment that moreover has proven easier to produce (plots can be very simplistic and characters stereotypes), and equally easy to marketing. In the name of mass-market appeal, the formats of modern entertainment have thus consistently trended towards the lowest common denominator of plots and contents, in the process reducing genuine artistic creations to the odd exception.

In a second, and equally important effect, commercial entertainment—which probably seldom is created with specific underlying social or political intent—contain a strong indirect political effect by dissipating people’s attention and turning it away from existing political and social problems. An important facet of this attention-dissipative function is the entertainment industry’s ability to create celebrity idols out the accidental stars who perform roles in the entertainment products, whether it be in movies, music, sports, or the participants in the increasingly popular unreality of reality shows, etc. The resultant phenomenon of celebrity infatuation sometimes turns into pathologic states, where each ‘news’ about the celebrity chosen to be the pathological focus is received with anxious anticipation. When the celebrity idols’ life-styles—in most cases characterized by openly mindless and ostentatious consumption—become an object of adoration, it legitimates class distinctions and the undisputed right of the rich to indulge in ostentatious and wasteful consumption. A good example of how the celebrities most faithfully perform their duty as role models for the neoliberal mindset is the answer that the good-looking Russian tennis star, Maria Sharapova, gave to a reporter after she had signed a \$70M dollar advertisement contract with Sony: “Money is never enough. There is no limit of how much you can make.”¹²

In this way, the entertainment industry has in recent decades been pivotal in developing attitudes among the general populace that lead to acceptance of the increasingly preposterous and widening differences in income and consumption levels that the current economy, governed by neoliberal political and cultural ideals, perpetuates. This lends an important political function to the entertainment industry as manufacturer of a distracting virtual reality—the ‘spectacle’ in the words of French situationist Guy Debord¹³—that inculcates doxa and spur attitudes that accepts social inequalities and consumption with large ecological footprint as unquestioned, even desirable, facets of the modern social dimension.

¹² http://english.pravda.ru/society/showbiz/24-08-2006/84072-Maria_Sharapova-0/ (Link dead July 2012).

¹³ This was first described by the French situationist, Guy Debord, in the seminal “Society of the Spectacle” (1967), which were to wield a strong influence on the 1968 student uprising in France. My own contribution “[A Short Ontology of the Spectacle](http://attac-ontario.org/texts.html)” can be found at <http://attac-ontario.org/texts.html>

A main effect of the excessive infatuation with entertainment products (including gambling) is, as indicated, to push interactions with the social world into a state of passivity. Under such circumstances, political spin is accepted without subjecting it to critical discourse, often simply because the ability to mobilize the needed attention span and ability to think critically has been eroded. Entertainment absorption thus functions as a cognitive blocker that stymies the accumulation of objective knowledge; a condition that, if sustained, will push the dispositions embedded in the habitus farther away from critical discourse and self-actualizing activities, and instead into a realm of mind-states that are heavily populated with misrecognitions and driven by urges to constantly compensate for the lack of life-fulfillment moments by engaging in consumption of products with low content of true utilities and aesthetic elements.

In this environment, the new phenomenon of social networking through digital communication tools has entered the scene, producing the capacity to cascade opinions and attitude verifications very rapidly through large population segments. Text messaging, Facebook, Twitter—the whole plethora of new instant messaging tools—have inserted abilities to develop feedback cycles of cascading attitude reflections that either solidify or dissipate the established perceptions and doxa elements they encounter. Obviously, this can produce positive as well as negative cascades, but also the third possibility, which emphatically has moved to the forefront of current social dimension: cascades of attention hogging trivialities.¹⁴

Noteworthy is that the development of recent entertainment trends stands in contrast to the first cycle of the entertainment culture (the 1950s and 1960s), which still required the entertained to be anchored to an outlet (a venue of performance, a cinema, a stationary radio, a TV-set, etc.). Likewise, communication by telephone (or telex) needed a stationary connection point. These requirements left considerable time during an average day unmolested by the spectacles of this phase's commercial manifestations. In contrast to this, the new modes of wirelessly transmitted entertainment and social networking have broken this constraint. They enable the modern citizen to fill all the otherwise moments of boredom that might be encountered during the day with the trivialities of the last cycle of commercially manufactured spectacles. Incidentally, it also enhances the stress level that many people experience by having created an urge to be connected 24/7, and by creating working conditions where the requirement of work never is left totally behind during time off, holidays, etc.

Certainly, social networking has its positive side, but it is becoming obvious that it—by its attention-hogging power—also can be an obstacle to liberation practices and a roadblock on the path to creative and self-actualizing life-styles.

The citizens of the present society thus face the accelerating cultural breakdown of the neoliberal society where true culture increasingly is replaced by postmodern trivialities. They are met by commercialized cultural products that are not activating as true cultural objects should be, but inducing passivity and containing high levels of

¹⁴ "Have smartphones killed boredom (and is that good)?" Doug Gross, CNN, Wed September 26, 2012 <http://www.cnn.com/2012/09/25/tech/mobile/oms-smartphones-boredom/index.html>

memes that trigger subconscious shifts towards doxical acceptance of over-consumption as a coveted life-style, and—on the political level—the corollary of manufacturing indifference to the politics of economic inequalities. The constant flow of pseudo-information that postmodern culture and its media outlets produce have caused perceptions of the states of the world to turn into caricatures that are observed once-removed from true reality by the media feeds of a constructed, faux reality.

When the doxical beliefs combine with a constant capture by the postmodern trivialities, it fosters assumptions—with basic premises never questioned—about society and the modes of possible actuation of life-styles. In such an environment, social values are increasingly copies of expressions taken from a commercialized culture embedded in neoliberal political institutions. This has become ‘that which goes without saying’.

Chapter 3

Heuristics and Information Strings

Heuristics of Chess Masters

A key implication of efficient market hypothesis (EMH), one of the popular market fundamentalist economic theories, is that all relevant information for a given market event is received in equal time and acted upon with equal efficiency.

This notion is however in conflict with several standard scientific principles. First, it would require a collapse of the time-space continuum, and although modern digital communication has vastly reduced the factor of time and spatial distance in the dispersion of information, it has of course not eliminated it. In fact, on the other side of the equation, the power of digital communication and powerful computer models means that exclusive possession of information impacting a market price doesn't have to last for many minutes in a program trading environment before it can generate large swings in wins or losses, and thus cause substantial real-balance effects to fly across a cyber-connected market. The new reality is that information-processing can rest solely in computer models, programmed to detect certain market patterns in the data streams they constantly are fed. When data patterns conforming to the given algorithm occur, the computer issues an automated buy, respectively a sell, order. Thus, the social skills leading to success in modern financial trading environments are extended to skills—or access to them—in writing obtuse algorithms that can command computers to perform such feats (and, of course, having the financial clout that enables one to buy the high-end computer hardware needed to run the algorithms).

More to the point, the EMH postulate can be compared to a postulate that all people who play chess, play it with equal skills, which of course not only contravenes the views of the cognitive sciences, but also, quite plainly, common sense; as all who have tried their hand at plying chess will well know.

Herbert Simon, who was awarded the Nobel Prize in economics for his study of organizations, put considerable emphasis on understanding the role and importance that heuristics (rule of thumb) have for practical decisions in business, as well as in other structured social situations. In a paper, he drew a parallel to the decision problem in chess and noted that a chess master must be able to recognize about 50,000 different configurations.¹⁵ This creates a pattern recognition ability that enables the masters to develop very powerful heuristics with which they can reduce the vast number of possible scenarios confronting them on the chess board and only search out promising lines of play. Pattern recognizing ability is of course closely related to the existence of path histories—in this case, analyses of past games won or lost—and through the

¹⁵ Herbert A. Simon et al: "Decision Making and Problem Solving." Research Briefings, 1986, National Academy of Sciences.

existence of this relation, the past and the future of social actions are connected, but not in any sense that are close to the concept of causality in the exact sciences.

In the universe of chess, a beginner playing against a master will, obviously, lack the experience of the master. In practical terms, that mean that he or she will lack the ability to recognize the patterns that form on the board, an ability that only can derive from experiences accumulated during past play, and perhaps the study of manuals. Without pattern recognizing ability it is not possible to connect a position to acquired knowledge and previously established experiences so that a fruitful heuristics can be formed that reduce the endless possibilities to viable strategies. Beginners are left to apply random trial and error strategies that quickly lose the game if the opponent is a master player.¹⁶ Simon emphasizes that heuristics, based on pattern recognition and other reductive processes that limit searches for decision clues to small numbers are observed in all problem-solving fields, which include fields of economic activities.

As a social science, the matters economics studies thus have fundamental affinities to the problem situations in chess. All economic decisions are based on conditions brimming with amorphous social aspects. Experiences that allow transacting agents to recognize patterns with complex origins, and upon that basis develop fruitful heuristics and decision models, are therefore an essential ingredient of economic activities.

In this respect, model construction (both done with and without computers) is a formalization of heuristics that are considered to have been efficient, which means that the employed mathematics and eventual computer program algorithms are of a secondary and auxiliary nature to the formulation of the heuristically developed tentative principles. In particular, it must be emphasized that the mathematical equations can have no preponderance or contain causative claims that proscribe that only certain regularities that are empirically observed in the social relationships are to be included and others to be excluded, simply because they conflict with the equations or the mathematical logic employed in the constituted models.

In principle, financial markets are social structures in which searches for solutions to problems, much like the challenge faced by the chess master, are integral and constantly recurring processes executed by primarily by professional participants in the markets. An expert trader will have accumulated a vast experience of different configurations of the field which he or she can base strategies and decisions upon, an experience not available to an MBA fresh out of business school.

However, there are critical differences between chess and stock markets; differences that instill an element of arbitrariness into the operations of stock markets that are not found in the artificial universe of chess. In chess, decision clues (information or data streams) are restricted to observation of the position of the pieces on the board. Thus, 'noise' information is not possible, all the relevant information is readily open and observable—a chess game has indeed the structure of an 'efficient market'—

¹⁶ Folk proverbs have often arisen to capture heuristic that have proven useful in everyday social situations. Similarly, for another complex board game, go, an inventory of proverbs has grown up to assist the student of the game, somewhat resembling the heuristics encapsulated in the maxims of Sun Tze's "The Art of War".

and will change only with a move of a piece on the board. In contrast, carriers of information relevant for prices in financial markets are constituted by diffuse streams of data. Therefore, noise, sometimes in the form of consciously inserted misinformation, is a main ingredient of the events encountered in financial fields.

This indicates that in contrast to the closed universe of the chess, the information that changes prices in financial markets is not just the open information about, for instance, the last set of executed trades that are represented by the numbers streaming across the tickers for everyone in the market pits to read (the ticker's information can be equalized to observing the opponent's last move in chess). The information that changes expectations and will direct the next set of prices have components with diverse origins, including (1) complex information about the operations of the firms that stocks represent ownership to; (2) information about socio-political acts in the fields of political economy that will impact market conditions and how business profits transform into disposable incomes and wealth; and (3) information about other market participants' trades and expectations, which must be weighed into the decision process often quite irrespective of whether the decision maker considers them right or wrong.

The differences in information dispersal and availability are, however, not the only difference between chess and markets. The way validation of a market action materializes is another fundamental difference. When a move is played in chess, it is fully visible and open for the opponent to exploit if it was a bad move. Pretense or deceit cannot turn a bad move into a good one. Nothing can be hidden and pretense quickly come to an end if a game is played against a master. Bernard Madoff would not have survived for a day if he had been playing chess instead of trading stocks. In the words of Emanuel Lasker, once a longtime chess world champion: "Lies and hypocrisy do not survive for long on the chessboard. The creative combination lies bare the presumption of a lie, while the merciless fact, culminating in a checkmate, contradicts the hypocrite."¹⁷

It is not necessarily so in stock markets. After market trades are executed, it can, depending on the situation, often take considerable time before wins or losses are sorted out. At times, it is even difficult to ascertain whether wins or losses were indeed due to deliberate decisions taken, or caused by accidental circumstances.

Stock markets, in common with all areas of the social sphere, are not constructed by simple components but play out in time sequences that often can be quite long. Pretense, for instance of a freshly minted MBA who perhaps through a family connection has squeezed his or her foot onto the trading floor of a major investment bank, can live for long in a rising market when a successful touch is easy to create. It can feed on the relatively faulty understanding of how financial markets work that is found among the investing public at large, but also among many insiders in the financial world, whose verdicts might be based on prevailing fallacies about political and economic events (and therefore not handicap them as long as the fallacies prevail as general perceptions).

The latter seems to contradict the claim that the expert trader will have a pattern recognition ability that will ensure him or her a preponderance of success, or winning

¹⁷ Lasker, Emanuel: "Lasker's Manual of Chess". Transl. David McKay (1947). p. 235.

plays. While this might be so, it is not always clear what is what, since financial markets do not—due to the mentioned often encountered difficulty in precisely connect outcomes to specific decisions—have a rigid sorting process similar to the one found in in the chess world, where no one will be in doubt about who is a master and who is not, simply by looking at statistics over games won and lost. In chess, there are no rising markets that can lift a bad player.

In financial markets, which of course don't produce anything that can be tested by physical quality checks but only by dollar numbers on bonus checks, etc., perception of achievement are measured by the values of positions when they are closed out. Positions are relative and reversible 'mark to market' as long as they are open. In a rising market, as long as a misrecognition is widely shared, a trader basing his or her bets on it is therefore not necessarily at a disadvantage according to a measure that compares average performances. Even if a trader recognizes a widely adopted valuation is built on faulty information, trading on the perceived correct valuation can be dangerous. As Keynes once remarked to a friend: "the market can stay irrational longer than you and I can stay solvent".¹⁸

In stock markets, as in other economic fields, information upon which decisions must be made thus arise from multifaceted conditions that are 'objective' in a complex way. It is transmitted through agency links that are embodied by individuals whose subjective conditions can distort it by the way it is passed on, perhaps because of defective understanding or cognitive biases. But distortions can also arise due to reengineering of information in some of the links it passes through, performed by agents who attempt to create individual advantages by subverting the 'rules of the game'.

The lack of easy verification of the quality of information is therefore a general, but unavoidable, problem in economic fields, and has become exponential in the modern globalized financial markets where it might create situations—even at the highest level of financial trading—where information manipulation can be mistaken for an expert's skill, as the activities of Bernie Madoff so evidently made clear.¹⁹

Nathan Rothschild's Waterloo

A problem for EMH is that it adopts the general neoclassical view of economic activity as continuous processes, from which information emits in equally continuous streams, much like an analog radio sender emits continuous wave signals, which all

¹⁸ Attributed to Keynes, although it is unclear if he actually ever said so.

¹⁹ The only suspicion ever raised in the public sphere against Madoff was a 2001 article in Barron's, "Don't ask, don't tell", written by Erin Arvidlund, a young, and thus presumably inexperienced financial reporter at the start of her journalistic career. Arvidlund's low status in the hierarchy of financial reporting meant that the questions raised in the substantive article—a "the emperor appears to be suspiciously lightly clad" warning—was ignored, enabling Madoff's merry-go-round to swing on for another 8 years. Outside of the public eye, a Boston financial trader at one point alerted SEC to his suspicions about Madoff's trades. The SEC dutifully paid a visit to Madoff's office, but, incredibly, found nothing wrong.

agents with a corresponding receiver instantly can receive and act upon. That economic processes are continuous is a fundamental tenet of the neoclassical paradigm, but this is also one of the major points where its inner logic stumbles. In the social world, the basic mode of transactional change can be symbolized by the chess move: the physical movement is immaterial to the social perception and the outcome; only where the arm puts down the chess piece counts. The move thus constitutes a discrete act that is not reducible to analysis of its physical sub-components, such as, say, whether the arm moved slowly or quickly. Aspects of the physical movement of a chess move are immaterial to the social value of the move: the change created in the stylized social world of a game of chess, which will occur instantly at the moment the new position on the board that the move created is recognized.

Economic values reside, as a first derivation, in the linguistic concepts that communicate their existence, and secondly, as expectations to possible forward transactional realizations. This, inherently, give them a discrete character. The importance of the discrete format can be deduced from the way material substances, for instance wheat, at first occurs as an amorphous substances with no transactional possibility and therefore no possibility of assigning economic values to it. First when wheat is ordered by auxiliary concepts—such as a bushel—does there appear economic values, ‘bushels of wheat’, that can be counted, priced, and brought to markets where they can be exchanged for money or other utility goods.

This leads to the key observation that language is the basis for all interpretations of the social reality. As such, the employed language is anchored within a specific culture that links the social events to particular points in path dependent time. In the case of economic communications, the linguistic signifiers, in consequence of the cultural embedment, do not convey readings of precise physical measurements, but norm-based value concepts that express social relations anchored in the given culture as these are interpreted through the cognitions and beliefs of the communicating individuals.

During communication, the specific language used to convey a packet of economic information therefore creates a framing effect that typically will override precise compliances with nominal physical measures. That means that when utility is consummated in a social field, there doesn't exist any simple linear function between the perceived physical utility, embedded in the utility yielding physical entity, and its corresponding economic exchange value. The measurable physical properties of objects and acts can never point to strict correlations to their economic values.

To give an example at the level of simple exchanges, when customers come into French cafés and order glasses of wine, le patron will pour the wine directly from the bottle without the aid of any measuring devices. Nevertheless, an experienced patron will never receive any complaints from his customers despite the fact that the procedure is rather inexact seen from the view of a physicist. A physicist would consider the economic value of drinking a glass of wine as strictly correlated to the physical amount measured, and therefore would conclude that when the inexact procedure used by le patron results in glasses of wines that can be measured to contain varying amounts of wine from customer to customer, they ought to be priced

accordingly, in other words, have slightly different prices. That the customers, to the astonishment of the physicist, nevertheless all are satisfied, even though paying the same price, is of course because the economic unit of a glass of wine is not a physical measure but a social measure, captured by the economic concept of "a glass of wine", which turns the wine into discrete, marketable units, despite containing the possibility of variations in the physical measures. Only if the content of a poured glass exceeds the 'social optima zone'²⁰ of a glass of wine (which an experienced patron never will allow to happen) might objections be raised.

A common feature of all market activities is that success or failure are highly dependent upon positions relative to the information strings that generate changes in present and forward sets of market prices (or their expectations). In financial markets, receiving information before others is of particular importance. However, the cashable value of being at the front of an information string is also dependent upon skills in reading the implications that the new information will have on prevailing valuations and expectations. This interpretive element includes what changes new information will have for other traders' expectations (not necessarily derived from the so-called 'fundamentals', but also by detecting signs of delusional herd phenomena, panics, etc.). Market valuations, therefore contains both elements of heuristics in Simon's sense, but also Keynesian beauty contests:²¹ how the trader believes other market participants will react, which can go into the third or fourth level of regressions.

EMH, as its starting point, upholds the converse, and rather unrealistic, notion of perfect, or at least, perfectly accessible information, which allows for the idea that the decisions of all agents rationally utilize the available information so that the aggregate general market optimize in a Walrasian (general equilibrium) sense. Superficially lending support to this view is the fact that financial markets sometimes indeed appear to react swiftly and in a common manner to new data. However, this picture of a general condition of instantly optimizing reactions to information is quickly dispersed upon a closer look. It will reveal the importance of understanding the interpretative value of new information, and of position relative its origin and path through the social fields; the latter often being the paramount factor deciding the outcomes of value transactions.

A case in point is how Nathan Rothschild, one of the early founders of the banking House of Rothschild, created an information advantage on the London Exchange related to the outcome of the Battle of Waterloo, and subsequently was able to reap the fruits of a very large transactional advantage that this created.

Rothschild set up a courier system that gave him the information about the outcome of the battle—a packet of information that was sure to massively change valuations in London's financial market in one way or the other—a day ahead of everyone else. The conventional story about the event tells that Rothschild, after he—through the channel of his own, meticulously designed courier system—had become the exclusive possessor of the information about Wellington's victory, was walking around

²⁰ For the concept of 'social optima zones', see Ch. 4.

²¹ See "The General Theory" Chapter 12.

on the Exchange with a demeanour as if he had received bad information—presumably that Wellington had lost—while he at the same time utilized his information advantage to slowly accumulate consols²² at bargain prices in a very nervous market (through straw agents so as to not give the game away). The next day Wellington's official courier arrived and the victory became general information, causing the price of consols to soar from their depressed level the day before. It goes without saying that Rothschild made a killing after the correct information reversed the market.

Seen in the light of EMH we have to raise the question: was the market really inefficient for one day? Or was the available information creating an efficient market as the sum of Rothschild's privately held 'correct' information and anyone else's uncertainty?

What is certain is that when the 'correct' information became general, the sum of the trades was contingent upon Rothschild's information advantage the day before—the possession of certainty where everyone else still had been uncertain. A point to note is that exclusive information, manipulated or not, to the extent it is reacted upon always has real balance effects. Thus, there is no clean return to a 'fundamental' or 'correct' price, but real effects of the manipulation and corrected values after the information manipulation is exposed (if it is so; of course in many cases the manipulation that impacts values is never recognized) merge into becoming the starting point for the next set of trades. This shows that there are no equilibrium prices generated by 'correct' and rationally acted upon information, but only a progression of prices that reflect different states of information possession and the value estimations these information states give rise to.

A Market of Mirages

A damaging problem for neoclassical theory, and its assumption of the efficiency of laissez-faire markets,²³ is that it requires not only the unrestricted access to untainted information, which we saw above is not a realistic assumption, but also a strict condition of independence between those agents representing demand and those representing supply. This assumption is however even more unrealistic than the information assumption, seen in face of the massive distortions of the marketplace engendered by the marketing activities of oligopolistically competing firms; activities that eviscerates the illusion of independence between supply and demand.

As the economy is currently structured, activities of firms aiming at conditioning the demand they face are a main characteristic of the market place. It causes the outcomes of economic events to bend towards the interests of firms, due to the marketing power that in particular the large corporations can deploy through the agencies of modern advertising, to which is added the influences arising from how the

²² Consols, a kind of government bonds, were a main object of financial speculation at the time.

²³ Laissez-faire, French 'let do' is the term for an economy with little or no government interference in markets.

media covers business events. This allows firms with such capacities to build positions containing strong market powers in the economic fields.

As we saw, the standard axiom of competitive markets rests on the assumption of information, which, although it might not always be perfect, in the main is open and thus equally available to everyone engaged in competitive activities. This view leads to a presumption of markets in which the consumers calmly evaluate how the marketed products fit into their rationally constructed utility preferences. However, it is obvious, even for the most casual observer, that the large corporate firms supplying the marketplace with the bulk of final consumer goods are busily engaged in activities that aim at influencing the demand coming forth from the households. This poses a threat to the axiom of independence of consumers' preferences of demand, a threat that is serious matter for the survival of standard economic theories. As these theories are constructed, if the assumption of independence of demand arising from consumers cannot be sustained, a critical cornerstone of the neoclassical story is in trouble. Before answering this question, it should be noted that modern marketing techniques roughly divide into three categories: informative, manipulative, and concealed (incl. subliminal).

Informative marketing is, as the name suggests, in full accordance with the reigning theories, so if product marketing is limited to this, all is well. The problems start with the next category, manipulative marketing, which is a variation of the phenomenon of manipulation of financial market information touched upon above. In a broad sense, manipulative marketing and sales techniques occur as results of the existence of asymmetric information, either manufactured or naturally occurring.²⁴ The latter can for instance be information that in principle is open but cannot be understood without matching analytical knowledge and access to complementary information. In other words, it is bits of information that will not be of much use unless one possesses an ensemble of auxiliary knowledge that allows one to estimate the given discrete data's impacts on given markets and possesses the relevant social skills that accordingly can produce efficient actionable decisions.

A very large part of the current economy's information envelope is comprised of such asymmetric information, information that the average unsophisticated economic participant cannot decode. For instance, being able to truly evaluate quality differences between competing products in the consumer electronics markets often requires expert knowledge, giving the seller an asymmetric information advantage embedded in information-rich agency structures (as relative positions).

The other main kind of asymmetric information is manipulated information, the proliferation of which is a common, or even defining, condition of many segments of the monopolistically competitive markets that characterize consumer sectors in modern economies. For instance, when the mentioned increasingly specialized state of product technologies means that appraisal of differences in product functions and qualities have

²⁴ A pioneering paper on natural information asymmetries in markets for used cars is George Akerlof: "The Market for Lemons: Quality Uncertainty and the Market Mechanism", *Quarterly Journal of Economics*, 1970. This contribution earned Akerlof the Nobel Prize in 2001

become too complex to be easily distinguishable for the large majority of consumers, it not only, as already indicated, creates a natural condition of asymmetric information, but one that can be exploited by consciously designed manipulative sales techniques.

In the current society, where products and services (including insurance and financial services) are of ever growing complexities, manipulated sales techniques are designed at the highest level of the corporations' sales structures—devised by expert staffers—to take advantage of such market asymmetries. Elaborate and strictly controlled transactional routines are designed and required implemented by the sales personnel on the floor, routines that directly aim at exploiting the information advantage. Part of such routines is product presentations and sales pitches that deliberately distort the consumers' ability to appraise the price-utility relations of products.

A second aim of strict and detailed sales routines is to overcome the fact that the modern corporate mega-store sales environment employs cost strategies that as a main component rely on hiring untrained, and thus easily replaceable, sales staff in order to be able to keep the cost of wages low. The highly scripted routines allow sales staff to handle sales events without actually having to understand much of the content of the information (or misinformation) they convey. This contrast with earlier times when most stores relied on core staffers who had undergone apprenticeships in the given trade; a sales strategy which have vanished in the North American retail markets, except for perhaps in some segments of luxury and bespoke products retailing, where high margins still allows for employing point-of-sales staff with expert knowledge about the products they actually sell.

Incidentally, the housing bubble revealed that the financial markets also increasingly rely on entrance level traders, who are poorly trained in the fields of the trade they enter. In this case, it is perhaps not so much a question of wage costs, but rather a progressing collapse of the industry's governance structures under the pressures that the sector has undergone during its rapid expansion during the period of neoliberal capitalism.

Only at the highest levels of the corporate hierarchical systems are comprehensive information normally available, controlled by decision makers who increasingly put a combination of agency maximization and individual satiation above honesty and the social goal of transactional transparency. Individual satiation goals at the top levels of corporate control increasingly expresses itself as the hubris of an unquestioned right to the fruits of exploitation that the neoliberal economy amasses.²⁵

Consequently, important product and transactional information are hidden behind a veil of secrecy, designed and guarded by the ubiquitous multitude of corporate counsellors filling the modern corporate headquarters. In this environment, all calls for

²⁵ The hubris among top executives and the excesses it led to during recent asset bubbles has been revealed in a number of cases, with the rise and fall of Enron being a well-documented one from the dot-com period. See Roger Lowenstein: "Origins of the Crash" (2004). The Financial Crisis Inquiry Commission gives insights into the housing bubble and the background within financial sector companies. Videos of its hearings are available at <http://fcic.law.stanford.edu/hearings>.

disclosure of information by, say, nosy journalists or consumer advocacy groups, are routinely denied with reference to the fallacious necessity of keeping information from falling into the hands of competitors.

Most troubling for the assumption of demand independence is the possibility of concealed and subliminal marketing, here used as a catchall for techniques that deliberately expose consumers to subconscious attitude and preference changing triggers. If such methods—purposefully orchestrated—are capable of enhancing demand preferences for marketed products without the targeted consumers are aware of it, the hypothesis of an equilibrium economy sustained by open information and voluntary exchanges slips further and further into the land of neoclassical make-believe.

As any study of the market function in modern societies readily will reveal, concealed marketing and manipulative sales techniques are commonplace phenomena, and particularly widespread in all markets for final consumer goods and services (including financial retailing). Most economists will readily acknowledge that information asymmetries can arise from characteristics that pertain to individual products and market situations (this is the main trust of Akerlof's paper referenced to in note 24, above). However, such asymmetries are considered mainly a cost problem: in principle, the asymmetries can be eliminated but it might be too costly to be practicable for most agents. Nonetheless, considering asymmetric information a cost problem makes it possible to restore the equilibrium model by simply bringing into the orbit of theorizing one more parameter required to be in a perfect state before the theories actually works.

This, however, evades the question of how information distortion engendered by wilfully deployed manipulative and subliminal marketing techniques can be reconciled with the assumption of open markets, the prerequisite for equilibrium. Thus, although it is obvious that ever-deeper levels of manipulation and deceptive sales pitches are part of the ordinary sales efforts of the firms, these phenomena are not acknowledged by traditional economics, since the axiomatic rational agents of the equilibrium story are not supposed to be fooled by anything that separates them from their rationally maximizing behaviour.

Seen against the empirical reality the neoclassical denial is fighting an uphill battle. Instead of open information, corporations that take advantage of their resource advantages to develop manipulative and subliminal marketing methods are met at all turns of the road. The marketing pitches are crafted by large staffs of professionals, who include PhD psychologists specializing in consumer behavior, as well as sophisticated image creators who turn the findings of the researchers into effective behaviour-changing memes. Take for instance the typical television ads for cars; they seldom say anything about technical specifications and even less about what utility role the product might have (or, perhaps, not have) in fulfilling individual and societal utility needs. Instead, they abound in clips of young and beautiful people happily jumping into the cars and driving towards the sunset at max (and unsafe) speeds. This is using associative techniques that embed a subconscious association trigger (a meme) produced by a totality of sound and image effects that are carefully designed according to the research

of the psychologists to connect the product with for instance a longing for returning to ones youth, or a coveted life-style that the commercialized cultural background has elevated to a symbolic signifier of status.

To these techniques, which today must be considered traditional, the Internet and modern cyber technologies are adding new aspects to the capabilities for market conditioning that are available to the corporations. New technologies can be used to create consumer profiles, for instance, data mining that is conducted at data collecting points connected by cyber networks.²⁶ Data mining can be used to create large pools of detailed consumers profiles which in turn can be used to produce marketing targeted at small social groups, or even individual consumers; sometimes hiding the marketing content as personalized messages or in other ways ostensibly independent information. Another new cyber market technique is search engine marketing (SEM), which involve the practice of elevating search responses containing a paid for advertisement over algorithmic ones, once again without leaving the unsuspecting end-users with any hint or warning of the distortion that has taken place. Such techniques are, as they also wander into the orbit of political preference conditioning, adding troublesome Orwellian aspects to the cyber space, which threaten to outstrip the effects of the heralded democratic powers and transparency that cyber communication also has the potential to bring to the modern world.²⁷

The conclusion is that in the modern marketplace large and resource-rich firms have an increasing number of effective marketing techniques at their fingertips through which they can proactively influence the demand they face. This conclusion is supported by the large sums the corporations spend on marketing, both directly, and indirectly through brand name boosting which includes brand-tagged sponsorships and lobbying activities in sports and cultural fields.

If we lived in a world where perfect information and rational agents in the neoclassical mould operated in perfect equilibrium markets, advertising expenditures beyond providing open information would be highly irrational. If rational people were not fooled by non-informative advertisements, equally rational CEOs would not waste money on such attempts. One suspects that the CEOs, when they sign on to these expenditures, rather than study economic textbooks study the sales numbers that their marketing and advertising give rise to.

²⁶ NYT March 10, 2008: "To Aim Ads, Web Is Keeping Closer Eye on You."

²⁷ See for example Webwatch, August 27, 2008: "False Oracles". (2015: direct link dead, but link still good portal to a lot of Webwatch research on this matter.)

<http://www.consumerwebwatch.org/dynamic/search-report-false-oracles-abstract.cfm>

Chapter 4

The Social Embedment of Exchange

The Neighbour Exchange

All societies contain various social aspirations that are driven by motivations different from the assumption of maximization of utility or profit goals in money-valued terms. When social aspirations differ from optimizations of such goals, activities within economizing market structures can only fulfil them imperfectly, if at all. This means that there in modern societies, at all times, occur exchanges and social transfer activities that lie outside the standard market institutions. The neighbour exchange is an example of such an economic exchange that fulfils social aspirations different from those normally connected with market activities in modern, highly commercialized societies.

As the name implies, the neighbour exchange is an exchange between two neighbours, but similar exchanges can also occur between friends and family members. It is defined as exchanges between individuals who feel that they are socially so close that it rules out exchanges of a private interest maximizing type, but not close enough to rule out all forms of exchanges (as is the case within a kernel family where for instance transfer of food from parents to their children is non-economic since no reciprocity whatsoever is involved). The neighbour exchange, it should be stressed, must not be confused with the common phenomenon of unreported neighbourhood contracting. The latter includes tasks such of home renovations, baby-sitting, etc. that are contracted out to acquaintances or people in the neighbourhood, or, perhaps, acquaintances of acquaintances. They therefore represent relatively normal, albeit low-level, market exchanges that are intermediated by ordinary money payments or sometimes occur as barter where commodities and/or services are exchanged within well-defined value reciprocals.

Returning to the neighbour exchange, we can illustrate it by letting an Edgeworth box (see next page), a standard tool of equilibrium economics, depict a distribution of two products between two neighbours. Let us assume a situation where neighbour L has pears in his or her backyard and neighbour M has apples. In the figure below, the X-axis represents the quantity of apples and the Y-axis the quantity of pears, and the initial distribution—before any exchange has occurred—is at a corner point, O, indicating that L has all the pears and M all the apples.

Assuming that both neighbours have a preference for consuming a mix of apples and pears, the extreme initial distribution at point O is Pareto inefficient,²⁸ or said differently, the welfare arising from eating garden fruits is not optimal for either of the two neighbours. According to the hypothesis of Pareto optimality (the idea of a market where no further exchanges can enhance anyone's welfare without reducing others), an

²⁸ For further discussion of the ideas of the Edgeworth box and Pareto optimality. see also the section "The Concept of Pareto Optimality" in chapter 5.

observation of this inefficient distribution allows us to predict that an exchange could enhance aggregate welfare and that it therefore should be undertaken, moving the distributions towards the fair exchange point, F, a point coinciding with a point on the neoclassical contract curve. Let us assume that this point can be estimated on the basis on available information about the preferences that the two neighbours have for respective apples and pears. It should be noted that the fair exchange point (and the contract curve as well) might not necessarily be near the centre of the diagram; that only happens in case the initial possessions and preference ratios of the two transactors are in perfect symmetry.

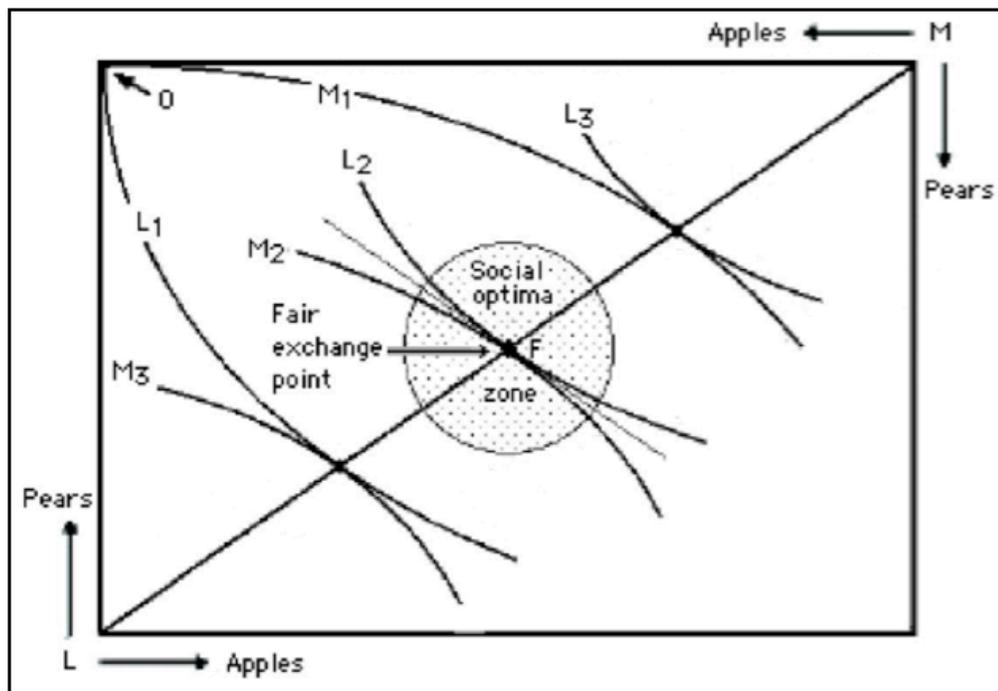


Figure 4-1.

Edgeworth box with a social optima zone, illustrating a neighbour exchange.

During a neighbour exchange both persons would, in the name of good neighbour relations, be keen to not to be seen as pressing any individual advantage. The exchange would therefore not develop as a sequence of haggling (customarily shown by adding bid-offer curves to the Edgeworth box²⁹). Instead, the neighbours would accept whatever the other part would offer without counting the quantity nor making any counter offer, and in particular making sure that their own initial offer does not look niggardly; the latter sometimes creating situations of 'reverse competition'. The exchange can also take the outward form of a reciprocal gift exchange, where neighbour L first gives neighbour M a box of pears, whereupon M, say, a week later will present neighbour L with a 'gift' of a box of apples.

²⁹ See fig. 5-2 in chapter 5, "Welfare and Monopolistic Competition".

Speaking in general terms, when relationships are bounded by spatially restricted social fields and exchange events therefore take place within the context of closed, or near-closed networks, the arisen social dimension will contain thick patterns of recurrent relationships among the individual agents. Consequently, most contacts occur under the 'shadows of the past' and will create 'shadows into the future'. Under such conditions, pressing an advantage too far during an exchange risks to be viewed as an insult, with the potential to precipitate conflicts and sour future contacts (including those of a non-economic nature). When economic relationships are recurrent, aiming for excessive self-interest maximization is therefore something most people will avoid, even including business relations when same-agents repeatedly deal with each other.³⁰

When an economic exchange entwines with the social, non-economic function of preserving good neighbour relations, or similar social goals, there is no guarantee that the exchange will move a distribution all the way to F, the Pareto optimal fair exchange point depicted in fig. 4-1. Furthermore, socially dominated exchanges will neither involve bid-offer bargaining, nor open counting or comparisons with known reference prices of comparable commercially available products.

In cases where neoclassical optimization procedures are discarded, the logic of exchange means that the only prediction that can be made is that the neighbours will make sure that the exchange will move the distribution into the area of C, a circle that represents the social optima zone for the event. This zone, loosely centred on F, contains all the distributions that the participants in a transaction anchored in a strong social envelope will consider—perhaps not consciously but rather as result of natural dispositions—as satisfying and non-insulting outcomes, based on anticipations that these outcomes will preserve, or even enhance, existing social relations; in the example used here the good neighbour relation.

More generally, the range of reciprocal exchange items can sometimes include what in the general market are commercial services (for instance, helping a neighbour with repairing the car, etc.). The social optimal zone is tentative, since it is a function of preferences that during socially dominated exchanges subordinate, but not totally disregard, the underlying physical utilities to social goals.

The existence of reciprocal neighbour relations leads to the conclusion that although money is considered a generalized utility substitute in modern societies, economic exchange can be conducted with other purposes than the utility experiences arising from material, money accessed consumption. At times, exchange goals (or participation in economic events in general) can include experiences related to social and self-actualizing needs or reside in emotional and ethical considerations. In such situations, money exchanges, and money values alone, will not be able to lead to the sought socialized or emotional utility experiences. In other words, the social goal cannot

³⁰ For the idea of past-future shadows, and how they effect business relations, see Rooks, Gerrit. Werner Raub, Robert Selten, and Frits Tazelaar: How Inter-firm Co-operation Depends on Social Embeddedness: A Vignette Study. *ACTA SOCIOLOGICA*, 2000, vol. 43, pp 123-137 Department of Sociology/ICS, Utrecht University.

be bought with money, but only with reciprocity or ethical acts of some sort, or, perhaps, mixtures that however will subordinate the aspect of money values.

Thus, even in our highly materialistic societies there still occur situations where money cannot substitute for certain packets of social utilities. It is clear that in the case of neighbours swapping apples for pears, if one of the neighbours were to offer money as the counteroffer, it would surely be felt very awkward and insulting. In other words, it would contravene the social goal of enhancing the neighbour relation to insert the element of calculating economism embodied in money into the exchange. To give another example, say, a couple that is one's friends comes to dinner bringing a good bottle of wine along. If one is invited to dinner at their house at a later date, a common norm is to reciprocate by also bringing a bottle of wine along, a classical symbolic gift exchange confirming friendship in a modern social setting. In such a case, if anyone were to present money in an amount corresponding to the value of the wine—an action that the recipient in the neoclassical universe ought to be indifferent to—it once again would create a situation that would be considered absurd and profusely insulting.

The Limits of Open Self-interests

When a social relation overrides the quest for economic gains, the situation's socio-symbolic capital dominates over its economic capital. More generally, exchanges accumulating social capitals—in the given example, a good neighbour relation—can be called social exchanges; i.e. exchanges carried out under conditions that rule out strictly competitive bargaining or other market mechanisms that openly aim at securing one-sided private interests. During social exchanges, the value content of the events tends to be captured only by loose value concepts, such as 'a box of apples' or 'a bag of pears'. In the case of the reciprocal gift exchange of bottles of wine, it is important that the actual price is hidden and it can therefore vary considerably, and will only be noticed if the divergence is considerable and obvious, e.g. an ordinary wine reciprocated with a grand cru or the like. In the latter case, the recipient would certainly see the reciprocal of a grand cru for a more humble wine as an act of insulting show-off. In other words, the higher value, which in the neoclassical universe would be welcomed, are in such relations seen as a negative since it does not add to, or accumulate, the social capital of friendship.

Neighbour exchanges, obviously, only have a very peripheral role in modern societies, but they represent exchanges with a typology that are akin to exchange patterns prevalent among tribal societies (called 'reciprocal exchanges' by cultural anthropologists). It is noteworthy, that the fact that people often avoid pressing individual advantages during neighbour exchanges (or similar exchanges among close friends and relatives) also is a hallmark of exchange patterns that commonly have been observed among tribal or clan-based societies.

The modern version of the reciprocal exchange—exemplified here by the neighbour exchange—is thus an economic institution that preserves economic

relationships comparable to those that were common during earlier societal stages, such as those dominating clan-tribal societies. Despite the peripheral role that the simple reciprocal exchange occupy in modern societies, such exchanges have probably never been totally absent from the fabric of human social relations, even though more complex exchange forms that were more efficient in creating opportunities for reaping specialization gains arose and pushed the reciprocal exchange to the sidelines in the process. Thus, the act of a neighbour exchange represents an institutional continuity that goes back to the earliest human societies in which economic exchanges had arisen.

A characteristic of tribal societies with strong clan structures was that members would belong to groups that existed within complex networks of relationships evolving over time with the other groups living in an interconnected geo-cultural space. At this stage of development, economic exchanges had only subsidiary role in the overall social transformation, which remained dominated by subsistence economies. Since the exchange networks typically were paralleled by well-established social relationships—individually or between the clans or sub-groups that often even might be bound by blood relations—individual and clan honour had to be preserved by showing generosity during exchange encounters, in other words such considerations ruled out open attempts to maximize self-interests.

Maintaining relationships among the inter-connected groups were therefore a key social goal that dominated economic interests. If self-interest was too strongly expressed, it risked being interpreted as an insult, with the possibility of destroying relations and even instigate inter-group violence. Minimizing risks for creating insulting moments with potential disruptive social consequences were in clan-tribal societies therefore often accomplished (and are, in the few societies still existing on this societal phase) by performing exchange sessions within ceremonial traditions.

This contrasts with the situation in industrialized markets (or post-industrial markets, as we today might prefer to call them). In particular, a defining characteristic of modern final consumer markets is that exchanges almost invariably are conducted between agents having only impersonal relationships. We are therefore not likely to know beforehand, or having a family relation to, say, the sales clerk in the mall. This allows for attitudes of self-interest maximization to be openly displayed, which of course also are institutionalized into the structures of the market forms found in the malls. Consequently, economism and self-interest maximization have come to be considered as normal and not insulting.

However, even in cases where no prior social relations exist and self-maximization consequently is accepted, it is still tempered by existing cultural norms and therefore not without bounds. Thus, if self-interests are too brutally expressed and perhaps conveyed in rude language during exchange encounters between agents with no prior relations, such attitudes will still be perceived as insulting, and entail consequences for the willingness to exchange. One will walk out of a shop where one perceives the sales clerk's behaviour to be rude. Exchanges might be rejected solely as an emotional response to negatively expressed behaviour, at times well knowing that it might entail the cost of reducing one's pay-off opportunities.

Emotional rejections of offers that, although they clearly would add to payoffs, are seen as unfair have indeed been proven to be a common trait in experiments that simulate such situations. An example is a test set-up called “the ultimatum game” where participants are exposed to unfair offers, which, if rejected, will incur uncompensated losses. The experimentally confirmed pattern of an emotional reaction to too brutally expressed self-interests contravenes the rational actor hypothesis that requires agents to be indifferent to framing aspects (including incidental attitudes of counterparties in exchange) and only focus on the strict value comparison of payoff opportunities.³¹

Archaic Retentions

When it is realized that the neighbour exchange represents a separate economic institutional typology with a strong resemblance to the institution of reciprocal exchanges that cultural anthropologists have uncovered as a dominant exchange form in clan-tribal societies, the notion of an evolutionary sequence of economic institutions comes into focus. Economic institutions are not rigid structures that at all times can be represented by equations representing impartial value comparisons, but partake in the general evolution in the social continuum in which they exist. They do so in an interactive way where they both are formative constituents of the general direction of the social and cultural evolution, as well as expressions of its forward manifestations.

One thus discovers that in modern economies, traits of archaic exchange forms are preserved as retentions of socio-economic institutions that during earlier societal stages were dominant forms. By preserving archaic traits, they are echoes of earlier phases of human’s general socio-cultural evolution.

The elements of the socio-cultural evolution—in a parallel to the biological evolution—constantly develop new forms as they partake in the meta-evolution of a given social continuum. In common with other social elements, economic institutions can therefore be seen as historical phase-states of evolutionary typologies, as these express themselves through cultural manifestations. Moreover, as in the biological world new forms starting from originating points are not likely to immediately eradicate older

³¹ For literature on the ultimatum game, for see <http://arstechnica.com/science/news/2009/06/irrational-markets-people-reject-free-money-out-of-anger.ars>

Ultimatum game-like cases incurring substantial adverse results are sometimes met in real life. One such case is that of Eva Gabrielsson, the common-law wife of deceased Millennium Trilogy author Stieg Larsson. Swedish law doesn't recognize common law partnership in inheritance matters and Larsson's father and brother therefore inherited everything, including the rights to his works. Thus Gabrielsson, who had lived with Larsson for 32 years and was actively involved in writing the books, inherited nothing. Adding to the insult was the fact that Larsson had had little contact with his father and brother, who among other things didn't share Larsson's (and Gabrielsson's) left-wing political views and activism. Gabrielsson, not surprisingly, believes that she should have the rights to his work so that it may be presented in the way that Larsson would have wanted. Therefore, when lawyers for the brother and father offered her SKr 20 million (≈\$3 million) but didn't include ceding the right to his work to her, she refused the offer. She thus got nothing, suffering a very substantial uncompensated loss, which, however, was perfectly avoidable in the neoclassical, rational actor sense.

See, <http://www.thelocal.se/27292/20100617/>. “Eva Gabrielsson refuses Larsson family offer.”

forms but will propagate through the continuum at divergent speeds, in the process pushing older forms to the sidelines in sequential waves. Typically, new forms will either wither away again or at some point reach a state of critical mass—in the socio-cultural sense—where the institutional shift becomes very rapid in processes that will cause the older institutions to dissipate and recede into peripheral positions, as we saw happened to the reciprocal exchange. Here they however often can linger on for a very considerable time if there are social niche aspirations that they can fulfil, as it was shown above to be the case with the reciprocal exchange that lingers on as a typology represented by the modern neighbour exchange.

It is worth noting that the basic constituent of all social structures, language—including dialects and sociolects—are well proven by the science of comparative linguistics to propagate along patterns similar to the ones just described governing the spread of social institutions. The well-established typologies of language evolution can thus be considered providing generalized templates for the evolution of social forms.

When the view first has taken hold that the economy is constituted by socio-cultural structures with evolutionary properties that have resemblances to the evolution in the biologic continuum—and in particular the linguistic continuum, which straddles the biological and the social—one discovers that the neighbour exchange is not the only exchange form with archaic traits found in modern economies.

For instance, when people hold garage sales, or when farmers sell seasonal vegetables and fruits from the wayside, it can be considered spot markets. A spot market is a market typology that is characterized by being short-lived and opportunistic, and as a rule without any fixed location or specific time sequences. In clan-tribal societies, this type of opportunistic exchanges developed when small group of traders ventured into other tribal areas carrying with them specialty products from their own area and created short-lived market sessions in some of the locations they passed through. The early French fur traders in North America typically also relied upon establishing such spot markets when they ventured into native tribal territories.

Sometimes spot market traders, if trades had been successful, will return to the same locations, as indeed the French fur traders also began to do over time. In other words, the markets will begin to have repetitive patterns that slowly fixate them to certain places and times. Historically, it can be seen that the processes of spot market fixation tended to coincide with the emergence of centralized tribal political power and institutions, which could provide protection and other organizational features to the markets.

The early symbiosis between political power and market institutions can sometimes be glimpsed through archaeological evidence. A case in point is the earliest known permanent market that has been uncovered by archaeologists in Southern Scandinavia. This is an Iron Age trading place (Lundeborg) consisting of a cluster of workshops on the shore of an arm of the Great Belt, the major strategic waterway that connects central Scandinavia to the Baltic and, through the river systems, to what was the contemporary late Roman world beyond. Although the settlement existed for several hundred years, it has been proven to only consist of seasonally occupied

workshops. What added to the interest of the site was a subsequent discovery of a large permanent settlement a few kilometres inland (Gudme) that spanned the same centuries. This settlement had the exceptional feature that it was centred on an extraordinary large hall (length 50 m), the earliest example of a hall of such dimensions found in Southern Scandinavia. The size of the hall is generally considered proof that the settlement was the seat of a petty king. Thus, the two contemporary sites indicate that the regions earliest sign of centralized political power as well as its earliest sign of a fixed market location evolved in a symbiosis that existed for several hundred years.³² This adds credence to the notion that when markets develop to the level where they have organized features, there has to be a political element present. In other words, the dream world of market fundamentalist economics, the unregulated laissez-faire market, have never existed, even if we search for it that far back in history.

Continuing along the evolutionary path of economic institutions that still exist as archaic retentions in modern societies; flea markets cover the same repertoire of exchange objects as garage sales but represent a typological intensification in efficiency in the same way as Lundeborg's seasonal markets represented an intensification in efficiency over the accidental spot markets of traveling tribal traders.

Farmers' markets are another economic archaism existing in modern societies. Typologically they are cousins to the central markets, the main economic institution in the medieval market towns. This market typology, when it arose, represented a further intensification in efficiency over the seasonal Lundeborg type of markets. As in the case of the medieval central markets, farmers' markets create direct exchange sessions between households at continuously fixed and predictable locations.³³ However, in contrast to the medieval societies where the central markets was the dominant economic institution, in modern economies farmers markets have little importance for the overall economy and often survive, quite obviously, because they serve as outlets for pastime and hobby activities, which makes it irrelevant that they compared to the dominant mass market institutions of corporate retail outlets have low economic efficiencies in converting the relations between time, money and utility goals.

Among the archaic traits seen in flea and farmer markets in modern contexts are that the exchange events often use bargaining (less so for farmers markets which under influence from the post-industrial final consumer markets have admixtures of menu pricing), and are conducted on a physical cash basis; that is to say, they only rarely use the exchange media of debit or credit cards that otherwise dominate in post-industrial markets.

Predatory economic activities, found at various levels in modern societies, represent another class of economic activities with archaic traits. Obviously, some types of predatory economic activities, for instance securities fraud and Ponzi schemes, are

³² <http://en.natmus.dk/historical-knowledge/denmark/prehistoric-period-until-1050-ad/the-late-iron-age/gudme-gold-gods-and-people/>

³³ Modern farmers' markets can have admixtures of one-step removed chains, for instance when sellers source products from a small network of eco-farmers. Medieval markets no doubt also developed admixtures of similar one-step feeder chains.

exponents of modern societies' advanced financial structures and thus have no roots or structural parallels in historical cultures. However, many other predatory economic activities contain archaic features that point back to social structures that were widespread during earlier societal stages. Street gangs often contain socialized traits that resemble clan cultures, for instance the widespread use of totems. While street gangs externally rely on predatory activities, they internally often have considerable elements of reciprocal exchanges, in patterns that thus also show clan-tribal parallels.

If we move on to the more elaborate organized crime groups, such as the American Mafia, we find that they have much in common with feudal power structures built up as hierarchically organized fiefs with an autocratic leader at the top. Each member has a loyalty-control bond to a superior on the hierarchical step above, but not necessarily with those at yet higher levels, quite like the feudal retainer system. While the foot soldiers provide the economic input to the group through their predatory activities, internal distribution is organized as a feudal levy system passing value transfers stepwise up towards the highest level in the hierarchy, whose members don't participate directly in the predatory activities (in contrast to street gangs) but enjoy a large part of the concentrations of wealth that the system creates; once again, much like the feudal lords in Medieval times.

Archaic phenomena not only exist in the distribution structures of modern economies but also within their production structures, although these less commonly have survived. An example is music instrument making. Within this field, one can still find families that carry on the medieval workshop type of manufacture, including the common medieval institution of handing a craft down from father to son.³⁴ Crafts carried forward as family traditions were a common economic typology in medieval European societies, and still is so in societies that today exist at similar levels of societal evolutionary development.

³⁴ An example of such a family going back to the 17th century is described in "The Meisel Family Violinmakers" by K. Lothar Meisel with Betty Vos. Singing River Publications, Inc., Ely MN, 2008. However, such traditions are probably doomed to final extinction in the Western cultural complex within the present generation.

Chapter 5

Welfare and Utility Substitution

The Concept of Pareto Optimality

The question of welfare came into focus at the beginning of the twentieth century when welfare economics based on the notion of Pareto optimality splintered off as a separate branch of neoclassical economics. Pareto optimality, named after the Italian economist, Vilfredo Pareto, is defined as an economic distribution where no one can be made better off, unless at least one other agent is made worse off.

The Paretian approach starts with the general assumption that all sets of economic alternatives—for example, factor endowments, costs, prices, profits, and consumer utility choices—will arrive at equilibrating marginal ratios under perfect market conditions. The equilibrating ratios are one of the conditions that characterize market-clearing situations under the neoclassical general (Walrasian) equilibrium, establishing the close link between the two theories.

For consumers, considered driven by maximization of utility gained from consumption of economic products, a key marginal ratio is found at the point in an Edgeworth box where a line representing a consumer budget is tangent to the highest attainable curve showing indifference between mutually exclusive consumption choices.

Opposing the consumers in the markets are firms, presumably driven by the motive of profit maximization. Profit maximization means that the optimal combinations for firms are found on lines representing firms' production possibility frontiers, at points where the lines are tangent to indifference curves representing the highest attainable profits that can be generated from their available output combinations (isoprofit curves). In other words, indifference curves and optimality points can likewise be drawn up for the choices facing a rational, profit maximizing firm.

After having determined the optimal marginal ratios for production and consumption, the Paretian argument moves on to show that these optimal ratios give rise to unique distributions of the produced output when rational agents conduct exchanges in perfectly competitive markets. Often, a 2 x 2 Edgeworth box,³⁵ in which two consumers exchange two utility yielding products, is used as a graphical representation of optimality in a simple exchange economy:

Indifference curves are convex to their origin as consequence of the standard assumption that consuming extra units of any good will yield diminishing utilities per unit. For instance, when eating the third ice cream cone, the enjoyment starts to taper off. Consequently, the counter-value of money in exchange that an agent is willing to part with for the third ice cream cone also tapers off.

³⁵ Named after the British economists, Francis Yosidro Edgeworth, who developed the concept of indifference curves. However, it was Pareto who first put them into a box.

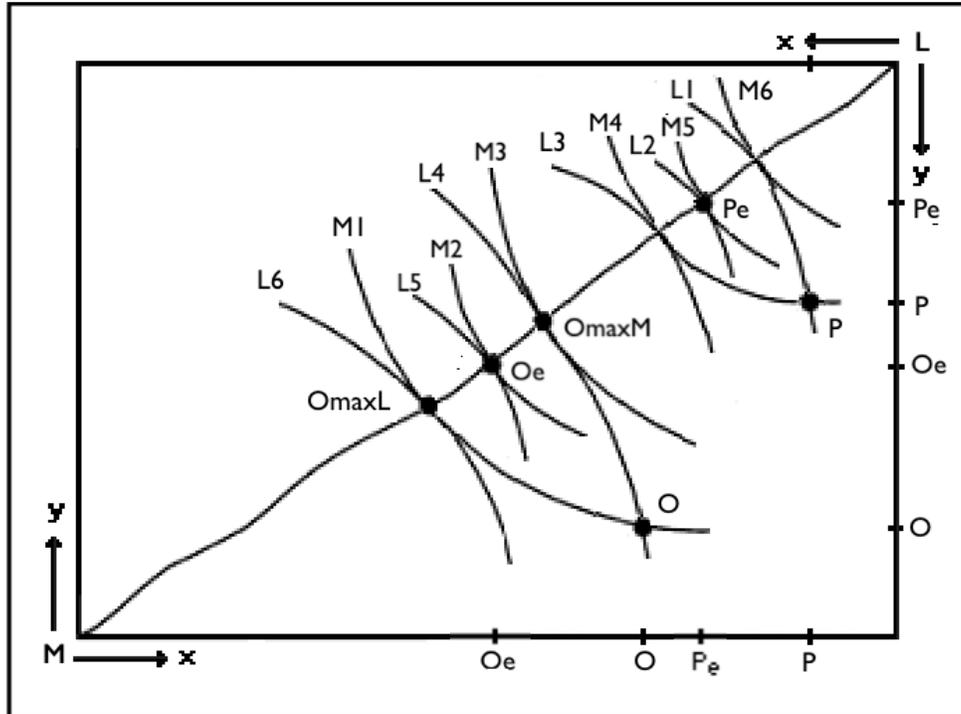


Figure 5-1.

An Edgeworth box with two agents, L and M, exchanging two products, x and y.

The same principle is valid for products exchanged directly between agents: when one has many apples but few pears, one is willing to give out more apples than one gets pears in return (assuming an equal preference for the two fruits), but as one gets more and more pears, one is willing to exchange less and less apples in return.

In fig. 5-1, a number of indifference curves for the two economic agents, L and M, are shown, as well as two possible initial endowments for the two goods, at the points O and P. L's lowest level of consumption for distribution O is along indifference curve L1 and the highest along L6, and vice versa for M. Because preferences might change at different income levels and according to changing social situations, indifference curves can have different profiles, though they are presumed never to intersect. To express that, the contract curve is customarily not shown as a straight line between the L's and M's corners, but as a curving or undulating line.

Whenever two opposing indifference curves meet such that an identical line is tangent to both curves, the curves are then optimal relative to their constraints (budget lines or production frontiers), which are expressed by the common tangent line. The line that can be drawn through all such optimality points is called the contract curve. This indicates that the two consumers have identical ratios of substitution between the two products (or whatever other economic values involved in an exchange) at these points, signifying that exchanges have exhausted the quantities of one good that either consumer is willing to give up in order to obtain more of the other good. In other words, exchanges in open markets have brought the distribution of the products between the two consumers to a Pareto optimal position.

The Paretian scheme doesn't consider why a particular endowment distribution exists prior to an exchange. Effectively, that means that the economic and social conditions that have brought about the given distributions of the involved economic goods (money, consumer goods, production factors, financial assets, etc.) are not questioned. Nor are political or other elements with structural forces existing in the social dimension surrounding the exchange events brought into the picture.

The question why a particular point is reached from a given initial endowment and not others is answered by the schedule of prices (or exchange ratios in a barter economy) that the two agents are willing to sell, respectively buy at. This can be shown by adding a set of offer curves to an Edgeworth box, which is curves showing the schedules of the offered prices and quantities. In the case of a monetized commodity economy, the offer curves represent the exchange ratios between money, commodities (goods and services), and financial products, (in case of a financial market) which the two agents are willing to offer or accept in exchange:

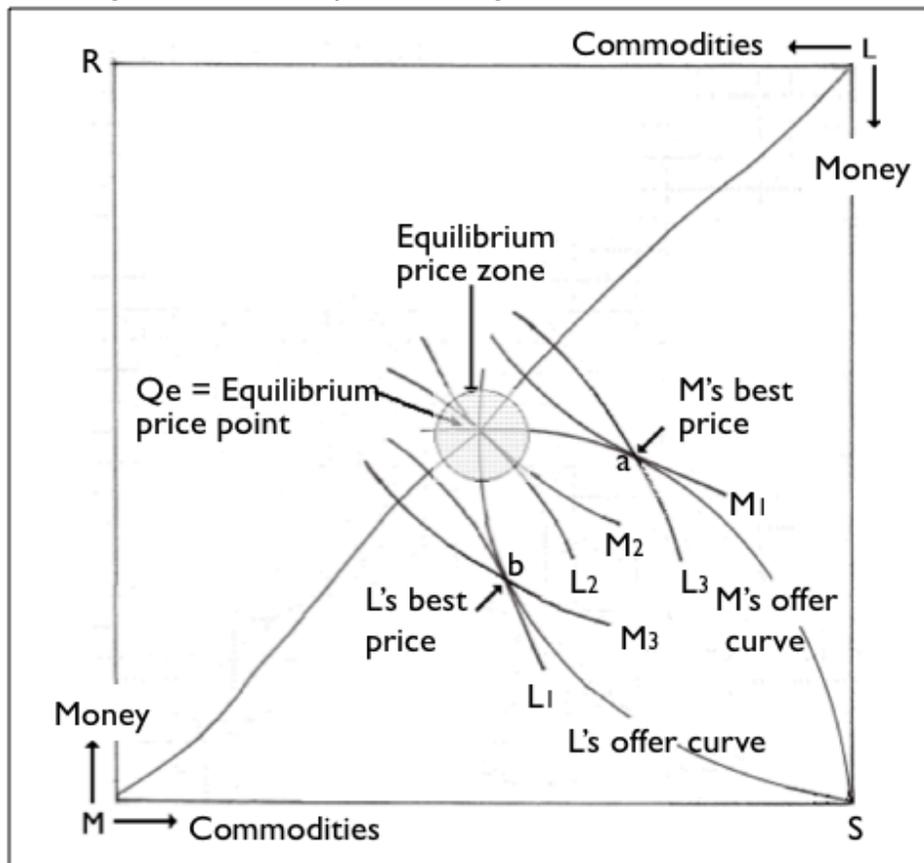


Figure 5-2. Bid-offer curves in a Pareto competitive economy.

In fig. 5-2, where at the starting point 'S' agent L has all the money and agent M all the commodities, it is shown how the two agents will try to maximize their gains in exchange by attempting to reach the highest possible indifference curves that the exchange situation would allow for. M's first offer is at 'a', a point where M's price-offer curve touches M1, the highest attainable indifference curve, given by M's bid-offer

schedule. Likewise, L's first offer is at 'b', where L's price-offer curve touches LI, again the highest possible indifference curve that L's bid-offer schedule can reach. Since the two starting bid-offers are far apart, no exchange is made at those prices.

Assuming a competitive market with open information, rational agents (in the neoclassical sense, i.e. fully informed optimizers), and no concentrations of market power, the two agents will eventually adjust to each other by slowly reducing their bid-offer ratios for the exchange until they reach a common value, which is a price, or an exchange ratio, that they both can accept. This will occur at or near Q_e , the neoclassical equilibrium point, which is a point that combines a neoclassical equilibrium price with a Paretian welfare optimality point. While not many exchanges actually will reach this price, prices can be assumed to cluster within a narrow price zone in which prices are normally distributed relative to the zone's theoretical core of the equilibrium price.

In a perfectly open and competitive market with many small buyers and sellers, this is a reasonable approximation of how the market function operates. Anyone who has been to a bazaar market, say, in the Middle East or East Africa, will know that buying and selling is conducted in a quite similar fashion in such markets; exchanges consists of sequences of bid-offers that at first are far apart, but elaborate and often quite protracted haggling will slowly bring the bid-offers down to a common price. There is little doubt that the markets taking place in the central squares of cities in pre-industrial Europe were characterized by similar noisy haggling during market sessions.

In a market with menu prices, such as it is common in modern retail markets in the West, price haggling is normally restricted to big-ticket consumer products, and even then it is relatively modest in comparison with what can be experienced in non-Western bazaar markets. But neoclassical economics still holds the simple market model to be good for products sold at fixed menu prices. Instead of price-offer bargaining during each exchange, the price mechanism works sequentially. If a company notes that demand for its products go up, it is expected to raise its prices accordingly in order to profit from that increased demand. Subsequently, the higher prices will reduce demand and return the market to equilibrium. Similarly, if customers discover that the price for a product has fallen, the theory of prices expects them to respond by buying more, thereby setting off a process that entice firms to raise their prices, which however once again will reverse the market and bring prices back to equilibrium.

In general, price offers for goods and services are constrained by the agents' budgets, which are determined by incomes and wealth (in practical situations in modern societies including access to credit). Under the given neoclassical assumptions of open and fair markets (i.e. markets where price distorting market power is absent), peopled by rational agents, who assess their prospects without outside interferences or pressures, the exchange that end up being made after a sequence of ask-bid offers can reasonably be considered to end up at points at, or very close to Q_e . This is a point where none of the agents reach their most desirable outcomes but still reach utility outcomes that are clear improvements over the counterparty's first offers. This is shown by the fact that the indifference curves, L2 and M2, which pass through the

equilibrium exchange point at Q_e , are at higher positions than the indifference curves, L_3 and M_3 , that run through the counterparties' ideal bid-offers.

When approaching the corners of the Edgeworth box along the contract curve, the inequalities of the distributions grow; here shown by the point P_e in fig. 5-1 where consumer M possesses large quantities of both products (M_x-P_e and M_y-P_e), while conversely consumer L only possesses small quantities of the two products (L_x-P_e and L_y-P_e). This, in the view of Pareto welfare economics, simply reflects the existence of an initial difference in incomes and wealth between the two consumers—inexplicable and irrelevant to the Paretian welfare analysis. What counts is not whether an initial distribution is fair, but that competitive exchanges can move distributions to points on the contract curve that are improvements relative to the initial distribution for at least one of the two agents without making the other worse off. If at least one agent were made worse off, it would violate the voluntariness principle of a Paretian social dimension (where altruism per the neoclassical maxim of self-interest maximization is ruled out).

The strict interpretation of Pareto optimality has been used as an argument against social justice propositions, for instance of the Rawlsian type (i.e. based on a social contract of fairness) that define situations that require some measures of redistributions. If we, for instance, in the name of fairness instead of wanting to bring an initial distribution at P to the nearest Paretian optimality point at P_e , to a Rawlsian justice point closer to O_e in fig. 5-1, the required redistribution would move the distribution to a point below M 's indifference curve, M_4 , spun from the initial distribution at P . In other words, to a point where M would have less of at least one of the utility yielding commodities without receiving a satisfactory compensation seen from the view of M 's axiomatic self-interest. Such a distribution could therefore not come about as result of a voluntary market exchange but only by a redistributive transaction of some sort, defined by a public mandate (in general, taxation paying for social programs, etc.), or a concept of social altruism (an example is for instance, the Gates-Buffett initiative³⁶). Even if based on a reasonable social contract, say, that millionaires shall provide more funding for the provision of public goods than average income earners, it would be a violation of the Paretian criterion that no one must involuntarily be made worse off, or act irrationally according to the neoclassical axioms by succumbing to altruism.

Money as an Indeterminate Utility Substitute

In the case of modern economic relationships, money is almost universally employed as the measuring tool by which economic choices are ordered and compared. This, however, run into the problem of whether or not money can be used to establish

³⁶ "Billionaires Bill Gates and Warren Buffett want other billionaires to donate more to charity." By Donna Gordon Blankinship, *Associated Press* / June 16, 2010. <http://www.csmonitor.com/From-the-news-wires/2010/0616/Billionaires-Bill-Gates-Warren-Buffett-want-other-billionaires-to-donate-more-to-charity>

a reliable grid of absolute values. The problem is that money valuations are, as all other economic values, subjectively constructed from within structures of social relations and according to positions in the active fields. The subjective element of money valuations means that economic measures inevitably are skewed by the evaluating individual's pre-existing possessions of money and the involved utility yielding products that are sought gained through an exchange.

With no common absolute values to rest upon, comparisons in social fields can only be inexact estimates. When used to forecast outcomes, they can only be based on probabilities that take into account path histories, including knowledge about the agents' current accumulations (i.e. information about the agents existing stocks of utility objects, production assets, money and other financial assets). One important thing to note in this regard is that economic accumulations not only determine subjective values, but also are constituents of the symbolic capitals that might be active in the fields of transactions; in other words, the extra-economic capitals that provide agents with status and market power that can transform into higher probabilities for favourable outcomes.

If accumulations of utilities, assets and money are very unequal, this will expand, respectively reduce, the limits for the opportunities agents realistically can expect when engaging in activities in competitive markets. For instance, the large cash flows that big corporations generate are elements of the positions of market power they acquire since the cash flows, among other things, enables them to push smaller competitors out of a given market segment by engaging in price competition that the smaller competitors cannot match without quickly depleting their cash reserves. The large corporations, due to their assemblies of capitals—among which money flows often stand in central roles—have far more room for competitive plays than their smaller competitors. When such structural conditions exist, it enhances the probability that large firms in competitive markets will achieve outcomes closer to their goals than smaller counterparties.

Market power held by large corporations can therefore set trends in motion within a field of competition, leading to results that concentrate the field's economic flows by elimination of most of the field's smaller firms (or relegating surviving smaller firms to insignificant niche positions). When several large firms compete in the same field, the process of elimination of the smaller firms might lead to an unstable distribution of market shares among a small group of remaining firms. In that case, competition will have transformed the market segment into an oligopolistic market in which an unstable Nash equilibrium rules.

As long as an oligopolistic Nash equilibrium are in force, its participants are not so much threatened by price competition from within the field as by changes in technologies and market structures that might change the conditions of the field's prevailing competitive patterns. The latter can for example be changes in government regulations that change the cost-profit relations in ways that affect the firms differently.

In terms of the external, or non-economic, constraints of a field, market power and accumulations held by large corporations also come into play with regards to those of the constraints that are the result of political and legal structures surrounding the market situations. In many cases the observable facts are that market power arising

from economic accumulations enable the large corporations to influence regulative envelopes of a given market field, so that they in various degrees swing towards their advantages. This can be brought about through lobbying members of the political assemblies that decide which regulations are in force, but also how the structures of the public bodies enforcing the regulations are set up and discharge their mandates. The latter can work through the so-called 'regulative capture', which is imposing a narrative favourable to the corporate interests upon the field, so that regulators accept the logic of the corporations. It also includes using corporate influences to ensure that regulators are chosen from within the corporate ranks.

Regulative capture through narrative imposition was a notable factor in the financial markets in the U.S. in the period leading up to the crash, where the view that unregulated speculation always yields positive public outcomes had taken hold among the regulators, including the nations top regulator, Fed chairman Alan Greenspan.

On the households' side of the economy, states of money flows and accumulations play different roles. Since money can be viewed as a substitute for the total basket of utility-preferences a person has—in other words a generalized utility substitute—wealth and incomes are constituents of preferences. Importantly, money allows a possessor to defer a utility experience that can arise from consumption of goods or services that can be obtained within the bounds of the held money, but without having to decide upon the exact nature of the utility experience. Accumulations of money can therefore be seen driven by the goal of accumulating deferred utility choices; although when accumulations become substantial, the aspect of money as a power and status signifier (economic as well as social) comes into play as an added goal, as indicated above.

Since it is generally accepted that real goods and services have diminishing utilities (as shown by the convex indifference curves in the Edgeworth box), so must money. However, money's marginal utility—because of the perfect substitutability among the utility possibilities that can be acquired within the limits of held sums—diminishes at much slower rates than all real-valued utility possibilities. Thus, if one has three ice creams, the marginal utility of the third ice cream will fall, as we saw, to quite a low level. However, if one instead has the money equivalent, one can choose to buy two ice creams and instead of buying the third ice cream with its low marginal utility, buy something else, say a drink; a choice which retains a much higher utility realization than buying the third ice cream.

If a person is very wealthy, the likelihood is that most of the possible utility products that he or she can buy will already be possessed. Thus, most products will be found along points on utility indifference curves where the ratios are diminishing at perceptible rates. Consequently, the aggregated money utility function of wealth must also be diminishing at measurable rates for persons in such incomes-wealth positions.

Take for example car ownership. Since a person only can drive in one car at a time, the utility of extra cars (considering a one person household) tapers sharply off; thus, added utility in most cases probably mainly consists of the status or vanity utility of exhibiting ostentatious consumption (of course, sometimes car buffs can have different utility preferences for extra cars). The price for the first car can be considered a

function of the normal utility preference people have for buying cars—the transport utility—and therefore assumed to be equal to the going market price. Since consumers in car markets are price takers, the going price for added cars will continue to be the market price, opening up for a utility gap between price and utility. In other words, the effective utility realization per money unit tapers off.

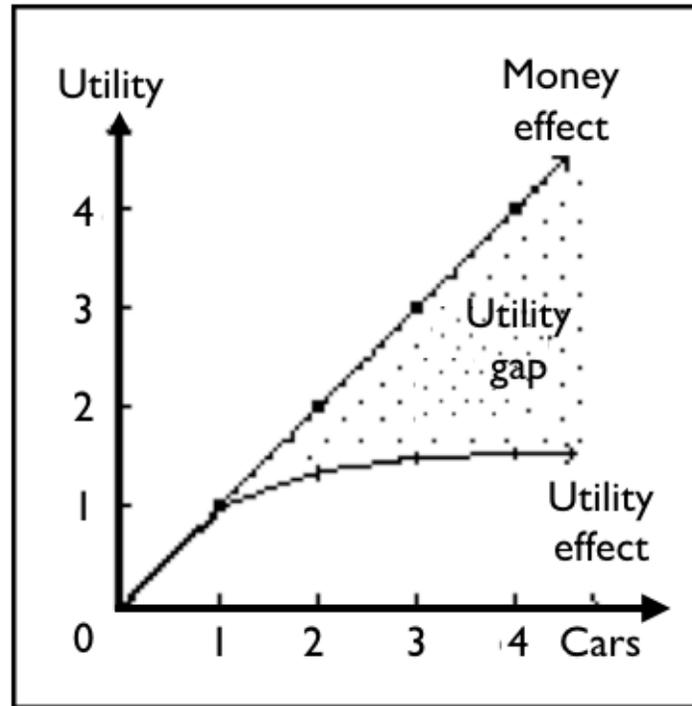


Figure 5-3. Utility gap between money prices and utility realization. The functional utility of extra units of exclusive³⁷ utility goods is sharply diminishing.

The money-valued equivalent of utility experiences and their intensities are shaped by preferences. Since these are considered unknowable, it led the early neoclassical economists to abandon the possibility of cardinal preference rankings (that the classical utilitarian school had thought possible). If ex-ante preferences are unknowable and outcomes of exchanges cannot be predicted by comparative preferences, the view emerged that neither can it be known for sure what values different persons might put on a marginal dollar. In the political arena, this view has been used as an argument against redistributive systems, for instance through progressive income taxation; based on the contention that we cannot say for sure at any specific moment in time that a poor person values a marginal dollar more than a rich person.

Be as it may, this view ignores the consequences of the above indicated fact that money accumulates deferred utility choices. Even though it is clear that the real valued function of money is not diminishing at rates anyway near, say, ice cream cones, it still is

³⁷ Exclusive utility goods are good where one agent's utility realization through consumption exclude other agents' consumption. Cars, considering drivers only, are typical exclusive utility goods. Street lighting is an example of a non-exclusive utility good.

diminishing but along a curve that puts most people's money possessions into the part of the schedule where the function for all practical purposes are constant. Nevertheless, for high incomes-wealth positions, the real-valued function will diminish at quite perceptible rates. This is shown in the following substitution diagram, where money-utility substitution is shown as a negatively sloped curve:

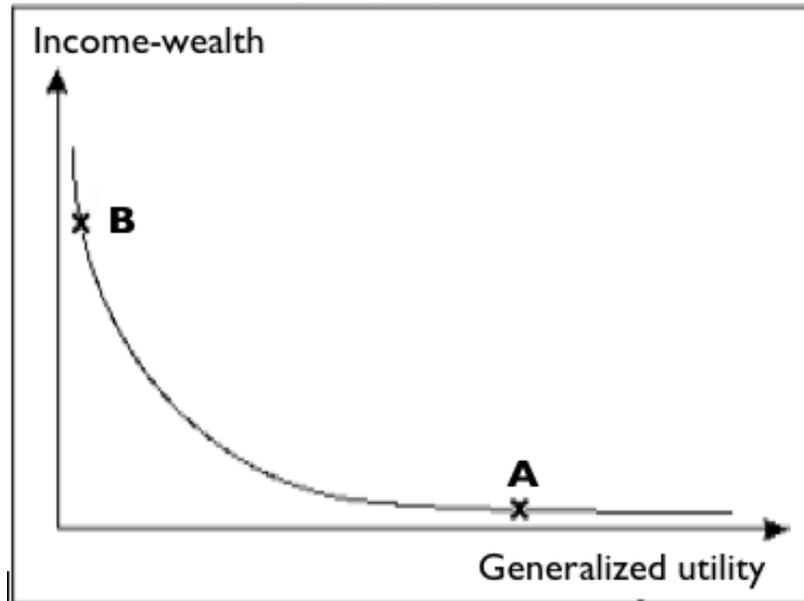


Figure 5-4. Substitution between money and generalized utility. A high income-wealth agent, B, is willing to exchange more money for less utility than A, an average income-wealth agent.

Consumers with high income-wealth often pay high prices for products that add low utilities to their existing repertoire of utility goods, as in the case of buying extra cars in the above example. At the extreme are expenditures on 'wealth-trophy' goods and services, such as buying a Lamborghini sports car when one already has three other cars, or spending \$2 million on a birthday dinner, in other words, goods and services where the only 'utility' is to exhibit an obscene ability to waste money.³⁸

Conversely, consumers with little income-wealth can only afford to hunt for 'value for the money', in other words, search for items yielding high utility realizations relative to their prices.

These conditions allow us to make probabilistic verdicts about money preferences. In fact, when agents, who face off in an exchange, have substantial differences in incomes-wealth positions the probabilistic statements that can be made can be strong and compelling. An individual with an average income will be far less willing to part with money in exchange for items with low functional utilities than an individual who, for instance, belongs to the top 1% incomes bracket.

³⁸ http://www.time.com/time/specials/packages/article/0,28804,1903155_1903156_1903152,00.html

Chapter 6

Monopolistic Competition

The Structures of Modern Industry

By the middle of the nineteenth century, the consolidation of industrial production and distribution in an urban industrial setting had profoundly altered how economic value was created and subsequently distributed throughout society. For one thing, exchange in industrial markets had become almost fully monetized, i.e. products were exchanged for money while direct exchanges of products—until then still widespread—faded away as it was not practical for the distribution of mass-produced industrial goods in increasingly urban settings.

The defining tenet of industrialism was, of course, the ways in which the manufacture of goods had become the work of industrial units. This stood in contrast to the previous societal phase's reliance on workshop manufactures, which used procedures that gave each product a considerable degree of individual finish. Under industrial conditions, production became production-runs of batches of identical industrial goods.

The way products subsequently were sold also changed from being one-off bargaining exchanges in open markets—which technically includes clusters of workshops producing homogenous classes of products in the market cities—to being predominantly sales at menu prices into mass markets and conducted through specialized distribution links.

After urban industrial society had taken off, differences in sizes of the agency units engaged in the rapidly expanding monetized market segment of the economy became another defining characteristic. This was to play a major role for the way the new market institutions for production and distribution self-organized.

The impetus to the emergence of large differences in economic unit sizes was the requirement of industrial production to be organized such that considerable amounts of operating factors—money, labour and materials—could be assembled and continuously obtained before production could be profitably carried out. Thus, in contrast to the feudal workshops, industrial firms must acquire a certain size and establish large inflows of materials, labour and intermediate inputs before they can operate efficiently. This, in turn, required that they were localized within large urban agglomerations (that had developed since the early industrial phase) where wage-labourers ready to sell their labour to the industrial firms were available.

Corresponding to the changes in the input function, the output, or distribution function that distributed the products of the industrial firms, therefore also changed. In the workshop economy, the function of distributing products to end-users was typically carried out as an inclusive element of the producing workshops. In contrast to this, the distribution function in the industrial economy separated into specialized links with nodes both at the retail and wholesale levels. The new distribution links thereby

separated production from the subsequent exchange link that passed products on to final consumers.

When a defining condition of industrial economies is that the bulk of production and distribution activities occur within economic units that have to be of a substantial size before the needed productive activities can be effectively organized, the function of price determination also change in a radical way.

Starting with the cost element of pricing, under the standard assumption of competitive markets neoclassical economics holds that average costs at first will fall as the effectiveness of industrial production comes into play, but eventually will slope upwards again if production and distribution continue to expand. This seemingly reasonable theoretical proposition was carried over from the classical writers study of the agricultural economy, which noted that adding more workers to a field at the start would enhance productivity but if the owner kept adding workers at some point they would start to get in each others way and the cost of extra workers would be below the extra, i.e. marginal, productivity they would add to output.

The neoclassicals took over this assumption for industrial units and expressed the whole thing in the language of marginality. While this process may also obtain in an industrial unit operating within a fixed physical space, it falters under the reality of the practical conditions arising in industrial economies where external expansion always is possible (i.e. enlarging a given structure or building new units).

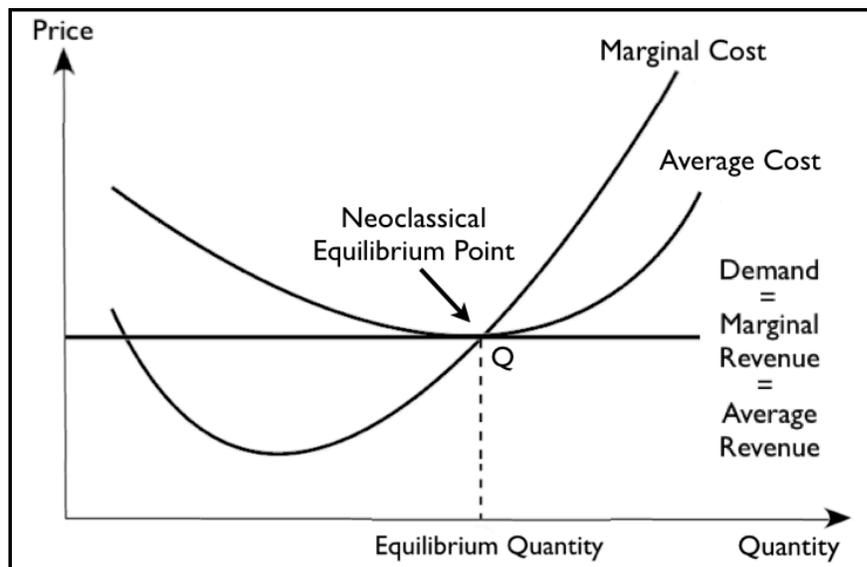


Figure 6-1. The neoclassical model of perfectly competitive markets.

In the neoclassical model, all producers face the same cost conditions (which include normal profits) and produce where the schedules of marginal costs and average costs meet. This becomes the market price according to the postulated law of one price. Those who attempt to sell at higher prices will instantly lose all of their business, since all consumers are considered infinitely well informed about prices.

Most cost factors that enter into the average cost function in large firms—that dominate almost all modern market segments—the reversal from diminishing to irreversible rising costs will seldom occur within the range of available operative conditions.

That all markets within the realistic quantity range of the given sector have points where average costs will begin to increase irreversibly is a fundamental assumption underlying the neoclassical theories. As one sees in fig. 6-1, in a perfect equilibrium the going market price—established at the point where average and marginal cost curves intersect with demand, and average costs begins to slope upwards—cannot not be established if the average cost curve continues to slope downwards in the range of product quantities that under realistic market conditions are, or can be, produced and sold.

This leads to the conclusion, that since the bulk of production and distribution activities in industrial societies take place under conditions where some firms remain on the downward sloping segment of the average cost curve (even though the effect might be flattening out)—in other words they continue to face diminishing costs as quantities of production or distribution expand—a basic tenet of the neoclassical logic is not valid for the predominant conditions under which production and distribution in modern economies have self-organized. Logically, this means that the cost function cannot be the primary determinant of the relation between prices and quantities. Instead, states of competition and fight over the division of market shares with other means enter the picture as determinants of price-quantity relations.

Certainly, all firms might face rising costs at one time or another, and downturns might squeeze profits, even at times totally eradicate them. But if a large firm under normal economic conditions (that is, non-recessionary) enters a production level where average costs begin to rise—for instance, because existing production facilities are stretched to the limit—it will invest in new capacity and have no trouble in raising the needed funds externally for such investments, if they are not available internally.

Thus, constant or diminishing average costs remain the dominant cost profile in the range of production levels required by demand in most modern industries. The importance of this observation—that large firms can continue to stretch cost curves downwards as quantities rise—are accentuated by the important competitive fact that such cost profiles are normally not available, or at least not to the same degree, to smaller or middle-sized firms. This, obviously, creates a competitive advantage for larger firms, and indeed one that is a defining condition of modern markets.

The empirically observable impact that this condition has on markets is not difficult to spot: large corporate chain operators are slowly strangling small operators out of existence in almost all market sectors, thanks to their abilities to drive prices down as their market shares rise. Walmart's dominance over the distribution of ordinary household consumption items is a clear example of this condition.

It is further worth noting that after container transportation made production and sourcing in low-cost countries feasible, it considerably added to the cost advantage of size. The advent of container transport opened the door to low-cost offshore

production due partly to the reliable shipping times that the new transportation technologies provided. This had the effect of shifting the average cost curve facing those firms large enough to be able to take advantage of the new conditions to yet lower profiles. In particular, during the early phase of the globalization process the up-front cost involved in establishing (or accessing) production facilities in low-cost countries were very substantial, mainly due to the problems with adapting to Western business and production practices that these countries experienced. Thus, the whole process created new barriers to cost-based competition that further disadvantaged smaller and middle-sized firms in many markets.

The conclusion is that if the cost function remains diminishing in practical production ranges, it must favour firms who are able to produce or distribute under large-scale conditions. This circumstance has, if anything, strengthened under post-industrial economic conditions, characterized by the proliferation of digital products and the emergence of cyber markets, including the new phenomenon of cyber distributed service products. Since many products in the new sectors of digital electronics and Internet mediated services have costs and distribution functions where overhead and capital costs (research, product development and marketing) vastly outstrip variable costs in the composition of average costs—from which prices are marked up—sector competition in most markets for digital products have also proven to be strongly advantageous to large-scale operators.

A further characteristic of the post-industrial phase of competition is that the emergence of dominant firms in many cases has taken place within very short time horizons (e.g. Microsoft, Paypal, Facebook, to which can be added Apple's rebirth with its series of i-products). The well-known market function—that new products when they catch on and become 'stars' (in the business school jargon) will allow for high monopolistic rents—has been a prominent feature of many of the new high-tech and cyber market products.

An empirical confirmation of how the 'star' phase of many of the new digital market segment has been able to create enormous monopolistic profits is the numbers of holders of controlling stakes in the new firms—mostly start-up entrepreneurs but also in some cases investors jumping in at the opportune moment—who within the span of a few years have been catapulted from student dorms onto the lists of top wealth holders (e.g. Forbes 100 richest).

However, due to the speed of technological innovations, modern markets can be unforgiving and turn around very quickly. Thus, leading market positions have in some cases crashed almost as quickly again as they were acquired (e.g. Blockbuster, Netscape, RIM).

Patterns of Monopolistic Competition

At the basic level of economic activity in industrial societies, the condition of product differentiation—understood in its broadest sense—is a fundamental

characteristic. The emergence of product differentiation was one of the consequences of the shift from workshop manufacture to industrial production. The realization of this led to the development of the theory of monopolistic competition in the 1930s.³⁹

Differentiation can be caused by a number of factors, often under conditions where they reinforce each other in the impact they have on the prevailing competitive patterns. Differentiation characteristics include:

A) The product itself, as a specific technological solution responding to a utility need.

B) The location of the sale. In large metropolises, price comparison—in contrast to the central markets of the pre-industrial towns—is impeded by the geographical dispersion of competing sales points. Location in modern metropolises is thus a potent source of asymmetric competition: high rentals costs in malls and shopping complexes, in particular at central locations or in proximity to important traffic hubs such as main highway interchanges, swing conditions towards being favourable to corporate chain stores.

C) The condition of the sale: credit offers, rebates, loyalty points, etc.

D) The in modern markets all-important factor of brand name-conditioning, expressed through design and packaging components that serve important roles by creating correlations between life-style identifiers and the marketed products. This shapes processes that create strong brand loyalties and attractors that enhance price inelasticities (i.e. room for mark-ups, see below).

Since product differentiation leads to downward sloping demand curves, monopolistic profits—that is, profits above what the idealized neoclassical competitive markets would allow for—is therefore an ubiquitous element of modern competition. A main consequence of differentiation is that it reduces experienced possibilities for preferences substitution, which move products into inelastic price ranges, where prices can be raised without losing the sales quantities predicted by the neoclassical assumption. To maintain monopolistic profits, nurturing advantageous differentiation factors are therefore central elements of modern corporate business strategies.

The prices that arise under such conditions are sometimes called mark-up prices: the firm first calculates its expected average cost and then adds the level of monopolistic profits it believes it can get away with—the mark-up—on top of that.

Another important point is that neoclassical theory, as mentioned, assumes competitive markets with open information existing in socially inert dimensions. We saw in chapter 5 that in competitive markets, the processes of bargain sequences are expected to move the bid-asks of two agents engaged in exchange from their first offers—the points where bid-ask offers touch each agent's highest possible indifference curves—to points on a Paretian contract curve where marginal ratios intersect (see fig. 5-2 above).

³⁹ Developed in two books published within a few months of each other, but on each side of the Atlantic: E. H. Chamberlin, “The Theory of Monopolistic Competition” (Harvard, 1933); Joan Robinson, “The Economics of Imperfect Competition” (Cambridge, UK, 1933).

Differentiation disturbs the picture created by the neoclassical requirement for homogenous products with high substitutabilities that are exchanged in open markets. The open market concept is supposed to ensure that competition and free entry always keeps everyone in positions as price takers, i.e. they cannot raise prices above the going market price without risking instantly losing all of their sales, as infinitely well-informed buyers switch to substitutable products offered by competitors, who keep selling at the (now) lower going market price.

The neoclassical assumption is that since marginal cost is common to all firms in a given market sector, wherever that cost intersects a demand schedule the firm must set its price and be content with the quantity it can sell at that price. Say, for instance, that a firm has a marginal cost of four dollars and x units can be sold at that price in a fully competitive market. However, if differentiation, branding effects, or other elements of market power are able to influence price setting, the firm can kink the demand curve by raising the price to \$5 and still sell x units. This allows it to earn a monopolistic profit of one dollar times x units sold.

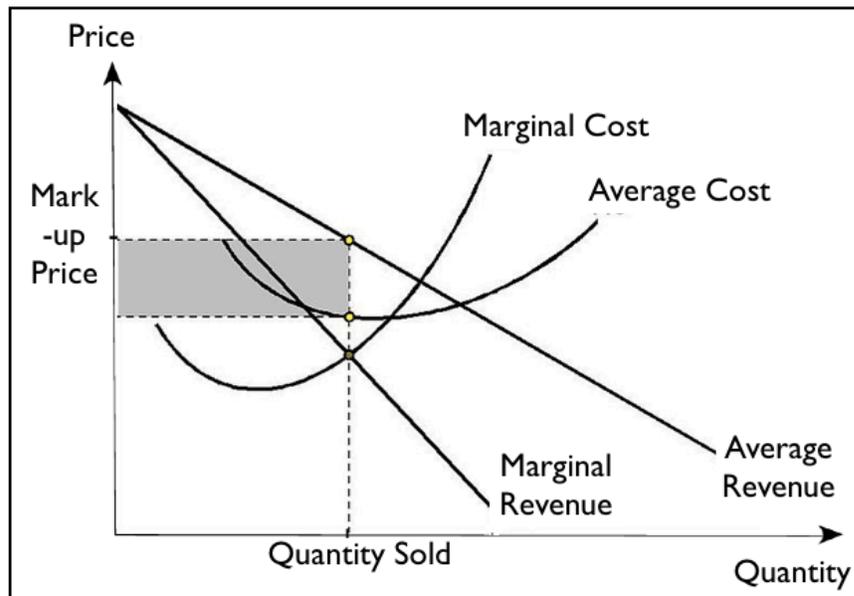


Figure 6-2. The standard model of monopolistic competition.

In the standard model of monopolistic competition, shown in fig. 6-2, the shaded area—quantity multiplied by the difference between mark-up price and average unit cost—constitutes monopolistic profit. It is also sometimes called extra-normal profits in order to indicate that it is above normal profit, i.e. the profit that is just enough to entice someone to enter the market as an entrepreneur instead of working in a wage job.

Neoclassical economics recognizes monopolistic competition to be a possible market solution under certain conditions, and fig. 6-2, or similar representation of the monopolistic price possibility, can indeed be found in most economic textbooks. Nevertheless, the theory of monopolistic competition remains relegated to a role of a

theoretical curiosity,⁴⁰ and is explained away with the assumption that although it might be possible for a firm to earn extra-normal profits in the short run, the extra profits will attract new competition and can therefore not be kept for long. In the end, competition will force the market back towards the competitive market position where average costs and average revenue, once again, meet, and the monopolistic profits eliminated.

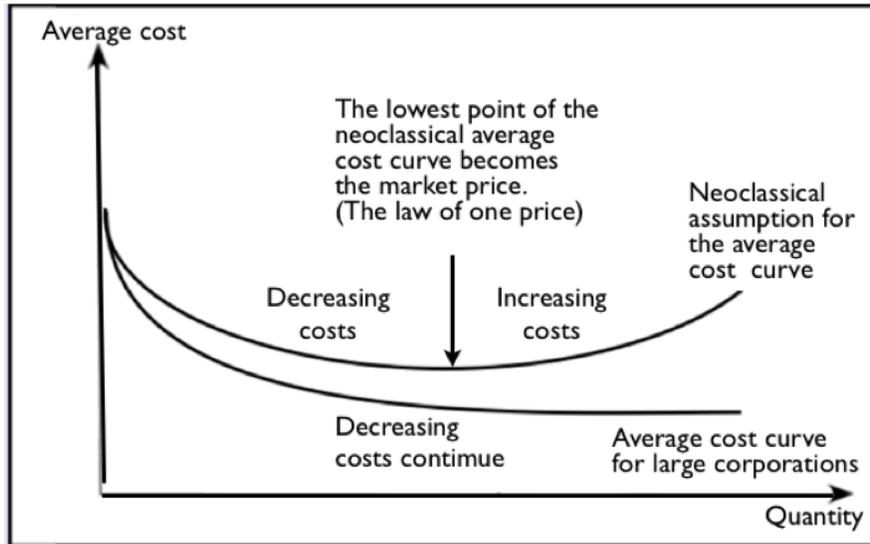


Figure 6-3. Sraffian versus neoclassical average cost curves for large firms.

While it of course is common that high monopolistic profits draw competitors to contest such a market, the neoclassical assumption of reversion to perfect, or near-perfect, competition is rarely the case. First, in many cases only other large-scale corporations will have the ability to enter and contest a monopolistic market, since both costs of product development and costs of establishing and maintaining brand name recognition is out of reach for smaller companies. Secondly, other large-scale firms that enter a high-profit market sector will not attempt to compete prices down to the point where only normal profits are earned, but will want to have a share in the monopolistic profits. Thirdly, because of this unwillingness of large corporations to eradicate the monopolistic profits, prices are seldom the primary weapon in competitive fights where large firms are contending a market in which monopolistic profits are the norm. It will more likely be other factors, such as advertising, control over distribution outlets, and—as we have seen in the fight over the tablet computer market between Apple and Samsung—high-cost legal fights in court houses where patent rights are disputed. If such

⁴⁰ Milton Friedman in his popular book, “Capitalism and Freedom” (1962) states that monopoly at most is a problem for about 15-25% of the private market sector. In “The Methodology of Positive Economics” (1953), Friedman explicitly lashes out against the Chamberlin-Robinson theory of monopolistic competition, calling it a theory that “introduces fuzziness and indefinable terms into the abstract model where they have no place”, and “the theory of monopolistic competition offers no tools for the analysis of an industry and so no stopping place between the firm at one extreme and general equilibrium at the other”.

fighters are won, the winner might potentially reach the ideal position of a true monopoly, after the opponents are shut out of the contested market.

Another point seldom paid much attention to in traditional analyses of market competition is that businesses not only face competitive pressures in the markets where they sell their products, but also in the markets where they access their inputs. In this respect, an important input sector for most firms is the financial markets where they access funds for investments and for maintaining cash balances needed for daily operations.

Consequently, exchange-traded corporations develop their business strategies in consideration of what views they will create in financial markets, where there normally is paid particular emphasis on how successful they are in generating monopolistic profits. This is rooted in the fact that in the current financialized phase of capitalism where large volumes of corporate shares and debt instrument are traded on a daily basis in highly liquid markets, investors expect large corporations to earn high (monopolistic) profits. If these are not earned at levels expected by the markets, stock prices will plummet, and investors in markets for commercial paper (corporate bonds) demand higher yields. Potentially, such market sentiments can cause access to external funds to dry up. Since financial market reactions often occur in a herd-like fashion, they can at times occur without much factual ground, but in their results create problems for a firm in its quest for maintaining liquidity and balance sheet positions at acceptable costs.

For firms in high-stakes competitive sectors, high monopolistic rents are also important for the exorbitant CEO remunerations that have come to be the norm. Growing monopolistic profits translate into rising stock prices, which means that the stock options—that today invariably are key parts of top managers incomes—can be exercised at levels that generate high capital gains. Thus, business strategies that are unsound in a long-term perspective might be preferred by decision-making CEOs if they raise profits in the short-term and thus push stock prices up so that capital gains income accruing from selling stock options can be cashed in at favourable prices. Since this would be an uncompensated loss for the axiomatic owners' interests in a Walrasian long-term equilibrium analysis, it, once again, is a reality that contravenes the assumption of markets' unfailing ability to punish anyone who steers away from equilibrium trends.

When companies are able to capture large shares in a given market sector by utilizing the natural advantages of large-scale operations, which we saw exist both in traditional industrial as well as in post-industrial markets, the natural condition of monopolistic competition that differentiation, etc. creates will be turbo-charged by the market power that accumulations by themselves give rise to.

In many cases, monopolistic competition will transform into oligopolistic competition, or even, as has happened in a few cases, positions approaching true monopolies, i.e. situations where a market sector is dominated by one firm (examples are Microsoft's near-total domination for a number of years of the market for personal computer operating systems, Facebook's domination of the social networking market until Twitter surfaced).

In the early 1950s, the Hungarian-American economist, Tibor Scitovsky, took up the problem of information asymmetries, in particular the aspect that modern products often are technically too complex for the average consumer to easily evaluate quality differences between competing variations of functionally similar products.⁴¹ In exchange situations, they therefore often have to rely on the information that the seller provides, or, as Scitovsky pointed out, take a higher price as a sign of a reliable quality. This creates systemic advantage for the seller, which Scitovsky concluded is likely to move final prices away from Paretian optimality, or equilibrium points, as shown above in fig. 5-2. Instead, such cases of information asymmetries constitute another set of preference factors that will cause prices to cluster around points on the seller's price-offer curve, which is the zone of monopolistic competition.

If a departure from equilibrium prices is a systemic function of market structures, earning monopolistic profits will be the general case. Scitovsky represented the special case of information asymmetries as a feature of how bid-offer curves would distribute prices in an Edgeworth box. Scitovsky's representation can be considered representing the general market function in economies with imperfect markets, asymmetric information and prevalence of large firms engaging in mark-up pricing.

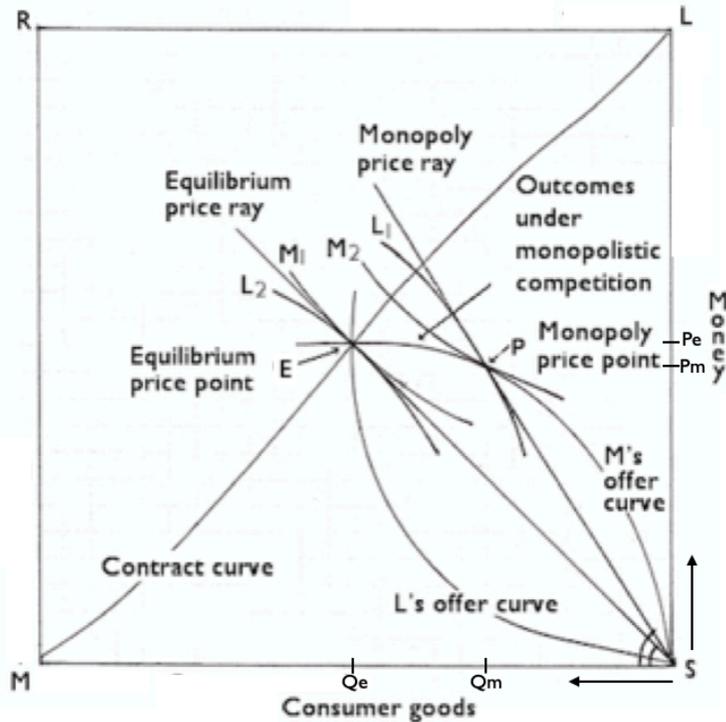


Figure 6-4. Price setting under monopolistic competition. L, average consumer; M, monopolistic seller. After Scitovsky.

⁴¹ Tibor Scitovsky: Welfare and Competition: The Economics of a Fully Employed Economy, 1951. Ch. XVIII

The bulk of exchanges take place at prices within the zone of monopolistic competition, which clusters around the stretch of a monopolistic seller's offer curve that lies between the equilibrium price, E , and a monopolist's optimum price, P .

The starting distribution is at point S , where M , the firm, has all the commodities and L , the consumer, all the money. In case of a pure commodity exchange, it was assumed that both agents have equal preferences moving along standard indifference curves with diminishing utilities for the two commodities. The standard assumption is that the two agents during an exchange want to exchange their holdings of money, respective commodities, until their marginal utilities of further exchanges begin to turn negative, which under the neoclassical perfect market conditions will happen simultaneously for the two agents at the equilibrium point, E where the two bid-offer curves intersect. Thus, the initial corner position of S is a suboptimal distribution seen from the views of both agents—consumers want to buy commodities with money while producers want to sell them for money.

However, the existence of monopolistic competition will, as argued, bestow a varying degree of competitive advantages upon firms selling products in modern marketplaces. From the view of the firms, the ideal price is the monopoly price, the price/quantity ratio represented by a price at P in fig. 6-4. Taking current demand into consideration, the monopoly price is the highest price per unit that a firm can obtain (it touches the highest indifference curve, M_2 , that M can reach). It would gain the revenue $S-P_m$ for the sold quantity of $S-Q_m$ at that point. This conforms to the standard assumption that the monopolist instead of the competitive quantity, $S-Q_e$, sells a smaller quantity, $S-Q_m$, gaining total revenue, P_m . While total revenue, P_m , is smaller than P_e , the fact remains that this revenue is gained from a much smaller quantity, i.e. the unit price is higher.

While true monopolies are rare, under monopolistic competition firms are able to skew prices one-sidedly away from the competitive equilibrium—represented by the equilibrium price at E —and move towards the monopoly price, however without fully reaching it. Thus, prices will cluster along the monopolistic price zone on M 's price-offer curve between E and P , shown in above figure 6-4, instead of around the equilibrium price.

While it in the private market sector only is possible to reach the absolute monopoly outcome at P in rare cases, large corporations are often able to move prices close to P . Smaller firms can normally maintain modest monopolistic profits if they operate in markets uncontested by large corporations, say mom-and-pop retailers in towns too small for corporate retailers to cost-efficiently set up operations, or small to middle-sized companies that are able to carve out uncontested niche positions.

However, in direct competition with large firms, the industrial cost function will generally seal the fate of small operators who don't possess any kind of market or product characteristics that can shield them from the full onslaught of competition from the large corporations. Without protective niche positions, they either must close shop or keep on struggling with incomes that will fall below normal profits; which, as we saw, in the neoclassical theory is determined by the wage of a general labour market job

considered the opportunity cost of entrepreneurial activity. Thus, the level of such wages is considered the minimum price level at which entrepreneurial activity can occur in a given market sector (and in the absurdity of the neoclassical 'one price - one profit level' universe, the only price level at which any entrepreneurial activity can occur).

However, in most cases the factor ensemble, or endowment, that allows an agent to run a small business is "sticky" in terms of substitutability to other opportunity selections, one of the many cases where the neoclassical assumption of continuous and effortlessly shifting between opportunities as their marginal ratios change does not describe reality. The 'stickiness' means that entrepreneurial incomes accruing from running a small business often can fall substantially below normal profits, i.e. be less than the wage earned from an average labour market job. The stickiness is partly caused by an endowment effect that attaches to possessing the relevant asset ensemble that the specific business requires, including the special job skills needed to run the business, which ties the proprietor to the income opportunity given by the nature of the entrepreneurial activity. Furthermore, the proprietor of a small business (and perhaps also his or her few employees that often are family members) is often seen lacking some of the social skills required by the general labour market, such as proficiency in the common language (a widespread social skill handicap for most new immigrants who often engage in small businesses). If an agent only has imperfectly acquired certain common social skills, he or she will suffer corresponding opportunity constraints that can shift the ranges, and in particular the bottom, of available opportunity sets to sharply lower income positions.

Freely being able to substitute entrepreneurial activity with a general labour market job is also impaired by the economy's state of chronic unemployment, which adds substantial uncertainty risks to the probability of income permanence, if a shift from small-scale entrepreneurial activity to a wage-job is considered.

Taken together, market conditions therefore often create situations where actual marginal substitution points for many small entrepreneurs will be lower than the wage of a general labour market job that neoclassical economics considers the point of substitution. In many cases incomes accruing from small entrepreneurial activities might even edge down towards poverty levels, before substitution is considered, which often will be to close the business (perhaps forced by debt accumulated while trying to keep the business alive) and substitute to the incomes that can be obtained through social assistance programs,

What also is ignored is that the business operator, and in particular the small-scale operator with imperfect social skills, quite simply cannot discern between a periodic business cycle downturn that it is worth to wait out, or a permanent market shift to a lower earnings profile obtainable for the given entrepreneurial activity.

Due to differentiation of skills and specific field positions, substitution between income opportunities can therefore be very 'sticky', and often surrounded by substantial barriers that prevent easy substitutions to other incomes alternatives.

We thus see that modern markets under monopolistic competition, instead of creating equilibrium and market clearing (the latter is in reality a concept with little

meaning in industrial markets with continuous flows of most in- and outputs), business and entrepreneurial activities contain conditions that coalesce into a number of quite distinct sub-markets, each with their own patterns of competition and attached income-profit probabilities. Among these, we can identify following:

A) A numerically small, but in terms of the economy's aggregate turn-over, very large subset of corporations that consistently earn monopolistic profits, which they pass forward as incomes to their owners and operational controllers of CEOs, who generally are a subset of the general population with high, and in many cases indeed extremely high, incomes. The rise of this segment is a main story of neoliberal capitalism.

B) Niche producers that generally earn moderate monopolistic profits.

C) Small businesses with no distinct competitive advantages (e.g. small hospitality operators, certain service providers, corner variety stores, etc.) earning incomes trending below normal profits, and quite often approaching poverty level incomes under the weight of competition from corporate chain store or service providers.

D) Highly specialized services entrepreneurs, notably lawyers, accountants, financial professionals, design specialists, etc., whose specialized skills enable them to earn high incomes by offering important (and difficult to substitute) services to the corporations; or to the corporate elite as private individuals. The latter case is often providing them with wealth management and tax strategy services, including advise on how to move incomes to low or no-tax categories and jurisdictions, etc.

E) Entertainment stars, including sports stars. The incomes of the top crust of this category are further enhanced by its members ability to capture the focus of the media feeds, which ensures that they can earn very substantial additional incomes by lending this ability to corporate marketing efforts (an example is the \$70 million Sony - Maria Sharapova promotional contract mentioned in Chapter 2, "The Social Construction of Doxa" on p.22).

In conclusion, the theory of monopolistic competition indicates that business activities in modern markets instead of trending towards the mythical competitive equilibrium create trends that veer in a variety of directions: some earning high profits and incomes along rising curves, others sinking down towards poverty level incomes. This diversity is a consequence of the different competitive conditions that economic agents operate under in differently structured market segments.

Chapter 7

The Rise of the Neoliberal Economy

The Conservative Counter-Revolution in Economics

In the post-war period, the notion of imperfect markets merged with post-Keynesian economics at a time when the North American corporations mainly were engaged in expanding the mass-market consumer economy under relatively closed conditions, in other words, condition where foreign trade in goods and services was not a significant factor. Furthermore, in case of the two industrialized North American economies, a significant part of their foreign trade was intra-trade, including component transfers within companies that had production facilities on both side of the border, which for instance was (and still is) common within the automotive industry.

External trade in the industrialized nations, except for raw materials, was therefore in the main conducted among countries with comparable economic structures and price levels. With regard to imported energy and other commodity inputs, the Western economies dominated price setting (exemplified by the fact that the companies that extracted oil and minerals in developing countries at the time invariably were Western multinationals). Moreover, during the long expansion in the post-war period dominated by Keynesian macroeconomic policies, the advanced economies tended to operate under conditions of relative labour shortages.

These conditions were part of a structural pattern under which accumulations of monopolistic profits were kept in check by countervailing forces, such as relatively strong bargaining positions of labour, active government controls (for instance of banking and cross-border financial flows), and high marginal tax rates. The condition of monopolistic competition did therefore not boost incomes inequalities in the Western economies, where incomes distributions remained stable or even falling, as it was the case in both of the industrialized North American economies.

This phase of industrial society came to an end during the 1970s, when a number of significant changes converged to radically alter the economic landscape. Among the changes and new economic phenomena were:

A. The containerization of intercontinental transport created efficiencies (both cost-wise and by shorten shipping times and reliabilities) in the transport sector, a condition that opened up for shifting manufacturing and product sourcing to low-cost countries.

B. The Bretton Woods currency system collapsed, causing the major economies to shift from fixed to floating currency rates.

C. Deregulation of financial markets unleashed international capital flows, and created transnational money markets, including the hastily growing offshore banking centres and tax havens.

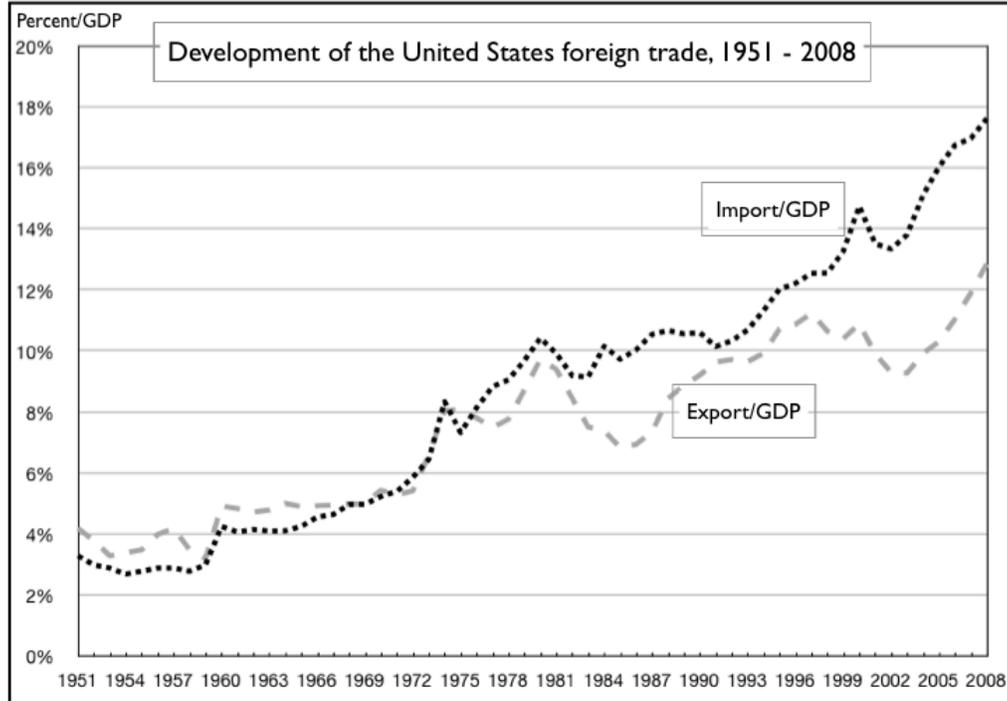


Figure 7-1. The changing weight of trade in the U.S. economy, 1951-2008. Trade began to rise around 1970, reflecting the reduced cost and reliability gained by shipping break-bulk goods in containers. Author's calculation after NIPA tables.

D. The abrupt shift in terms of trade of energy products, inflicted by the two oil crises of the 1970s caused the decade to be one of macroeconomic turmoil, and permanently inserted energy prices as a major factor influencing economic cycles.⁴²

E. After decades of a lull, immigration rose again in the North American economies, in the U.S. including a significant illegal component surging across the border from Mexico. This caused the emergence of a labour market substratum of low-skilled immigrants, who could be exploited as wage and labour market solidarity breakers.

F. Policies of across-the-board tax cuts accelerated a trend that was reversing marginal tax rates from their post-war highs. The logic of income structures is that lower marginal tax rates will benefit high incomes the most. When implementing such tax cuts, allowing high incomes to benefit disproportionately, it was justified by the claims of trickle down economics and the Laffer curve, a curve showing that revenue lost to lower tax rates will be regrouped by the future taxes levied on the higher economic activity that the cuts are supposed to spur. This logic—that across-the-board tax cuts can be implemented without cutting expenditures or creating deficits—is a core neoliberal postulate, but one that consistently has been falsified.

After the economically tumultuous 1970s, Keynesian economic policies were considered compromised by the academic consensus (which swung discernibly to the

⁴² Since the North Sea oil fields were still in the exploration stage and Soviet oil not exported to the West, Western Europe was at the time almost totally dependent upon oil imported from the Middle East.

right with theories such as monetarism and new classical macroeconomics). Consequently, it was also dropped at the political level in favour neoliberal economic policies, first in the Anglo-Atlantic countries and subsequently slowly penetrating the rest of the advanced and emerging economies. Under neoliberal political institutions and globalizing markets conditions, monopolistic competition took on new aspects not dealt with by traditional economics, nor anticipated in the Robinson-Chamberlin theory of monopolistic competition. In particular, after it became possible to substitute domestic production of consumer goods by offshore production and sourcing, the corporations shifted from operating under conditions of labour shortages to conditions where they, once again, had access to a 'reserve army of labour' in the low-cost economies, restoring one of the Marxian conditions for a rising profit rate.

The switch to neoliberal economic policies therefore meant that generation of monopolistic profits intensified. This, in turn, caused a trend of widening of income disparities to re-emerge, boosted by the policies of tax cuts benefiting the rich. The subsequent reversal of income disparity trends has engendered a dramatic rise in the share of total incomes going to the top groups, here documented by the share of total pre-tax incomes going to the top 1%:

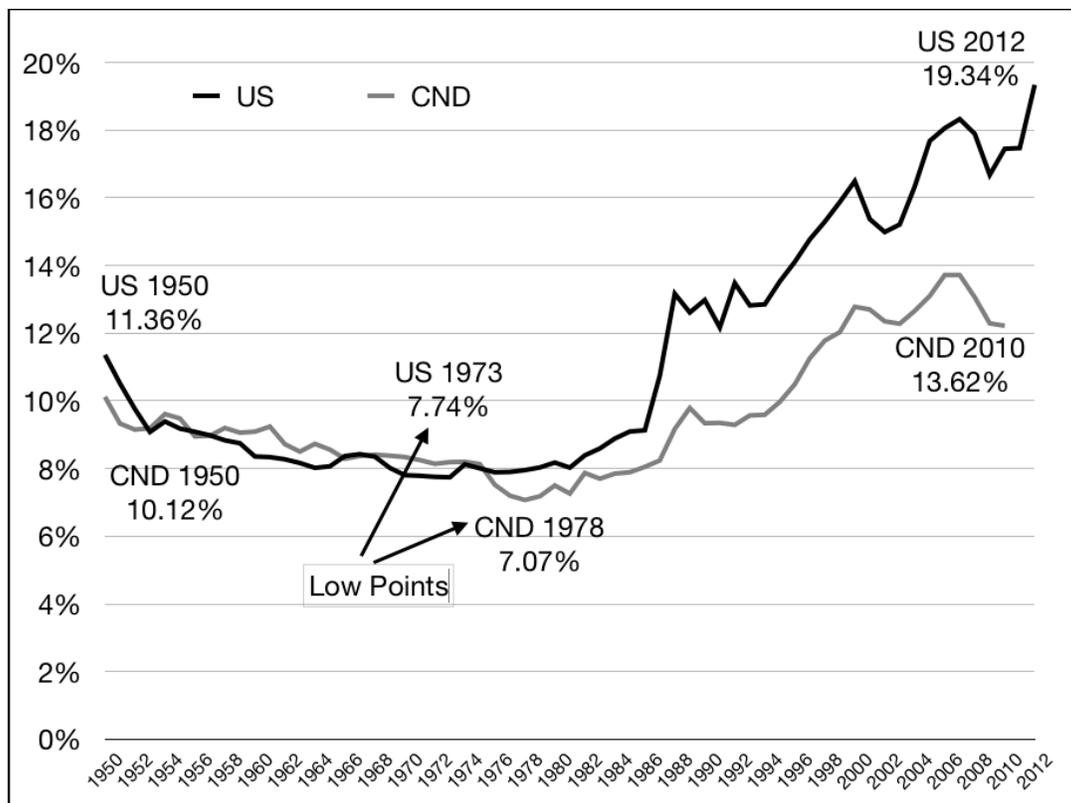


Figure 7-2. Share of total pre-tax incomes including capital gains earned by the top 1% of households, U. S. and Canada, 1950 - 2012. (for Canada capital gains only after 1972).

After: The World Top Incomes Database.

<http://g-mond.parisschoolofeconomics.eu/topincomes/#Database>

One consequence of globalization of production is that the growth of middle class' real wages has stalled under the pressure exerted by the erosion of large numbers of well-paying manufacturing jobs as these migrated to the low-cost economies. Furthermore, due to imperfect competition and the market power held by the large corporations spearheading the offshoring wave, the cost savings gained have only partially been passed on to consumers. Thus, offshoring and outsourcing have been important elements behind the rising surpluses earned in the corporate business sectors.

Under these conditions, the focus of corporate strategies has been to supply mass markets with accelerating quantities of goods and services at low prices, but due to the yet lower costs to be had in the offshore production destinations, under conditions where operating profits were rising.

In the new low-price marketplace, traditional price competition still occurs, however the new mass markets are rife with other forms of competition, such as elaborate 'consumers loyalty' programs, rebate cards, points systems, door crashers, non-stop 'clearance' sales, etc.; all designed to make traditional price-quality comparisons difficult and shift focus of competition onto other competition variables, with location and design-sustained brand loyalty at the centre.

Some neoclassical economists have accepted that monopolistic competition is a permanent fixture of modern capitalism that needs explaining and have proposed a defence that keeps it within acceptable limits of the neoclassical theory of market competition. The suggestion is that the incomes and capital accumulations above the competitive market expectations will cheapen capital and allow the large corporations to invest in the necessary product development, which in the advanced stages of high-tech capitalism has become increasingly costly. This defence sounded plausible during the post-war period when corporate expansion mainly was focused on domestic, real economy aspects and incomes inequalities, as mentioned, were slowly falling. Nonetheless, although internally generated funds used for investments in innovative products have played a large role in many industries, the innovative power of the large corporations has been much more limited than the narratives and the public perception grant it. Take for instance the automotive industry, the largest industry in the North American economies. For a long spell of time, innovation was essentially limited to competition on model design and comfort features. Moreover, the automotive industry has, together with big oil, used its political clout to actively keep society underinvested in innovative development that might produce alternatives to the gas-fuelled, car-based transport mode.

Value Complementarity

Even though the neoclassical theory of general equilibrium is not coherent in its general descriptions, this does not preclude that many of its tools can have valid analytic applications. Concepts such as marginality and price elasticity can be used to analyze variables under many conditions, even some that are not market-based. For instance,

one can envisage a Mafia boss using marginal thinking to decide whether or not to turn the screws up or down in an extortion racket, although this clearly has nothing to do with competition nor fair market exchanges.

If strong social forces, for instance asymmetric power relations, are part of the social envelope under which market exchanges take place, this does not exclude marginality notions from being useful analytic devices. There is nothing to exclude marginality from pertaining to power structured relations, nor is it by no means an exclusive possession of the neoclassical analytical toolkit.

What is needed is to discard the contention that economic events produce well-distributed outcomes trending towards equilibrium in socially inert fields. It must be accepted in theoretical constructs that economic exchanges take place embedded in dynamically evolving social envelopes, which will contain all sorts of non-economic influences and power relations. This notion is accentuated by the fact that people, as we analyzed in chapter I, have different levels of social skills, different social aspirations, and different positions in the actuating networks that in current societies are more likely than not to be aligned by hierarchically structured power relations.

The neoclassical equilibrium model, in its conception of economic value, assumes values to have fully objective roots, which allows for a strong determinism; contingent only upon the condition that information about the given state of equilibrium values are equally accessible for all involved agents. Setting aside for the moment whether or not this optimistic view of the information envelope is realistic, there is another problem inherent in this value conception: during exchange events, value is manifest to the different agents engaged in an economic event from different positions of observation and expectations, each arising from a unique existential path history.

This indicates that values, being social relations, exist in structures conditioned by social complementarity, which is the notion that value concepts arising in social fields are rooted in the different perspectives possessed by the engaged agents; differences that no impartial theory can correlate to common values by employing a unifying common denominator.

The complementarity relations are grounded in the fact that counterparties engaged in an exchange (or other economic acts) will see their opportunities and value expectations—whether relating to money gains or utility realizations—from views embedded in subjective sets of social beliefs and cognitive capabilities, which includes stamping subjective attributes to quite different sets of probabilities for the outcomes. When interactions between social actors under such conditions result in an exchange that sends a value signal forward to the next set of economic activities, the processes of value expectations and realizations that are embedded in the signal will not necessarily be an ‘equilibrium’ value, but a value that expectations, bargaining, social skills, and power positions have brought about. The value signal will consequently contain a discrepancy from an equilibrium value calculated according to neoclassical theory.

That means that the expectations to the next set of values formed by outside agents observing an economic signal (which can, quite simply, be as little as registering a price for a product sold by someone) cannot for sure be considered to be

representative, since it might be built upon an exchange that was distorted by asymmetric power or skills relations. This underscores that economic signals can never be taken to be representative information. Even when corroborated by clusters of supporting signals, this might just represent the existence of a widely shared misrecognition, as for instance evidenced by much of the economic events that took place during the U.S. housing bubble.

The conclusion is that the assumption of rational agents destined to arrive at identical and unique values under the condition of open information conditions is untenable. The fact is that there is no theory available to provide parametric value road maps that can bridge the conflicting perceptions that interacting agents will develop based on subjective experiences and beliefs. During exchanges, value concepts of both agents must therefore be evaluated in an empirical, path-dependent framework. Even if money is involved, allowing us to count nominal money values changing hands, we still will have problems with the subjective origin of money conceptions. Money is a generalized utility substitute that has qualitative valuations dependent upon pre-existing holdings of money and the contested utility goods that money can buy.

Another aspect to take note of is how attitudes shown during bargaining events are directed by the competing individuals' habitus. One agent might be aggressively disposed and will 'go all the way' in order to 'win', including showing willingness to distort information; while the other might have a habitus that directs him or her to stick honestly to openly verifiable information aspects. Such differences in habitus will, obviously, lead to bargaining asymmetries that cannot simply be assumed away in order to preserve the illusion of an objective theory.

Due to the impossibility of accurately gauging how preferences and values form, and perhaps even shift during the course of a given economic event (such as when the salesman talks the customer into buying a product that is more expensive than the range of the customer's original preferences when he or she entered the store), readings of macro aggregations always will contain diffuse, but irreducible, dualities. Moreover, the various aspects of the subjective dualities will blur the correspondence between micro and macro level data. This includes the intractable problem of the reflexive relationship between expectations to future values and current prices (including guesses over what other people's expectations might be).

The conclusion is that the standard assumption, held by mainstream economics, that exact information about value states and variables potentially always is available if just the information envelope is sufficiently open is at best a special case applicable to non-complex situations that approach the presumed neoclassical ideal conditions where interdependence and reflexive effects are low.

In situations where events are simple and sufficient data pools are available, it will sometimes be possible to narrow probabilities and correspondences down to near-fixed states. In others, and probably most cases, we have to accept the inexact nature of value that is given by its existence in social complementarity relations that are embedded within randomly (in a value sense) power-structured networks. Such a view of the values transformations that take place during economic events leads us into spectres of

descriptive methodologies where probabilistic characterizations of the change of marginal values include effects given by the conditions of an event's specific social embedment. The fact is that a view based on acceptance of the fundamental existence of social complementarity necessarily must lead to a rejection of a belief in objective value descriptions as a general case. The evaluation of preferences related to economic actuation can therefore ultimately only be anchored in ethics, since there is no value-neutral logic available that can positively and consistently select some choices over others.

The Circular Cumulation of Excess Incomes

What is of significance in the current phase of capitalism is that in markets under the structural conditions of monopolistic competition, monopolistic profits are earned on a consistent basis at most levels of business activities. This is in particular the manner of the workings of the large multinational corporations that fully can exploit the globalized market's conditions. The ability to compete monopolistically allows the large corporations, including financial sector entities, to acquire dominating positions that are not limited to the economic fields, but which have—due to the socio-political power that economic accumulations also represent—spread into many of the general social and political fields.

The influence of the large multinational corporations includes an ability to influence and in many cases even dominate the political selection processes—mainly gained by inserting freely flowing cash contributions into the political system. This will ensure that the politicians from the main parties who face off in popular elections will in various degrees be beholden to the corporate interests. While there might be degrees of intensities, no matter who win the corporate interests will be looked after. Some politicians have been captured to the degree where they see it as their only political objective to protect the structures creating rising wealth concentrated at the top, notwithstanding the economic inequalities and social poverty it gives rise to.

The corporate activities have also been allowed to intensify within the cultural spaces, in the process commercializing social spheres such as art and education, which also have turned into rich fields for corporate profit-seeking activities.

When prevalent economic structures consistently generate monopolistic rents, market trends cannot, as a matter of logic, be trending towards equilibrium but must exist in states of persistent disequilibrium. The logic of flows under disequilibrium means that the macro economy operates quite differently from the neoclassical assumptions: if a function systemically generates excess monopolistic rents in a closed economy, investment opportunities arising in the real sectors will not suffice to absorb the surplus of savings streams that the excess rents give rise to. Since all additions to savings in a monetized economy start out in the money form, this trend will put pressure on mechanisms that can convert owned money into owned assets that promise to yield future capital gains.

In this way, monopolistic rents in the real markets drive up economic rents in the asset markets. (remember that rent is defined as added values that don't correspond to a real productivity contribution).

While of course none of the modern Western economies are closed, the forces of globalization only add to the disequilibrium mechanism by enhancing the advantages enjoyed by the corporations with regards to the system's modalities of power over market pricing and wage setting.

The theory of monopolistic competition thus refutes the neoclassical concept of competitive markets generating equilibrium, while it lend support to theories of overaccumulation⁴³ and the post-Keynesian theory of financial instability.⁴⁴ In particular, the theory of monopolistic competition can cast light on the interrelations between observed trends of economic growth and income distributions. Neoclassical growth theories have taken little interest in the role that income distribution plays as a growth determinant. In contrast, the theory of monopolistic competition emphasizes income distribution and the effect it has on aggregate propensity to consume, a relationship that plays a crucial role in determining demand, investment patterns, and ultimately aggregate growth.

A key observation in this regard is that investors (liquid wealth possessors) in an economy with financial markets have a choice between investing directly in the real economy and investing in financial instruments. Neoclassical economics considers this choice unimportant and simply assumes that savings invested in financial instruments will be passed on to the real economy through the intermediating role of financial markets. However, if monopolistic rents accumulate faster than the investment opportunities in the real economy, part of the over-accumulated earnings will surface as liquidity trapped in the loops of the financial markets, where it will drive asset inflation on the upswing of cycles and flow into Keynesian liquidity traps on the down cycles occurring after busts.

It should be noted that Rosa Luxemburg's influential thesis—that Western imperialist, or colonial, expansion was driven by attempts to solve the overaccumulation problem—was a valid observation for the international political economy during the period spanning the latter part of the nineteenth century and the twentieth century prior to the First World War. Despite the Marxian assumption of capitalism constantly driving wages downwards towards subsistence levels, colonial expansion undoubtedly had positive income effects for Western workers—perhaps in particular by enlarging the middle class—and in this way was one of the factors that spurred demand driven growth in the core capitalist states.

In contrast to this, current globalization is not solving the overaccumulation problem, but is rather exacerbating it by squeezing the economically important middle

⁴³ A main facet of Marxist economics, enunciated for instance in the works by Marx and Rosa Luxemburg.

⁴⁴ Succinctly laid out by Hyman Minsky in "The Financial Instability Hypothesis", May 1992

class, which includes the well-paid workers whose jobs now are being exported to the low-cost economies.

Certainly, the emerging economies absorb substantial investments coming from the core Western capitalist economies, and in this respect appears to follow the Luxemburgian notion. But it is under conditions not formerly seen. The transfers of production partly represent a factor income transfers from Western workers to workers in the emerging economies. However, the reduction of Western labour factor incomes is only partially matched by rising factor incomes for workers in the low-cost nations. The difference is turned into expanding monopolistic profits, both in the originating Western country and in the receiving emerging economy (in China, state control of the economic system means some of the monopolistic profits flow up to the party elite controlling the state, but very substantial private wealth has also been accumulated, rising on the offshoring wave).

Thus, in contrast to the period of colonial expansion, current international economic expansion from the Western economies creates negative income effects for Western workers. It is therefore, in its macro effects, another circumstance of the neoliberal economy that has shifted large chunks of aggregate incomes away from groups with high propensities to consume and over to groups with lower propensities to consume.

In general, excess monopolistic rents will expand the money base, which functionally connects to the mentioned inflationary cycles in existing assets. Asset inflation can in turn boost the ratio of debt leverage in an economy by providing higher collateral values upon which new debts can rest, a process that was seen playing a considerable role during the housing bubble.

The result is that further values are created—parts of which become incomes—that do not represent real economy expansion but only arise because of monetary and debt-related relationships. This will, however, have real effects, since it changes the relative income distribution in favour not only of the recipients of the monopolistic rents, but also of the agents who benefit from the monetary expansion by earning the fees it creates. In the combined effects, processes creating circular cumulation of liquidity are set in motion, whose main purpose becomes to sustain its own forward cumulation by extracting more profits and debt-related payments from the real economy. This is one of the conditions that has led to the stagnation of middle class incomes in inflation adjusted terms, set against the conversely sharp rise in incomes among high incomes-wealth economic groups.

We therefore see that the trends of intensifying monopolistic competition that dominate the neoliberal economy have fuelled the financialization process by creating a rising overhang of liquid funds that have problems with finding matching investments in the real economy. This has swung the balance of values and extracted profits arising in the economy from the real economy towards the speculative financial economy. Paralleling this in the asset base of the economy, the ratio, or weight, between real and financial assets has also swung towards financial assets.

The problem of rising liquidity surpluses generated by monopolistic competition was exacerbated by a number of political and business changes, which turbo-charged the trend. This includes:

A. Rising oligopolization, in particular of the service sectors where the impact of low-price distribution outlets of the Walmart type and low-price fast-food chains have driven large numbers of small, independent operators out of the markets. This trend has had significant income effects, since many of those squeezed out of the markets (owners of small stores, coffee shops, producers of bespoke products, etc.) earned middle class incomes in the pre-neoliberal economy. As these sectors have been taken over by corporate businesses, the incomes earned now follow the general corporate patterns of polarized pay scales: high and rising by rising pay-scales at the top, opposite an increasing number of workers shuffled into low-wage jobs at the bottom, all the while the groups within the corporate structures that earn middle class incomes grow ever thinner.

B. This establishes the fact that the pay of workers in real terms is trending downwards in many sectors. This can in part be attributed to the loss of bargaining power of workers, engendered by falling rates of unionization,⁴⁵ and the forces of globalization that, as explained above, have put pressure on workers by exporting their jobs to the emerging economies, where much lower costs can be had. Taken together, these changes have put severe pressures on the economic fortunes of the middle class, from which many have been shifted into lower-bracket paying jobs, or even into long-term unemployment after losing a job to offshoring.

C. The rise of digital business sectors, in which successful upstarts in many cases have been able to rise to positions where extremely high monopolistic rents have been earned within short spans of time. Moreover, in the post-industrial markets many of the new digital products have been able to maintain the high profits for extended periods of time. This is partly due to, first, many of the new digital products have characteristics that come close to natural monopolies (e.g. operating software, social networking sites, physical carriers of communication systems, etc.). Secondly, the growing effectiveness of brand loyalty marketing has been increasingly successful in enticing consumers to view competitors to the leading 'must-have' brands as vastly inferior products. This is due to perceptions that unbranded products do not convey the social status that the top brands have been able to connect to their products. Sony and Apple are examples of companies that have been particularly effective in this regard.

D. Falling rates of taxation of corporate profits, capital gains, and high incomes in general. This allows a larger share of the monopolistic profits to accumulate as wealth within the ranks of high incomes households.

The sum of these developments has accelerated the concentration of incomes among the top percentiles of the income spectrum. Likewise, it has been a main driver of the financialization process, which has occurred at an accelerating pace in step with the rising neoliberal tilt of economic policies during the post-1980 decades. The

⁴⁵ The war against unions started by Thatcher and Reagan has been a constant factor of neoliberal policies in the years hence.

accumulation of rising wealth has in turn pushed the search for yields accruing to financial capital into increasingly speculative fields; leading to the cycles of economic instabilities that quite clearly have followed an intensifying path.

In order to avoid that the search for yields purely drives asset inflationary binges—with their unavoidable downsides—trends that extract cash flows out of real sectors have become another defining tenet of the neoliberal economy. When financial interests—for instance through ownership held by equity funds or other investment vehicles—have wrested control from business owners or managers still operating in the Fordist industrial tradition, business strategies often switch to asset stripping and labour cost reductions, even in cases where it might conflict with long term viability of the given enterprise.

Modern corporate CEOs, when they are in full control of the corporations' decision structures (i.e. when stock holders—the firm's formal owners—are so dissipated that there are no individuals, or block of owners, that are able to—or even interested in—participating in the firm's decision processes), they have buried the Fordist tradition of management with its long-term perspectives, and instead increasingly set primary goals of diverting corporate surpluses to their private interests of maximizing their own remuneration schemes. This has been done so successfully that it has been a major factor driving the rising income disparities. Thus, CEO pay relative to average worker's pay went from being a multiple 40 in the 1960s to a multiple hovering around 300 today.

The CEOs' abilities to raise their shares of the surpluses the firms generate can be considered a process that internalizes part of the profit structure into the wage-cost function. This has made it difficult to detect the true profit share with any clarity in current statistics. Breaking away from the traditional cost definition, costs of remuneration schemes, under conditions where the agents obtaining the incomes that are accounted as cost have a strong role in deciding their structure and size, must be considered quasi-profits. Or, alternatively, returns to an independent economic factor of decision power that in a macro sense aligns with owners' profits; a process akin to the Marxian these of the hangers-on who share in the surplus.

The sequences of rising monopolistic profits, concentration of top incomes, and aggressive search for financial yields have had detrimental effects on real growth, thus putting to the lie the neoliberal claim that a deregulated economy inevitably will result in higher growth rates. The fact is that real, inflation adjusted growth has fallen relative to the preceding post-war, or pre-1980, period. Moreover, the dominance of financial strategies has caused recoveries after recessions to occur at very sluggish rates.

The sluggishness of the recovery after the bust of the last bubble—the U.S. housing market bubble—is thus linked to what has emerged as a consistent defining pattern in the neoliberal economy: periodic recessions followed by slow recoveries. While the bust of the bubble destroyed a considerable amount of wealth, and partly reversed much of the capital gains created during on the upswing of the bubble, a brake was put on the deleveraging process by the bailouts, which represented a massive wealth transfer from the public to financial wealth holders. In effect, the bailouts

ensured that speculative bets that the bust of bubble eventually proved wrong, anyway was turned into winning bets by paying the speculators off with public money.

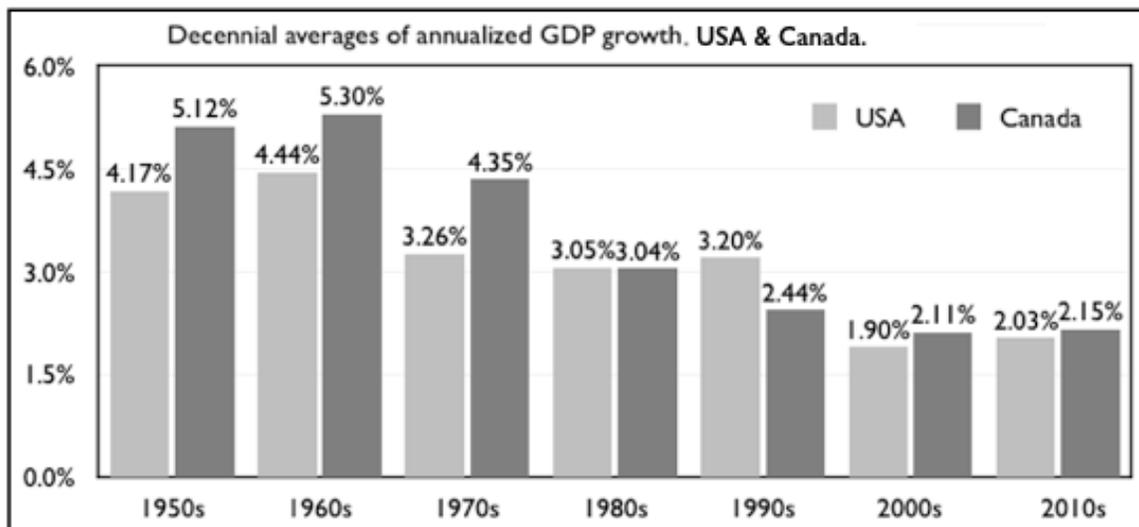


Figure 7-3. Real GDP growth in United States and Canada, 1950-2015. Decennial averages. United States after BEA, Canada after IMF and StatCan.

What further exacerbated the negative effects of the bailouts were that the paid-out money reduced the public sectors ability to sustain demand enhancing public investments, for instance in infrastructures or by extending incomes support for unemployed workers and other low incomes population segments with propensities to consume near 100% of marginal incomes; types of cash insertions into the real economy that are important elements of Keynesian recession medicine. In contrast, the bailout money flowed into the private sector where much of it ended up in new financial traps, doing little in terms of sustaining a recovery.

Despite the slower growth rates, the neoliberal economy has created huge winners among high incomes groups, whose incomes continue to grow into the stratosphere even under the post-crisis recessionary conditions. According to standard assumptions, high incomes earners are considered to have much lower propensities to consume marginal earned (or appropriated) dollars than middle and lower incomes groups. However, due to the large shift in the group's absolute incomes, the lower propensity to consume has to some extent been made up for by a growth in the class' share of the economy's total incomes. That means that consumption of luxury and wealth trophy goods with low utilities has risen relative to other consumption items, including public consumption goods.

Several recent studies have confirmed this trend. Thus, a Madison Avenue's trade magazine, "Ad Age", declared that "mass affluence [is] over". As a blogger, commenting on the study, reported:

"The American middle class, concludes a new study from the ad industry's top trade journal, has essentially become irrelevant. In a deeply unequal America, if you're over 35 and your income haven't yet topped \$200,000 a year, you don't matter."

"...the top 10 percent of American households, the trade journal adds, now account for nearly half of all consumer spending, and a disproportionate share of that spending comes from the top 10's upper reaches."⁴⁶

When neoliberal policies of tax cuts on corporate profits and high incomes created a mismatch between public revenue and expenditures, it forced governments in the advanced Western economies—with few exceptions—to resort to increasing levels of debt financing. This produced large deficits even during non-recessionary economic periods (for instance during most of Bush' presidency). This contravened a main tenet of the Keynesian business cycle prescription, which expects governments largely to run balanced books in good times, thus building up ability to run demand stabilizing deficits during recessions. The result of conversely running deficits in good times means that when a crisis strike, the incurred debt positions will make it both economically and politically difficult to provide sufficient financial stimulus to put a brake on the recessionary fall in demand. There is no doubt that the sustained sluggishness that the global economy experienced in the wake of the 2008 crisis is a consequence of the widespread politically determined propensity among almost all of the advanced economies to resort to debt finance even during the preceding during good times, instead of maintaining proper balances between taxes and expenditures.

The rise in debts has not only occurred in the public sector. Rising levels of household debts have also been a significant trend in the North American economies. The main driver has been stagnating middle class incomes, which has been exacerbated by rising costs of social necessities (education, health care, housing, etc.)⁴⁷ Consequently, in order to hang on to the expected level of peer pressured competitive consumption, the middle class has been driven to debt finance a rising share of its consumption. This means that after the crisis further squeezed middle class incomes and made it difficult for many to take on more debt, the dream of a secure middle class life in possession of the required status attributes of suburban life, including with the kids sent to college, is fading away for many. As the above-cited study continued:

"Simply put, as the discrepancy between the rich and poor has become more and more stark, a small plutocracy of wealthy elites drives a larger and larger share of total consumer spending. It appears that mass affluence may be a thing of the past — and that luxury marketers should reconsider how their products appeal to elite consumers."

The Political Dimension

⁴⁶ Madison Avenue Declares 'Mass Affluence' Over. Sam Pizzigati, May 30, 2011
<http://www.ourfuture.org/blog-entry/2011052230/madison-avenue-declares-mass-affluence-over>

⁴⁷ See Elizabeth Warren: "America without a Middle Class" (2009).

When the economy is seen as embedded in social and political networks, it becomes clear that attempts to analyze the determination of income distribution as resulting exclusively from endogenous economic processes are inadequate. At each turn of the road, political processes can be seen to play large roles in determining to what extent excess monopolistic profits have been allowed to emerge as disposable incomes at the top.

The fact is that the above-mentioned countervailing forces kept in check the tendency of the capitalist economies to generate excess accumulations during the post-war years. The result was that income inequalities fell and real growth remained robust. Moreover, business slumps were short and, in a contrast to the recovery after the recent crisis (which is so sluggish that it hardly deserve the name of a recovery), post-war business cycles saw wages rise in tandem with the recoveries.

This pattern was broken with the shift to neoliberal policies, which not only have favoured policies that returned the economy to a path of accelerating wealth accumulations and income inequalities, but the corollary of deregulation of both domestic and international financial sectors. This has ensured that the volatility inherent in the trends has been highly contagious; and, as we have seen, due to the open borders for capital flows, capable of spreading swiftly across world markets.

In order to gauge the impact that trends of economic disequilibria can have on economic growth and social trends, the analysis must be carried out within the framework of Myrdalian circular cumulative causation.⁴⁸ One reason is that disequilibria often show strong tendencies to develop reinforcing feedback loops. In particular, if they favour the interests of a dominant elite—as we see in the neoliberal economy—the power-augmented constellations will be inclined to defend the reinforcing loops, notwithstanding the clearly observable deterioration in the connected social and ecological conditions that they incur.

The feedback loops that in the current political economy lie behind the rising inequalities are however hidden behind narratives that have inculcated widespread and deepening misrecognitions, or *doxa*, into the public sphere. This has blurred the ability to identify the destabilizing conditions and their causes. Consequently, the *doxa* circles continue to deepen and prevent that any brakes can be put on the forces that engender the deteriorating conditions.

The first circle of doxical misrecognitions boosts the waves of financialization that in turn drive the rising economic volatility as it materializes in the observed asset inflationary boom-bust cycles. The financial processes fundamentally are in disequilibrium as a function of the above-described falling rate of investments returned to the real economy relative to the inflows of liquidity into the financial sectors. However, the neoclassical narrative of competitive equilibrium has become so entrenched and the misrecognitions it fosters so deep-seated that it prevents the true causes of the ongoing financial instability to be recognized.

⁴⁸ The principle of circular cumulative causation was mainly developed by the Swedish Nobel-winning economist, Gunnar Myrdal.

The second circle is the inability to recognize the effect of the trend of rising consumption of goods and services with low utilities; in particular luxury (wealth-trophy) goods and services at the top, and peer-pressured cascade consumption by the middle class—the latter the constant attempts to emulate the consumption patterns of upper-crust peers within ones social networks, even when that translate into debt financed expenditures on products with low utilities.⁴⁹ The result is that the growth of the economic output not only, as mentioned, has slowed in real GDP terms, but also is trending towards more production of goods and services with rapidly diminishing aggregate utilities.

The third circle is driven by the inability to understand that although much of the public structures of current societies are not optimally structured, and even in many cases outright malfunctioning, this is not an argument for doing away with a public engagement in the economy. The perception that less public involvement in the economy—with a corresponding lower need for taxation—always must be a social good is partly due to the success of the neoliberal narratives in defining the question in the fallacious framing of the 'socialist' versus 'free market' dichotomy. The reality that there are hardly any countries left today whose system of government is 'socialist'; all, and certainly all of the Western economies, are mixed economies where a market sector are mixed with different levels of government regulations and activities. Thus, the question should rather be: is more 'mixing' better than less? And, in particular: how do we make public organs work better?

If we return to the numbers for GDP growth in above fig. 7-3, they suggests that the North American economies delivered more GDP growth when they were more regulated and had higher marginal taxes. In an international context, comparisons of a standard measure such as GDP per capita doesn't consider income distributions, nor what weight the different categories of national expenditures have. In particular, it doesn't elucidate how such differences influence the conditions determining life quality and future sustainability factors. It would be better to measure the economic conditions of lower and middle class segments of society, and the state of development with regards to the sustainability factors, which are key factors that will influence the economy's future prospects.

Using such measures, it appears indisputable that the more 'mixed' economies, such as the countries in central and northern continental Europe, have gotten better results. Especially noteworthy is that the higher level of public activities means that in some of these countries considerable progress is registered in the process of transforming urban spaces into livable spaces that are less congested by traffic. They also have progressed considerably farther along the transition to low resource economies. In contrast to this, the North American economies have yet to enter this path in any meaningful way. Due to the neoliberal aversion to any public activities, their economies

⁴⁹ A concept developed by economist, Robert Frank, following James Duesenberry's relative income hypothesis from the late 1940s.

remain solidly stuck in the grips of a carbon-based economy where high reliance on automotive transport modes creates heavily congested urban spaces.

What the Americans, living in the country where the neoliberal fixation is the strongest—albeit Canada under the almost ten years long conservative Harper government was busily playing catch up to the U.S. level of dysfunctional political leadership—have in return is their much beloved 'freedom'. In an almost unbelievable degree, the freedom doxa prevents the majority of Americans to realize that freedom can turn into its own negation when taken to extremes: it has become the 'freedom' to bear arms but at the risk of getting shot at in all sorts of public spaces or even during family disputes, which Americans risk at much higher rates than inhabitants in other developed economies (oh yes, it includes the freedom to shoot back). It has become the freedom to be economically exploited by a ruthless elite in control of corporate and financial sectors, in a process that has sent the U.S. into downward spiral of dysfunctional economic, social and ecological states that might be unstoppable if it lasts much longer.

In the current phase of the neoliberal economy, the misrecognitions and doxa circles produced by the well-oiled neoliberal narratives have thus led to widespread popular acceptance of the social reality of disequilibria and social disparities, even though many of the factual physical and economic conditions are openly deteriorating, such the still rising levels of economic inequalities, the crumbling infrastructures, the increasing signs of environmental problems, the worrying signs that changing weather patterns might be harbingers of climate change, etc.

Despite the high costs that the most recent cycle of bust-recession-stagnation have had for large population groups, the answers coming from the right-wing money-oiled creators of aggressive neoliberal politics and accompanying obfuscating economic narratives have been to double-down on their stories, while attempting to tag everyone else and their dogs with the blame for the crisis. The hope of the right wing is that the misrecognitions produced by the doxa circles are strong enough to allow for that only unimportant small minorities will cut through the obfuscating mazes and discover the truth about how the existing economic system is the main culprit in producing the deteriorating trends.

Chapter 8

Anatomy of a Market Crash

Asset Bubbles

The aftermath of the crash of 2008 was in the United States characterized by stratospheric levels of public debts—which the combination of falling tax revenues and bailouts engendered on top of the Bush era’s already high debts—as well as high levels of unemployment. In this environment, the recovery after the recession (that formally ended in July 2009) was extremely sluggish.

The sequence of events has underscored that American capitalism after thirty years of neoliberal economic policies had reached a breaking point where the system was faltering under its own weight. It has also revealed that the reigning economic theories—those that had been guiding the neoliberal political establishment and its economic leadership—belong to the category of economic doxa: a set of misrecognitions that have blinded many to the problems inherent in the path of economic development that the advanced economies, with the U.S. in the lead, have been following.

What was particularly worrying was that the crash didn’t seem to be a particularly anomalous event. On the contrary, it appeared to be a member in a chain of intensifying boom-bust episodes: the 1987 stock crash, the late-1980s bust of the Japanese housing market, the Asian crisis of 1998, and the dot-com bubble-bust in the U.S. of the late 1990s. Thus, the housing bubble, and the European debt crisis that the recessions unleashed (the latter in particular ravaging the European Union’s weaker members), appears to be an unavoidable course of events in the context of increasingly misaligned economies.

The common thread linking these cycles was that they were driven by asset inflationary run-ups, caused by large flows of liquid wealth pouring into certain asset classes. The asset inflationary run-ups, in turn, led to unstable real economic cycles where the transmission mechanism seemed to go from financial markets to the real economy, rather than the other way around as traditional economics expects.

The housing bubble and the 2008 bust was therefore just the latest in this series of boom-bust cycles. In this case, the asset inflation was caused by a rise in housing prices that grew into a bubble in the American economy, intensifying by the mid-2000s when an unprecedented run-up in house prices occurred. What it had in common with the previous bubble-bust cycles was the impossibility of explaining it within a framework of the popular economic theories that envisage financial markets driven by fully informed agents with rational expectations.

The growth of the bubble was to a large extent abetted by market insiders who were driven by an incentive system that spurred risky behaviour, which induced them to engage in information manipulation (or suppression) in order to maximize payoffs from bets; all the while the prevailing mindset that governed the trading floors in the financial

firms meant that there existed a complete indifference to the consequences that the gambles, if failed, might impose on others (including the very firms they worked for—of course, not to speak of the wider public).

Among policy makers, the rather obvious potential for a blow-up that might occur if house prices went too high was rationalized away by market fundamentalist doxa, which among other things rested on a denial of the possibility that house prices could reverse in any significantly way, because, as it was noted, they had never done so before in the United States. In effect, this was an expression in a self-delusional belief in a rational market that black swans always bypass. This belief had become so ingrained that it seldom was questioned (and, as such, the misrecognitions ignored the obvious: that there never before had been a financial market with an overhang of liquidity of the current size to drive risky bets and asset inflation).

Tracing the origin of the progression of the bubble-bust episodes, a turning point occurred when the neoliberal economic doctrines of laissez-faire markets and reduced taxation recaptured centre stage around 1980. The policies subsequently chosen in the North American economies caused the distributive patterns of produced output and revenues streams to change markedly. A major consequence was that the profits generated by the dominant mode of competition in the real markets—monopolistic competition—began to accumulate at higher rates, both directly and indirectly as rising CEO pay and rising financial costs, among other things incurred by the wave of debt leveraged buy-outs that blossomed in the deregulated financial markets of the 1980s. The rising rate of accumulation, in turn, led to high rates of growth of liquid funds that was not invested in real economy activities, but seeking returns through the financial sector. The doxa-lens constructed by the belief in the efficiency of unregulated markets was equally the lens through which many investors—the holders of the wealth that poured into the markets from the other side—made sense of the observed economic phenomena. Because of the foundation in misrecognitions, people were unable to engage in unbiased analytical thinking; even about events in fields where they were active or central participants—for instance as investment managers; or, as it also was the case, as principal economic regulators and policy makers.

Fuzzy Fundamentals

In order to break out of the efficient market fallacy (or related neoclassical analytical constructs) and grasp the phenomena of market bubbles, one has to start with the implication of the differences between a rising markets as a cause for growth in wealth, and a cause for growth in real-valued incomes. When wealth grows as result of rising asset values, for instance stocks or house prices, it might just mean that the market has put a higher valuation upon a given holding of assets, financial and non-financial alike. Although it therefore narrowly seen might be a pure paper phenomenon, it can have real effects by the tendency shown by people registering a wealth effect to spend more and save less of incomes accruing from other sources. An important point

is that higher asset values can also serve as collateral for expansion of credit money. This aspect was to play a considerable role during the housing bubble.

Of course, there also lurks the possibility that the market will go down and erase the putative wealth again before it is realized through transactions. When markets go down, a negative wealth effects will occur, as it in fact was seen after the 2008 crash (with its wealth destroying effects, particularly in its early phase) when the savings rate recovered somewhat, for the first time in many years.

When income grows as result of capital gains, it is a different story. Before that can happen, transactions have to take place; in a stock market, stocks on one side exchanging for money or money substitutes on the other (ignoring the marginal cases where stocks are exchanged for other stocks, which cannot realize capital gains income, but only exchange wealth effects). When money, or money substitutes, change hands, they create incomes through transactions that seen in isolation at the moment of exchange are zero-sum games between perceived stock values and a money values.

However, stock market valuations, seen as claims on assets producing output in the real economy, are at best based on fuzzy estimates. As it often is seen, values are referenced to the mysterious 'fundamentals'. In principle, fundamentals are the capacity of the real assets that the stocks represent to create discounted future streams of profits in the form of dividends and capital gains to owners. What traditional theory ignores (besides its problem with the assumption of rationality of value estimators) is that estimates over future flows not only take into account the micro aspects of the operations of the given firm, but also changes in the social-political aspects of the surrounding macro conditions, including how future policies might support the business sector's abilities to raise profits and capital gains by encroaching on other factor holders' interests (for instance, by union busting policies that reduce labour's bargaining power, which will change the wage-profit relation—the Marxian rate of exploitation).

Moreover, for the investing individual the relevant measure is the discounted after-tax streams. That means that expectations to changes in tax regimes and/or abilities to transfer profits to low tax or no-tax income categories (or jurisdictions) are important constituents of 'fundamentals' as perceived by the individual investor. Inevitably, value estimates are thus not just a matter of pure economics, but also of accounting technicalities and aspects of political economy that influence market regulations and tax laws.

In orthodox financial theory, price/earnings (P/E) ratios are supposed to provide a basic idea about the state of fundamentals. Thus, when P/E ratios shot up during the 1990s stock boom, i.e. stock prices rose to multiples of earnings far above historical levels, several explanations for this phenomenon were possible. A) Traders were, quite simply, uninformed about technicals and didn't understand the signal inherent in P/E ratios. B) There were widespread perceptions that the neoliberal economy had changed the rules of the game, causing the profit rate accruing from stock ownership to rise relative to the real economy as well as to the revenues generated by the daily operations based on the real assets of the firms. C) Investor behaviour was not dependent upon elusive 'fundamentals', but rather upon expectations of selling at a

higher price, thereby reaping capital gains. If (stock) prices are too high relative to the fundamentals, it doesn't necessarily matter for the individual investor's ability to generate capital gains within a short-term horizon (what most of today's stock investors operate on). What matters is the market's sentiments about valuations, which will decide whether or not it is possible to sell stocks back into the market at a price higher than the buying price. If prices are overvalued relative to 'fundamentals' on the upside of a bubble, the trick is simply to exit the market before it turns around. Probably all three factors come into play during market bubbles.

If we, for the sake of simplicity, consider the case where the stock of assets are stable—that is, in- and outflows of the physical stock of assets net out (in a stock market, new issues versus retirements (buy-backs) of existing stocks)—another condition that must be fulfilled before an asset inflationary bubble can grow is that a net flow of money (net investment plus net leverage) must enter the market from somewhere, otherwise the flow of transactions cannot create an aggregate outflow of capital gains. Conversely, if a net flow of money keeps pouring into a market, aggregate stock valuations (again, considering stable physical quantities) must continue to rise and create net capital gains for investors closing out positions in the market, whatever the connections to the underlying assets are.

However, during asset bubbles in- and outflows of the physical stock of assets are not likely to net out. As in all markets, rising prices will spur supply, so some part of the aggregate rise in capitalization of the given market segment that bubbles create will reflect a quantitative growth of the bubble-feeding asset class. Thus, in step with the growth of the bubbles, new assets will be created and pour in, but tendencies to draw assets of deteriorating quality into the market will develop as the bubble picks up speed and capital gains rise. This was seen during the dot-com bubble. As 'froth' in the tech-stock market rose, large numbers of tech upstarts surfaced which, riding the bubble, were quick to go public, but as the bubble developed the business concepts and viability of new upstarts deteriorated in the aggregate.

During the housing bubble, the main product—seen from the side of investors—was the interest-paying bonds that the securitization process created on the basis on house mortgages. Feeding the demand for fodder for the securitization process, house construction went into overdrive, but selling the units (along with sales of existing homes) became increasingly dependent upon drawing house owners with poor credit ratings into the orbit. This tendency, inevitably, boosted both the relative and absolute size of the so-called subprime component (i.e. riskier part) of the mortgage market with consequences for the aggregate levels of market risks pushed over to investors on the other side of the market. However, due to the opaqueness of the securitization process the dominant perception was that risks levels were by and large unchanged, a perception further fortified by the ratings that the rating agencies conferred on the securities. Mixed with the self-delusions of investors eager not to miss the free-ride on the train of solid yields, the underlying rise in aggregate risk levels was only very imperfectly realized, if at all, by most investors.

Accumulation of Liquid Wealth

Asset bubbles are, as all market phenomena, interplay between socio-economically structured supply and demand forces. The supply side of bubbles is an asset class that promises to deliver net returns; whether this takes the form of dividends, capital gains, or interest incomes is normally immaterial to the final holders of wealth (of course, after tax differences are accounted for in net yields). The demand side of asset bubbles, (and, indeed, of all market speculation) comes from owners of liquid wealth: wealth that is not fixed in long-term assets (factories, machinery, illiquid debt, etc.), but ready to shift in and out of market components according to perceptions of where the best reward-risk opportunities momentarily exist.

Key to an understanding of the forces underlying financial markets is how they link to the basic monopolistic competitive structures of the economy's real markets. In the current phase of neoliberal capitalism, real economy conditions are characterized by intensifying monopolistic competition in a progressively corporatized market space. The intensifying monopolistic competition has created a condition of fundamental disequilibrium by generating profits at levels above what can be reabsorbed again by productive real-economy investments.

Real investment can occur either as direct investments in productive sectors by private capital owners, but also indirectly through the means of taxing part of capital owners' surplus yields away and rerouting the thus raised public funds into public investments in infrastructures and needed social products.

The part of the surplus not returned to the real economy (as investments or consumption) resurfaces as liquid financial claims on future output and incomes, a process that except for small dips during the recessions following boom-bust episodes has occurred on a constantly accelerating path in the neoliberal economy.

While considerable focus has been accorded to offshore outsourcing—and the rise in the profit rate through a process that destroy well-paying jobs and replace them with low cost jobs in the outsourcing destinations—the other component of the neoliberal economy's devices for raising the profit rate in real economy sectors, routinization, has been less recognized. The traditional theory of labour markets considers worker skills as a productivity-enhancing factor that not only is to the advantage of firms, but to all stakeholders in the economy. However, skilled workers also present a problem for the profits maximizing firm: they acquire a certain level of wage bargaining power, residing in the fact that their replacement will incur a temporary loss until a new worker has reached the same level of skills and experience with regard to the given work output.

The solution that the modern corporate firm, in particular in the service sectors, has come up with is to routinize the required work functions; that is, to script them into the most minutiae detail. Highly routinized work functions make it possible to employ unskilled labour, who are willing to, or should we rather say, compelled to accept rock bottom wages as their only realistic incomes opportunities.

Moreover, the high rates of worker turnover that is common in low wage market segments are reduced to a minor problem, given by the detailed compartmentalization and routine scripting of all work functions. This allows for training of new workers in a few moments. Thus, routinization is an important element of the structures of modern service industries that have turned them into fields yielding high ratios of surpluses.

In general, the real economy structures in globalized markets have thus shifted markedly to the advantage of capital owners (including, as indicated, CEOs and other top managers in firms and wealth managers in financial institutions). This compares to the previous Keynesian period (the post-war decades) where markets were under stricter regulations, which included capital controls, fixed currencies, and separation of various aspects of financial markets. Such regimes of control and separation minimized the potential for speculative mishaps to create cascade effects in the real economy.

In the labour markets, an important difference was that the ability to implement cost-cutting business strategies by switching to offshore production was not a realistic option. It first became a significant economic factor after the containerization of ocean transport combined with China's open door policy opened up a market with an almost unlimited capacity to absorb transfers of Western manufacturing needs to destinations with lower labour costs.

Added to deregulation, tax policies of the neoliberal governments, which generally have focused on reducing tax rates for top incomes bracket, capital gains and corporate profits, have ensured that the consequent wealth accumulations are lightly taxed,⁵⁰ exacerbating the problem of the liquid wealth bubble expanding on the top of the economy at a rate of growth above the growth of the real economy.

The growth of liquid wealth has in turn bolstered the growth of the financial sector, in particular by the rising need for private wealth management. The overall result is a vicious cycle of liquid capital accumulation, where the pools of liquid wealth produce economic cycles that are driven by the vagaries of financial sector speculation rather than by the real economy.

A measure of the level of financialization—and the financial sector's cumulative economic gravity force—is the size of the world's bond market, which has emerged as the primary store of liquid wealth (quasi-money). It was March 2011 estimated to be \$90 trillion by a senior executive of a firm specializing in international bond markets activities.⁵¹ World market capitalization of stocks, another major store of near-liquid wealth, is probably around half this size.

⁵⁰ Thomas Piketty and Emmanuel Saez, two economists that extensively have studied the development of income disparities, estimate that the average Federal tax burden on top 1% families has decreased from 44.4% in 1980 to 30.4% in 2004. Since the share of income going to the top 1% families has doubled from 8% to 16%, the lower burden falls on a larger share. "Response to Alan Reynolds: The Top 1% . . . of What?" <http://elsa.berkeley.edu/~saez/answer-WSJreynolds.pdf>. Supporting this, Warren Buffet, in a Sep 2011 TV interview, noted that the effective average tax rate paid by Forbes 400 had fallen from 29% in 1992 to 21% (presumably the 2010 number). He has also famously observed that his own effective tax rate is lower than his secretary's, which he, as rarity among his peers, opposes.

⁵¹ Bill Gross from PIMCO

If markets are deregulated and liquid, and not hemmed in by capital flow restrictions or financial transaction taxes, any investment position can in short order be converted into money and subsequently shifted to other investment forms near cost-free. In this context, market bubbles can be considered as investor 'fads' driven by demand for a particular type of investment vehicles that starts with a spreading perception that they have a favourable risk/reward structure compared to alternatives. In the second step, when the particular market bubble starts in earnest, expectations to capital gains earned by entering and exiting positions on the upside add fuel, but of course also volatility, to the bubble process.

Ultimately, at some level the rewards of speculation must come from the real economy, either in the form of value added that are diverted to serve as payments for financial positions (stock dividends, non-invested retained earnings, expensing of stock options), or in the form of household or government debt services; in which case the rewards to the speculative wealth positions either are diverted directly from household incomes (private debt service) or indirectly through taxes (government debt service). Management (CEO) pay above fair levels is of course also diversions from the value added produced by the real economy.

Private debts are today, before they are passed on to wealth holders, mostly structured through processes of securitization that enhance their liquidity, in other words their ability to act as quasi-money. This process has been one of the factors behind the rise of the 'shadow banking system', the financial sector engaged in management of the fortunes of high net-worth households.

The swings in and out of investment vehicles, and the consequent susceptibility to form bubbles, are amplified by the ability of speculators and wealth managers to leverage positions through bank credit. Bank credit is the ability of the private banking sector to create money on the basis of a capital-asset base, with assets often linked to credit by the collateral the debtors put up. During an asset inflationary episode, the relation between collateral and asset values produces a self-levitating element of bubble fuel by boosting the amount of leveraged quasi-monies that can be brought into existence. A case in point is when house prices went up during the bubble, owners could use this as collateral to withdraw equity in the form of home equity loans, in other words the enhanced house values enlarged the stock of credit money available to current house owners, who then either used the money to fuel consumption, but also returned some of the leveraged credit money to the bubble as investment in speculative purchases of second homes. However, the result was that when the housing bubble bust and house prices fell, the credit suppliers were left with under-collateralized and non-performing debts, which forced massive write-downs.

When that happened, the severity of the wealth-destroying deluge was arrested by the government bailouts, the implication of which was that the tax base (either now or in the future) underwrote the rise in government debts that funded the bailouts. Put simply, the bailouts exchanged bad, non-performing private debts with good government debts, which salvaged the banks bloated balance sheets and thereby secured their abilities to fuel the next bubble.

In contrast to when governments create base money, bank credits are tied to their capital base and the loan assets this base creates. Credit money can therefore be destroyed again, either by being repaid, but also if debtors default, which on the downside of bubbles becomes a crash accelerator. The problem with bailouts is of course that it is the wrong people (taxpayers) who end up paying for other people's (mainly Ponzi speculators⁵²) problems and therefore add to the moral hazards already created by the skewed incentive systems dominating the financial markets (in particular, the moral hazard caused by the non-reversibility of bonuses and stock options).

Money is of course also a form of wealth, and money creation therefore plays an important role in the development of an economy's incomes and wealth structures. Ownership to money—and, not to forget, control over the expansion of the various monetary bases—is therefore another element that shapes the patterns of income distribution and wealth creation in a society. The bankers, who create money, and the financial managers, who pass it along, earn fee and bonuses for these services, which is a cost to the banking system's money creating processes. As these payments also are non-reversible, they are part of the moral hazard problem since they are an incentive for some to escalate the creation of credit money.

The Hunt for Returns

Owners and managers of capital accumulations are always on the hunt for returns, that is, assets with positive yields. At the beginning of the 2000s, the Fed funds rate was at an all time low thanks to Fed Chairman Alan Greenspan's medicine against the relatively mild recession following the bust of the dot-com bubble. That meant that treasuries weren't exciting investment objects. Moreover, in the wake of the dot-com bust, which of course mainly was a stock market phenomenon, the appetite for parking wealth in the stock market was also low among wealth managers. Instead, a substantial part of the investment flows turned to the bonds that the Wall Street securitization process produced on the basis of various pools of consumer debts.

Modern economies constantly produce debts that are serviced by large flows of instalment payments. House owners take out mortgages, car buyers have car loans, many people carry credit card debt, students have student loans, etc. Commercial enterprises also produce debt with instalment flow of payments, for instance commercial real estate mortgages, commercial paper (bonds) and leasing contracts. Finally, governments raise debt that is considered risk-free, but also correspondingly offers lower returns, so bubbles are generally cases of in-flows of money into private asset classes.

In their originating forms, most private debts are relatively illiquid: no distant investors will directly buy them since they cannot know the risk of default and therefore

⁵² According to Hyman Minsky's categorization in the paper referred to in the previous note, a Ponzi speculator is a speculator with a leveraged position, the cost of which cannot be maintained unless some of it constantly can be rolled over at higher values in a rising market.

not calculate risk-weighted prices. Thus, in the pre-neoliberal economy private debts (in particular, mortgages) stayed as illiquid assets on the balance sheets of local banks and their only effects on society's creation of wealth-storing objects available to wealth accumulators were the addition to the banks' stock values that—referring to the above fundamentals—would be restricted to the risk-weighted net income streams that mortgages would create for banks over the lifetime of the mortgages. Obviously, the addition to existing liquid wealth objects available for wealth owners that this type of debt created would be fairly restricted.

Securitization is a technique through which debt contracts that are illiquid in the individual case but carry promises of providing regular instalment payments are pooled into large bundles by investment banks, who buy the debt contracts from local banks or other local institutions that originate mortgages, car loans, etc.

When the financial intermediaries buy mortgages from the local banks (including in some cases specialized mortgage originators) the addition to the banks value, seen from the view of its stock owners, is no longer the expected net present value (NPV) of a discounted payment streams, but a value realized through the sale of the mortgage at a profit. This sales value will in most cases probably be slightly lower than the expected NPV to reflect that the sale will resolve the uncertainty (mainly the market risk) involved in holding the mortgage to maturity, as well as immediately free the part of the bank's capital base (reserves) that represents the investment in the mortgage.

When debt is pooled by the securitization techniques that financial institutions have developed, default risk can—due to the law of large numbers—be reduced to statistical measures. In the securitization process, the payment streams from the pools of debt become wedded to new securities that are sold to investors, after the financial institutions performing the pooling and financial reengineering have taken their fees for their troubles (which includes the rating agencies that provide risk-rating of the securities and are paid out of the fees retained by the financial firms).

The created securities are called collateralized debt obligations (CDO),⁵³ where the collateral is the underlying debt contracts and the values derived from the transformation of the interest that the mortgagors (or other kinds of debtors) pay through the payment streams that have been transferred to the securities. Securitization as a financial phenomenon has been around since the late 1970s, but during the housing bubble securitization of home mortgages turned into a flood.

The central aspect of the financial 'alchemy' that the securitization process represents is that the whole value of the originally issued mortgage now has been transformed into a highly marketable store of wealth, available even to international holders of excess liquidity. This is in contrast to the above-described situation, where mortgages remain on the books of the originating local banks on Main Street, which only addition to the stock of wealth objects is the capitalized values of the profits that the

⁵³ Sometimes also called asset backed securities (ABS), or mortgage backed securities (MBS) if the derivation from mortgage debt is to be emphasized. In the larger picture, these technical differences are not significant so we will stick with CDOs here.

business of issuing mortgages creates. It should be noted that this gain in capitalized value remains intact, but now in the form of the price differentials at which the banks sell off the mortgages to the Wall Street securitization powerhouses.

In economic fields, supply and demand are always interacting forces. Therefore, the apparent alchemy of the securitization process is in fact a process that only is possible if there is a matching rising demand for marketable investment objects to imbue the securities with value; otherwise the sale of mortgages from local banks to Wall Street financial institutions would only mean a transfer of illiquidity from one agent to another and pretty much make no sense, except perhaps as a risk diversification move.

The ultimate driver of the process must therefore be sought on the demand side of the financial markets. Here, the rise in monopolistic surpluses and lower marginal income taxes had crystallized into sharply rising disposable incomes for the owners and managers of the various surplus yielding capital assets. At the same time, the neoliberal policies also lowered marginal taxes on capital gains, which meant that disposable capital gains accruing from sale of existing financial wealth likewise began to grow along a rising trajectory, a process that further boosted the accumulation of wealth.

The part of high incomes that is not consumed, but added to existing wealth accumulations, is a residual that start out in a money form, since that is how dividends, capital gains and CEOs remunerations in the context of a monetized economy generally are paid out. In traditional economic models, this residual is savings, S , that is considered equal to investments, I , which in turn enlarges the stock of constant, or productive capital, K , after depreciations, δ , are netted out. Thus, the next period's stock of productive capital, K_{+1} is given by $K - \delta + S$.

This simple model, however, overlooks some important characteristic pertaining to societies with financial markets. In a monetized economy with financial markets, wealth holders can choose between holding wealth in the form of money (M), productive capital (K), or debt (D).⁵⁴ Holding money is assumed governed by liquidity preferences, which will rise if uncertainties associated with holding K or D are great, typically in a recessionary economy and during the deleveraging periods occurring on the downsides of asset bubbles.

Holding money might however not always be due to liquidity preferences. It can also, due to the mentioned fact that new wealth come into existence in the money form as cash, or more likely, as a cash-equivalent deposit to a checking account, in which form it might stay for some period as an involuntary consequence of not finding adequate investment opportunities for the newly acquired wealth (or additions to existing wealth). Therefore, the rising incomes inequalities that the switch to neoliberal economic policies had set in motion created a rising demand for wealth objects; that is, for stores of wealth that could yield a return. The securitization process, as well as a number of other financial innovations, was a reflection of this rising demand for wealth storing objects, without which securitization could not have occurred.

⁵⁴ Michl and Georges: "Debt and Taxes in a Marxian Growth Model." Review of Radical Political Economics. Volume 28, #3, September 1996.

By the late 1990s, the housing market had started to rise and hardly paused during the following relatively mild dot-com recession. Driven by rising house prices, construction soon began to respond, boosted by the low interest rates that were in place in the wake of the recession. As house prices kept rising and defaults remained low, the perception took hold that risks had been permanently conquered by the securitization process that seemingly were able to accurately calculate the risk-weighted prices of securities issued on basis of the mortgage pools.

An important element of the mortgage securitization process was ‘tranching’, a process whereby a pool of mortgages is divided into sub-groups. Each group, or tranche, is risk-weighted separately by the ratings agencies. The lowest, or junior tranche—typically comprised of subprime mortgages—would pay the highest interests but also be the first to be exposed to defaults, while the senior tranches comprising of prime mortgages conversely would pay lower interests but have better risk-weighted ratings.

Securitization and the higher interests the created CDOs provided (relative to benchmark treasuries) boosted a cumulative cycle that drew more demand from wealth holders forward. This demand came not only from the U.S., but also from the rest the world where dollar funds were accumulating, partly as consequence of tax avoidance (in the tax havens), partly as result of the consistent U.S. trade deficits that have deposited large dollar holdings overseas. Consequently, the mortgage-backed securities were snapped up as fast as Wall Street could create them. This in turn spurred the tendency—alluded to above—that rising asset bubbles have a tendency to progressively draw assets of lower qualities into their orbit as they go on.

The result was that the pool of mortgages started to contain increasing ratios of subprime mortgages, mortgages extended to homebuyers who didn’t fulfil prime lending standards with regards to income and credit score measures.

In order to earn fees by originating mortgages that could be pushed on to Wall Street’s securitization machine, sales techniques became increasingly aggressive, predatory, and at times outright fraudulent (for instance when mortgagors and loan originators would collude to provide false incomes documentation to first level credit underwriters). Targeting low-incomes families by skipping elementary underwriting procedures of verifying incomes and abilities to sustain the costs of home ownership became rampant. Increasing numbers of low income earners and recent immigrants with little understanding of how the way American capitalism works were pressured by fast-talking loan originators into homes that there were no way they could afford, considering their realistic income opportunities. A main sales pitch became that since house prices were rising and expected to continue to do so, people could always refinance based on the equity gain. Apparently, saying no would be saying no to the proverbial free lunch.

In economics, the concept of moral hazards designates situations where a risk originator doesn’t suffer the consequences of a failure linked to the risk he or she has produced. By the mid-2000s, moral hazards in the securitization markets had grown in step with the bonanza of bonuses reaped by mortgage originators on Main Street, and financial traders on Wall Street. A major factor in creating the moral hazards was that

originating fees and bonuses seldom were reversible. Furthermore, bonuses were often at sizes where young traders, even if they in the end might lose their jobs, already would have earned more money than they ever could have dreamt of. They were therefore not particularly concerned about the endgame possibility of losing their jobs if, or rather when, the market tanked. There is no question about that many insiders realized that the wheels were bound to fall off the money wagon sooner or later, so the attitude became: strike gold while the going is good.⁵⁵

Rising Inequalities

A characteristic of the neoliberal economy is that it has incurred sharply rising social and economic inequalities. The U.S. is not alone in being under the spell of the neoliberal ideology—it is a trend that in a varying degree has shaped the political economy of all the advanced economies and has been ‘exported’ to many of the emerging economies, including the former communist states where it has been warmly welcomed in many quarters. However, the U.S. is still the world’s largest economy and houses a large number of the corporations and financial institutions at the centre of the global markets. It is the country in which the modern neoliberal ideology has reached its defining form; both as manifest political power and in its reflection as economic theory.

As political power, when the neoliberal power circles are faced with moderate politicians, the attitude has been one of vicious obstructionism—as exemplified by the Republicans in the U.S. Congress, who have proved ready to rather see the country sink than give up even the smallest of the privileges enjoyed by the very rich. A Republican talking point has been that Obama is waging ‘class warfare’. Well, there might be class warfare in today’s America, but it is of a different kind from what people usually connect with the word: mobs of workers in the streets attacking the edifices of the capitalist establishment. This is the image that the republicans want to conjure up, but it is not the reality of modern ‘class warfare’. As Warren Buffett, one of the world’s richest men but an outspoken critic of the extremist neoliberal trends, once dryly concluded, “There’s class warfare, all right, but it’s my class, the rich class, that’s making war, and we’re winning.”⁵⁶

The fact is that after the shift to neoliberal economic policies around 1980 incomes in United States have followed a secular trend of widening disparities. This despite it already was the most unequal society among the developed economies at the start of the period.

A CBO study⁵⁷ analyzed the change in household income distribution from 1979 to

⁵⁵ For the lack of due diligence both by the Wall Street securitizers and the rating agencies, see reference to FCIC hearings on page 33, note 23, especially testimony of Susan Mills, Managing Director of Mortgage Finance, Citi Markets & Banking, and also the June 2, 2010, Session 1: The Ratings Process.

⁵⁶ “In Class Warfare, Guess Which Class Is Winning.” Interview with Ben Stein. NY Times, November 26, 2006.

⁵⁷ Trends in the Distribution of Household Income Between 1979 and 2007. A CBO Study, October 2011.

2007. It starts by noting that real (inflation-adjusted) average household income, measured after government transfers and federal taxes, in other words, the measure of what people actually have in their hands as disposable incomes, grew by 62 percent.

The Study then goes on to show how this growth in household income was not equally shared among the different economic classes. The following diagrams, based on the CBO numbers, how incomes disparities have grown in the neoliberal economy:

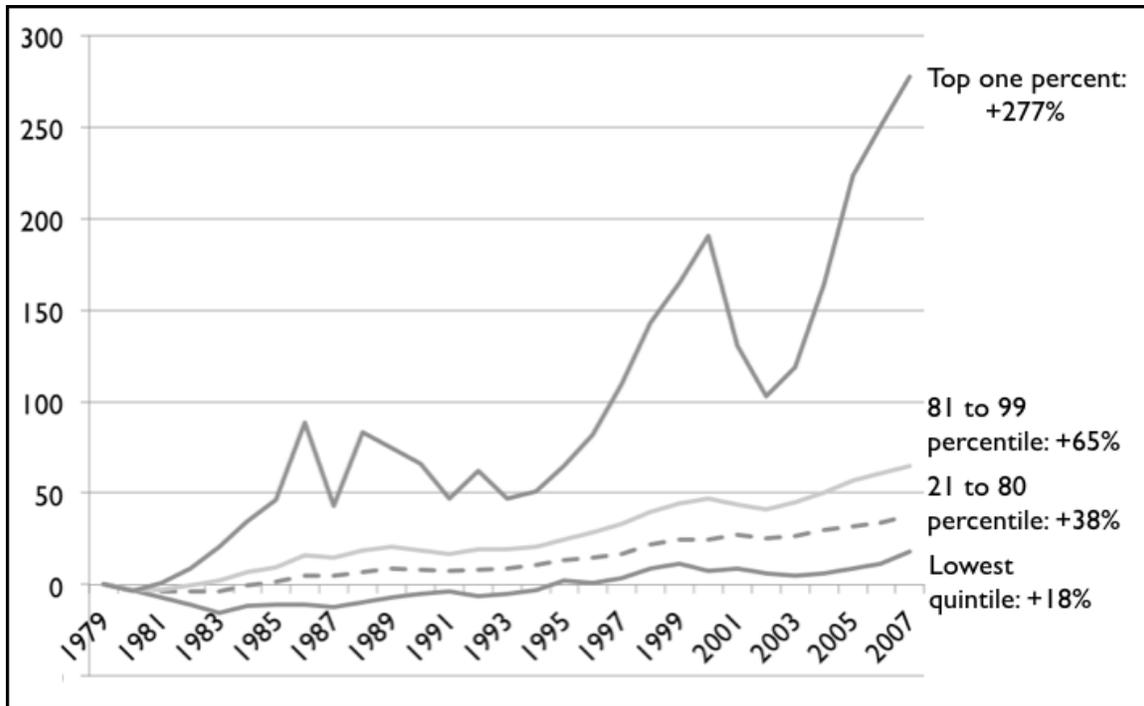


Figure 8-1. Cumulative gains of real after-tax incomes, different incomes group. United States 1979-2007. Congress Budget Office (CBO), October 2011.

The broad middle class, considered the 21st to the 80th percentiles of the incomes spectrum, saw its cumulative real after tax income rise by 38 percent over the span of the almost thirty years the study spanned. This of course meant that their incomes as a share of total income fell considerably. The poor, the lowest 20 percent, fared even worse, capturing only 18 percent of cumulative growth. The merely rich, the 81st to the 99th percentiles, at 65 percent, however only gained a share that was proportional to total average growth.

What this meant was that most of the growth was captured by the top 1 percent whose incomes grew at a whopping 277 percent, several times average growth. Furthermore, obscuring the true picture of income inequalities at the top is the amount of top incomes that end up statistically unaccounted for in transnational banking centres and tax havens

Besides the loss of relative incomes shares experienced by the middle and lower classes, other social and economic conditions have played roles in creating deteriorating

economic realities for many families in these incomes groups. Defenders of the neoliberal economy point to the fact that falling prices for many consumption items have indirectly boosted the purchasing power of incomes. Be as it may, other price trends have more than made up for these gains, resulting in a situation where the average middle class household increasingly finds itself in a serious economic squeeze.

In particular, many of the so-called life-style necessities, such as housing, energy, the important social goods of education,⁵⁸ and in the U.S., health care,⁵⁹ have risen at rates well above the growth in disposable incomes for middle and lower incomes groups:

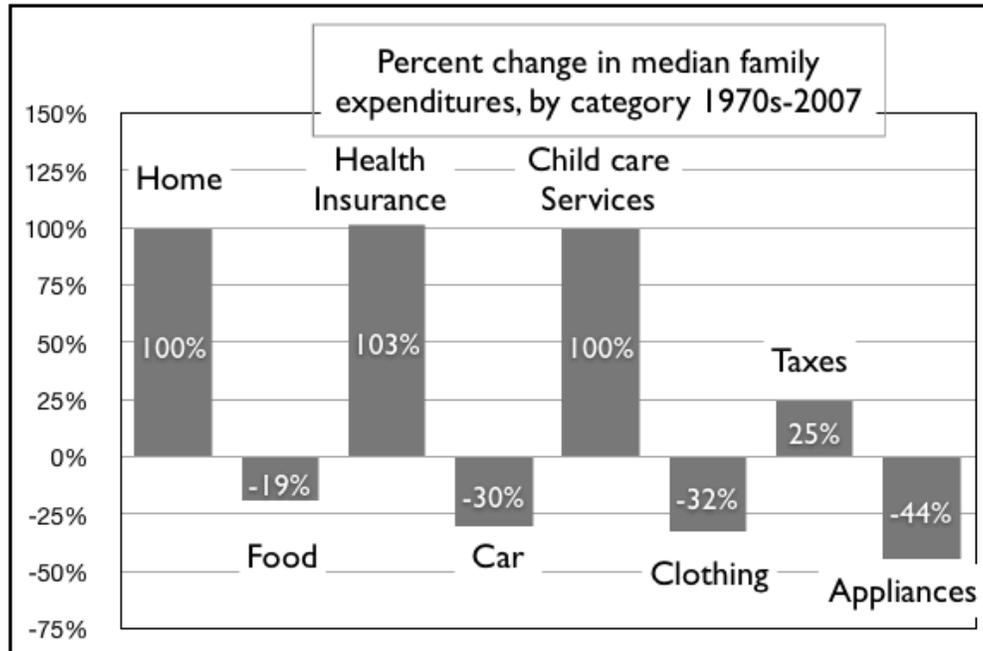


Figure 8-2. Median family expenditures by category, 1970s-2007.

From Elizabeth Warren, "America without a Middle Class". Notice the rise in total taxes for the middle class, in contrast to the situation for the very rich.

In her comments to the above figure Warren notes: "... core expenses kept going up. By the early 2000s, families were spending twice as much (adjusted for inflation) on mortgages than they did a generation ago -- for a house that was, on average, only ten percent bigger and 25 years older. They also had to pay twice as much to hang on to their health insurance."

Adding to the woes of the squeezed middle class is that many have absorbed fixations that require certain modes of consumption—the attributes of which have become important social identifier fetishes—to be sustained at all costs, even if it means

⁵⁸ The price of college education has more than doubled in real terms since 1980, thus only the top one percent households of the rich has kept pace.

See: http://www.collegeboard.com/prod_downloads/about/news_info/trends/trends_pricing_07.pdf

⁵⁹ The Effects of Rising Health Care Costs on Middle-Class Economic Security, by Harriet Komisar Georgetown University. AARP Public Policy Institute, Jan2013

maxing out credit cards or using the house as an ATM. In consequence of this, the ratio of household debt has risen sharply in both North American economies, hovering around 150% of incomes. In a June 2012 report on Canadian household debt levels, a leading newspaper noted: “The household debt-to-income ratio uptick is partially due to the fact that income levels aren’t growing fast enough to keep up with borrowing.” This of course is much of the story of the middle class squeeze in the neoliberal economy: It has not been possible to sustain the compulsion to engage in high levels of consumption that the marketing machines have built up by stagnant incomes alone, causing the middle class to fill the gap with debt.

At the top of society, the consumption of the rich has, not surprisingly, followed a quite different trend, fuelled by income growth that, as indicated, has risen at explosive rates. Driving the rising levels of consumption by the upper percentiles are hastily growing after-tax incomes, to which is added substantial wealth effects due to appreciation of owned assets.

A peek into the trends of consumption at the top was offered by papers made public in connection with a 2006 so-called ‘Plutonomy Symposium’, held by Citigroup. The purpose of the symposium was to advise investors on how to invest in stocks of firms that cater to the consumption of the rich, which the Citigroup investment advisors heralded as being sure growth industries. In a paper presented to the symposium, then Citigroup analyst Ajay Kapur noted: “The share of high income households in consumption is very large”, pegging the consumption of the top 20% percent of the incomes spectrum at 60% of total national consumption. Further he noted, “the forces which had driven the recent 20 year rise in [their] incomes [are] likely to continue”.

In national statistics, the binge of oversized consumption is reflected in a rise in the ratio of consumption to GDP, which has surpassed seventy percent, once again a figure where the U.S. economy stands out from the other advanced economies where private consumption in most countries remains in low sixties percent of GDP. Part of the rise in U.S. private consumption has on the macro level been financed by borrowing from abroad via the current account deficit, which allows total domestic GDP components to exceed 100%, in some years being as high as 105%.

Taken together, the above figures show that while the economy was producing large gains for a small elite at the top of the incomes-wealth pyramid, the American Dream was slipping away for many ordinary households, as they tried to square the circle between the race to consume status goods, stagnant incomes, and sharply rising costs of social necessities.

The Riddle of Labour Productivity

Another defence for the neoliberal economy is pointing to the fact that labour productivity has shown substantial gains during most of the period. If that’s the case, things can’t be all that bad. This, however, rests on a misunderstanding of what it is that

labour productivity actually can tell us. Let us first look at how the relation between productivity and median incomes for full time male workers used to behave:



Figure 8-3. Labour productivity and real median wages in the Keynesian economy. United States, 1957-1979. Labour productivity after BLS, Median income after U.S. Census data. Table P-36 Full-Time, Year-Round All Workers by Median Income and Sex.

In this figure, showing the relation during the years of the post-war economy when Keynesian economic policies prevailed, one notices that there is a considerable correlation between labour productivity and real incomes of the middle class (approximated by the incomes of a full time male worker). This is in line with expectations of traditional economics; when the economy enters recessionary conditions, a signal is that productivity is falling, forcing workers to entertain lower wage expectations. This will go on until wages reach levels where it again becomes profitable for firms to hire new workers and expand operations. When that happens, the economy, employment and wages rebound together, and everybody benefits.

One of the conditions defining the productivity relations in the Western economies during the post-war period was that the advanced economies mostly conducted trade with countries that had relatively similar basis-cost levels for the various inputs. Trade was in most cases a consequence the existence of relatively efficient industry and technology clusters in one country that created comparative advantages in trade in the Ricardian mould. Thus, higher marginal revenue products gained by trade were a consequence of producing a higher valued physical product in export competitive sectors.

Internally, the post-war economic system allowed for more widely shared economic benefits. In fact, under relative labour shortages, the economy was dependent upon labour that was rewarded according to rises in productivity, since higher marginal products were directly dependent upon specific labour contributions: that better trained workers were able to utilize operating with more capital. Labour as an input was therefore much less substitutable, since new workers with lower costs would have matching lower skills and thus not be able to produce the same marginal revenue product.

Now, let us look at the same measures in the neoliberal economy. As reference, the trade deficit, expressed as percentage of the GDP, is added (why will become clear in the following):

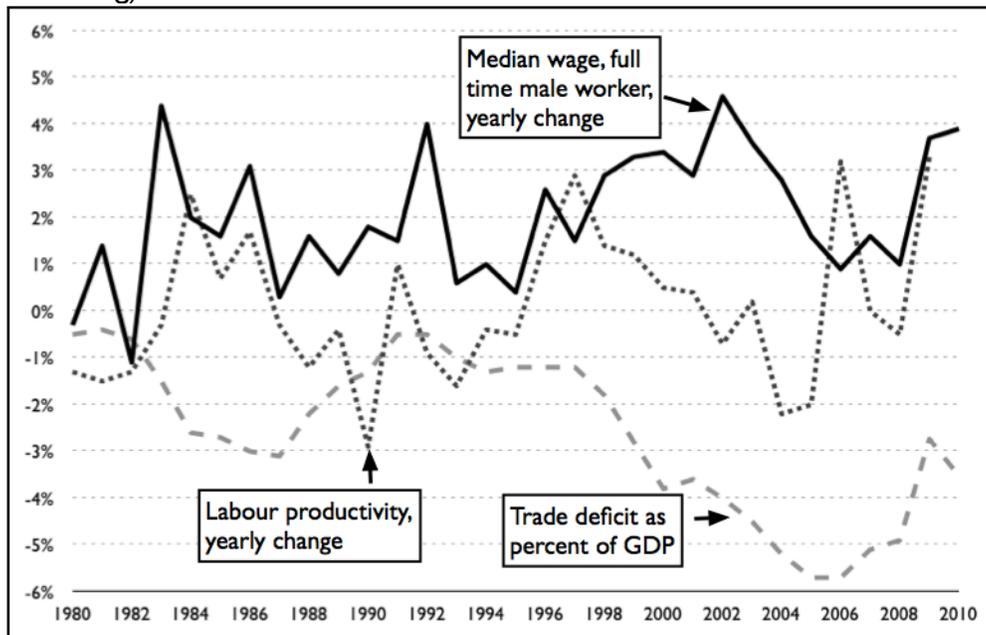


Figure 8-4. Labour productivity and real median wages in the neoliberal economy, United States 1980-2009. Labour productivity after BLS, GDP/trade deficit after BEA-NIPA. Median income after U.S. Census data. Table P-36. Full-Time, Year-Round All Workers by Median Income and Sex: 1955 to 2009.

What strikes the eye is that the correlation between labor productivity and real median incomes that existed in the post-war economy has broken up. On the other hand, there has appeared a reverse correlation between productivity and the trade deficit.

This reflects a symptomatic condition of the current economy: labour incomes only marginally benefit from economic growth. Moreover, productivity is not strongly affected by recessions, and unemployment (not shown here) has been stubborn in coming down during recoveries, given rise to the so-called jobless recoveries that don't necessarily return wages to growth patterns.

There are several possible explanations for the break-up of the labour-productivity relation. However, the massive offshoring of the developed economies' manufacturing

bases is surely a main culprit. Moreover, offshoring increasingly also engulf service industries, such as design, accounting, and tele-service industries—industries whose productions in a digitalized economy no longer are strictly location-bound.

A key facet of globalization is that it has recreated a new ‘reserve army of labour’ available to the corporations in the form of access to cheap labour in low-cost countries.

Under globalization, the existence of a higher physical product is therefore not a precondition for the viability of transferring production (or product sourcing) to other countries, since differences in basic production costs are of magnitudes where both lower physical productivity per man/hour and transoceanic transport costs easily can be absorbed and still yield lower average costs.

Globalization has thus presented the Western corporations with a new source of labour that became available after container transport and new electronic communication tools reduced the transaction costs of trans-continental production and trade very substantially. The access to this labour pool has created a new crushing competitive force that compels Western workers to lower their wage demands—and oftentimes even accept wage cuts—while on the other side of the table the profit share has risen correspondingly, as has other operating costs that flows as incomes to high incomes individuals involved in running the corporations, including remuneration of corporate managers and outside experts whose skills are important for managing corporate structures and profit streams. It also reflects the rising costs of maintaining balance sheets and risk hedging in an economy where corporate operations have become increasingly entwined with the financial markets.

An important facet of globalization is that the ‘cost-restructuring’ processes that send jobs overseas are not incremental shifts responding to slowly evolving developments of competitive forces, as it would be the case with investments flows going to countries with similar basis-cost structures. On the contrary, in many cases it has been rapid shifts that have ravaged whole industries within short spans of years.

When a product is switched from domestic production to import substitution—in whatever form it takes—it has considerably effect on the statistical readings of the economy, including interpretations of the relation between wages and productivity.

When a given product return as an import substituted input with lower costs, the economy's productivity reading will go up, since fewer domestic employees now produce (or distribute, as the case might be) the same value units of final consumption. At the same time, the economic relationships directing the offshoring process are structured such that the cost savings gained are only partially passed on to consumers and to the workers, who now add a larger value-added to the remaining part of the domestic processes. In other words, most of the cost savings gained by offshoring translate into further intensification of the monopolistic profits that the neoliberal economy gives rise to.

The statistics that measure labour productivity are moreover affected by another business trend that has proliferated in recent decades: the rising tendency in the domestic economy to substitute workers with benefits for workers without benefits.

This plays a larger role in the U.S. than in other economies since health care access for workers are tied to benefits that are part of wages; thus giving businesses greater incentives to try to reduce these costs.

The labour market pressures stemming from globalization, which have forced workers to accept such downshifting of wages and benefits, have also been a powerful factor in diminishing the strength of unions as an effective countervailing force to capital in the economy.

Although labour productivity measures value-added per worker, rising labour productivity in statistics does therefore not necessarily represent conditions leading to higher wages for workers. The extent to which productivity gains lead to higher wages is dependent upon social bargaining. If workers social bargaining positions are weak, the statistically registered productivity gains can under globalization also signal that a further depression of wages is going on. That means that, instead of signaling a stronger economy that is able to afford paying rising real wages to workers, rising labour productivity in the neoliberal economy might just as well indicate that capital owners' gross margins are improving as consequence of successfully having being able to reduce labour costs, and use the savings to bolster the profit share.

Along these lines, labour economist Susan Houseman in a 2006 paper concluded:

“Despite the fact that productivity growth is the basis for improvements in workers' standard of living, the rapid growth in measured productivity in the United States has not been accompanied by widespread improvement in American workers' wages.”⁶⁰

Shadow Banks and Side Bets

The early phase of financialization, the late 1970s and 1980s, saw the emergence of the so-called shadow banking system, comprised of closed investment funds, such as hedge funds and equity funds, which can be considered banks for the very rich, although the shadow banking sector also include money coming from institutional investors and sovereign wealth funds (countries with large export surpluses often pool part of the surpluses in government controlled funds).

At first, the dominant speculative strategies were merger and acquisitions, and leveraged buy-outs. An important element, which the early shadow banking system pioneered, was the use of derivatives. In the start, the derivatives were primarily exchange traded futures and currency forwards, but as the practices matured, custom designed OTC (over-the-counter) derivatives such as interest rate swaps and credit default swaps (CDSs, a form for debt insurance) entered the mix.

The historic use of derivatives goes back to the Chicago Mercantile Exchange in the late nineteenth century. Farmers began to hedge risks by taking out futures, by which mean they would lock in the price they would get for their harvest, say, a half

⁶⁰ “Outsourcing, Offshoring, and Productivity Measurement in U.S. Manufacturing” by Susan N. Houseman et al. Upjohn Institute Working Paper No. 06-130, 2006.

year hence. Today's derivatives have little to do with this humble origin: they are often used to create bets on price changes or other market events (for instance, debt defaults) but in a way where the bets can be made without carrying the cost of actually owning the given assets (and therefore called synthetic market positions), but only at the cost of the fees paid for maintaining the derivatives contracts.

When investment strategies lead to bubbles based on real sector assets, it undeniably has positive effects on the economy during the growth phase. For instance, the dot-com bubble caused tech startups to multiply; the housing bubble sent housing construction into overdrive, in both cases with considerable job creating effects. The problem is that the positive effects of economic bubble fuel not only will collapse again when the oxygen of the bubbles disappears, but they will often collapse with a rapidity that send debilitating shock waves through connected parts of the economy. In the financial markets, a bubble collapse will typically shock credit markets, with strong adverse effects for credit supply to the real economy.

As the rise of over-the-counter (OTC) traded derivatives multiplied, they created commitments—in other words, risks—that sometimes were parked in off-balance sheets vehicles—so-called structured investment vehicles (SIV)—that were out of sight not only for regulators, but oftentimes also for counterparties. Particularly troublesome in this respect was the latest crop in the field of derivatives, the credit default swap (CDS), which appeared in the 1990s. A CDS is an insurance-like derivative that in essence is a hedge, or insurance, taken out against the possibility that a given underlying financial instrument defaults (or loses value in some other credit event defined by the contract). Besides payment in the case of outright default, clauses often prescribe that credit deterioration of the underlying instrument requires higher collateral to be posted in the form of cash or near-cash equivalents, such as short-term government securities.⁶¹

In the unregulated market of the 2000s, the CDSs metamorphosed into complex uses, including the invention of the 'naked' CDS: CDS contracts that were side-bets on defaults of credit instruments that the party taking out the contract didn't own nor had any insurable interest in. It can be compared taking out a fire insurance policy against your neighbour's house. Only with the difference, that if the house really burns down, the insurance company must pay both you and your neighbour the full sum, despite the fact that you don't have any house to rebuild.

The risk of contagion was exacerbated by the high market risks⁶² the CDS derivatives carry. In most types of derivatives contracts, the amount of money that actually might change hands is only a fraction of book values (i.e. the notional amounts of the underlying instruments). For instance, in the case of a derivative specifying an interest rate swap between receivers of fixed and variable rates, the market risk is the

⁶¹ Which reduces the liquidity position of a given firm's balance sheet and thereby its ability to maintain other cash-flow commitments.

⁶² Market risk is the risk that counterparties cannot honour their contractual commitments. In an insuring situation, it is the risk that the insurer cannot pay the insured party. For instance when the house burns down, the market risk is to discover that the insurance company just went bankrupt and will not pay. Consumer insurance in most countries is tightly regulated precisely to avoid this.

difference between the two interest rates, which seldom rises to more than a few percent of the notional values. In contrast to this, if a CDS insured bond defaults, the payout is the whole of the notional amount, compensated only by the payee taking ownership of the defaulted bond with whatever recovery value it might have.

By the mid-2000s, the 'naked' CDS had become Wall Street and the shadow banks favourite gambling tool. However, the counterparty risks the positions created inserted a major contagion risk in the financial markets, as the impending crash was to prove,

The extent of the problem can be gleaned from testimony given in October 2009 by Eric Dinallo, New York State Insurance Superintendent (i.e., the state's top regulator of normal consumer insurance) to the House Oversight and Government Reform Committee:

“Without direct oversight by securities, commodities or insurance regulators, the massive growth of the unregulated CDS market, from \$900 billion in 2000 to an estimated \$58 trillion today, lay at the heart of the financial crisis now gripping global markets.” ... “We’ve allowed this to run completely unchecked to the point where it is larger than the entire economic output of the world annually.”

Dinallo further noted that, “covered CDS[s] represent only about 10% of the total market of swaps”. Said in reverse, the naked CDSs, contracts that were the side-bets on other people’s problems, had reached an astonishing 90% of the estimated \$58 trillion of notional exposure.⁶³

Rumour of a Bubble

In the spring of 2005, buzz about a bubble in the housing market had become widespread, so much so that it got a cover story in June 2005 issue of “The Economist”, which called it “the biggest bubble in history”.⁶⁴ Nevertheless, it didn’t rattle Fed Chairman, Alan Greenspan, who in his approach to market regulation and oversight consistently had been a believer in an extreme free market philosophy. A glimpse into the underlying philosophy he brought to his job as overseer of the nation’s banking system can be gleaned from a speech he gave in May 2005: “...private regulation generally has proved far better at constraining excessive risk-taking than has government regulation.”⁶⁵ Private regulation is of course an oxymoron, but as the speech indicated, his philosophy prevented him from acknowledging that private greed was at that very moment blowing up what The Economist called the biggest bubble in history, a bubble that should have caused him to urgently put a stop to its further growth. At another occasion around the same time he commented about house prices, in a widely repeated quip, that there might at be “a little froth” in the markets.

⁶³ See the Congress record with Dinallo’s full testimony.

<https://www.gpo.gov/fdsys/pkg/CHRG-110hrg55767/html/CHRG-110hrg55767.htm>

⁶⁴ “In come the waves. The worldwide rise in house prices is the biggest bubble in history. Prepare for the economic pain when it pops.” Economist, Jun 16th 2005.

⁶⁵ <http://www.federalreserve.gov/boarddocs/speeches/2005/20050505/>

“Greenspan Concedes to ‘Flaw’ in His Market Ideology” Bloomberg News, October 23, 2008.

Ben Bernanke—at the time Chairman of the President’s Council of Economic Advisers and soon to take over the Chairmanship of the Fed after the retiring Greenspan—also held an optimistic view. This was expressed in an interview with CNBC in July 2005:⁶⁶

CNBC: “Ben, there’s been a lot of talk about a housing bubble, particularly, you know [inaudible] from all sorts of places. Can you give us your view as to whether or not there is a housing bubble out there?”

Bernanke: “Well, unquestionably, housing prices are up quite a bit; I think it’s important to note that fundamentals are also very strong. We’ve got a growing economy, jobs, incomes. We’ve got very low mortgage rates. We’ve got demographics supporting housing growth. We’ve got restricted supply in some places. So, it’s certainly understandable that prices would go up some. I don’t know whether prices are exactly where they should be, but I think it’s fair to say that much of what’s happened is supported by the strength of the economy.”

Greenspan and Bernanke’s optimism were however based on their misrecognized belief that laissez-faire economies create efficient outcomes. Anyone who scratched a little below the surface would quickly discover that the economic growth, which by the mid-2000s indeed had recovered somewhat from the lows during the dot-com recession, had a highly leveraged character; both in consumer spending (much fuelled by house equity loans based on bubble gains in house values), and in many investment positions, where high leverage meant that even only a minor market reversal could wipe out the capital base on which shoulders many of the bets rested. Not to be forgotten, many of the created jobs were related to bubble sustained activities, such as the abnormal boom in housing construction and the rising employment in financial services. Thus, many of these jobs were destined to vanish quickly again when the bubble bust.

In particular, as shown above, the neoliberal economy was not producing the needed growth in disposable incomes for the middle class. The contradiction between the hastily rising house prices and stagnant middle class incomes made it inevitable that the party couldn’t go on for very long.

In indices shown in figure 8-5, below, over house prices and middle class incomes give a clear picture; incomes given both in real and nominal terms are far off from the rise in house prices. In the direct case, house prices relate to nominal wages, but inflation adjusted wages play a role as it squeezes the discretionary income residual that can be allotted to housing costs.

Anyone who had cared to draw up the graph below—based on easily accessible data—would have seen the bubble in plain sight. And indeed, there were economists, not captured by the general hubris about the ‘new economy’, who sounded warnings.

⁶⁶ Interview on CNBC - July 2005. Cited by: “Ben Bernanke Was Incredibly, Uncannily Wrong” <http://mises.org/daily/3588>

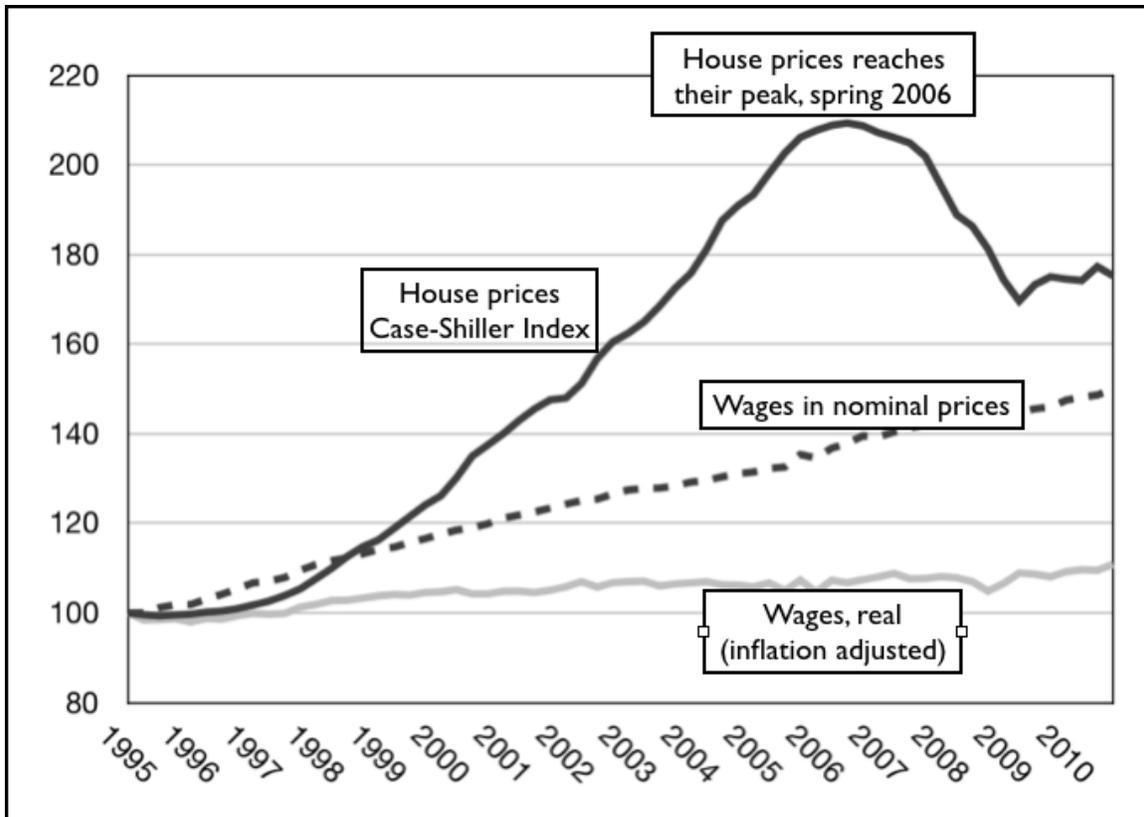


Figure 8-5. Development in house prices and wages. Jan 1995 (=100) to Jan 2011. House prices after Case-Schiller composite-10 metro areas index. Wages after BLS News Release “The Employment Situation.” Table B-8. Average hourly and weekly earnings of production and nonsupervisory employees on private nonfarm payrolls by industry sector.

One was Dean Baker, an economist with the Washington-based Center for Economic and Policy Research, who as early as in 2002 wrote: “Two thirds of the run-up in home prices is attributable to a rise in the price of buying a home relative to the cost of renting a home. This is what would be expected if there is a housing bubble, since it suggests that families are buying homes in large part as an investment rather than primarily as a place to live.”

This is the self-levitating function of bubbles. Baker further noted:

“While the short-term effects of a housing bubble appear very beneficial—just as was the case with the stock bubble and the dollar bubble—the long-term effects from its eventual deflation can be extremely harmful, both to the economy as a whole, and to tens of millions of families that will see much of their equity disappear unexpectedly. The economy will lose an important source of demand as housing construction plummets and the wealth effect goes into reverse.”

By the middle of 2006, house prices—as analyses from perspectives such as Baker’s would expect—stalled and then slowly began to reverse. Nonetheless, the ‘froth’ among investors and financial traders were such that they couldn’t let go the

golden allure of the money flows that the bubble had created. Thus, incredibly, the securitization process continued during all of 2007, albeit with the interesting twist that some the securities began to be shorted⁶⁷ (synthetically by the use of CDSs) by hedge funds whose managers saw which way the wind was blowing. In some cases, short positions were based on inside knowledge about the fact that the underlying pools of mortgages were beginning to experience rising rates of delinquencies, which however were still not reflected in the ratings.⁶⁸

The crisis began to bite in earnest by in the spring of 2008 with the collapse of Bear Stearns—one of the five sisters of leading investment banks on Wall Street. This caused the CDO machine finally to screech to halt. It began to dawn upon some that the large number of CDSs (the default insurance contracts) that were crisscrossing the market might pose a serious problem. As Time's March 17th, 2008, issue reported: "the subprime debacle, rising unemployment, record-high oil prices, and now CDS market troubles have all the makings of the perfect storm...it's [going to be] ... the next shoe[s] to fall."⁶⁹

As defaults in the housing sector spread through the mortgage pools that the CDOs were based upon, the opaqueness of the transfer of risks that the CDS provided made it difficult to gauge which counterparties had suffered losses or were saddled with liquidity problems. The fears rose to a pitch after Lehman Brothers was declared bankrupt in September 2008, causing the U.S. credit markets to freeze up. This became a defining moment that sent shockwaves through the global economy. A week later the government had to bailout AIG, the world's largest insurance company (in two rounds with a final price tag of \$185 billion), which by then were staggering on brink of bankruptcy caused by losses in its derivative division. This division had been a major player in the CDS market, but by taken positions that, rather unwisely, all were on the side of the insurer.

Stop-go Recovery

In the aftermath of the crisis, recovery has been stop-go and, once again, creating jobs at a very slow pace. Moreover, before the crisis, the U. S. economy was weighed down by deficits created by the massive Bush tax cuts, which had eroded the budget surpluses inherited from Clinton. When the fall in government revenues that recessions

⁶⁷ To "short" in financial jargon means to create a synthetic position that bets on an instrument (stocks, bonds, commodities, whatever) will go down. The reverse is to "go long", holding an asset in the expectation that its price will go up (which of course also can be created synthetically by buying futures, etc.).

⁶⁸ One case was the so-called Magnatar Trade. Pro Publica's report on this won a Pulitzer prize: <http://www.propublica.org/article/all-the-magnetar-trade-how-one-hedge-fund-helped-keep-the-housing-bubble>. In June, 2011, JP Morgan Chase agreed to pay a \$154 million penalty to settle SEC charges that JP Morgan neglected to tell investors that the hedge fund Magnatar helped create the deal and was betting against it.

⁶⁹ "Credit Default Swaps: The Next Crisis?" by Janet Morrissey, Time, Mar. 17, 2008. <http://www.time.com/time/business/article/0,8599,1723152,00.html>

always incur were added to the enormous bailouts that pumped liquidity into the failed financial system in wake of the crisis, it caused government deficits to explode, not only in the United States, but also across the world as the waves of the crisis spread.

Despite the fact that the deficits mainly are the results of failed neoliberal policies that allowed an unregulated financial sector to run amok, conservative politicians have everywhere been quick to use the crisis—in the best ‘shock doctrine’ logic—to attack government spending and clamour for more tax-cuts. Once again, the old supply-side fallacy was pulled out of the hat: that tax cuts primarily benefitting top incomes are always and everywhere the best way to get an economy going again.

Faced with an intransigent Congress, dominated by the rising tea-party Republicans after the 2010 mid-term election, the Obama administration backed down from its announced intention of letting the 2nd round Bush tax-cuts expire (as they were scheduled to do in 2012). This showed the general weakness of modern-day mildly progressive political leaders *vis-à-vis* the influence that the moneyed class wields over the political system. The tax-cuts had primarily benefited high-end incomes and had thereby been instrumental in exacerbating the problem of the wealth (liquidity) overhang that, as shown in the preceding, has been an important cause and accelerator of the succession of bubbles. Reversing the tax-cuts would thus not only have meant relieving the squeeze on government revenues, but also reduced the growth of the liquid wealth overhang, in the process taking some of the volatility created by the money accumulations in the out-of-control shadow banking system out of the economy.

However, as former World Bank chief economist and Nobel Laureate, Joseph Stiglitz, noted about the attempts to strengthen regulations (which equally applies to all attempts to initiate sensible tax policies): “The free-market advocates squelched it. There were too many people making money. ... The combination of the free-market ideology and the special interests was very powerful.”

Post-crisis there have been many calls for strengthened market regulation, but actions have everywhere been weak. Experiencing a muted and near jobless recovery, the trade deficit nevertheless remains high in the U.S., implying that the corporations investments in real economy expansion and production of consumer goods continue to mostly take place in the low-cost economies.

One can also get a picture of the state of the economy by looking at the housing market—the economic sector that brought us the crisis. Below are excerpts from an April 25, 2011, story by Reuters:

“The market for new homes is being squeezed by competition from previously owned homes and a deluge of foreclosed properties, even though inventories of new houses are at a 43-1/2 year low.”...” In a sign that the market for new homes is far from recovering, the median sales price for a new home fell 4.9 percent in March from a year-ago to \$213,800.” ...”There are so many people questioning things right now, asking themselves, am I going to have my job in six months?”

However, at the top things are quite different. The partial wealth destruction (as mentioned, largely arrested by the bailouts) that the crisis entailed is fading into memory. Corporate profits are surging again and the managers of the financial

institutions back to their old habit of paying themselves obscene bonuses. The Reuters story went on:

“...”There is a surge of confidence among high-end buyers and we're unfortunately short on inventory,” said Pamela Liebman, [a chief executive of a New York property firm] Her firm saw a doubling in the sale of luxury co-ops, worth more than \$10 million, in the first three months of 2011.”

The Doxa Coordinated Ensemble of Market Fundamentalism

The perceptions and beliefs shared by principal agents in an economic system can play an important role in influencing how the chain of economic macro events will unfold, and—if a crisis erupts—how responses will play out. In a given society, policy making groups will often be seen imbued with a shared ensemble of doxical beliefs that causes them to follow what can be called doxa coordinated patterns of reactions. Since reaction patterns thus are grounded in shared beliefs tainted by misrecognitions, there develop tendencies to persist in misguided responses, even in the face of substantial counterfactual evidence and data that ought to lead decision makers in other directions.

Doxa ensembles have pivots, or widely accepted, deep-seated beliefs that never are seriously checked against facts. On the contrary, counter-facts that might emerge are constantly rationalized away so that the pivot can live on unscathed.

Currently, in the advanced Western economies the ensembles of misrecognizing doxa that are driving economic policies and private sector decisions are pivoting around market fundamentalist beliefs that have found their formal expression in ‘efficient market hypothesis’, the hypothesis that market always utilize all available information to create efficient prices. The efficient market belief is in turn connected to the stubborn belief in the efficiency of supply-side policies and minimalist (and low taxing) governments, despite the facts that events (the repeated crises, slowing real economic growth, the squeeze on middle class, etc.) don't lend empirical support to the postulated logic.

Inability to recognize the problems was not the only thing that clouded responses to the crisis among primary policy decision makers. Many, quite clearly, acted driven by motives that as a primary goal had to protect special corporate and financial interests, in some cases linked to previous positions. For instance, Bush' Treasury Secretary, Hank Paulson, had come to the administration from a CEO position in Goldman Sachs, a top Wall Street investment bank. Not surprisingly, considering that background he seemed more occupied with sheltering his former pals on Wall Street than the public interests.

When covering up for decisions that are pandering to special interests, the motives tend to hide behind coded language (memes) that reference the decisions to commonly shared doxical misrecognitions. Carried forward by the neoliberal narratives and echoed in much of the media, many of the misrecognitions that drove the economic policies, and which allowed the crisis responses to be ineffective, have become so firmly embedded in the public psyche that there have not arisen coherent demands that have been able to force changes in directions away from the failed policies.

In this context, the panicked response to the crisis—robbing the public purse to keep the banks and other financial institutions afloat—bared the conflict of interests that has come to be the norm within government structures, elected as well as bureaucratic. Of course, the crisis caused large losses in many quarters, but the level to which the investors and the banks were bailed out by using public money to shield the bloated positions, ensured that the wealth destroying write-downs from bubble values didn't go too far.

The fact is that much of the bloated paper values created by the securitization process on the bubble's upside turned out to be bad near-money. However, when that was bared, the bailouts, incredulously, exchanged much of this bad private near-money with good government near-money, i.e. government bonds and treasuries. On the collateralization side, under-water housing was exchanged by governments' ability to tax future generations. Moreover, if public debts go too high they can potentially be monetized in the future by selling public assets to pay off the government debts.

Thus, due to the fact that excessive risk-taking was not punished, as it should have been, the bailouts enhanced the moral hazards existing within the financial sector. This of course was making a mockery of the vaunted principles of laissez-faire capitalism that the narratives claim is the only way to run the economy. It laid bare the hypocrisy and revealed that laissez-faire only apply to those functions in capitalism that might impede wealth accumulation, but when risk-taking goes wrong, the wealth is protected by massive doses of public welfare for the rich. This will, it goes without saying, ensure that it won't be long before the next asset inflationary boom-bust episode will strike.

In the run-up to the crisis, Fed Chairman Greenspan's actions, or rather inactions, in the period up to his retirement in 2006 played a crucial role. During a Congress hearing in October 2008, Greenspan, pressed by the reality of the financial collapse, reluctantly conceded: "Yes, I found a flaw. That is precisely the reason I was shocked because I'd been going for 40 years or more with very considerable evidence that it [the free, unregulated market system] was working exceptionally well."⁷⁰

Delusional and mired in market fundamentalist doxa to the end, he thus refused to acknowledge that it was not just during the housing bubble that the economy had worked a little different from his delusions. His 18 years of tenure was a crucial period that produced the 'victory of the rich in the class war' that Warren Buffett alluded to above; a period marked by a systematic piling up of wealth at the top. In contrast, the middle class had been progressively squeezed under Greenspan's stewardship of the economy, and the poor at the bottom stuck in a deepening struggle just to hang on.

The fact is that Greenspan had presided over an 'exceptionally' serious confluence of economic failures, that were transmitted to the international economy by the dollar's role as the world's primary trade currency and vehicle for internationally held liquid wealth accumulations. The dollar hegemony had allowed, and continues to do so, the U.S. to offload many of its structural economic problems on the rest of the world, but it

⁷⁰ "Greenspan Concedes to 'Flaw' in His Market Ideology" Bloomberg News, October 23, 2008. <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=ah5qh9Up4rlg>

also inserted a high level of volatility in the international economic order, due to the misaligned state of the economic policies in the United States, which under Bush had allowed both budget and trade deficits to run into troublesome levels. In the system that produced this shaky order, the activities of Greenspan's Federal Reserve Bank had played a central role.

Joseph Stiglitz summed up Greenspan's views in a PBS Frontline program: "Greenspan, remember, always said that he was a believer in Ayn Rand, a believer in free markets. Little bit curious for a central banker, because what is central banking? It's a massive intervention in the market, setting interest rates. So to me, that kind of perspective, to say, "I believe in free markets, but I'm going to accept the job at central banking," is a contradiction. You almost have to be schizophrenic."⁷¹

⁷¹ ⁷¹ Frontline Interview with Joseph Stiglitz., July 28, 2009.
<http://www.pbs.org/wgbh/pages/frontline/warning/interviews/stiglitz.html>

Chapter 9

The Inexact Nature of Rational Choice

Thinking Like an Economist

A key assumption of the early neoclassical economists was that economics, like the exact sciences, ought to be based on objective and universal principles. Part of the objective truths believed uncovered was the rationality principle: the suggestion that people make rational choices when they act in economic relationships. The concept of rationality implied a mental ability to engage in calculated actions that optimize utility, valued from the perspective of the calculating individual's self-interests.

Consequently, standard economic expositions depict people as actors who constantly are faced with optimization puzzles, which they solve when they participate in markets activities by making rational decisions in consideration of the events objective value content. This assumption makes market behaviour predictable and allows neoclassical economists to go on and build further theoretical constructs on the presumption of agents endowed with faculties that enables them to consistently make rational choices.

Spilling into the general social fields, the economic concept of rationality as self-interested maximization has been upheld as a behavioural norm and an ideal for all kinds of social activities. The spread of this norm has played an important role in framing the drift of the cultural transformation in post-industrial society. Dominant narratives have emerged that urge people to confront all kinds of social problems with the economic principle of viewing them from the angle of rational self-interest maximization.

The rational actor theory that thus developed within economics has been so powerful that it invaded a number of other social sciences, notably sociology and political science, where trends have emerged that have adopted parallel ideas of a general social dimension in which all interactions can be interpreted as carried out by rational actors uniquely striving to maximize self-interests. For instance, in political science theories has been put forward that—borrowing the jargon of economics—adopt the principle of methodological individualism as the base from which the social macro-fields are constituted as vast exchange systems between self-interested actors who use prestige, power, and wealth accumulations as coinages of social exchanges. As in economics, it is contended that assuming rational maximization of self-interests within a paradigm of methodological individualism is the only avenue along which reliable explanatory models can be constructed.

The notion of rationality as self-interest maximization has a particularly strong footing in business schools and introductory economics courses. It has thus become the pivot around which teachings in such institutions generally turn. A typical example of how this often is formulated can be found in a popular introductory economics textbook, which near the beginning has a chapter with the heading: “Thinking Like an

Economist”.⁷² A few lines into the chapter this is elaborated to be: “make[ing] rational choices in the face of scarcity”. Next, the relation between the individual and rationality is nailed down: “in the case of an individual, the rationality assumption is taken to mean that he [or she] makes choices and decisions in pursuit of self-interests.”

Unfazed by the logical conflicts, not to speak of the potential for ethical ones, the notion of ‘thinking like an economist’ has been at the centre of the intellectual hegemony that economics has attempted to extend over the other social sciences and public spheres. It has become a misrepresentation that has been central in the propagation of the neoliberal narratives. The influence that the rational choice meme has wielded on the transformation of the cultural landscape in the post-industrial society is therefore one of its major stories.

The Utility Conundrum of Mother Theresa

A problem for the hypothesis of economic actors driven by rational pursuit of self-interests is, though, that there in the observable social universe undisputedly appears situations where people act out of altruistic motives that incur uncompensated economic losses (for example putting money in the Salvation Army’s box at Yuletide). Reactions to changes in supply or demand lose predictability if such aberrations from the rational actor hypothesis are commonly occurring. This, in turn, would put to question the general validity of the methodology of describing economic events by formalized econo-mathematics, the favourite tool of neoclassical equilibrium theorists.

Faced with the examples that run counter to the concept of rationality as self-interest maximization—such as the above mentioned example of charity at Yuletide—the proponents of rational actor theory have gone to great length to extend the notion of what can be considered rational optimization of economic utility goals: if the maximand is not visible in the material world (in praxis, the maximand is not objectified in a form that is convertible to money values), it is claimed that there are hidden agendas of implicit maximization that can be subsumed under the rationality notion. Charity is thus claimed to simply buy the self-interested goal of ‘feeling good’, etc.

An example of the extension of what can be considered maximization conforming to the requirement of the rational actor hypothesis is the claim that Mother Theresa—who was famous for what most people considered her selfless work among the poor in Calcutta—in fact was also a ubiquitous self-maximizer. Mother Teresa appears to have become a favourite subject of attempts to draw all human purposes into the orbit of the rational maximization claim, perhaps precisely because the general unsophisticated public perceives Mother Teresa as an exceptional example of a person not driven by economic goals or self-interests.

If such an unsophisticated public perception were to prevail, there is a problem for the neoclassical equilibrium discourse. The claim of rationality as self-interest

⁷² Joseph Stiglitz’ “Principles”, Canadian Ed. w/ Robin W. Boadway (1997). The title of chapter 2 is “Thinking like an economist”.

maximization must—in order to provide a generalized theoretical fundament for social action—be a universal principle. In other words, the motivations for all activities with economic content must be reducible to this principle. If substantive examples of actions that reject maximization opportunities can be verified, the rational actor principle must either be deemed falsified; or, perhaps, relegated to the role of an auxiliary proposition only valid for a special sub-set of economic activities.

Therefore, although it is conceded that Mother Teresa did not pursue the standard goals of wealth and consumption maximization, it is contended that she still pursued maximization of classes of self-interests. This view of Mother Teresa crops up in a conversation between the protagonists in the movie “Nell”: “Mother Teresa acts out of egoistic motives as well. She helps the poor in order to ease her conscience. If she didn’t help, she would simply be less happy.” Echoing this, two social scientists, Kwalecki & Wilson, in an paper put forward the explanation that Mother Teresa pursued the self-interested goal of ‘getting closer to God’ through her acts of charity work.⁷³ In the paper, they present a full-fledged rational actor interpretation of Mother Teresa, couched in the well-known vocabulary of neoclassical market concepts: preference selections, product purchases, and entrepreneurial profits. In the paper they speculate that her vaunted love for the poor might have had another (sinister?) purpose instead of the one commonly assumed: “Aiding the poor purchased direct contact with Christ... closeness to God, not the alleviation of human pain in itself, was the preferred religious product.” [she was] “a calculating, profit-seeking religious entrepreneur.”

The attempts to subsume Mother Teresa’s motives as rational choice action along the above lines has however one glaring problem: economic value must be transferable—this is its essence—which also implies that some measure of standardized value estimations must be possible. Evidently, that is not the case with “getting closer to God”. This is, if that indeed was her driving purpose (a claim happily protected from the possibility of being put to any falsification tests) an existential experience, non-transferable in any sense of this word. Consequently, it is facetious to subsume it as a class of economic commodities comparable to all other standard object-classes for economic preferences, choices and exchanges.

‘As If’ Businessmen

The rational actor hypothesis, besides having problems with subsuming cases such as Mother Teresa under its principle, has another troubling problem that relates more directly to ordinary economic activities in society. It is therefore a much more serious threat to the core assumptions of neoclassical economics than that posed by the behaviour of Mother Teresa, which can be brushed aside as an aberration that makes it irrelevant for the general theory.

⁷³ Susan Kwilecki and Loretta S. Wilson: “Was Mother Teresa Maximizing Her Utility? An Idiographic Application of Rational Choice Theory.” *Journal for the Scientific Study of Religion*. Cited after “Yeah, But What Was in It for Mother Teresa?” (Feb 1999) by Richard John Neuhaus.

This is the problem of how to explain that businessmen seldom appear to dissect their opportunities and decision problems according to marginal analysis or other neoclassical principles when they run their businesses; presumably guided by the sanctified purpose of maximizing profits. On the contrary, the common observation that meets one in real-life business activities is decision processes that often can be quite disorderly. Indeed, they are typically in the hands of entrepreneurs and corporate executives that in many, if not most, cases appear to be quite ignorant of the neoclassical principles they are supposed to follow in their quest for maximizing profits.

A neoclassical economist who grappled with this problem was Milton Friedman, a Nobel laureate who for many years was considered the guru of conservative economics in United States. As such, he wielded a strong influence upon the trends in economics that reversed the Keynesian dominance and led to the market fundamentalist resurgence underlying the current neoliberal political economy.

Friedman visited the problem of theoretically ignorant businessmen in an influential essay “The Methodology of Positive Economics”,⁷⁴ which centres on how to come to terms with this—for hardcore neoclassical economists—troubling empirical reality. The solution Friedman came up with was the ‘as if’ postulate: businessmen might not be familiar with the marginality principle nor the other neoclassical concepts, but successful businessmen act ‘as if’ they were.

To support his postulate, the essay introduces an analogy between a successful businessman and an expert billiard player “who doesn’t know how to calculate the right angles the ball has to follow, but nevertheless makes the winning shoots.” This analogy is charming but built on an epistemological fallacy: the billiard player makes his decisions based on skills that play out in a closed universe where exogenous influences are locked out and the result of a competitive confrontation—a game of billiards—is immediately known. In contrast to this, businessmen and -women make their decisions in the fields of the real world where multitudinous and often unobservable forces and power structures of both economic and non-economic nature are at play. These will impact a given micro field with goal constraining forces that prevent the expected outcome of decisions to be realized, and perhaps makes them unrealizable from the start because the decisions were based on premises that were false, but unrecognized to be such. Many of these unexpected forces might not only be unrecognizable to the acting businessmen and -women, but also to a theoretical analyst who wants to evaluate the correspondence between intentions of businessmen and the realizations achieved. This introduces an element of arbitrariness into the fields of real world businesses: the degree to which unrecognized forces at play in the social fields—economic and non-economic alike—align or not with the goals that businessmen and -women attempt to reach. The conclusion is that Friedman’s use of the billiard player in the ‘as if’ analogy is comparing apples to oranges in his attempt to convince the reader of his view of a positivist economics.

⁷⁴ Milton Friedman: Lead essay in “Essays in Positive Economics.” (1953).

The Opportunity Cost of Organ Transplants

Despite the fallacious nature of the ‘as if’ notion when compared to the rumble and tumble of the real world of actual business enterprise, it spearheaded the scholastic reversal that overturned Keynesian economics in the 1970s and returned mainstream economics to the original neoclassical notions of markets inexorably driven towards equilibrium by acts of rational self-interested maximizers, a scholastic trend that has been dubbed market fundamentalism.

Leading neoliberal economists have used the ‘thinking like an economist’ meme to contend that the attitudes shown by self-interested utility maximizers can create efficient solutions to all sorts of decision problems arising in the social fields: marriage, the number of children people decide to have, and even life- and-death choices such as how society should decide who gets transplanted with life-saving organs.⁷⁵

Such claims are often, implicitly or explicitly, referenced to the principle of opportunity costs, which compares net gains from a utility choice with the net gains that could have been gotten from deselected alternatives. The possible gains from deselected choices thus become an implicit cost—an opportunity cost—of the selected choices.

When costs and utilities furthermore are ranked by standard money equivalents (the numéraire of modern economics), mathematical equations can model systems of unfettered markets exchanges by referencing to the thus established parametric value grids. By relying on the usual unrealistic assumptions of perfect conditions, the models in turn are used to ‘prove’ that unfettered markets are the most efficient way to distribute not only economic utilities, but also all kinds of social goods, including life-saving health care procedures.

The problem is of course that before the principle of ordering social choices by opportunity costs can work as the theory prescribes, a first condition must be that the perfect relationships hold. In other words, the fields containing the choice situations must be clinically cleansed from all social and political forces that potentially can impact and skew the choices. Only pure price-quantity forces must be at work, and it must be ensured that no systemic social or pre-event economic constraints are imposed on weaker groups of market participants.

When this is accomplished by the standard neoclassical pretension that the logic of perfect states rules the marketplace, all the hierarchically structured inequality relations that are very visible elements of economic activities in the real world are deftly assumed away. The result is a pretension that we live in a Panglossian world where monopolistic business practices, political power relations, criminal extortions, financial fraud, political

⁷⁵ Gary S. Becker, another economist from the stronghold of right-wing economics, the University of Chicago, (Friedman also spent most of his career there) is well known for his attempts to subsume all social decisions fields under the principle of rational actor market exchanges. Together with Julio Jorge Elías, he authored a paper in which they advocated turning organ distribution into the realms of private market exchanges: “Introducing Incentives in the Market for Live and Cadaveric Organ Donations.” *Journal of Economic Perspectives*. 2007, Vol 3.

corruption, etc.—all these little imperfections inserted into the real world—have no influence on economic activities; or at least, are found at so insignificant levels that they cannot disturb the bigger picture of the optimizing work of the heralded unfettered markets.

Although common sense and everyday observations contradict the perfect assumptions, thus putting to question the realism of grading social choices according to economic opportunity costs, the neoclassical pretention has one great advantage seen from the point of view of the proponents of the neoliberal economy: it is a story which, in the guise of being a valid scientific theory, advocates a social world that prioritizes the choices of agents with high incomes and wealth before others. This is the implicit consequence of assigning their opportunity costs higher values than the opportunity cost of economic agents with ordinary income-wealth—as this logic must do. In other words, it is a logic that turns pre-existing possessions of money into a measure of human worth and the arbiter of all social choices.

Returning to the social choice from above, the question of how to distribute organs for life-saving organs transplants, we saw that it is a social choice that has been proposed solved by imposing the logic of unfettered markets upon it. The claim is that inserting market incentives into the selection process and then letting unfettered markets decide who will get transplanted would be superior to the current system, where people altruistically sign up to donate their organs in case of unforeseen death.

Before analyzing this claim further, it is worth noting that a Europe-wide study over the somewhat related case of blood donations showed that paying some people to donate blood crowded out the altruistic donors. In other words, inserting money incentives into a field where people traditionally had acted out of a high sense of altruism reduced the altruistic supply. The study found that in most cases the money-incentivized supply was not able to make up for that shortfall. Thus, the consequence was that the supply curve sloped downwards instead of upwards, as the rational actor hypothesis that don't recognize altruistic motives would predict.⁷⁶

Regarding the advocacy for distributing organs for organ transplants by unfettered markets, it is based on the standard neoclassical assumption of the universal effectiveness of money incentives. In the case of registering for organ donations, such incentives, the claim was, would bring forward not only more supply but do so to the degree where prices will remain stable and affordable. This optimism, however, is an example of how market fundamentalism flourishes far removed from the real world, where all kind of motivations and manipulations quickly would insert itself into such a market.

In real markets operating under systems of money intermediation, price formation is undeniably a function of supply and demand. However, supply and demand functions in unfettered markets will play out under the influence of positions of market power and other social inequality relations. Market power can originate from diverse conditions,

⁷⁶ Joan Costa-i-Font, Mireia Jofre-Bonet, Steven Yen: "Non-monetary incentives can overcome motivation crowding out". 4 August 2011. <http://www.voxeu.org/index.php?q=node/6827>.

but a prevalent one is ability to control information, a control that in many cases means that information packets are manipulated before they are passed on. Another origin of market power is position in relation to the traded goods, which can place counterparties on widely different schedules of elasticities. If one side is in a position where the product is important for a primary social, economic, or even physiological use (as is the case with organs for organ transplants), inequality relation will be amplified if there are no good substitutes, and the price function will become highly inelastic for agents in disfavoured positions. For instance, gasoline is a complement to the transport need that flourishes in a society with a car-based transport system. Since most people have little scope for changing their transport usage in the short term, the price of gasoline exist in a very inelastic price range where price changes have little effect on quantities demanded, as has been well proven during the episodes of gas price spikes that we have seen in recent years.

Considering the case of a market for organs, the market fundamentalist economists overlook an elementary economic fact concerning how opportunity costs and substitution would define price relations in such a market under laissez-faire conditions. Functioning organs are indispensable complements to the physiological function of being alive. Thus, the price elasticity for the recipients (the buyers) is infinitely inelastic (the opportunity cost of the second-best alternative is the not so appealing choice of substituting life for death).

Considering this under the ideal market fundamentalist condition of unfettered private markets, an intermediate market in which prices will skyrocket is bound to develop, which in turn almost surely will draw crime and human exploitation into the orbit, perhaps even murder in order to access the organs in poor countries. This has in fact been verified in several cases. Thus, a Council of Europe investigation attested criminal gang activity that included murder of Serbian prisoners in order to harvest their organs in Kosovo.⁷⁷ In India, it is reported that illegal transplants clinics in some cases harvested kidneys from persons kidnapped at gunpoint. Under conditions of extreme poverty, almost trivial cases—considered what extreme poverty can drive people to do—have been uncovered where poor farmers sold their daughters' kidneys.⁷⁸

The high profits created by unfettered prices would mainly befall to the intermediating agents. It is a common market function that when elasticity reciprocals are far apart high profits in intermediate markets will blossom. The high profit opportunities that will arise in organ markets will, besides potentially drawing crime into the picture, also lead to heightened possibilities for adoption of risky operating procedures, in order to close sales quickly. In particular, temptations will arise to not always conduct donor-recipient matching procedures according to best practices, or to not use the best qualified doctors. As consequence of information manipulation by

⁷⁷ "Kosovo PM is head of human organ and arms ring – EU report" "Two-year inquiry accuses Albanian 'mafia-like' crime network of killing Serb prisoners for their kidneys". Paul Lewis, The Guardian, 14 December 2010 <http://www.guardian.co.uk/world/2010/dec/14/kosovo-prime-minister-llike-mafia-boss>

⁷⁸ Toronto Star. Feb. 3, 2008, "GTA home to 'Dr. Horror' " <http://www.thestar.com/News/article/299973>

intermediating agents—which is bound to develop enticed by the high profits—such ‘cut corners’ conditions will of course almost surely be hidden from unsuspecting recipients.⁷⁹

Finally, an unregulated organ market with an accelerating price function, it goes without saying will unilaterally favour distribution of available organs to buyers with high incomes/wealth. Thus, people on the lowest rungs of the socio-economic ladder will not be able to compete for the available organs. According to this extremist market fundamentalist view—that the logic of markets lead to such prioritizing of selections—is as it should be and in full accordance with the principle of money measured opportunity costs: more income is lost if a Wall Street trader is not transplanted in time and dies, than if it is someone working in a minimum wage job. While this might be in line with the general drift of neoliberal ethical relativism guided by money measurements (fetishism), such selection processes would mean a serious departure from the principles of human rights and civil society.

The logic of opportunity cost calculations can also lead to other ethically troubling socio-economic choices. For instance, it has also been claimed to be a rational choice to move toxic waste or highly polluting industries to low-income countries. In this case the argument goes that the consequent health impairment and morbidity will cause much lower economic losses in low incomes countries than they would in rich countries; an argument that in fact has been raised by economists at the highest levels in international organizations.⁸⁰

Bounded Rationality

If Friedman’s ‘as if’ attempt to rescue the businessmen of the real world fails, the conclusion must be that operational business decisions never can be reduced to solely rely on price/quantity measures in a strict Walrasian sense (i.e. trending towards general equilibrium). Decision-makers view decisions and their implementations in the light of how they resolve his or her set of problems within the larger context of the goals of the organization they work for. Such conditions, moreover, always tend to be mediated by social norms and other sources of mixed motives, which exist within structures modulating behaviour; both at the internal—or firm specific—as well as at the external—or culture specific—level.

⁷⁹ The assumption of leading to substandard transplant procedures, and middlemen keeping most of the transaction money, was confirmed by the widely reported kidney-for-ipad case in China. The teenage donor only got app. 10% of the price paid by the recipient and almost died as consequence of the operation. http://www.huffingtonpost.com/2012/08/10/wang-shangkun-kidney-ipad_n_1764335.html

⁸⁰ A 1991 internal World Bank memo, signed by its then chief economist, Lawrence Summers, reads: “The measurements of the costs of health impairing pollution depends on the foregone earnings from increased morbidity and mortality. From this point of view a given amount of health impairing pollution should be done in the country with the lowest cost, which will be the country with the lowest wages.” It has been claimed that the memo was meant sarcastically. Nevertheless, whatever it might have been, it reflects that such views were discussed at the highest level of leadership in an important international economic organization. See Vallette, Jim. (1999). <http://www.jacksonprogressive.com/issues/summersmemo.html>.

For instance, dependent on the size of a firm and the influence it can wield, ordinary business activities will routinely include striving to create market distortions that are favourable to the principal recipients of the profits streams that the firm generates. Large firms customarily hire highly paid lobbyists who through interactions with representatives of the relevant public structures—bureaucrats or lawmakers—induce them to swing laws, regulations, and government contracting towards choices that will maximize the interests of the given firm.

In order to incorporate many of such disorderly aspects found in markets under real business conditions, more realistic alternatives to the rational actor hypothesis have been proposed. Prominently, Herbert Simon, an American political economist and Nobel laureate, developed the notion of 'bounded rationality'.⁸¹ The main argument was that decision-makers within organizations (firms, public bodies, non-profit organizations, etc.) never are in positions to choose the alternatives demanded by the rational actor hypothesis, which requires perfect conditions. Outlooks are always to some extent clouded by cognitive deficiencies, imperfect information, and intra-agency conflicts. Personality clashes and clique formation commonly pop up at all levels of organizations. They often break out and skew discussions during strategy sessions or meetings where choices between mutually exclusive options have to be made. Support or opposition to a given decision proposal might be decided by who puts it forward. If it is an 'opponent' (in the organization's structure of cliques), one will tend to be critical and likely to oppose the proposal; if it is a 'friend', one will tend to be supportive, with little thought to what merit the proposal actually has.

Within organizations, avoidance of failure is often more important than attempting to achieve success, which reverts to the old agency problem that failures are visible but missed opportunities are not. Therefore, decision processes within large firms often contain aspects that can be quite reminiscent of what is found within the maligned government bureaucracies. Procrastinations can occur during decision processes since decision-makers might be hesitant to make decisions that can be pinned on them if decisions have many risk factors. A main constraint thus becomes that decisions must be able to lead to outcomes that looks positive at least long enough for events to be past the point where responsibilities for probable adverse effects or outright failures can be pinned down, and therefore no longer can threaten the given decision maker's position or hopes of advancement within the organization.

Under such circumstances, instead of optimal solutions agents will search for solutions that are designed to satisfy the minimum goals of the organization (for example, certain levels of shareholders profits) but also a host of other informal goals that include acceptance of views of dominant policy-setting cliques and submitting to views of individuals known for bullying behaviour, even when one privately not really think that a given proposal is the proper one.

⁸¹ Simon first put forward the ideas of bounded rationality and satisficing in the book "Administrative Behavior" (1947). A good, short introduction to the concept can be found in "Organizations and Markets" (Journal of Economic Perspectives, v5/2, 1991, p. 25-44). For Simon's ideas about economic behaviour see also Ch. 3 in this book, "Heuristics and Information Strings".

Individuals subjected to persistent symbolic violence will often begin to practice avoidance behaviour, and not speak out during decision processes in order to avoid ridicule from dominators, who often tend to be less informed members of a network, but who compensate for this by consistently engaging in behaviour that is bullying, etc.; in other words, perpetrating domination by symbolically violent means.

Over time, decisions within organizations consequently become framed by internally emerging patterns of accepted heuristics that will satisfy the primary goal of the organization's survival as well as maintain operational predictability but be far from optimizing strategies. The resultant practices will adapt to the given network of roles and power relations, which in some cases can include exposure to 'symbolic violence' (to use the Bourdieussian terminology): bullying or other forms of dominating behaviour perpetrated by individuals in formal or informal power positions. Agents within organizations will thus always act under constraints of the existing social norms and intra-group relationships, defined partly by their position in the hierarchical structures, partly by their relationship to the organization's patterns of individual interactions, including patterns of repeating symbolic violence, etc. This creates patterns where organizations seldom reach the optimizing solutions expected by rational actor theory, but commonly reach satisfactory solutions that will move the organization's work-goals forward in an acceptable way, considering positions in the power structured hierarchies that have formed. As Simon noted:

"...from an examination of the postulates of the economic models it appears probable that, however adaptive the behavior of organisms in learning and choice situations, this adaptiveness falls far short of the ideal of "maximizing" postulated in economic theory. Evidently, organisms adapt well enough to "satisfice"; they do not in general, optimize."⁸²

And:

"If we accept the proposition that organismic behavior may be subjectively rational, but is unlikely, in a complex world, to be objectively rational, then the postulate of rationality loses much of its power for directing behavior. To predict how economic man will behave, we need to know not only that he is rational, but also how he perceives the world—what alternatives he sees, and what consequences he attaches to them."⁸³

Simon's concept of 'satisficing' thus implies that many decisions do not strictly aim at maximizing official targets or goals, but strive to maintain the agent's own agenda, modulated by his or her habitual work dispositions, and position both within formal and informal structures of the organizations. For this to be effective, it still needs to achieve satisfactory levels of objectives required by formal superiors or principals. But it also implies that rationality notions within organizations often revert to subjective

⁸² Herbert A. Simon: Rational Choice and the Structure of the Environment. (Psychological Review, volume 63, March 1956) p 261-273. Satisfice is a portmanteau of 'satisfy' and 'suffice', coined by Simon.

⁸³ Herbert A. Simon: A Comparison of Game Theory and Learning Theory. Psychometrika, vol. 21, Sep 1956. p 261- 273.

perceptions that exist outside the scope of rational actor hypothesis.

Rational Expectations

Proposing satisficing as a primary decision-making mechanism within organizations was at odds with the decision processes envisaged by neoclassical economics and its reliance on the rational actor hypothesis. Therefore, although the theory of bounded rationality for a time wielded considerable influence, it did not lead to a fundamental revision of the rational actor hypothesis. On the contrary, rational actor notions rebounded with the new concept of rational expectations. Rational expectations spearheaded the rise of modern market fundamentalist economics and became an important element of the paradigm, new classical macroeconomics (NCM), which on the macro level synthesized the various market fundamentalist strands.

A key impetus to rational expectations was a 1961 paper by the American economist John Muth.⁸⁴ It opened with what can be considered the program statement of rational expectation: "Expectations...are informed predictions of future events, [and] are essentially the same as the predictions of the relevant economic theory...we call such expectations 'rational'". The paper went on to attack bounded rationality with a direct reference to Simon: "It is sometimes argued that the assumption of rationality in economics leads to theories inconsistent with, or inadequate to explain, observed phenomena, especially changes over time (e.g. Simon). Our hypothesis is based on exactly the opposite point of view: that dynamic economic models do not assume enough rationality."⁸⁵

Muth's paper rests on the standard idea that competitive markets are able to generate equilibrium through the price mechanism: "the rationality assumption implies that...the expected price equals the equilibrium price." It was likewise implied that unavoidable deviations from optimality are normally distributed and converge upon the expected mean of the theory's projections: "expectations of firms (or, more generally, the subjective probability distribution of outcomes) tend to be distributed, for the same information set, about the prediction of the theory (or the "objective" probability distributions of outcomes)." This, in turn, led to the assumption that since deviations are normally distributed with respect to the theory, they are not important and can be ignored as long as the equilibrium point towards which the distribution must trend can be identified. Such assumptions are in fact implicit in the standard neoclassical approach to economic behaviour and are required in one form or another in order to uphold the various aspects of its core equilibrium model.

Although Muth doesn't explicitly state so, an inference must be that rational action

⁸⁴ "Rational Expectations and the Theory of Price Movements", *Econometrica*, Vol. 29, No. 3 (Jul., 1961), pp. 315-335.

⁸⁵ Muth's paper has here a note with a reference to Simon's influential paper "Theories of Decision-Making in Economics and Behavioral Science." *The American Economic Review*, Vol. 49, No. 3 (Jun., 1959), pp. 253-283. Interestingly, Muth and Simon worked together at some point at Carnegie Mellon.

is defined by the same notions as the rational actors: rational actions are actions by informed agents that (by being rational) follow the prescriptions of the theory, that is, singularly aim at maximizing self-interests (exemplified by the "thinking like an economist" meme). Such general assumptions, albeit not always stated, permeate the upsurge of the market fundamentalist brand of economics that has risen under the neoliberal political stewardship.

At first, Muth's paper went unnoticed and had to wait for fame until Robert Lucas picked it up in the early seventies. Lucas and other early pioneers of NCM zeroed in on Muth's idea that agents not just adapt their expectations to past experiences—the principle of rational adaptation that Milton Friedman earlier had built on—but went further with the claim that agents change expectations and behaviour already when they receive new information.

Subsequently, rational expectation was widely embraced by conservative politicians, who used the purported logic of rational expectation to denounce government intervention in the economy. It has thus served an important role in politics as an argument against active government policies, for instance policies that advocate economic stimuli in the form of job support programs and expansionary monetary policies during downturns.

Pointing to the quantity theory of money—another staple economic theory widely adopted by conservative politicians—government stimuli are attacked with the well-known postulate that they are inflationary. Adding rational expectations to this argument, the view became that since agents have rational expectations they understand the difference between nominal and real prices and are not 'fooled' by government policies that lead to inflation. Rational businessmen will react to expansionary government policies by raising their prices in anticipation of the inflation surge, and workers—realizing that their real wages are about to fall—will either demand higher wages or reduce their willingness to work (i.e. exhibiting the assumed standard price function of reducing supply—here of labour—as consequence of lower (real) prices).

Thus, whilst government stimuli spending will cause some extra workers to be hired, others will reduce their supply because of rational expectations of inflation and falling real wages. Leaving aside the question of whether or not it really can be expected that workers understand subtle macroeconomics principles and precisely discern between real and nominal wages, the NCM logic also ignores that workers in modern labour markets have little room for effortlessly gearing their labour supply up and down in response to changes in real wages.

Instrumental and Substantive Rationality

As indicated, the 'thinking like an economist' meme has been at the forefront of the rational actor invasion of neighbouring social sciences. The claim is that all social choices can be treated according to the economic rationality principle, the principle of evaluating choices and opportunities by the degree to which they maximize self-interest

weighed utility. Declaring self-interest maximization to be a socio-economic law is to elevate it to the status of a universal principle. Logically that would require it to be found at work under all possible circumstances, in all possible cultures.

However, the existence of common economic phenomena in non-Western cultures that don't follow the Western norms of individual maximization suggests that Western economic rationality is not an objective standard that can be generalized. The fact is that in many non-Western cultures common economic phenomena run quite counter to Western conceptions about economic behaviour. This suggests that the rational actor hypothesis is a product of cultural perceptions that are specific to the Western culture.

For instance, big men, the dominant economic actors among the tribes on the Northwest Coast, amass wealth only to give it away again during potlatches. This is normal and therefore rational social action (if we want to use that word) within the conceptual universe of this culture. Conversely, if such actions were to be observed in the midst of the social groups inhabiting the Wall Street trading floors—making money with the specific purpose of giving most of it away again during potlatch style of parties—it surely would be deemed highly irrational behaviour within this socio-cultural context, perhaps even considered a sign of mental illness.

Despite the obvious significance that the existence of phenomena such as the potlatch must have for a theory with universal pretensions, the majority of modern economists have paid scant attention to the findings made by cultural anthropologists about economic behaviour in other cultures. Even fewer have contemplated upon the significance it ought to have for the methodologies of their own science.

Another important aspect of rationality is that an analysis of its meaning in economic relationships must take into account the main division between instrumental and substantive rationality (zweck-rational and wert-rational in Max Weber's terminology). The separation of decision processes into the categories of instrumental and substantive (or value-subjective) rationality is an important aspect of social activities. It is, for instance, interesting for both the social scientist and the traffic engineer if someone habitually takes the 8 o'clock train to work, but their points of interests are different. To the traffic engineer—having the instrumental task of maximizing the effectiveness of the assets of a given transit authority—the interesting data point is that a person habitually takes the 8 o'clock train and not the one half an hour later. This is an instrumental data point with statistical implication for how the transit authority's stock of trains should be deployed. For the social scientist studying people's social preferences, the interesting data point is that the person takes the train, not at what time, but instead of driving to work in a car. In other words, he or she uses the data to gauge commuter trends that arise from choices driven by substantive life-style preferences.

We thus see that Weber's old distinction between instrumental and value-subjective rationality remains relevant. Nevertheless, neoclassical theory augmented with rational expectation ignores this division. Instead, all actions are assumed to follow the schematics that pertain to instrumental actions, implicated by the view that actions

always can be reduced to narrowly calculated maximization goals, and engendering effects that are normally (Gaussian) distributed with respect to an equilibrium expectation.

What is important to focus on is that substantive preferences are anchored in the totality of the experienced social condition. When actions that mainly are driven by such preferences—in other words arise from beliefs and life-style needs—are conflated with what basically are instrumental actions, the result is separating agents from all social goals that are not strictly measurable by money, the chosen numéraire of the modern Western culture. It also cuts the analysis off from the influences that cognitive dispositions and activity-directing misrecognitions might impart to the economic choices.

Another point to note is that modern economists stubbornly ignore the forces that the parallel universe of politics have over the structures of the economy—curious, considering that the science of economics started out under the epithet of ‘political economy’. The fact is that an individual’s political choices are part of what create the activity spaces in which the individual’s future economic possibilities will play out.

Thus, actions expressing preferences for a given political party or a political program (for instance, by voting) will aggregate into political trends that always have economic implications; even if the probable effects are not understood or intended by the choosing agent. Political choices, in the nature of the structures of modern societies, have strong consequences for the forward transformation of economic institutions, and under what framing effects future economic activities will take place (by the impact of politics upon laws, regulations, back-room power constellations, etc.).

For the individual, the implication is that a political choice—even when made on the basis on ostensibly non-economic hot-button topics, say, opposition to same-sex marriages—will become part of a process that will shape the structuring of available opportunities in the economic fields. This will therefore also shape the choosing individual’s future economic opportunities in definite degrees. Thus, when individuals in ordinary income brackets vote for conservative parties because of opposition to cultural hot-button topics, they should realize that they also vote for, at their own expense, the perpetuation of economic policies that aim a preserve and expand the take of the economic pie that high wealth-incomes households will obtain. In this way, it becomes a political choice that reduces their own future economic opportunities. Applying the rational actor logic to such choices would therefore have to reach the conclusion that they are, in fact, irrational choices that lead to contradictory consequences.

Rationality can also be analyzed as a term of language. The neoclassical approach can in this respect be seen as an attempt to lock the signified into a narrowly guarded meaning of self-interest maximization. This, however, appears to be a tautology: we need to know what the prediction of the theory is (as stated in the above paradigmatic quote by Muth) to define the rational, but the core of the defining theory—the theory of equilibrium markets—is dependent upon rational actors to drive its price mechanism to the axiomatic market clearing bliss point of equilibrium.

A more fruitful approach is to see rationality in the role it plays in parole, or

everyday communication. That means analyzing how rationality is employed as a linguistic signifier in ordinary communication and not as part of the economists' esoteric, but as just shown, in essence tautological vocabulary. In parole, rationality tends to be used descriptively to signify subjective perceptions about observed events or relationships, with both economic and non-economic aspects. That indicates that the signification of rationality will be qualified by the nature of the communicating agent's relationship with the signified events, and in this way will express the agent's understanding of social meaning. Perceptions of social meaning is therefore what in everyday communication decide what will be considered 'rational' responses to changes and stimuli arising from the surrounding socio-economic dimension.

While it seems possible to apply a narrowly constructed meaning to rationality along the neoclassical lines when it is applied to instrumental cases, it falters when the connotation is economic preferences relating to life-style needs and social aspects. In these cases, the angle of observation is based on attempts to construct social meaning that often is seen through extremely subjective, non-reflexive lenses: people harbouring opposing views are seen as 'not getting it'; in other words, considered lacking 'rationality' or all common sense. This is, for instance, typical reactions seen when personality clashes occur during confrontational workplace encounters; or similar organizational decision processes, as discussed in connection with the bounded rationality concept.

Social meaning depends on beliefs about socio-cultural contexts, formed by mixtures of culturally internalized norms, doxical misrecognitions, and critical thinking. Whatever the weight between these cognitive elements might be, they all participate in forming the preferences that drive substantive, or life quality related, economic actions. The internalized norms will also include the habitual norms connected to the individual's currently established economic decision fields, activity roles, and hierarchical status and positions in these activity fields.

As indicated, when activities occur within the scope of instrumental rationality, standard equilibrium models can often adequately describe them. However, the situations tend to be trivial, such as the case of deciding what time to take the train, or which diameter tool to use when performing a job in a machine shop. Moreover, if such choices turn out not to be optimal, deviations can, in accordance with the neoclassical expectation of convergence toward a mean, indeed be expected to be normally distributed.

Conversely, since substantive, or value-subjective, rationality relates to the class of preferences that concern life-style needs and social choices, they are influenced by broader social conditions and will therefore mainly be directed by established beliefs (whether arrived at by doxical misrecognitions or critical thinking) as these are modulated by cognitive dispositions and habitus. It is therefore not guaranteed that deviations from expectations will be normally distributed. On the contrary, they will often be part of trends driven by certain common social perceptions—fashion trends, fads, financial bubbles, etc.—that progresses in loops of cumulatively ascending (or descending) spirals. Since deviations from equilibrium expectations in such cases are

biased by the direction of the trend, they will not be normally distributed but progress as biased, or fat-tailed, deviations from previous positions.

Thus, when decisions are subjectively evaluated according the expected outcomes that a biased preference framing suggests, they will never be fully rational according to the formalism expounded by the various strands of currently standard economics. For general economic theory, accepting the notions of socially framed fields imply the necessity of a fundamental revision towards a paradigm that sees decision situations from a moving, or dynamic, and socially modulated networks approach. To accomplish that, methodologies must include insights from the behavioural sciences, such as indicated by bounded rationality, prospect theory, and Bourdieussian concepts of doxa and habitus. Otherwise, economics will continue to miss how mental attitudes and beliefs, which can be based on persistent misrecognitions, play major roles in the approaches people have to economic decision processes.

Maslow's Hierarchy

A key observation is that substantive choices, when made in economic contexts, are fundamentally driven by the underlying human needs. The level of complexity at which this occurs combines biological, psychological and social elements into constituting motivations for actions. Therefore, dealing with this at an analytical level requires a multi-facetted approach that must include a dynamic theory of motivation.

One aspect of social action, which a theory of motivation must deal with, is how to order the purposive values that the individual consciously or unconsciously base their actions upon. Purposive values underlay the actuation of microeconomic functions that become visible as price responses and product substitutions. An approach to this question is to align preferences with the hierarchy of human needs, as set forth by the American psychologist Abraham Maslow's key insight that human acts are motivated by needs that "arrange themselves in hierarchies of pre-potency".⁸⁶

While acts may be motivated by more than one need, and while the hierarchical categories often overlap, and may even be reversed under certain circumstances, it can nevertheless be observed that some human needs are more basic than others. Therefore, if unfulfilled, seeking their fulfillment will take precedence over all other preferences that an individual might harbour. For instance, Maslow's hierarchy predicts that starving persons will not be disposed to go to the opera and listen to Verdi's arias, even if offered free tickets. Instead, they will direct all of their energies towards obtaining sustenance that can alleviate their hunger.

⁸⁶ Maslow, A. H. "A Theory of Human Motivation." *Psychological Review*, 50 (1943), pp. 370-396. Expanded in "Motivation and Personality" (1954). The quote in on p. 370.

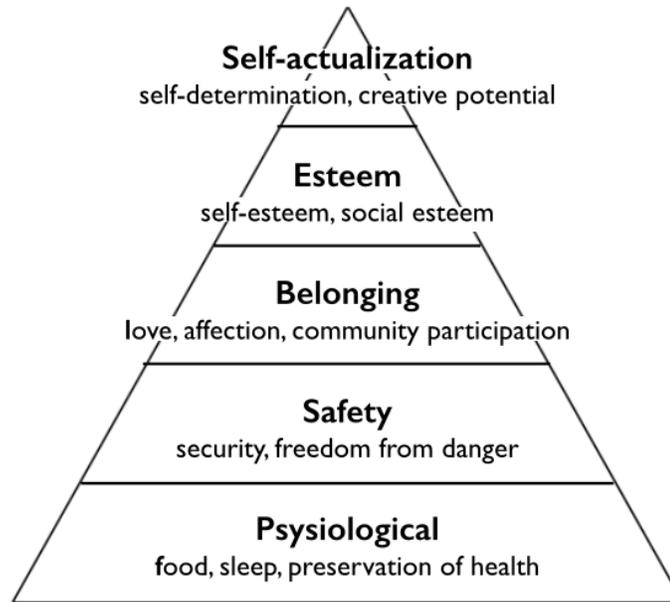


Figure 9-1: Maslow's Hierarchy

Starvation and homelessness might sometimes even reduce people to beg in the streets, not caring about how such an activity might encroach upon their safety needs, and also violate their higher needs of self-esteem and belonging. Nevertheless, according to descriptive and common notions of substantive rationality (i.e. not the instrumental field-use) most people will consider the choice made by a homeless and starving person to go begging in the street entirely rational (which of course is different from accepting it as a socially just phenomenon), and would consider it irrational if a starving person got 10 dollars and then spent them on a ticket to the opera, preferring this creative experience over alleviating the hunger. In contrast to this, if someone who is well off, say, a corporate lawyer, forgot his or her wallet and could not pay for lunch, it would be considered extremely irrational if that person were to solve the problem by going down to the street and beg for money. Thus, the perception of the rationality of two different actions that in their core content are identical is dependent upon framing, seen from within socialized field textures.

Maslow's hierarchy thus suggests that a person living under circumstances where the lower needs are insufficiently fulfilled, unless the situation are of a short-lived accidental type, the person will direct all actions towards obtaining their gratifications. First after that is accomplished will the next level of needs come into a stronger focus. Conversely, it also suggests that when the lower needs are well covered and the upper needs dominate in everyday focus, persons will not be willing to give up what is considered rational action within the norms of the social networks that they predominantly engage with, simply due to an incidental short term lack of gratification of a lower need. If that anyway were to happen, the common reaction, due to the shared norm perceptions in the person's social networks, would be to judge it an irrational act.

This leads to the suggestion that the judgement of rationality in the social fields—

where it relates to valuations and subjective notions—also has aspects that relate to the order that the various sustenances—material, symbolic and psychological—gratify the different needs in their physiological, cultural, and mental aspects. The Maslowian hierarchy is thus a theory of motivations that can elucidate some aspects of the complex field of human preference formation.

The Need for Social Prestige

Following the insights of Maslow's hierarchy, it can be assumed that the lower physiological needs will normally be removed from the focus of attention when an individual under ordinary conditions is able to accomplish their gratification primarily by routinized, or low focus, actions. For instance, the average modern citizen will most likely acquire the sustenances that gratify the physiological needs for food by shopping in a supermarket, in other words, through highly routinized actions whose aligned decision processes occupy little mental attention. The theory of the hierarchy of motivations then predicts that people should shift their main focus forward to gratifying the needs at the higher levels.

At the macro-social level, the focus of needs gratification aggregate into conditions that have correlative aspects to the level of societal evolution that a given society has reached. For instance, when societies were at the evolutionary phase of small foraging bands, the overwhelming focus was on acquiring skills and objects that could gratify the physiological needs, and on constructing social structures that could maintain safety in the face of potential enemies. When societies moved forward through the evolutionary phases, they developed stronger abilities to control the food-producing environment, and to ensure physical safety and survival. This created circumstances, which, as societies advanced in the evolutionary progression, moved the aggregate social focus onto the higher needs in the Maslowian hierarchy.

In many pre-modern societies, gratifying the social need of prestige had consequently become a preponderant social focus, and people would often go to great lengths to acquire and preserve it. However, this also correlated to the class distinctions that more stratified societies would develop, since the level to which gratification of the physiological needs was removed from focus would often be tied to class based conditions.

In the immediate precursor to Western industrial society, European feudal society, social prestige had moved from being accorded to prowess in war skills (as in the earlier tribal cultures) to being based on position in the hereditary system of nobility (a social process that removed the nobility from the front line of battles). Conversely, possession of wealth acquired through market activities was not a potent source of social prestige in European feudal societies. In fact, if wealth was acquired through money lending or similar means, it could often be quite the opposite, since society was dominated by strong social norms opposed to speculation and money lending, reinforced by the Church's ban on interest (and, of course, money lending was far from 'heroic').

Seen against this background, a major consequence of the rise of industrial society was to dramatically change the avenues for acquiring social prestige. Hereditary position lost its importance as the primary source for social prestige and was replaced by wealth acquired through entrepreneurial or speculative activities in markets.

Whether or not a person possesses wealth and to what extent is of course not in itself always immediately apparent to people in the surrounding social fields. Before it can be converted into social prestige, it must be shown as Thorstein Veblen explained in his classic work "The Theory of the Leisure Class";⁸⁷ In this work, Veblen coined the now common phrase 'conspicuous consumption' for the social function of consumption that is not serving ordinary utility needs, but is consummated with the primary purpose of signalling wealth so that it can function as a source of symbolic power and prestige.

Is Driving a Hummer Rational Choice?

The commercialization of culture driven by the corporate profit motive has induced large numbers of people to internalize the neoliberal narrative of rationality as striving to self-maximize consumption. This has created a macro-social process that has arrested the Maslowian prediction of a progression toward the higher motivations of creative enjoyment and self-actualization. The void has been replaced with over-compensating the needs for self-esteem and peer acceptance in patterns that have become linked to the ability to consume social group validated status goods and services.

Consequently, surrounded by a highly commercialized culture, modern citizens often end up being entrapped in consumption-focused life-styles that block for access to creative and self-actualizing experiences.

Especially troubling is that children, submerged into a world of digitalized spectacles, instead of leading normal lives of development through play with other children, increasingly are hijacked during their formative years by the deluge of entertainment products that often specifically targets children and young adolescents. For all practical purposes, this includes many Internet activities that have proven to have addictive power and often tend to be isolating in nature. They are therefore prone to disturb the normal processes of mental and social skills formation.⁸⁸ The result can lead to psychological impairments, which, if they continue into young adulthood, permanently can curb the propensity to develop creative dispositions and ability to access positive experiences through socialization with others in non-dominating, or non-oppressive, ways.

Moreover, the individual isolation incurred by absorption in passive entertainment culture phenomena often inculcates a diminished feeling of responsibilities for one's own actions, including what impacts they might have on the wider social and ecological

⁸⁷ Thorstein Veblen: "The Theory of the Leisure Class: An Economic Study of Institutions" (1899).

⁸⁸ See New York Times "Growing Up Digital, Wired for Distraction" 21 Nov. 2010.
<http://www.nytimes.com/2010/11/21/technology/21brain.html?ref=technology>.

aspects of society. A visible expression of such states of mindsets is shown by the erratic traffic behaviour that large numbers of individuals engage in, and the high percentage of traffic accidents such driving habits cause, which remains surprisingly tolerated by society despite the high economic and human costs it entails.⁸⁹

The impaired social functions and the resulting cognitive dissonances, although widespread, can be seen to cluster with particularly severity within certain social sub-groups. Sometimes the cause is inability to understand the involved economic complexities in consequence of subgroup characteristics that derive from poverty and exclusion from educational opportunities. In other social groups with clustering of impaired social functions (in the Maslowian sense), the impairments are conversely the product of relatively high levels of educational attainments, but attainments acquired in environments where the attitudes of self-interest maximization that are lauded by the neoliberal narratives are accepted as a commendable trait. This is the typical micro-cultural environment found and being reinforced in business schools, university department of economics, etc. In these environments students and teachers are exposed to massive doses of inculcations of rational actor and 'thinking like an economist' memes. Consequently, the education leads to a strong reinforcement of the misrecognition that the natural state of the human condition is 'economic man'; that is, an agent whose only action pattern is to aggressively self-maximize.

When individuals in such sub-groups engage in consumption that has needlessly large ecological footprints, the relationship between their own life-styles, and the trends of deteriorating conditions in the surrounding society and ecology, is rationalized away by tagging onto rightwing views that portray freedom as freedom to economic exploitation, and freedom to disregard the preservation of the environment and the social commons. The rationalization of the freedom to pursue extreme self-interests increasingly also include a morally relativized freedom to lie and cheat on the road to attain the egocentrically defined goals, a trend in which the modern political class serves up as its ubiquitous role models.

As outlined above, the processes of rationalization are in such contexts supported by mainstream economics since relentless self-interest maximization and social free riding are classified as being in accordance with its core theories. This support filters the evaluation of all events through the norms that underlay the motivation to overcompensate the esteem needs by conspicuous consumption.

Within social groups that share the doxa of such beliefs, conspicuous consumption will be accepted as a valid, even commendable behavior; indeed, examples of the adopted rationality norm. For instance, driving a Hummer as a mean of solving an urban transportation need will, notwithstanding its poor functionality—given by its poor resource cost to utility ratio—be considered a rational act in response to the

⁸⁹ In 94 percent of car accidents, driver error is the sole or contributing cause. See Lum and Reagan: "Interactive Highway Safety Design Model". *Public Roads*, Winter 1995 · Vol. 58 · No. 3, in particular the Venn diagram.

<http://www.fhwa.dot.gov/publications/publicroads/95winter/p95wi14.cfm>

subconscious connection that the marketing memes have created between the conspicuous apparition of the product and gratification of the need for social prestige.

When such subconscious emotions implanted by memes are activated, they turn driving a Hummer into evoking a sensation of social acceptance (even in cases where it, in fact, is not present). Thus, the feeling of gratification is often part of a self-delusional social pattern. However, if the Hummer driver primarily interacts within social groups where similar attitudes are the norm, the prestige fulfilment will indeed be verified by show of admiration, perhaps even envy.

The feeling of gratification acquired through over-compensating of the prestige need is often bounded to a habitus that projects oneself into a macho role-actualization (in the modern culture no longer gender-dependent), which spurs the subject to develop matching preferences. It thus induces subconscious self-absorption into attempt to role-actualize the self-portrayal (for instance, by dangerously zipping in and out of lanes in heavy highway traffic in loud tuned-up cars, daydreaming to be a famous race driver at Daytona).

Such role-actualizations have become so widespread that it is accepted as a norm in many quarters, a phenomenon witnessed for instance in employment ads where firms often specify the aggressive self-maximizer as the ideal candidate.

The commercial entertainment industry occupies an important support role for the neoliberal economy by the social attitudes it verifies. It provides abundant subconscious fodder for the self-absorption into the various role-plays. The self-absorption into role-actualizations is thus actively induced in the commercial universe, which sees it as creating important psychological levers that are advantageous to the profit maximizing strategies of the firms. The focus revolves around the fact that individuals absorbed into role-actualizations, and role-dependent peer pressures, are shown to have very weak resistance to commercial marketing, and in particular the constant promotion of new fad-products whose early possession are potent signifiers of status within many social groups (the endless new versions of the iPhone, etc. that people subjected to such status perceptions happily stand in line overnight in order to acquire on its first day of sale, despite the fact that their old version works without any problems and with a functionality that is only insignificantly inferior, if at all).

The intermittent sensations of social fulfilment are not disturbed by the reality that the acquiring acts create unnecessary large ecological impacts, since such are, as indicated, free-rider fallouts that modern rational self-maximizers have been inculcated to ignore. In this respect, it is interesting to note that the macho self-portrayal and corresponding role-play appear to create a confluence between ecological disregard and patterns of socially reckless behaviour (as part of the role-actualizations). Statistics from a Californian company that develops boring insurance actuarial tables incidentally revealed that drivers of the leviathan Hummers get 4.63 times as many tickets as the average driver. On the resource use side, a Hummer only drives 4 kilometres on a litre of gas. This is set against, say, a standard fuel-efficient car such as the Honda Civic that drives 14 kilometres on a litre, not to speak of standard hybrids that today are close to

20 kilometres per litre of gas.⁹⁰

Such facts verify the significant correlations between the neoliberal narratives and social attitudes of extreme self-centredness that lead to general social and ecological disregard.

Self-actualization and Creativity as Rationality

Despite the strong grip that the commercialized culture and its complement of the neoliberal narratives have on society, there are still people who break through the glass ceiling of commercial imperatives and develop a preponderant focus on the self-actualizing needs. Instead of being captured by the need to actualize commercial role stereotypes that are linked to high levels of consumption of corporate products, the self-actualizing individual turn their focus to the creative side of life.

The physiological needs will still be gratified by relatively simple acts that form into routines and will not necessarily be much different from the current general cultural patterns, although awareness about for instance the health consequences and exploitative origin of different choices in the marketplace will develop (for instance leading to attempts to support products that involve fair production conditions and trade practices).

The social needs will, however, change dimensions in a radical way. Attempts to achieve esteem from peers through material consumption loses its grip, being replaced by putting a value on social responsibility and being responsive to others when engaging in social encounters, not only when they are part of the repeating activities that occur within ongoing social networks, for instance in workplaces, neighbourhoods or those framing social activism, but even when the encounters have a non-repeating character (thus create no 'shadow into the future').

When self-actualizing individuals thus develop social awareness that is different from people captured by the needs inculcated by the commercial culture; they will view the subjective aspect of rationality from different angles. In other words, they will harbour subjective values that tag the rationality appellation onto different activity patterns and will use rationality as a linguistic term within the context of different paroles.

At the self-actualized stage, the ability to engage in critical discourse based on the logic of argument, falsifiable knowledge, and [self]-critical reflection is expanded relative to doxical beliefs and misrecognitions. This pushes back the tendencies to uncritically follow the norm perceptions established by group-think in the surrounding culture, even if the underlying norms of the commercial culture are firmly embedded in the social networks that frame much of the self-actualizing individual's daily activities (say, in workplaces, leisure activity groups, etc.). In other words, the creative and self-actualizing individual is not afraid of being viewed as an iconoclast by peers and colleagues.

At the self-actualizing stage of personal development, economic preferences are

⁹⁰ The Hummer mileage is taken from Wikipedia, and the Civic's from Honda's website.

thus liberated from the inducements arising from the commercial culture and its marketing memes. Instead, independent considerations of the available choices in the social fields dominate. These considerations will include evaluating both the personal economic relationships that define subjective utility, as well as the wider economic relationships that define social purposes, including probable social costs and actual relevance, or perhaps even the necessity of contemplated consumption choices.

The preference selections of self-actualizing people will thus attempt to take all relevant aspects of consumption that arise from the demands of modern life into consideration. Choices will not just stem from perspectives that merely gauge degrees of wealth accumulations, ability to display conspicuous consumption, or other individually defined measures of self-interest maximization—the singular standard claimed by rational actor theory—but will consider how the choices might impact relationships with other people, and to what extent they might sustain, or degrade, the surrounding ecology. Choices will be based on the ideals of a civil society, a fair economy, and a quest for enhancing the scope for creativity and aesthetic experiences in the social arenas.

When such criteria influence preferences and economic evaluations, driving a Hummer as a means to solve an urban transportation need will be weighed by its instrumental functionality, reaching the obvious conclusion that since its use creates an unnecessary large ecological footprint compared to other readily available choices, it is an utterly irrational choice.

In this way, the self-actualizing and socially conscious individual will interpret rationality as a term that express whether or not choices strike a balance between comprehensively defined utilities and social costs. This doesn't preclude choices based on self-utility measures, but it means that they will only be chosen—or we could say, be considered rational choices—when social and ecological costs are acceptable and within sustainable levels.

Market Fundamentalism as Symbolic Violence

Power Relations Inscribed in Narratives

Among the concepts the French sociologist, Pierre Bourdieu, developed is symbolic violence. In the words of Bruce Caron, an American social activist:

"[It] represents an extension of the term "violence" to include various modes of social/cultural domination. Symbolic violence is the unnoticed (partly unconscious) domination that every-day social habits maintain over the conscious subject and is not normally "recognized" as violence. For example, gender domination, and gender itself (say, in the construction of sexuality) represents one prominent arena of symbolic violence."⁹¹

Symbolic violence is thus defined as oppression that is executed within structures of social relationships where it is incubated by oppressive and exploitative behaviour, which often is contingent upon existing norms that the narratives twist into enabling rationalizations for the oppression. The oppression is therefore not directly linked to threats of physical violence, as in traditional force-reliant authoritarian political economies (although force-reliant systems also employ symbolic violence in order to minimize the need for execution of raw force).

Oppression linked to patterns of symbolic violence is an important element in the way exploitative and contested arrangements are imposed upon a populace by political and economic elites. In this function, the symbolic violence mainly operates through two overlapping forms:

A) Memetic narratives (narratives anchored upon memes, or words with constructed and purposive meanings) that inculcate social beliefs built on misrecognitions that are designed to obscure the factual oppression and exploitation perpetrated by a dominant elite. Such social beliefs anchored on misrecognitions become what Bourdieu calls doxa.

B) Status domination, whereby contestable social relationships are attempted removed from the area of contest by invoking the status, or alleged professional competence, of people who act as rationalizers for the exploitative social arrangements.

Memes are word or phrases that are constructed or brought forward in order to promote certain defined interests. Thus, from their inception they are not attempts to simply convey factual observations or knowledge as elements of a discourse. Their nature and purposes are to change behaviour by twisting perceptions. As a practical matter, memes tend to anchor upon existing, well-recognized social beliefs and cultural norms in order to gain credence and reduce potential resistance. However, they insert twists into the recognized perceptions or norms that produce an appearance of support

⁹¹ Caron, Bruce: "Community, Democracy and Performance: The Urban Practice of Kyoto's Higashi-Kujo Madang." Santa Barbara: The New Media Studio. 2003.

for the interests of the meme creator (or the interests of his or her principals). In the current political economy, actual meme creators (outside of the purely commercial use of memes in advertising) are most likely to be the in the modern political landscape ubiquitous spin-doctors and pollsters, often working with support staffs that include high-level scientists in the various relevant social and cognitive fields.

In general, when memes inculcate purposive misrecognitions into the public universe of debates, they become building blocks in the construction of the interest-promoting narratives that flourish in the modern political fields. The creation of memes is therefore an important tool of the current political economy's *modus operandi*.

In the case of the neoliberal narratives, the main social conditions that they attempt to divert attention away from are the economic inequalities and the inherently exploitative tendencies incipient to modern market capitalism. In support of this endeavour, the market fundamentalist version of economics have become an important auxiliary by producing memes that anchor on people's vague conceptions of what markets are, whereupon it twists these vague connotations into the misrecognition of unfettered markets as an absolute and unquestionable social good under all conditions, even when it—as has been the case in the neoliberal economy—leads to preposterous social and economic inequalities.

When employed as political spin, memes quite often latch on to discriminatory attitudes, since such attitudes, by their propensity to evoke aggression, have shown to be especially effective in diverting attention away from the underlying factual conditions.

An example is Newt Gringrich's claim—enunciated during his failed campaign to gain the 2012 Republican presidential nomination—that children from poor neighbourhoods should be tasked with cleaning the bathrooms and mop the floors in the schools they attend, so that they can develop a proper work ethic, since no one around them (in the poor neighbourhoods) are likely to work unless it is part of illegal activities.⁹² This is a case of a 'blame the victim' meme hiding the factual economic exploitative character of modern capitalism, which leads to inequalities that create large islands of poverty, often exhibiting ethnic clustering. For extra effect, the meme is openly discriminatory, since its aim was to elicit support (in the presidential candidate nomination process) from a social group in which the displayed discriminatory attitudes would resonate. The effectiveness of memes with aggression-evoking discriminatory twists partly explains the predilection of right-wing politicians to employ hot-button cultural issues.

In general, the effects created by the various forms of symbolic violence cause the social beliefs of receptive individuals to twist into states that solidify into inflexible doxical misrecognitions, often without the subjects are aware of the change in their perspectives that constant exposure to the symbolically violent narratives have engendered over time.

When a set of doxical misrecognitions becomes a dominant expression of identity that is shared within specific social sub-groups, it will create codes of social paroles that

⁹² <http://politicalticker.blogs.cnn.com/2011/12/01/gingrich-stands-by-anti-child-labor-law-comments/>

combine patterns of speech, dress codes and even body comportment into serving as social identification codes. Of course, this is a fairly common phenomenon in the general culture, and in many social situations subjecting oneself to coded parole behaviour can be an innocuous way of enhancing a specific social experience such as, say watching a sports match, where the subjection to the paroles associated with a favoured team—for instance expressed by dressing in its colours—creates a shared experience that might enhance the enjoyment.

However, when the engendered behaviour are the result of doxical misrecognitions that have been inserted into economic and political fields, the social reactions created are politically purposive and therefore of a quite different nature. As a misrecognition solidifies within a social group and is carried forward by its identifying paroles, the shared experience—which for instance might be experienced during political rallies where the misrecognition is the basis for the group's coherence—will create a psychological feedback loop that will tend to further solidify the misrecognition. The feedback loop is a function of the fact that the misrecognition is now also tied to an emotional experience (the uplift of the rally) that is sought repeated, but which only can exist—and thus only be repeated—by continuing to embrace the socio-political views implicit in the misrecognition.

It is important to discern the fundamental difference between participation in social discourse based on the open exchange of arguments, which is empowering and therefore can be part of expansive and self-actualizing experiences; and activity participation, which is based on doxical beliefs and misrecognitions. When an experience is tied to a misrecognition, and only can arise through that portal, preservation of the misrecognition creates a crucial psychological defensive barrier around the given form of social participation. Therefore, all encounters in the social fields that might put the misrecognition under threat are liable to be met with rejection, and quite likely even with aggression, since the agent's verification of his or her own identity now is closely tied to the misrecognition. In other words, social participation that predominantly is based on doxical beliefs and misrecognitions will not be empowering, but on the contrary, de-powering, shutting down the ability to absorb new facts and freely engage in the discourses of civil society with differently opinionated and minded individuals.

The Memetic Misrecognition of Freedom

A case in point of a social concept, which has been twisted into a doxical misrecognition serving as a protective barrier around the exploitation institutionalized by neoliberal capitalism, is the concept of freedom. Freedom has taken on a role as a key meme in the neoliberal narratives, where it constantly is repeated in all possible contexts.

In the history of our present culture, the notion of 'freedom' has played an important role in the political transformation from the feudal autocracies to the modern democracies (as a political system with explicit characteristics). The neoliberal narratives

have utilized this historical heritage to insert freedom as a meme into the public discourse, where it is elevated to the status of a political arbiter with an absolute and non-contestable content. Building upon this twist—freedom's elevation to an absolute status—it is used as an argument that can stand on its own and no longer requires supporting arguments when used as justification for a given policy or a political position. Or, which rather often is the case, the freedom meme is employed by the extreme right as justification for opposition to sensible public policies that are described as interfering with the citizen's 'freedom' to choose.

Most ominously, the elevation of freedom to an uncontested absolute was also implied in the United States Supreme Court's 5-4 decision in the *Citizens United v. Federal Election Commission* case (January 21, 2010). This decision, with a gigantic leap in the realm of human logic, held that since corporations are groups of individuals (according to the much earlier adjudicated 'corporate personhood' principle), the corporate form must receive the same free speech privileges as individual citizens. Bringing home this verdict by the Court's ultra-conservative majority, it was further ruled that independent expenditures are a form of speech and limiting a corporations' ability to spend money (for instance, in support of certain political parties, etc.) would therefore impermissibly limit their abilities to speak! In this way, the Supreme Court held forth the more than 200 years old First Amendment and its freedom concept, originally aiming at preserving the freedom of the colonial elite from oppression of British overlords (and therefore, the freedom championed was in fact of a very limited scope), to argue against setting any restrictions on modern-day corporations (and their CEOs, owners, etc.) to use corporate money to influence and corrupt the political system.⁹³

As the inculcations of the narratives have solidified within large social groups, the freedom meme has imbued freedom with an argumentative power that can be utilized by invoking it in political debates as a substitute for factual arguments. In particular, the invocation is, within the neoliberal context, used to legitimize the imposed economic system of *laissez-faire* capitalism where all regulations and countervailing forces—such as protective labour laws and unions that might impose countervailing restraints on the corporations—are attacked on the premise that they impair freedom. The concept of freedom is thereby twisted into a signifier that demands acceptance of the exploitation and the unequal incomes distribution that neoliberal *laissez-faire* capitalism gives rise to.

Accordingly, narratives centred on the freedom meme have created a protective cordon of misrecognitions around an economic system that in its essence is a highly contestable one: during the neoliberal period the inherent tendency of capitalism to disproportionately favour a numerical small social class of the very richest at the expense of the rest of the population has sharply intensified. But by turning focus away from the economic results of excessive freedom for the corporations—the fact that the corporations have been able to operate in a marketplace with few regulations that

⁹³ Viz. "Can 46 rich dudes buy an election?" By Charles Riley, CNN Money March 26, 2012. <http://money.cnn.com/2012/03/26/news/economy/super-pac-donors/index.htm>

protect workers and consumers—the economic system that produces these results is less and less contested in the fields of practical politics. Opposition to the contestable economic outcomes has become opposition to freedom as an idealized concept, causing even mild centre-left policies that attempt to slightly rebalance the economic structures to be fiercely attacked on that notion.

When protective narratives based on doxical, but unrecognized, misrecognitions become dominant social discourse, and their uncritical acceptance prevalent and expected, they turn into vehicles for symbolic oppression. In the social fields where the narratives have come to dominate, opposition and non-acceptance of the principles they suggest will be censured and lead to stigmatization in the social arenas where the narratives hold sway.

Naturally, the freedom meme does not stand alone but connects to other memes carried forward by the neoliberal conceptual universe, for example the right (or freedom) to enjoy the fruits of one's success, even when the 'success' is, say, success in financial derivatives speculation that destabilizes the general economy, or earning obscene incomes from the jobs stripping practices of equity funds; types of activities whose costs in the form of economic and social externalities extract heavy levies from the real economy. But by imbibing the freedom meme, large population groups have become inoculated against realizing how such economic activities, which have surged to new heights recently, constrain their own economic freedoms by reducing the opportunities left open to people outside of the exploitative economic elite.

It should be emphasized that although dominant narratives and their enabling memes often emerge as the result of conscious construction, that is not always the case. Meme constructs can also arise from common psychological traits that subconsciously command people to search for legitimizing rationales for their pursuit of selfish goals, in particular when the pursuit are expected to conflict with the interests of other social participants or common public goals; in other words, when it is anticipated (again, perhaps subconsciously) that the pursuit of self-maximizing goals will be at the cost of reducing opportunities of others, and therefore likely to expose the self-maximizer to criticism and animosity. In such cases, people will tend to develop rationales, which convert into memes when communicated to others and subsequently might acquire force as part of the falsity of a current narrative. By propagating the misrecognitions that the self-constructed memes convey, the process can be seen as attempts at reducing the cognitive dissonances that self-maximizing behaviour is likely to lead to.⁹⁴

In the social macro fields, the confluence between the strengthening neoliberal narratives, dominant class interests, and rationales for self-maximizing social participation have aroused social macro phenomena occurring in cumulative cycles: self-reinforcing cycles of symbolic violence fuelled by shared misrecognitions that deepens as the cycle feeds on itself. Bruce Caron, cited above, continues: "We can further locate

⁹⁴ The concept of cognitive dissonance was coined by Leon Festinger in the 1956 book "When Prophecy Fails". Its corollary, cognitive dissonance reduction hypotheses suggest that we are motivated to reduce dissonance by adjusting our beliefs to be in line with our actions.

symbolic violence as those forms ... which, through their misrecognition, are applied by the subject to the subject.” In other words, those who have embraced a misrecognition will often be very active in its further propagation, without being aware of the ultimately self-defeating nature of their submission to the symbolic violence it indicates; in the current case, the neoliberal goal of harnessing society to the income and wealth maximization strategies employed by a small economic elite.

A main function of the neoliberal narratives can thus be seen as providing memetic inculcations of rationales for pursuing selfish goals in the social fields. The advantage gained is the propagation of anarchistic social states where everyone is out for their own self-interests, which is to the obvious advantage of those already holding entrenched power positions. The anarchistic tendencies thus lubricate the current economic elite’s goals of continuous and unimpeded accumulation of money and assets.

In turn, people with a habitus that incline them to self-maximize and socially free-ride will be attracted to the false rationales suggested by the narratives and eventually adopt them, even when the actual economic outcomes that the system accords to them, in fact place them in the oppressed class. Of course, the rationalizations can often in the first place exist as social group or class dependent doxa, which are inherited as part of specific social field position, perhaps established as the result of class relations inscribed in the layers of their habitus already during childhood.

Turning to epistemological fundamentals, the narrative’s elevation of freedom to an absolute status ignores the bifurcated structure of many social relationships. The bifurcation of social concepts means that an interpretation taken to extremes will tend to contain its own negation. The British philosopher, Isaiah Berlin, pointed this out in with regard to the concept of freedom, or liberty, as he preferred to call it:

“Advocacy of non-interference (like 'social Darwinism') was, of course, used to support politically and socially destructive policies which armed the strong, the brutal, and the unscrupulous against the humane and the weak, the able and ruthless against the less gifted and the less fortunate. Freedom for the wolves has often meant death to the sheep.”⁹⁵

Thus, due to the current strength of the freedom meme in the North American societies, the top incomes percentiles, who are the primary beneficiaries of the corporations largely unchecked abilities to earn monopolistic profits, are placed in the happy situation that the majority of ordinary incomes earners—the sheep in the economic arenas—in their confusion of political freedom with unchecked economic freedom inadvertently are led to support the institutional arrangements in the economy whereby the top incomes percentiles—the wolves in the economic arenas—due to their control of the corporate hierarchies and strong influence on executed politics are able to continue to raise the share of the total social output that they can appropriate for their own exclusive use.

⁹⁵ Isaiah Berlin: Introduction to “Four Essays on Liberty”, 1969

The Hidden Valuations

In the context of protective narratives, the current market fundamentalist interpretation of economics—embodied in theories such as rational expectation and efficient market hypothesis—have become important auxiliaries for the narratives of the neoliberal political economy. Insofar that market fundamentalist economics has the assumption of the optimizing power of free and unregulated markets at its centre, it dovetails with the neoliberal meta-narrative of freedom always being an unquestioned and absolute social good.

Besides freedom, other concepts have also migrated into the neoliberal narratives as enabling memes, including the interpretation of rationality as exhibiting social attitudes that aim at maximizing self-interests, a concept at the core of the rational choice theorem.

One of the consequences of the rationality assumption in modern economics is its extension to the position of the economist, who qua his or her rational mind is held to be an unbiased, objective social analyzer, a notion which imbues the economist with strong symbolic status power.

This view of the unbiased, rational economist permeates Milton Friedman's influential essay "The Methodology of Positive Economics", which opens with the following declaration:

"Positive economics is, or can be, an "objective" science, in precisely the same sense as any of the physical sciences. ... in principle [it is] independent of any particular ethical position or normative judgments."⁹⁶

This purported methodological sibling to the physical sciences, we are told, are characterized by:

"Mathematics and formal logic come into their own in checking its consistency and completeness and exploring its implications. There is no place in the model for, and no function to be served by, vagueness, maybe's, or approximations."⁹⁷

By this declaration, Friedman attempts to remove economics from the logic of common sense and arguments that govern social relations in the real world where acts driven by altruism, non-maximizing attitudes held by ecologically conscious people are also to be found, and even habitual inconsistencies in the economic fields are perfectly common occurrences. Instead, by invoking his professional position, he assumes a symbolic violent status power by pretending or believing that he speaks for a purported higher, formal logic. By this sleight of hand, he moves the fields of economics into a realm where rationality is interpreted as exhibiting self-maximizing attitudes; an assumedly proven position, and therefore removing any need for it to be further discussed.

In contrast to Friedman's claim of positivist and objective science, another Nobel laureate, Swedish economist Gunnar Myrdal, held an entirely opposite view:

⁹⁶ Milton Friedman "Essays in Positive Economics", (1953).

⁹⁷ Ibid.

“There is no way of studying social reality other than from the viewpoint of human ideals. A 'disinterested social science' has never existed and, for logical reasons, cannot exist. The value connotation of our main concepts represents our interest in a matter, gives direction to our thoughts and significance to our inferences. It poses the questions without which there are no answers.”⁹⁸

And: “Full objectivity, however, is an ideal toward which we are constantly striving, but which we can never reach. The social scientist, too, is part of the culture in which he lives, and he never succeeds in freeing himself entirely from dependence on the dominant preconceptions and biases of his environment.”⁹⁹

To counter this reality, there is only one remedy:

“The [personally held] valuations [from which biases spring] will, when driven underground, hinder observation and inference from becoming truly objective. This can be avoided only by making the valuations explicit. There is no other device for excluding biases in the social sciences than to face the valuations and to introduce them as explicitly stated, specific, and sufficiently concretized, value premises.”¹⁰⁰

Current neoclassical economics has mainly adopted Friedman’s positivism and rule by formal, but unrealistic, logic. In the process, it is ignoring Myrdal’s skepticism of that approach. The problem is that the economists, as they proceed with unrecognized biases embedded in the valuations, work under the self-illusions of being fully objective social scientists. This introduces biases into the public discourse hidden under the veneer of professional competence, which among the unsuspecting public laymen add weight to their statements. Due to the illusions, Myrdal’s declaration—that valuations must be explicitly stated—is considered unnecessary by economists who believe to be engaged in positive science and their own work, per definition, espousing value free, unbiased science.

Friedman’s work is however a typical example of a work in which, under the veneer of professional competence, extensive misrecognitions are attempted unloaded upon the readers. In his scholarly work on positive economics and monetarism, the fallacious valuations are hidden behind esoteric language, but they come into plain view in his two books of populist economics, “Capitalism and Freedom” and “Free to Choose”.¹⁰¹ These books gained a large audience in the U.S. and played a considerable role in fomenting the rise of neoliberalism. In particular, they created large doses of fodder for supporting narratives adopted by the early neoliberal politicians, such as Ronald Reagan and Margaret Thatcher.

Friedman's books overflow with a mixture of simplistic political and economic philosophy that often—surprisingly considering his fame and professional status—borders on sheer platitudes that only the truly naïve or someone already totally

⁹⁸ Gunnar Myrdal: “An International Economy, Problems and Prospects.” Appendix pp. 336-340. (1956)

⁹⁹ Gunnar Myrdal: “An American Dilemma” (1944). Appendix 2. “A Methodological Note on Facts and Valuations in Social Science”. p.1035.

¹⁰⁰ Ibid. p. 1043

¹⁰¹ “Capitalism and Freedom” (1962) and “Free to Choose” (1980), the latter also converted into a popular TV serial.

submerged into the market fundamentalist doxa can fail to take note of. Take for example the following:

"The consumer is protected from coercion by the seller because of the presence of other sellers with whom he can deal. The seller is protected from the consumer because of other consumers to whom he can sell. The employee is protected from coercion by the employer because of other employers for whom he can work, and so on. And the market does this impersonally and without centralized authority."¹⁰²

Friedman's main argument, which is extended to all types of economic activities, is thus that in a capitalist market economy we are all free and in the happy situation that we need only deal with those who offer us deals that we are satisfied with. Whenever we don't like an offer, in a free market economy we can always walk away and deal with other agents in a marketplace overflowing with readily available substitutions.

To preserve this postulated freedom—and thereby the efficiency of the unregulated market economy—the only viable option is really to implement laissez-faire capitalism with a minimalist government, a point that Friedman repeats over and over throughout his works. This approach, it is claimed, will not only grow the economy at a maximum, but also, equally important, preserve our precious freedoms by keeping potentially oppressive governments at bay.

The implicit argument is thus that whenever an exchange is made, the very fact that none of the contracting parties exercised their right to walk away, by itself is a proof that the exchanges were voluntary choices of utility (or money value) maximizing options.

Since the perfect laissez-faire market is claimed to always have a price at which all products and factors are exchangeable, market failures—for example unemployment—are in the spirit of Friedman considered to always be voluntary. As Robert Lucas, another influential neoconservative economist (awarded the Nobel prize for his elaboration of the nonsensical rational expectation hypothesis) puts it:

"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."¹⁰³

The implication is that all the millions of unemployed workers found in our economies must have walked away from reasonable offers, put forward according to the prevalent market's wage-prices for the marginal labour productivity they have to offer.

According to this view, when unemployment in the U.S. shot up from around 5 percent in the spring of 2008 to over 10 percent in the fall of 2009, fully five percent¹⁰⁴ (6-7 million workers) of the American workforce were supposedly gripped by a sudden urge to allocate more time to 'that particular activity' of not working. In large numbers they left jobs or rejected reasonable offers in order to be able to choose some other

¹⁰² "Capitalism and Freedom" p. 14.

¹⁰³ Robert Lucas: Models of Business Cycles (1987) p.54

¹⁰⁴ In April 2008 unemployment was 4.9%, by Oct. 2009 it had risen to 10.1%. After bls.gov. Since this number doesn't take into account the rise in discouraged workers that left the workforce during this period, the total rise in unemployment is even higher.

available opportunities, perhaps a preference for sitting in front of the TV or the gamebox—well, until the bank forecloses the unpaid mortgages, repossesses the flat screen TV, and throw them out of the house.

The nonsense lays itself bare. Nevertheless, economists who put such claims forward are readily, as indicated above, held in the highest esteem at the top of the profession where Nobel prizes are handed out.

Two Concepts of Liberty

It seems fairly obvious that many neoliberal economists have only vague ideas about epistemological and philosophical principles framing the debates in other sciences. An example of an epistemological discourse with direct implications for economics is Isaiah Berlin's notion of a bifurcation of freedom. In the seminal essay, "Two Concepts of Liberty",¹⁰⁵ he developed the notion that liberty bifurcates into a positive notion: freedom to; and a negative aspect: freedom from. 'Freedom to' is the freedom to do what one wants to do, to have access to open and unconstrained social spaces in which to self-actualize and freely engage in social encounters and critical discourses. 'Freedom from' is freedom from social structures and relationships that might constrain positive freedoms, constraints that can be imposed by everything from the oppression of authoritarian regimes to senseless bureaucracies, but also includes the intrusion of commercial messages and economic aggression into all corners of private and social spaces.

However, Berlin points out that from the bifurcation principle follows that absolute negative freedom—which with regards to economic activities is the absolute freedom from any regulative structures—will lead to anarchistic social structures where freedom becomes freedom for the strong to exploit the weak. When the restraints on negative freedoms are fully removed from the economic arenas, creating an economy without any regulations or legal restraints, the result is that the social function of freedom turns around and becomes its own negation.

That means that instead of conditions where individual participation in economic activities promises a return to earning fair incomes that can support and enhance lifestyles endowed with positive freedoms, opportunities for engaging in such lifestyles on the contrary shrink and are replaced with 'freedom' to live under economic exploitative conditions. On the macro level under anarchistic economic structures—as the ones we currently experience—the capitalist imperative to 'accumulate, accumulate' takes over and intrudes upon all corners of social life with its commercial products and activities, which in their aggregate social impacts severely reduce the sum of livable public spaces left open for creative acts and critical discourses, in other words, reduces 'freedom to'. On the other hand, if 'freedom to' is taken to an extreme, for instance in cases where people habitually drive drunk or drugged around their communities at high

¹⁰⁵ Isaiah Berlin: Two Concepts of Liberty (1958).

speed, which traffic stats have shown to be an oversized cause of serious traffic accidents, the social function of freedom to is negated.

The concept of 'voluntariness' as used in economics, as exemplified in Friedman's quote above, can be seen to contain a similar bifurcation into positive and negative aspect; a possibility that Friedman is oblivious to. In this case, the bifurcation of voluntariness into positive voluntariness means acting because one has a desire to do something, driven by a belief that it will enhance not only one's utility in an economic sense, but also one's life quality in a self-actualizing sense. Conversely, negative voluntariness is what one does, not because of a fear of punishment (which everyone agree upon would be involuntary acts), but because one believes that under the given circumstances the chosen act reaches some minimal goals in consideration of the social cost-benefit relations that choosing other opportunities would entail.

Negative voluntariness is often caused by exposure to symbolic violence, such as for instance in the workplace when a worker don't do something or refrain from speaking out because he or she knows that it will release a dose of bullying behaviour by superiors or from co-workers known to be oppressive and to use symbolic violence as mechanisms of domination in their network interactions.

In the more direct case of an employment bargain, Friedman's workers, in the above quoted passage from "Capitalism and Freedom", if they are not satisfied with the wage offer put forward in the human resources office of a large corporation, they must weigh the opportunity cost of saying no and walking out of the door. In particular, they must weigh the implication of high unemployment rates—the general case in the advanced economies in recent decades (the low marks between 4 to 5 percent occasionally reached is still too high seen from the view of a fair economy). They must also take into account the fact that good jobs, for instance in manufacturing, in large numbers have been exported to low-cost countries, leaving most open jobs to be found in minimum wage paying service sectors. Lastly, they must also consider the dilemma created by the literally millions of immigrants—legal and illegal—that have been flooding into North America, where they have been welcomed by the neoliberal establishment as wage and union busters at the bottom of the labour market.

The sum of all of these defining conditions of the neoliberal labour market makes it risky to say no to a low-ball corporate job offer, since not only might another job offer not be easy to find in an economy with chronic unemployment, but a good chance is that it, if found, could offer a yet lower wage. Thus, saying 'no' to a corporation's low-ball job offer and walk away involves risky alternatives for a worker.

Therefore, when a worker after considering the alternatives finds him- or herself compelled to accept a low-ball job offer, it will be a choice that is far from the worker's aspirations. However, not walking away will fulfil the minimal goal of having a job and an income in face of the far worse possibility of being unemployed in a depressed job market, with no income at all (or only inadequate unemployment assistance that quickly transforms into even less adequate social security). In the case of a union in a bargaining situation, 'voluntarily' accepting wage and benefit cuts for its members is set against the far worse scenarios that sends all the jobs to China, or without further ado fire

everybody and replace them with non-unionized wage busters (which neoliberal changes to labour laws have made freely possible in a rising number of jurisdictions).

In economics, negative voluntariness is therefore a question of facing circumstances where the structuring forces of the field disadvantage a class of agents by leaving them fewer open opportunities than the agents, or agency representatives, on the opposing side of normal market exchanges (including wage bargains). The labour market in the current economies is such a case, being structured by a number of asymmetric tendencies inherent in the industrial enterprise system that have intensified in the neoliberal economy; asymmetries that favour the few—the corporations—and disfavour the many—workers and average consumers.

Naturally, on the other side of labour markets—the demand coming from the firms—this has meant increasingly favourable conditions for raising the effective profit rate. The intensification process includes loosening, or in many cases even abolishing, regulations protecting labour contracts and workplace safety conditions; purportedly in the name of ‘enhancing’ productivity and competitiveness. The trouble for labour is, of course, that in the increasingly unregulated market, productivity gains, whenever they have occurred and added to the aggregate surplus, the corporations have appropriated almost all gains and subsequently exclusively distributed it through the various channels to the beneficiaries of the corporate ownership-control system.

While the demand elasticity for labour thus has turned more elastic for firms in response to the structural changes favouring the firms, the reverse elasticity of the labour supply coming from workers has moved in a different direction. This is, among other things, caused by changes connected to the social process that during the post-war period—when gains from productivity were still more equitably shared—elevated a large segment of the working class to the middle class, moving them into the new subdivisions that were springing up in the hastily growing, car-accessed-only suburban sprawl. Chained to home mortgages, car payments, and aspirations of sending the kids to college this raised the economic costs and social disruptions connected with unemployment. The changes reduced the mobility of the workforce by creating social resistance to, for instance, during downturns moving to other cities where more job prospects might be found. Taken together, these factors enhanced the social imperatives for workers to avoid unemployment at all costs; in other words, the changes were part of processes that moved labour’s supply curve toward a more inelastic profile.

Summing up, a problem plaguing the neoclassical analysis of modern capitalism with imperfect markets is that it doesn’t recognize that ‘voluntariness’ and ‘freedom’ cannot be reduced to singular concepts, which then can function as arbiters of the institutional ‘correctness’ of the various structural elements of a political economy. Thus, when Lucas, in the above statement, considers all unemployment to be voluntary, it is a view that is blind to the existence of negative voluntariness in imperfect markets, imperfections that occur as a function of structures of monopolistic (or monopsonistic) competition and the unequal distribution of effective opportunities under relations defined by asymmetric and hierarchically powered market structures. In contrast to Lucas naïve (perhaps willfully so and therefore memetic) assumption of perfect, and

consequently fair, distributions of supply-demand forces, in the real world power relations create asymmetric market conditions that constrain the opportunities facing weaker classes of economic agents, typically with strong price-wage setting effects.

Practice of Economics as Symbolic Violence

The market fundamentalist theories are besides resting on the customary general neoclassical assumptions emphasizing A) that deviations from an expected mean are normally distributed, which ensures that a disequilibrium will return to equilibrium and steady states sooner rather than later; B) that economic events, despite themselves being a class of social events, can be considered taking place in an inert social dimension that have no traces of socio-cultural path histories nor power structured events.

The sum of these two fallacies removes from the discourse the possibility that economic relationships, in a systemic way, can be asymmetrically structured by power positions and other social relations existing outside of the narrowly considered economic spaces. If asymmetries anyway are observed, there is, in the market fundamentalist view, no need to panic because the theory promises us that they cannot have any permanence but will slowly oscillate back to equilibrium.

When such fundamental fallacies are at the basis of the explanations that are expounded in teachings and public statements coming from the economists, they become specimens of symbolic violence by hiding the exploitative forces inherent in modern capitalism behind inoperative theories elevated to dogma. Seen from this perspective, the market fundamentalist bias dominating current discourses of economics has become an important element of the false rationales defending the rising inequalities.

An example of how neoclassical economists deploy the notions of market fundamentalist rationales when faced with real world problems can be gleaned from reactions to a case of solidarity protests organized by Harvard students in 2001 against the rock-bottom wages the university paid its janitorial staff.

Triggered by the student protests, a study over pay strategies in a sample of 195 universities and colleges (out of the nation's 4,000) was conducted. This revealed that Harvard was not alone in paying rock-bottom wages to its custodial staffs; among the sampled universities, 12 even paid wages that amounted to incomes below the official poverty level. More generally, it was also found that it was common to outsource the janitorial services to private firms that specialize in providing these services at low costs. This enables the university administrators to wash their hands and pretend that they have no influence over the wages that the contracting firms pay, since the wages they offer must be dictated by those pesky, but impartial, market forces that all businesses must obey.¹⁰⁶

¹⁰⁶ "How Much Should Colleges Pay Their Janitors? Student protests force administrators to consider issues of social justice and practicality." By Martin van der Werf, The Chronicle of Higher Education, August 3, 2001.

http://www.hcs.harvard.edu/~pslm/livingwage/08_03_che.html

Faced with ongoing protests, which had escalated into a sit-in at the university's administrative offices, the university asked several leading social scientists for advice on how to deal with the protest, among them Gregory Mankiw, an economist at the university's Department of Economics, who later was to serve as Chairman of the President's Council of Economic Advisors under Bush. Today Mankiw, who is also author of one of the most widely used introductory economics textbooks, is back at Harvard, teaching its flagship introductory economics course in an auditorium with up towards 700 students in attendance.¹⁰⁷ He is thus one of the most influential economists in the United States, firmly planted at the pinnacle of the profession, and an economist whose words are assigned the highest level of competence within the business and political establishments.

Mankiw, a staunch believer in the neoclassical competitive equilibrium, was not in doubt about how the university ought to deal with the protest. Throwing the full weight of his professional competence into the answer, he proclaimed:

"Like most of the prices in our economy, wages move to balance supply and demand. A high minimum wage set by fiat, either through legislation or student pressure, prevents this natural adjustment and hurts some of the people it is designed to help. It is a timeless economic lesson that when the price of something goes up, buyers usually buy less of it. If Harvard has to pay its unskilled workers a higher wage, it will hire fewer of them. Some workers earn more, but others end up unemployed."

And: "Living-wage advocates say that Harvard with its huge endowment can afford to pay higher wages. That's true, but it misses the point. Like all employers, Harvard faces trade-offs. Should extra money be spent hiring more professors to reduce class sizes, or should it be spent hiring more janitors to vacuum classrooms more often? It's a judgment call. If the cost of unskilled labor rises, Harvard faces a new set of trade-offs. Over time, it will respond by hiring fewer of those workers."¹⁰⁸

The view expounded by Mankiw is a good example of how complex economic functions, such as the wage bargain, is interpreted in the market fundamentalist universe and turned into symbolic violence by imbuing the biased interpretations with the pretence of being 'timeless scientific wisdom'. This cowers the uninitiated layman into accepting the views out of fear of looking dumb by not understanding the eminent scientific logic enunciated by economists with apparently impeccable credentials. When the biased logic then becomes accepted by a majority of the involved parties (even often including those who are disfavoured by the prevailing power structures but nevertheless are overpowered by the weight of the executed symbolic violence), the given debate is turned around and becomes governed by false premises, which in line with the market fundamentalist interpretations are based on the assumption that the debated economic relations are impervious to social power relations that might influence the outcomes.

In the case of the wage bargain, the key operative pretence inserted by the market fundamentalist logic is thus that the wage bargain is playing out in a steady state universe

¹⁰⁷ <http://www.thecrimson.harvard.edu/you-tube-video/2011/11/6/economics-10-walkout-mankiw/>

¹⁰⁸ "Ways and Means: Harvard's Wage Debate." Harvard Magazine November-December 2001.

clinically free of interfering power positions residing in the social dimension surrounding it. In line with this pretence, all labour conditions are analyzed as disconnected from the realities of current social and political conditions. The only structuring forces that are found in this world is the neoclassical price mechanism which imparts the wage bargain (as well as all other market exchanges) with the character of a mechanical and impartial seesaw: if one presses it down at one end, up springs the other with a momentum that is a direct, and only (and therefore calculable) effect of the price-quantity relation expressed by the pressing force of the price offer.

This simplistic view of the economy might be an admissible approximation for some simple markets, such as the markets for ice cream and pizzas at the entrances to college campuses, the type of examples that abound in the textbooks that economists in the Mankiw mould write. Unfortunately for the understanding of the economy that the teaching of market fundamentalist biased economics imparts to the students, when they are taught that such examples are models of the market that governs the general economy, the correlation from the simple to the complex is made without any case of why it should be so.

It sounds plausible that social relations inserting market power into exchange events will play little role in simple markets structures such as those effectuating the mentioned sale of pizzas on college campuses. Quite obviously, verifying that has little explanatory power for the market events taking place inside of, say a Walmart store. In Walmart's case, the natural tendencies of modern markets to develop marketing supported monopolistic competition are supercharged by the economic and political power that accrue to the world's largest company in consumer retailing.

To return to the labour market for janitorial services on universities, a critical real-world power determinant that decides how the structuring forces in this specific sub-market—the lowest rung in the universities' jobs hierarchy—frame the wage bargain is that many jobseekers are new immigrants and, in some cases, even illegal immigrants. Most possess low social skills, certainly in relation to their current socio-economic setting, a problem that often is compounded by language barriers. Consequently, they have few job opportunities in the general labour market. When low job skills and language barriers put limits to the realistic job opportunities in a market with chronic unemployment, this group of jobseekers is, as a practical matter, compelled to accept whatever jobs, at whatever pay, they can get.

This means that in addition to the general asymmetric competitive conditions, the sub-market for janitorial services is further asymmetrically power-structured by the special conditions of containing a large number of jobseekers with no realistic bargaining positions whatsoever when facing an employer.

It should be noted that Harvard since has adopted the living wage principle advocated by the students. While this still is quite low wages, and Harvard thus remains within the general structures of U.S. capitalism where large pay differences are standard, it at least has departed from the worst neoliberal excesses.

However, in order to take full advantage of the neoliberal economy's favourable structures for labour buyers, the labour buying firms or organizations must understand,

and be willing to exploit, the given socio-economic condition. University administrators, who prefer to see themselves as cultured gentlemen, seldom have the skills nor, perhaps, the ruthlessness needed to exploit the prevalent market conditions, which is why they often prefer to remove themselves one step from the actual labour buying process by letting contractors take care of this aspect of running a university.

Thus, the universities often out-contract janitorial services to firms that specialize in supplying them, firms that through management specialization in ruthless bargaining obtain abilities to fully exploit this sub-market's special conditions. Facing jobseekers with no bargaining power, it enables such specialized labour buying firms to create positions close to full monopsony,¹⁰⁹ in other words, a position where they can maximize the profit equation to its fullest extent by offering wages close to the subsistence minimum; well-knowing that this sub-market's conditions guarantee that they still will find workers who are willing to accept the offers. In most cases, they will keep the lion's part of the maximized profits, but the level of exploitation they can attain guarantees that they still can offer the services to the universities at prices which the university administrators seldom would be able to beat on their own.

When it is contended, as implicit in Mankiw's statement, that the difference between what Harvard is willing to pay their professors and what they are willing to pay their janitors are simple consequences of supply and demand forces in the markets that universities face, it is correct insofar that, indeed, supply and demand forces are at work—as they are in all markets. However, the market fundamentalist logic, with its attempt to portray markets as devoid of social dimensions and positions of market power, omits that supply and demand forces always are structured by the totality of the surrounding socio-political relations with whatever power charges and asymmetric relationships they carry.

In current labour markets, differences in opportunities for substitution define effective market power. For instance, Walmart has almost endless opportunities for substitution, while the job-seeking worker knocking on the door of one of its human resources offices realistically only will have few, if any.

On top of market power springing from the industrial economy's asymmetric structures, large corporations are often able to add specific socio-political power relations to their general market positions, for instance by lobbying activities or by donating to political campaigns. Such relations will in the real world occur as add-on power charges on top of the general monopolistic competitive conditions. Due to such relationships, Walmart can for instance normally count on politicians to go along with its union-avoidance policies, or to craft local planning that is friendly to its goals of expansion when these clash with local community interests of preserving jobs in less exploitative modalities.

¹⁰⁹ 'Monopsony' is, as mentioned, the mirror of monopoly in factors markets. It is cases where there are only one buyer facing many suppliers. In practice, as in the monopolistic consumers' market, pure monopsony is rare, probably close to non-existing. However, in labour markets the general condition is monopsonistic competition, which means that buyers, or the demanders, in the general case have market power over the suppliers, that is, the individual workers offering to supply their wage-labour.

Differences in the socially determined positions of specific power relations will thus cause labour relations to work quite differently for janitors or, say, for professors, two social groups possessing widely divergent social and economic positions, which in case of professors will include considerable social prestige (a symbolic power relation) and even sometimes (as in the case of Mankiw) ability to wield direct political influence by drawing on previous positions in high-charged fields of executive political power.

The main question is therefore not what the immediate reaction will be if wages are raised to living wages; it is perhaps plausible that in the short run some of the reactions which Mankiw predicts indeed will happen with adverse consequences for part of the current workforce of janitors. However, paying living wages will also have positive, compensating consequences for Harvard, some becoming manifest even in the short run. It will enhance the workers' job satisfaction and, consequently, lead to higher productivity and less turnover.

The main point is, however, that the story doesn't stop there.

Dynamics of Structuring Forces

The main story of the wage bargain, which is totally missed in Mankiw's world (and in the universe of market fundamentalism in general), is the consequences that different approaches will have on the dynamics of the forward structuring forces that exist in any given social dimension; consequences that will push to the existing cumulative loops of vicious or virtuous cycles in ways that either will accelerate or slow down the core forces that determine their directions.

Among the problems, in which market fundamentalist economics are mired, are therefore not only that it sees all economic events as supply-demand relations playing out in inert social dimensions, but also that it eviscerates the forward dynamic structuring effects that all social events contain. The reality of the socio-cultural world is that its events play out under conditions where there are no sharp borders between the different forces active in the social fields. Therefore, if one wants to isolate for instance a specific economic aspect of an event for analytical purposes, it must be understood that this can only deliver inexact results that in worst cases can be totally misleading by having missed important determinants that might be hidden in the complex structures of the given fields; determinants and therefore unobservable to the casual and, especially, to the biased observer; the latter often due to reality suppression caused by imbued misrecognitions (doxa).

The lack of sharp borders between the different determinants of structuring forces also reverts to influences stemming from the actuating individual's habitus, impressed by a class or other given social group backgrounds. In reality, when Mankiw puts forward his 'timeless views' they are inevitably, as Myrdal pointed out, coloured by his private purposes and include influences arising from the specific class relations that frame his socio-cultural position. As a highly paid professor with substantial extra incomes he is placed well within the top 1% of the income spectrum. This imbues him

with strong, probably subconsciously deposited, incentives to engage in symbolic violence that minimizes the forces that have put him in a favoured position. This becomes manifest when he suppresses views critical of the neoliberal political economy in teachings or public statements by classifying them as conflicting with the, per claimed definition, inviolable market fundamentalist logic.

Since, as indicated, perpetrators of symbolic violence in most cases are unconscious about the influence of narratives and other specimens of symbolic violence, which they themselves have absorbed during their formative years, the chains of symbolic violence are inscribed in the social fields, where they “comes from the subject and goes to the subject”, as Bruce Caron noted.¹¹⁰ Thus, symbolic violence will often reflect that the consciousness of the subjects are not aware of how the framing of the beliefs that drive their social interactions have come about.

With an understanding of the aspect of social dynamics, Harvard’s administrators could choose to compensate for the higher cost of paying its janitors living wages by other budgetary measures than reducing the number of janitors. They could, for instance, compensate by slowing down the growth in incomes for the high income groups, such as professors (Mankiw’s horror) and even their own group of university administrators. This approach would require the university administrators to look not at ‘timeless’ trade-offs based on the fictitious existence of a socially inert supply-demand seesaw, but at real-life trade-offs arising among the broad interests of all groups involved in running the university, and even aspects affecting general societal conditions. This would include balancing some of the broad economic conflicts of interests that exist within the institutional structures of a university, and not just evaluating interests conflicts along established class divisions, hidden behind a pretence of following a ‘rational’ market logic.

The crux of the matter is that accepting the students’ demand of raising the wages of the janitors to living wage levels has, depending on how it is offset, the potential to create positive dynamics with trend-shifting effects. An obvious one is that the extra wage amount will have a higher multiplier effect by being injected into a social group with an almost 100% propensity to spend incomes, thus stimulating general demand more than if the same amount was spent on professors’ wages; that is to say, paid to an income group with a much lower propensity to spend marginally earned dollars, and—in a macro view—probably a high propensity to invest marginally earned dollars in financial assets.

The notion of dynamic effects is based on a rejection of the neoclassical views of equilibrium and rational expectations, views from which deviations, if they occur at all, are considered normally distributed and bound to oscillate back to equilibrium. The reality is that when administrator set janitor’s wages, the eventual decision will impact ongoing social trends and can therefore not be understood within a framework that is limited to assume a quasi-static and power neutral supply-demand seesaw of price-quantity relations. Trend-shifting in social spaces tends to be cumulative, for good or for

¹¹⁰ See p. 132.

bad, and can therefore not be captured by an equilibrium model.

The key notion is that if the university administrators chose to compensate for pay-rises by reducing the number of janitors, it will be a policy decision that is guided by interest considerations following the current neoliberal bias. It will therefore continue to push to the vicious cycles that are characteristic of the neoliberal economy, in particular the rising income inequalities and, on the macro side, accelerating the economy's destabilizing liquidity overhang.

Moreover, when compensating for giving janitors higher wages by reducing their numbers unemployment will go up. This, in one of its marginal effects, will further depress wage setting in the general labour market, and ensure that the gain by some will be the loss of others. This is in line with the implications of Mankiw's statements, but it should be emphasized that this view only holds true insofar decisions follow the current bias.

If administrators when raising wages from the level of neoliberal exploitative wages to living wages on the contrary compensate by other means than reducing the numbers of janitors, the decision will depart from the current bias. One obvious alternative would be, as indicated, to hold back on the growth of wages and bonuses of the high income groups employed by the university (which, in the case of universities that are private institutions, would include reducing investors' dividends).

The ramifications of some of the alternatives will not stop with wage and consumption effects. In an economy with too much liquidity accumulated in private hands, the over-accumulation process is an important growth limiting condition that however only can be slowed down by halting the growth of high incomes and reducing existing accumulations. The latter could include drawing down endowment funds accumulated by universities and convert the drawn down part to higher wages for low-income groups employed by the universities. Choices in such directions would again break the logic of the market fundamentalist bias. In other words, there are decisions available within the current political economy that could create fuel to counter-trends to the main thrust of the neoliberal economy; counter-trends, which if they were to spread, would restore some of the more equitable conditions that existed between the different economic groups in the pre-neoliberal version of capitalism.

Summing up, raising janitors' pay to living wage levels would create tangible macroeconomic benefits compared to the neoliberal wage bargain—the latter approach of using the asymmetrically power structured conditions of markets to, whenever possible, press wages down to rock bottom. Obviously, such an approach would continue the ongoing trend of exploitation, widening economic disparities, and destabilizing overaccumulation of inflationary liquid assets (i.e. wealth held as money or in liquid and speculative financial instruments).

This puts the above-mentioned dynamics of trends, and the shifts in power ratios between identifiable economic interests they lead to, into the centre of the economic analysis. When the dynamics of trends are considered, a number of questions ignored by the neoliberal narratives will come into focus: Why do current social structures cause supply and demand relations to assign stagnant poverty-level wages to income groups

such as university janitors, and high and rising incomes to university professors and administrators? Why have societal power relations caused the low wage segment of labour markets to fall so much behind in the period roughly starting in 1980? Why are the conditions in North American labour markets currently worse and incomes inequalities wider than in other advanced economies, when differences in these measures were not so pronounced in the period prior to the ascendance of the neoliberal power constellations? Finally, what is the relation between the deteriorating conditions in labour markets and the rapid growth in liquid financial wealth, with the observed consequences of macroeconomic instability and corollary of slower real growth?

One answer is obviously to be found in the rising asymmetries in the labour markets that neoliberal policies have engendered. The sum of union busting, offshoring, illegal immigrants used as wage busters (and in some cases also legal immigrants and temporary workers), etc. have combined to sharply reduce the average bargaining position of labour, while, conversely, power-charged the bargaining positions of firms and other labour buying organizations. This includes not only universities, but also public bodies under the control of elected politicians who, instead of maintaining adequate levels of taxation, have pursued voter popular tax cutting policies, which they then, in turn, have paid for by availing themselves of the conditions in the neoliberal labour market that also can be used to depress wages of public employees. Alternatively, they have paid for the tax cuts by shifting public services to the crop of private service companies whose main service is their specialization in exploiting the neoliberal market conditions.

The meaning of true economic analysis is not to identify a path to imaginary equilibrium positions, but to understand which social and economic forces have shaped the present, and how currently active forces are likely to define emerging trends. If we can identify such forces, we will also gain access to the key to how to shift conditions in directions that are economically and socially more desirable.

Seen from this angle, Friedman's positive economics and Mankiw's 'timeless lessons' are exposed as symbolically violent ingredients of a neoliberal political economy narrative. The price mechanism of supply and demand seen in static isolation from its surrounding social dimension has no explanatory content. In a wider context, it is meaningless to just observe that in a specific situation, as a price went up, less was bought. Nevertheless, that is the 'timeless' focus of market fundamentalist economics, which keeps ignoring that already the Giffin's paradox¹¹¹ from the late nineteenth century showed that it is not possible to extend such observations to a general rule or a

¹¹¹ A Giffin good is an inferior, but also a necessary good consumed in considerable quantities. In such cases, Scottish economist Robert Giffin claimed to have observed, that a price rise in the necessary good devoured so much extra income that consumption of higher quality but more expensive food was reduced, leading to a compensatory higher consumption of the necessary good. The example given was a rise in the price of bread forcing poor people to eat less meat in order to be able to pay for the higher price of bread. But then they would also have to eat some more bread to substitute for the deselected meat. In this way, a rise in the price of bread did not reduce demand but in fact enhanced it at the margin.

social 'law'. What must be explained are how rising or falling prices connect to ongoing dynamic trends, and which kind of forward momentum they potentially will impart to the existing social relations.

If university administrators go along with Mankiw's views, they will remain agents of the forces that have led to the stagnation of lower and middle incomes groups, and conversely fuelled the rapid growth of the incomes of the top 1%, including their own. This, of course, is the core function of the neoliberal economic model, which the intensive obfuscation inserted by the narratives attempts to hide. If, on the contrary, the university administrators accept the janitors demand as supported by the students' sit-in and raise pay to living wages, they will become agents of a countertrend that pushes towards a fairer economy and which will contain, at the margin, higher demand multipliers as well as less macroeconomic volatility, due to the fact that it also will reduce the volume of unspent incomes flowing into the asset inflationary cycles.

Price changes are not mechanical reactions, or expressions of choices devoid of non-economic determinants. Therefore, the focal point of any analysis must be to investigate which social forces, which positions of market power, etc. combine with the economic particulars to determine a given price-quantity relation. Moreover, we must strive to know whether the feedback loops that the economic events create are part of vicious or virtuous cycles, as Gunnar Myrdal framed the question. This, in the end, means that the economist (or others involved in producing analyses and statements in the fields of political economy) cannot free him- or herself from the realm of normative values, from staking out ethical positions.

Economics 101 as Neoliberal Narrative

Introductory courses in economics are today commonly taken by many of the students that pass through today's universities. Thus, many that follow these courses do not plan to go on as economics majors, but just want to combine a credit with getting a basic understanding of how this important element of society works.

Such introductory courses are however more often than not taught according to the market fundamentalist bias of equilibrium markets that are disconnected from social influences and power relations. This means that the students unwittingly will absorb a false logic. The epistemologically unsound principles upon which market fundamentalist economics is erected (the presumed perfect conditions needed for the logical construct of equilibrium markets, etc.) among other things ignore that economic events always are elements of dynamically trending social structures. Moreover, as it is the case with all other social regressions, the distributions of economic events are not likely to be normally distributed, but rather fat-tailed in direction of prevailing biases.

In other words, the economic fields are progressing under influences from social conditions and power balances that always are in the process of shifting and therefore cannot be reduced to the 'steady state' of pure market forces progressing in a logical glass bubble. That means that the theories brought forward by the dominant market

fundamentalist teaching effectively can be seen as reductionist exercises, playing to path-dependent memetic ensembles. Their main socio-political function is to lend credence to the narratives that in the political arenas legitimize the economic inequalities and exploitative social relations of modern capitalism.

With the market fundamentalist bias holding a dominant position in curricula in schools and universities, the alleged professional status-competence of the expounders of the theories turns the teaching into processes that impose symbolic violence upon the students, who however only in rare cases will have an independently acquired antidote of knowledge that can discern the factual bias that the education imparts upon them and disarm its doses of symbolic violence.

Those of the students who go on as majors and to post-graduate levels of study of economics will subsequently become so enmeshed in mastering the complex mathematics—the mastering of which increasingly are seen as a badge professional competence—that they are assured to totally lose all contact with the social complexities to which the observable economic events inevitably connect. Being unconscious prisoners of the inculcations of the neoliberal narratives, the contradictions between a mathematically constructed version of life in the market fundamentalist sign, and the socially embedded and power structured economic interactions that meet us in the real world, never surfaces to the level of producing critical questions and discourse.

Being oblivious to the imposition of symbolic violence means that the students, when they leave the convocation hall with their final examination paper in the pocket, will carry with them a belief that they have been taught a version of economics that is objective, positive science—a sum of the best of all possible knowledge to be had about how economic life in our societies work. Their belief will be that their years studying economics have turned them into rational agents, who are in possession of a true understanding of how freedom and unregulated markets combine to reward the relentless self-maximizers with their oversized, but well deserved, shares of the economic output.

However, the reality is that what they have received—and will carry with them into their prospective careers—is an imprint of the world and its economic relationships that is built on a false logic of the market fundamentalist bias, which moreover have been expounded by teaching techniques that rely heavily upon formalism, including a predilection for econo-mathematics that sharply diminishes access to approaches based on critical thinking. It is a scholastic path that reduces the interpretations of the world to allegedly positivist statements that deem the highest order of social arrangements to be unregulated markets where the wolves are free to eat the sheep, and the sheep perfectly free to let themselves be eaten, to paraphrase the Isaiah Berlin's metaphor.

Thus, modern economics buries the factual relationships between economic activities and political and social power in a false positivism. This includes the very potent social and political power that arises from large economic accumulations, which turn even 'pure' economic activities into asymmetric relationships.

Due to the sheer numbers of the students who leave the universities and business schools with such an imprint of the market fundamentalist bias firmly planted into their

doxa—the habitual beliefs they will have formed about the world—the aggregate level of symbolic violence imposed on society by academic economics has been a decisive factor in shaping the changing public perceptions about economic relationships. Upholding the relentless market fundamentalist self-maximizer as the social hero has swung attitudes towards accepting the large and rising income-wealth inequalities as an unavoidable human condition and caused people to see ecological negligence and indifference to social problems as being an economic virtue.

Stopping education that reinforces the market fundamentalist bias—with its destructive implications for the future—is thus of primary importance for restoring economics to the ranks of social sciences that are based on critical thinking; a restoration that in the process must toss all of the market fundamentalist memes out of the window.