

CAPITALISM AND ITS CRITICS — FALL 2012
COURSE: 14.72
READING LIST

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Stellar Course Website:
<http://stellar.mit.edu/S/course/14/fa12/14.72/>

This course focuses on capitalism and its critics in the context of the historical evolution of advanced industrial society. It will consider two major issues: the relative roles of markets and the state and the balance between individual rights and social responsibilities in the organization of economic activity. The structuring theme of the course is Thomas Kuhn's notion of a scientific paradigm. The course examines several different paradigms which have been used to analyze and understand capitalism in the context of the historical period in which those paradigms initially emerged and the specific political and economic problems with which they were designed to deal.

The material is organized under four broad headings: liberalism and neoclassical economics; Marxism; theories of the corporate state; and, theories about the social embeddedness of economic activity.

The course will use fictional and ethnographic accounts of individual economic achievement to highlight and sharpen the alternative ways of thinking about the social and political dimensions of economic activity. The issue of individualism and its relationship to capitalist growth and development is first introduced through The Fountainhead by Ayn Rand. We return to examine these questions again at the end of the course in the context of Watson's autobiographical account of the discovery of DNA, The Double Helix, and Tracy Kidder's study of product development in the computer industry, The Soul of the New Machine, both of which raise questions about the role of individuals relative to social groups and broader intellectual communities in modern economic development.

COURSE REQUIREMENTS

The course will require three types of written exercises: exams, formal papers, and weekly reactions to the reading.

EXAMS

There will be two exams: a quiz on October 17th, and a final examination at the end of the term.

PAPERS

This course is a HASS-D subject and requires 25 pages of coherent essay. This requirement will normally be met through three essays of 7-9 pages each, the first due on October 15, the second on November 7, and the third on December 3.

REFLECTIONS ON THE READINGS

Students are required to keep a written journal consisting of two or three pages of informal reflections on the readings each week. These should identify the most important issues which the readings pose and attempt to characterize the perspective which the authors take upon the relationship between the economy and the state and/or the relative roles of individual and social forces in economic growth and development.

READING ASSIGNMENTS

The Readings will be on the Stellar website for the course. The classic books on the reading list and/or those containing relatively long assignments have been ordered at the Coop and should be available there for purchase. Students are urged to purchase The Fountainhead, The Double Helix, and The Soul of the New Machine.

I. INTRODUCTION AND OVERVIEW

A. The Evolution of the Industrial State.

B. Paradigms in Social Science.

T. Kuhn, The Structure of Scientific Revolutions, University of Chicago Press, 1970, Chapters 2, 3, 9, 10; pp.72-95, 154-197. (COOP)

J. Rawls, "Some Reasons for the Maximin Criterion," *American Economic Review*, 1974, pp. 141-146.

Duncan Foley, Adam's Fallacy: a guide to economic theology, Cambridge, MA: Belknap Press, Harvard University Press, 2006. pp. 1-4, 213-228. (COOP)

M. Friedman, "Methodology of Positive Economics" in Essays in Positive Economics pp. 3-43.

II. LIBERALISM AND NEOCLASSICAL ECONOMICS

Ayn Rand, The Fountainhead (COOP)

Milton Friedman, Capitalism and Freedom. Chapters 1-3, 6, 10, 12, 13. pp. 1-36, 85-107, 161-176, 190-196. (COOP)

Gary Becker, An Economic Approach to Human Behavior Chapters 1 and 13; pp. 3-14 and 282-294.

George Gilder, Wealth and Poverty Part 1, pp. 3- 101.

III. MARXISM, ECONOMICS AND POLITICS

Karl Marx, The Communist Manifesto. (also at the COOP)

Karl Marx, Capital, Chapters XIV and XV, Sec.1 and 2; pp.276-303.

Jon Elster, An Introduction to Karl Marx, Cambridge, UK: Cambridge University Press, 1986. Chapters 2, 4, 6, 7, 8. pp. 21-41, 60-78, 103-167.

S. Bowles and H. Gintis, "The Crisis of Liberal Democratic Capitalism", *Politics and Society*, Vol. 11, No. 1, 1982 pp. 51-93.

Duncan Foley, Adam's Fallacy: a guide to economic theology, Cambridge, MA: Belknap Press, Harvard University Press, 2006. pp 86-154 (COOP)

IV. THE SOCIAL EMBEDDEDNESS OF THE ECONOMY

M. Weber, The Protestant Ethic and the Spirit of Capitalism, Chapters 2 and 5, pp. 47-78, 155-183.

Karl Polanyi, The Great Transformation, Boston: Beacon Press, 1944, Chapters 11-21, pp.130-258.

Joseph Schumpeter, Capitalism, Socialism and Democracy, Chapters 5-14, pp. 61-163 but especially 121-163. (COOP)

Keynes, M., The General Theory of Employment Interest and Money, (New York, St. Martin's Press, 1957), pp. 3-34, 245-279.

V. THE RISE AND FALL OF THE CORPORATE STATE

John Kenneth Galbraith, The New Industrial State Boston: Houghton Mifflin, 1985, Chapter VII, pp 75-90.

Robert M. Solow, "The New Industrial State or Son of Affluence", *The Public Interest*, Vol. 9, Fall, 1967, pp. 100-119.

Michael J. Piore and Charles F. Sabel, The Second Industrial Divide, New York: Basic Book, 1984, Chapters 2-4, and 10. pp.19-72; and 251-280.

Gerald Davis, Managed by the Markets: How Finance Re-Shaped America, Oxford; New York: Oxford University Press, 2009, pp. 1-14; 235-255. (COOP)

VI. THE CRISIS

Andrew Lo, "Fear, Greed, and Crisis Management: A Neuroscientific Perspective," *New York Times*, January 9, 2009, guest post on Freakonomics blog.

Richard Posner, *A failure of capitalism: the crisis of '08 and the descent into depression*. Cambridge, MA: Harvard University Press, 2009, pp. 234-268. (COOP)

Robert Solow, "How to Understand the Disaster," *New York Review of Books*, 56 (8), May 14, 2009.

VII. RECASTING INDIVIDUALISM

Richard Thaler and Cass Sunstein. *Nudge: Improving decisions about health, wealth, and happiness*, New Haven: Yale University Press, 2008, pp. TBA. (COOP)

Stefano DellaVigna, (2009) "Psychology and Economics: Evidence from the Field," *Journal of Economic Literature*, 47 (2): 315-372.

Hannah Arendt, *The Human Condition*, Ch. 1, 2, 5, pp. 7-79, 175-247. (COOP)

Richard Lester and Michael Piore. *Innovation – The Missing Dimension*. Cambridge, MA: Harvard University Press, 2004. (COOP)

Oliver Sacks, *Seeing Voices: A Journey into the World of the Deaf* (COOP)

Tracy Kidder, *The Soul of the New Machine* (COOP)

James D. Watson, *The Double Helix* (COOP)

14.72 CAPITALISM AND ITS CRITICS
CLASS SCHEDULE – 2012

Sept 5	Introduction
Sept 10	Paradigms and History: Kuhn, Foley, Rawls
Sept 12	Fountainhead movie
Sept 17	Discussion of Rand
Sept 19	Liberalism and Neoclassical Economics: Milton Friedman, Capitalism & Freedom
Sept 24	Becker
Sept 26	Gilder
Oct 1	Marxism: The Manifesto
Oct 3	Elster
Oct 8	Holiday – Columbus Day, No Class
Oct 10	Capital, The Division of Labor and Machinery
Oct 15	Bowles and Gintis; Foley / First Essay Due
Oct 17	Midterm Exam
Oct 22	The Social Embeddedness of the Economy: Introduction
Oct 24	Weber
Oct 29	Polanyi
Oct 31	Schumpeter
Nov 5	Keynes
Nov 7	Galbraith and Solow /Second Essay Due
Nov 12	Holiday – Veterans Day, No class
Nov 14	Piore and Sabel
Nov 19	The Crisis
Nov 21	Davis
Nov 26	Posner; Solow; and Lo
Nov 28	Thaler & Sunstein; DellaVigna
Dec 3	Arendt; Sacks / Third Essay Due
Dec 5	Lester and Piore
Dec 10	<u>The Soul of the New Machine</u> and <u>The Double Helix</u>
Dec 12	Wrap Up

14.72
Day 1

9/4

(3 min late)

Michael P'ore
"Pe-or-e"

Midterm + Final

Practice for Final
Essay Exams

Economist (over on stellar

Reading + Discussions Class

So do both "

Write up - summarize view of readings

Won't read all

~~W~~

Don't need careful notes

②

Almost all seniors

(good sign or bad sign :)

Diff ways econ + society operates

Start w/ literally a story: Fountainhead by Ayn Rand

Paul Ryan - big fan of Ayn Rand

individualism, social orgs

(This class seems like read a lot + syn overview

Eng class - study minor details)

Compare to other views - neoclassical

Marxian - other views

Soul of New Machine

(3)

(If I ever run for office - this class prob won't look good)

- but can disagree

↓
more fun

Double Helix - discovery of DNA
Auto bio of what he did

What is the role of individual in society

You as a person

How motivated?

→ Open ^{Compare} ~~Open~~ - theoretical + personal exp

Can you recognize yourself in the theories

(I'm only one on an iPad)

(4)

Alan Greenspan think of themselves as Roth in Fountainhead

Do you want a world full of Roths?

Is that at all relevant?

Listen to Michele Obama's speech
↳ He recommends

Character of Obama, President

What does have to do w/ the econ?

Will see yourself in Soul of N. Machine
Dable Melix

Ethos of MIT

- how you see yourself

Does that have anything to do w/ Roth?

Fountainhead

- important book

- thick
- read over fine

also a movie 9/12

5

Though they differ

Capitalism

Ted: private ownership of capital
market system ↳ means of production

Why not land-ism or labor-ism?

Ted: Main variable

Socialism

Communism - Ted: same w/ Glogs

Other: not same w/ nationalism

SU more nationalistic than US?

Prof: We're talking about politics
- were - economic

(Ted is being argumentative
- this will be fun)

6

Political vs Econ Systems

Does Capitalism always go w/ Democracy?

Is there a causal requirement?

Correlation certainly \downarrow

Some people ~~argue~~ argue yes

Will it eventually cause?

ideological connection
- individualism

Class warfare

Left - Demand from minority - socialism?

Right - Individualism

Capital - means of production owned + controlled

Where come from?

Thore

①

Prof: Is taxing stealing?

~~Make~~ ~~to~~

Are ~~the~~ redist programs capitalism?
or socialism?

Prof: if capitalism ownership
then redist programs included

Tragedy of Commons
Decentralized Decision Making
(Prof liked) (mo)

Is taxing compatible w/ this?

Ted: Are taxes distorting?

(I think prof has simpler view of taxes)

8

Incentive for effort

Ted: Yes, mostly?

Is Roth motivated by \$

Ted: More by aesthetic ideals

Prof: Totally

fascism - total dominance of state over individual

Corporatism

Prof: Do we have Capitalism?
Electoral college
no referendum - reps
redistricting

Congress supposed to represent district
- geo regions so different?

Other ways
- proportional?
- income level
- guilds

9

fashionism - interests in industrial society
by industry
workers ✓ capitalists
manager

Corporatism - generic term
not geo
industrialists ✓ labor

Next Week

Readings

Principles of Sci Revolutions

h chn

↳ framework of course organized

Theory of how science operates

most MIT profs would not say nice things

influential view though

2-3 para
write up

Socialism - ecan system

~~Capital~~

Communism - political system

abused Marxist's ideas like GOP w/ Reagan

Marxism - seemed like no clear def

just people trying to avoid later revisions

falling rates of profit from tech obsolescence

means wages will be cut

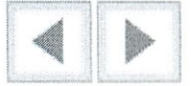
workers ~~may~~ will revolutionize

leading to socialism

(all very indistinct)

maximin criterion

Optimal



Definition

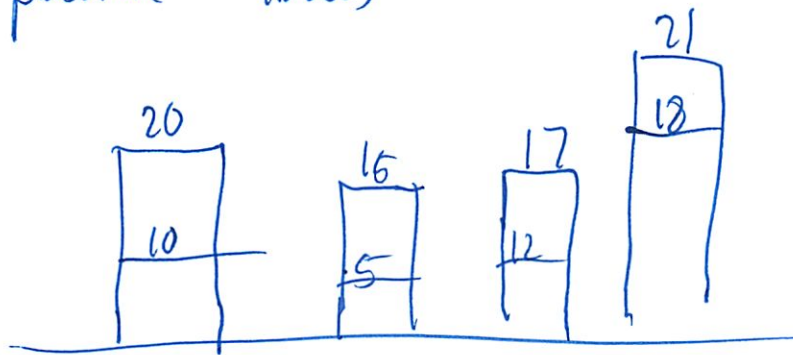
In decision theory, the pessimistic (conservative) decision making rule under conditions of uncertainty. It states that the decision maker should select the course of action whose worst (maximum) loss is better than the least (minimum) loss of all other courses of action possible in given circumstances. Also called maximin regret or minimax criterion.

? better-loss

Capital gain

Read more: <http://www.businessdictionary.com/definition/maximin-criterion.html#ixzz25ukenj1B>

So possible losses



? 15 is worst possible loss

least 10, 5, 12, 18

? So worst total loss!

* minimizes the max loss

So ~~SM~~ # 2 here

Read 9/8 Optim

Individualism

From Wikipedia, the free encyclopedia

Individualism is the moral stance, political philosophy, ideology, or social outlook that stresses "the moral worth of the individual".^[1] Individualists promote the exercise of one's goals and desires and so value independence and self-reliance^[3] while opposing external interference upon one's own interests by society or institutions such as the government.^[2]

Individualism makes the individual its focus^[1] and so starts "with the fundamental premise that the human individual is of primary importance in the struggle for liberation." Liberalism, existentialism and anarchism are examples of movements that take the human individual as a central unit of analysis.^[3] It has also been used as a term denoting "The quality of being an individual; individuality"^[2] related to possessing "An individual characteristic; a quirk."^[2] Individualism is thus also associated with artistic and bohemian interests and lifestyles where there is a tendency towards self creation and experimentation as opposed to tradition or popular mass opinions and behaviors^{[2][4]} as so also with humanist philosophical positions and ethics.^{[5][6]}

↳ moral worth - no exact def online. their own value

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 - 7.2.1 Mutualism
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Etymology

In the English language, the word "individualism" was first introduced, as a pejorative, by the Owenites in the late 1830s, although it is unclear if they were influenced by Saint-Simonianism or came up with it independently.^[7] A more positive use of the term in Britain came to be used with the writings of James Elishama Smith, who was a millenarian and a Christian Israelite. Although an early Owenite socialist, he eventually rejected its collective idea of property, and found in individualism a "universalism" that allowed for the development of the "original genius." Without individualism, Smith argued, individuals cannot amass property to increase one's happiness.^[7] William Maccall, another Unitarian preacher, and probably an acquaintance of Smith, came somewhat later, although influenced by John Stuart Mill, Thomas Carlyle, and German Romanticism, to the same positive conclusions, in his 1847 work "Elements of Individualism".^[8]

The individual

Main article: Individual

As commonly used, an individual is a person or any specific object in a collection. In the 15th century and earlier, and also today within the fields of statistics and metaphysics, individual means "indivisible", typically describing any numerically singular thing, but sometimes meaning "a person." (q.v. "The problem of proper names"). From the 17th century on, individual indicates separateness, as in individualism.^[9] Individuality is the state or quality of being an individual; a person separate from other persons and possessing his or her own needs, goals, and desires.

Individualism and society

An individualist enters into society to further his or her own interests, or at least demands the right to serve his or her own interests, without taking the interests of society into consideration (an individualist need not be an egoist). The individualist does not lend credence to any philosophy that requires the sacrifice of the self-interest of the individual for any higher social causes. Jean-Jacques Rousseau would argue, however, that his concept of "general will" in the "social contract" is not the simple collection of individual wills and precisely furthers the interests of the individual (the constraint of law itself would be beneficial for the individual, as the lack of respect for the law necessarily entails, in Rousseau's eyes, a form of ignorance and submission to one's passions instead of the preferred autonomy of reason).^[citation needed]

Societies and *groups* can differ in the extent to which they are based upon predominantly "self-regarding" (individualistic, and arguably self-interested) rather than "other-regarding" (group-oriented, and group, or society-minded) behavior. Ruth Benedict made a distinction, relevant in this context, between "guilt" societies (e.g., medieval Europe) with an "internal reference standard", and "shame" societies (e.g., Japan, "bringing shame upon one's ancestors") with an "external reference standard", where people look to their peers for

feedback on whether an action is "acceptable" or not (also known as "group-think").

The extent to which society or groups are "individualistic" can vary from time to time, and from country to country. For example, Japanese society is more group-oriented (e.g., decisions tend to be taken by consensus among groups, rather than by individuals).^[citation needed] Compare individualistic culture.

John Kenneth Galbraith made a classic distinction between "private affluence and public squalor" in the USA, and private squalor and public affluence in (for example) Europe, and there is a correlation between individualism and degrees of public-sector intervention and taxation.^[citation needed]

Individualism is often contrasted^[10] either with totalitarianism or with collectivism, but in fact there is a spectrum of behaviors at the societal level ranging from highly individualistic societies through mixed societies (a term the UK has used^[citation needed] in the post-World War II period) to collectivist.

Individualism, sometimes closely associated with certain variants of anarchism or liberalism, typically takes it for granted that individuals know best and that public authority or society has no right to interfere in the person's decision-making process, unless a very compelling need to do so arises (and maybe not even in those circumstances). This type of argument can occur in policy debates regarding regulation of industries, as well as in relation to personal choice of lifestyle.

Emotional Self-Interest

Emotional self-interest is defined by Nayef Al-Rodhan as "self-interest driven by neurochemically-mediated emotions". As he suggests in his general theory of human nature, "emotional amoral egoism"^[11], human behavior is primarily governed by self-interest. Humans first seek to ensure survival, and then they seek to dominate. These facets of human nature are a product of genetically coded survival instincts modified by the totality of our environment and expressed as neurochemically-mediated emotions and actions. Accordingly, once humans' basic needs have been filled, they may employ measured self-interest. In some instances this may result in positive consequences like greater cooperation between individuals and societies. However, Al-Rodhan cautions that excessive general self-interest risks leading to deception, criminality, and conflict.

Based on his understanding of human nature, Al-Rodhan suggests introducing mechanisms that will check unregulated general self-interest. Good governance should include adequate checks on government powers and effective law enforcement, as well as the defense of human rights and their extension to include basic physiological and emotional needs.^[12]

Political individualism

Individualists are chiefly concerned with protecting individual autonomy against obligations imposed by social institutions (such as the state or religious morality). For L. Susan Brown "Liberalism and anarchism are two political philosophies that are fundamentally concerned with individual freedom yet differ from one another in very distinct ways. Anarchism shares with liberalism a radical commitment to individual freedom while rejecting liberalism's competitive property relations."^[3]

With the abolition of private property, then, we shall have true, beautiful, healthy Individualism. Nobody will waste his life in accumulating things, and the symbols for things. One will live. To live is the rarest thing in the world. Most people exist, that is all.

Civil liberties are rights and freedoms that provide an individual specific rights such as the freedom from slavery and forced labor, freedom from torture and death, the right to liberty and security, right to a fair trial, the right to defend one's self, the right to own and bear arms, the right to privacy, freedom of conscience, freedom of expression, freedom of assembly and association, and the right to marry and have a family. Within the distinctions between civil liberties and other types of liberty, it is important to note the distinctions between positive rights and negative rights. Common civil liberties include the rights of people, freedom of religion, and freedom of speech, and additionally, the right to due process, to a trial and to privacy. Civil libertarianism is a strain of political thought that supports civil liberties, or which emphasizes the supremacy of individual rights and personal freedoms over and against any kind of authority (such as a state, a corporation, social norms imposed through peer pressure, etc.).^[13] Civil libertarianism is not a complete ideology; rather, it is a collection of views on the specific issues of civil liberties and civil rights. Because of this, a civil libertarian outlook is compatible with many other political philosophies, and civil libertarianism is found on both the right and left in modern politics.^[14]

Oscar Wilde,
The Soul of Man under Socialism,
1891

Liberalism

Main article: Liberalism

Liberalism (from the Latin *liberalis*, "of freedom; worthy of a free man, gentlemanlike, courteous, generous")^[15] is the belief in the importance of individual freedom. This belief is widely accepted in the United States, Europe, Australia and other Western nations, and was recognized as an important value by many Western philosophers throughout history, in particular since the Enlightenment. It is often rejected by collectivist, Islamic, or confucian societies in Asia or the Middle East. The Roman Emperor Marcus Aurelius wrote praising "the idea of a polity administered with regard to equal rights and equal freedom of speech, and the idea of a kingly government which respects most of all the freedom of the governed".^[16]

Modern liberalism has its roots in the Age of Enlightenment and rejects many foundational assumptions that dominated most earlier theories of government, such as the Divine Right of Kings, hereditary status, and established religion. John Locke is often credited with the philosophical foundations of classical liberalism. He wrote "no one ought to harm another in his life, health, liberty, or possessions."^[17]

In the 17th century, liberal ideas began to influence governments in Europe, in nations such as The Netherlands, Switzerland, England and Poland, but they were strongly opposed, often by armed might, by those who favored absolute monarchy and established religion. In the 18th century, in America, the first modern liberal state was founded, without a monarch or a hereditary aristocracy.^[18] The American *Declaration of Independence* includes the words (which echo Locke) "all men are created equal; that they are endowed by their Creator with certain unalienable rights; that among these are life, liberty, and the pursuit of happiness; that to insure these rights, governments are instituted among men, deriving their just powers from the consent of the governed."^[19]

Liberalism comes in many forms. According to John N. Gray, the essence of liberalism is toleration of different beliefs and of different ideas as to what constitutes a good life.^[20]

Anarchism

Main article: Anarchism

Anarchism is generally defined as the political philosophy which holds the state to be undesirable, unnecessary,

and harmful,^{[21][22]} or alternatively as opposing authority and hierarchical organization in the conduct of human relations.^{[23][24][25][26][27][28]} Proponents of anarchism, known as "anarchists", advocate stateless societies based on non-hierarchical^{[23][29][30]} voluntary associations.^{[31][32]}

For influential Italian anarchist Errico Malatesta "All anarchists, whatever tendency they belong to, are individualists in some way or other. But the opposite is not true; not by any means. The individualists are thus divided into two distinct categories: one which claims the right to full development for all human individuality, their own and that of others; the other which only thinks about its own individuality and has absolutely no hesitation in sacrificing the individuality of others. The Tsar of all the Russias belongs to the latter category of individualists. We belong to the former."^[33]

Individualist anarchism

Main article: Individualist anarchism

Individualist anarchism refers to several traditions of thought within the anarchist movement that emphasize the individual and their will over any kinds of external determinants such as groups, society, traditions, and ideological systems.^{[34][35]} Individualist anarchism is not a single philosophy but refers to a group of individualistic philosophies that sometimes are in conflict.

In 1793, William Godwin, who has often^[36] been cited as the first anarchist, wrote *Political Justice*, which some consider to be the first expression of anarchism.^{[37][38]} Godwin, a philosophical anarchist, from a rationalist and utilitarian basis opposed revolutionary action and saw a minimal state as a present "necessary evil" that would become increasingly irrelevant and powerless by the gradual spread of knowledge.^{[37][39]} Godwin advocated individualism, proposing that all cooperation in labour be eliminated on the premise that this would be most conducive with the general good.^{[40][41]}

An influential form of individualist anarchism, called "egoism,"^[42] or egoist anarchism, was expounded by one of the earliest and best-known proponents of individualist anarchism, the German Max Stirner.^[43] Stirner's *The Ego and Its Own*, published in 1844, is a founding text of the philosophy.^[43] According to Stirner, the only limitation on the rights of the individual is their power to obtain what they desire,^[44] without regard for God, state, or morality.^[45] To Stirner, rights were *spooks* in the mind, and he held that society does not exist but "the individuals are its reality".^[46] Stirner advocated self-assertion and foresaw unions of egoists, non-systematic associations continually renewed by all parties' support through an act of will,^[47] which Stirner proposed as a form of organization in place of the state.^[48] Egoist anarchists claim that egoism will foster genuine and spontaneous union between individuals.^[49] "Egoism" has inspired many interpretations of Stirner's philosophy. It was re-discovered and promoted by German philosophical anarchist and LGBT activist John Henry Mackay.

Josiah Warren is widely regarded as the first American anarchist,^[50] and the four-page weekly paper he edited during 1833, *The Peaceful Revolutionist*, was the first anarchist periodical published.^[51] For American anarchist historian Eunice Minette Schuster "It is apparent...that Proudhonian Anarchism was to be found in the United States at least as early as 1848 and that it was not conscious of its affinity to the Individualist Anarchism of Josiah Warren and Stephen Pearl Andrews...William B. Greene presented this Proudhonian Mutualism in its purest and most systematic form."^[52] Henry David Thoreau (1817–1862) was an important early influence in individualist anarchist thought in the United States and Europe. Thoreau was an American author, poet, naturalist, tax resister, development critic, surveyor, historian, philosopher, and leading transcendentalist. He is best known for his books *Walden*, a reflection upon simple living in natural surroundings, and his essay, *Civil*

Disobedience, an argument for individual resistance to civil government in moral opposition to an unjust state.



Influential French individualist anarchist Emile Armand

Later Benjamin Tucker fused Stirner's egoism with the economics of Warren and Proudhon in his eclectic influential publication *Liberty*.

From these early influences individualist anarchism in different countries attracted a small but diverse following of bohemian artists and intellectuals,^[53] free love and birth control advocates (see Anarchism and issues related to love and sex),^{[54][55]} individualist naturists nudists (see anarcho-naturism),^{[56][57][58]} freethought and anti-clearical activists^{[59][60]} as well as young anarchist outlaws in what came to be known as illegialism and individual reclamation^{[61][62]} (see European individualist anarchism and individualist anarchism in France). These authors and activists included Oscar Wilde, Emile Armand, Han Ryner, Henri Zisly, Renzo Novatore, Miguel Gimenez Igualada, Adolf Brand and Lev Chernyi among others.

Philosophical individualism

Ethical egoism

Main article: *Ethical egoism*

but is making a group better goal for you as well

Ethical egoism (also called simply egoism)^[63] is the normative ethical position that moral agents ought to do what is in their own self-interest. It differs from psychological egoism, which claims that people do only act in their self-interest. Ethical egoism also differs from rational egoism, which holds merely that it is rational to act in one's self-interest. These doctrines may, though, be combined with ethical egoism.

Ethical egoism contrasts with ethical altruism, which holds that moral agents have an obligation to help and serve others. Egoism and altruism both contrast with ethical utilitarianism, which holds that a moral agent should treat one's self (also known as the subject) with no higher regard than one has for others (as egoism does, by elevating self-interests and "the self" to a status not granted to others), but that one also should not (as altruism does) sacrifice one's own interests to help others' interests, so long as one's own interests (i.e. one's own desires or well-being) are substantially-equivalent to the others' interests and well-being. Egoism, utilitarianism, and altruism are all forms of consequentialism, but egoism and altruism contrast with utilitarianism, in that egoism and altruism are both agent-focused forms of consequentialism (i.e. subject-focused or subjective), but utilitarianism is called agent-neutral (i.e. objective and impartial) as it does not treat the subject's (i.e. the self's, i.e. the moral "agent's") own interests as being more or less important than if the same interests, desires, or well-being were anyone else's.

^{Philosophy}
Ethical egoism does not, however, require moral agents to harm the interests and well-being of others when making moral deliberation; e.g. what is in an agent's self-interest may be incidentally detrimental, beneficial, or neutral in its effect on others. Individualism allows for others' interest and well-being to be disregarded or not, as long as what is chosen is efficacious in satisfying the self-interest of the agent. Nor does ethical egoism necessarily entail that, in pursuing self-interest, one ought always to do what one wants to do; e.g. in the long term, the fulfilment of short-term desires may prove detrimental to the self. Fleeting pleasure, then, takes a back seat to protracted eudaemonia. In the words of James Rachels, "Ethical egoism [...] endorses selfishness,

but it doesn't endorse foolishness."^[64]

Ethical egoism is sometimes the philosophical basis for support of libertarianism or individualist anarchism as in Max Stirner, although these can also be based on altruistic motivations.^[65] These are political positions based partly on a belief that individuals should not coercively prevent others from exercising freedom of action.

Existentialism

Main article: Existentialism

Existentialism is a term applied to the work of a number of 19th- and 20th-century philosophers who, despite profound doctrinal differences,^{[66][67]} generally held that the focus of philosophical thought should be to deal with the conditions of existence of the individual person and his or her emotions, actions, responsibilities, and thoughts.^{[68][69]} The early 19th century philosopher Søren Kierkegaard, posthumously regarded as the father of existentialism,^{[70][71]} maintained that the individual solely has the responsibilities of giving one's own life meaning and living that life passionately and sincerely,^{[72][73]} in spite of many existential obstacles and distractions including despair, angst, absurdity, alienation, and boredom.^[74]

Subsequent existential philosophers retain the emphasis on the individual, but differ, in varying degrees, on how one achieves and what constitutes a fulfilling life, what obstacles must be overcome, and what external and internal factors are involved, including the potential consequences of the existence^{[75][76]} or non-existence of God.^{[77][78]} Many existentialists have also regarded traditional systematic or academic philosophy, in both style and content, as too abstract and remote from concrete human experience.^{[79][80]} Existentialism became fashionable in the post-World War years as a way to reassert the importance of human individuality and freedom.^[81]

Freethought

Main article: Freethought

Freethought holds that individuals should not accept ideas proposed as truth without recourse to knowledge and reason. Thus, freethinkers strive to build their opinions on the basis of facts, scientific inquiry, and logical principles, independent of any logical fallacies or intellectually limiting effects of authority, confirmation bias, cognitive bias, conventional wisdom, popular culture, prejudice, sectarianism, tradition, urban legend, and all other dogmas. Regarding religion, freethinkers hold that there is insufficient evidence to scientifically validate the existence of supernatural phenomena.^[82]

Humanism



Caricature of Max Stirner taken from a sketch by Friedrich Engels. Egoist philosopher Max Stirner has been called a proto-existentialist philosopher while at the same time is a central theorist of individualist anarchism

this doesn't really seem to be about individualism

Main article: Humanism

Humanism is a perspective common to a wide range of ethical stances that attaches importance to human dignity, concerns, and capabilities, particularly rationality. Although the word has many senses, its meaning comes into focus when contrasted to the supernatural or to appeals to authority.^{[83][84]} Since the 19th century, humanism has been associated with an anti-clericalism inherited from the 18th-century Enlightenment *philosophes*. 21st century Humanism tends to strongly endorse human rights, including reproductive rights, gender equality, social justice, and the separation of church and state. The term covers organized non-theistic religions, secular humanism, and a humanistic life stance.^[85]

Hedonism

Main article: Hedonism

Hedonism is a school of ethics which argues that pleasure is the only intrinsic good.^[86] The basic idea behind hedonistic thought is that pleasure is the only thing that is good for a person. This is often used as a justification for evaluating actions in terms of how much pleasure and how little pain (i.e. suffering) they produce. In very simple terms, a hedonist strives to maximize this net pleasure (pleasure minus pain).

Libertinism

Main article: Libertine

A libertine is one devoid of most moral restraints, which are seen as unnecessary or undesirable, especially one who ignores or even spurns accepted morals and forms of behavior sanctioned by the larger society. Libertines, also known as rakes, placed value on physical pleasures, meaning those experienced through the five senses. As a philosophy, libertinism gained new-found adherents in the 17th, 18th, and 19th centuries, particularly in France and Britain. Notable among these were John Wilmot, 2nd Earl of Rochester, and the Marquis de Sade. "Libertine" is defined today as "a dissolute person; usually a person who is morally unrestrained".

Objectivism

Main article: Objectivism (Ayn Rand)

read more about

Objectivism is a system of philosophy created by philosopher and novelist Ayn Rand (1905–1982) that holds: reality exists independent of consciousness; human beings gain knowledge rationally from perception through the process of concept formation and inductive and deductive logic; the moral purpose of one's life is the pursuit of one's own happiness or rational self-interest. Rand thinks the only social system consistent with this morality is full respect for individual rights, embodied in pure laissez faire capitalism; and the role of art in human life is to transform man's widest metaphysical ideas, by selective reproduction of reality, into a physical form—a work of art—that he can comprehend and to which he can respond emotionally. Objectivism celebrates man as his own hero, "with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only absolute."^[87]

Philosophical anarchism

Main article: Philosophical anarchism

Philosophical anarchism is an anarchist school of thought^[88] which contends that the State lacks moral legitimacy and -in contrast to revolutionary anarchism- does not advocate violent revolution to eliminate it but advocate peaceful evolution to superate it.^[89] Though philosophical anarchism does not necessarily imply any action or desire for the elimination of the State, philosophical anarchists do not believe that they have an obligation or duty to obey the State, or conversely, that the State has a right to command.

Philosophical anarchism is a component especially of individualist anarchism.^[90] Philosophical anarchists of historical note include Mohandas Gandhi, William Godwin, Pierre-Joseph Proudhon, Max Stirner,^[91] Benjamin Tucker,^[92] and Henry David Thoreau.^[93] Contemporary philosophical anarchists include A. John Simmons and Robert Paul Wolff.

Subjectivism

Main article: Subjectivism

Subjectivism is a philosophical tenet that accords primacy to subjective experience as fundamental of all measure and law. In extreme forms like Solipsism, it may hold that the nature and existence of every object depends solely on someone's subjective awareness of it. For example, Wittgenstein wrote in Tractatus Logico-Philosophicus: "The subject doesn't belong to the world, but it is a limit of the world" (proposition 5.632). Metaphysical subjectivism is the theory that reality is what we perceive to be real, and that there is no underlying true reality that exists independently of perception. One can also hold that it is consciousness rather than perception that is reality (subjective idealism). In probability, a subjectivism stands for the belief that probabilities are simply degrees-of-belief by rational agents in a certain proposition, and which have no objective reality in and of themselves.

Ethical subjectivism stands in opposition to moral realism, which claims that moral propositions refer to objective facts, independent of human opinion; to error theory, which denies that any moral propositions are true in any sense; and to non-cognitivism, which denies that moral sentences express propositions at all. The most common forms of ethical subjectivism are also forms of moral relativism, with moral standards held to be relative to each culture or society (c.f. cultural relativism), or even to every individual. The latter view, as put forward by Protagoras, holds that there are as many distinct scales of good and evil as there are subjects in the world. Moral subjectivism is that species of moral relativism that relativizes moral value to the individual subject.

Solipsism

Main article: Solipsism

Solipsism is the philosophical idea that only one's own mind is sure to exist. The term comes from Latin *solus* (alone) and *ipse* (self). Solipsism as an epistemological position holds that knowledge of anything outside one's own mind is unsure. The external world and other minds cannot be known, and might not exist outside the mind. As a metaphysical position, solipsism goes further to the conclusion that the world and other minds do not exist. As such it is the only epistemological position that, by its own postulate, is both irrefutable and yet indefensible in the same manner. Although the number of individuals sincerely espousing solipsism has been small, it is not uncommon for one philosopher to accuse another's arguments of entailing solipsism as an unwanted consequence, in a kind of reductio ad absurdum. In the history of philosophy, solipsism has served as a skeptical hypothesis.

was extreme

this is not what I was looking for

Economic individualism

The doctrine of economic individualism holds that each individual should be allowed autonomy in making his or her own economic decisions as opposed to those decisions being made by the state, the community, the corporation etc. for him or her.

This is more like it

Classical liberalism

Main article: Classical liberalism

Classical liberalism is a political ideology that developed in the 19th century in England, Western Europe, and the Americas. It followed earlier forms of liberalism in its commitment to personal freedom and popular government, but differed from earlier forms of liberalism in its commitment to free markets and classical economics.^[94] Notable classical liberals in the 19th century include Jean-Baptiste Say, Thomas Malthus, and David Ricardo. Classical liberalism was revived in the 20th century by Ludwig von Mises and Friedrich Hayek, and further developed by Milton Friedman, Robert Nozick, Loren Lomasky, and Jan Narveson.^[95]

The phrase *classical liberalism* is also sometimes used to refer to all forms of liberalism before the 20th century. And, after 1970, the phrase began to be used by Libertarians to describe their belief in the primacy of economic freedom and minimal government. It is sometimes difficult to tell which meaning is intended in a given source.

what were others

2012 GOP

Individualist anarchism and economics

In regards to economic questions within individualist anarchism there are adherents to mutualism (Pierre Joseph Proudhon, Emile Armand, early Benjamin Tucker); natural rights positions (Early Benjamin Tucker, Lysander Spooner, Josiah Warren); and egoistic disrespect for "ghosts" such as private property and markets (Max Stirner, John Henry Mackay, Lev Chernyi, later Benjamin Tucker, Renzo Novatore, illegalism).

Mutualism

Main article: Mutualism (economic theory)

Mutualism is an anarchist school of thought which can be traced to the writings of Pierre-Joseph Proudhon, who envisioned a society where each person might possess a means of production, either individually or collectively, with trade representing equivalent amounts of labor in the free market.^[96] Integral to the scheme was the establishment of a mutual-credit bank which would lend to producers at a minimal interest rate only high enough to cover the costs of administration.^[97] Mutualism is based on a labor theory of value which holds that when labor or its product is sold, in exchange, it ought to receive goods or services embodying "the amount of labor necessary to produce an article of exactly similar and equal utility".^[98] Receiving anything less would be considered exploitation, theft of labor, or usury.

Libertarian socialism

Main article: Libertarian socialism

Libertarian socialism (sometimes called **social anarchism**,^{[100][101]} and sometimes **left libertarianism**)^{[102][103]} is a group of political philosophies that promote a non-hierarchical, non-bureaucratic,

stateless society without private property in the means of production. Libertarian socialism is opposed to all coercive forms of social organization, and promotes free association in place of government and opposes what it sees as the coercive social relations of capitalism, such as wage labor.^[104] The term libertarian socialism is used by some socialists to differentiate their philosophy from state socialism^{[105][106]} or by some as a synonym for left anarchism.^{[100][101][107]}



Benjamin Tucker, American individualist anarchist who focused on economics calling them "Anarchistic-Socialism"^[99] and adhering to the mutualist economics of Pierre-Joseph Proudhon and Josiah Warren

Adherents of libertarian socialism assert that a society based on freedom and equality can be achieved through abolishing authoritarian institutions that control certain means of production and subordinate the majority to an owning class or political and economic elite.^[108] Libertarian socialism also constitutes a tendency of thought that promotes the identification, criticism and practical dismantling of illegitimate authority in all aspects of life.

Accordingly, libertarian socialists believe that "the exercise of power in any institutionalized form—whether economic, political, religious, or sexual—brutalizes both the wielder of power and the one over whom it is exercised".^[109] Libertarian socialists generally place their hopes in decentralized means of direct democracy such as libertarian municipalism, citizens' assemblies, trade unions and workers' councils.^[110]

Political philosophies commonly described as libertarian socialist include most varieties of anarchism (especially anarchist communism, anarchist collectivism, anarcho-syndicalism,^[111] mutualism^[112]) as well as autonomism, communalism, participism, some versions of "utopian socialism"^[113] and individualist anarchism^{[114][115][116]}, and also libertarian Marxist philosophies such as council communism and Luxemburgism.^[117]

Left-libertarianism

Main article: Left-libertarianism

Left-libertarianism (sometimes synonymous with left-wing libertarianism and libertarian socialism)^{[118][119]} is a term that has been used to describe several different libertarian political movements and theorists.

Left-libertarianism, as defended by contemporary theorists such as Peter Vallentyne, Hillel Steiner, and Michael Otsuka, is a doctrine that has a strong commitment to personal liberty *and* has an egalitarian view concerning natural resources, believing that it is illegitimate for anyone to claim private ownership of resources to the detriment of others.^{[120][121]} Some left-libertarians of this type support some form of income redistribution on the grounds of a claim by each individual to be entitled to an equal share of natural resources.^[121] Social anarchists, including Murray Bookchin,^[122] anarcho-communists^[123] such as Peter Kropotkin and anarcho-collectivists such as Mikhail Bakunin, are sometimes called left-libertarian.^[124] Noam Chomsky also refers to himself as a left libertarian.^[125] The term is sometimes used synonymously with libertarian socialism^[126] or used in self-description by geists who support individuals paying rent to the community for the use of land. Left libertarian parties, such as Green, share with "traditional socialism a distrust of the market, of private investment, and of the achievement ethic, and a commitment to expansion of the welfare state."^[127]

Right-libertarianism

Main article: Right-libertarianism

Right-libertarianism or right libertarianism is a phrase used by some to describe either non-collectivist forms of libertarianism^[128] or a variety of different libertarian views some label "right" of mainstream libertarianism including "libertarian conservatism".

Stanford Encyclopedia of Philosophy calls it "right libertarianism" but states: "Libertarianism is often thought of as 'right-wing' doctrine. This, however, is mistaken for at least two reasons. First, on social—rather than economic—issues, libertarianism tends to be 'left-wing'. It opposes laws that restrict consensual and private sexual relationships between adults (e.g., gay sex, non-marital sex, and deviant sex), laws that restrict drug use, laws that impose religious views or practices on individuals, and compulsory military service. Second, in addition to the better-known version of libertarianism—right-libertarianism—there is also a version known as 'left-libertarianism'. Both endorse full self-ownership, but they differ with respect to the powers agents have to appropriate unappropriated natural resources (land, air, water, etc.)."^[129]

Methodological individualism

For some individualists, who hold a view known as methodological individualism, the word "society" cannot refer to anything more than a very large collection of individuals. Society does not have an existence above or beyond these individuals, and thus cannot be properly said to carry out actions, since actions require intentionality, intentionality requires an agent, and society as a whole cannot be properly said to possess agency; only individuals can be agents. The same holds for the government. Under this view, a government is composed of individuals; despite that democratic governments are elected by popular vote, the fact remains that all of the activities of government are carried out by means of the intentions and actions of individuals. Strictly speaking, the government itself does not act. For example, the point is sometimes made that "we" have decided to enact a certain policy, and sometimes this usage is used to imply that the entity known as "society" supports the policy and thus it is justified. The methodological individualist points out that "we" in fact did not enact or carry out this policy; among those who voted, a certain group of people voted for the policy, individuals all, and another group voted against it. The decision that emerged was not made by the "people", or by the "government"; it was made by those on the winning side of the vote. This is significant because in any collective there exists individuals who oppose the policy whose wills are being overridden, and the use of "we" tends to obscure that fact. The individualist wishes to highlight the importance of the individual and prevent subsumption into a collective. For these reasons, methodological individualists tend to disagree with claims such as "we deserve the government we have, because we are doing it to ourselves," since perhaps that individual and very possibly many others disagree with the actions of the individuals who hold government power. That said, many individualists are willing to use "we" in reference to government or society as a convenient shorthand as long as the fact that these entities are composed of individuals is kept in mind.

Individualism as creative independent lifestyle



The anarchist^[130] writer and bohemian Oscar Wilde wrote in his famous essay *The Soul of Man under Socialism* that "Art is individualism, and individualism is a disturbing and disintegrating force. There lies its immense value. For what it seeks is to disturb monotony of type, slavery of custom, tyranny of habit, and the reduction of man to the level of a machine."^[131] For anarchist historian George Woodcock "Wilde's aim in *The Soul of Man under Socialism* is to seek the society most favorable to the artist...for Wilde art is the supreme end, containing within



Oscar Wilde, famous anarchist Irish writer of the decadent movement and famous dandy

itself enlightenment and regeneration, to which all else in society must be subordinated...Wilde represents the anarchist as aesthete."^[132] The word individualism in this way has been used to denote a personality with a strong tendency towards self creation and experimentation as opposed to tradition or popular mass opinions and behaviors^{[2][4]}

Anarchist writer Murray Bookchin describes a lot of individualist anarchism as people who "expressed their opposition in uniquely personal forms, especially in fiery tracts, outrageous behavior, and aberrant lifestyles in the cultural ghettos of fin de siècle New York, Paris, and London. As a credo, individualist anarchism remained largely a bohemian lifestyle, most conspicuous in its demands for sexual freedom ('free love') and enamored of innovations in art, behavior, and clothing."^[53]

In relation to this view of individuality, French Individualist anarchist Emile Armand advocates egoistical denial of social conventions and dogmas to live in accord to one's own ways and desires in daily life since he emphasized anarchism as a way of life and practice. In this way he manifests "So the anarchist individualist tends to reproduce himself, to perpetuate his spirit in other individuals who will share his views and who will make it possible for a state of affairs to be established from which authoritarianism has been banished. It is this desire, this will, not only to live, but also to reproduce oneself, which we shall call "activity".^[133]

In the book *Imperfect garden : the legacy of humanism*, humanist philosopher Tzvetan Todorov identifies individualism as an important current of socio-political thought within modernity and as examples of it he mentions Michel de Montaigne, François de La Rochefoucauld, Marquis de Sade, and Charles Baudelaire^[134] In La Rochefoucauld, he identifies a tendency similar to stoicism in which "the honest person works his being in the manner of a sculptor who searches the liberation of the forms which are inside a block of marble, to extract the truth of that matter."^[134] In Baudelaire he finds the dandy trait in which one searches to cultivate "the idea of beauty within oneself, of satisfying one's passions of feeling and thinking."^[134]

The Russian-American poet Joseph Brodsky one manifested that "The surest defense against Evil is extreme individualism, originality of thinking, whimsicality, even—if you will—eccentricity. That is, something that can't be feigned, faked, imitated; something even a seasoned imposter couldn't be happy with."^[135] Ralph Waldo Emerson famously declared", "Whoso would be a man must be a nonconformist"—a point of view developed at length in both the life and work of (Henry David) Thoreau. Equally memorable and influential on Walt Whitman is Emerson's idea that "a foolish consistency is the hobgoblin of small minds, adored by little statesmen and philosophers and divines."...Emerson opposes on principle the reliance on social structures (civil, religious) precisely because through them the individual approaches the divine second hand, mediated by the once original experience of a genius from another age: "An institution," as he explains, "is the lengthened shadow of one man." To achieve this original relation one must "Insist on one's self; never imitate" for if the relationship is secondary the connection is lost."^[136]

See also

- Anti-individualism
- Conformity
- Decadence
- Human nature
- Individuation
- Voluntaryism

Income inequality in the United States

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Optional

Unequal distribution of income between genders, races and the population in general in the **United States** has been the subject of study by scholars and institutions. Inequality between male and female workers in the US has decreased considerably over the last several decades^[1], inequality between black and white Americans has stagnated during that time ^[2](although not among other races), but data from a number of sources ^[3] indicate that income inequality over all has grown significantly since the late 1970s, ^[4]^[5]^[6]^[7]^[8] after several decades of stability^[9]^[10]. While inequality has risen among most developed countries, and especially English-speaking ones, it is highest in the United States.^[11]^[12]^[13]

The post 1970s increase in inequality (sometimes called the Great Divergence) has been caused by a widening gap between the middle class and top earners, rather than between the poor and middle class^[14]. The disparity becomes more extreme the further one goes up in the income distribution.^[15] A 2011 study by the CBO^[16] found that the top earning 1 percent of households gained about 275% after federal taxes and income transfers over a period between 1979 and 2007. However, only 42% of Americans think inequality has increased in the past ten years.^[17]

From 1992 to 2007 the top 400 earners in the U.S. saw their income increase 392% and their average tax rate reduced by 37%.^[18] The share of total income in America going to the top 1% of American households (also after federal taxes and income transfers) increased from 11.3% in 1979 to 20.9% in 2007.^[19] During the Great Recession of 2007-2009, inequality declined, with total income going to the bottom 99 percent of Americans declining by 11.6%, but falling faster (36.3%) for the top 1%.^[20]^[21] However disparity in income increased again during the 2009-2010 recovery, with the top 1% of income earners capturing 11.6% of income and capital gains, and the income of the other 99% remained flat, growing by only 0.2%.^[22]^[23] Income inequality is not uniform across the United States; as measured by Gini coefficient, after tax income inequality in 2009 was greatest in Washington D.C. and lowest in Maine.^[24]

Scholars and others differ as the causes, solutions, and the significance of the trend,^[25]^[26] which in 2011 helped ignite the "Occupy" protest movement. Education and increased demand for skilled labor are often cited as causes^[27], some have emphasized the importance of public policy; others believe the causes of inequality's rise are not well understood.^[16] Inequality has been described both as irrelevant in the face of economic opportunity (or social mobility) in America, and as a cause of the decline in that opportunity.^[28]^[29]

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History

The level of concentration of income in America has not been constant throughout its history. Going back to the early 20th Century, when income statistics started to become available, there has been a "great economic arc" from high inequality "to relative equality and back again," in the words of Nobel laureate economist Paul Krugman^[32]. In 1915, an era in which the Rockefellers and Carnegies dominated American industry, the richest 1% of Americans earned roughly 18% of all income. By 2007, the top 1 percent account for 24% of all income.^[33] In between, their share fell below 10% for three decades.

The first era of inequality lasted roughly from the post-civil war era ("the Gilded Age") to sometime around 1937. But from about 1937 to 1947 -- a period that has been dubbed the "Great Compression"^[34] -- income inequality in America fell dramatically. Highly progressive New Deal taxation, the strengthening of unions, and regulation of the National War Labor Board during World War II raised the income of the poor and working class and lowered that of top earners.^[35] This "middle class society" of relatively low level of inequality remained fairly steady for about three decades ending in late 1970s^{[9][34][36]}, the product of relatively high wages for the US working class and political support for income leveling government policies.

Wages remained relatively high because of lack of foreign competition for American manufacturing, lack of low skilled immigrant workers^[37], competition for US workers in general, and — arguably most important — strong trade unions. By 1947 more than a third of non-farm workers were union members,^[38] and unions both raised average wages for their membership, and indirectly and to a lesser extent, raised wages for workers in similar occupations not represented by unions.^[39] Scholars believe political support for equalizing government policies was provided by high voter turnout from union voting drives, the support of the otherwise conservative South for the New Deal, and prestige that the massive mobilization and victory of World War II had given the government.^[40]

The return to high inequality -- or what Krugman and journalist Timothy Noah have referred to as the "Great Divergence"^[33] -- began in the late 1970s. Studies have found income grew more unequal almost continuously except during the economic recessions in 1990-91, 2001 (Dot-com bubble), and 2007 sub-prime bust.^{[41][42]} The Great Divergence differs in some ways from the pre-Depression era inequality. Before 1937 a larger share of top earners income came from capital (interest, dividends, income from rent, capital gains). Post 1970, income of high-income taxpayers comes predominantly from "labor", i.e. employment compensation.^[43]

Until 2011, the Great Divergence had not been a major political issue in America, though stagnation of middle class income was. In 2009 the Barack Obama administration White House Middle Class Working Families Task Force convened to focus on economic issues specifically affecting middle-income Americans. In 2011, the Occupy movement drew considerable attention to income inequality in the country.

Measurement

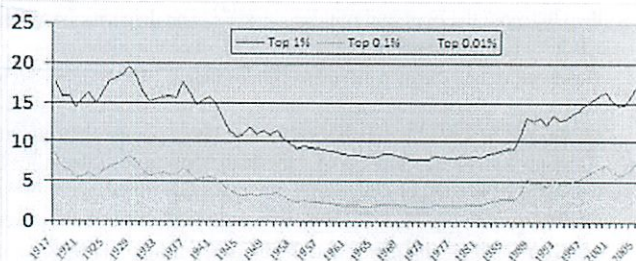
Indicators

A number of studies by the US Department of Commerce, Congressional Budget Office (CBO), and Internal Revenue Service, have found that the distribution of income in the United States — most commonly measured by household or individual — has become increasingly unequal since the 1970s.

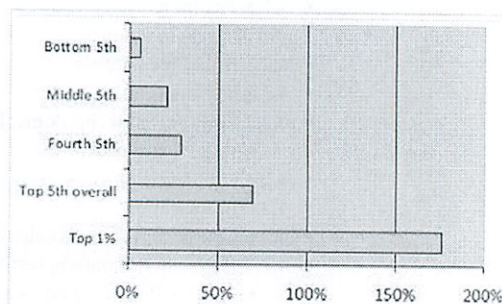
One of the most recent and comprehensive studies on the change in income inequality in America was a 2011 study by the Congressional Budget Office (CBO) -- "Trends in the Distribution of Household Income Between 1979 and 2007". (It chose those two years because they both preceded an economic recession and so both were periods of "similar overall economic activity"^[48]). The report found that real household income after federal taxes and including government transfers (payments from Social Security, unemployment insurance, etc.^{[49][50]}) grew by 62%.

However, income of households in the top 1 percent of earners grew by 275%, compared to 65% for the next 19 percent, just under 40% for the next 60 percent, 18% for the bottom fifth of households. "As a result of that uneven income growth," the report noted, "the share of total after-tax income received by the 1 percent of the population in households with the highest income more than doubled between 1979 and 2007, whereas the share received by low- and middle-income households declined ... The share of income received by the top 1 percent grew from about 8% in 1979 to over 17% in 2007. The share received by the other 19 percent of households in the highest income quintile (one-fifth of the population as divided by income) was fairly flat over the same period, edging up from 35% to 36%." ^[51]

Looking at the issue of how frequently workers or households move into higher or lower quintiles as their income rises or falls over the years^[52], the CBO found income distribution over a multi-year period "modestly" more equal than annual income.^[53] The CBO study confirms earlier studies.^[44]



Share of pre-tax household income received by the top 1 percent, top 0.1 percent and top 0.01 percent, between 1917 and 2005.^{[30][31]}



Inflation adjusted increase in after-tax household income between 1979 and 2005 for the top 1% and the four of the five quintiles.^[44]

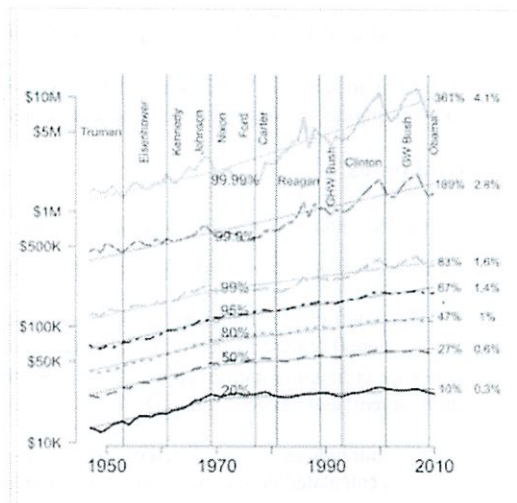
According to CBO,^[54] the major reason for observed rise in unequal distribution of after-tax income was an increase in market income, that is household income before taxes and transfers. Market income for a household is a combination of labor income (such as cash wages, employer-paid benefits, employer-paid payroll taxes), business income (such as income from businesses and farms operated solely by their owners), capital gains (profits realized from the sale of assets, stock options), capital income (such as interest from deposits, dividends, rental income), and other income. Of these, capital gains accounted for 80% of the increase in market income for the households in top 20%, in the 2000-2007 period. Even over 1991-2000 period, according to CBO, capital gains accounted for 45% of the market income for the top 20% households.

A 2006 analysis of IRS income data by Emmanuel Saez and Thomas Piketty at the Paris School of Economics showed that the share of income held by the top 1 percent was as large in 2005 as in 1928. The data revealed that reported income increased by 9% in 2005, with the mean for the top 1 percent increasing by 14% and that for the bottom 90 percent dropping slightly by 0.6%.^[7] Other sources that have noted the increased inequality included economist Janet Yellen who stated, "the growth [in real income] was heavily concentrated at the very tip of the top, that is, the top 1 percent."^[55]

Economist Timothy Smeeding summed up the current trend:^[56]

Americans have the highest income inequality in the rich world and over the past 20-30 years Americans have also experienced the greatest increase in income inequality among rich nations. The more detailed the data we can use to observe this change, the more skewed the change appears to be ... the majority of large gains are indeed at the top of the distribution.

United States Census Bureau studies on inequality of income measure both households^[57] and individuals.^[58] Their numbers show lower levels of inequality^[59] but do not include data for the highest-income households where most of change in income distribution has occurred.^{[25][60]} A 2010 census study showed the top 20 percent of Americans earned 49.4% of the nation's income, compared with the 3.4% earned by Americans living below the poverty line (roughly 15 percent of the population). This earnings ratio of 14.5 to 1 was an increase from the 13.6 to 1 ratio just two years earlier, and a significant rise from the historic low of 7.69 to 1 in 1968.^[61]



This graph shows the income of the given percentiles from 1947 to 2010 in 2010 dollars. The 2 columns of numbers in the right margin are the cumulative growth 1970-2010 and the annual growth rate over that period. The vertical scale is logarithmic, which makes constant percentage growth appear as a straight line. From 1947 to 1970, all percentiles grew at essentially the same rate; the light, straight lines for the different percentiles for those years all have the same slope. Since then, there has been substantial divergence, with different percentiles of the income distribution growing at different rates. For the median American family, this gap is \$39,000 per year (just over \$100 per day): If the economic growth during this period had been broadly shared as it was from 1947 to 1970, the median household income would have been \$39,000 per year higher than it was in 2010. This plot was created by combining data from the US Census Bureau^[45] and the US Internal Revenue Service^[46]. There are systematic differences between these two sources, but the differences are small relative to the scale of this plot.^[47]

Data	Total gain	Percent gain	2003	2000	1997	1994	1991	1988	1985	1982	1979	1976	1973	1970	1967
20th percentile	\$3,982	28.4%	\$17,984	\$19,142	\$17,601	\$16,484	\$16,580	\$17,006	\$16,306	\$15,548	\$16,457	\$15,615	\$15,844	\$15,126	\$14,002
Median (50th)	\$9,980	29.9%	\$43,318	\$44,853	\$42,294	\$39,613	\$39,679	\$40,678	\$38,510	\$36,811	\$38,649	\$36,155	\$37,700	\$35,832	\$33,338
80th percentile	\$34,602	62.6%	\$86,867	\$87,341	\$81,719	\$77,154	\$74,759	\$75,593	\$71,433	\$66,920	\$68,318	\$63,247	\$64,500	\$60,148	\$55,265
95th percentile	\$65,442	73.8%	\$154,120	\$155,121	\$144,636	\$134,835	\$126,969	\$127,958	\$119,459	\$111,516	\$111,445	\$100,839	\$102,243	\$95,090	\$88,678

SOURCE: U.S. Census Bureau, 2004^[62] (Page 44/45)

Wage inequality

According to Janet L. Yellen, President and CEO, Federal Reserve Bank of San Francisco,

...real hourly wages of those in the 90th percentile—where most people have college or advanced degrees—rose by 30% or more... among this top 10 percent, the growth was heavily concentrated at the very tip of the top, that is, the top 1 percent. This includes the people who earn the very highest salaries in the U.S. economy, like sports and entertainment stars, investment bankers and venture capitalists, corporate attorneys, and CEOs. In contrast, at the 50th percentile and below—where many people have at most a high school diploma—real wages rose by only 5 to 10% - ^[55]

David Card and John E. DiNardo found no change in wage inequality at all between 1988-2000. ^[63]

Consumption

What about 90-99%

Will Wilkinson of the libertarian Cato Institute argues that "the weight of the evidence shows that the run-up in consumption inequality has been considerably less dramatic than the rise in income inequality," and consumption is more important than income.^[64] However since consumption in excess of income usually means debt, Timothy Noah argues that "the thought that the have-nots are compensating for their lower incomes by putting themselves (and the country) in economically ruinous hock is not reassuring."^[65] The CBO agrees that household consumption numbers show more equal distribution than household income but finds the data

do not "adequately capture consumption by high-income households" as it does their income.^[66]

According to Johnson, Smeeding, and Tory, consumption inequality was actually lower in 2001 than it was in 1986.^[67] This stark contrast to so many studies showing rapidly increasing income inequality raises questions over the reliability of data from tax returns as the definition of income has changed over the years.

Gini index

Further information: Gini coefficient

Further information: List of U.S. states by income equality

The Gini coefficient summarizes income inequality in a single number and is one of the most commonly used measures of income inequality. It uses a scale from 0 to 1 -- where 0 represents perfect equality (everyone having exactly the same income), and 1 represents perfect inequality (one person having all income). Index scores are commonly multiplied by 100 to make them easier to understand.^[68] Gini index ratings can be used to compare inequality within (by race, gender, employment) and between them. Different sources will often give different gini values for the same country or population measured.

Income Gini indices are calculated on market income as well as disposable income basis. The Gini index on market income - sometimes referred to as pre-tax Gini index - is calculated on income before taxes and transfers, and it estimates income inequality without considering the effect of taxes and social spending already in place in a country. The Gini index on disposable income - sometimes referred to as after-tax Gini index - is calculated on income after taxes and transfers, and it measures inequality in income after considering the effect of taxes and social spending already in place in a country.^{[69][70][71][72]}

Domestic comparisons

The household income Gini index for the United States was 0.468 in 2009, according to the US Census Bureau.^[74] This Gini index value was a U.S. composite average, with significant variations in Gini between the states. The states of Utah, Alaska and Wyoming have a pre-tax income inequality Gini coefficient that is 10% lower than the average, while Washington D.C. and Puerto Rico 10% higher. After including the effects of federal and state taxes, the U.S. Federal Reserve estimates 34 states in the USA have a Gini coefficient between 0.30 and 0.35, with the state of Maine the lowest.^[75] At the county and municipality levels, the pre-tax Gini index ranged from 0.21 to 0.65 in 2010 across the United States, according to Census Bureau estimates.^[73]

OECD estimates the pre-tax Gini index for the United States was 0.49, and after-tax Gini index was 0.38, in 2008-2009. The average pre-tax Gini index for OECD countries was 0.46, while the average after-tax Gini index was 0.31.^[69]

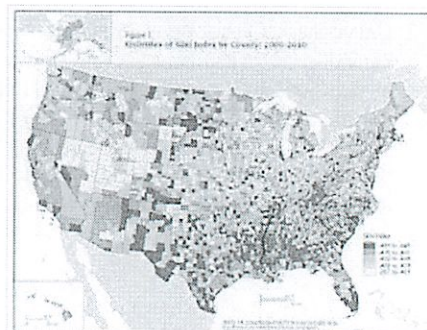
International comparisons

Between 1981 and 2008, income inequality rose significantly in two-thirds of OECD countries, mostly because of rising incomes in the top percentiles and stagnating incomes at the bottom half of the income distribution.^[1]

The UN, CIA *World Factbook*,^[76] and OECD have used the gini index to compare inequality between countries, and as of 2006, the United States had one of the highest levels of income inequality among similar developed or high income countries, as measured by the index.^[11] While inequality has increased somewhat since the mid-1980s^[77], most developed countries are in the lower, more equal, end of the spectrum, with a Gini coefficient in the high twenties to mid thirties.^[78]

The gini rating of the United States is sufficiently high, however, to put it among less developed countries. The US ranks above (more unequal than) South American countries such Guyana, Nicaragua, and Venezuela, and roughly on par with Uruguay, Nicaragua, and Venezuela, according to the CIA.^[79] (although some developed countries have higher gini ratings before taxes and transfers.^[12])

Between 1985 and 2008 the OECD-24 countries with the fastest-rising Gini coefficients were Sweden, New Zealand, Finland, Israel, Germany, and Luxembourg.^[80]



This Gini Index map shows regional and country level variation in pre-tax income inequality Gini index. The 2010 Gini index value range from 0.207 for Loving County (Texas) to 0.645 to East Carroll Parish (Louisiana).^[73]

Organization	US gini rating	International range		US ranking in income equality	Year(s) rated
		Most equal (lowest gini)	Least equal (highest gini)		
UN ^{[81][82]}	0.408	0.168 (Azerbaijan)	0.743 (Namibia)	77th out of 146	2000-2010
The World Factbook (CIA) ^[76]	0.45	0.23 (Sweden, 2005)	0.707 (Namibia, 2003)	100th out of 140 ^[83]	1994-2009
OECD ^[12] (after taxes and transfers)	0.378	0.236 (Slovenia)	0.494 (Chile)	31st out of 34 (in OECD)	"late 2000s"
OECD ^[12] (before taxes and transfers)	0.486	0.344 (South Korea)	0.534 (Italy)	26th out of 33 (in OECD)	"late 2000s"

Among the 34 "developed" countries of the OECD the US gini rank in income equality (27th) is higher before taxes and "transfers" are measured,^[84] then after (31st)^[85] -- i.e., the US has less income redistribution by government than some other post-industrial economies. However some developed countries, such as the Netherlands and Greece, have less inequality simply because incomes are more equal than in the US even before taxes.^[86]

Some have argued that inequality is higher in other countries than official statistics indicate because of unreported income. European countries have higher amounts of wealth in offshore holdings.^{[87][88][89][90]}

Income levels

High income

60% of earners in the top 0.1 percent are executives, managers, supervisors, and financial professionals. More than half of them work in closely held businesses.^[91] The top 1 percent is composed of many professions, the five most common professions being managers^[92], physicians, administrators, lawyers, and financial specialists. Doctors are more likely than any other profession to be in the 1 percent.^[93]

Causes

Inequality in general

Expertise, productiveness and work experience, inheritance, gender, and race have had a strong influence on distribution of personal income^{[94][95]} in the United States as in other countries.

Race and gender disparities

Further information: Male-female income disparity in the United States

Further information: Racial wage gap in the United States

Income levels vary by gender and race with median income levels considerably below the national median for females compared to men with certain racial demographics.^[96]

Despite considerable progress in pursuing gender and racial equality, some social scientists attribute these discrepancies in income to continued discrimination.^[97] Others argue that the majority of the wage gap is due to women's choices and preferences. Women are more likely to consider factors other than salary when looking for employment. On average, women are less willing to travel or relocate, take more hours off and work fewer hours, and choose college majors that lead to lower paying jobs. Women are also more likely to work for governments or non-profits, that pay less than the private sector.^{[98][99]} According to this perspective certain ethnic minorities and women receive fewer promotions and opportunities for occupation and economic advancement than others. In the case of women this concept is referred to as the glass ceiling keeping women from climbing the occupational ladder.

In terms of race, Asian Americans are far more likely to be in the highest earning 5 percent than the rest of Americans.^[100] When it comes to couples, Asian husband, Asian wife, and Asian couple are the highest earning combinations in the United States.^[101]

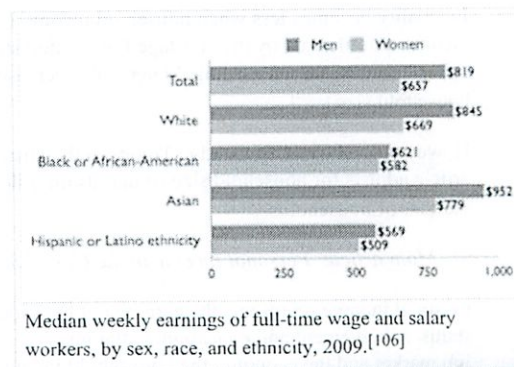
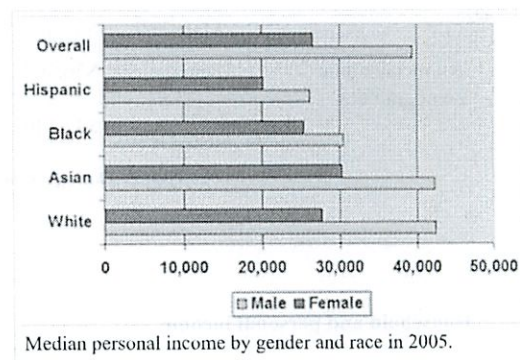
However studies have shown that African Americans are less likely to be hired than European-Americans with the same qualifications.^[102] The continued prevalence of traditional gender roles and ethnic stereotypes may partially account for current levels of discrimination.^[97] In 2005, median income levels were highest among Asian and White males and lowest among females of all races, especially those identifying as African American or Hispanic. Despite closing gender and racial gaps, considerable discrepancies remain among racial and gender demographics, even at the same level of educational attainment.^[103] The success of Asian Americans may come from how parents and children spend much longer hours on education than their peers. Asian American have significantly higher college graduation rates than their peers, are much more likely to enter high status occupations, and succeed at it even with significantly lower IQ.^{[104][105]}

Since 1953 the income gap between male and female workers has decreased considerably but remains relatively large.^[107] Women currently earn significantly more Associate's, Bachelor's, and Master's degrees than men and almost as many Doctorates.^[108] Women are projected to have passed men in Doctorates earned in 2006–2007, and to earn nearly two thirds of Associate's, Bachelor's, and Master's degrees by 2016.^[109] Despite this, some still argue that male workers still hold higher educational attainment, as the success of women in academia is a relatively new phenomenon.^[94]

Though it is important to note that income inequality between sexes remained stark at all levels of educational attainment.^[96] Between 1953 and 2005 median earnings as well as educational attainment increased, at a far greater pace for women than for men. Median income for female earners male earners increased 157.2% versus 36.2% for men, over four times as fast. Today the median male worker earns roughly 68.36% more than their female counterparts, compared to 176.25% in 1953. The median income of men in 2005 was 2% higher than in 1973 compared to a 74.6% increase for female earners.^[107]

Racial differences remained stark as well, with the highest earning sex-gender demographic of workers aged 25 or older, Asian males (who were roughly tied with white males) earning slightly more than twice as much as the lowest-earning demographic, Hispanic females.^{[110][111]} As mentioned above, inequality between races and gender persisted at similar education levels.^{[111][112]} Racial differences were overall more pronounced among male than among female income earners.

During the early 1920s, median earnings decreased for both sexes, not increasing substantially until the late 1990s. Since 1974 the median income for workers of



both sexes increased by 31.7% from \$18,474 to \$24,325, reaching its high-point in 2000.^[113]

Demographic		Median personal income						
		Overall Median	High school graduate	Some college	Bachelor's degree or higher	Bachelor's degree	Masters degree	Doctorate degree
White	Male ^[114]	\$40,432	\$33,805	\$40,427	\$61,175	\$55,129	\$67,903	\$77,818
	Female ^[115]	\$26,636	\$21,306	\$25,190	\$40,161	\$36,076	\$45,555	\$56,759
	Both sexes ^[116]	\$32,919	\$27,291	\$31,510	\$49,879	\$43,841	\$52,244	\$71,184
Black	Male ^[117]	\$30,549	\$25,747	\$32,758	\$46,474	\$41,889	\$52,488	N/A
	Female ^[117]	\$25,435	\$20,366	\$25,574	\$42,461	\$41,263	\$45,830	N/A
	Both sexes ^[118]	\$27,110	\$22,328	\$27,589	\$44,460	\$41,565	\$47,407	\$61,993
Asian	Male ^[112]	\$42,217	\$28,486	\$34,548	\$61,165	\$51,448	\$70,979	\$81,676
	Female ^[119]	\$30,332	\$21,057	\$23,523	\$41,442	\$37,057	\$48,177	\$53,659
	Both sexes ^[120]	\$36,152	\$25,285	\$29,982	\$51,481	\$42,466	\$61,452	\$69,653
Hispanic	Male ^[121]	\$26,162	\$26,579	\$33,617	\$48,282	\$43,791	\$60,194	N/A
	Female ^[122]	\$20,133	\$18,886	\$25,088	\$37,405	\$34,302	\$47,052	N/A
	Both sexes ^[123]	\$23,613	\$22,941	\$28,698	\$41,596	\$37,819	\$50,901	\$67,274
All racial/ethnic demographics	Male ^[124]	\$39,403	\$32,085	\$39,150	\$60,493	\$52,265	\$67,123	\$78,324
	Female ^[125]	\$26,507	\$21,117	\$25,185	\$40,483	\$36,532	\$45,730	\$54,666
	Both sexes ^[126]	\$32,140	\$26,505	\$31,054	\$49,303	\$43,143	\$52,390	\$70,853

NOTE: The highest median for each level of educational attainment is highlighted in green, the lowest in orange.

SOURCE: US Bureau of Census, 2006

Household and personal income

Main article: Household income in the United States

Conservatives commonly focused on the flaws of household income as a measure for standard of living in order to refute claims that income inequality is growing, becoming excessive or posing a problem for society.^[128] According to sociologist Dennis Gilbert, growing inequality can be explained in part by growing participation of women in the workforce. High earning households are more likely to be dual earner households.^[9] Thus gross annual household income does not always accurately reflect standard of living as it does not consider household size.^[129]

Inequality becomes less when household income is adjusted for size of household. A 2004 analysis of income quintile data by the Heritage Foundation stated that the aggregate share of income held by the upper quintile (the top earning 20 percent) decreases by 20.3% when figures are adjusted to reflect household size.^[130]

However, the 2011 CBO study "Trends in the Distribution of Household Income" mentioned in this article adjusts for household size so that its quintiles contain an equal number of people, not an equal number of households.^[131]

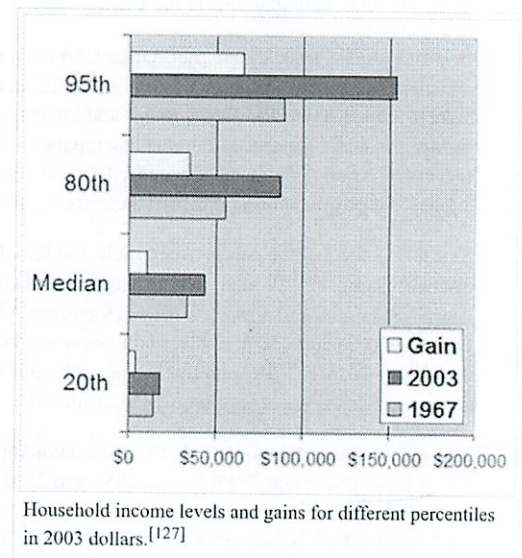
Main article: Personal Income in the United States

Personal income represents the earnings of individuals and, therefore, directly reflects occupational status, achievement and educational attainment. Trends in personal income are more indicative of the job market and the economy than household income. Many income earners, though not the majority, reside in households with more than one income earner.

Education and technology

Main article: Educational attainment in the United States

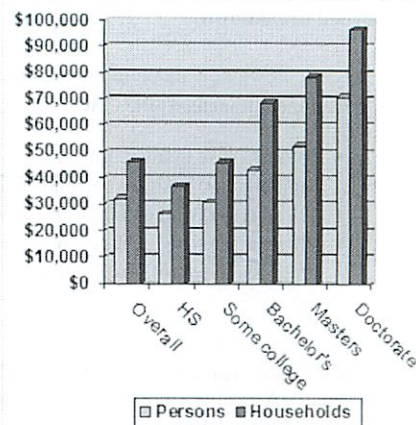
Income differences between the varying levels of educational attainment (usually measured by the highest degree of education an individual has completed) have increased. Expertise and skill certified through an academic degree translates into increased scarcity of an individual's occupational qualification which in turn



leads to greater economic rewards.^[133] As the United States has developed into a post-industrial society more and more employers require expertise that they did not a generation ago, while the manufacturing sector which employed many of those lacking a post-secondary education is decreasing in size.^[134]

In the resulting economic job market the income discrepancy between the working class and the professional with the higher academic degrees,^[94] who possess scarce amounts of certified expertise, may be growing.

Average earnings in 2002 for the population 18 years and over were higher at each progressively higher level of education... This relationship holds true not only for the entire population but also across most subgroups. Within each specific educational level, earnings differed by sex and race. This variation may result from a variety of factors, such as occupation, working full- or part-time, age, or labor force experience. – [94][135]



Median personal and household income according to different education levels.^{[126][132]}

Demographic	High school graduate		Some college		Bachelor's degree or higher		Bachelor's degree		Master's degree		First professional degree		Doctorate degree		
	Median	% +/- national median	Median	% +/- national median	Median	% +/- national median	Median	% +/- national median	Median	% +/- national median	Median	% +/- national median	Median	% +/- national median	
Persons, age 25+ w/ earnings (2005)	Both sexes	\$26,505	-17.5%	\$31,054	-3.5%	\$49,303	+53.4%	\$43,143	+34.2%	\$52,390	+63.0%	\$82,473	+156.6%	\$70,853	+120.4%
	Males	\$32,085	-18.6%	\$39,150	-0.6%	\$60,493	+53.5%	\$52,265	+32.6%	\$67,123	+70.3%	\$100,000	+153.8%	\$78,324	+98.8%
	Females	\$21,117	-20.3%	\$25,185	-5.0%	\$40,483	+52.7%	\$36,532	+37.82%	\$45,730	+72.5%	\$66,055	+149.2%	\$54,666	+106.2%
	Both sexes employed full-time	\$31,539	-19.8%	\$37,135	-5.6%	\$56,078	+42.5%	\$50,944	+29.5%	\$61,273	+55.8%	\$100,000	+154.2%	\$79,401	+101.8%
Households (2003)	\$36,835	-20.5%	\$45,854	-0.8%	\$73,446	+58.8%	\$68,728	+48.6%	\$78,541	+69.9%	\$100,000	+116.2%	\$96,830	+109.4%	

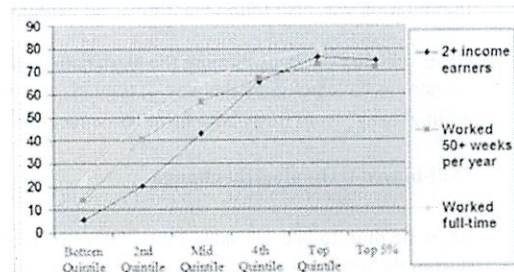
SOURCE: US Census Bureau, 2004/06^{[126][132]}

Incentives

In the context of concern over income inequality a number of economists, such as Federal Reserve chairman Ben Bernake, have talked about the importance of incentives: "... without the possibility of unequal outcomes tied to differences in effort and skill, the economic incentive for productive behavior would be eliminated, and our market-based economy ... would function far less effectively."^{[133][137]} Yale economist Arthur Okun argues there is a trade-off between economic growth and economic redistribution.^{[138][139]}

Since abundant supply decreases market value, the possession of scarce skills considerably increases income.^[94] Among the American lower class, the most common source of income was not occupation, but government welfare.^[140]

has much of a Fadeoff do we want?



Percent of households with 2+ income earners, and full-time workers by income.^[136]

As expected, households in the upper quintiles are generally home to more, better educated and employed working income earners, than those in lower quintiles.^[130] Among those in the upper quintile, 62% of householders were college graduates, 80% worked full-time and 76% of households had two or more income earners, compared to the national percentages of 27%, 58% and 42%, respectively.^{[94][95][136]} Upper-most sphere US Census Bureau data indicated that occupational achievement and the possession of scarce skills correlates with higher income.^[136]

Taxation

Main article: Tax policy and economic inequality in the United States

Another factor in income inequality/equality is the effective rate at which income is taxed coupled with the progressivity of the tax system. A progressive tax is a tax by which the tax rate increases as the taxable base amount increases.^{[141][142][143][144][145]} Overall income tax rates in the United States are below the OECD average.^[146]

Post-1980 rise in inequality

Most current discussion of income inequality in America centers on its rise since the mid to late 1970s, the so-called "Great Divergence".

Broad breakdown

Breaking down how much of the increase in income inequality between 1979 and 2007 came from distribution of pre-tax income and how much from taxes and "government transfers", the CBO data shows that the 33% increase in inequality^[147] came from a

- 23% increase in inequality from changes in distribution of "market income" to households (top earners received a larger share of salaries, interest, dividends, capital gains, business income, etc.); a
- 6% increase from changes in "government transfers" (social security, unemployment, the end of AFDC welfare, etc.); and a
- 4% increase from changes in federal taxation (overall decline in the average federal tax rate and shift in federal revenues from income taxes to less progressive payroll taxes, etc.).

[148][149]

Of the 23% increase in inequality from changes in pre-tax "market" income, most of that (79%) came from a shift to top earners in different types of income across the board. A smaller amount of inequality increase (21%) came from a shift to more concentrated income sources. (i.e. a shift toward interest, dividends, business income and especially capital gains, which are more concentrated toward top earners than income from salaries/wages).^[150]

Explanations

According to the CBO and others, "the precise reasons for the [recent] rapid growth in income at the top are not well understood",^{[43][79]} but "in all likelihood," an "interaction of multiple factors" was involved.^[151] "Researchers have offered several potential rationales."^{[43][55]} Some of these rationales conflict, some overlap.^[152] They include:

- the *globalization* hypothesis—low skilled American workers have been losing ground in the face of competition from low-wage workers in Asia and other "emerging" economies^[153];
- *skill-biased technological change* — the rapid pace of progress in information technology has increased the demand for the highly skilled and educated so that income distribution favored brains rather than brawn^[153];
- the *superstar* hypothesis—modern technologies of communication often turn competition into a tournament in which the winner is richly rewarded, while the runners-up get far less than in the past^{[153][154]};
- *immigration of less-educated workers* — relatively high levels of immigration of low skilled workers since 1965 may have reduced wages for American-born high school dropouts^[155];
- *policy and politics* — soaring executive compensation, stagnating middle income pay and more regressive taxation resulting from political decisions, not market forces. Decision such as not intervening to stop executive capture of corporate boards, the crushing of labor unions, etc.

Analyzing the top three hypotheses, economist Paul Krugman found them to be "increasingly inadequate" as more evidence accumulated.

Globalization can explain part of the relative decline in blue-collar wages, but it can't explain the 2,500 percent rise in C.E.O. incomes. Technology may explain why the salary premium associated with a college education has risen, but it's hard to match up with the huge increase in inequality among the college-educated, with little progress for many but gigantic gains at the top. The superstar theory works for Jay Leno, but not for the thousands of people who have become awesomely rich without going on TV.^[153]

Immigration was also found wanting as an explanation.^[156]

Other scholars^[157] questioning the explanation of educational attainment and workplace skills point out that other countries with similar education levels and economies have not gone the way of the US, and that concentration of income in the US hasn't followed a pattern of "the 29% of Americans with college degrees pulling away" from those who have less education.^{[56][158][159][160][161][11]}

Skill-biased technological change

As of the mid- to late- decade of the 2000s, the most common explanation for income inequality in America was "skill-biased technological change"^[162] — "a shift in the production technology that favors skilled over unskilled labor by increasing its relative productivity and, therefore, its relative demand".^[163] For example, one scholarly colloquium on the subject that included many prominent labor economists estimated that technological change was responsible for over 40% of the increase in inequality. Other factors like international trade, decline in real minimum wage, decline in unionization and rising immigration, were each responsible for 10-15% of the increase.^{[164][165]}

Numbers show the strength of education's influence on income distribution.^[166] In 2005, roughly 55% of income earners with doctorate degrees — the most educated 1.4% — were among the top 15 percent earners. Among those with Masters degrees — the most educated 10% — roughly half had incomes among the top 20 percent of earners.^[126] Only among households in the top quintile were householders with college degrees in the majority.^[95]

But while the higher education commonly translates into higher income,^[166] and the highly educated are disproportionately represented in upper quintile households, differences in educational attainment fail to explain income discrepancies between the top 1 percent and the rest of the population. Large percentages of individuals lacking a college degree are present in all income demographics, including 33% of those with heading households with six figure incomes.^[95] From 2000 to 2010, the 1.5% of Americans with an M.D., J.D., or M.B.A. and the 1.5% with a PhD saw median income gains of approximately 5%. Among those with a college or master's degree (about 25% of the American workforce) average wages dropped by about 7%, (though this was less than the decline in wages for those who had not completed college).^[167]

Approaching the issue from occupations that have been replaced or downgraded since the late 1970s, one scholar found that jobs that "require some thinking but not a lot" — or moderately skilled middle-class occupations such as cashiers, typists, welders, farmers, appliance repairmen — declined the furthest in wage rates and/or numbers. Employment requiring either more skill or less has been less affected.^[168] However the timing of the great technological change of the era --

internet use by business starting in the late 1990s -- does not match that of the growth of income inequality (starting in the late 1970s but slackening somewhat in the 1990s). Nor does the introduction of technologies that increase the demand for more skilled workers seem to be generally associated with a divergence in household income among the population. Inventions of the 20th century such as AC electric power, the automobile, airplane, radio, television, the washing machine, Xerox machine, each had an economic impact the equal of computers/microprocessors/internet but did not coincide with greater inequality.^[168]

Education

Another explanation is that the *combination* of the introduction of technologies that increase the demand for skilled workers, *and* the failure of the American education system to provide a sufficient increase in those skilled workers has bid up those workers' salaries. An example of the slowdown in education growth in America (that began about the same time as the Great Divergence began) is the fact that the average person born in 1945 received two more years of schooling than his parents, while the average person born in 1975 received only half a year more of schooling.^[169] Author Timothy Noah's "back-of-the-envelope" estimation based on "composite of my discussions with and reading of the various economists and political scientists" is that the "various failures" in America's education system are "responsible for 30%" of the post-1978 increase in inequality.^[169]

Globalization

The idea that the growing amount of imports from low-wage countries has hurt incomes of skilled American workers is intuitive. China is the world's biggest exporter and maker of manufactured products but had a per capita income in 2007 one-seventh that of the United States. But while economists who have studied globalization agree imports have had an effect, here again the timing of import growth does not match that of inequality growth. By 1995 imports of manufactured goods from low-wage countries totaled less than 3% of US gross domestic product.^[170]

It wasn't until 2006 that the US imported more manufactured goods from low-wage (developing) countries than from high-wage (advanced) economies.^[171] And inequality increased during the 2000-2010 decade not because of stagnating wages for less-skilled workers, but because of accelerating incomes of the top 0.1%.^[170] Author Timothy Noah estimates that "trade", increases in imports are responsible for just 10% of the "Great Divergence" in income distribution.^[169]

Immigration

The Immigration and Nationality Act of 1965 increased immigration to America, especially of non-Europeans.^[79] From 1970 to 2007, the foreign-born proportion of America's population grew from 5% to 11%, most of whom had lower education levels and incomes than native-born Americans. But the contribution of this increase in supply of low-skill labor seem to have been relatively modest. One estimate stated that immigration reduced the average annual income of native-born "high-school dropouts" ("who roughly correspond to the poorest tenth of the workforce") by 7.4% from 1980 to 2000. The decline in income of better educated workers was much less.^[79] Author Timothy Noah estimates that "immigration" is responsible for just 5% of the "Great Divergence" in income distribution.^[169]

The top grew more than bottom shrank

Changes in income calculation

One observer who denies that household income has become more unequal is Alan Reynolds, senior fellow with the Cato Institute. Reynolds has declared that income inequality is a statistical illusion brought about by technical changes in the tax law that alter what income gets reported to the Internal Revenue Service and what income does not.^{[172][173]} This claim has been criticized as "a mountain of hard-to-follow, often irrelevant, and sometimes entirely erroneous statistical quibbles"^[173] or "intellectual three-card monte."^[174]

Reynolds points out that all the data gathered to calculate income inequality is based on federal tax returns. Income that is not on tax returns is not included in the data. Not surprisingly, what income is required and not required to be reported has changed. Prior to the 1980s, interest in municipal bonds and executive stock options did not need to be reported as taxable income.^[175] In addition, many corporations filed as C-Corporations and therefore their income did not show up on individual tax returns. After the 1986 tax reform legislation and tax cuts under President Reagan, many corporations switched to being S-Corporations and therefore paid the personal income tax rate rather than the corporate tax rate.^[176] As a result of these and other changes, during and after the 1980s lots of new income began to show up on the tax returns of top earners that had really been earned all along. For this reason it is not surprising that studies done by Piketty/Saez and others show most of the increase in the top 1%'s share of annual income occurring in the 1986-1988 period. Furthermore, tax-deferred accounts began to show income disappearing from the returns of the holders of the accounts as they appeared in the 1980s. A 2001 Federal Reserve study showed that just 5.5% of the top 1%'s assets were held in tax deferred accounts, while 14.5% of the 50th-95th percentile's assets were held in tax deferred accounts.^[177] Transfer payments are also largely ignored by most studies, but the proportion of income they absorb has risen from 5.9% in 1970 to 14.2% in 2004.^[178] These payments generally go to lower-income families and therefore their absence has steadily made the statistics more and more flawed over the years. Reynolds' argument is that the changes have eliminated income from the middle while adding income to the top, exacerbating the situation statistically but in reality changing little to nothing.

Political, normative, institutional

Critics of technological change as an explanation for the "Great Divergence" of income levels in America^[27] point to public policy and party politics, or "stuff the government did, or didn't do"^[179]. They argue these have led to a trend of declining labor union membership rates and resulting diminishing political clout, decreased expenditure on social services, and less government redistribution.

Political parties and presidents

Political scientist Larry Bartels has found a strong correlation between the party of the president and income inequality in America since 1948. (see below)^{[160][180]}

Examining average annual pre-tax income growth from 1948 to 2005,^[181] Bartel shows that under Democratic presidents (from Harry Truman forward), the greatest income gains have been at the bottom of the income scale and tapered off as income rose. Under Republican presidents, in contrast, gains were much less but what growth there was concentrated towards the top, tapering off as you went down the income scale.^{[149][182]}

Summarizing Bartels's findings, journalist Timothy Noah referred to the administrations of Democratic presidents as "Democrat-world", and GOP administrations as "Republican-world":

In Democrat-world, pre-tax income increased 2.64% annually for the poor and lower-middle-class and 2.12% annually for the upper-middle-class and rich. There was no Great Divergence. Instead, the Great Compression—the egalitarian income trend that prevailed through the 1940s, 1950s, and 1960s—continued to the present, albeit with incomes converging less rapidly than before. In Republican-world, meanwhile, pre-tax income increased 0.43 percent annually for the poor and lower-middle-class and 1.90 percent for the upper-middle-class and rich. Not only did the Great Divergence occur; it was more greatly divergent. Also of note: In Democrat-world pre-tax income increased faster than in the real world not just for the 20th percentile but also for the 40th, 60th, and 80th. We were all richer and more equal! But in Republican-world, pre-tax income increased slower than in the real world not just for the 20th percentile but also for the 40th, 60th, and 80th. We were all poorer and less equal! Democrats also produced marginally faster income growth than Republicans at the 95th percentile, but the difference wasn't statistically significant.^[179]

The pattern of distribution of growth appears to be the result of a whole host of policies,

including not only the distribution of taxes and benefits but also the government's stance toward unions, whether the minimum wage rises, the extent to which the government frets about inflation versus too-high interest rates, etc., etc.^[149]

Noah admits the evidence of this correlation is "circumstantial rather than direct", but so is "the evidence that smoking is a leading cause of lung cancer."^[179]

Non-party political action

See under what policies econ grew

Further information: *Executive pay in the United States*

According to political scientists Jacob Hacker and Paul Pierson writing in the book *Winner-Take-All Politics*, the important policy shifts were brought on not by the Republican Party but by the development of a modern, efficient political system, especially lobbying, by top earners—and particularly corporate executives and the financial services industry.^[184] The end of the 1970s saw a transformation of American politics away from a focus on the middle class, with new, much more effective, aggressive and well-financed lobbyists and pressure groups acting on behalf of upper income groups. Executives successfully eliminated any countervailing power or oversight of corporate managers (from private litigation, boards of directors and shareholders, the Securities and Exchange Commission or labor unions).^[185]

The financial industry's success came from successfully pushing for deregulation of financial markets, allowing much more lucrative but much more risky investments from which it privatized the gains while socializing the losses with government bailouts.^[186] (the two groups formed about 60% of the top 0.1 percent of earners.) All top earners were helped by deep cuts in estate and capital gains taxes, and tax rates on high levels of income.

Arguing against the proposition that the explosion in pay for corporate executives—which grew from 35X average worker pay in 1978 to over 250X average pay before the 2007 recession^[187]—is driven by an increased demand for scarce talent and set according to performance, Krugman points out that multiple factors outside of executives' control govern corporate profitability, particularly in short term when the head of a company like Enron may look like a great success. Further, corporate boards follow other companies in setting pay even if the directors themselves disagree with lavish pay "partly to attract executives whom they consider adequate, partly because the financial market will be suspicious of a company whose CEO isn't lavishly paid." Finally "corporate boards, largely selected by the CEO, hire compensation experts, almost always chosen by the CEO" who naturally want to please their employers.^[188]

Lucian Arye Bebchuk, Jesse M. Fried, the authors of *Pay Without Performance*, critique of executive pay, argue that executive capture of corporate governance is so complete that only public relations, i.e. public 'outrage', constrains their pay.^[189] This in turn has been reduced as traditional critics of excessive pay—such as politicians (where need for campaign contributions from the richest outweighs populist indignation), media (lauding business genius), unions (crushed) -- are now silent.^[190]

In addition to politics, Krugman postulated change in norms of corporate culture have played a factor. In the 1950s and 60s, corporate executives had (or could develop) the ability to pay themselves very high compensation through control of corporate boards of directors, they restrained themselves. But by the end of the 1990s, the average real annual compensation of the top 100 C.E.O.'s skyrocketed from \$1.3 million—39 times the pay of an average worker—to \$37.5 million, more than 1,000 times the pay of ordinary workers from 1982 to 2002.^[153] Journalist George Packer also sees the dramatic increase in inequality in America as a product of the change in attitude of the American elite, which (in his view) has been transitioning itself from pillars of society to a special interest group.^[191] Author Timothy Noah estimates that what he calls "Wall Street and corporate boards' pampering" of the highest earning 0.1% is "responsible for 30%" of the post-1978 increase in inequality.^[169]

Decline of unions

The era of inequality growth has coincided with a dramatic decline in labor union membership from 20% of the labor force in 1983 to about 12% in 2007.^[192] Economists have traditionally thought that since the chief purpose of a union is to maximize the income of its members, a strong but not all-encompassing union movement led to increased income inequality because union members in higher-paying occupations (such as skilled trades like plumbing and carpentry) tend to have stronger unions and more influence than members in lower-paying ones (such as workers in small businesses), who in turn typically earn more than nonunion blue collar workers.^{[193][194]}

However more recently research has shown that unions ability to reduce income disparities among members outweighed other factors and its net effect has been to reduce national income inequality.^{[194][195]} The decline of unions has hurt this leveling effect among men, and one economist (Berkeley economist David Card)



estimating about 15-20% of the "Great Divergence" among that gender is the result of declining unionization.^{[194][196]}

Still other researchers think it is the labor movement's loss of national political power to promote equalizing "government intervention and changes in private sector behavior" has had the greatest impact on inequality in the US.^{[197][194]} Timothy Noah estimates the "decline" of labor union power "responsible for 20%" of the Great Divergence.^[169]

Taxation

How much tax policy change over the last thirty years has contributed to income inequality is disputed. In their comprehensive 2011 study of income inequality (*Trends in the Distribution of Household Income Between 1979 and 2007*),^[148] the CBO found that,

The top fifth of the population saw a 10-percentage-point increase in their share of after-tax income. Most of that growth went to the top 1 percent of the population. All other groups saw their shares decline by 2 to 3 percentage points. In 2007, federal taxes and transfers reduced the dispersion of income by 20 percent, but that equalizing effect was larger in 1979. The share of transfer payments to the lowest-income households declined. The overall average federal tax rate fell.

According to journalist Timothy Noah, "you can't really demonstrate that U.S. tax policy had a large impact on the three-decade income inequality trend one way or the other. The inequality trend for pre-tax income during this period was much more dramatic."^[179] Noah estimates tax changes account for 5% of the Great Divergence.^[169]

But many — such as economist Paul Krugman — emphasize the effect of changes in taxation — such as the 2001 and 2003 Bush administration tax cuts which cut taxes far more for high-income households than those below — on increased income inequality.^[198]

Part of the growth of income inequality under Republican administrations (described by Larry Bartels) has been attributed to tax policy. A study by Thomas Piketty and Emmanuel Saez found that

Large reductions in tax progressivity since the 1960s took place primarily during two periods: the Reagan presidency in the 1980s and the Bush administration in the early 2000s.^[199]

During Republican President Ronald Reagan's tenure in office the top marginal income tax rate was reduced from over 70 to 28 percent, high top marginal rates like 70% being the sort in place during much of the period of great income equality following the "Great Compression".^{[179][200][201]} President Ronald Reagan's 1981 cut in the top regular tax rate on unearned income reduced the maximum capital gains rate to only 20% — its lowest level since the Hoover administration.^[202]

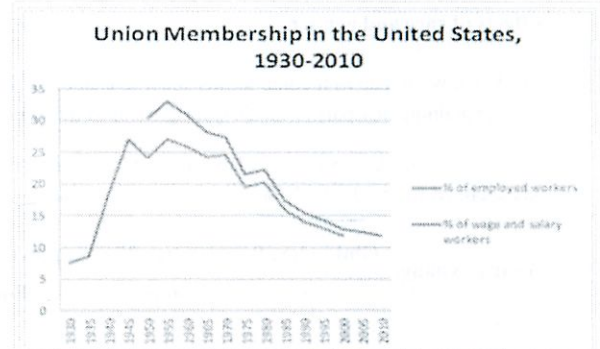
During the Republican George W. Bush administration, the tax rate on capital gains and qualifying dividends — a disproportionate source of income for top earners — fell to 15% — less than half the 35% top rate on ordinary income.^[203] President Bush's veto of tax harmonization has also been attributed to rising inequality, as this would have shut down offshore tax havens.^[204]

One study^[206] found reductions of total effective tax rates were most significant for individuals with highest incomes. (see "Federal Tax Rate by Income Group" chart) For those with incomes in the top 0.01 percent, overall rates of Federal tax fell from 74.6% in 1970, to 34.7% in 2004 (the reversal of the trend in 2000 with a rise to 40.8% came after the 1993 Clinton deficit reduction tax bill), the next 0.09 percent falling from 59.1% to 34.1%, before leveling off with a relatively modest drop of 41.4 to 33.0% for the 99.5–99.9 percent group. Although the tax rate for low-income earners fell as well (though not as much), these tax reductions compare with virtually no change -- 23.3% tax rate in 1970, 23.4% in 2004 -- for the US population overall.^[206]

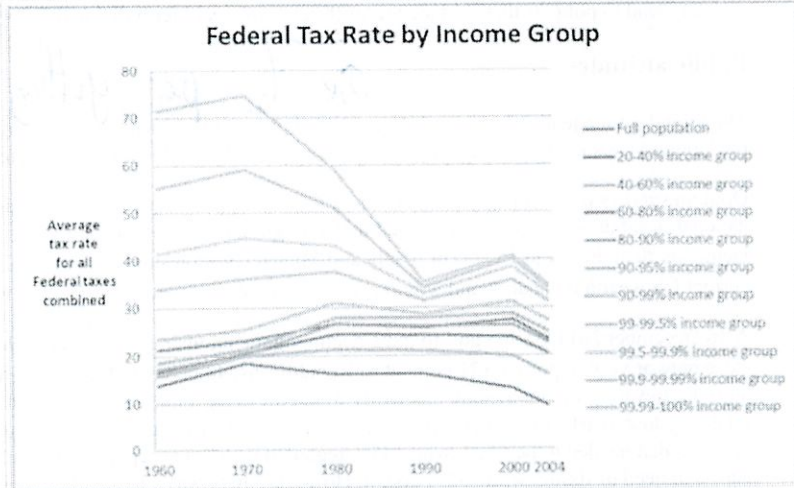
The study found the decline in progressivity since 1960 was due to the shift from allocation of corporate income taxes among labor and capital to the effects of the individual income tax.^{[206][207]} Paul Krugman also supports this claim saying, "The overall tax rate on these high income families fell from 36.5% in 1980 to 26.7% in 1989."^[208]

From the White House's own analysis, the tax burden for those making greater than \$250,000 fell considerably during the late 1980s, 1990s and 2000s, from an effective tax of 35% in 1980, down to under 30% from the late 1980s to present.^[209]

Many studies argue that tax changes of S-type Corporations confound the statistics prior to 1990. However, even after these changes inflation-adjusted average after-tax income grew by 25% between 1996 and 2006 (the last year for which individual income tax data is publicly available). This average increase, however, obscures a great deal of variation. The poorest 20% of tax filers experienced a 6% reduction in income while the top 0.1 percent of tax filers saw their income almost double. Tax filers in the middle of the income distribution experienced about a 10% increase in income. Also during this period, the proportion of income from capital increased for the top 0.1 percent from 64% to 70%.^[210]



Union membership in the United States from the Great Depression to current day. (Source: Union Membership Trends in the United States (http://digitalcommons.ilr.cornell.edu/cgi/viewcontent.cgi?article=1176&context=key_workplace), Table A-1 Appendix A for 1930 to 2000; Bureau of Labor Statistics (<http://www.bls.gov/news.release/union2.nr0.htm>) for 2005 and 2010.)



The highest earning 0.01% income group ("99.99-100% income group") saw the greatest tax rate reductions since 1960. Source: Thomas Piketty and Emmanuel Saez, ^[205]

Effects of race and gender

The black/white gap in median family income is about 3% smaller today than it was in 1979, a lack of progress that may be dismaying but excludes the disparity from explaining any part of the 30-year growth of inequality.^[29]

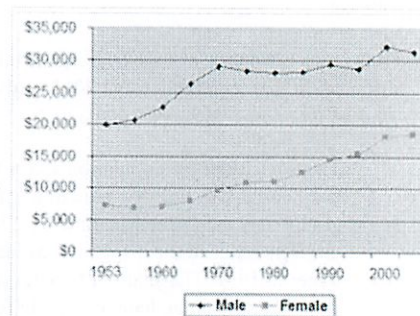
Gender disparity in income has also improved in during the last three decades. The gap in the median annual income between men and women working full-time has declined from 40% to 23%.^[29]

Year or change	Gini index, Persons, age 25+, employed full-time ^[58]			Gini index, Households ^[57]
	Men	Women	Both sexes	
1967	31.4	29.8	34.0	39.7
2005	42.4	35.7	40.9	46.9
Increase	35.0%	19.8%	20.3%	18.1%

SOURCE: U.S. Census Bureau, 2006^[211]

Since 1967 inequality has risen for households and for full-time workers of both sexes, but especially for male workers. (see table above) Personal income has risen considerably for female workers since 1953, less so for male workers, whose income stagnated during the 1970s 1980s, and 1990s.^[107]

It is unclear whether the dramatic increase of women in the workforce and women's income has led to greater inequality (e.g. dual earner families causing greater inequality). According to the Census Bureau, as of 2005, 42% of all U.S. households and 76% of those in the top quintile had two or more income earners.^{[127][136]} But looking at empirical studies, the CBO study "Trends in the Distribution of Household Income", found "mixed results" of the effect of dual earner families "with estimates depending on the period studied and the methodology use." The study also found that the level of inequality for household with children and (nonelderly) households without children was "virtually identical".^[212] The growth of single parent households may have led to lower incomes but most of it occurred before 1980 and in recent years the percentage of women who are actually working who are single parents has increased.^[79]



Median income for male and female workers from 1953 to 2005 in constant dollars.^[107]

Significance of inequality

Commentators, economists, politicians do not agree on the issue of increase in inequality in America or its importance. Among economists and other experts most agree that America's growing income inequality is "deeply worrying",^[29] unjust,^[153] a danger to democracy/social stability,^{[213][214][215]} and/or even a sign of national decline.^[191] Concern extends even to such supporters (or former supporters) of laissez-faire economies as the former Federal Reserve Board chairman Alan Greenspan, who has stated reference to growing inequality: "This is not the type of thing which a democratic society — a capitalist democratic society — can really accept without addressing."^[29] Some economists (David Moss, Paul Krugman) believe the Great Divergence may be connected to the financial crisis of 2008.^{[65][216]}

On the other side of the issue are those who have claimed that the increase is not significant^[217], that it doesn't matter^[215] because America's economic growth and/or equality of opportunity are what's important^[26], that it is a global phenomenon which would be foolish to try to change through US domestic policy^[218], that it "has many economic benefits and is the result of ... a well-functioning economy"^{[219][65]}, and has or may become an excuse for "class-warfare rhetoric"^[217], and may lead to policies that "reduce the well-being of wealthier individuals"^[52] ^[65].

Public attitudes

The growth of inequality has provoked a political protest movement—the Occupy movement -- starting in Wall Street and spreading to 600 communities across the United States in 2011. Its main political slogan — "We are the 99%" — references its dissatisfaction with the concentration of income in the top 1%.

Opinion surveys of what respondents thought was the right level of inequality was have found Americans no more accepting of income inequality than other nationalities, but more accepting of what they *thought* the level of inequality was less was in their country, being under the impression that there was less inequality than there was.^[220] Dan Ariely and Michael Norton show in a study (2011) that US citizens across the political spectrum significantly underestimate the current US wealth inequality and would prefer a more egalitarian distribution of wealth.^[221]

A 16 December 2011 Gallup poll found a decline in the number of Americans who felt reducing the gap in income and wealth between the rich and the poor was extremely or very important (21 percent of Republicans, 43 percent of independents, and 72 percent of Democrats).^[222] In 2012, several surveys of voters attitudes toward growing income inequality found the issue ranked less important than other economic issues such as growth and equality of opportunity, and relatively low in affecting voters "personally".^{[223][224]} In 1998 a Gallup poll found 52% of Americans agreeing that the gap between rich and the poor was a problem that needed to be fixed, while 45% regarded it as "an acceptable part of the economic system". In 2011, those numbers are reversed: Only 45% see the gap as in need of fixing, while 52% do not. However, there was a large difference between Democrats and Republicans, with 71% of Democrats calling for a fix.^[222]

In contrast, a national survey by the Pew Research Center for the People & the Press,^[225] found that respondents' sense of unfairness about taxes centered on the perception that wealthy Americans were not paying their fair share of taxes; 57% say this is what bothers them most about the tax system, an increase of 6% over a poll taken in March 2003.^[226] A more recent poll found about two-thirds of Americans now believe there are "strong conflicts" between rich and poor in the United States.^{[227][228]}

Impact on democracy and society

are the poor getting poorer & the rich richer in real terms/absolute terms

Economists Jared Bernstein and Paul Krugman have attacked the concentration of income as variously "unsustainable"^[214] and "unstable"^[215] for democracy. Political Scientist Jacob S. Hacker and Paul Pierson quote a warning by Greek/Roman historian Plutarch: "An imbalance between rich and poor is the oldest and most fatal ailment of all republics."^[213]

Two journalists concerned about social separation are Robert Frank who notes that:

Today's rich had formed their own virtual country .. [T]hey had built a self-contained world unto themselves, complete with their own health-care system (concierge doctors), travel network (Net jets, destination clubs), separate economy. The rich weren't just getting richer; they were becoming financial foreigners, creating their own country within a country, their own society within a society, and their economy within an economy.^[230]

and George Packer,

Inequality hardens society into a class system ... Inequality divides us from one another in schools, in neighborhoods, at work, on airplanes, in hospitals, in what we eat, in the condition of our bodies, in what we think, in our children's futures, in how we die. Inequality makes it harder to imagine the lives of others.^[191]

Economist Joseph Stiglitz argues that hyper-inequality may explain political questions such as why America's infrastructure is deteriorating, or why it went to war in Iraq. Top earning families wealthy enough to buy their own education, medical care, personal security, and parks, have little interest in helping pay for such things for the rest of society, and the political influence to make sure they don't have to. So too, the lack of sacrifice of military intervention to top earners -- whose sons and daughters in the (relatively low-paying all-volunteer) military are few and far between -- may mean more willingness by the American government to wage war.^[231]

One possible specific tangible harm to non-elites from inequality may be higher rates of bankruptcy as people go deeper into debt trying to maintain what once was a middle class lifestyle. Researchers Elizabeth Warren and Amelia Warren Tyagi found a fivefold increase in the number of families filing for bankruptcy between 1980 and 2005.^[232] The bankruptcies came not from increased spending "on luxuries", but from an "increased spending on housing, largely driven by competition to get into good school districts." Intensifying inequality may mean a dwindling number of ever more expensive school districts that compel middle class, (or would-be middle class) to "buy houses they can't really afford, taking on more mortgage debt than they can safely handle".^[233]

Disagreeing with this focus on the top earning 1% and urging attention to the economic and social pathologies of lower income/lower education Americans, is conservative journalist David Brooks. Whereas in the 1970s, high school and college graduates had "very similar family structures", today, high school grads are much less likely to get married and be active in their communities, and much more likely to smoke, be obese, get divorced, or have "a child out of wedlock."^[234]

The zooming wealth of the top one percent is a problem, but it's not nearly as big a problem as the tens of millions of Americans who have dropped out of high school or college. It's not nearly as big a problem as the 40 percent of children who are born out of wedlock. It's not nearly as big a problem as the nation's stagnant human capital, its stagnant social mobility and the disorganized social fabric for the bottom 50 percent.^{[234][235]}

Contradicting most of these arguments, classical liberals such as Friedrich Hayek have maintained that because individuals are diverse and different, state intervention to redistribute income is inevitably arbitrary and incompatible with the concept of general rules of law, and that "what is called 'social' or distributive' justice is indeed meaningless within a spontaneous order". Those who would use the state to redistribute "take freedom for granted and ignore the preconditions necessary for its survival," and it is government and not great wealth that gives power to control others in liberal democracies such as the United States.^{[236][237][238]}

Opportunity and equality

Further information: Socio-economic mobility in the United States

Conservatives and libertarians such as economist Thomas Sowell, and Congressman Paul Ryan (R., Wis.)^[239] argue that more important than the level of equality of results is America's equality of opportunity, especially relative to other developed countries such as western Europe.

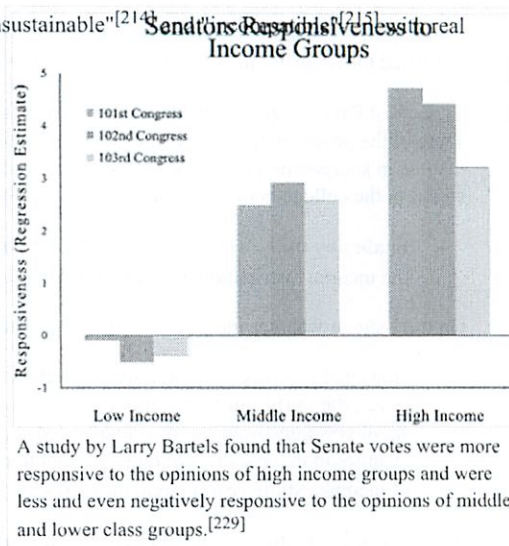
Mobility during a lifetime

Strong "intra-generational" or individual economic mobility between the strata of rich, middle class and poor means both that (1) a high level of inequality of annual income is made irrelevant by a more even distribution of lifetime income, and (2) however extreme the earnings at the top, they are not out of reach for the poor (or middle income) but ambitious.^[25]

Sowell claims mobility is robust.

An absolute majority of the people who were in the bottom 20 percent [of income] in 1975 have also been in the top 20 percent at some time since then. Most Americans don't stay put in any income bracket. At different times, they are both "rich" and "poor" -- as these terms are recklessly thrown around in the media. [...] There are of course some people who remain permanently in the bottom 20 percent. But such people constitute less than one percent of the American population, according to data published by the Federal Reserve Bank of Dallas in its 1995 annual report. Perhaps the intelligentsia and the politicians have been too busy waxing indignant to be bothered by anything so mundane as facts.^[26]

According to Thomas A. Garrett, studies examining quintiles of wealth levels may provide a misleading picture.^[52] For example, a U.S. Treasury study of the period from 1996 to 2005 found that "[l]ess than half (40% or 43% depending on the measure) of those in the top 1 percent in 1996 were still in the top 1 percent in 2005. Only about 25 percent of the individuals in the top 1/100th percent in 1996 remained in the top 1/100th percent in 2005."^[240]



Other have not found individual mobility so fluid. A 2007 study (by Kopczuk, Saez and Song in 2007) found the *top* population in America "very stable" and "not mitigated the dramatic increase in annual earnings concentration since the 1970s."^[241]

Economist Paul Krugman, attacks conservatives for resorting to "extraordinary series of attempts at statistical distortion". He argues that while in any given year, some of the people with low incomes will be "workers on temporary layoff, small businessmen taking writeoffs, farmers hit by bad weather" -- the rise in their income in succeeding years is not the same 'mobility' as poor people rising to middle class or middle income rising to wealth. It's the mobility of "the guy who works in the college bookstore and has a real job by his early thirties."

Studies by the Urban Institute and the US Treasury have both found that about half of the families who start in either the top or the bottom quintile of the income distribution are still there after a decade, and that only 3 to 6% rise from bottom to top or fall from top to bottom.^[25]

On the issue of whether most Americans do not stay put in any one income bracket, Krugman quotes from 2011 CBO distribution of income study

Household income measured over a multi-year period is more equally distributed than income measured over one year, although only modestly so. Given the fairly substantial movement of households across income groups over time, it might seem that income measured over a number of years should be significantly more equally distributed than income measured over one year. However, much of the movement of households involves changes in income that are large enough to push households into different income groups but not large enough to greatly affect the overall distribution of income. Multi-year income measures also show the same pattern of increasing inequality over time as is observed in annual measures.^[16]

In other words, "many people who have incomes greater than \$1 million one year fall out of the category the next year — but that's typically because their income fell from, say, \$1.05 million to 0.95 million, not because they went back to being middle class."^{[16][242]}

Mobility between generations

Several studies have found the ability of children from poor or middle-class families to rise to upper income — known as "upward relative intergenerational mobility" — is lower in the US than in other developed countries^[243] — and at least two economist have found lower mobility linked to income inequality.^{[28][29]}

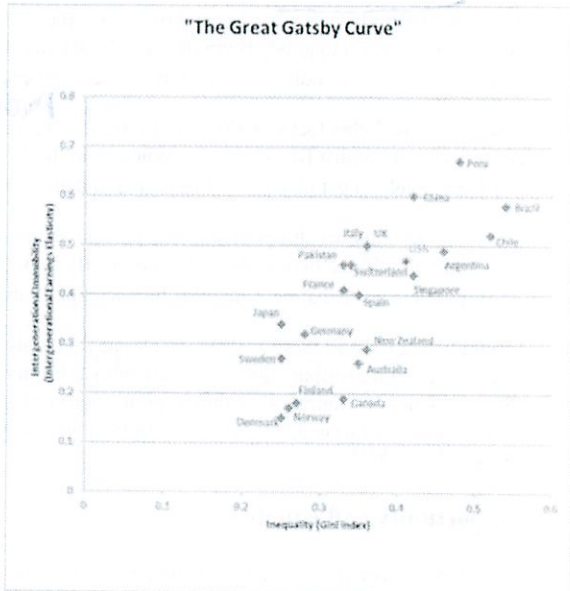
In their "Great Gatsby" curve,^[28] White House Council of Economic Advisers Chairman Alan B. Krueger and labor economist Miles Corak show a negative correlation between inequality and social mobility. The curve plotted "intergenerational income elasticity" -- i.e. the likelihood that someone will inherit their parents' relative position of income level -- and inequality for a number of countries.^{[29][244]}

In the words of journalist Timothy Noah

you can't really experience ever-growing income inequality without experiencing a decline in Horatio Alger-style upward mobility because (to use a frequently-employed metaphor) it's harder to climb a ladder when the rungs are farther apart.^[29]

Aside from the proverbial distant rungs, the connection between income inequality and low mobility can be explained by the lack of access for un-affluent children to better (more expensive) schools and preparation for schools crucial to finding high-paying jobs; the lack of health care that may lead to obesity and diabetes and limit education and employment.^[243]

Krueger estimates that "the persistence in the advantages and disadvantages of income passed from parents to the children" will "rise by about a quarter for the next generation as a result of the rise in inequality that the U.S. has seen in the last 25 years."^[29]



Income at a glance

These articles were not very good

Read 9/8

Spark Notes

The Fountainhead

Context

Ayn Rand was born to an affluent upper-middle-class family on February 2, 1905, in St. Petersburg, Russia. Rand formulated many of her strongly held beliefs early in life. Although her family was nominally Jewish, Rand thought of religion as a form of mysticism and became a committed atheist at the age of fourteen. She was passionately interested in politics, particularly after the beginning of the Russian Revolution in 1917. When the Bolshevik Party came to power at the end of 1917, it nationalized Rand's father's business and diminished the family's fortunes considerably. Rand opposed the Bolsheviks' ideals, which included communism, socialism, and collectivization.

Rand graduated from the University of Petrograd with highest honors in philosophy and history. In 1925, Rand obtained a temporary visa to visit relatives in Chicago. She left Russia with no intention of returning. She moved to Hollywood to pursue a career as a screenwriter and took a job as an extra on the set of *King of Kings*, a film directed by the legendary Cecil B. DeMille. In California, Rand met Frank O'Connor, whom she married in 1929.

Over the next several years, Rand moved from job to job in Hollywood. In 1932, she sold her first screenplay, *Red Pawn*, to Universal Studios. That same year, Rand's first stage play, *Night of January 16th*, was produced in Hollywood and then on Broadway. She completed her first novel, *We the Living*, in 1933, but all of the publishers she approached rejected the manuscript until 1936, when Macmillan published the novel in the United States. The novel was based on Rand's life in Russia and drew strong criticism from leftist members of the American intelligentsia. Rand began work on *The Fountainhead* in 1938. Again she had trouble finding a publisher, but eventually Bobbs-Merrill accepted the novel in 1941. Over the next two years, *The Fountainhead's* reputation grew by word of mouth and the novel became a bestseller when it came out in 1943.

In 1957, Rand published *Atlas Shrugged*. By this time her work had inspired a devoted following. Rand made numerous public appearances to lecture and explain the ideas behind her work. Rand disliked being associated with either the conservative or libertarian political movements in the United States. She felt her ideas were distinct and started her own movement, called Objectivism, which promoted her conception of rational self-interest and denounced altruism. *The Fountainhead* embodies Rand's Objectivist philosophy, suggesting that egoism is an absolute moral good and therefore any person, institution, or system that blocks an individual's freedom and talent is evil. *The Fountainhead* is an Objectivist parable. Each character in the novel represents a different level on the spectrum of good and evil. Like the authors of other satirical and allegorical works, Rand does not create complex, three-dimensional characters, but designs personalities to prove a point.

During the 1950s and 1960s, Rand promoted her ideas with the help of two young protégés, Nathaniel and Barbara Branden. Rand's affair with Nathaniel Branden put an end to her alliance with the young couple. Rand died in her apartment in New York City on March 6, 1982. At the time of Rand's death, more than twenty million copies of her books had been sold. Rand's work continues to draw heated reactions from critics. She has been called a fascist, and some call her admirers devotees and worshippers, and even go so far as to call Objectivism a cult. Nonetheless,

the Ayn Rand Institute and the Objectivist Center continue their work in America, and Rand's novels still attract a global following.

Plot Overview

Howard Roark, a brilliant young architect, is expelled from his architecture school for refusing to follow the school's outdated traditions. He goes to New York to work for Henry Cameron, a disgraced architect whom Roark admires. Roark's schoolmate, Peter Keating, moves to New York and goes to work for the prestigious architectural firm Francon & Heyer, run by the famous Guy Francon. Roark and Cameron create beautiful work, but their projects rarely receive recognition, whereas Keating's ability to flatter and please brings him almost instant success. In just a few years, he becomes a partner at the firm after he causes Francon's previous partner to have a stroke. Henry Cameron retires, financially ruined, and Roark opens his own small office. His unwillingness to compromise his designs in order to satisfy clients eventually forces him to close down the office and take a job at a granite quarry in Connecticut.

In Connecticut, Roark feels an immediate, passionate attraction to Dominique Francon, Guy Francon's temperamental and beautiful daughter. Society disgusts Dominique, and she has retreated to her family's estate to escape the mediocre architecture she sees all around her. One night, Roark enters the house and rapes her. Dominique discovers that this is what she had needed, but when she looks for Roark, he has left the quarry to design a building for a prominent New York businessman. Dominique returns to New York and discovers Roark's identity. She realizes that he designed a building she admires. Dominique and Roark begin to meet in secret, but in public she tries to sabotage his career and destroy him. Ellsworth Toohey, an architectural critic and socialist, slowly prepares to rise to power. He seeks to prevent men from excelling by teaching that talent and ability are of no great consequence, and that the greatest virtue is humility. Toohey sees Roark as a great threat and tries to destroy him. Toohey convinces a weak-minded businessman named Hopton Stoddard to hire Roark as the designer for a temple dedicated to the human spirit, then persuades the businessman to sue Roark once the building is completed. At Roark's trial, every prominent architect in New York testifies that Roark's style is unorthodox and illegitimate, but Dominique declares that the world does not deserve the gift Roark has given it. Stoddard wins the case and Roark loses his business again. To punish herself for desiring Roark, Dominique marries Peter Keating.

Enter Gail Wynand, a brilliant publisher, who has lost his early idealism and made his fortune by printing newspapers that say exactly what the public wants to hear. Wynand meets Dominique and falls in love with her, so he buys her from Keating by offering him money and a prestigious contract in exchange for his wife. Dominique agrees to marry Wynand because she thinks he is an even worse person than Keating, but to her surprise, Wynand is a man of principle. Wynand and Roark meet and become fast friends, but Wynand does not know the truth about Roark's relationship with Dominique. Meanwhile Keating, who has fallen from grace, asks Roark for help with the Cortlandt Homes, a public housing project. The idea of economical housing intrigues Roark. He agrees to design the project and let Keating take the credit on the condition that no one makes a single alteration to his plan.

What
is the
trial
on

What?

lol

When Roark returns from a summer-long yacht trip with Wynand, he finds that, despite the agreement, the Cortlandt Homes project has been changed. Roark asks Dominique to distract the night watchman one night and then dynamites the building. When the police arrive, he submits without resistance. The entire country condemns Roark, but Wynand finally finds the courage to follow his convictions and orders his newspapers to defend him. The *Banner's* circulation drops and the workers go on strike, but Wynand keeps printing with Dominique's help. Eventually, Wynand gives in and denounces Roark. At the trial, Roark seems doomed, but he rouses the courtroom with a statement about the value of selfishness and the need to remain true to oneself. Roark describes the triumphant role of creators and the price they pay at the hands of corrupt societies. The jury finds him not guilty. Roark marries Dominique. Wynand asks Roark to design one last building, a skyscraper that will testify to the supremacy of man.

he goes too far

Analysis of Major Characters

Howard Roark

Howard Roark is the undisputed hero of *The Fountainhead*, and his story drives the novel. His name contains the words "hard" and "roar," both of which accurately describe his tough, determined character. Roark's buildings suggest his personality, for like Roark they are innovative and austere. Roark never compromises or deviates from his principles. Rand holds him up as everything that man can and should be. Consequently, Roark does not develop over the course of the novel—the ideal man does not need to change. Although Rand despised religion, she often describes Roark as if he is a religious figure. Roark does not preach, and he never actively seeks converts, but he inspires absolute devotion and rapture in his followers. Cameron, Mallory, Dominique, and Wynand change their entire belief systems after meeting him. Dominique in particular exhibits a religious passion for Roark, racked by ecstasy and guilt as if inspired by a messiah. Like all Christ figures in literature, Roark's enemies persecute him. Despite the hatred of the world, Roark lives life as Rand thinks it should be lived.

defending himself

Ellsworth Toohey

In direct contrast to Roark, Ellsworth Monkton Toohey embodies everything evil about mankind. He is irredeemably corrupt and evil. Whereas Roark never tries to win friends or influence people, Toohey's power lies entirely in his ability to control weaker minds and souls. Toohey's evil is as ingrained as Roark's goodness—Toohey learns the practice of manipulation as a child, and turns it into an art by the time he graduates from college. By making people feel small and guilty, Toohey shakes their faith in their own abilities and then assumes control of their lives. Toohey preaches selflessness and ignorance of the ego to force people to act with humble mediocrity. Toohey has no talents of his own, so he makes himself excellent by grinding down his followers. His tactics frequently evoke those of Joseph Stalin, the former Russian revolutionary who emerged as Russia's dictator.

Dominique Francon

Dominique's beauty and strength of spirit make her a perverse, unusual woman and the perfect complement to Howard Roark. At the beginning of the novel, she is convinced of the world's

rotteness and believes that greatness has no chance of survival. She surrounds herself with the things she despises to avoid watching the world destroy the things she loves. Dominique instantly recognizes Roark's greatness, but she does not initially believe that he can survive in a selfless and irrational society. The thought that a man like Roark needs society in order to build pains Dominique, and she tries to destroy him before the rest of the world can. Yet Dominique wants to fail in her bid to destroy Roark, because if she fails it means absolute good and genius can survive even in an evil world.

Gail Wynand

The charismatic, capable, and aristocratic Wynand straddles the line between mainstream society and Roark's world, and this division makes him the novel's tragic figure. Like Roark, Wynand has extraordinary capabilities and energy, but unlike Roark he lets the world corrupt him. When we first meet Wynand, he is entirely a man of the outside world, exclusively involved with society and its interests. His youthful idealism has been crushed by the world's cynicism. Wynand makes his living with newspapers that report on the vulgar and the common. This involvement with the world leaves Wynand misanthropic, bored, and suicidal. Wynand's worldview changes when he meets Dominique and Roark, who ignite the passion and integrity lingering within Wynand. During Roark's trial Wynand fights the world again and tries to turn his life around. He eventually feels that he cannot escape the ugliness he has created. Tragically, Wynand compromises at the last minute and loses his last chance at salvation.

Peter Keating

Rand has little sympathy for the rise and fall of Peter Keating. Keating starts off as a young and attractive architecture student, and although he is clearly Roark's inferior, their lives and careers advance in parallel fashion. By the novel's end, however, Keating is a weak and alcoholic nobody, the exact fate once reserved for talented men like Henry Cameron. Whereas Cameron suffers because of others, however, Keating is a victim of his own mistakes. Unlike Wynand, who suffers for turning his back on his own potential, Keating is born mediocre and weak and never had a chance at greatness. Instead, Keating suffers for denying his own mediocrity and for thinking himself too good for a modest but happy life. In *The Fountainhead*, character determines fate, and the moment Keating becomes dishonest as well as weak, he dooms himself to unhappiness.

Themes, Motifs & Symbols

Themes

Themes are the fundamental and often universal ideas explored in a literary work.

The Primacy of the Individual

Howard Roark is the novel's embodiment of the perfect man. Rand wants us to admire his talent and courage, and his struggle to resist society's sway and remain true to himself. *The Fountainhead* revolves around Roark's struggle to retain his individuality in the face of forces bent on bringing him to heel. At his second trial, Roark argues that individuals, not societies,

propel history. He says that individual creators are the fountainhead of civilization. Roark's speech is passionate and lyrical, and the audience receives it with awed silence. The struggle for individuality is not confined to Roark. Every one of the novel's sympathetic characters struggles to act independently from society, and the desire to assert one's self becomes the single greatest virtue a character can possess. The novel ends triumphantly not because Roark defeats or converts his enemies, but because he has won the right to act according to his own principles. The thesis at the heart of *The Fountainhead* is that society has a herd mentality, and individuals must act selfishly in order to be free.

The Importance of Reason

me and job finding + fit in?

The Fountainhead disapproves of sentimentalism, and argues that everything worth thinking or feeling should be the product of reason and logic, not emotion. Whenever Roark, Dominique, or Wynand expound on the supremacy of the individual, they justify their positions with logical arguments rather than with emotional appeals. The novel respects logic and reason so much that everything it applauds is scientific, factual, and pure. The novel's mathematicians, engineers, builders, and businessmen are inevitably more intelligent than its sentimental writers and journalists. Roark bases all of his designs on the simplest geometrical shapes, such as triangles or squares. Rand condemns sentimentality and compassion as the enemies of reason because they confuse the mind and compromise individualism. The arch-villain Toohey controls the weak by advocating such values as selflessness. Collectivism, altruism, and mysticism are depicted as illogical beliefs that manipulate the heart rather than engage the mind. In order to justify the novel's tough attitude, Rand argues that even the best intentions lead to imprisonment, while cold, unflinching reason sets man free.

The Cold Ferocity of Love

In *The Fountainhead*, love, like integrity and invention, is a principle worth fighting for and defending. The protagonists constantly hone and improve their relationships. Even Roark and Dominique forego some of their fierce devotion to independence and eventually allow themselves to surrender to one another. The emotion of love might seem to contradict the novel's devotion to reason, but the characters demand relationships so perfect that they come to seem logical and mathematical. Roark stands by while Dominique marries first Keating and then Wynand as if watching her enact an algebraic equation. He calculates that she will emerge from the marriages more suited to him, so he bears the pain of losing her to other men. Even in their passionate encounters, Roark and Dominique refuse to yield to emotion. Instead, they make love with a violent and calculating fury in scenes that Rand writes in prose more technical than romantic. The novel extols the virtues of science and logic and argues personal relationships can exist within these virtues. As long as relationships help people maximize their potential, then the novel sees love as a version of logic, and therefore approves of it.

Motifs

Motifs are recurring structures, contrasts, or literary devices that can help to develop and inform the text's major themes.

I'm prob like Roark but I know when to adapt

Technical Progress

In *The Fountainhead*, technical progress indicates the forward movement of society. The novel measures the progress of mankind by the number of buildings and scientific innovations it produces, rather than by its art and philosophy. All of the most crucial industrial developments come from the minds of individuals and entrepreneurs rather than from the masses. Therefore, the period of greatest industrial development also marks the period of greatest individualism. Rand's adoring treatment of the New York skyline signals her glorification of industry and technology. Wynand, Dominique, and Roark all gaze admiringly at the skyline, which serves as a reminder of their ambitions and goals. Beautiful, inspired skyscrapers represent human conquest over nature and symbolize modernity. In contrast to this glorification of architecture, the novel scoffs at other forms of art. Every time a new play or work of literature crops up in the narrative, the work in question is made to appear ridiculous and self-indulgent.

Journalism

The novel holds up architecture as the ideal art form, and journalism as all that is banal and corrupt. The villainous Toohey works his ill will as a sneaky, manipulative journalist, and Wynand builds his empire on a chain of exploitative and sensationalist papers that cater to the most depraved emotions of the masses. Rand constantly suggests the impossibility of reasoned, intelligent journalism. The one time Wynand tries to use his paper for good, he fails. According to Rand, newspapers are fundamentally weak because they have to cater to the public. The idiocy of the public becomes clear when Wynand holds a contest. He tests the public by trying to raise money simultaneously for a brilliant scientist and for the pregnant girlfriend of a convicted murderer. When the public overwhelmingly supports the girl, it suggests that the public is incapable of the rationality necessary to accomplish great things. Rand suggests that any medium that relies on the public is doomed to mediocrity.

Labor

The novel exhibits mixed views on manual labor, regarding it as both one of the few authentic occupations and as a den of collectivist activity. Roark works at many construction sites, which allows him to preserve his integrity by earning wages when he cannot find clients. Roark has good friends who work as laborers, such as Mike the electrician. The novel presents physical labor as a pure, productive activity and thus something admirable. On the other hand, labor breeds unions, groups that the novel violently condemns. Nefarious Toohey makes his first appearance in the novel when he addresses a crowd of discontented laborers and easily manipulates their cooperative spirit to make them his spiritual captives. Rand was a virulent anti-communist and saw socialism, which grew out of the labor movement, as the greatest threat to the United States. The novel admires laborers and workmen as individuals, but it fears and mistrusts them as a group.

Symbols

Symbols are objects, characters, figures, or colors used to represent abstract ideas or concepts.

Granite

Rand associates granite with Roark's character. Granite symbolizes his external and internal features. Like the rock, Roark's face, body, and mind are hard, rare, unchanging, and beautiful. Roark, however, is even stronger than the rock that symbolizes him. In a number of scenes, we see Roark breaking granite or using it for his designs. When Dominique first sees Roark at a granite quarry she wishes the drilling would hurt and destroy Roark, but by the end of the novel, Roark's ability to shape the granite according to his desires pleases her. The novel believes in the absolute supremacy of man, and consequently it rejoices when man triumphs over nature.

Ice

Ice symbolizes Dominique. Rand describes Dominique's body as fragile and angular. The clothes that Dominique wears either glitter like ice, shine like glass, or are the color of water. Wynand gives Dominique a diamond necklace made to look like loose pieces of ice scattered on her cool skin. Ice also reflects her personality at the beginning of the novel—blank and frigid. Once Roark warms Dominique's spirit, the associations between her and ice grow infrequent and eventually disappear.

The Banner

News pape

In *The Fountainhead*, the Banner symbolizes the worst elements of society and mass culture. The *Banner* reflects and feeds the public's poor taste. In *The Fountainhead* only individuals are noble, so anything designed for a group is necessarily ugly, crude, and ignorant. Wynand realizes this fact at the very end of the novel when he tries to make the *Banner* into an honorable machine and finally sees that the newspaper cannot elevate public opinion to something noble.

Atlas Shrugged

From Wikipedia, the free encyclopedia

Read 9/8 Optimal

Atlas Shrugged is a novel by Ayn Rand, first published in 1957 in the United States. Rand's fourth and last novel, it was also her longest, and the one she considered to be her *magnum opus* in the realm of fiction writing.^[4] *Atlas Shrugged* includes elements of romance,^{[1][2][3]} mystery and science fiction,^[5] and it contains Rand's most extensive statement of Objectivism in any of her works of fiction.

The book explores a dogmatic dystopian United States where many of society's most productive citizens refuse to be exploited by increasing taxation and government regulations and go on strike. The refusal evokes the imagery of what would happen if the mythological Atlas refused to continue to hold up the world. They are led by John Galt. Galt describes the strike as "stopping the motor of the world" by withdrawing the minds that drive society's growth and productivity. In their efforts, these people "of the mind" hope to demonstrate that a world in which the individual is not free to create is doomed, that civilization cannot exist where every person is a slave to society and government, and that the destruction of the profit motive leads to the collapse of society. The protagonist, Dagny Taggart, sees society collapse around her as the government increasingly asserts control over all industry.

The novel's title is a reference to Atlas, a Titan of Greek mythology, who in the novel is described as "the giant who holds the world on his shoulders".^[6] The significance of this reference is seen in a conversation between the characters Francisco d'Anconia and Hank Rearden, in which d'Anconia asks Rearden what sort of advice he would give to Atlas upon seeing that "the greater [the titan's] effort, the heavier the world bore down on his shoulders". With Rearden unable to answer, d'Anconia gives his own response: "To shrug".

The theme of *Atlas Shrugged*, as Rand described it, is "the role of man's mind in existence". The book explores a number of philosophical themes that Rand would subsequently develop into the philosophy of Objectivism.^{[7][8]} It advocates the core tenets of Rand's philosophy of Objectivism and expresses her concept of human achievement. In doing so, it expresses many facets of Rand's philosophy, such as the advocacy of reason, individualism, capitalism, and the failures of government coercion.

Atlas Shrugged received largely negative reviews after its 1957 publication, but achieved enduring popularity and consistent sales in the following decades.^[9]

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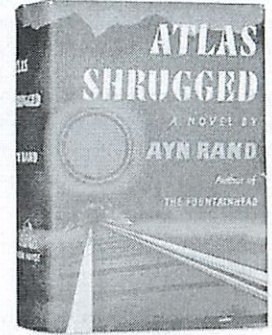
Context and writing

Rand referred to *Atlas Shrugged* as a mystery novel, "not about the murder of man's body, but about the murder — and rebirth — of man's spirit".^[10] Her stated goal for writing the text was "to show how desperately the world needs prime movers and how viciously it treats them" and to portray "what happens to a world without them".^[10] Nonetheless, when asked by film producer Albert S. Ruddy if a screenplay could focus on the love story, Rand agreed and said, "That's all it ever was."^{[1][2][3]}

Rand remarked that the core idea for the book came to her after a 1943 telephone conversation with a friend, who asserted that Rand owed it to her readers to write a nonfiction book about her philosophy. Rand replied, "What if I went on strike? What if all the creative minds of the world went on strike?"^[9] Rand then set out to create a work of fiction that explored the role of the mind in human life and the morality of rational self-interest,^[11] by exploring the consequences when the people "of the mind" go on strike, refusing to allow their inventions, art, business leadership, scientific research, or new ideas to be taken from them by the government or by the rest of the world. The working title throughout her writing was *The Strike*, but Rand thought this title would have revealed the mystery element of the novel prematurely,^[12] so she was pleased when her husband suggested *Atlas Shrugged*, previously the title of one of the chapters, as a better title for the book.^[13]

To produce *Atlas Shrugged*, Rand conducted research on American industry, specifically the railroad industry, which forms a key element in her novel. Her previous work on a proposed (but never realized) screenplay based on the development of the atomic bomb, including her interviews of J. Robert Oppenheimer, was used in the portrait of the character Robert Stadler and the novel's depiction of the development of "Project X". To do further background research, Rand toured and inspected a number of industrial facilities, such as the Kaiser Steel plant, rode the locomotives of the New York Central Railroad, and even learned to operate the locomotive of the Twentieth Century Limited (and proudly reported

Atlas Shrugged



First edition cover

Author(s)	Ayn Rand
Country	United States
Language	English
Genre(s)	Romance novel, ^{[1][2][3]} Mystery fiction, Science fiction, Philosophical novel.
Publisher	Random House
Publication date	October 10, 1957
Media type	Print (hardback and paperback)
Pages	1168 (first edition)
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OCLC Number	412355486 (http://worldcat.org/oclc/412355486)

that when operating it, "nobody touched a lever except me").^{[9][14]}

Rand's self-identified literary influences include Victor Hugo, Fyodor Dostoyevsky, Edmond Rostand, and O. Henry.^[15] In addition, Justin Raimondo has observed similarities between *Atlas Shrugged* and the 1922 novel *The Driver*, written by Garett Garrett,^[16] which concerns an idealized industrialist named Henry Galt, who is a transcontinental railway owner trying to improve the world and fighting against government and socialism. In contrast, Chris Matthew Sciabarra found Raimondo's "claims that Rand plagiarized ... *The Driver*" to be "unsupported",^[17] and Stephan Kinsella doubts that Rand was in any way influenced by Garrett.^[18] Writer Bruce Ramsey observed, "Both *The Driver* and *Atlas Shrugged* have to do with running railroads during an economic depression, and both suggest pro-capitalist ways in which the country might get out of the depression. But in plot, character, tone, and theme they are very different."^[19]

To persuade Rand to publish her novel with Random House, publisher Bennet Cerf proposed a "philosophic contest" in which Rand would submit her work to various publishers to judge their response to its ideas, so she could evaluate who might best promote her work.^[20] Because of the success of Rand's 1943 novel *The Fountainhead*, the initial print run was 100,000 copies. It marked a turning point in her life, ending her career as novelist and beginning her tenure as a popular philosopher.^[21]

Synopsis

Setting

Atlas Shrugged is set in an alternative dystopian United States at an unspecified time, in which the United States has a "National Legislature" instead of Congress and a "Head of State" instead of President. Writer Edward Younkins noted, "The story may be simultaneously described as anachronistic and timeless. The pattern of industrial organization appears to be that of the late 1800s — the mood seems to be close to that of the depression-era 1930s. Both the social customs and the level of technology remind one of the 1950s."^[22] Many early 20th-century technologies are available, and the steel and railroad industries are especially significant; jet planes are described as a relatively new technology, and television is a novelty significantly less influential than radio. While many other countries are mentioned in passing, there is no mention of the Soviet Union, no reference to World War II or the Cold War. It is implied that the countries of the world are converting to big government statism, along vaguely Marxist lines, in references to "People's States" in Europe and South America. Plot elements also refer to nationalization of businesses in these "People's States", as well as in America. The "mixed economy" of the book's present is often contrasted with the "pure" capitalism of 19th century America, wistfully recalled as a lost Golden Age.

Structure

The novel is divided into three parts consisting of ten chapters each. Robert James Bidinotto noted "the titles of the parts and chapters suggest multiple layers of meaning. The three parts, for example, are named in honor of Aristotle's laws of logic ... Part One is titled 'Non-Contradiction' ... Part Two, titled 'Either-Or' ... [and] Part Three is titled 'A Is A,' a reference to 'the Law of Identity'.^[23]

Plot summary

See also: *List of characters in Atlas Shrugged*

As the novel opens, protagonist Dagny Taggart, the Operating Vice President of Taggart Transcontinental, a giant railroad company originally pioneered by her grandfather, attempts to keep the company alive during difficult economic times marked by collectivism and statism. While Dagny runs the company from behind the scenes, her brother, James Taggart, the railroad's President, is peripherally aware of the company's troubles, but will not make any difficult choices, preferring to avoid responsibility for any actions while watching his company go under. He seems to make irrational decisions, such as preferring to buy steel from Orren Boyle's Associated Steel, rather than Hank Rearden's Rearden Steel, despite the former continually delaying delivery of vital rail. In this as in other decisions, Dagny simply goes ahead with her own policy and challenges him to repeal it. As this unfolds, Dagny is disappointed to discover that Francisco d'Anconia, a true genius and her only childhood friend, first love, and king of the copper industry, appears to have become a worthless playboy who is destroying his family's international copper company, which has made him into one of the richest and most powerful men in the world.

Hank Rearden, a self-made steel magnate of great integrity, has recently developed a metal alloy called Rearden Metal, now the strongest and most reliable metal in the world. Hank chooses to keep the instructions to its creation a secret, sparking jealousy and uproar among competitors. False claims are made about the danger of the alloy and are backed by government agencies. As a result of this, pressure is put on Dagny to use conventional steel, but she refuses. Hank's career is hindered by his feelings of obligation toward his manipulative wife, mother, and ungrateful younger brother, who show no appreciation for everything he provides for them. Dagny also becomes acquainted with Wesley Mouch, a Washington lobbyist initially working for Rearden, whom he betrays. Mouch eventually leads the government's efforts in controlling all commerce and enterprise, intentionally destroying the common man's opportunity to build a largely successful, free-market business. The reader also becomes acquainted with Ellis Wyatt, the sole founder and supervisor of the successful enterprise Wyatt Oil. He is a young, self-possessed, hard-working man — one of the few men still loyal to Dagny and Hank's efforts in pushing for a system of business free of government meddling and control.

While economic conditions worsen and government agencies continue to enforce their control on successful businesses, the naïve, yet weary mass of citizens are often heard reciting the new, popular street phrase, "Who is John Galt?" This sarcastic phrase is given in response to what tend to be sincere questions about heavy subjects, wherein the individual can find no answer. It sarcastically means, "Don't ask important questions, because we don't have answers", or more broadly, "What's the point?" or "Why bother?"

Dagny begins to notice the nation's brightest innovators and business leaders abruptly disappearing, one by one, under mysterious circumstances, all leaving their top industrial businesses to certain failure. The most recent of these leaders to have vanished is Dagny's friend Ellis Wyatt, who, like the others, has suddenly disappeared into thin air with no warning, leaving nothing behind except an empty office and his most successful oil well now spewing petroleum and fire high into the air (later to be named "Wyatt's Torch"). Each of these men proves to be absent despite a thorough search put on by ever-anxious politicians, who have now found themselves trapped within a government that has been "left to dry", by its leaders in business — utterly helpless without them.

In a romantic subplot, Dagny and Hank fall deeply in love. Rand refers to their love as a purer kind of love than the one that most men and women experience. These two people have a similar purpose in life, and they see in each other a kindred soul. In the universe of the novel, men and women with purpose are rare and, to an extent, deified — thus making their love especially sacred. Hank (who is still married to another woman) goes on vacation with Dagny on a drive across the United States. They discover, amongst the ruins of an abandoned factory, an incomplete motor that transforms atmospheric static electricity into kinetic electricity. Deeply moved by the significance of a motor which has the potential to completely transform the world, Dagny sets out to find the inventor.

In addition to the inventor of the motor, Dagny also makes it her mission to find the reason so many important people keep disappearing. These two quests converge when Dagny flies to Utah to speak with a scientist she has working on reverse-engineering the motor. While still at the airfield, she discovers the scientist has just flown off with a mysterious man. Dagny follows the plane to where it mysteriously disappears, eventually crash-landing through a "ray screen" used to hide Galt's Gulch - the hidden Atlantis where John Galt has been bringing those he recruits. John Galt proceeds to explain the series of events which led to an organized "strike" against those who use the force of law and moral guilt to confiscate the accomplishments of society's productive members.

Unable to give up her railroad to construction, Dagny leaves the valley as soon as she can. As the nation is collapsing, Galt follows Dagny back to New York City (where she learns he has been working in plain sight for her railroad as a lowly laborer), where he hacks into a national radio broadcast to deliver a long speech to the people (70 pages in the first edition), serving to explain the novel's theme and Rand's philosophy of Objectivism^[24]. As the government begins to collapse following Galt's message, the leaders decide the only

Wow!

way to restore order is to capture Galt and force him to save them. While they succeed in following Dagny to him and subsequently taking him prisoner, they are unable to turn Galt, who is eventually freed in a rescue mission by a group of friends. While they are flying back to their hidden valley, they see the lights go out in New York City - the indication that their mission has been completed. The novel closes with a brief section where the strikers complete their preparations and Galt announces that they will return to the world.

Themes

Philosophy

Main article: *Objectivism (Ayn Rand)*

Galt = creator, philosopher, inventor
gets all the inventors

The story of *Atlas Shrugged* dramatically expresses Rand's philosophy of Objectivism: Rand's ethical egoism, her advocacy of "rational selfishness", is perhaps her most well-known position. For Rand, all of the principal virtues and vices are applications of the role of reason as man's basic tool of survival (or a failure to apply it): rationality, honesty, justice, independence, integrity, productiveness, and pride — each of which she explains in some detail in "The Objectivist Ethics".^[25] Rand's characters often personify her view of the archetypes of various schools of philosophy for living and working in the world. Robert James Bidinotto wrote, "Rand rejected the literary convention that depth and plausibility demand characters who are naturalistic replicas of the kinds of people we meet in everyday life, uttering everyday dialogue and pursuing everyday values. But she also rejected the notion that characters should be symbolic rather than realistic."^[23] and Rand herself stated, "My characters are never symbols, they are merely men in sharper focus than the audience can see with unaided sight. . . . My characters are persons in whom certain human attributes are focused more sharply and consistently than in average human beings."^[23]

individualism & not the specific term

In addition to the plot's more obvious statements about the significance of industrialists to society, and the sharp contrast it provides to the Marxist version of exploitation and the labor theory of value, this explicit conflict is used by Rand to draw wider philosophical conclusions, both implicit in the plot and via the characters' own statements. *Atlas Shrugged* portrays fascism, socialism and communism — any form of state intervention in society — as systemically and fatally flawed. In addition, positions are expressed on a variety of other topics, including sex, politics, friendship, charity, childhood, and many others. Rand said it is not a fundamentally political book, but a demonstration of the individual mind's position and value in society.^[26]

Rand argues that independence and individual achievement enable society to survive and thrive, and should be embraced. But this requires a rational moral code. She argues that, over time, coerced self-sacrifice must cause any society to self-destruct.

Similarly, Rand rejects faith (that "short-cut to knowledge", she writes in the novel, which in fact is only a "short-circuit" destroying knowledge), along with any sort of a god or higher being. Rand urges the rejection of anything claiming "authority" over one's own mind — apart from the absolute of existence, itself. The book positions itself against religion specifically, often directly within the characters' dialogue.

Sanction of the victim

The concept "sanction of the victim" is defined by Leonard Peikoff as "the willingness of the good to suffer at the hands of the evil, to accept the role of sacrificial victim for the 'sin' of creating values".^[27] Rand holds that evil is a parasite on the good and can only exist if the good tolerates it. *Atlas Shrugged* can be seen as an answer to the question of what would happen if this sanction were revoked. When Atlas shrugs, relieving himself of the burden of carrying the world, he is revoking his sanction.

Throughout *Atlas Shrugged*, numerous characters admit there is something wrong with the world that they cannot identify; frequently, they are struggling with the idea of sanction of the victim. We first glimpse the concept when Hank Rearden feels he is duty-bound to support his family, despite their hostility towards him; later, the principle is stated explicitly by Dan Conway: "I suppose somebody's got to be sacrificed. If it turned out to be me, I have no right to complain." John Galt vows to stop the motor of the world by persuading the creators of the world to withhold their sanction: "Evil is impotent and has no power but that which we let it extort from us", and, "I saw that evil was impotent ... and the only weapon of its triumph was the willingness of the good to serve it".

In Rand's view, morality requires we do not sanction our own victimhood. She assigns virtue to the trait of rational self-interest. However, Rand contends moral selfishness does not mean a license to do whatever one pleases, guided by whims. It means the exacting discipline of defining and pursuing one's rational self-interest. A code of rational self-interest rejects every form of human sacrifice, whether of oneself to others or of others to oneself.

Government and business

Atlas Shrugged endorses the belief that a society's best hope rests on adopting a system of pure laissez-faire. Rand's view of the ideal government is expressed by John Galt, who says, "The political system we will build is contained in a single moral premise: no man may obtain any values from others by resorting to physical force", and claims that "no rights can exist without the right to translate one's rights into reality — to think, to work and to keep the results — which means: the right of property". Galt himself lives a life of laissez-faire capitalism as the only way to live consistently with his beliefs.

In the world of *Atlas Shrugged*, society stagnates when independent productive achievers are socially demonized and even punished for their accomplishments.^[28] Independence and personal happiness had flourished to the extent that people were free, and achievement was rewarded to the extent that individual ownership of private property was strictly respected. This is in line with an excerpt from a 1964 interview with *Playboy* magazine in which Rand states "What we have today is not a capitalist society, but a mixed economy — that is, a mixture of freedom and controls, which, by the presently dominant trend, is moving toward dictatorship. The action in *Atlas Shrugged* takes place at a time when society has reached the stage of dictatorship. When and if this happens, that will be the time to go on strike, but not until then."^[29]

Rand characterizes the actions of government employees in a way that is consistent with public choice theory, describing how the language of altruism is used to pass legislation that is nominally in the public interest (e.g., the "Anti-Dog-Eat-Dog Rule", and "The Equalization of Opportunity Bill") but which in reality serves special interests and government agencies at the expense of the public and the producers of value.^[30]

Property rights and individualism

Rand's heroes must continually fight against "parasites", "looters", and "moochers" who demand the benefits of the heroes' labor. Edward Younkins describes *Atlas Shrugged* as "an apocalyptic vision of the last stages of conflict between two classes of humanity — the looters and the non-looters. The looters are proponents of high taxation, big labor, government ownership, government spending, government planning, regulation, and redistribution."^[32]

"Looters" confiscate others' earnings by force ("at the point of a gun") and include government officials, whose demands are backed by the implicit threat of force. Some officials are merely executing government policy, such as those who confiscate one state's seed grain to feed the starving citizens of another; others are exploiting those policies, such as the railroad regulator who illegally sells the railroad's supplies for his own profit. Both use force to take property from the people who produced or earned it.

"Moochers" demand others' earnings on behalf of the needy and those unable to earn themselves; however, they curse the producers who make that help possible and are jealous

"Run for your life from any man who tells you that money is evil. That sentence is the leper's bell of an approaching looter."^[31]

— Francisco d'Anconia, *Atlas Shrugged*

and resentful of the talented upon whom they depend. They are ultimately as destructive as the looters — destroying the productive through guilt, and appealing to "moral right" while enabling the "lawful" looting performed by governments.

Looting and mooching are seen at all levels of the world *Atlas Shrugged* portrays, from the looting officials Dagny Taggart must work around and the mooching brother Hank Rearden struggles with, to the looting of whole industries by companies like Associated Steel and the mooching demands for foreign aid by the starving countries of Europe.

One of the novel's heroes, Francisco d'Anconia, indicates the role of "looters" in relation to money itself:

"So you think that money is the root of all evil? ... Have you ever asked what is the root of money? Money is a tool of exchange, which can't exist unless there are goods produced and men able to produce them. Money is the material shape of the principle that men who wish to deal with one another must deal by trade and give value for value. Money is not the tool of the moochers, who claim your product by tears, or the looters who take it from you by force. Money is made possible only by the men who produce. Is this what you consider evil? ... Not an ocean of tears nor all the guns in the world can transform those pieces of paper in your wallet into bread you need to survive tomorrow. ... Whenever destroyers appear among men, they start by destroying money, for money is men's protection and the base of a moral existence. Destroyers seize gold and leave its owners a counterfeit pile of paper. This kills all objective standards and delivers men into the arbitrary power of an arbitrary setter of values ... Paper is a mortgage on wealth that does not exist, backed by a gun aimed at those who are expected to produce it. Paper is a check drawn by legal looters upon an account which is not theirs: upon the virtue of the victims. Watch for the day when it bounces, marked: 'Account Overdrawn.'"^[31]

Theory of sex

In rejecting the traditional altruistic moral code, Rand also rejects the sexual code that, in her view, is the logical implication of altruism. In *Atlas Shrugged* Rand introduces a theory of sex that is based in her broader ethical and psychological theories. Rather than considering sexual desire a debasing animal instinct, Rand portrays it as the highest celebration of human values, a physical response to intellectual and spiritual values that gives concrete expression to what could otherwise be experienced only in the abstract.

In *Atlas Shrugged*, characters are sexually attracted to those who embody or seem to embody their values, be they higher or lower values by Rand's standards. Characters who lack clear purpose find sex devoid of meaning. This is illustrated in the contrasting relationships of Hank Rearden with Lillian Rearden and Dagny Taggart, by the relationships of James Taggart with Cheryl Brooks and with Lillian Rearden, and finally in the relationship between Dagny and John Galt.

Adultery is committed by three characters throughout the course of the novel. The first and predominate act is that of Hank Rearden, who sleeps with Dagny after the opening of the John Galt Line, to celebrate the success of his metal and her determination to have the line built. The affair continues for some time - even including a cross-country vacation for the two - until Hank's wife finds out; his wife does not want to divorce him, but instead wants to maintain her image as Mrs. Rearden and allows the affair to continue until Hank manipulates the judicial system to obtain a divorce. Later in the novel, as Mrs. Rearden knows the divorce will be processed shortly, she has sex with Dagny's brother James (who is also married, and despises Hank), as an act of revenge for them both against him. Having caught them, James' wife proceeds to commit suicide. Yet adultery is never addressed on moral grounds; the sex is addressed on its own, either as celebration of accomplishment or as an act of revenge.

Fictional technology and *Atlas* as science fiction

Technological progress and intellectual breakthroughs in scientific theory both figure prominently in *Atlas Shrugged*, leading some observers to classify *Atlas* in the genre of science fiction. Writer Jeff Rigenbach notes, "Galt's motor is one of the three inventions that propel the action of *Atlas Shrugged*", the other two being Rearden Metal and the government's sonic weapon, Project X.^[34] Other fictional technologies included in the story are refractor rays (Gulch mirage), a sophisticated electrical torture device (the Ferris Persuader), voice activated door locks (Gulch power station), palm-activated door locks (Galt's NY lab), Galt's means of quietly turning the entire contents of his laboratory into a fine powder when a lock is breached, and a means of taking over all radio stations worldwide. Rigenbach adds, "Rand's overall message with regard to science seems clear: the role of science in human life and human society is to provide the knowledge on the basis of which technological advancement and the related improvements in the quality of human life can be realized. But science can fulfill this role only in a society in which human beings are left free to conduct their business as they see fit."^[35]

Reception

Atlas Shrugged debuted on *The New York Times* Bestseller List at #13 three days after its publication. It peaked at #3 on December 8, 1957, and was on the list for 22 consecutive weeks.^[9]

Atlas Shrugged was generally disliked by critics, despite being a popular success. The book was dismissed by some as "a homage to greed", while author Gore Vidal described its philosophy as "nearly perfect in its immorality".^[10] Helen Beal Woodward, reviewing *Atlas Shrugged* for *The Saturday Review*, opined that the novel was written with "dazzling virtuosity" but that it was "shot through with hatred".^[36] This was echoed by Granville Hicks, writing for *The New York Times Book Review*, who also stated that the book was "written out of hate".^[37] The reviewer for *Time* magazine asked: "Is it a novel? Is it a nightmare? Is it Superman — in the comic strip or the Nietzschean version?"^[38] In the magazine *National Review*, Whittaker Chambers called *Atlas Shrugged* "sophomoric" and "remarkably silly", and said it "can be called a novel only by devaluing the term".^[39] Chambers argued against the novel's implicit endorsement of atheism, whereby "Randian man, like Marxian man is made the center of a godless world".^[39] Chambers also wrote that the implicit message of the novel is akin to "Hitler's National Socialism and Stalin's brand of Communism" ("To a gas chamber — go!").^[39]

The negative reviews produced responses from some of Rand's admirers, including a letter by Alan Greenspan to *The New York Times Book Review*, in which he responded to Hicks' claim that "the book was written out of hate" by saying, "... *Atlas Shrugged* is a celebration of life and happiness. Justice is unrelenting. Creative individuals and undeviating purpose and rationality achieve joy and fulfillment. Parasites who persistently avoid either purpose or reason perish as they should."^[40] Greenspan had read unpublished drafts of the work in Rand's salon at least three years earlier.^[41] In an unpublished^[42] letter to the *National Review*, Leonard Peikoff wrote, "... Mr. Chambers is an ex-Communist. He has attacked *Atlas Shrugged* in the best tradition of the Communists — by lies, smears, and cowardly misrepresentations. Mr. Chambers may have changed a few of his political views; he has not changed the method of intellectual analysis and evaluation of the Party to which he belonged."

Positive reviews appeared in a number of publications. Richard McLaughlin, reviewing the novel for *The American Mercury*, compared it to *Uncle Tom's Cabin* in importance.^[43] Well-known journalist and book reviewer John Chamberlain, writing in *The New York Herald Tribune*, found *Atlas Shrugged* satisfying on many levels: science fiction, a "Dostoevsky" detective story and, most importantly, a "profound political parable".^{[44][45]} However, Mimi Reisel Gladstein writes that reviewers who have "appreciated not only Rand's writing style but also her message" have been "far outweighed by those who have been everything from hysterically hostile to merely uncomprehending".^[46]

Former Rand friend, associate, business partner and lover Nathaniel Branden, to whom the book was originally dedicated, has had differing views of *Atlas Shrugged* in his life. He was initially quite favorable to it, praising it in the book he and Barbara Branden wrote in 1962 called *Who is Ayn Rand?*^[47] After he and Ayn Rand ended their relationship in 1968, both he and Barbara Branden repudiated their book in praise of Rand and her novels.^[48] As of 1971 though, in an interview he gave to "Reason" he listed some critiques, but

"Through Dagny's associations ... Rand illustrates what a relationship between two self-actualized, equal human beings can be ... Rand denies the existence of a split between the physical and the mental, the desires of the flesh and the longings of the spirit."^[33]

— Mimi Reisel Gladstein, *Ayn Rand and Feminism: An Unlikely Alliance*

"Both conservatives and liberals were unstinting in disparaging the book; the right saw promotion of godlessness, and the left saw a message of greed is good. Rand is said to have cried every day as the reviews came out."

— Harriet Rubin (2007) in *The New York Times*^[10]

concluded, "But what the hell, so there are a few things one can quarrel with in the book, so what? ATLAS SHRUGGED is the greatest novel that has ever been written, in my judgment, so let's let it go at that."^[49]

But years later, in 1984, two years after Rand's death, he argued that *Atlas Shrugged* "encourages emotional repression and self-disowning" and that her works contained contradictory messages. Branden claimed that the characters rarely talk "on a simple, human level without launching into philosophical sermons". He criticized the potential psychological impact of the novel, stating that John Galt's recommendation to respond to wrongdoing with "contempt and moral condemnation" clashes with the view of psychologists who say this only causes the wrongdoing to repeat itself.^[50] Rand herself, however, would not have regarded a novel as needing to portray such "ordinary" human interaction at all, even if an entire philosophy of life does need to address this.^[51]

Praise, criticism, influence, and renewed popularity

For more details on this topic, see *Bibliography for Ayn Rand and Objectivism*.

Over the years, *Atlas Shrugged* has attracted an energetic and committed fan base. Each year the Ayn Rand Institute donates 400,000 copies of works by Ayn Rand, including *Atlas Shrugged*, to high school students.^[10] According to a 1991 survey done for the Library of Congress and the Book of the Month Club, *Atlas Shrugged* was situated between the Bible and M. Scott Peck's *The Road Less Traveled* as the book that made the most difference in the lives of 5,000 Book-of-the-Month club members surveyed, with a "large gap existing between the #1 book and the rest of the list".^[52] Modern Library's 1998 nonscientific online poll of the 100 best novels of the 20th century^{[53][54]} found *Atlas* rated #1 although it was not included on the list chosen by the Modern Library board of authors and scholars.^[55]

In 1997, the libertarian Cato Institute held a joint conference with The Atlas Society, an Objectivist organization, to celebrate the fortieth anniversary of the publication of *Atlas Shrugged*.^[56] At this event, Howard Dickman of *Reader's Digest* stated that the novel had "turned millions of readers on to the ideas of liberty" and said that the book had the important message of the readers' "profound right to be happy".^[56]

The C-SPAN television series *American Writers* listed Rand as one of twenty-two surveyed figures of American literature, though primarily mentioning *The Fountainhead* rather than *Atlas Shrugged*.^[57]

Rand's impact on contemporary libertarian thought has been considerable, and it is noteworthy that the title of the leading libertarian magazine, *Reason: Free Minds, Free Markets*, is taken directly from John Galt, the hero of *Atlas Shrugged*, who argues that "a free mind and a free market are corollaries".

The Austrian School economist Ludwig von Mises admired the unapologetic elitism of Rand's work. In a private letter to Rand written a few months after the novel's publication, he declared, "... *Atlas Shrugged* is not merely a novel. It is also (or may I say: first of all) a cogent analysis of the evils that plague our society, a substantiated rejection of the ideology of our self-styled "intellectuals" and a pitiless unmasking of the insincerity of the policies adopted by governments and political parties ... You have the courage to tell the masses what no politician told them: you are inferior and all the improvements in your conditions which you simply take for granted you owe to the efforts of men who are better than you."^[58]

Acclaim has not been unanimous. Nobel Prize-winning economist and liberal commentator Paul Krugman alluded to an oft-quoted quip^[59] in his blog: "There are two novels that can change a bookish fourteen-year old's life: *The Lord of the Rings* and *Atlas Shrugged*. One is a childish fantasy that often engenders a lifelong obsession with its unbelievable heroes, leading to an emotionally stunted, socially crippled adulthood, unable to deal with the real world. The other, of course, involves ores."^[60]

In the late 2000s, the book gained more media attention and conservative commentators suggested the book as a warning against a socialistic reaction to the finance crisis. Conservative commentators Neal Boortz,^[61] Glenn Beck, and Rush Limbaugh^[62] have offered high praise of the book on their respective radio and television programs. In 2006 Associate Justice of the Supreme Court Clarence Thomas cited *Atlas Shrugged* as among his favorite novels.^[63] Republican Congressman John Campbell said for example: "People are starting to feel like we're living through the scenario that happened in [the novel] ... We're living in *Atlas Shrugged*", echoing Stephen Moore in an article published in *The Wall Street Journal* on January 9, 2009, titled "*Atlas Shrugged* From Fiction to Fact in 52 Years".^[64]

"I know from talking to a lot of Fortune 500 C.E.O.'s that *Atlas Shrugged* has had a significant effect on their business decisions, even if they don't agree with all of Ayn Rand's ideas."

– John A. Allison, former CEO of BB&T ^[10]

The sales of *Atlas Shrugged* have since then sharply increased, according to *The Economist* magazine and *The New York Times*. *The Economist* reported that the fifty-two-year-old novel ranked #33 among Amazon.com's top-selling books on January 13, 2009 and that its thirty day sales average showed the novel selling three times faster than during the same period of the previous year. With an attached sales chart, *The Economist* reported that sales "spikes" of the book seemed to coincide with the release of economic data. Subsequently, on April 2, 2009, *Atlas Shrugged* ranked #1 in the "Fiction and Literature" category at Amazon and #15 in overall sales.^{[65][66][67]} Total sales of the novel in 2009 exceeded 500,000 copies.^[68] The book sold 445,000 copies in 2011, the second-strongest sales year in the novel's history. At the time of publication the novel was on the New York Times best-seller list and was selling at roughly a third the volume of 2011.^[69]

in what way

Film and television adaptations

Main articles: *Atlas Shrugged: Part I* and *Atlas Shrugged: Part 2*

A film adaptation of *Atlas Shrugged* was in "development hell" for nearly 40 years.^[70] In 1972, Albert S. Ruddy approached Rand to produce a cinematic adaptation. Rand agreed that Ruddy could focus on the love story. "That's all it ever was," Rand said.^{[1][2][3]} Rand insisted on having final script approval, which Ruddy refused to give her, thus preventing a deal. In 1978, Henry and Michael Jaffe negotiated a deal for an eight-hour *Atlas Shrugged* television miniseries on NBC. Michael Jaffe hired screenwriter Stirling Silliphant to adapt the novel and he obtained approval from Rand on the final script. However, in 1979, with Fred Silverman's rise as president of NBC, the project was scrapped.^[71]

Rand, a former Hollywood screenwriter herself, began writing her own screenplay, but died in 1982 with only one-third of it finished. She left her estate, including the film rights to *Atlas*, to her student Leonard Peikoff, who sold an option to Michael Jaffe and Ed Snider. Peikoff would not approve the script they wrote, and the deal fell through. In 1992, investor John Aglialoro bought an option to produce the film, paying Peikoff over \$1 million for full creative control.^[71]

In 1999, under Aglialoro's sponsorship, Ruddy negotiated a deal with Turner Network Television (TNT) for a four-hour miniseries, but the project was killed after the AOL Time Warner merger. After the TNT deal fell through Howard and Karen Baldwin obtained the rights while running Phillip Anschutz's Crusader Entertainment. The Baldwins left Crusader and formed Baldwin Entertainment Group in 2004, taking the rights to *Atlas Shrugged* with them. Michael Burns of Lions Gate Entertainment approached the Baldwins to fund and distribute *Atlas Shrugged*.^[71] A draft screenplay was written by James V. Hart^[72] and re-written by Randall Wallace,^[73] but was never produced.

In May 2010, Brian Patrick O'Toole and Aglialoro wrote a screenplay, intent on filming in June 2010. Stephen Polk was set to direct.^[74] However, Polk was fired and principal photography began on June 13, 2010 under the direction of Paul Johansson and produced by Harmon Kaslow and Aglialoro.^[75] This resulted in Aglialoro's retention of his rights to the property, which were set to expire on June 15, 2010. Filming was completed on July 20, 2010,^[76] and the movie was released on April 15, 2011.^[77] Dagny Taggart was played by Taylor Schilling and Hank Rearden by Grant Bowler.^[78]

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The film was met with a generally negative reception from professional critics, getting an 11% (rotten) rating on movie review aggregator Rotten Tomatoes,^[79] and had less than \$5 million in total box office receipts.^[80] The producer and screenwriter John Aglioloro blamed critics for the film's paltry box office take and said he might go on strike.^[81]

However, on February 2, 2012, Kaslow and Aglioloro announced *Atlas Shrugged: Part 2* was fully funded and that principal photography was tentatively scheduled to commence in early April 2012 with a release date of October 2012.^[82]

See also

- Aristotelianism
- Industrial Revolution
- John Galt Corporation
- Libertarianism
- Libertarianism and Objectivism
- Objectivist movement
- Romanticism

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Objectivism (Ayn Rand)

From Wikipedia, the free encyclopedia

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Objectivism is a philosophy created by Russian-American philosopher and novelist Ayn Rand (1905–1982). Objectivism's central tenets are that reality exists independent of consciousness, that human beings have direct contact with reality through sense perception, that one can attain objective knowledge from perception through the process of concept formation and inductive logic, that the proper moral purpose of one's life is the pursuit of one's own happiness (or rational self-interest), that the only social system consistent with this morality is full respect for individual rights embodied in *laissez-faire* capitalism, and that the role of art in human life is to transform humans' metaphysical ideas by selective reproduction of reality into a physical form—a work of art—that one can comprehend and to which one can respond emotionally.

Rand characterized Objectivism as "a philosophy for living on earth", grounded in reality, and aimed at defining human nature and the nature of the world in which we live.^[1]

My philosophy, in essence, is the concept of man as a heroic being, with his own happiness as the moral purpose of his life, with productive achievement as his noblest activity, and reason as his only absolute.

—Ayn Rand, *Atlas Shrugged*^[2]

The name "Objectivism" derives from the idea that human knowledge and values are objective: they exist and are determined by the nature of reality, to be discovered by one's mind, and are not created by the thoughts one has.^[3] Rand stated that she chose the name because her preferred term for a philosophy based on the primacy of existence—"existentialism"—had already been taken.^[4]

— I have not thought of these connected before

Rand originally expressed her philosophical ideas in her novels *The Fountainhead* and *Atlas Shrugged*, and other works. She further elaborated on them in her periodicals *The Objectivist Newsletter*, *The Objectivist*, and *The Ayn Rand Letter*, and in non-fiction books such as *Introduction to Objectivist Epistemology* and *The Virtue of Selfishness*.^[1]

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Metaphysics: objective reality

Rand's philosophy begins with three axioms: existence, identity, and consciousness.^[5] Rand defined an axiom as "a statement that identifies the base of knowledge and of any further statement pertaining to that knowledge, a statement necessarily contained in all others whether any particular speaker chooses to identify it or not. An axiom is a proposition that defeats its opponents by the fact that they have to accept it and use it in the process of any attempt to deny it."^[6] As Objectivist philosopher Leonard Peikoff argued, Rand's argument for axioms "is not a proof that the axioms of existence, consciousness, and identity are true. It is proof that they are axioms, that they are at the base of knowledge and thus inescapable."^[7]

Rand held that *existence* is the perceptually self-evident fact at the base of all other knowledge, i.e., that "existence exists." She further held that to be is to be *something*, that "existence is identity." That is, to be is to be "an entity of a specific nature made of specific attributes." That which has no nature or attributes does not and cannot exist. The axiom of existence is grasped in differentiating something from nothing, while the law of identity is grasped in differentiating one thing from another, i.e., one's first awareness of the law of non-contradiction, another crucial base for the rest of knowledge. As Rand wrote, "A leaf ... cannot be all red and green at the same time, it cannot freeze and burn at the same time... A is A."^[8] Objectivism rejects belief in any thing alleged to transcend existence.^[9]

Rand argues that consciousness, "the faculty of perceiving that which exists," is an inherently relational phenomenon. As she puts it, "to be conscious is to be conscious of *something*", that is consciousness itself cannot be distinguished or grasped except in relation to an independent reality.^[10] "It cannot be aware only of itself—there is no 'itself' until it is aware of something."^[11] Thus, Objectivism holds that the mind does not create reality, but rather, it is a means of discovering reality.^[12] Expressed differently, existence has "primacy" over consciousness, which must conform to it. Any other approach Rand termed "the primacy of consciousness", including any variant of metaphysical subjectivism or theism.^[13]

Objectivist philosophy derives its explanations of action and causation from the axiom of identity, calling causation "the law of identity applied to action."^[14] According to Rand, it is entities that act, and every action is the action of an entity. The way entities act is caused by the specific nature (or "identity") of those entities; if they were different they would act differently. As with the other axioms, an implicit understanding of causation is derived from one's primary observations of causal connections among entities even before it is verbally identified, and serves as the basis of further knowledge.^[15]

Epistemology: reason

Objectivist epistemology begins with the principle that "consciousness is identification". This is understood to be a direct consequence of the metaphysical principle that "existence is identity."^[16] Rand defined "reason" as "the faculty that identifies and integrates the material provided by man's senses."^[17] Objectivist epistemology maintains that all knowledge is ultimately based on perception. "Percepts, not sensations, are the given, the self-

evident."^[18] Rand considered the validity of the senses to be axiomatic, and claimed that purported arguments to the contrary all commit the fallacy of the "stolen concept"^[19] by presupposing the validity of concepts that, in turn, presuppose the validity of the senses.^[20] She held that perception, being physiologically determined, is incapable of error. For example, Optical illusions are errors in the conceptual identification of what is seen, not errors in sight itself.^[21] The validity of sense perception, therefore, is not susceptible to proof (because it is presupposed by all proof as proof is only a matter of adducing sensory evidence) nor should its validity be denied (since the conceptual tools one would have to use to do this are derived from sensory data). Perceptual error, therefore, is not possible. Rand consequently rejected epistemological skepticism, as she holds that the skeptics' claim to knowledge "undistorted" by the form or the means of perception is impossible.^[21]

The Objectivist theory of perception distinguishes between the *form* and *object*. The form in which an organism perceives is determined by the physiology of its sensory systems. Whatever form the organism perceives it in, what it perceives—the object of perception—is reality.^[22] Rand consequently rejected the Kantian dichotomy between "things as we perceive them" and "things as they are in themselves." Says Rand, "The attack on man's consciousness and particularly on his conceptual faculty has rested on the unchallenged premise that any knowledge acquired by a *process* of consciousness is necessarily subjective and cannot correspond to the facts of reality, since it is "*processed* knowledge...[but] all knowledge *is* processed knowledge—whether on the sensory, perceptual or conceptual level. An "unprocessed" knowledge would be a knowledge acquired without means of cognition."^[23]

Says Rand, "The fundamental concept of method, the one on which all the others depend, is logic. The distinguishing characteristic of logic (the art of non-contradictory identification) indicates the nature of the actions (actions of consciousness required to achieve a correct identification) and their goal (knowledge)—while omitting the length, complexity or specific steps of the process of logical inference, as well as the nature of the particular cognitive problem involved in any given instance of using logic."^[24]

According to Rand, attaining knowledge beyond what is given in perception requires both volition (or the exercise of free will) and adherence to a specific method of validation through observation, concept-formation, and the application of inductive reasoning and deductive reasoning. For example, belief in dragons, however sincere, does not mean reality contains any dragons. A process of proof identifying the basis in reality of a claimed item of knowledge is necessary to establish its truth.^[25]

According to Rand, consciousness possesses a specific and finite identity, just like everything else that exists; therefore, it must operate by a specific method of validation. An item of knowledge cannot be "disqualified" by being arrived at by a specific process in a particular form. Thus, for Rand, the fact that consciousness must itself possess identity implies the rejection of both universal skepticism based on the "limits" of consciousness and any claim to revelation, emotion or faith based belief.

Rand rejected "feeling" as sources of knowledge. Rand acknowledged the importance of emotion for human beings, but she maintained that emotions are a consequence of the conscious or subconscious ideas that a person already accepts, not a means of achieving awareness of reality. "Emotions are not tools of cognition."^[26] Rand also rejected all forms of faith or mysticism, terms that she used synonymously. She defined faith as "the acceptance of allegations without evidence or proof, either apart from or *against* the evidence of one's senses and reason... Mysticism is the claim to some non-sensory, non-rational, non-definable, non-identifiable means of knowledge, such as 'instinct,' 'intuition,' 'revelation,' or any form of 'just knowing.'"^[27] Reliance on revelation is like reliance on a Ouija board; it bypasses the need to show how it connects its results to reality. Faith, for Rand, is not a "short-cut" to knowledge, but a "short-circuit" destroying it.^[28]

The aspect of epistemology given the most elaboration by Rand is the theory of concept-formation, which she

presented in *Introduction to Objectivist Epistemology*. She argued that concepts are formed by a process of measurement omission. Peikoff described her view as follows:

To form a concept, one mentally *isolates* a group of concretes (of distinct perceptual units), on the basis of observed similarities which distinguish them from all other known concretes (similarity is 'the relationship between two or more existents which possess the same characteristic(s), but in different measure or degree'); then, by a process of omitting the particular measurements of these concretes, one *integrates* them into a single new mental unit: the concept, which subsumes all concretes of this kind (a potentially unlimited number). The integration is completed and retained by the selection of a perceptual symbol (a word) to designate it. 'A concept is a mental integration of two or more units possessing the same distinguishing characteristic(s), with their particular measurements omitted.'^[29]

According to Rand, "[T]he term 'measurements omitted' does not mean, in this context, that measurements are regarded as non-existent; it means that *measurements exist, but are not specified*. That measurements *must* exist is an essential part of the process. The principle is: the relevant measurements must exist in *some* quantity, but may exist in *any* quantity."^[30]

Rand argued that concepts are hierarchically organized. Concepts such as 'dog,' which bring together "concretes" available in perception, can be differentiated (into the concepts of 'dachshund,' 'poodle,' etc.) or integrated (along with 'cat,' etc., into the concept of 'animal'). Abstract concepts such as 'animal' can be further integrated, via "abstraction from abstractions", into such concepts as 'living thing.' Concepts are formed in the context of knowledge available. A young child differentiates dogs from cats and chickens, but need not explicitly differentiate them from deep-sea tube worms, or from other types of animals not yet known to him, to form a concept 'dog.'^[31]

Because of its view of concepts as "open-ended" classifications that go well beyond the characteristics included in their past or current definitions, Objectivist epistemology rejects the analytic-synthetic distinction as a false dichotomy^[32] and denies the possibility of *a priori* knowledge.^[33]

Objectivist acknowledges the facts that human beings have limited knowledge, are vulnerable to error, and do not instantly understand all of the implications of their knowledge.^[34] According to Peikoff, one can be certain of a proposition if all of the available evidence supports it, i.e., it can be logically integrated with the rest of one's knowledge; one is then certain within the context of the evidence.^[35] Objectivism therefore rejects naïve realism.

Rand rejected the traditional rationalist/empiricist dichotomy, arguing that it embodies a false alternative: conceptually-based knowledge independent of perception (rationalism) versus perceptually-based knowledge independent of concepts (empiricism). Rand argued that neither is possible because the senses provide the material of knowledge while conceptual processing is also needed to establish knowable propositions.

Criticisms

Some philosophers, such as Tibor Machan, have argued that the Objectivist epistemology is incomplete.^[36]

Psychology professor Robert L. Campbell says the relationship between Objectivist epistemology and cognitive science remains unclear because Rand made claims about human cognition and its development which belong to psychology, yet Rand also argued that philosophy is logically prior to psychology and in no way dependent on it.^{[37][38]}

Philosophers Randall Dipert and Roderick Long have argued that Objectivist epistemology conflates the perceptual process by which judgments are formed with the way in which they are to be justified, thereby leaving it unclear how judgments with propositional structure can be validated by sensory data.^{[39][40]}

Ethics: self-interest

Objectivism includes an extensive treatment of ethical concerns. Ayn Rand wrote on morality in her works *The Virtue of Selfishness* and *Atlas Shrugged*. Rand defines morality as "a code of values to guide man's choices and actions—the choices and actions that determine the purpose and the course of his life."^[41] Rand maintained that the first question isn't what should the code of values be, the first question is "Does man need values at all—and why?" According to Rand, "it is only the concept of 'Life' that makes the concept of 'Value' possible," and, "the fact that a living entity *is*, determines what it *ought to do*."^[42] Rand writes: "there is only one fundamental alternative in the universe: existence or non-existence—and it pertains to a single class of entities: to living organisms. The existence of inanimate matter is unconditional, the existence of life is not: it depends on a specific course of action... It is only a living organism that faces a constant alternative: the issue of life or death..." The survival of the organism is the ultimate value to which all of the organism's activities are aimed, the end served by all of its lesser values.

Rand argued that the primary focus of man's free will is in the choice: 'to think or not to think'. "Thinking is not an automatic function. In any hour and issue of his life, man is free to think or to evade that effort. Thinking requires a state of full, focused awareness. The act of focusing one's consciousness is volitional. Man can focus his mind to a full, active, purposefully directed awareness of reality—or he can unfocus it and let himself drift in a semiconscious daze, merely reacting to any chance stimulus of the immediate moment, at the mercy of his undirected sensory-perceptual mechanism and of any random, associational connections it might happen to make."^[43] According to Rand, therefore, possessing free will, human beings must choose their values: one does not *automatically* hold one's own life as his ultimate value. Whether in fact a person's actions promote and fulfill his own life or not is a question of fact, as it is with all other organisms, but whether a person will act to promote his well-being is up to him, not hard-wired into his physiology. "Man has the power to act as his own destroyer—and that is the way he has acted through most of his history."^[44]

Says Rand, "Man's mind is his basic tool of survival. Life is given to him, survival is not. His body is given to him, its sustenance is not. His mind is given to him, its content is not. To remain alive he must act and before he can act he must know the nature and purpose of his action. He cannot obtain his food without knowledge of food and of the way to obtain it. He cannot dig a ditch—or build a cyclotron—without a knowledge of his aim and the means to achieve it. To remain alive, he must think."^[45] In her novels, *The Fountainhead* and *Atlas Shrugged*, she also emphasizes the central importance of productive work, romantic love and art to human happiness, and dramatizes the ethical character of their pursuit. The primary virtue in Objectivist ethics is rationality, as Rand meant it "the recognition and acceptance of reason as one's only source of knowledge, one's only judge of values and one's only guide to action."^[46]

The purpose of a moral code, Rand held, is to provide the principles by reference to which man can achieve the values his survival requires.^[47] Rand summarizes:

If [man] chooses to live, a rational ethics will tell him what principles of action are required to implement his choice. If he does not choose to live, nature will take its course. Reality confronts a man with a great many 'must's', but all of them are conditional: the formula of realistic necessity is: 'you must, if –' and the if stands for man's choice: 'if you want to achieve a certain goal'.^[48]

Rand's explanation of values presents the view that an individual's primary moral obligation is to achieve his

own well-being—it is for his life and his self-interest that an individual ought to adhere to a moral code.^[49] Egoism is a corollary of setting man's life as the moral standard.^[50] Rand believed that egoism was the logical consequence of humans following evidence wherever it leads them. The only alternative would be that they live without orientation to reality.

A corollary to Rand's endorsement of self-interest is her rejection of the ethical doctrine of altruism—which she defined in the sense of Auguste Comte's altruism (he coined the term), as a moral obligation to live for the sake of others. Rand also rejected subjectivism. A "whim-worshiper" or "hedonist," according to Rand, is not motivated by a desire to live his own human life, but by a wish to live on a sub-human level. Instead of using "that which promotes my (human) life" as his standard of value, he mistakes "that which I (mindlessly happen to) value" for a standard of value, in contradiction of the fact that, existentially, he is a human and therefore rational organism. The "I value" in whim-worship or hedonism can be replaced with "we value," "he values," "they value," or "God values," and still it would remain dissociated from reality. Rand repudiated the equation of rational selfishness with hedonistic or whim-worshipping "selfishness-without-a-self." She held that the former is good, and the latter evil, and that there is a fundamental difference between them.^[51]

For Rand, all of the principal virtues are applications of the role of reason as man's basic tool of survival: rationality, honesty, justice, independence, integrity, productiveness, and pride—each of which she explains in some detail in "The Objectivist Ethics."^[52] The essence of Objectivist ethics is summarized by the oath her *Atlas Shrugged* character John Galt adhered to:

I swear—by my life and my love of it—that I will never live for the sake of another man, nor ask another man to live for mine.

Criticisms

Many philosophers have criticized Objectivist ethics. Philosopher Robert Nozick argues that Rand's foundational argument in ethics is unsound because she does not explain why someone could not rationally prefer dying and having no values. He argues that her attempt to defend the morality of selfishness is, therefore, an instance of begging the question. Nozick also argues that Rand's solution to David Hume's famous is-ought problem is unsatisfactory. In response, philosophers Douglas Rasmussen and Douglas Den Uyl have argued that Nozick misstated Rand's case.^{[53][54]} *i'm what*

Robert Hollinger Charles King criticized the Objectivist ethics in his essay "Life and the Theory of Value: The Randian Argument Reconsidered".^[55] King criticized Rand's example of an indestructible robot to demonstrate the value of life as incorrect and confusing. In response, Paul St. F. Blair defended Rand's ethical conclusions, while maintaining that his arguments might not have been approved by Rand.^[56]

Politics: individual rights and capitalism

Rand's defense of individual liberty integrates elements from her entire philosophy.^[57] Since reason is the means of human knowledge, it is therefore each person's most fundamental means of survival and is necessary to the achievement of values.^[58] The use or threat of force neutralizes the practical effect of an individual's reason, whether the force originates from the state or from a criminal. According to Rand, "man's mind will not function at the point of a gun."^[59] Therefore, the only type of organized human behavior consistent with the operation of reason is that of voluntary cooperation. Persuasion is the method of reason. By its nature, the overtly irrational cannot rely on the use of persuasion and must ultimately resort to force to prevail.^[60] Thus, Rand saw reason and freedom as correlates, just as she saw mysticism and force as corollaries.^[61] Based on this

understanding of the role of reason, Objectivists hold that the initiation of physical force against the will of another is immoral,^[62] as are indirect initiations of force through threats,^[63] fraud,^[64] or breach of contract.^[65] The use of defensive or retaliatory force, on the other hand, is appropriate.^[66]

Objectivism holds that because the opportunity to use reason without the initiation of force is necessary to achieve moral values, each individual has an inalienable moral right to act as his own judgment directs and to keep the product of his effort. Peikoff, explaining the basis of rights, stated, "In content, as the founding fathers recognized, there is one fundamental right, which has several major derivatives. The fundamental right is the right to life. Its major derivatives are the right to liberty, property, and the pursuit of happiness."^[67] "A 'right' is a moral principle defining and sanctioning a man's freedom of action in a social context."^[68] These rights are specifically understood to be rights to action, not to specific results or objects, and the obligations created by rights are negative in nature: each individual must refrain from violating the rights of others.^[69] Objectivists reject alternative notions of rights, such as positive rights,^[70] collective rights, or animal rights.^[71] Objectivism holds that the only social system which fully recognizes individual rights is capitalism,^[72] specifically what Rand described as "full, pure, uncontrolled, unregulated laissez-faire capitalism."^[73] Objectivism regards capitalism as the social system which is most beneficial to the poor, but that this isn't its primary justification.^[74] Rather, it is the only moral social system. Objectivism maintains that only societies seeking to establish freedom (or free nations) have a right to self-determination.^[75]

Objectivism views government as "the means of placing the retaliatory use of physical force under objective control—i.e., under objectively defined laws;" thus, government is both legitimate and critically important^[76] in order to protect individual rights.^[77] Rand opposed so-called "rational anarchism," because she saw putting police and courts on the market as an inherent miscarriage of justice. Objectivism holds that the proper functions of a government are "the police, to protect men from criminals—the armed services, to protect men from foreign invaders—the law courts, to settle disputes among men according to objectively defined laws," the executive, and legislatures.^[78] Furthermore, in protecting individual rights, the government is acting as an agent of its citizens and "has no rights except the rights delegated to it by the citizens"^[79] and it must act in an impartial manner according to specific, objectively defined laws.^[80] Prominent Objectivists Leonard Peikoff and Yaron Brook have since expressed support for other government functions.^{[81][82]}

Rand argued that limited intellectual property monopolies being granted to certain inventors and artists on a first-to-file basis as moral because she viewed all property as fundamentally intellectual. Furthermore, the value of a commercial product comes in part from the necessary work of its inventors. However, Rand viewed limits on patents and copyrights as important and held that if they were granted in perpetuity, it would necessarily lead to de facto collectivism.

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Rand opposed racism and any legal application of racism. She considered affirmative action to be an example of legal racism.^[83] Rand advocated the right to legal abortion.^[84] Rand believed capital punishment is morally justified as retribution against a murderer, but dangerous due to the risk of mistakenly executing innocent people. She therefore said she opposed capital punishment "on epistemological, not moral, grounds."^[85] She opposed involuntary military conscription, but also thought those who avoided being drafted should be held criminally liable.^[86] She opposed any form of censorship, including legal restrictions on pornography.^[87] Objectivists have also opposed a number of government activities commonly supported by both liberals and conservatives, including antitrust laws,^[88] the minimum wage, public education,^[89] and existing child labor laws.^[90] Objectivists have argued against faith-based initiatives,^[91] displaying religious symbols in government facilities,^[92] and the teaching of "intelligent design" in public schools.^[93] Maintaining that it should be phased out gradually, Rand opposed taxation as she considered it theft and an endorsement of force over reason.^{[94][95]}

What recommend instead? how fund police?

Criticisms

Some critics, such as philosophers Roy Childs, Norman P. Barry, and Chandran Kukathas, have argued that Objectivist ethics are consistent with anarcho-capitalism instead of minarchism.^{[96][97][98][99]}

Aesthetics: metaphysical value-judgments

See also: Romantic realism

The Objectivist theory of art flows from its epistemology, by way of "psycho-epistemology" (Rand's term for an individual's characteristic mode of functioning in acquiring knowledge). Art, according to Objectivism, serves a human cognitive need: it allows human beings to grasp concepts as though they were percepts. Objectivism defines "art" as a "selective re-creation of reality according to an artist's metaphysical value-judgments"—that is, according to what the artist believes to be ultimately true and important about the nature of reality and humanity. In this respect Objectivism regards art as a way of presenting abstractions concretely, in perceptual form.^[100]

The human need for art, on this view, stems from the need for cognitive economy. A concept is already a sort of mental shorthand standing for a large number of concretes, allowing a human being to think indirectly or implicitly of many more such concretes than can be held explicitly in mind. But a human being cannot hold indefinitely many concepts explicitly in mind either—and yet, on the Objectivist view, needs a comprehensive conceptual framework to provide guidance in life. Art offers a way out of this dilemma by providing a perceptual, easily grasped means of communicating and thinking about a wide range of abstractions, including one's metaphysical value-judgments. Objectivism regards art as an effective way to communicate a moral or ethical ideal.^[101] Objectivism does not, however, regard art as propagandistic: even though art involves moral values and ideals, its purpose is not to educate, only to show or project. Moreover, art need not be, and usually is not, the outcome of a full-blown, explicit philosophy. Usually it stems from an artist's *sense of life* (which is preconceptual and largely emotional).^[102]

Rand held that Romanticism was the highest school of literary art, noting that Romanticism was "based on the recognition of the principle that man possesses the faculty of volition," absent which, Rand believed, literature is robbed of dramatic power, adding:

What the Romanticists brought to art was the primacy of values... Values are the source of emotions: a great deal of emotional intensity was projected in the work of the Romanticists and in the reactions of their audiences, as well as a great deal of color, imagination, originality, excitement, and all the other consequences of a value-oriented view of life.^[103]

The term "romanticism," however, is often affiliated with emotionalism, to which Objectivism is completely opposed. Historically, many romantic artists were philosophically subjectivist. Most Objectivists who are also artists subscribe to what they call romantic realism, which is how Rand labeled her own work.^[104]

Post-Rand development

See also: Objectivist movement

Since Rand's death, others have developed and applied her ideas in their own work. In 1991, prominent Objectivist Leonard Peikoff published *Objectivism: The Philosophy of Ayn Rand*, a comprehensive exposition of Rand's philosophy. Chris Matthew Sciabarra discusses Rand's ideas and theorizes about their intellectual origins

in *Ayn Rand: The Russian Radical* (1995). Surveys such as *On Ayn Rand* by Allan Gotthelf (1999), *Ayn Rand* by Tibor R. Machan (2000), and *Objectivism in One Lesson* by Andrew Bernstein (2009) provide briefer introductions to Rand's ideas.

Some scholars have focused on applying Objectivism in more specific areas. Machan has developed Rand's contextual conception of human knowledge (while also drawing on the insights of J. L. Austin and Gilbert Harman) in works such as *Objectivity* (2004), and David Kelley has explicated Rand's epistemological ideas in works such as *The Evidence of the Senses* (1986) and *A Theory of Abstraction* (2001). In the field of ethics, Kelley has argued in works such as *Unrugged Individualism* (1996) and *The Contested Legacy of Ayn Rand* (2000) that Objectivists should pay more attention to the virtue of benevolence and place less emphasis on issues of moral sanction. Kelley's views have been controversial, with critics arguing that he contradicts important principles of Objectivism.^[105]

An author who focuses on Rand's ethics, Tara Smith, stays closer to Rand's original ideas in such works as *Moral Rights and Political Freedom* (1995), *Viable Values* (2000), and *Ayn Rand's Normative Ethics* (2006).^[106] In collaboration with Peikoff, David Harriman has developed a theory of scientific induction based upon Rand's theory of concepts in *The Logical Leap: Induction in Physics* (2010).^[107]

The political aspects of Rand's philosophy are discussed by Bernstein in *The Capitalist Manifesto* (2005). *Capitalism: A Treatise on Economics* by George Reisman (1996) attempts to integrate Objectivist methodology and insights with both Classical and Austrian economics. In psychology, Professor Edwin A. Locke and Ellen Kenner have explored Rand's ideas in *The Selfish Path to Romance: How to Love with Passion & Reason*.^[108] Other writers have explored the application of Objectivism to fields ranging from art, as in *What Art Is* by Louis Torres and Michelle Marder Kamhi (2000), to teleology, as in *The Biological Basis of Teleological Concepts* by Harry Binswanger (1990).

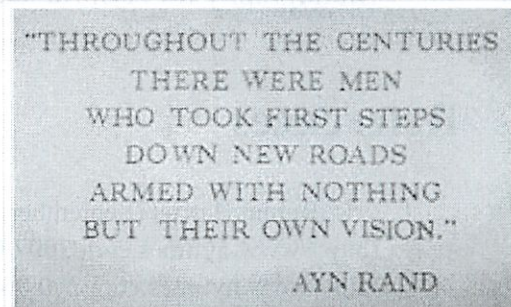
Intellectual impact

Academic philosophers have generally dismissed Objectivism since Rand first presented it.^{[109][110][111][112][113]} Objectivism has been called "fiercely anti-academic" because of Rand's criticism of contemporary intellectuals.^[114]

David Sidorsky, a professor of moral and political philosophy at Columbia University, says Rand's work is "outside the mainstream" and is more of an ideological movement than a well-grounded philosophy.^[115] Rand is not found in the comprehensive academic reference texts *The Oxford Companion to Philosophy* or *The Cambridge Dictionary of Philosophy*, but is the subject of entries in the *Stanford Encyclopedia of Philosophy*,^[116] *The Dictionary of Modern American Philosophers*,^[117] the *Internet Encyclopedia of Philosophy*,^[118] and *The Routledge Dictionary of Twentieth-Century Political Thinkers*.^[119] A listing of Rand also appears in the *Routledge Encyclopedia of Philosophy*, featuring the assessment "The influence of Rand's ideas was strongest among college students in the USA but attracted little attention from academic philosophers. Her outspoken defense of capitalism in works like *Capitalism: The Unknown Ideal* (1967), and her characterization of her position as a defence of the 'virtue of selfishness' in her essay collection of the same title published in 1964, also brought notoriety, but kept her out of the intellectual mainstream."^[98]

I agree w/ some of this
but some of it is just way too complicated :-

what??



Quote from Ayn Rand at the Epcot Center, Walt Disney World

I don't like Philosophy - makes head hurt

not worth thinking about some of this stuff

In recent decades Rand's works are more likely to be encountered in the classroom.^[114] The Ayn Rand Society, dedicated to fostering the scholarly study of Objectivism, is affiliated with the American Philosophical Association's Eastern Division.^[120] Aristotle scholar and Objectivist Allan Gotthelf, chairman of the Society, and his colleagues have argued for more academic study of Objectivism, viewing the philosophy as a unique and intellectually interesting defense of classical liberalism that is worth debating.^[121] Since 1999 a refereed *Journal of Ayn Rand Studies* began.^[122] In 2006 the University of Pittsburgh held a conference focusing on Objectivism.^[123] In addition, there is a growing list of Objectivist philosophers, including Tara Smith and James G. Lennox, who hold tenured positions at leading American philosophy departments.^[124] Programs and fellowships for the study of Objectivism have been supported at the University of Pittsburgh, University of Texas at Austin and University of North Carolina at Chapel Hill.^[125]

According to one Rand biographer, most people first read Rand's works in their "formative years."^[126] Rand's former protégé Nathaniel Branden referred to Rand's "especially powerful appeal to the young,"^[127] while Onkar Ghate of the Ayn Rand Institute said Rand "appeals to the idealism of youth."^[128] This appeal has alarmed a number of critics of the philosophy.^[129] Many of these young people later abandon their positive view of Rand and are often said to have "outgrown" her ideas.^[130] Supporters of Rand's work recognize the phenomenon, but attribute it to the loss of youthful idealism and inability to resist social pressures for intellectual conformity.^{[128][130]} In contrast, Jennifer Burns says some critics "dismiss Rand as a shallow thinker appealing only to adolescents," although Burns thinks the critics "miss her significance" as a "gateway drug" to right-wing politics.^[131]

See also

perhaps

yes - very much

- Objectivist movement
- Objectivist periodicals
- Bibliography for Ayn Rand and Objectivism
- Libertarianism and Objectivism
- Objectivism and homosexuality
- Objectivism's rejection of the primitive

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2. [^] "About the Author" in Rand 1992, pp. 1170–1171
3. [^] Rand 1967, p. 23
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5. [^] Peikoff 1991, pp. 4–11
6. [^] Rand 1992, p. 1040.
7. [^] Peikoff 1991, p. 11
8. [^] Rand 1992, p. 1016.
9. [^] Peikoff 1991, pp. 31–33
10. [^] Peikoff 1991, p. 5
11. [^] Gotthelf 2000
12. [^] Rand 1990
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14,72 L2
~~14,72~~

(17 min late)

3 paradigms - term used a lot, from Kuhn

liberal

neo-liberal

Sociological / anthropological



(?did I read the wrong thing?)

Paradigm - many diff defs
(missed)

Concepts or thought patterns

How do you learn a lang?

how do you learn it

Memorize to ability to speak

Can improvise beyond what you explicitly learn
or you somehow build upon it

②

You must practice it to really be able to do

I get some trial + error

What is still ~~the~~ way science works?

Theory
experiment
repeat

↓ Continuous

Kuhn: more to defining aims + lexicons

can have diff perspectives

~~class~~ greek vs atomic
Kip² things

Fundamentally diff axioms

advances both within paradigms and new
paradigms

Discontinuous

③

Student: What's to say ^{what's} 'The traditional view',
~~what's~~

Prof Tension b/w 2 things

Sci discipline as a community

- hierarchy
- prestige
- std. good + bad work
- set of rules/understanding of est practices
- following them leads to career (not Rorak!)

Sometimes people step forward + establish
new rules

9

Why does a new paradigm ever take off
- if people ^{always} follow the rules

- ? do people get expelled + find new ones

How predisposed are people ~~to~~ to new ideas

(? use this for my MIT x talk?)

Where do anomalies come from?
out of nature

(I don't like that example)
↳ Comes from creativity

Creativity vs Conservatism

↑ Prof calls this Nature

What is nature? • Khun's Obs of world around ya

- sep from ya

- trying to explain/deal w/

- reality

5

Is there this reality out there?

Can you not form plans of action?

daemon - you just live

Can't change anything

(Rand's Objectivism)

Is natural world trying to defraud you?
Or are things deterministic

^{Some} theories say no

natural order - is what you observe
deterministic

(like Bio -- don't know the base layers)

(6)

Prof
2
diff
things

Can you change things?
Natural world

Descartes

When you see a chair → same thing?
+I

External world

↳ he face + see
same thing as
Loche

Or born w/ understanding of world
that's how we observe world

are the minds all more or less the same

Plato

Chomsky — from language
certain properties wired into brain

7

Intermediate world

Various Combs

But what about the social world?

We all think classes start 8:05

That's not natural way

Invented

But is reality

Howard 1:07 - 1:00

Arbitrary is sense of nature

but functions as though nature

Wahn: If reality is purely social

Then social will determine world

No force of nature will start classes at 1:15 after

②

We're taking these scientific ideas and
put into social ^{sci} world

↓ from Kuhn

↳ no natural reality

So what happens in that alt use?

Ted: New idea can change system itself?

- ie economic idea

Could ~~that~~ change how econ operates

- policy leaders read econ theory

Can great man change the world?

Big apparatus linked to old world?

Prof: Are people happy w/ capitalism?

Theory of experimentation → that the experiment
gives up your view of nature

Can't see pure nature

9

Kuhn: No 2 paradigms can sit side by side forever

One is better at explaining natural world

Prof: but social sci is changed by people's actions

Kuhn: There is a reality out there, will always win

Prof: Different paradigms * ← comes from experience

Kuhn → Platonic or Locke? Eventually an organized understanding of world

Comes out of larger ideas of human beings

Animals - have some structure mediated b/w them or env either nature or nurture
* born * interacted w/ nature

* Humans have less prewired
So can adapt to diff. types of env

10

Marx →

Generational shift

no old generation must die at
kinda like Kuhn - not as abstract

So using Kuhn to look at diff ways
to ~~run~~ org ~~for~~ a country / economy
reapplying principles

But paradigms have a lot of hold in how
people understand the world

1st paradigm: Ann Rylands' Objectivism
- not generally called as a paradigm

Then standard economics paradigm

11

Prof: This class is about what's wrong w/

Anne Royand

- lacks coherence + elegance

Went to put std Economics up lot

So when read The Fountainhead - think about what she is saying

①

14.72

9/12

The Fountainhead Video

Rock - he wants modernism

don't want to learn at all

he's

Kesner - was famous 20 yrs ago

Yels at Rock

i drink now

4 very moderate

Banner better

lies?

yelling at ~~modern~~ old skyscrapers

form follows function

wants paper brick

②

Rorak bankrupt

Won ~~the~~ commission

but ~~wants~~ too different

Softer design

~~It~~ has no cash

Peter keeping instead

Ash Dominique Francon - girl

~~the~~ Wynen - very polished

Commission for building

all men can be bought

Submit or rule

~~no~~ power

~~to~~ the Banner

③

Dominique - doesn't love

freedom

want nothing

at granite way

Campaign against building

Just stir up noise

don't care

Enlight spoiled him

Do you consider Public policy?

No genius problem

Dominique + Rorak net

Love didn't know he was architect

In Love

④

Dominique; other people hate you as a result

Can't hire controversial arguments

↳ Dominique marries someone

Few buildings

Gas station

Stores

Small buildings

↳ Survived swear campaign

* Women → the Banner

Can't share with

Fortress / temple

Rock won against him

woman No one has integrity

Challenge him

5

Women you have to build according to public

Wants housing camp

Given

No changes

Keeping-shell for Rorak

Others' mans imposing on them

She leaves Gail

Self-sacrifice

Suprem-egist - most dickray

Papers support Rorak
- do what's right?

- Can Berner save him?

(6)

Banner going down in flames

Wyman going to the end

the gas in

Does man have any right to exist if he refuses society.

Speech on Creator

Man is just a fool of other's

Every achievement from 1 person

Actually this is easier for P.P

Individual vs Collectivism

TUS based upon

(Public housing is very collectivism)

(But has clients

and public approving / zoning)

①

Man's right to exist for own sake

Not guilty

Wynne building

- but don't see ya again (')

Who kills himself?

These skyscrapers

When we learned - never learned sep books

Keynesian economics

From Wikipedia, the free encyclopedia

Read 9/17 opt

Keynesian economics (/ˈkeɪnziən/ *KAYN-zee-ən*; also called **Keynesianism** and **Keynesian theory**) are the group of macroeconomic schools of thought based on the ideas of 20th-century economist John Maynard Keynes. Keynesian economists believe that aggregate demand (total spending capacity in the economy) does not necessarily equal aggregate supply (the total productive capacity of the economy). Instead it is influenced by a host of factors and sometimes behaves erratically, affecting production, employment and inflation.^[1]

↑ wait - why?

Advocates of Keynesian economics argue that private sector decisions sometimes lead to inefficient macroeconomic outcomes which require active policy responses by the public sector, particularly monetary policy actions by the central bank and fiscal policy actions by the government to stabilize output over the business cycle.^[2] The theories forming the basis of Keynesian economics were first presented by Keynes in his book, *The General Theory of Employment, Interest and Money*, published in 1936. The interpretations of Keynes are contentious and several schools of thought claim his legacy.

Keynesian economics advocates a mixed economy — predominantly private sector, but with a significant role of government and public sector — and served as the economic model during the later part of the Great Depression, World War II, and the post-war economic expansion (1945–1973), though it lost some influence following the tax surcharge in 1968 and the stagflation of the 1970s.^[3] The advent of the global financial crisis in 2008 has caused a resurgence in Keynesian thought.^[4]

active public sector

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What was before?

ah

Theory

Overview

Prior to the publication of Keynes' General Theory, mainstream economic thought was that the economy existed in a state of general equilibrium, meaning that the economy naturally consumes whatever it produces because the needs of consumers are always greater than the capacity of the economy to satisfy those needs. This perception is reflected in Say's Law^[5] and in the writing of David Ricardo^[6], which is that individuals produce so that they can either consume what they have manufactured or sell their output so that they can buy someone else's output. This perception rests upon the assumption that if a surplus of goods or services exists, they would naturally fall in price to the point where they would be consumed.

makes more sense now

Keynes' theory was significant because it overturned the mainstream thought of the time and brought about a greater awareness that problems such as unemployment is not a product of laziness, but the result of a structural inadequacy in the economic system. He argued that because there was no guarantee that the goods that individuals produce would be met with demand, unemployment was a natural consequence. He saw the economy as unable to maintain itself in equilibrium and believed that it was necessary for the government to step in and put under-utilised savings to work through government spending. Thus, according to Keynesian theory, some individually-rational microeconomic-level actions such as not investing savings in the goods and services produced by the economy, if taken collectively by a large proportion of individuals and firms, can lead to outcomes, wherein the economy operates below its potential output and growth rate.

wait why? people save and lower their consumption

Prior to Keynes, a situation in which aggregate demand for goods and services did not meet supply was referred to by classical economists as a general glut, although there was disagreement among them as to whether a general glut was possible. Keynes argued that when a glut occurred, it was the over-reaction of producers and the laying off of workers that led to a fall in demand and perpetuating the problem. Keynesians therefore advocate an active stabilization policy to reduce the amplitude of the business cycle, which they rank among the most serious of economic problems. According to the theory, government spending can be used to increase aggregate demand, thus increasing economic activity, reducing unemployment and deflation.

these people fired

Keynes argued that the solution to the Great Depression was to stimulate the economy ("inducement to invest") through some combination of two approaches:

1. A reduction in interest rates (monetary policy), and
2. Government investment in infrastructure (fiscal policy).

I can't draw the charts anymore

By reducing the rate at which the central bank lends money to commercial banks, the government sends a signal to commercial banks that they should do the same for their customers. In reality, government loans to

commercial banks make up a tiny proportion of the overall funding of commercial banks, and as a consequence, it can be ineffective at times when the degree of economic contraction is significant.

Investment by government in infrastructure injects income into the economy by creating business opportunity, employment and demand and reversing the effects of the aforementioned imbalance^[7]. Governments source the funding for this expenditure by borrowing funds from the economy through the issue of government bonds, and because government spending exceeds the amount of tax income that the government receives, this creates a fiscal deficit.

how has this changed w/ specific skills

A central conclusion of Keynesian economics is that, in some situations, no strong automatic mechanism moves output and employment towards full employment levels. This conclusion conflicts with economic approaches that assume a strong general tendency towards equilibrium. In the 'neoclassical synthesis', which combines Keynesian macro concepts with a micro foundation, the conditions of general equilibrium allow for price adjustment to eventually achieve this goal. More broadly, Keynes saw his theory as a general theory, in which utilization of resources could be high or low, whereas previous economics focused on the particular case of full utilization.

The new classical macroeconomics movement, which began in the late 1960s and early 1970s, criticized Keynesian theories, while New Keynesian economics has sought to base Keynes's ideas on more rigorous theoretical foundations.

Some interpretations of Keynes have emphasized his stress on the international coordination of Keynesian policies, the need for international economic institutions, and the ways in which economic forces could lead to war or could promote peace.^[8]

Concepts

Wages and spending

During the Great Depression, the classical theory defined economic collapse as simply a lost incentive to produce, and the mass unemployment as a result of high and rigid real wages.^[citation needed]

To Keynes, the determination of wages is more complicated. First, he argued that it is not real but nominal wages that are set in negotiations between employers and workers, as opposed to a barter relationship. Second, nominal wage cuts would be difficult to put into effect because of laws and wage contracts. Even classical economists admitted that these exist; unlike Keynes, they advocated abolishing minimum wages, unions, and long-term contracts, increasing labour-market flexibility. However, to Keynes, people will resist nominal wage reductions, even without unions, until they see other wages falling and a general fall of prices.

Keynes rejected the idea that cutting wages would cure recessions. He examined the explanations for this idea and found them all faulty. He also considered the most likely consequences of cutting wages in recessions, under various different circumstances. He concluded that such wage cutting would be more likely to make recessions worse rather than better.^[9]

So decrease

Only mathematical or perceptions

Further, if wages and prices were falling, people would start to expect them to fall. This could make the economy spiral downward as those who had money would simply wait as falling prices made it more valuable—rather than spending. As Irving Fisher argued in 1933, in his *Debt-Deflation Theory of Great Depressions*, deflation (falling prices) can make a depression deeper as falling prices and wages made

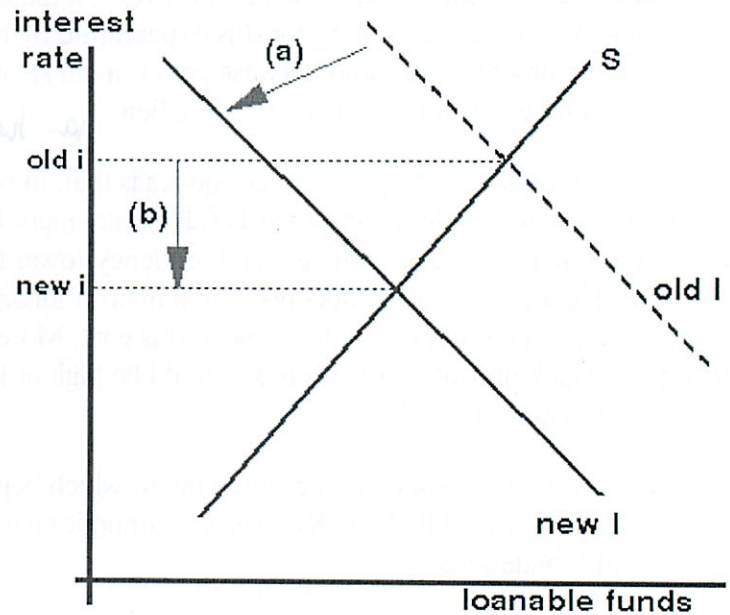
that too

pre-existing nominal debts more valuable in real terms.

Excessive saving

To Keynes, excessive saving, i.e. saving beyond planned investment, was a serious problem, encouraging recession or even depression. Excessive saving results if investment falls, perhaps due to falling consumer demand, over-investment in earlier years, or pessimistic business expectations, and if saving does not immediately fall in step, the economy would decline.

The classical economists argued that interest rates would fall due to the excess supply of "loanable funds". The first diagram, adapted from the only graph in *The General Theory*, shows this process. (For simplicity, other sources of the demand for or supply of funds are ignored here.) Assume that fixed investment in capital goods falls from "**old I**" to "**new I**" (step a). Second (step b), the resulting excess of saving causes interest-rate cuts, abolishing the excess supply: so again we have saving (S) equal to investment. The interest-rate (**i**) fall prevents that of production and employment.



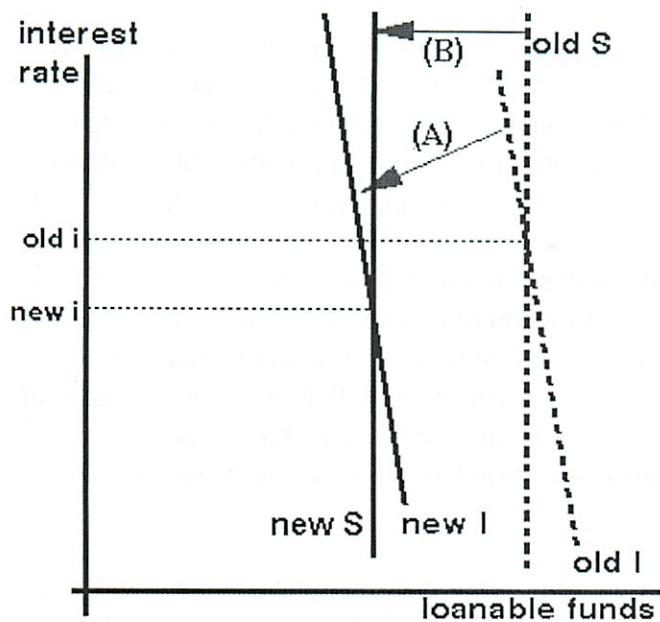
Keynes had a complex argument against this *laissez-faire* response. The graph below summarizes his argument, assuming again that fixed investment falls (step A). *First*, saving does not fall much as interest rates fall, since the income and substitution effects of falling rates go in conflicting directions. *Second*, since planned fixed investment in plant and equipment is based mostly on long-term expectations of future profitability, that spending does not rise much as interest rates fall. So **S** and **I** are drawn as steep (inelastic) in the graph. Given the inelasticity of both demand and supply, a *large* interest-rate fall is needed to close the saving/investment gap. As drawn, this requires a *negative* interest rate at equilibrium (where the **new I** line would intersect the **old S** line). However, this negative interest rate is not necessary to Keynes's argument.

Third, Keynes argued that saving and investment are not the main determinants of interest rates, especially in the short run. Instead, the supply of and the demand for the stock of *money* determine interest rates in the short run. (This is not drawn in the graph.) Neither changes quickly in response to excessive saving to allow fast interest-rate adjustment.

Finally, Keynes suggested that, because of fear of capital losses on assets besides money, there may be a "liquidity trap" setting a floor under which interest rates cannot fall. While in this trap, interest rates are so low that any increase in money supply will cause bond-holders (fearing rises in interest rates and hence capital losses on their bonds) to sell their bonds to attain money (liquidity). In the diagram, the equilibrium suggested by the **new I** line and the **old S** line cannot be reached, so that excess saving persists. Some (such as Paul Krugman) see this latter kind of liquidity trap as prevailing in Japan in the 1990s. Most economists agree that nominal interest rates cannot fall below zero. However, some economists (particularly those from the Chicago school) reject the existence of a liquidity trap.

Even if the liquidity trap does not exist, there is a *fourth* (perhaps most important) element to Keynes's

low i, fear of higher i, causes sales of bond, i falls more



critique. Saving involves not spending all of one's income. Thus, it means insufficient demand for business output, unless it is balanced by other sources of demand, such as fixed investment. Therefore, *excessive saving* corresponds to an unwanted accumulation of inventories, or what classical economists called a general glut.^[10] This pile-up of unsold goods and materials encourages businesses to decrease both production and employment. This in turn lowers people's incomes—and saving, causing a leftward shift in the S line in the diagram (step B). For Keynes, the fall in income did most of the job by ending excessive saving and allowing the loanable funds market to attain equilibrium. Instead of interest-rate adjustment solving the problem, a recession does so. Thus in the diagram, the interest-rate change is small.

Whereas the classical economists assumed that the level of output and income was constant and given at any one time (except for short-lived deviations), Keynes saw this as the key variable that adjusted to equate saving and investment.

Finally, a recession undermines the business incentive to engage in fixed investment. With falling incomes and demand for products, the desired demand for factories and equipment (not to mention housing) will fall. This accelerator effect would shift the I line to the left again, a change not shown in the diagram above. This recreates the problem of excessive saving and encourages the recession to continue.

In sum, to Keynes there is interaction between excess supplies in different markets, as unemployment in labour markets encourages excessive saving—and *vice-versa*. Rather than prices adjusting to attain equilibrium, the main story is one of quantity adjustment allowing recessions and possible attainment of underemployment equilibrium.

Active fiscal policy

As noted, the classicals wanted to balance the government budget. To Keynes, this would exacerbate the underlying problem: following either the expansionary policy or the contractionary policy would *raise saving* (broadly defined) and thus lower the demand for both products and labour. For example, Keynesians would advise tax cuts instead.^[11]

Keynes' ideas influenced Franklin D. Roosevelt's view that insufficient buying-power caused the Depression. During his presidency, Roosevelt adopted some aspects of Keynesian economics, especially after 1937, when, in the depths of the Depression, the United States suffered from recession yet again following fiscal contraction. But to many the true success of Keynesian policy can be seen at the onset of World War II, which provided a kick to the world economy, removed uncertainty, and forced the rebuilding of destroyed capital. Keynesian ideas became almost official in social-democratic Europe after the war and in the U.S. in the 1960s.

Keynes developed a theory which suggested that active government policy could be effective in managing the economy. Rather than seeing unbalanced government budgets as wrong, Keynes advocated what has

been called countercyclical fiscal policies, that is, policies that acted against the tide of the business cycle: deficit spending when a nation's economy suffers from recession or when recovery is long-delayed and unemployment is persistently high—and the suppression of inflation in boom times by either increasing taxes or cutting back on government outlays. He argued that governments should solve problems in the short run rather than waiting for market forces to do it in the long run, because, "in the long run, we are all dead."^[12]

This contrasted with the classical and neoclassical economic analysis of fiscal policy. Fiscal stimulus (deficit spending) could actuate production. But, to these schools, there was no reason to believe that this stimulation would outrun the side-effects that "crowd out" private investment: first, it would increase the demand for labour and raise wages, hurting profitability; Second, a government deficit increases the stock of government bonds, reducing their market price and encouraging high interest rates, making it more expensive for business to finance fixed investment. Thus, efforts to stimulate the economy would be self-defeating.

The Keynesian response is that such fiscal policy is appropriate only when unemployment is persistently high, above the non-accelerating inflation rate of unemployment (NAIRU). In that case, crowding out is minimal. Further, private investment can be "crowded in": Fiscal stimulus raises the market for business output, raising cash flow and profitability, spurring business optimism. To Keynes, this accelerator effect meant that government and business could be *complements* rather than substitutes in this situation. Second, as the stimulus occurs, gross domestic product rises, raising the amount of saving, helping to finance the increase in fixed investment. Finally, government outlays need not always be wasteful: government investment in public goods that will not be provided by profit-seekers will encourage the private sector's growth. That is, government spending on such things as basic research, public health, education, and infrastructure could help the long-term growth of potential output.

In Keynes's theory, there must be significant slack in the labour market before fiscal expansion is justified. Both conservative and some neoliberal economists question this assumption, unless labour unions or the government "meddle" in the free market, creating persistent supply-side or classical unemployment. Their solution is to increase labour-market flexibility, e.g., by cutting wages, busting unions, and deregulating business.

Contrary to some critical characterizations of it, Keynesianism does not consist solely of deficit spending. Keynesianism recommends counter-cyclical policies.^[13] An example of a counter-cyclical policy is raising taxes to cool the economy and to prevent inflation when there is abundant demand-side growth, and engaging in deficit spending on labour-intensive infrastructure projects to stimulate employment and stabilize wages during economic downturns. Classical economics, on the other hand, argues that one should *cut* taxes when there are budget surpluses, and cut spending—or, less likely, increase taxes—during economic downturns. Keynesian economists believe that adding to profits and incomes during boom cycles through tax cuts, and removing income and profits from the economy through cuts in spending and/or increased taxes during downturns, tends to exacerbate the negative effects of the business cycle. This effect is especially pronounced when the government controls a large fraction of the economy, and is therefore one reason fiscal conservatives advocate a much smaller government.

"Multiplier effect" and interest rates

Main article: Spending multiplier

Two aspects of Keynes's model has implications for policy:

First, there is the "Keynesian multiplier", first developed by Richard F. Kahn in 1931. Exogenous increases in spending, such as an increase in government outlays, increases total spending by a multiple of that increase. A government could stimulate a great deal of new production with a modest outlay if:

1. The people who receive this money then spend most on consumption goods and save the rest.
2. This extra spending allows businesses to hire more people and pay them, which in turn allows a further increase in consumer spending.

This process continues. At each step, the increase in spending is smaller than in the previous step, so that the multiplier process tapers off and allows the attainment of an equilibrium. This story is modified and moderated if we move beyond a "closed economy" and bring in the role of taxation: The rise in imports and tax payments at each step reduces the amount of induced consumer spending and the size of the multiplier effect.

Second, Keynes re-analyzed the effect of the interest rate on investment. In the classical model, the supply of funds (saving) determines the amount of fixed business investment. That is, under the classical model, since all savings are placed in banks, and all business investors in need of borrowed funds go to banks, the amount of savings determines the amount that is available to invest. Under Keynes's model, the amount of investment is determined independently by long-term profit expectations and, to a lesser extent, the interest rate. The latter opens the possibility of regulating the economy through money supply changes, via monetary policy. Under conditions such as the Great Depression, Keynes argued that this approach would be relatively ineffective compared to fiscal policy. But, during more "normal" times, monetary expansion can stimulate the economy.^[*citation needed*]

IS/LM model

The IS/LM model is nearly as influential as Keynes's original analysis in determining actual policy and economics education. It relates aggregate demand and employment to three exogenous quantities, i.e., the amount of money in circulation, the government budget, and the state of business expectations. This model was very popular with economists after World War II because it could be understood in terms of general equilibrium theory. This encouraged a much more static vision of macroeconomics than that described above.^[*citation needed*]

Phillips curve

The second main part of a Keynesian policy-maker's theoretical apparatus was the Phillips curve. This curve, which was more of an empirical observation than a theory, indicated that increased employment, and decreased unemployment, implied increased inflation. Keynes had only predicted that falling unemployment would cause a higher price, not a higher inflation rate. Thus, the economist could use the IS-LM model to predict, for example, that an increase in the money supply would raise output and employment—and then use the Phillips curve to predict an increase in inflation.^[*citation needed*]

History

Precursors

Keynes's work was part of a long-running debate within economics over the existence and nature of general

gluts. While a number of the policies Keynes advocated (the notable one being government deficit spending at times of low private investment or consumption) and the theoretical ideas he proposed (effective demand, the multiplier, the paradox of thrift) were advanced by various authors in the 19th and early 20th centuries, Keynes's unique contribution was to provide a *general theory* of these, which proved acceptable to the political and economic establishments.

Schools

See also: Underconsumption, Birmingham School (economics), and Stockholm school (economics)

An intellectual precursor of Keynesian economics was underconsumption theory in classical economics, dating from such 19th-century economists as Thomas Malthus, the Birmingham School of Thomas Attwood,^[14] and the American economists William Trufant Foster and Waddill Catchings, who were influential in the 1920s and 1930s. Underconsumptionists were, like Keynes after them, concerned with failure of aggregate demand to attain potential output, calling this "underconsumption" (focusing on the demand side), rather than "overproduction" (which would focus on the supply side), and advocating economic interventionism. Keynes specifically discussed underconsumption (which he wrote "underconsumption") in the *General Theory*, in Chapter 22, Section IV (<http://www.marxists.org/reference/subject/economics/keynes/general-theory/ch22.htm#iv>) and Chapter 23, Section VII (<http://www.marxists.org/reference/subject/economics/keynes/general-theory/ch23.htm#vii>) .

Numerous concepts were developed earlier and independently of Keynes by the Stockholm school during the 1930s; these accomplishments were described in a 1937 article, published in response to the 1936 *General Theory*, sharing the Swedish discoveries.^[15]

Concepts

The multiplier dates to work in the 1890s by the Australian economist Alfred De Lissa, the Danish economist Julius Wulff, and the German American economist Nicholas Johannsen,^[16] the latter being cited in a footnote of Keynes.^[17] Nicholas Johannsen also proposed a theory of effective demand in the 1890s.

The paradox of thrift was stated in 1892 by John M. Robertson in his *The Fallacy of Savings*, in earlier forms by mercantilist economists since the 16th century, and similar sentiments date to antiquity.^{[18][19]}

Today these ideas, regardless of provenance, are referred to in academia under the rubric of "Keynesian economics", due to Keynes's role in consolidating, elaborating, and popularizing them.

Keynes and the classics

Keynes sought to distinguish his theories from and oppose them to "classical economics," by which he meant the economic theories of David Ricardo and his followers, including John Stuart Mill, Alfred Marshall, Francis Ysidro Edgeworth, and Arthur Cecil Pigou. A central tenet of the classical view, known as Say's law, states that "supply creates its own demand." Say's Law can be interpreted in two ways. First, the claim that the total value of output is equal to the sum of income earned in production is a result of a national income accounting identity, and is therefore indisputable. A second and stronger claim, however, that the "costs of output are always covered in the aggregate by the sale-proceeds resulting from demand" depends on how consumption and saving are linked to production and investment. In particular, Keynes argued that the second, strong form of Say's Law only holds if increases in individual savings exactly match an increase in

aggregate investment.^[20]

Keynes sought to develop a theory that would explain determinants of saving, consumption, investment and production. In that theory, the interaction of aggregate demand and aggregate supply determines the level of output and employment in the economy.

Because of what he considered the failure of the "Classical Theory" in the 1930s, Keynes firmly objects to its main theory—adjustments in prices would automatically make demand tend to the full employment level.

Neo-classical theory supports that the two main costs that shift demand and supply are labour and money. Through the distribution of the monetary policy, demand and supply can be adjusted. If there were more labour than demand for it, wages would fall until hiring began again. If there were too much saving, and not enough consumption, then interest rates would fall until people either cut their savings rate or started borrowing.

Postwar Keynesianism

Main articles: Neo-Keynesian economics, New Keynesian economics, and Post-Keynesian economics

Keynes's ideas became widely accepted after WWII, and until the early 1970s, Keynesian economics provided the main inspiration for economic policy makers in Western industrialized countries.^[3]

Governments prepared high quality economic statistics on an ongoing basis and tried to base their policies on the Keynesian theory that had become the norm. In the early era of new liberalism and social democracy, most western capitalist countries enjoyed low, stable unemployment and modest inflation, an era called the Golden Age of Capitalism.

In terms of policy, the twin tools of post-war Keynesian economics were fiscal policy and monetary policy. While these are credited to Keynes, others, such as economic historian David Colander, argue that they are, rather, due to the interpretation of Keynes by Abba Lerner in his theory of Functional Finance, and should instead be called "Lernerian" rather than "Keynesian".^[21]

Through the 1950s, moderate degrees of government demand leading industrial development, and use of fiscal and monetary counter-cyclical policies continued, and reached a peak in the "go go" 1960s, where it seemed to many Keynesians that prosperity was now permanent. In 1971, Republican US President Richard Nixon even proclaimed "we are all Keynesians now".^[22] However, with the oil shock of 1973, and the economic problems of the 1970s, modern liberal economics began to fall out of favor. During this time, many economies experienced high and rising unemployment, coupled with high and rising inflation, contradicting the Phillips curve's prediction. This stagflation meant that the simultaneous application of expansionary (anti-recession) and contractionary (anti-inflation) policies appeared to be necessary. This dilemma led to the end of the Keynesian near-consensus of the 1960s, and the rise throughout the 1970s of ideas based upon more classical analysis, including monetarism, supply-side economics,^[22] and new classical economics. At the same time, Keynesians began during the period to reorganize their thinking (some becoming associated with New Keynesian economics); one strategy, utilized also as a critique of the notably high unemployment and potentially disappointing GNP growth rates associated with the latter two theories by the mid-1980s, was to emphasize low unemployment and maximal economic growth at the cost of somewhat higher inflation (its consequences kept in check by indexing and other methods, and its overall rate kept lower and steadier by such potential policies as Martin Weitzman's share economy).^[23]

Multiple schools of economic thought that trace their legacy to Keynes currently exist, the notable ones being Neo-Keynesian economics, New Keynesian economics, and Post-Keynesian economics. Keynes's biographer Robert Skidelsky writes that the post-Keynesian school has remained closest to the spirit of Keynes's work in following his monetary theory and rejecting the neutrality of money.^{[24][25]}

In the postwar era, Keynesian analysis was combined with neoclassical economics to produce what is generally termed the "neoclassical synthesis", yielding Neo-Keynesian economics, which dominated mainstream macroeconomic thought. Though it was widely held that there was no strong automatic tendency to full employment, many believed that if government policy were used to ensure it, the economy would behave as neoclassical theory predicted. This post-war domination by Neo-Keynesian economics was broken during the stagflation of the 1970s. There was a lack of consensus among macroeconomists in the 1980s. However, the advent of New Keynesian economics in the 1990s, modified and provided microeconomic foundations for the neo-Keynesian theories. These modified models now dominate mainstream economics.

Post-Keynesian economists, on the other hand, reject the neoclassical synthesis and, in general, neoclassical economics applied to the macroeconomy. Post-Keynesian economics is a heterodox school that holds that both Neo-Keynesian economics and New Keynesian economics are incorrect, and a misinterpretation of Keynes's ideas. The Post-Keynesian school encompasses a variety of perspectives, but has been far less influential than the other more mainstream Keynesian schools.

Criticisms

Monetarist criticisms

One school began in the late 1940s with Milton Friedman. Instead of rejecting macro-measurements and macro-models of the economy, the monetarist school embraced the techniques of treating the entire economy as having a supply and demand equilibrium. However, because of Irving Fisher's equation of exchange, they regarded inflation as solely being due to the variations in the money supply, rather than as being a consequence of aggregate demand. They argued that the "crowding out" effects discussed above would hobble or deprive fiscal policy of its positive effect. Instead, the focus should be on monetary policy, which was considered ineffective by early Keynesians.^[citation needed]

Austrian School criticisms

Austrian economist Friedrich Hayek criticized Keynesian economic policies for what he called their fundamentally "collectivist" approach, arguing that such theories encourage centralized planning, which leads to malinvestment of capital, which is the cause of business cycles. Hayek also argued that Keynes's study of the aggregate relations in an economy is fallacious, as recessions are caused by micro-economic factors. Hayek claimed that what starts as temporary governmental fixes usually become permanent and expanding government programs, which stifle the private sector and civil society.^[26]

Austrian economist Henry Hazlitt criticized, paragraph by paragraph, Keynes's *General Theory* in *The Failure of the New Economics*.^[27]

New Classical Macroeconomics criticisms

See also: Lucas critique

Another influential school of thought was based on the Lucas critique of Keynesian economics. This called for greater consistency with microeconomic theory and rationality, and in particular emphasized the idea of rational expectations. Lucas and others argued that Keynesian economics required remarkably foolish and short-sighted behavior from people, which totally contradicted the economic understanding of their behavior at a micro level. New classical economics introduced a set of macroeconomic theories that were based on optimising microeconomic behavior. These models have been developed into the Real Business Cycle Theory, which argues that business cycle fluctuations can to a large extent be accounted for by real (in contrast to nominal) shocks.

Beginning in the late 1950s new classical macroeconomists began to disagree with the methodology employed by Keynes and his successors. Keynesians emphasized the dependence of consumption on disposable income and, also, of investment on current profits and current cash flow. In addition, Keynesians posited a Phillips curve that tied nominal wage inflation to unemployment rate. To support these theories, Keynesians typically traced the logical foundations of their model (using introspection) and supported their assumptions with statistical evidence.^[28] New classical theorists demanded that macroeconomics be grounded on the same foundations as microeconomic theory, profit-maximizing firms and rational, utility-maximizing consumers.^[28]

The result of this shift in methodology produced several important divergences from Keynesian Macroeconomics:^[28]

1. Independence of Consumption and current Income (life-cycle permanent income hypothesis)
2. Irrelevance of Current Profits to Investment (Modigliani-Miller theorem)
3. Long run independence of inflation and unemployment (natural rate of unemployment)
4. The inability of monetary policy to stabilize output (rational expectations)
5. Irrelevance of Taxes and Budget Deficits to Consumption (Ricardian Equivalence)

Contrasts with Other Economic Schools

The Keynesian schools of economics are situated alongside a number of other schools that have the same perspectives on what the economic issues are, but differ on what causes them and how to best resolve them:

Monetary Economics

Monetarists and Keynesians are in agreement over the fact that issues such as business cycles, unemployment, inflation need to be addressed, but have fundamentally different perspectives on the capacity of the economy to find its own equilibrium and as a consequence the degree of government intervention that is required to create equilibrium. Keynesians advocate that when the economy is experiencing a decline in confidence that governments should borrow under-employed savings from the economy and spend it on infrastructure, while monetarists argue that governments should balance their budgets and regulate the supply of money through interest rates.

Keynesian policies fell out of favour in the 1970's when it was realised that government spending was leading to inflation rather than create the economic stimulation that was required. Monetarism then became the dominant economic school and as a consequence, inflation rates fell across most developed countries and since the 1980's have remained significantly lower than they were in the 1970's. The Global Financial

Crisis, however, has highlighted the need for Keynesian type government intervention through spending as governments found it impossible to stimulate economies through monetary policy alone.

Austrian Economics

leave alone

Austrian economists are more closely aligned with monetarists in that they favour diminished government intervention in the economy. They have a particular interests in the business cycle, arguing that economic booms are caused by excessive and unsustainable credit expansion to businesses and individual borrowers by the banks.^[29] The excess supply of funds to capital tends to cause capital goods prices to rise and stimulates an unsustainable shift of investment from consumer goods to capital goods. The bidding up of house prices due to the abundance of credit prior to the Global Financial Crisis add credibility to the Austrian perspective, but does not form part of the mainstream thought.

Stockholm School

gov makes it worse

The Stockholm School rose to prominence at about the same time that Keynes published his *General Theory* and shared a common concern in business cycles and unemployment. The second generation of Swedish economists also advocated government intervention through spending during economic downturns^[30] although opinions are divided over whether they conceived the essence of Keynes' theory before he did^[31].

See also

- 2008–2009 Keynesian resurgence
- Aggregate demand
- Functional finance
- Job guarantee

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Chicago school of economics

From Wikipedia, the free encyclopedia

(Redirected from Chicago School of Economics)

Red 4/17 opt

The **Chicago school of economics** is a neoclassical school of thought within the academic community of economists, with a strong focus around the faculty of the University of Chicago, some of whom have constructed and popularized its principles.

In the context of macroeconomics, it is connected to the **freshwater school** of macroeconomics, in contrast to the saltwater school based in coastal universities (notably Harvard, MIT, and Berkeley). Chicago macroeconomic theory rejected Keynesianism in favor of monetarism until the mid-1970s, when it turned to new classical macroeconomics heavily based on the concept of rational expectations. The freshwater-saltwater distinction is largely antiquated today, as the two traditions have heavily incorporated ideas from each other. Specifically, New Keynesian economics was developed as a response to new classical economics, electing to incorporate the insight of rational expectations without giving up the traditional Keynesian focus on imperfect competition and sticky wages.

Silly ---

Chicago economists have also left their intellectual influence in other fields, notably in pioneering public choice theory and law and economics, which have led to revolutionary changes in the study of political science and law. Other economists affiliated with Chicago have made their impact in fields as diverse as social economics and economic history. Thus, there is not a clear delineation of the Chicago school of economics, a term that is more commonly used in the popular media than in academic circles. Nonetheless, Kaufman (2010) says that the School can be generally characterized by:

A deep commitment to rigorous scholarship and open academic debate, an uncompromising belief in the usefulness and insight of neoclassical price theory, and a normative position that favors and promotes economic liberalism and free markets.^[1]

ideal

The University of Chicago department, considered one of the world's foremost economics departments, has fielded more Sveriges Riksbank Prize in Economic Sciences in Memory of Alfred Nobel laureates and John Bates Clark medalists in economics than any other university.

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Terminology

The term was coined in the 1950s to refer to economists teaching in the Economics Department at the University of Chicago, and closely related academic areas at the University such as the Booth School of Business and the Law School. They met together in frequent intense discussions that helped set a group outlook on economic issues, based on price theory. The 1950s saw the height of popularity of the Keynesian school of economics, so the members of the University of Chicago were considered outside the mainstream.

Besides what is popularly known as the "Chicago school", there is also an "Old Chicago" school of economics, consisting of an earlier generation of economists such as Frank Knight, Henry Simons, Paul Douglas and others, most of whom leaned to the left and also held strongly Keynesian views. Nonetheless, these scholars had an important influence on the thought of Friedman and Stigler, most notably in the development of price theory and transaction cost economics. However, their relationship to the modern macroeconomists (the third wave of Chicago economics), led by Robert Lucas and Eugene Fama, is more blurred.

Scholars

Frank Knight

Main article: Frank Knight

Frank Knight (1885–1972) was an early member of the University of Chicago department. His most influential work was *Risk, Uncertainty and Profit* (1921) from which was coined the term Knightian uncertainty. Knight's perspective was iconoclastic, and markedly different from later Chicago school thinkers. He believed that while the free market could be inefficient, government programs were even less efficient. He drew from other economic schools of thought such as Institutional economics to form his own nuanced perspective.

Ronald Coase

Main articles: Ronald Coase and Law and economics

Ronald Coase (b. 1910) is the most prominent economic analyst of law and the 1991 Nobel Prize-winner. His first major article, *The Nature of the Firm* (1937), argued that the reason for the existence of firms (companies, partnerships, etc.) is the existence of transaction costs. Rational individuals trade through bilateral contracts on open markets until the costs of transactions mean that using corporations to produce

Monetarism

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Read 9/17 apt

Monetarism is a tendency in economic thought that emphasizes the role of governments in controlling the amount of money in circulation. It is the view within monetary economics that variation in the money supply has major influences on national output in the short run and the price level over longer periods and that objectives of monetary policy are best met by targeting the growth rate of the money supply.^[1]

Monetarism today is mainly associated with the work of Milton Friedman, who was among the generation of economists to accept Keynesian economics and then criticize it on its own terms. Friedman and Anna Schwartz wrote an influential book, *A Monetary History of the United States, 1867-1960*, and argued that "inflation is always and everywhere a monetary phenomenon." Though opposed to the existence of the Federal Reserve, but given that it does exist, Friedman advocated a central bank policy aimed at keeping the supply and demand for money at equilibrium, as measured by growth in productivity and demand.

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Description

Monetarism is an economic theory which focuses on the macroeconomic effects of the supply of money and central banking. Formulated by Milton Friedman, it argues that excessive expansion of the money supply is inherently inflationary, and that monetary authorities should focus solely on maintaining price stability.

This theory draws its roots from two almost diametrically opposed ideas: the hard money policies that dominated monetary thinking in the late 19th century, and the monetary theories of John Maynard Keynes, who, working in the inter-war period during the failure of the restored gold standard, proposed a demand-driven model for money which was the foundation of macroeconomics. While Keynes had focused on the value stability of currency, with the resulting panics based on an insufficient money supply leading to alternate currency and collapse, then Friedman focused on price stability, which is the equilibrium between supply and demand for money.

instead of trying to ↓ unemployment?
 Still don't fully understand
 macro more that supply of \$ not fixed

The result was summarized in a historical analysis of monetary policy, *Monetary History of the United States 1867-1960*, which Friedman coauthored with Anna Schwartz. The book attributed inflation to excess money supply generated by a central bank. It attributed deflationary spirals to the reverse effect of a failure of a central bank to support the money supply during a liquidity crunch.

not make extra \$ available

Friedman originally proposed a fixed monetary rule, called Friedman's k-percent rule, where the money supply would be calculated by known macroeconomic and financial factors, targeting a specific level or range of inflation. Under this rule, there would be no leeway for the central reserve bank as money supply increases could be determined "by a computer", and business could anticipate all monetary policy decisions. [2][3]

I remember from HS this is an issue

Rise

Clark Warburton is credited with making the first solid empirical case for the monetarist interpretation of business fluctuations in a series of papers from 1945.^{[1]p. 493} Within mainstream economics, the rise of monetarism accelerated from Milton Friedman's 1956 restatement of the quantity theory of money. Friedman argued that the demand for money could be described as depending on a small number of economic variables. Thus, where the money supply expanded, people would not simply wish to hold the extra money in idle money balances; i.e., if they were in equilibrium before the increase, they were already holding money balances to suit their requirements, and thus after the increase they would have money balances surplus to their requirements. These excess money balances would therefore be spent and hence aggregate demand would rise. Similarly, if the money supply were reduced people would want to replenish their holdings of money by reducing their spending. In this, Friedman challenged a simplification attributed to Keynes suggesting that "money does not matter."^[4] Thus the word 'monetarist' was coined.

does not matter or will distort market?

The rise of the popularity of monetarism also picked up in political circles when Keynesian economics seemed unable to explain or cure the seemingly contradictory problems of rising unemployment and inflation in response to the collapse of the Bretton Woods system in 1972 and the oil shocks of 1973. On the one hand, higher unemployment seemed to call for Keynesian reflation, but on the other hand rising inflation seemed to call for Keynesian disinflation. In 1979, President Jimmy Carter appointed a Federal Reserve chief Paul Volcker who made inflation fighting his primary objective, and restricted the money supply (in accordance with the Friedman rule) to tame inflation in the economy. The result was the creation of the desired price stability.

can see in Europe - I don't fully understand it - need to restudy econ

Monetarists not only sought to explain present problems; they also interpreted historical ones. Milton Friedman and Anna Schwartz in their book *A Monetary History of the United States, 1867-1960* argued that the Great Depression of 1930 was caused by a massive contraction of the money supply and not by the lack of investment Keynes had argued. They also maintained that post-war inflation was caused by an over-expansion of the money supply. They made famous the assertion of monetarism that 'inflation is always and everywhere a monetary phenomenon'. Many Keynesian economists initially believed that the Keynesian vs. monetarist debate was solely about whether fiscal or monetary policy was the more effective tool of demand management. By the mid-1970s, however, the debate had moved on to other issues as monetarists began presenting a fundamental challenge to Keynesianism.

Many monetarists sought to resurrect the pre-Keynesian view that market economies are inherently stable in the absence of major unexpected fluctuations in the money supply. Because of this belief in the stability of free-market economies they asserted that active demand management (e.g. by the means of increasing government spending) is unnecessary and indeed likely to be harmful. The basis of this argument is an

equilibrium between "stimulus" fiscal spending and future interest rates. In effect, Friedman's model argues that current fiscal spending creates as much of a drag on the economy by increased interest rates as it creates present consumption: that it has no real effect on total demand, merely that of shifting demand from the investment sector (I) to the consumer sector (C).

When Margaret Thatcher, leader of the Conservative Party in the United Kingdom, won the 1979 general election defeating the incumbent Labour Party led by James Callaghan, Britain had endured several years of severe inflation, which was rarely below 10% and by the time of the election in May 1979 stood at 10.3%.^[5] Thatcher implemented monetarism as the weapon in her battle against inflation, and succeeded at reducing it to 4.6% by 1983 - although this was achieved largely by the mass closure of inefficient factories, which resulted in a recession and in unemployment doubling from around 1,500,000 people to more than 3,000,000. This policy was controversial with the public and even some of her own Members of Parliament (MPs) (as well as former Conservative prime ministers Harold Macmillan^[6] and Edward Heath^[7]), but her success in the Falklands war led to a recovery in her popularity which contributed to the Conservative victory in the 1983 general election. This came at a time of a global recession, and Thatcher's monetarist policies earned her the respect of political leaders worldwide as Britain was a world leader in the fight against the recession and one of the first nations to re-establish economic growth.^[8]

Callaghan himself had adopted policies echoing monetarism while serving as prime minister from 1976 to 1979, adopting deflationary policies and reducing public spending in response to high inflation and national debt. He initially had some success, as inflation was below 10% by the summer of 1978, although unemployment now stood at 1,500,000. However, by the time of his election defeat barely a year later, inflation had soared to 27%.^[9]

Practice

A realistic theory should be able to explain the deflationary waves of the late 19th century, the Great Depression, and the stagflation period beginning with the uncoupling of exchange rates in 1972. Monetarists argue that there was no inflationary investment boom in the 1920s. Instead, monetarist thinking centers on the contraction of the M1 during the 1931-1933 period, and argues from there that the Federal Reserve could have avoided the Great Depression by moves to provide sufficient liquidity. In essence, they argue that there was an insufficient supply of money.

From their conclusion that incorrect central bank policy is at the root of large swings in inflation and price instability, monetarists argued that the primary motivation for excessive easing of central bank policy is to finance fiscal deficits by the central government. Hence, restraint of government spending is the most important single target to restrain excessive monetary growth.

With the failure of demand-driven fiscal policies to restrain inflation and produce growth in the 1970s, the way was paved for a new policy of fighting inflation through the central bank, which would be the bank's cardinal responsibility. In typical economic theory, this would be accompanied by austerity shock treatment, as is generally recommended by the International Monetary Fund: such a course was taken in the United Kingdom, where government spending was slashed in the late '70s and early '80s under the political ascendance of Margaret Thatcher. In the United States, the opposite approach was taken and real government spending increased much faster during Reagan's first four years (4.22%/year) than it did under Carter (2.55%/year).^[10]

In the ensuing short term, unemployment in both countries remained stubbornly high while central banks

raised interest rates to restrain credit. These policies dramatically reduced inflation rates in both countries (the United States' inflation rate fell from almost 14% in 1980 to around 3% in 1983^[*citation needed*]), allowing liberalization of credit and the reduction of interest rates, which led ultimately to the inflationary economic booms of the 1980s. Arguments have been raised, however, that the fall of the inflation rate may be less from control of the money supply and more to do with the unemployment level's effect on demand; some also claim the use of credit to fuel economic expansion is itself an anti-monetarist tool, as it can be argued that an increase in money supply alone constitutes inflation.^[*citation needed*]

Monetarism re-asserted itself in central bank policy in western governments at the end of the 1980s and beginning of the 1990s, with a contraction both in spending and in the money supply, ending the booms experienced in the US and UK.

With the crash of 1987, questioning of the prevailing monetarist policy began. Monetarists argued that the 1987 stock market decline was simply a correction between conflicting monetary policies in the United States and Europe. Critics of this viewpoint became louder as Japan slid into a sustained deflationary spiral and the collapse of the savings-and-loan banking system in the United States pointed to larger structural changes in the economy.

In the late 1980s, Paul Volcker was succeeded by Alan Greenspan, a leading monetarist. His handling of monetary policy in the run-up to the 1991 recession was criticized from the right as being excessively tight, and costing George H. W. Bush re-election. The incoming Democratic president Bill Clinton reappointed Alan Greenspan, and kept him as a core member of his economic team. Greenspan, while still fundamentally monetarist in orientation, argued that doctrinaire application of theory was insufficiently flexible for central banks to meet emerging situations.

The crucial test of this flexible response by the Federal Reserve was the Asian financial crisis of 1997-1998, which the Federal Reserve met by flooding the world with dollars, and organizing a bailout of Long-Term Capital Management. Some have argued that 1997-1998 represented a monetary policy bind, just as the early 1970s had represented a fiscal policy bind, and that while asset inflation had crept into the United States (which demanded that the Fed tighten the money supply), the Federal Reserve needed to ease liquidity in response to the capital flight from Asia. Greenspan himself noted this when he stated that the American stock market showed signs of irrationally high valuations.^[11]

In 2000, Alan Greenspan raised interest rates several times. These actions were believed by many to have caused the bursting of the dot-com bubble. In late 2001, as a decisive reaction to the September 11 attacks and the various corporate scandals which undermined the economy, the Greenspan-led Federal Reserve initiated a series of interest rate cuts that brought the Federal Funds rate down to 1% in 2004. His critics, notably Steve Forbes, attributed the rapid rise in commodity prices and gold to Greenspan's loose monetary policy^[*citation needed*], and by late 2004 the price of gold was higher than its 12 year moving average; these same forces were also blamed for excessive asset inflation and the weakening of the dollar^[*citation needed*]. These policies of Alan Greenspan are blamed by the followers of the Austrian School for creating excessive liquidity, causing lending standards to deteriorate, and resulting in the housing bubble of 2004-2006.

Currently, the American Federal Reserve follows a modified form of monetarism, where broader ranges of intervention are possible in light of temporary instabilities in market dynamics. This form does not yet have a generally accepted name.^[*citation needed*]

In Europe, the European Central Bank follows a more orthodox form of monetarism, with tighter controls

over inflation and spending targets as mandated by the Economic and Monetary Union of the European Union under the Maastricht Treaty to support the euro.^[12] This more orthodox monetary policy followed credit easing in the late 1980s through 1990s to fund German reunification, which was blamed for the weakening of European currencies in the late 1990s.^[citation needed]

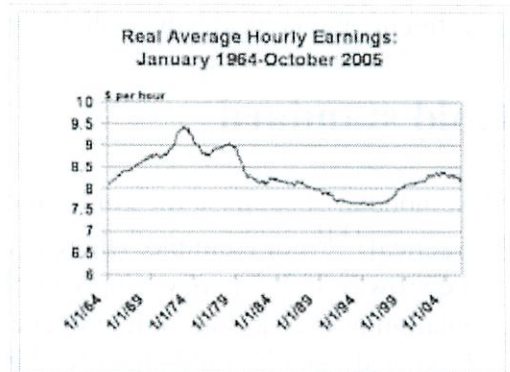
Current state

Since 1990, the classical form of monetarism has been questioned because of events which many economists have interpreted as being inexplicable in monetarist terms, namely the unhinging of the money supply growth from inflation in the 1990s and the failure of pure monetary policy to stimulate the economy in the 2001-2003 period. Alan Greenspan, former chairman of the Federal Reserve, argued that the 1990s decoupling was explained by a virtuous cycle of productivity and investment on one hand, and a certain degree of "irrational exuberance" in the investment sector. Economist Robert Solow of MIT suggested that the 2001-2003 failure of the expected economic recovery should be attributed not to monetary policy failure but to the breakdown in productivity growth in crucial sectors of the economy, most particularly retail trade. He noted that five sectors produced all of the productivity gains of the 1990s, and that while the growth of retail and wholesale trade produced the smallest growth, they were by far the largest sectors of the economy experiencing net increase of productivity. "2% may be peanuts, but being the single largest sector of the economy, that's an awful lot of peanuts."

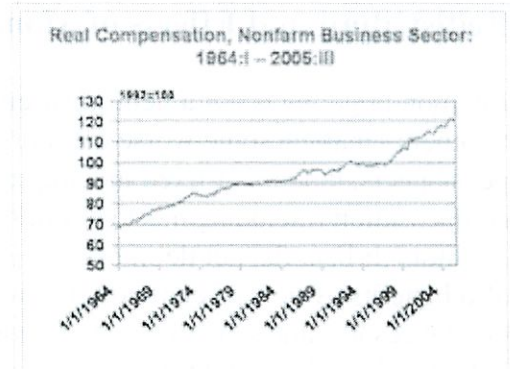
There are also arguments which link monetarism and macroeconomics, and treat monetarism as a special case of Keynesian theory. The central test case over the validity of these theories would be the possibility of a liquidity trap, like that experienced by Japan. Ben Bernanke, Princeton professor and current chairman of the US Federal Reserve, has argued that monetary policy could respond to zero interest rate conditions by direct expansion of the money supply. In his words, "We have the keys to the printing press, and we are not afraid to use them." Another popular economist, Paul Krugman, has advanced the counterargument that this would have a corresponding devaluatory effect, like the sustained low interest rates of 2001-2004 produced against world currencies.^[citation needed]

Historian David Hackett Fischer, in his study *The Great Wave*, questioned the implicit basis of monetarism by examining long periods of secular inflation that stretched over decades. In doing so, he produced data which suggest that prior to a wave of monetary inflation, there is a wave of commodity inflation, which governments respond to, rather than lead. Whether this formulation undermines the monetary data which underpin the fundamental work of monetarism is still a matter of contention.^[citation needed]

Monetarists of the Milton Friedman school of thought believed in the 1970s and 1980s that the growth of the



Critics point to policies that add "restraint on compensation increases" as a consequence of Monetarism.^[13]



However, total compensation, (including e.g. health insurance), has in fact increased.

money supply should be based on certain formulations related to economic growth. As such, they can be regarded as advocates of a monetary policy based on a "quantity of money" target. This can be contrasted with the monetary policy advocated by supply-side economics and the Austrian School which are based on a "value of money" target (albeit from different ends of the formula).^[*citation needed*] Austrian economists criticise monetarism for not recognizing the citizens' subjective value of money and trying to create an objective value through supply and demand.

These disagreements, along with the role of monetary policies in trade liberalization, international investment, and central bank policy, remain lively topics of investigation and arguments.

Gold standard

Most monetarists oppose the gold standard. Friedman, for example, viewed a pure gold standard as impractical.^[14] For example, whereas one of the benefits of the gold standard is that the intrinsic limitations to the growth of the money supply by the use of gold or silver would prevent inflation, if the growth of population or increase in trade outpaces the money supply, there would be no way to counteract deflation and reduced liquidity (and any attendant recession) except for the mining of more gold or silver under a gold or silver standard.

Criticisms

Redistributional Effects of Monetary Policy

Inflation targeting is not a neutral pareto improvement. Any choice of target redistributes from some groups to others - making some worse off. For example, high inflation harms holders of fixed rate debt - including pensioners, holders of fixed income securities, employees with protected jobs and annuity-like compensation (including most government employees, and policy makers, and most tenured academics), and creditors. It benefits net debtors - particularly if they have fixed rate debt or debt with interest rate caps. It also benefits owners of commodities, real estate, foreign currencies, equity in export oriented firms, local employees in trade sensitive and offshoring-capable sectors, and the unemployed. Low inflation benefits holders of fixed rate debt, business that export to the target country, importers, employees who gain from offshoring, retired people on fixed pensions and people with protected annuity like wages (academics, government employees, and policy makers). Low inflation therefore tends to favor rentiers - increasing their wealth by boosting the purchasing power of their assets, and transfers wealth away from debtors, owners of real estate, owners of commodities, local import sensitive businesses, and the insecurely employed.

In theory, this could be corrected - restoring its neutrality (and Pareto improvement), however transaction costs, moral hazard, information asymmetry and political resistance would make such wealth transfers grossly impractical.

To the extent that Monetary policy creates a known and predictable transfer of wealth between a priori known counterparties, it is not a neutral economic tool and cannot be divorced from political considerations and preferred constituencies.

Furthermore, such constituencies will try to influence choice of monetary policy targets - rentiers/creditors and pensioners will prefer tight monetary policy, debtors will prefer looser monetary policy, as will exporters and other participants in (internationally) tradeable sectors of the economy, owners of commodities and real

Milton Friedman

From Wikipedia, the free encyclopedia

Milton Friedman (July 31, 1912 – November 16, 2006) was an American economist, statistician, and author who taught at the University of Chicago for more than three decades. He was a recipient of the Nobel Memorial Prize in Economic Sciences, and is known for his research on consumption analysis, monetary history and theory, and the complexity of stabilization policy.^[1] As a leader of the Chicago school of economics, he influenced the research agenda of the economics profession. A survey of economists ranked Friedman as the second most popular economist of the twentieth century behind John Maynard Keynes,^[2] and *The Economist* described him as "the most influential economist of the second half of the 20th century...possibly of all of it."^[3]

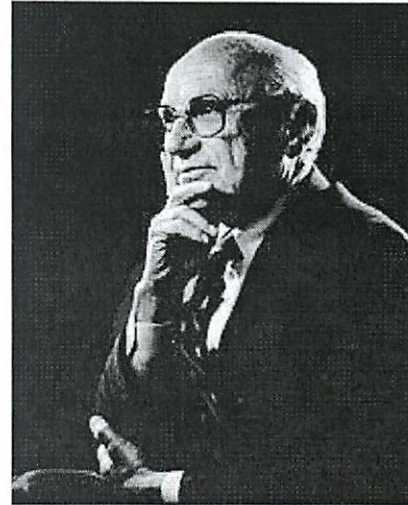
Friedman's challenges to what he later called "naive Keynesian" (as opposed to New Keynesian) theory^[4] began with his 1950s reinterpretation of the consumption function, and he became the main advocate opposing activist Keynesian government policies.^[5] In the late 1960s he described his own approach (along with all of mainstream economics) as using "Keynesian language and apparatus" yet rejecting its "initial" conclusions.^[6] During the 1960s he promoted an alternative macroeconomic policy known as "monetarism". He theorized there existed a "natural" rate of unemployment, and argued that governments could increase employment above this rate (e.g., by increasing aggregate demand) only at the risk of causing inflation to accelerate.^[7] He argued that the Phillips curve was not stable and predicted what would come to be known as stagflation.^[8] Though opposed to the existence of the Federal Reserve, Friedman argued that, given that it does exist, a steady, small expansion of the money supply was the only wise policy.^[9]

Friedman was an economic adviser to Republican U.S. President Ronald Reagan. His political philosophy extolled the virtues of a free market economic system with minimal intervention. He once stated that his role in eliminating U.S. conscription was his proudest accomplishment, and his support for school choice led him to found The Friedman Foundation for Educational Choice. In his 1962 book *Capitalism and Freedom*,

Revd 4/17 opt

That's what I thought
Milton Friedman

Chicago School of Economics



Born	July 31, 1912 Brooklyn, New York
Died	November 16, 2006 (aged 94) San Francisco, California
Nationality	United States
Institution	Hoover Institution (1977–2006) University of Chicago (1946–77) Columbia University (1937–41, 1943–45, 1964–65) NBER (1937–40)
Field	Economics
Alma mater	Columbia University, (Ph.D.), 1946 University of Chicago, (M.A.), 1933 Rutgers University, (B.A.), 1932
Opposed	John Maynard Keynes John Kenneth Galbraith Murray Rothbard
Influences	Adam Smith, Irving Fisher, Frank Knight, Murray Rothbard, Jacob Viner, Harold Hotelling, Arthur Burns, Friedrich Hayek, Homer

Friedman advocated policies such as a volunteer military, freely floating exchange rates, abolition of medical licenses, a negative income tax, and education vouchers.^[10] His ideas concerning monetary policy, taxation, privatization and deregulation influenced government policies, especially during the 1980s. His monetary theory influenced the Federal Reserve's response to the 2007–2012 global financial crisis.^[11]

Milton Friedman's works include many monographs, books, scholarly articles, papers, magazine columns, television programs, videos, and lectures, and cover a broad range of topics of microeconomics, macroeconomics, economic history, and public policy issues. His books and essays were widely read, and have had an international influence, including in Communist countries.^{[12][13][14][15]}

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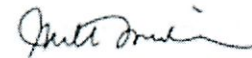
Jones, Ludwig von Mises, Henry Simons, George Stigler

Influenced Margaret Thatcher, Augusto Pinochet, Alan Greenspan, David D. Friedman, Anna J. Schwartz, Ben Bernanke, Gary Becker, Thomas Sowell, Harry Markowitz, Chicago Boys, William F. Buckley, Jr., Cato Institute

Contributions Price theory, Monetarism, applied macroeconomics, floating exchange rates, volunteer military, Permanent income hypothesis, Friedman test

Awards John Bates Clark Medal (1951) Nobel Memorial Prize in Economics (1976) Presidential Medal of Freedom (1988) National Medal of Science (1988)

Signature



Early life

Friedman was born in Brooklyn, New York, to recent Jewish immigrants Jenő Friedman and Sára Landau from Beregszász in Austria-Hungary (now Berehove in Ukraine), both of whom worked as dry goods merchants. Shortly after Milton's birth, the family relocated to Rahway, New Jersey. A talented student, Friedman graduated from Rahway High School in 1928, just before his 16th birthday.^{[16][17]}

Friedman graduated from Rutgers University in New Jersey, where he specialized in mathematics and initially intended to become an actuary. During his time at Rutgers, Friedman became influenced by two economics professors, Arthur F. Burns and Homer Jones, who convinced him that modern economics could help end the Great Depression. After graduating from Rutgers in 1932, Friedman was offered two scholarships to do graduate work; one being Mathematics at Brown University and the other being Economics at the University of Chicago.^[18] Friedman chose the latter, thus earning an M.A. in 1933. He was strongly influenced by Jacob Viner, Frank Knight, and Henry Simons. It was at Chicago that Friedman met his future wife, economist Rose Director. During 1933–34 he had a fellowship at Columbia University, where he studied statistics with renowned statistician and economist Harold Hotelling. He was back in Chicago for 1934–35, spending the year working as a research assistant for Henry Schultz, who was then working on *Theory and Measurement of Demand*. That year, Friedman formed what would prove to be lifelong friendships with George Stigler and W. Allen Wallis.^[19]

Public service

Friedman was initially unable to find academic employment, so during 1935, he followed his friend W. Allen Wallis to Washington, where Franklin D. Roosevelt's New Deal was "a lifesaver" for many young economists.^[20] At this stage, Friedman said that he and his wife "regarded the job-creation programs such as the WPA, CCC, and PWA appropriate responses to the critical situation," but not "the price- and wage-fixing measures of the National Recovery Administration and the Agricultural Adjustment Administration."^[21] Foreshadowing his later ideas, he believed price controls interfered with an essential signaling mechanism to help resources be used where they were most valued. Indeed, Friedman later concluded that all government intervention associated with the New Deal was "the wrong cure for the wrong disease," arguing that the money supply should simply have been expanded, instead of contracted.^[22] In the publication *Monetary History of the United States* by Friedman and Anna Schwartz, they argue that the Great Depression was caused by monetary contraction, which was the consequence of poor policymaking by the Federal reserve and the continuous crises of the banking system.^[23]

During 1935, he began work for the National Resources Committee, which was then working on a large consumer budget survey. Ideas from this project later became a part of his *Theory of the Consumption Function*. Friedman began employment with the National Bureau of Economic Research during autumn 1937 to assist Simon Kuznets in his work on professional income. This work resulted in their jointly authored publication *Incomes from Independent Professional Practice*, which introduced the concepts of permanent and transitory income, a major component of the Permanent Income Hypothesis that Friedman worked out in greater detail in the 1950s. The book hypothesizes that professional licensing artificially restricts the supply of services and raises prices.

Oh that theory was invented after rules in place

During 1940, Friedman was appointed an assistant professor teaching Economics at the University of Wisconsin–Madison, but encountered antisemitism in the Economics department and decided to return to government service.^{[24][25]} Friedman spent 1941–43 working on wartime tax policy for the Federal Government, as an advisor to senior officials of the United States Department of the Treasury. As a Treasury spokesman during 1942 he advocated a Keynesian policy of taxation. He helped to invent the payroll withholding tax system, since the federal government badly needed money in order to fight the war.^[26] He later said, "I have no apologies for it, but I really wish we hadn't found it necessary and I wish there were some way of abolishing withholding now."^[27]

Academic career

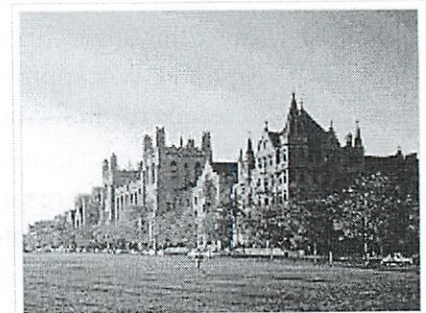
Early years

In 1943, Friedman joined the Division of War Research at Columbia University (headed by W. Allen Wallis and Harold Hotelling), where he spent the rest of World War II working as a mathematical statistician, focusing on problems of weapons design.^[28]

During 1945, Friedman submitted *Incomes from Independent Professional Practice* (co-authored with Kuznets and completed during 1940) to Columbia as his doctoral dissertation. The university awarded him a Ph.D. during 1946. Friedman spent the 1945–46 academic year teaching at the University of Minnesota (where his friend George Stigler was employed). On February 12, 1945, his son, David D. Friedman was born.

University of Chicago

During 1946, Friedman accepted an offer to teach economic theory at the University of Chicago (a position opened by departure of his former professor Jacob Viner to Princeton University). Friedman would work for the University of Chicago for the next 30 years. There he helped build an intellectual community that produced a number of Nobel Prize winners, known collectively as the Chicago School of Economics.



University of Chicago

At that time, Arthur Burns, who was then the head of the National Bureau of Economic Research, asked Friedman to rejoin the Bureau's staff. He accepted the invitation, and assumed responsibility for the Bureau's inquiry into the role of money in the business cycle. As a result, he initiated the "Workshop in Money and Banking" (the "Chicago Workshop"), which promoted a revival of monetary studies. During the latter half of the 1940s, Friedman began a collaboration with Anna Schwartz, an economic historian at the Bureau, that would ultimately result in the 1963 publication of a book co-authored by Friedman and Schwartz, *A Monetary History of the United States, 1867–1960*.

Friedman spent the 1954–55 academic year as a Fulbright Visiting Fellow at Gonville and Caius College, Cambridge. At the time, the Cambridge economics faculty was divided into a Keynesian majority (including Joan Robinson and Richard Kahn) and an anti-Keynesian minority (headed by Dennis Robertson). Friedman speculates that he was invited to the fellowship because his views were unacceptable to both of the Cambridge factions. Later his weekly columns for *Newsweek* magazine (1966–84) were well read and increasingly influential among political and business people.^[29] From 1968 to 1978, he and Paul Samuelson participated in the *Economics Cassette Series*, a biweekly subscription series where the economist would discuss the days' issues for about a half hour at a time.^[30]

Friedman was an economic adviser to Republican presidential candidate Barry Goldwater during 1964.

Prize in Economic Sciences in Memory of Alfred Nobel Award

In 1976, Friedman won the Prize in Economic Sciences in Memory of Alfred Nobel "for his achievements in the fields of consumption analysis, monetary history and theory and for his demonstration of the complexity

of stabilization policy."^[1]

Retirement

During 1977, at age 65, Friedman retired from the University of Chicago after teaching there for 30 years. He and his wife moved to San Francisco where he became a visiting scholar at the Federal Reserve Bank of San Francisco. From 1977 on, he was affiliated with the Hoover Institution at Stanford University. During the same year, Friedman was approached by the Free To Choose Network (<http://freetochoose.com/>) and asked to create a television program presenting his economic and social philosophy.

The Friedmans worked on this project for the next three years, and during 1980, the ten-part series, titled *Free to Choose*, was broadcast by the Public Broadcasting Service (PBS). The companion book to the series (co-authored by Milton and his wife, Rose Friedman), also titled *Free To Choose*, was the bestselling nonfiction book of 1980 and has since been translated into 14 foreign languages.

Friedman served as an unofficial adviser to Ronald Reagan during his 1980 presidential campaign, and then served on the President's Economic Policy Advisory Board for the rest of the Reagan Administration. During 1988, he received the National Medal of Science and Reagan honored him with the Presidential Medal of Freedom. Milton Friedman is known now as one of the most influential economists of the 20th century.^{[31][32]} Throughout the 1980s and 1990s, Friedman continued to write editorials and appear on television. He made several visits to Eastern Europe and to China, where he also advised governments. He was also for many years a Trustee of the Philadelphia Society.^{[33][34][35]}

Scholarly contributions

Understanding the range of economic theories

See also: Friedman–Savage utility function, Friedman rule, Friedman's k-percent rule, and Friedman test

Economics

Friedman was best known for reviving interest in the money supply as a determinant of the nominal value of output, that is, the quantity theory of money. Monetarism is the set of views associated with modern quantity theory. Its origins can be traced back to the 16th-century School of Salamanca or even further; however, Friedman's contribution is largely responsible for its modern popularization. He co-authored, with Anna Schwartz, *A Monetary History of the United States* (1963), which was an examination of the role of the money supply and economic activity in U.S. history. A striking conclusion of their research was one regarding the role of money supply fluctuations as contributing to economic fluctuations. Several regression studies with David Meiselman during the 1960s suggested the primacy of the money supply over investment and government spending in determining consumption and output. These challenged a prevailing but largely untested view on their relative importance. Friedman's empirical research and some theory supported the conclusion that the short-run effect of a change of the money supply was primarily on output but that the longer-run effect was primarily on the price level.

Friedman was the main proponent of the monetarist school of economics. He maintained that there is a close and stable association between price inflation and the money supply, mainly that price inflation should be regulated with monetary deflation and price deflation with monetary inflation. He famously quipped that price deflation can be fought by "dropping money out of a helicopter."^[36]

Friedman's arguments were designed to counter popular claims that price inflation at the time was the result of increases in the price of oil, or increases in wages: as he wrote,

Inflation is always and everywhere a monetary phenomenon.

—Milton Friedman, 1963.^[37]

Can ↓ \$ supply

Friedman rejected the use of fiscal policy as a tool of demand management; and he held that the government's role in the guidance of the economy should be restricted severely. Friedman wrote extensively on the Great Depression, which he termed the Great Contraction, arguing that it had been caused by an ordinary financial shock whose duration and seriousness were greatly increased by the subsequent contraction of the money supply caused by the misguided policies of the directors of the Federal Reserve.

The Fed was largely responsible for that as well converting what might have been a garden-variety recession, although perhaps a fairly severe one, into a major catastrophe. Instead of using its powers to offset the depression, it presided over a decline in the quantity of money by one-third from 1929 to 1933 ... Far from the depression being a failure of the free-enterprise system, it was a tragic failure of government.

—Milton Friedman, *Two Lucky People*, 233

Friedman also argued for the cessation of government intervention in currency markets, thereby spawning an enormous literature on the subject, as well as promoting the practice of freely floating exchange rates. His close friend George Stigler explained, "As is customary in science, he did not win a full victory, in part because research was directed along different lines by the theory of rational expectations, a newer approach developed by Robert Lucas, also at the University of Chicago."^[38]

Friedman was also known for his work on the consumption function, the permanent income hypothesis (1957), which Friedman himself referred to as his best scientific work.^[39] This work contended that rational consumers would spend a proportional amount of what they perceived to be their permanent income. Windfall gains would mostly be saved. Tax reductions likewise, as rational consumers would predict that taxes would have to increase later to balance public finances. Other important contributions include his critique of the Phillips curve and the concept of the natural rate of unemployment (1968). This critique associated his name, together with that of Edmund Phelps, with the insight that a government that brings about greater inflation cannot permanently reduce unemployment by doing so. Unemployment may be temporarily lower, if the inflation is a surprise, but in the long run unemployment will be determined by the frictions and imperfections of the labor market.

↓ Over reading

Friedman's essay "The Methodology of Positive Economics" (1953) provided the epistemological pattern for his own subsequent research and to a degree that of the Chicago School. There he argued that economics as *science* should be free of value judgments for it to be objective. Moreover, a useful economic theory should be judged not by its descriptive realism but by its simplicity and fruitfulness as an engine of prediction. That is, students should measure the accuracy of its predictions, rather than the 'soundness of its assumptions'. His argument was part of an ongoing debate among such statisticians as Jerzy Neyman, Leonard Savage, and Ronald Fisher.^[40]

Statistics

One of his most famous contributions to statistics is sequential sampling. "Friedman did statistical work at the Division of War Research at Columbia. He and his colleagues came up with a sampling technique, known as sequential sampling, which became, in the words of *The New Palgrave Dictionary of Economics*,

'the standard analysis of quality control inspection.' The dictionary adds: 'Like many of Friedman's contributions, in retrospect it seems remarkably simple and obvious to apply basic economic ideas to quality control; that however is a measure of his genius.'^[41]

Public policy positions

Federal Reserve

Friedman believed that if the money supply was to be centrally controlled (as by the Federal Reserve) that the preferable way to do it would be with a mechanical system that would keep the quantity of money increasing at a steady rate. However, instead of government involvement at all, he was open to a "real," non-government, gold standard where money is produced by the private market: "A real gold standard is thoroughly consistent with [classical] liberal principles and I, for one, am entirely in favor of measures promoting its development." He did however add this caveat, "Let me emphasize that this note is not a plea for a return to a gold standard.... I regard a return to a gold standard as neither desirable nor feasible—with the one exception that it might become feasible if the doomsday predictions of hyperinflation under our present system should prove correct."^[42] He said the reason that it was not feasible was because "there is essentially no government in the world that is willing to surrender control over its domestic monetary policy." However, it could be done if "you could re-establish a world in which government's budget accounted for 10 percent of the national income, in which laissez-faire reigned, in which governments did not interfere with economic activities and in which full employment policies had been relegated to the dustbin..."^[42]

Just let things be ✓

He was critical of the Federal Reserve's influence on the economics profession. In a 1993 letter to University of Texas economics professor and former House Banking Committee investigator Robert Auerbach, Friedman wrote:

I cannot disagree with you that having something like 500 economists is extremely unhealthy. As you say, it is not conducive to independent, objective research. You and I know there has been censorship of the material published. Equally important, the location of the economists in the Federal Reserve has had a significant influence on the kind of research they do, biasing that research toward noncontroversial technical papers on method as opposed to substantive papers on policy and results.^[43]

School choice

In his 1955 article "The Role of Government in Education" Friedman proposed supplementing publicly operated schools with privately run but publicly funded schools through a system of school vouchers.^[44] Reforms similar to those proposed in the article were implemented in, for example, Chile in 1981 and Sweden in 1992.^[45] In 1996 Friedman, together with his wife, founded the The Foundation for Educational Choice to advocate school choice and vouchers.

Conscription

Milton Friedman was a major proponent of a volunteer military, stating that the draft was "inconsistent with a free society."^{[46][47]} In *Capitalism and Freedom*, he argued that conscription is inequitable and arbitrary,

I don't agree - but why - need to re-read the reasoning

preventing young men from shaping their lives as they see fit.^[48] During the Nixon administration he headed the committee to research a conversion to paid/volunteer armed force. He would later state that his role in eliminating the conscription in the United States was his proudest accomplishment.^[9] Friedman did, however, believe a nation could compel military *training* as a reserve in case of war time.^[48]

Libertarianism and the Republican Party

He served as a member of President Reagan's Economic Policy Advisory Board during 1981. During 1988, he received the Presidential Medal of Freedom and the National Medal of Science. He said that he was a libertarian philosophically, but a member of the U.S. Republican Party for the sake of "expediency" ("I am a libertarian with a small 'l' and a Republican with a capital 'R.' And I am a Republican with a capital 'R' on grounds of expediency, not on principle.") But, he said, "I think the term classical liberal is also equally applicable. I don't really care very much what I'm called. I'm much more interested in having people thinking about the ideas, rather than the person."^[49]

Public goods and monopoly

Friedman was supportive of the state provision of some public goods that private businesses are not considered as being able to provide. However, he argued that many of the services performed by government could be performed better by the private sector. Above all, if some public goods are provided by the state, he believed that they should not be a legal monopoly where private competition is prohibited; for example, he wrote:

There is no way to justify our present public monopoly of the post office. It may be argued that the carrying of mail is a technical monopoly and that a government monopoly is the least of evils. Along these lines, one could perhaps justify a government post office, but not the present law, which makes it illegal for anybody else to carry the mail. If the delivery of mail is a technical monopoly, no one else will be able to succeed in competition with the government. If it is not, there is no reason why the government should be engaged in it. The only way to find out is to leave other people free to enter.

—Milton Friedman, Friedman, Milton & Rose D. *Capitalism and Freedom*, University of Chicago Press, 1982, 29

Serving everyone cheaply
if get rid of that goal? could work better

Welfare

Friedman made newspaper headlines by proposing a negative income tax to replace the existing welfare system, and then opposing a bill to implement it because the bill proposed to supplement the existing system rather than replace it.

Drugs

Friedman also supported libertarian policies such as legalization of drugs and prostitution. During 2005, Friedman and more than 500 other economists advocated discussions regarding the economic benefits of the legalization of marijuana.^[50]

Economic freedom

Michael Walker of the Fraser Institute and Friedman hosted a series of conferences from 1986 to 1994. The goal was to create a clear definition of economic freedom and a method for measuring it. Eventually this resulted in the first report on worldwide economic freedom, *Economic Freedom in the World*. This annual report has since provided data for numerous peer-reviewed studies and has influenced policy in several nations.

Along with sixteen other distinguished economists he opposed the Copyright Term Extension Act and filed an amicus brief in *Eldred v. Ashcroft*.^[51] He supported the inclusion of the word "no-brainer" in the brief.^[52]

Friedman argued for stronger basic legal (constitutional) protection of economic rights and freedoms in order to further promote industrial-commercial growth and prosperity and buttress democracy and freedom and the rule of law generally in society.^[53]

Honors, recognition, and influence

Friedman allowed the Cato Institute to use his name for its biannual Milton Friedman Prize for Advancing Liberty beginning in 2001. A Friedman Prize was given to the late British economist Peter Bauer during 2002, Peruvian economist Hernando de Soto during 2004, Mart Laar, former Estonian Prime Minister during 2006 and a young Venezuelan student Yon Goicoechea during 2008. His wife Rose, sister of Aaron Director, with whom he initiated the Friedman Foundation for Educational Choice, served on the international selection committee. Friedman was also a recipient of the Nobel Prize in Economics.

Upon the death of Friedman, Harvard President Lawrence Summers called Friedman "The Great Liberator" saying "... any honest Democrat will admit that we are now all Friedmanites." He said Friedman's great popular contribution was "in convincing people of the importance of allowing free markets to operate."^[54]

Hong Kong

Friedman once said, "If you want to see capitalism in action, go to Hong Kong."^[55] He wrote in 1990 that the Hong Kong economy was perhaps the best example of a free market economy.^[56]

One month before his death, he wrote the article "Hong Kong Wrong – What would Cowperthwaite say?" in the *Wall Street Journal*, criticizing Donald Tsang, the Chief Executive of Hong Kong, for abandoning "positive noninterventionism."^[57] Tsang later said he was merely changing the slogan to "big market, small government," where small government is defined as less than 20% of GDP. In a debate between Tsang and his rival, Alan Leong, before the 2007 Chief Executive election, Leong introduced the topic and jokingly accused Tsang of angering Friedman to death.

Chile

Main articles: Miracle of Chile and Chicago Boys

During 1975, two years after the military coup that ended the government of Salvador Allende, the economy of Chile experienced a severe crisis. Friedman accepted the invitation of a private foundation to visit Chile and speak on principles of economic freedom. He spent seven days in Chile giving a series of lectures. One of the lectures was entitled "The Fragility of Freedom," and according to Friedman, "dealt with precisely the

threat to freedom from a centralized military government."^[58] Friedman encapsulated his philosophy in a lecture at Universidad Católica de Chile, saying: "free markets would undermine political centralization and political control."^[59]

Friedman also met with military dictator President Augusto Pinochet during his visit. He never served as an adviser to the Chilean government, but did write a letter to Pinochet outlining what Friedman considered the two key economic problems of Chile. The letter listed a series of monetary and fiscal measures deemed a "shock program" to end hyperinflation and promote a market economy.^[60] His letter suggested (among other, more specific prescriptions) that a brief period of cutting government spending would reduce its fiscal deficit and thus reduce the rate of increase of the quantity of money in the country that was driving inflation. The economist did however admit his knowledge of Chile was "too limited to enable [him] to be precise or comprehensive" and that the measures he outlined were "to be taken as illustrative."^[60] Friedman felt that there might be a brief period ("measured in months") of higher unemployment, followed by recovery once inflation was tamed. His letter also suggested that cutting spending to reduce the fiscal deficit would result in less transitional unemployment than raising taxes to do so. Later, Friedman said he believed that market reforms would undermine Pinochet.^[61]

Chilean graduates of the Chicago School of Economics and its new local chapters had been appointed to important positions in the new government soon after the coup, which allowed them to advise Pinochet on economic policies in accord with the School's economic doctrine.

According to his critics, Friedman did not criticize Pinochet's dictatorship at the time, nor the assassinations, illegal imprisonments, torture, or other atrocities that were well known by then.^[62] In his 1980 documentary *Free to Choose*, he said the following: "Chile is not a politically free system, and I do not condone the system. But the people there are freer than the people in Communist societies because government plays a smaller role. ... The conditions of the people in the past few years has been getting better and not worse. They would be still better to get rid of the junta and to be able to have a free democratic system."^{[63][64]} In 1984 Friedman stated that he has "never refrained from criticizing the political system in Chile."^[58]

Friedman defended his activity in Chile on the grounds that, in his opinion, the adoption of free market policies not only improved the economic situation of Chile but also contributed to the amelioration of Pinochet's rule and to the eventual transition to a democratic government during 1990. That idea is included in *Capitalism and Freedom*, in which he declared that economic freedom is not only desirable in itself but is also a necessary condition for political freedom. He stressed that the lectures he gave in Chile were the same lectures he later gave in China and other socialist states.^[65] During the 2000 PBS documentary *The Commanding Heights* (based on the book), Friedman continued to argue that criticism over his role in Chile missed his main contention that freer markets resulted in freer people, and that Chile's unfree economy had caused the military government. Friedman suggested that the economic liberalization he advocated caused the end of military rule and a free Chile.^[66]

Iceland

Friedman visited Iceland during the autumn of 1984, met with important Icelanders and gave a lecture at the University of Iceland on the "tyranny of the *status quo*." He participated in a lively television debate (http://www.youtube.com/view_play_list?p=EBBF6DB20C85145A) on August 31, 1984 with socialist intellectuals, including Ólafur Ragnar Grímsson, who later became the president of Iceland.^[67] When they complained that a fee was charged for attending his lecture at the University and that hitherto, lectures by

visiting scholars had been free-of-charge, Friedman replied that previous lectures had not been free-of-charge in a meaningful sense: Lectures always have related costs. What mattered was whether attendees or non-attendees covered those costs. Friedman thought that it was fairer that only those who attended paid. In this discussion Friedman also stated that he did not receive any money for delivering that lecture.

Estonia

Although Friedman never visited Estonia, his book *Free to Choose* exercised a great influence on that nation's then 32-year-old prime minister, Mart Laar, who has claimed that it was the only book on economics he had read before taking office. Laar's reforms are often credited with responsibility for transforming Estonia from an impoverished Soviet Republic to the "Baltic Tiger." A prime element of Laar's program was introduction of the flat tax. Laar won the 2006 Milton Friedman Prize for Advancing Liberty, awarded by the Cato Institute.^[68]

United Kingdom

Milton Friedman influenced the thinking of Alan Walters and Patrick Minford, two of Margaret Thatcher's main macroeconomic advisers. See the book *Margaret Thatcher's Revolution: How it Happened and What it Meant*, edited by Subroto Roy & John Clarke, Continuum 2005.

Criticism

Keynesian criticism

During the financial crisis of 2007–2010, several Keynesian economists such as James Galbraith and Joseph Stiglitz blamed the free market philosophy of Friedman and the Chicago school for the economic turmoil.^[69]

After Friedman's death in 2006, Keynesian Nobel laureate Paul Krugman praised Friedman as a "great economist and a great man," but criticized him by writing that "he slipped all too easily into claiming both that markets always work and that only markets work. It's extremely hard to find cases in which Friedman acknowledged the possibility that markets could go wrong, or that government intervention could serve a useful purpose."^[70]

interventionism

Austrian School criticism

In 1971, Austrian School libertarian economist Murray Rothbard criticized Friedman's efforts to make the government more efficient as detrimental to individual liberty, concluding "...as we examine Milton Friedman's credentials to be the leader of free-market economics, we arrive at the chilling conclusion that it is difficult to consider him a free-market economist at all."^[71] Friedman's position on governmental control of money changed since 1971 when this criticism was made.^[72] In a 1995 interview in *Reason* magazine he said the "difference between me and people like Murray Rothbard is that, though I want to know what my ideal is, I think I also have to be willing to discuss changes that are less than ideal so long as they point me in that direction." He said he actually would "like to abolish the Fed," and points out that when he has written about the Fed it is simply his recommendations of how it should be run given that it exists.^[9]

** Friedman's goal could be better*

Other criticism

Main article: The Shock Doctrine: The Rise of Disaster Capitalism

In her book *The Shock Doctrine*, author and social activist Naomi Klein criticized Friedman's ideology and the principles that guided the economic restructuring that followed the military coups in countries such as Chile and Indonesia, drawing analogies between the way that Friedman proposed using the social "shock" of the coups to create an economic "blank slate" with Ewen Cameron's controversial medical experiments that used electroshock therapy to create a mental "blank slate" in patients with mental disorders.^[73] Based on the extent to which the application of neoliberal policies has contributed to income disparities and inequality,^[74] both Klein and Noam Chomsky have suggested that the primary role of neoliberalism was as an ideological cover for capital accumulation by multinational corporations.^[75] Chilean economist Orlando Letelier asserted that Pinochet's dictatorship resorted to oppression because of popular opposition to Chicago School policies in Chile.^[76]

Personal life

According to a 2007 article in *Commentary* magazine, his "parents were moderately observant [Jews], but Friedman, after an intense burst of childhood piety, rejected religion altogether."^[77] He described himself as an agnostic.^[78]

Friedman wrote extensively of his life and experiences, especially in 1998 in his memoirs with his wife Rose, titled *Two Lucky People*. He died of heart failure at the age of 94 years in San Francisco on November 16, 2006.^{[79][80]} He was survived by his wife (who died on August 18, 2009) and their two children, David, who is a philosopher and anarcho-capitalist economist, and Janet. David's son, Patri Friedman, is the executive director of the Seasteading Institute.^[81]

Bibliography

Main article: Milton Friedman bibliography

See also

- Works of Milton Friedman
- Friedman–Savage utility function
- Friedman rule
- Friedman's k-percent rule
- Friedman test
- List of economists
- List of Jewish Nobel laureates
- List of notable Presidential Medal of Freedom recipients
- History of economic thought

Notes

1. ^a ^b "Milton Friedman on nobelprize.org" (http://nobelprize.org/nobel_prizes/economics/laureates/1976/) . Nobel Prize. 1976. http://nobelprize.org/nobel_prizes/economics

History of economic thought

Read 9/17 Opt.

From Wikipedia, the free encyclopedia

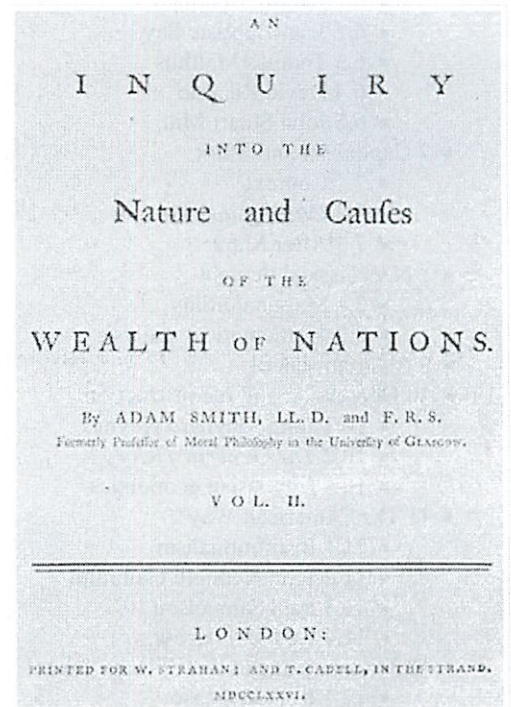
The **history of economic thought** deals with different thinkers and theories in the subject that became political economy and economics from the ancient world to the present day.^[citation needed] It encompasses many disparate schools of economic thought. Greek writers such as the philosopher Aristotle examined ideas about the art of wealth acquisition and questioned whether property is best left in private or public hands.^[citation needed] In medieval times, scholars such as Thomas Aquinas argued that it was a moral obligation of businesses to sell goods at a just price.^[citation needed]

Scottish philosopher Adam Smith is often cited as the father of modern economics for his treatise The Wealth of Nations (1776).^{[1][2]} His ideas built upon a considerable body of work from predecessors in the eighteenth century particularly the Physiocrats. His book appeared on the eve of the Industrial Revolution with associated major changes in the economy.^[3]

Smith's successors included such classical economists as the Rev. Thomas Malthus, Jean-Baptiste Say, David Ricardo, and John Stuart Mill.^[citation needed] They examined ways the landed, capitalist and labouring classes produced and distributed national output and modeled the effects of population and international trade.^[citation needed] In London, Karl Marx castigated the capitalist system, which he described as exploitative and alienating.^[citation needed] From about 1870, neoclassical economics attempted to erect a positive, mathematical and scientifically grounded field above normative politics.^[citation needed]

After the wars of the early twentieth century, John Maynard Keynes led a reaction against what has been described as governmental abstention from economic affairs, advocating interventionist fiscal policy to stimulate economic demand and growth.^[citation needed] With a world divided between the capitalist first world, the communist second world, and the poor of the third world, the post-war consensus broke down.^[citation needed] Others like Milton Friedman and Friedrich von Hayek warned of *The Road to Serfdom* and socialism, focusing their theories on what could be achieved through better monetary policy and deregulation.^[citation needed]

As Keynesian policies seemed to falter in the 1970s there emerged the so called New Classical school, with prominent theorists such as Robert Lucas and Edward Prescott.^[citation needed] Governmental economic policies from the 1980s were challenged, and development economists like Amartya Sen and information economists like Joseph Stiglitz introduced new ideas to economic thought in the twenty-first century.^[citation needed]



Wealth of Nations is widely considered to be the first work in modern economics.

which is better?

From reading they both might sound appealing
But through testing can see that perhaps not really...

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Early economic thought

Main articles: Ancient economic thought, Fan Li, Chanakya, Qin Shihuang, Wang Anshi, Muqaddimah, Arthashastra, and Economics of Mahavira

The earliest discussions of economics date back to ancient times (e.g. Chanakya's Arthashastra or Xenophon's Oeconomicus). Back then, and until the industrial revolution, economics was not a separate discipline but part of philosophy. In Ancient Athens, a slave based society but also one developing an embryonic model of democracy,^[4] Plato's book *The Republic* contained references to specialization of labour and production. But it was his pupil Aristotle that made some of the most familiar arguments, still in economic discourse today.

Aristotle

Main articles: Aristotle, Politics (Aristotle), and Nicomachean Ethics

Aristotle's *Politics* (c.a. 350 BC) was mainly concerned to analyse different forms of a state (monarchy, aristocracy, constitutional government, tyranny, oligarchy, democracy) as a critique of Plato's advocacy of a ruling class of "philosopher-kings". In particular for

economists, Plato had drawn a blueprint of society on the basis of common ownership of resources. Aristotle viewed this model as an oligarchical anathema. In *Politics*, Book II, Part V, he argued that,

Property should be in a certain sense common, but, as a general rule, private; for, when everyone has a distinct interest, men will not complain of one another, and they will make more progress, because every one will be attending to his own business... And further, there is the greatest pleasure in doing a kindness or service to friends or guests or companions, which can only be rendered when a man has private property. These advantages are lost by excessive unification of the state.^[5]



Plato and his pupil, Aristotle, have had an enduring effect on Western philosophy.

Though Aristotle certainly advocated there be many things held in common, he argued that not everything could be, simply because of the "wickedness of human nature".^[5] "It is clearly better that property should be private", wrote Aristotle, "but the use of it common; and the special business of the legislator is to create in men this benevolent disposition." In *Politics* Book I, Aristotle discusses the general nature of households and market exchanges. For him there is a certain "art of acquisition" or "wealth-getting". Money itself has the sole purpose of being a medium of exchange, which means on its own "it is worthless... not useful as a means to any of the necessities of life".^[6]

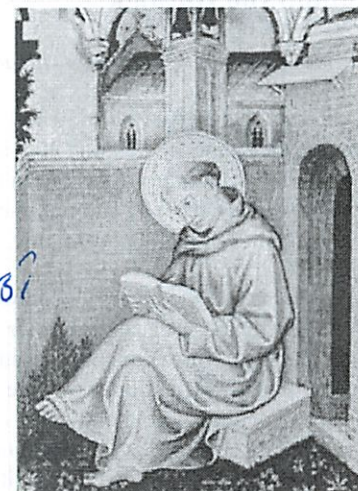
police

Nevertheless, points out Aristotle, because the "instrument" of money is the same many people are obsessed with the simple accumulation of money. "Wealth-getting" for one's household is "necessary and honourable", while exchange on the retail trade for simple accumulation is "justly censured, for it is dishonourable".^[7] Of the people he stated they as a whole thought acquisition of wealth (chrematistike) as being either the same as, or a principle of oikonomia (household management - oikonomos),^{[8][9]} with *oikos* as house and *nomos* in fact translated as custom or law.^[9] Aristotle himself was highly disapproving of usury and cast scorn on making money through means of a monopoly.^[10]

Middle Ages

Main articles: Thomas Aquinas, Scholasticism, Duns Scotus, Ibn Khaldun, and Islamic economic jurisprudence

Thomas Aquinas (1225–1274) was an Italian theologian and writer on economic issues. He taught in both Cologne and Paris, and was part of a group of Catholic scholars known as the Schoolmen, who moved their enquiries beyond theology to philosophical and scientific debates. In the treatise *Summa Theologica* Aquinas dealt with the concept of a just price, which he considered necessary for the reproduction of the social order. Bearing many similarities with the modern concept of long run equilibrium a just price was supposed to be one just sufficient to cover the costs of production, including the maintenance of a worker and his family. He argued it was immoral for sellers to raise their prices simply because buyers were in pressing need for a product.



St Thomas Aquinas taught that raising prices in response to high demand was a type of theft.

Aquinas discusses a number of topics in the format of questions and replies, substantial tracts dealing with Aristotle's theory. Questions 77 and 78 concern economic issues, mainly relate to what a just price is, and to the fairness of a seller dispensing faulty goods. Aquinas argued against any form of cheating and recommended compensation always be paid in lieu of good service. Whilst human laws might not impose sanctions for unfair dealing, divine law did, in his opinion. One of Aquinas' main critics^[11] was Duns Scotus (1265–1308) in his work *Sententiae* (1295).

'is a core question: do you care for others?'

Originally from Duns Scotland, he taught in Oxford, Cologne and Paris. Scotus thought it possible to be more precise than Aquinas in calculating a just price, emphasising the costs of labour and expenses – though he recognised that the latter might be inflated by exaggeration, because buyer and seller usually have different ideas of what a just price comprises. If people did not benefit from a transaction, in Scotus' view, they would not trade. Scotus defended merchants as performing a necessary and useful social role, transporting goods and making them available to the public.^[12]

cost-based pricing

overhead

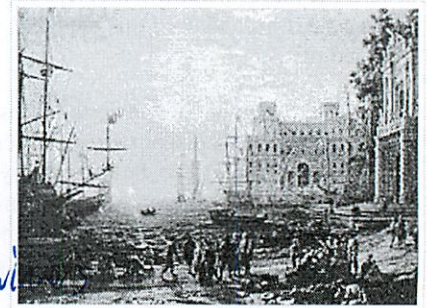
value-based pricing

Mercantilists and nationalism

Main article: Mercantilism

See also: Charles Davenant, Josiah Child, James Denham-Steuart, Grotius, and Niccolò Machiavelli

From the localism of the Middle Ages, the waning feudal lords, new national economic frameworks began to be strengthened. From 1492 and explorations like Christopher Columbus' voyages, new opportunities for trade with the New World and Asia were opening. New powerful monarchies wanted a powerful state to boost their status. Mercantilism was a political movement and an economic theory that advocated the use of the state's military power to ensure local markets and supply sources were protected.



A 1638 painting of a French seaport during the heyday of mercantilism.

Mercantile theorists thought international trade could not benefit all countries at the same time. Because money and gold were the only source of riches, there was a limited quantity of resources to be shared between countries. Therefore, tariffs could be used to encourage exports (meaning more money comes into the country) and discourage imports (sending wealth abroad). In other words a positive balance of trade ought to be maintained, with a surplus of exports. The term mercantilism was not in fact coined until the late 1763 by Victor de Riqueti, marquis de Mirabeau and popularised by Adam Smith, who vigorously opposed its ideas.

Some winners
Some losers

be good though military

not comparative advantage / create wealth

Thomas Mun

Main article: Thomas Mun

English businessman Thomas Mun (1571–1641) represents early mercantile policy in his book *England's Treasure by Foreign Trade*. Although it was not published until 1664 it was widely circulated as a manuscript before then. He was a member of the East India Company and also wrote about his experiences there in *A Discourse of Trade from England unto the East Indies* (1621).

According to Mun, trade was the only way to increase England's treasure (i.e., national wealth) and in pursuit of this end he suggested several courses of action. Important were frugal consumption to increase the amount of goods available for export, increased utilisation of land and other domestic natural resources to reduce import requirements, lowering of export duties on goods produced domestically from foreign materials, and the export of goods with inelastic demand because more money could be made from higher prices.

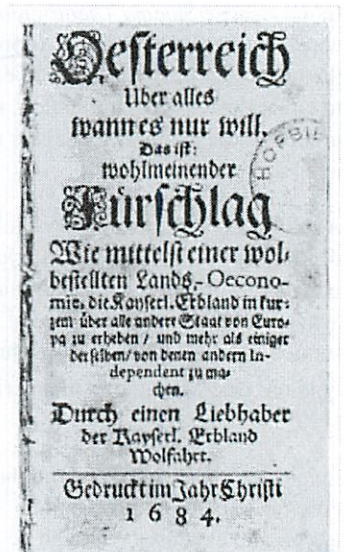
Philipp von Hörnigk

Main article: Philipp von Hörnigk

Philipp von Hörnigk (1640–1712, sometimes spelt *Hornick* or *Horneck*) was born in Frankfurt am Main and became an Austrian civil servant writing in a time when his country was constantly threatened by Ottoman invasion. In *Österreich Über Alles, Wann es Nur Will* (1684, *Austria Over All, If She Only Will*) he laid out one of the clearest statements of mercantile policy. He listed nine principal rules of national economy.

just collect \$ what to spend it on?

To inspect the country's soil with the greatest care, and not to leave the agricultural possibilities of a single corner or clod of earth unconsidered... All commodities found in a country, which cannot be used in their natural state, should be worked up within the country... Attention should be given to the population, that it may be as large as the country can support... gold and silver once in the country are under no circumstances to be taken out for any purpose... The inhabitants should make every effort to get along with their domestic products... [Foreign commodities] should be obtained not for gold or silver, but in exchange for other domestic wares... and should be imported in unfinished form, and worked up within the country... Opportunities should be sought night and day for selling the country's superfluous goods to these foreigners in manufactured form... No importation should be allowed under any circumstances of which there is a sufficient supply of suitable quality at home.



The title page to Philipp von Hörnigk statement of mercantilist philosophy.

Nationalism, self-sufficiency and national power were the basic policies proposed.^[13]

Jean-Baptiste Colbert

Main article: Jean-Baptiste Colbert

Jean-Baptiste Colbert (1619–1683) was Minister of Finance under King Louis XIV of France. He set up national guilds to regulate

major industries. Silk, linen, tapestry, furniture manufacture and wine were examples of the crafts in which France specialised, all of which came to require membership of a guild to operate in. These remained until the French revolution. According to Colbert, "It is simply, and solely, the abundance of money within a state [which] makes the difference in its grandeur and power."^[citation needed]

British enlightenment

So much of history I don't know

See also: *Age of enlightenment, Scottish enlightenment, Thomas Hobbes, and William Petty*

Britain had gone through some of its most troubling times through the 17th century, enduring not only political and religious division in the English Civil War, King Charles I's execution and the Cromwellian dictatorship, but also the plagues and fires. The monarchy was restored under Charles II, who had catholic sympathies, but his successor King James II was swiftly ousted. Invited in his place were Protestant William of Orange and Mary, who assented to the Bill of Rights 1689 ensuring that the Parliament was dominant in what became known as the Glorious revolution. The upheaval had seen a number of huge scientific advances, including Robert Boyle's discovery of the gas pressure constant (1660) and Sir Isaac Newton's publication of *Philosophiæ Naturalis Principia Mathematica* (1687), which described the three laws of motion and his law of universal gravitation. All these factors spurred the advancement of economic thought. For instance, Richard Cantillon (1680–1734) consciously imitated Newton's forces of inertia and gravity in the natural world with human reason and market competition in the economic world.^[14] In his *Essay on the Nature of Commerce in General*, he argued rational self interest in a system of freely adjusting markets would lead to order and mutually compatible prices. Unlike the mercantilist thinkers however, wealth was found not in trade but in human labour. The first person to tie these ideas into a political framework was John Locke.

John Locke

Main article: *John Locke*

I read in another class

John Locke (1632–1704) was born near Bristol and educated in London and Oxford. He is considered one of the most significant philosophers of his era mainly for his critique of Thomas Hobbes' defense of absolutism in *Leviathan* (1651) and the development of social contract theory. Locke believed that people contracted into society which was bound to protect their rights of property.^[15] He defined property broadly to include people's lives and liberties, as well as their wealth. When people combined their labour with their surroundings, then that created property rights. In his words from his *Second Treatise on Civil Government* (1689),

God hath given the world to men in common... Yet every man has a property in his own person. The labour of his body and the work of his hands we may say are properly his. Whatsoever, then, he removes out of the state that nature hath provided and left it in, he hath mixed his labour with, and joined to it something that is his own, and thereby makes it his property.^[16]

I sure ind work, but police protection

Locke was arguing that not only should the government cease interference with people's property (or their "lives, liberties and estates") but also that it should positively work to ensure their protection. His views on price and money were laid out in a letter to a Member of Parliament in 1691 entitled *Some Considerations on the Consequences of the Lowering of Interest and the Raising of the Value of Money* (1691). Here Locke argued that the "price of any commodity rises or falls, by the proportion of the number of buyers and sellers", a rule which "holds universally in all things that are to be bought and sold."^[17]



John Locke combined philosophy, politics and economics into one coherent framework.

Dudley North

Main article: *Dudley North (economist)*

Dudley North (1641–1691) was a wealthy merchant and landowner. He worked as an official for the Treasury and was opposed to most mercantile policy. In his *Discourses upon trade* (1691), which he published anonymously, he argued that the assumption of needing a favourable trade balance was wrong. Trade, he argued, benefits both sides, it promotes specialisation, the division of labour and produces an increase in wealth for everyone. Regulation of trade interfered with these benefits by reducing the flow of wealth.

David Hume

Main article: *David Hume*

David Hume (1711–1776) agreed with North's philosophy and denounced mercantile assumptions. His contributions were set down in *Political Discourses* (1752), later consolidated in his *Essays, Moral, Political, Literary* (1777). Added to the fact that it was undesirable to strive for a favourable balance of trade it is, said Hume, in any case impossible.

Hume held that any surplus of exports that might be achieved would be paid for by imports of gold and silver. This would increase the money supply, causing prices to rise. That in turn would cause a decline in exports until the balance with imports is restored.

Francis Hutcheson

Main article: Francis Hutcheson (philosopher)

Francis Hutcheson (1694–1746) was teacher to Adam Smith during 1737-1740,^[18] and is considered to be at the end of a long tradition of thought on economics as "household or family (οἶκος) management",^{[19][20][21]} stemming from Xenophon's work *Oeconomicus*.^{[22][23]}

esp if anyone tried



Dudley North argued that the results of mercantile policy would be undesirable.

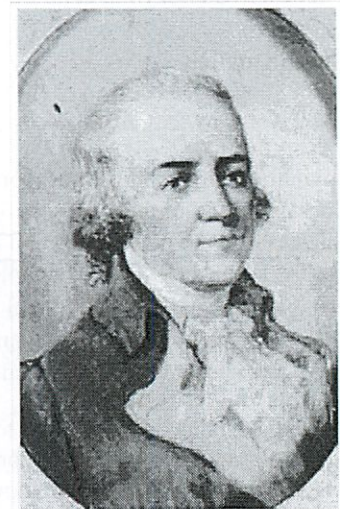
The circular flow

Main article: Physiocrats

See also: Bernard Mandeville, John Law (economist), Pierre le Pesant de Boisguilbert, and Victor de Riqueti

Similarly disenchanted with regulation on trademarks inspired by mercantilism, a Frenchman name Vincent de Gournay (1712–1759) is reputed to have asked why it was so hard to *laissez faire, laissez passer* (free enterprise, free trade). He was one of the early physiocrats, a word from Greek meaning "government of nature", who held that agriculture was the source of wealth. As historian David B. Danbom wrote, the Physiocrats "damned cities for their artificiality and praised more natural styles of living. They celebrated farmers."^[24] Over the end of the seventeenth and beginning of the eighteenth century big advances in natural science and anatomy were being made, including the discovery of blood circulation through the human body. This concept was mirrored in the physiocrats' economic theory, with the notion of a circular flow of income throughout the economy.

François Quesnay (1694–1774) was the court physician to King Louis XV of France. He believed that trade and industry were not sources of wealth, and instead in his book, *Tableau économique* (1758, Economic Table) argued that agricultural surpluses, by flowing through the economy in the form of rent, wages and purchases were the real economic movers. Firstly, said Quesnay, regulation impedes the flow of income throughout all social classes and therefore economic development. Secondly, taxes on the productive classes, such as farmers, should be reduced in favour of rises for unproductive classes, such as landowners, since their luxurious way of life distorts the income flow.



Pierre Samuel du Pont de Nemours, a prominent Physiocrat, emigrated to the US and his son founded DuPont, the world's second biggest chemicals company.

growth bl - active taxation

Jacques Turgot (1727–1781) was born in Paris and from an old Norman family. His best known work, *Réflexions sur la formation et la distribution des richesses* (1766, *Reflections on the Formation and Distribution of Wealth*) developed Quesnay's theory that land is the only source of wealth. Turgot viewed society in terms of three classes: the productive agricultural class, the salaried artisan class (*classe stipendice*) and the landowning class (*classe disponible*). He argued that only the net product of land should be taxed and advocated the complete freedom of commerce and industry.

In August 1774, Turgot was appointed to be Minister of Finance and in the space of two years introduced many anti-mercantile and anti-feudal measures supported by the King. A statement of his guiding principles, given to the King were "no bankruptcy, no tax increases, no borrowing." Turgot's ultimate wish was to have a single tax on land and abolish all other indirect taxes, but measures he introduced before that were met with overwhelming opposition from landed interests. Two edicts in particular, one suppressing corvées (charges from farmers to aristocrats) and another renouncing privileges given to guilds inflamed influential opinion. He was forced from office in 1776.

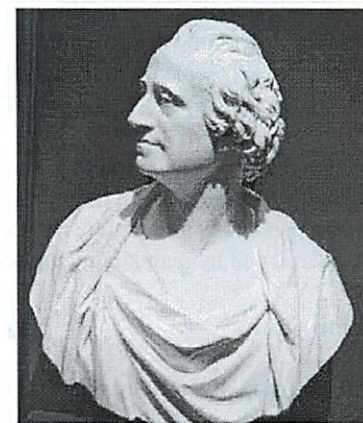
activist

Adam Smith and *The Wealth of Nations*

Main articles: *The Wealth of Nations*, Adam Smith, and Edmund Burke

See also: *Industrial revolution and Anders Chydenius*

Adam Smith (1723–1790) is popularly seen as the father of modern political economy. His publication of the *An Inquiry Into the Nature and Causes of the Wealth of Nations* in 1776 happened to coincide not only with the American Revolution, shortly before the Europe wide upheavals of the French Revolution, but also the dawn of a new industrial revolution that allowed more wealth to be created on a larger scale than ever before. Smith was a Scottish moral philosopher, whose first book was *The Theory of Moral Sentiments* (1759). He argued in it that people's ethical systems develop through personal relations with other individuals, that right and wrong are sensed through others' reactions to one's behaviour. This gained Smith more popularity than his next work, *The Wealth of Nations*, which the general public initially ignored.^[25] Yet Smith's political economic magnum opus was successful in circles that mattered.



Adam Smith, the father of modern political economy.

Context

William Pitt, the Tory Prime Minister in the late 1780s based his tax proposals on Smith's ideas and advocated free trade as a devout disciple of *The Wealth of Nations*.^[26] Smith was appointed a commissioner of customs and within twenty years Smith had a following of new generation writers who were intent on building the science of political economy.^[25]

Smith expressed an affinity himself to the opinions of Edmund Burke, known widely as a political philosopher, a Member of Parliament.

Burke is the only man I ever knew who thinks on economic subjects exactly as I do without any previous communication having passed between us.^[27]

Burke was an established political economist himself, with his book *Thoughts and Details on Scarcity*. He was widely critical of liberal politics, and condemned the French Revolution which began in 1789. In *Reflections on the Revolution in France* (1790) he wrote that the "age of chivalry is dead, that of sophisters, economists and calculators has succeeded, and the glory of Europe is extinguished forever." Smith's contemporary influences included François Quesnay and Jacques Turgot whom he met on a stay in Paris, and David Hume, his Scottish compatriot. The times produced a common need among thinkers to explain social upheavals of the Industrial revolution taking place, and in the seeming chaos without the feudal and monarchical structures of Europe, show there was order still.



Edmund Burke.

The invisible hand

Smith argued for a "system of natural liberty"^[29] where individual effort was the producer of social good. Smith believed even the selfish within society were kept under restraint and worked for the good of all when acting in a competitive market. Prices are often unrepresentative of the true value of goods and services. Following John Locke, Smith thought true value of things derived from the amount of labour invested in them.



"It is not from the benevolence of the butcher, the brewer or the baker, that we expect our dinner, but from their regard to their own self interest. We address ourselves, not to their humanity but to their self-love, and never talk to them of our own necessities but of their advantages."^[28]

Adam Smith's famous statement on self interest

Every man is rich or poor according to the degree in which he can afford to enjoy the necessaries, conveniencies, and amusements of human life. But after the division of labour has once thoroughly taken place, it is but a very small part of these with which a man's own labour can supply him. The far greater part of them he must derive from the labour of other people, and he must be rich or poor according to the quantity of that labour which he can command, or which he can afford to purchase. The value of any commodity, therefore, to the person who possesses it, and who means not to use or consume it himself, but to exchange it for other commodities, is equal to the quantity of labour which it enables him to purchase or command. Labour, therefore, is the real measure of the exchangeable value of all commodities. The real price of every thing, what every thing really costs to the man who wants to acquire it, is the toil and trouble of acquiring it.^[30]

When the butchers, the brewers and the bakers acted under the restraint of an open market economy, their pursuit of self interest, thought Smith, paradoxically drives the process to correct real life prices to their just values. His classic statement on competition goes as follows.

When the quantity of any commodity which is brought to market falls short of the effectual demand, all those who are

willing to pay... cannot be supplied with the quantity which they want... Some of them will be willing to give more. A competition will begin among them, and the market price will rise... When the quantity brought to market exceeds the effectual demand, it cannot be all sold to those who are willing to pay the whole value of the rent, wages and profit, which must be paid to bring it thither... The market price will sink...^[31]

Smith believed that a market produced what he dubbed the "progress of opulence". This involved a chain of concepts, that the division of labour is the driver of economic efficiency, yet it is limited to the widening process of markets. Both labour division and market widening requires more intensive accumulation of capital by the entrepreneurs and leaders of business and industry. The whole system is underpinned by maintaining the security of property rights.

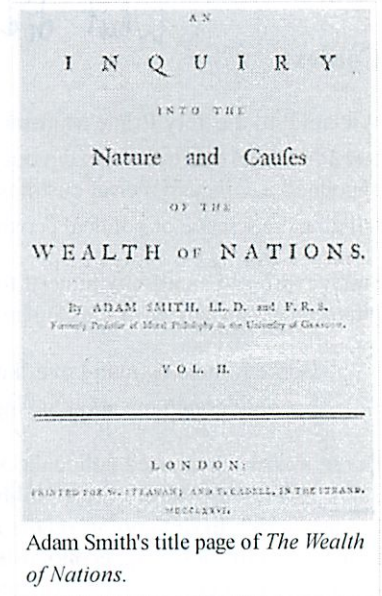
Limitations

but later people save instead

Smith's vision of a free market economy, based on secure property, capital accumulation, widening markets and a division of labour contrasted with the mercantilist tendency to attempt to "regulate all evil human actions."^[29] Smith believed there were precisely three legitimate functions of government. The third function was...

...erecting and maintaining certain public works and certain public institutions, which it can never be for the interest of any individual or small number of individuals, to erect and maintain... Every system which endeavours... to draw towards a particular species of industry a greater share of the capital of the society than what would naturally go to it... retards, instead of accelerating, the progress of the society toward real wealth and greatness.

In addition to the necessity of public leadership in certain sectors Smith argued, secondly, that cartels were undesirable because of their potential to limit production and quality of goods and services.^[32] Thirdly, Smith criticised government support of any kind of monopoly which always charges the highest price "which can be squeezed out of the buyers".^[33] The existence of monopoly and the potential for cartels, which would later form the core of competition law policy, could distort the benefits of free markets to the advantage of businesses at the expense of consumer sovereignty.



Classical political economy

Main article: Classical economics

See also: Thomas Edward Cliffe Leslie, Walter Bagehot, and Thorold Rogers

The classical economists were referred to as a group for the first time by Karl Marx.^[34] One unifying part of their theories was the labour theory of value, contrasting to value deriving from a general equilibrium of supply and demand. These economists had seen the first economic and social transformation brought by the Industrial Revolution: rural depopulation, precariousness, poverty, apparition of a working class.

They wondered about the population growth, because the demographic transition had begun in Great Britain at that time. They also asked many fundamental questions, about the source of value, the causes of economic growth and the role of money in the economy. They supported a free-market economy, arguing it was a natural system based upon freedom and property. However, these economists were divided and did not make up a unified current of thought.

A notable current within classical economics was underconsumption theory, as advanced by the Birmingham School and Malthus in the early 19th century. These argued for government action to mitigate unemployment and economic downturns, and was an intellectual predecessor of what later became Keynesian economics in the 1930s. Another notable school was Manchester capitalism, which advocated free trade, against the previous policy of mercantilism.

Jeremy Bentham

See how this builds up a fine

Main article: Jeremy Bentham

Jeremy Bentham (1748–1832) was perhaps the most radical thinker of his time, and developed the concept of utilitarianism. Bentham was an atheist, a prison reformer, animal rights activist, believer in universal suffrage, free speech, free trade and health insurance at a time when few dared to argue for any. He was schooled rigorously from an early age, finishing university and being called to the bar at

18. His first book, *A Fragment on Government* (1776) published anonymously was a trenchant critique of William Blackstone's *Commentaries of the laws of England*. This gained wide success until it was found that the young Bentham, and not a revered Professor had penned it. In *The Principles of Morals and Legislation* (1791) Bentham set out his theory of utility.^[35]

The aim of legal policy must be to decrease misery and suffering so far as possible while producing the greatest happiness for the greatest number.^[36] Bentham even designed a comprehensive methodology for the calculation of aggregate happiness in society that a particular law produced, a felicific calculus.^[37] Society, argued Bentham, is nothing more than the total of individuals,^[38] so that if one aims to produce net social good then one need only to ensure that more pleasure is experienced across the board than pain, regardless of numbers.

For example, a law is proposed to make every bus in the city wheel chair accessible, but slower moving as a result than its predecessors because of the new design. Millions of bus users will therefore experience a small amount of displeasure (or "pain") in increased traffic and journey times, but a minority of people using wheel chairs will experience a huge amount of pleasure at being able to catch public transport, which outweighs the aggregate displeasure of other users.

Interpersonal comparisons of utility were allowed by Bentham, the idea that one person's vast pleasure can count more than many others' pain. Much criticism later showed how this could be twisted, for instance, would the felicific calculus allow a vastly happy dictator to outweigh the dredging misery of his exploited populus? Despite Bentham's methodology there were severe obstacles in measuring people's happiness.

Jean-Baptiste Say

Main article: Jean-Baptiste Say

Jean-Baptiste Say (1767–1832) was a Frenchman, born in Lyon who helped to popularise Adam Smith's work in France.^[39] His book, *A Treatise on Political Economy* (1803) contained a brief passage, which later became orthodoxy in political economics until the Great Depression and known as Say's Law of markets. Say argued that there could never be a general deficiency of demand or a general glut of commodities in the whole economy. People produce things, said Say, to fulfill their own wants, rather than those of others. Production is therefore not a question of supply, but an indication of producers demanding goods.

Say agreed that a part of the income is saved by the households, but in the long term, savings are invested. Investment and consumption are the two elements of demand, so that production is demand, so it is impossible for production to outrun demand, or for there to be a "general glut" of supply. Say also argued that money was neutral, because its sole role is to facilitate exchanges: therefore, people demand money only to buy commodities. Say said that "money is a veil".

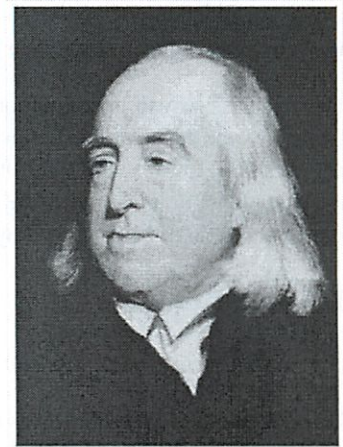
To sum up these two ideas, Say said "products are exchanged for products". At most, there will be different economic sectors whose demands are not fulfilled. But over time supplies will shift, businesses will retool for different production and the market will correct itself. An example of a "general glut" could be unemployment, in other words, too great a supply of workers, and too few jobs. Say's Law advocates would suggest that this necessarily means there is an excess demand for other products that will correct itself. This remained a foundation of economic theory until the 1930s. Say's Law was first put forward by James Mill (1773–1836) in English, and was advocated by David Ricardo, Henry Thornton^[40] and John Stuart Mill. However two political economists, Thomas Malthus and Sismondi, were unconvinced.

Thomas Malthus

Main article: Thomas Malthus

Thomas Malthus (1766–1834) was a Tory minister in the United Kingdom Parliament who, contrasting to Bentham, believed in strict government abstention from social ills.^[41] Malthus devoted the last chapter of his book *Principles of Political Economy* (1820) to rebutting Say's law, and argued that the economy could stagnate with a lack of "effectual demand".^[42]

In other words, wages if less than the total costs of production cannot purchase the total output of industry and that this would cause prices to fall. Price falls decrease incentives to invest, and the spiral could continue indefinitely. Malthus is more notorious however for his earlier work, *An Essay on the Principle of Population*. This argued that intervention was impossible because of two factors. "Food is necessary to the existence of man", wrote Malthus. "The passion between the sexes is necessary and will remain nearly in its present



Jeremy Bentham believed in "the greatest good for the greatest number".



Say's law, that supply always equals demand, was unchallenged until the 20th century.

This tradeoff
How do ya tradeoff this stuff exactly

opposite of Keynesian

human happiness

state", he added, meaning that the "power of the population is infinitely greater than the power in the Earth to produce subsistence for man."^[43]

lol
will run out of population

Nevertheless growth in population is checked by "misery and vice". Any increase in wages for the masses would cause only a temporary growth in population, which given the constraints in the supply of the Earth's produce would lead to misery, vice and a corresponding readjustment to the original population.^[44] However more labour could mean more economic growth, either one of which was able to be produced by an accumulation of capital.

David Ricardo

Main article: *David Ricardo*

David Ricardo (1772–1823) was born in London. By the age of 26, he had become a wealthy stock market trader and bought himself a constituency seat in Ireland to gain a platform in the British parliament's House of Commons.^[45] Ricardo's best known work is his *Principles of Political Economy and Taxation*, which contains his critique of barriers to international trade and a description of the manner the income is distributed in the population. Ricardo made a distinction between the workers, who received a wage fixed to a level at which they can survive, the landowners, who earn a rent, and capitalists, who own capital and receive a profit, a residual part of the income.^[46]

If population grows, it becomes necessary to cultivate additional land, whose fertility is lower than that of already cultivated fields, because of the law of decreasing productivity. Therefore, the cost of the production of the wheat increases, as well as the price of the wheat: The rents increase also, the wages, indexed to inflation (because they must allow workers to survive) too. Profits decrease, until the capitalists can no longer invest. The economy, Ricardo concluded, is bound to tend towards a steady state.

Can never grow - tech change?

To postpone the steady state, Ricardo advocates to promote international trade to import wheat at a low price to fight landowners. The Corn Laws of the UK had been passed in 1815, setting a fluctuating system of tariffs to stabilise the price of wheat in the domestic market. Ricardo argued that raising tariffs, despite being intended to benefit the incomes of farmers, would merely produce a rise in the prices of rents that went into the pockets of landowners.^[47]

do we screw the rich?

Furthermore, extra labour would be employed leading to an increase in the cost of wages across the board, and therefore reducing exports and profits coming from overseas business. Economics for Ricardo was all about the relationship between the three "factors of production": land, labour and capital. Ricardo demonstrated mathematically that the gains from trade could outweigh the perceived advantages of protectionist policy. The idea of comparative advantage suggests that even if one country is inferior at producing all of its goods than another, it may still benefit from opening its borders since the inflow of goods produced more cheaply than at home, produces a gain for domestic consumers.^[48] According then to Ricardo, this concept would lead to a shift in prices, so that eventually England would be producing goods in which its comparative advantages were the highest.

John Stuart Mill

Main articles: *Principles of Political Economy and John Stuart Mill*

John Stuart Mill (1806–1873) was the dominant figure of political economic thought of his time, as well as being a Member of Parliament for the seat of Westminster, and a leading political philosopher. Mill was a child prodigy, reading Ancient Greek from the age of 3, and being vigorously schooled by his father James Mill.^[49] Jeremy Bentham was a close mentor and family friend, and Mill was heavily influenced by David Ricardo. Mill's textbook, first published in 1848 and titled *Principles of Political Economy* was essentially a summary of the economic wisdom of the mid nineteenth century.^[50]

Principles of Political Economy was used as the standard texts by most universities well into the beginning of the twentieth century. On the question of economic growth Mill tried to find a middle ground between Adam Smith's view of ever expanding opportunities for trade and technological innovation and Thomas Malthus' view of the inherent limits of population. In his fourth book Mill set out a number of possible future outcomes, rather than predicting one in



Malthus cautioned law makers on the effects of poverty reduction policies.



Ricardo is renowned for his law of comparative advantage.



John Stuart Mill, weaned on the

particular. The first followed the Malthusian line that population grew quicker than supplies, leading to falling wages and rising profits.^[51]

philosophy of Jeremy Bentham, wrote the most authoritative economics text of his time.

The second, per Smith, said if capital accumulated faster than population grew then real wages would rise. Third, echoing David Ricardo, should capital accumulate and population increase at the same rate, yet technology stay stable, there would be no change in real wages because supply and demand for labour would be the same. However growing populations would require more land use, increasing food production costs and therefore decreasing profits. The fourth alternative was that technology advanced faster than population and capital stock increased.^[52]

The result would be a prospering economy. Mill felt the third scenario most likely, and he assumed technology advanced would have to end at some point.^[53] But on the prospect of continuing economic growth, Mill was more ambivalent.

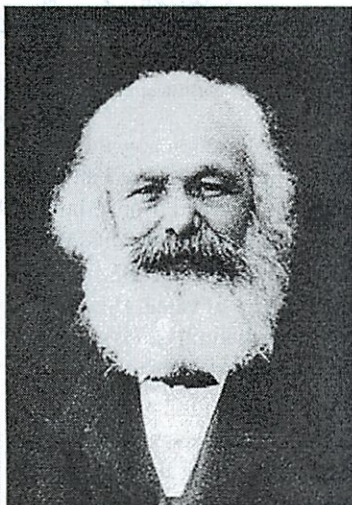
I confess I am not charmed with the ideal of life held out by those who think that the normal state of human beings is that of struggling to get on; that the trampling, crushing, elbowing, and treading on each other's heels, which form the existing type of social life, are the most desirable lot of human kind, or anything but the disagreeable symptoms of one of the phases of industrial progress.^[54]

lot!
does any one believe that today?

Mill is also credited with being the first person to speak of supply and demand as a relationship rather than mere quantities of goods on markets,^[55] the concept of opportunity cost and the rejection of the wage fund doctrine.^[56]

Capitalism and Marx

Main article: *Marxian economics*



Karl Marx provided a fundamental critique of classical economics, based on the labour theory of value.

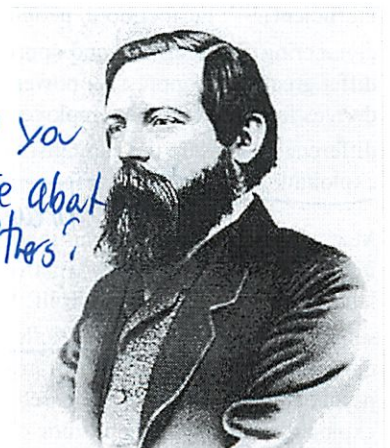
Just as the term "mercantilism" had been coined and popularised by its critics, like Adam Smith, so was the term "capitalism" or *Kapitalismus* used by its dissidents, primarily Karl Marx. Karl Marx (1818–1883) was, and in many ways still remains the pre-eminent socialist economist. His combination of political theory represented in the *Communist Manifesto* and the dialectic theory of history inspired by Friedrich Hegel provided a revolutionary critique of capitalism as he saw it in the nineteenth century. The socialist movement that he joined had emerged in response to the conditions of people in the new industrial era and the classical economics which accompanied it. He wrote his magnum opus *Das Kapital* at the British Museum's library.

Context

Main articles: *Robert Owen, Pierre Proudhon, and Friedrich Engels*

Robert Owen (1771–1858) was one industrialist who determined to improve the conditions of his workers. He bought textile mills in New Lanark, Scotland where he forbade children under ten to work, set the workday from 6 a.m. to 7 p.m. and provided evening schools for children when they finished. Such meagre measures were still substantial improvements and his business remained solvent through higher productivity, though his

pay rates were lower than the national average.^[57] He published his vision in *The New View of Society* (1816) during the passage of the Factory Acts, but his attempt from 1824 to begin a new utopian community in New Harmony, Indiana ended in failure. One of Marx's own influences was the French anarchist/socialist Pierre-Joseph Proudhon. While deeply critical of capitalism and in favour of workers' associations to replace it, he also objected to those contemporary socialists who idolized centralised state-run association. In *System of Economic Contradictions* (1846) Proudhon made a wide-ranging critique of capitalism, analysing the contradictory effects of machinery, competition, property, monopoly and other aspects of the economy.^{[58][59]} Instead of capitalism, he argued for a mutualist system "based upon equality, – in other words, the organisation of labour, which involves the negation of political economy and the end of property." In his book *What is Property?* (1840) he argue that property is theft, a different view than the classical Mill, who had written that "partial taxation is a mild form of robbery".^[60] However, towards the end of his life, Proudhon modified some of his earlier views. In the posthumously published *Theory of Property*, he argued that "property is the only power that can act as a counterweight to the State."^[61] Friedrich Engels, a



With Marx, Friedrich Engels coauthored the Communist Manifesto, and the second volume of *Das Kapital*.

do you care about others?

no I should get all the

published radical author, released a book titled *The Condition of the Working Class in England in 1844*^[62] describing people's positions as "the most unconcealed pinnacle of social misery in our day." After Marx died, it was Engels that completed the second volume of *Das Kapital* from Marx's notes.

Das Kapital



The title page of the first edition of *Capital* in German.

Main articles: *Das Kapital*, *Capital*, *Volume I*, and *Karl Marx*

Karl Marx begins *Das Kapital* with the concept of commodities. Before capitalist societies, says Marx, the mode of production was based on slavery (e.g. in ancient Rome) before moving to feudal serfdom (e.g. in mediaeval Europe). As society has advanced, economic bondage has become looser, but the current nexus of labour exchange has produced an equally erratic and unstable situation allowing the conditions for revolution. People buy and sell their labour in the same way as people buy and sell goods and services. People themselves are disposable commodities. As he wrote in the *Communist Manifesto*,

The history of all hitherto existing society is the history of class struggles. Freeman and slave, patrician and plebeian, lord and serf, guildmaster and journeyman, in a word, oppressor and oppressed, stood in constant opposition to one another... The modern bourgeois society that has sprouted from the ruins of feudal society has not done away with class antagonisms. It has but established new classes, new conditions of oppression, new forms of struggle in place of the old ones.

And furthermore from the first page of *Das Kapital*,

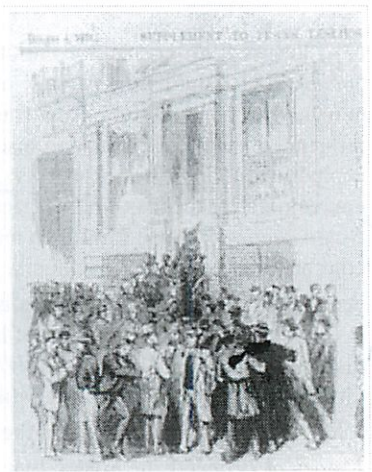
The wealth of those societies in which the capitalist mode of production prevails, presents itself as an immense accumulation of commodities,^[63] its unit being a single commodity. Our investigation must therefore begin with the analysis of a commodity.

do we still have classes? American inter class mobility American Dream

Marx's use of the word "commodity" is tied into an extensive metaphysical discussion of the nature of material wealth, how the objects of wealth are perceived and how they can be used. The concept of a commodity contrasts to objects of the natural world. When people mix their labour with an object it becomes a "commodity". In the natural world there are trees, diamonds, iron ore and people. In the economic world they become chairs, rings, factories and workers. However, says Marx, commodities have a dual nature, a dual value. He distinguishes the use value of a thing from its exchange value, which can be entirely different.^[64] The use value of a thing derives from the amount of labour used to produce it, says Marx, following the classical economists in the labour theory of value. However, Marx did not believe labour only was the source of use value in things. He believed value can derive too from natural goods and refined his definition of use value to "socially necessary labour time" (the time people need to produce things when they are not lazy or inefficient).^[65] Furthermore, people subjectively inflate the value of things, for instance because there's a commodity fetish for glimmering diamonds,^[66] and oppressive power relations involved in commodity production. These two factors mean exchange values differ greatly. An oppressive power relation, says Marx applying the use/exchange distinction to labour itself, in work-wage bargains derives from the fact that employers pay their workers less in "exchange value" than the workers produce in "use value". The difference makes up the capitalist's profit, or in Marx's terminology, "surplus value".^[67] Therefore, says Marx, capitalism is a system of exploitation.

This breaks down if you have social mobility

Marx's work turned the labour theory of value, as the classicists used it, on its head. His dark irony goes deeper by asking what is the socially necessary labour time for the production of labour (i.e. working people) itself. Marx answers that this is the bare minimum for people to subsist and to reproduce with skills necessary in the economy.^[68] People are therefore alienated from both the fruits of production and the means to realise their potential, psychologically, by their oppressed position in the labour market. But the tale told alongside exploitation and alienation is one of capital accumulation and economic growth. Employers are constantly under pressure from market competition to drive their workers harder, and at the limits invest in labour displacing technology (e.g. an assembly line packer for a robot). This raises profits and expands growth, but for the sole benefit of those who have private property in these means of production. The working classes meanwhile face progressive immiseration, having had the product of their labour exploited from them, having been alienated from the tools of production. And having been fired from their jobs for machines, they end unemployed. Marx believed that a reserve army of the unemployed would grow and grow, fuelling a downward pressure on wages as desperate people accept work for less. But this would produce a deficit of demand as the people's power to purchase products lagged. There would be a glut in



unsold products, production would be cut back, profits decline until capital accumulation halts in an economic depression. When the glut clears, the economy again starts to boom before the next cyclical bust begins. With every boom and bust, with every capitalist crisis, thought Marx, tension and conflict between the increasingly polarised classes of capitalists and workers heightens. Moreover smaller firms are being gobbled by larger ones in every business cycle, as power is concentrated in the hands of the few and away from the many. Ultimately, led by the Communist party, Marx envisaged a revolution and the creation of a classless society. How this may work, Marx never suggested. His primary contribution was not in a blue print for how society would be, but a criticism of what he saw it was.

Marx explained the booms and busts, like the Panic of 1873, as part of an inherent instability in capitalist economies.

After Marx

Main articles: Karl Kautsky, Rosa Luxemburg, Beatrice Webb, John A. Hobson, R. H. Tawney, and Paul Sweezy

The first volume of *Das Kapital* was the only one Marx alone published. The second and third volumes were done with the help of Friedrich Engels, and Karl Kautsky, who had become a friend of Engels, saw through the publication of volume four.

Marx had begun a tradition of economists who concentrated equally on political affairs. Also in Germany, Rosa Luxemburg was a member of the SPD, who later turned towards the Communist Party because of their stance against the First World War. Beatrice Webb in England was a socialist, who helped found both the London School of Economics (LSE) and the Fabian Society.

Neoclassical thought

Main articles: Neoclassical economics, Marginalism, and Mathematical economics

See also: Léon Walras, Alexander del Mar, John Bates Clark, Irving Fisher, William Ashley (economic historian), Enrico Barone, and Maffeo Pantaleoni

In the 1860s, a revolution took place in economics. The new ideas were that of the Marginalist school. Writing simultaneously and independently, a Frenchman (Léon Walras), an Austrian (Carl Menger) and an Englishman (Stanley Jevons) were developing the theory, which had some antecedents. Instead of the price of a good or service reflecting the labor that has produced it, it reflects the marginal usefulness (utility) of the last purchase. This meant that in equilibrium, people's preferences determined prices, including, indirectly the price of labor.

This current of thought was not united, and there were three main schools working independently. The Lausanne school, whose two main representants were Walras and Vilfredo Pareto, developed the theories of general equilibrium and optimality. The main written work of this school was Walras' *Elements of Pure Economics*. The Cambridge school appeared with Jevons' *Theory of Political Economy* in 1871. This English school has developed the theories of the partial equilibrium and has insisted on markets' failures. The main representatives were Alfred Marshall, Stanley Jevons and Arthur Pigou. The Vienna school was made up of Austrian economists Menger, Eugen von Böhm-Bawerk and Friedrich von Wieser. They developed the theory of capital and has tried to explain the presence of economic crises. It appeared in 1871 with Menger's *Principles of Economics*.

Marginal utility

Main articles: Marginal utility theory, Carl Menger, Stanley Jevons, and Léon Walras

Carl Menger (1840–1921), an Austrian economist stated the basic principle of marginal utility in *Grundsätze der Volkswirtschaftslehre*^[69] (1871, *Principles of Economics*). Consumers act rationally by seeking to maximise satisfaction of all their preferences. People allocate their spending so that the last unit of a commodity bought creates no more than a last unit bought of something else. Stanley Jevons (1835–1882) was his English counterpart, and worked as tutor and later professor at Owens College, Manchester and University College, London. He emphasised in the *Theory of Political Economy* (1871) that at the margin, the satisfaction of goods and services decreases. An example of the theory of diminishing returns is that for every orange one eats, the less pleasure one gets from the last orange (until one stops eating). Then Léon Walras (1834–1910), again working independently, generalised marginal theory across the economy in *Elements of Pure Economics* (1874). Small changes in people's preferences, for instance shifting from beef to mushrooms, would lead to a mushroom price rise, and beef price fall. This stimulates producers to shift production, increasing mushrooming investment, which would increase market supply and a new price equilibrium between the products – e.g. lowering the price of mushrooms to a level between the two first levels. For many products across the economy the same would go, *if* one assumes markets are competitive, people choose on self



interest and no cost in shifting production.

William Stanley Jevons helped popularise marginal utility theory.

Early attempts to explain away the periodical crises of which Marx had spoken were not initially as successful. After finding a statistical correlation of sunspots and business fluctuations and following the common belief at the time that sunspots had a direct effect on weather and hence agricultural output, Stanley Jevons wrote,

when we know that there is a cause, the variation of the solar activity, which is just of the nature to affect the produce of agriculture, and which does vary in the same period, it becomes almost certain that the two series of phenomena— credit cycles and solar variations—are connected as effect and cause.^[70]

Mathematical analysis

Main articles: Vilfredo Pareto, Alfred Marshall, Francis Edgeworth, and Johann Heinrich von Thünen

Vilfredo Pareto (1848–1923) was an Italian economist, best known for developing the concept of an economy that would permit maximizing the utility level of each individual, given the feasible utility level of others from production and exchange. Such a result came to be called "Pareto efficient". Pareto devised mathematical representations for such a resource allocation, notable in abstracting from institutional arrangements and monetary measures of wealth or income distribution.^[71]

Alfred Marshall is also credited with an attempt to put economics on a more mathematical footing. He was the first Professor of Economics at the University of Cambridge and his work, *Principles of Economics*^[72] coincided with the transition of the subject from "political economy" to his favoured term, "economics". He viewed maths as a way to simplify economic reasoning, though had reservations, revealed in a letter to his student Arthur Cecil Pigou.

rational actor

(1) Use mathematics as shorthand language, rather than as an engine of inquiry. (2) Keep to them till you have done. (3) Translate into English. (4) Then illustrate by examples that are important in real life. (5) Burn the mathematics. (6) If you can't succeed in 4, burn 3. This I do often.^[73]

Coming after the marginal revolution, Marshall concentrated on reconciling the classical labour theory of value, which had concentrated on the supply side of the market, with the new marginalist theory that concentrated on the consumer demand side. Marshall's graphical representation is the famous supply and demand graph, the "Marshallian cross". He insisted it is the intersection of *both* supply and demand that produce an equilibrium of price in a competitive market. Over the long run, argued Marshall, the costs of production and the price of goods and services tend towards the lowest point consistent with continued production. Arthur Cecil Pigou in *Wealth and Welfare* (1920), insisted on the existence of market failures. Markets are inefficient in case of economic externalities, and the State must interfere. However, Pigou retained free-market beliefs, and in 1933, in the face of the economic crisis, he explained in *The Theory of Unemployment* that the excessive intervention of the state in the labor market was the real cause of massive unemployment, because the governments had established a minimal wage, which prevented the wages from adjusting automatically. This was to be the focus of attack from Keynes.



Alfred Marshall wrote the main alternative textbook to John Stuart Mill of the day, *Principles of Economics* (1882)

Austrian school

Main articles: Austrian school, Eugen von Böhm-Bawerk, Friedrich Hayek, Carl Menger, Ludwig von Mises, and Friedrich von Wieser

While the end of the nineteenth century and the beginning of the twentieth were dominated increasingly by mathematical analysis, the followers of Carl Menger, in the tradition of Eugen von Böhm-Bawerk, followed a different route, advocating the use of deductive logic instead. This group became known as the Austrian School, reflecting the Austrian origin of many of the early adherents. Thorstein Veblen in 1900, in his *Preconceptions of Economic Science*, contrasted neoclassical marginalists in the tradition of Alfred Marshall from the philosophies of the Austrian school.^{[74][75]}

Joseph Alois Schumpeter (1883–1950) was an Austrian economist and political scientist most known for his works on business cycles and innovation. He insisted on the role of the entrepreneurs in an economy. In *Business Cycles: A theoretical, historical and statistical analysis of the Capitalist process* (1939), Schumpeter made a synthesis of the theories about business cycles. He suggested that those cycles could explain the economic situations. According to Schumpeter, capitalism necessarily goes through long-term cycles, because it is



What does this mean exactly?

entirely based upon scientific inventions and innovations. A phase of expansion is made possible by innovations, because they bring productivity gains and encourage entrepreneurs to invest. However, when investors have no more opportunities to invest, the economy goes into recession, several firms collapse, closures and bankruptcy occur. This phase lasts until new innovations bring a creative destruction process, i.e. they destroy old products, reduce the employment, but they allow the economy to start a new phase of growth, based upon new products and new factors of production.^[76]

Ludwig von Mises, Friedrich von Hayek, and Joseph Schumpeter

Ludwig von Mises (1881–1973) was an Austrian economist who contributed the idea of praxeology, "The science of human action". Praxeology views economics as a series of voluntary trades that increase the satisfaction of the involved parties. Mises also argued that socialism suffers from an unsolvable economic calculation problem, which according to him, could only be solved through free market price mechanisms.^[citation needed]

Mises' outspoken criticisms of socialism had a large influence on the economic thinking of Friedrich von Hayek (1899–1992), who, while initially sympathetic to socialism, became one of the leading academic critics of collectivism in the 20th century.^[77] In echoes of Smith's "system of natural liberty", Hayek argued that the market is a "spontaneous order" and actively disparaged the concept of "social justice".^[78] Hayek believed that all forms of collectivism (even those theoretically based on voluntary cooperation) could only be maintained by a central authority. In his book, *The Road to Serfdom* (1944) and in subsequent works, Hayek claimed that socialism required central economic planning and that such planning in turn would lead towards totalitarianism. Hayek attributed the birth of civilization to private property in his book *The Fatal Conceit* (1988). According to him, price signals are the only means of enabling each economic decision maker to communicate tacit knowledge or dispersed knowledge to each other, to solve the economic calculation problem. Along with his contemporary Gunnar Myrdal, Hayek was awarded the Nobel Prize in 1974.

Depression and reconstruction

Alfred Marshall was still working on his last revisions of his *Principles of Economics* at the outbreak of the First World War (1914–1918). The new twentieth century's climate of optimism was soon violently dismembered in the trenches of the Western front, as the civilised world tore itself apart. For four years the production of Britain, Germany and France was geared entirely towards the war economy's industry of death. In 1917 Russia crumbled into revolution led by Vladimir Lenin's Bolshevik party. They carried Marxist theory as their saviour, and promised a broken country "peace, bread and land" by collectivising the means of production. Also in 1917, the United States of America entered the war on the side of France and Britain, President Woodrow Wilson carrying the slogan of "making the world safe for democracy". He devised a peace plan of Fourteen Points. In 1918 Germany launched a spring offensive which failed, and as the allies counter-attacked and more millions were slaughtered, Germany slid into revolution, its interim government suing for peace on the basis of Wilson's Fourteen Points. Europe lay in ruins, financially, physically, psychologically, and its future with the arrangements of the Versailles conference in 1919. John Maynard Keynes was the representative of Her Majesty's Treasury at the conference and the most vocal critic of its outcome.

John Maynard Keynes



John Maynard Keynes (right) with his American counterpart Harry White at the Bretton Woods conference.

Main articles: John Maynard Keynes and The Economic Consequences of the Peace

John Maynard Keynes (1883–1946) was born in Cambridge, educated at Eton and supervised by both A. C. Pigou and Alfred Marshall at Cambridge University. He began his career as a lecturer, before working in the British government during the Great War, and rose to be the British government's financial representative at the Versailles conference. His observations were laid out in his book *The Economic Consequences of the Peace*^[79] (1919) where he documented his outrage at the collapse of the Americans' adherence to the Fourteen Points^[80] and the mood of vindictiveness that prevailed towards Germany.^[81] Keynes quit from the conference and using extensive economic data provided by the conference records, Keynes argued that if the victors forced war reparations to be paid by the defeated Axis, then a world financial crisis would ensue, leading to a second world war.^[82] Keynes finished his treatise by advocating, first, a reduction in reparation payments by Germany to a realistically manageable level, increased intra-governmental management of continental coal production and a free trade union through the League of Nations;^[83] second, an arrangement to set off debt repayments between the Allied countries;^[84] third, complete reform of international currency exchange and an international loan fund;^[85] and fourth, a reconciliation of trade relations with Russia and Eastern Europe.^[86]

The book was an enormous success, and though it was criticised for false predictions by a number of people,^[87] without the changes

he advocated, Keynes' dark forecasts matched the world's experience through the Great Depression which ensued in 1929, and the descent into a new outbreak of war in 1939. World War I had been the "war to end all wars", and the absolute failure of the peace settlement generated an even greater determination to not repeat the same mistakes. With the defeat of fascism, the Bretton Woods conference was held to establish a new economic order. Keynes was again to play a leading role.

The General Theory

Main article: The General Theory of Employment, Interest, and Money

During the Great Depression, Keynes had published his most important work, *The General Theory of Employment, Interest, and Money* (1936). The depression had been sparked by the Wall Street Crash of 1929, leading to massive rises in unemployment in the United States, leading to debts being recalled from European borrowers, and an economic domino effect across the world. Orthodox economics called for a tightening of spending, until business confidence and profit levels could be restored. Keynes by contrast, had argued in *A Tract on Monetary Reform* (1923) that a variety of factors determined economic activity, and that it was not enough to wait for the long run market equilibrium to restore itself. As Keynes famously remarked,

...this long run is a misleading guide to current affairs. In the long run we are all dead. Economists set themselves too easy, too useless a task if in tempestuous seasons they can only tell us that when the storm is long past the ocean is flat again.^[88]

On top of the supply of money, Keynes identified the propensity to consume, inducement to invest, the marginal efficiency of capital, liquidity preference and the multiplier effect as variables which determine the level of the economy's output, employment and level of prices. Much of this esoteric terminology was invented by Keynes especially for his *General Theory*, though some simple ideas lay behind. Keynes argued that if savings were being kept away from investment through financial markets, total spending falls. Falling spending leads to reduced incomes and unemployment, which reduces savings again. This continues until the desire to save becomes equal to the desire to invest, which means a new "equilibrium" is reached and the spending decline halts. This new "equilibrium" is a depression, where people are investing less, have less to save and less to spend.

Keynes argued that employment depends on total spending, which is composed of consumer spending and business investment in the private sector. Consumers only spend "passively", or according to their income fluctuations. Businesses, on the other hand, are induced to invest by the expected rate of return on new investments (the benefit) and the rate of interest paid (the cost). So, said Keynes, if business expectations remained the same, and government reduces interest rates (the costs of borrowing), investment would increase, and would have a multiplied effect on total spending. Interest rates, in turn, depend on the quantity of money and the desire to hold money in bank accounts (as opposed to investing). If not enough money is available to match how much people want to hold, interest rates rise until enough people are put off. So if the quantity of money were increased, while the desire to hold money remained stable, interest rates would fall, leading to increased investment, output and employment. For both these reasons, Keynes therefore advocated low interest rates and easy credit, to combat unemployment.

But Keynes believed in the 1930s, conditions necessitated public sector action. Deficit spending, said Keynes, would kick-start economic activity. This he had advocated in an open letter to U.S. President Franklin D. Roosevelt in the *New York Times* (1933). The New Deal programme in the U.S. had been well underway by the publication of the *General Theory*. It provided conceptual reinforcement for policies already pursued. Keynes also believed in a more egalitarian distribution of income, and taxation on unearned income arguing that high rates of savings (to which richer folk are prone) are not desirable in a developed economy. Keynes therefore advocated both monetary management and an active fiscal policy.

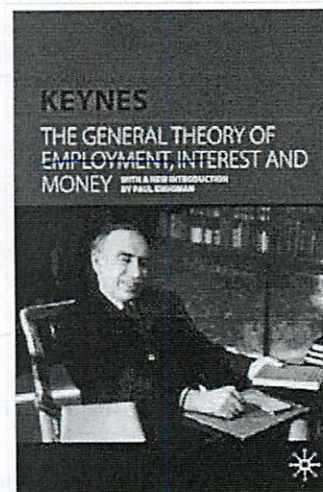
Keynesian economics

Main articles: Keynesian economics and 2008–2009 Keynesian resurgence

See also: Joan Robinson and Piero Sraffa

During the Second World War, Keynes acted as advisor to HM Treasury again, negotiating major loans from the US. He helped formulate the plans for the International Monetary Fund, the World Bank and an International Trade Organisation^[89] at the Bretton Woods conference, a package designed to stabilise world economy fluctuations that had occurred in the 1920s and create a level trading field across the globe. Keynes passed away little more than a year later, but his ideas had already shaped a new global economic order, and all Western governments followed the Keynesian prescription of deficit spending to avert crises and maintain full employment.

Stability vs boom/bust ran growth
which would you rather have?



The title page to Keynes' *General Theory*.

Nice cover - from 30s!

One of Keynes' pupils at Cambridge was Joan Robinson, who contributed to the notion that competition is seldom perfect in a market, an indictment of the theory of markets setting prices. In *The Production Function and the Theory of Capital* (1953) Robinson tackled what she saw to be some of the circularity in orthodox economics. Neoclassicists assert that a competitive market forces producers to minimise the costs of production. Robinson said that costs of production are merely the prices of inputs, like capital. Capital goods get their value from the final products.

And if the price of the final products determines the price of capital, then it is, argued Robinson, utterly circular to say that the price of capital determines the price of the final products. Goods cannot be priced until the costs of inputs are determined. This would not matter if everything in the economy happened instantaneously, but in the real world, price setting takes time – goods are priced before they are sold. Since capital cannot be adequately valued in independently measurable units, how can one show that capital earns a return equal to the contribution to production?

Piero Sraffa came to England from fascist Italy in the 1920s, and worked with Keynes in Cambridge. In 1960 he published a small book called *Production of Commodities by Means of Commodities*, which explained how technological relationships are the basis for production of goods and services. Prices result from wage-profit tradeoffs, collective bargaining, labour and management conflict and the intervention of government planning. Like Robinson, Sraffa was showing how the major force for price setting in the economy was not necessarily market adjustments.



Piero Sraffa.

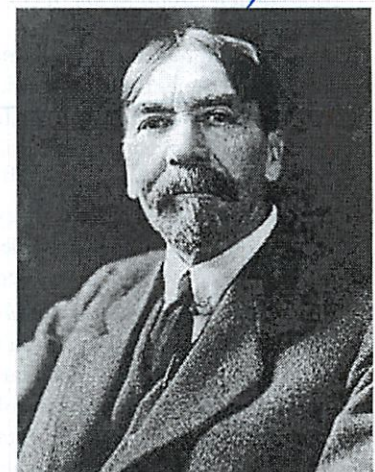
The "American Way"

After World War II, the United States had become the pre-eminent global economic power. Europe and the Soviet Union lay in ruins and the British Empire was at its end. Until then, American economists had played a minor role. The institutional economists had been largely critical of the "American Way" of life, especially regarding conspicuous consumption of the Roaring Twenties before the Wall Street Crash of 1929. After the war, however, a more orthodox body of thought took root, reacting against the lucid debating style of Keynes, and re-mathematizing the profession. The orthodox centre was also challenged by a more radical group of scholars based at the University of Chicago. They advocated "liberty" and "freedom", looking back to 19th century-style non-interventionist governments.

Institutionalism

Main articles: Institutional economics, Thorsten Veblen, Adolf Berle, Henry George, John Dewey, Wesley Mitchell, and Herbert A. Simon

Thorsten Veblen (1857–1929), who came from rural mid-western America and worked at the University of Chicago, is one of the best known early critics of the "American Way". In *The Theory of the Leisure Class* (1899) he scorned materialistic culture and wealthy people who conspicuously consumed their riches as a way of demonstrating success and in *The Theory of Business Enterprise* (1904) Veblen distinguished production for people to use things and production for pure profit, arguing that the former is often hindered because businesses pursue the latter. Output and technological advance are restricted by business practices and the creation of monopolies. Businesses protect their existing capital investments and employ excessive credit, leading to depressions and increasing military expenditure and war through business control of political power. These two books, focusing on criticism first of consumerism, and second of profiteering, did not advocate change. However, in 1911, Veblen joined the faculty of the University of Missouri, where he had support from Herbert Davenport, the head of the economics department. Veblen remained at Columbia, Missouri through 1918. In that year, he moved to New York to begin work as an editor of a magazine called *The Dial*, and then in 1919, along with Charles A. Beard, James Harvey Robinson and John Dewey, helped found the New School for Social Research (known today as The New School). He was also part of the Technical Alliance,^[90] created in 1919 by Howard Scott. From 1919 through 1926 Veblen continued to write and to be involved in various activities at The New School. During this period he wrote *The Engineers and the Price System* (1921).^[91]

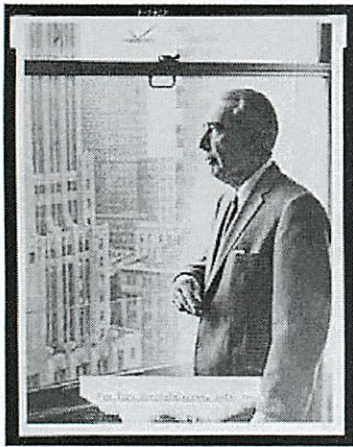


Thorsten Veblen came from a Norwegian immigrant family in rural mid-western America.

John R. Commons (1862–1945) also came from mid-Western America. Underlying his ideas, consolidated in *Institutional Economics* (1934) was the concept that the economy is a web of relationships between people with diverging interests. There are monopolies, large corporations, labour disputes and fluctuating business cycles. They do however have an interest in resolving these disputes.

don't attempt artificial stability

Government, thought Commons, ought to be the mediator between the conflicting groups. Commons himself devoted much of his time to advisory and mediation work on government boards and industrial commissions.



Adolf Augustus Berle, Jr. with Gardiner Means was a foundational figure of modern corporate governance.

The Great Depression was a time of significant upheaval in the States. One of the most original contributions to understanding what had gone wrong came from a Harvard University lawyer, named Adolf Berle (1895–1971), who like John Maynard Keynes had resigned from his diplomatic job at the Paris Peace Conference, 1919 and was deeply disillusioned by the Versailles Treaty. In his book with Gardiner C. Means, *The Modern Corporation and Private Property* (1932), he detailed the evolution in the contemporary economy of big business, and argued that those who controlled big firms should be better held to account. Directors of companies are held to account to the shareholders of companies, or not, by the rules found in company law statutes. This might include rights to elect and fire the management, require for regular general meetings, accounting standards, and so on. In 1930s America, the typical company laws (e.g. in Delaware) did not clearly mandate such rights. Berle argued that the unaccountable directors of companies were therefore apt to funnel the fruits of enterprise profits into their own pockets, as well as manage in their own interests. The ability to do this was supported by the fact that the majority of shareholders in big public companies were single individuals, with scant means of communication, in short, divided and conquered. Berle served in President Franklin Delano Roosevelt's administration through the depression, and was a key member of the so called "Brain trust" developing many of the New Deal policies. In 1967, Berle and Means issued a revised edition of their work, in which the preface added a new dimension. It was not only the separation of controllers of companies from the owners as shareholders at stake. They posed the question of what the corporate structure was really meant to achieve.

Stockholders toil not, neither do they spin, to earn [dividends and share price increases]. They are beneficiaries by position only. Justification for their inheritance... can be founded only upon social grounds... that justification turns on the distribution as well as the existence of wealth. Its force exists only in direct ratio to the number of individuals who hold such wealth. Justification for the stockholder's existence thus depends on increasing distribution within the American population. Ideally the stockholder's position will be impregnable only when every American family has its fragment of that position and of the wealth by which the opportunity to develop individuality becomes fully actualized.^[92]

John Kenneth Galbraith

Main article: *John Kenneth Galbraith*

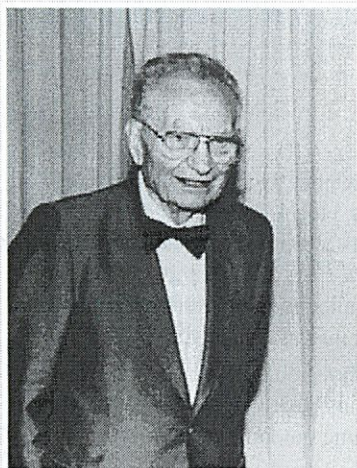
After the war, John Kenneth Galbraith (1908–2006) became one of the standard bearers for pro-active government and liberal-democrat politics. In *The Affluent Society* (1958), Galbraith argued voters reaching a certain material wealth begin to vote against the common good. He argued that the "conventional wisdom" of the conservative consensus was not enough to solve the problems of social inequality.^[93] In an age of big business, he argued, it is unrealistic to think of markets of the classical kind. They set prices and use advertising to create artificial demand for their own products, distorting people's real preferences. Consumer preferences actually come to reflect those of corporations—a "dependence effect"—and the economy as a whole is geared to irrational goals.^[94] In *The New Industrial State* Galbraith argued that economic decisions are planned by a private-bureaucracy, a technostructure of experts who manipulate marketing and public relations channels. This hierarchy is self serving, profits are no longer the prime motivator, and even managers are not in control. Because they are the new planners, corporations detest risk, require steady economic and stable markets. They recruit governments to serve their interests with fiscal and monetary policy, for instance adhering to monetarist policies which enrich money-lenders in the City through increases in interest rates. While the goals of an affluent society and complicit government serve the irrational technostructure, public space is simultaneously impoverished. Galbraith paints the picture of stepping from penthouse villas onto unpaved streets, from landscaped gardens to unkempt public parks. In *Economics and the Public Purpose* (1973) Galbraith advocates a "new socialism" as the solution, nationalising military production and public services such as health care, introducing disciplined salary and price controls to reduce inequality.



John K. Galbraith began his career as a high flying "new dealer", in the administration of Franklin Delano Roosevelt during the Great Depression. An interview from the early 1990s is here (<http://www.youtube.com/watch?v=jNgfH5pyxg>).

Paul Samuelson

Main articles: Paul Samuelson, Neoclassical synthesis, and Positive economics



Paul Samuelson wrote the best selling economics texts.

In contrast to Galbraith's linguistic style, the post-war economics profession began to synthesise much of Keynes' work with mathematical representations. Introductory university economics courses began to present economic theory as a unified whole in what is referred to as the neoclassical synthesis. "Positive economics" became the term created to describe certain trends and "laws" of economics that could be objectively observed and described in a value-free way, separate from "normative economic" evaluations and judgments. The best selling textbook writer of this generation was Paul Samuelson (1915–2009). His Ph.D. dissertation was an attempt to show that mathematical methods could represent a core of testable economic theory. It was published as *Foundations of Economic Analysis* in 1947. Samuelson started with two assumptions. First, people and firms will act to maximise their self interested goals. Second, markets tend towards an equilibrium of prices, where demand matches supply. He extended the mathematics to describe equilibrating behaviour of economic systems, including that of the then new macroeconomic theory of John Maynard Keynes. Whilst Richard Cantillon had imitated Isaac Newton's mechanical physics of inertia and gravity in competition and the market,^[14] the physiocrats had copied the body's blood system into circular flow of income models, William Jevons had found growth cycles to match the periodicity of sunspots, Samuelson adapted thermodynamics formulae to economic theory. Reasserting economics as a hard science was being done in the United Kingdom also, and one celebrated "discovery", of A. W. Phillips, was of a correlative relationship between inflation and unemployment. The workable policy

conclusion was that securing full employment could be traded-off against higher inflation. Samuelson incorporated the idea of the Phillips curve into his work. His introductory textbook *Economics* was influential and widely adopted. It became the most successful economics text ever. Paul Samuelson was awarded the new Nobel Prize in Economics in 1970 for his merging of mathematics and political economy.

Kenneth Arrow

Main article: Kenneth Arrow

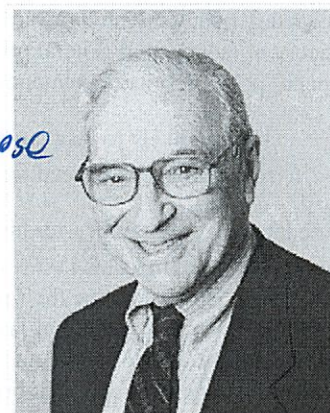
Kenneth Arrow (born 1921) is Paul Samuelson's brother-in-law. His first major work, forming his doctoral dissertation at Columbia University was *Social Choice and Individual Values* (1951), which brought economics into contact with political theory. This gave rise to social choice theory with the introduction of his "Possibility Theorem". In his words,

If we exclude the possibility of interpersonal comparisons of utility, then the only methods of passing from individual tastes to social preferences which will be satisfactory and which will be defined for a wide range of sets of individual orderings are either imposed or dictatorial.^[95]

what people choose

This sparked widespread discussion over how to interpret the different conditions of the theorem and what implications it had for democracy and voting. Most controversial of his four (1963) or five (1950/1951) conditions is the independence of irrelevant alternatives.

In the 1950s, Arrow and Gérard Debreu developed the Arrow–Debreu model of general equilibria. In 1971 Arrow with Frank Hahn co-authored *General Competitive Analysis* (1971), which reasserted a theory of general equilibrium of prices through the economy. In 1969 the Swedish Central Bank began awarding a prize in economics, as an analogy to the Nobel prizes awarded in Chemistry, Physics, Medicine as well as Literature and Peace (though Alfred Nobel never endorsed this in his will). With John Hicks, Arrow won the Bank of Sweden prize in 1972, the youngest recipient ever. The year before, US President Richard Nixon's had declared that "We are all Keynesians now".^[96] The irony was that this was the beginning of a new revolution in economic thought.



Kenneth Arrow, interview (1/09) on the financial crisis of 2007–2010. here (<http://www.youtube.com/watch?v=muUjNWleDZg>).

Monetarism and the Chicago school

Main articles: Monetarism and Chicago school (economics)

See also: Monetarism, Gary Becker, George Stigler, Frank Knight, Robert E. Lucas, and Robert Fogel

The interventionist monetary and fiscal policies that the orthodox post-war economics recommended came under attack in particular by a group of theorists working at the University of Chicago, which came to be known as the Chicago School. This more conservative

strand of thought reasserted a "libertarian" view of market activity, that people are best left to themselves, free to choose how to conduct their own affairs.

Ronald Coase

Main articles: Ronald Coase and Law and economics

Ronald Coase (born 1910) is the most prominent economic analyst of law and the 1991 Nobel Prize winner. His first major article, *The Nature of the Firm* (1937), argued that the reason for the existence of firms (companies, partnerships, etc.) is the existence of transaction costs. Rational individuals trade through bilateral contracts on open markets until the costs of transactions mean that using corporations to produce things is more cost-effective. His second major article, *The Problem of Social Cost* (1960), argued that if we lived in a world without transaction costs, people would bargain with one another to create the same allocation of resources, regardless of the way a court might rule in property disputes. Coase used the example of an old legal case about nuisance named *Sturges v Bridgman*, where a noisy sweetmaker and a quiet doctor were neighbours and went to court to see who should have to move.^[97] Coase said that regardless of whether the judge ruled that the sweetmaker had to stop using his machinery, or that the doctor had to put up with it, they could strike a mutually beneficial bargain about who moves house that reaches the same outcome of resource distribution. Only the existence of transaction costs may prevent this.^[98] So the law ought to pre-empt what *would* happen, and be guided by the most efficient solution. The idea is that law and regulation are not as important or effective at helping people as lawyers and government planners believe.^[99] Coase and others like him wanted a change of approach, to put the burden of proof for positive effects on a government that was intervening in the market, by analysing the costs of action.^[100]

Milton Friedman

Main article: Milton Friedman

Milton Friedman (1912–2006) stands as one of the most influential economists of the late twentieth century. He won the Nobel Prize in Economics in 1976, among other things, for *A Monetary History of the United States* (1963). Friedman argued that the Great Depression had been caused by the Federal Reserve's policies through the 1920s, and worsened in the 1930s. Friedman argues that laissez-faire government policy is more desirable than government intervention in the economy. Governments should aim for a neutral monetary policy oriented toward long-run economic growth, by gradual expansion of the money supply. He advocates the quantity theory of money, that general prices are determined by money. Therefore active monetary (e.g. easy credit) or fiscal (e.g. tax and spend) policy can have unintended negative effects. In *Capitalism and Freedom* (1967) Friedman wrote:

There is likely to be a lag between the need for action and government recognition of the need; a further lag between recognition of the need for action and the taking of action; and a still further lag between the action and its effects.^[101]

Friedman was also known for his work on the consumption function, the permanent income hypothesis (1957), which Friedman himself referred to as his best scientific work.^[102] This work contended that rational consumers would spend a proportional amount of what they perceived to be their permanent income. Windfall gains would mostly be saved. Tax reductions likewise, as rational consumers would predict that taxes would have to rise later to balance public finances. Other important contributions include his critique of the Phillips curve and the concept of the natural rate of unemployment (1968). This critique associated his name with the insight that a government that brings about higher inflation cannot permanently reduce unemployment by doing so. Unemployment may be temporarily lower, if the inflation is a surprise, but in the long run unemployment will be determined by the frictions and imperfections in the labour market.

Global times

Main article: Globalisation

Amartya Sen

Main articles: Amartya Sen and Development economics

Amartya Sen (born 1933) is a leading development and welfare economist and has expressed considerable skepticism on the validity of neo-classical assumptions. He was highly critical of rational expectations theory, and devoted his work to development and human rights. He won the Nobel Prize in Economics in 1998.

Joseph E. Stiglitz



Joseph Stiglitz has both been successful as an economist and a popular author. He talks about his book *Making Globalization Work* here (<http://www.youtube.com/watch?v=UzhD7KVs-R4>).

Main articles: Joseph E. Stiglitz, George Akerlof, and Information economics

Joseph Stiglitz (born 1943) Received the Nobel Prize in 2001 for his work in information economics. He has served as chairman of President Clinton's Council of Economic Advisors and as chief economist for the World Bank. Stiglitz has taught at many universities, including Columbia, Stanford, Oxford, Manchester, Yale, and MIT. In recent years he has become an outspoken critic of global economic institutions. He is a popular and academic author. In *Making Globalization Work* (2007), he offers an account of his perspectives on issues of international economics.

The fundamental problem with the neoclassical model and the corresponding model under market socialism is that they fail to take into account a variety of problems that arise from the absence of perfect information and the costs of acquiring information, as well as the absence or imperfections in certain key risk and capital markets. The absence or imperfection can, in turn, to a large extent be explained by problems of information.^[103]

Paul Krugman

Main articles: Paul Krugman and International economics

Paul Krugman (born 1953) is a contemporary economist. His textbook *International Economics* (2007) appears on many undergraduate reading lists. Well known as a representative of progressivism, he writes a biweekly

column on economics, American economic policy, and American politics more generally in the *New York Times*. He was awarded the Nobel Prize in Economics in 2008 for his work on New Trade Theory and economic geography.

has common themes



Paul Krugman at the German National Library in Frankfurt am Main

Contemporary economic thought

Macroeconomics since the Bretton Woods era

Further information: History of macroeconomic thought

From the 1970s onwards Friedman's monetarist critique of Keynesian macroeconomics formed the starting point for a number of trends in macroeconomic theory opposed to the idea that government intervention can or should stabilise the economy.^[104] Robert Lucas criticized Keynesian thought for its inconsistency with microeconomic theory. Lucas's critique set the stage for a neoclassical school of macroeconomics, New Classical economics based on the foundation of classical economics. Lucas also popularized the idea of rational expectations,^[105] which was used as the basis for several new classical theories including the Policy Ineffectiveness Proposition.^[106]

The standard model for new classical economics is the real business cycle theory, which sought to explain observed fluctuations in output and employment in terms of real variables such as changes in technology and tastes. Assuming competitive markets, real business cycle theory implied that cyclical fluctuations are optimal responses to variability in technology and tastes, and that macroeconomic stabilisation policies must reduce welfare.^[107]

Keynesian economics made a comeback among mainstream economists with the advent of New Keynesian macroeconomics. The central theme of new Keynesianism was the provision of a microeconomic foundation for Keynesian macroeconomics, obtained by identifying minimal deviations from the standard microeconomic assumptions which yield Keynesian macroeconomic conclusions, such as the possibility of significant welfare benefits from macroeconomic stabilization.^[108] Akerlof's 'menu costs' arguments, showing that, under imperfect competition, small deviations from rationality generate significant (in welfare terms) price stickiness, are good example of this kind of work.^[109]

Economists have combined the methodology of real business cycle theory with theoretical elements, like sticky prices, from new Keynesian theory to produce the new neoclassical synthesis. Dynamic stochastic general equilibrium (DSGE) models, large systems of microeconomic equations combined into models of the general economy, are central to this new synthesis. The synthesis dominates present day economics.

See also

*How about making you inefficient
Flaw privatization doesn't work?*

Switching?

Read 9/17 late opt

The Structure of Scientific Revolutions

From Wikipedia, the free encyclopedia

The Structure of Scientific Revolutions by Thomas Kuhn, is an analysis of the history of science, published in 1962. Its publication was a landmark event in the history, philosophy, and sociology of scientific knowledge and it triggered an ongoing worldwide assessment and reaction in—and beyond—those scholarly communities. In this work, Kuhn challenged the then prevailing view of progress in "normal science". Scientific progress had been seen primarily as "development-by-accumulation" of accepted facts and theories. Kuhn argued for an episodic model in which periods of such conceptual continuity in normal science were interrupted by periods of revolutionary science. During revolutions in science the discovery of anomalies leads to a whole new paradigm that changes the rules of the game and the "map" directing new research, asks new questions of old data, and moves beyond the puzzle-solving of normal science.^[1]

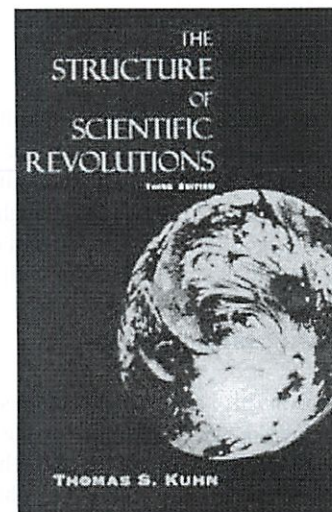
For example, Kuhn's analysis of the Copernican Revolution emphasized that, in its beginning, it did not offer more accurate predictions of celestial events, such as planetary positions, than the Ptolemaic system, but instead appealed to some practitioners based on a promise of better, simpler, solutions that might be developed at some point in the future. Kuhn called the core concepts of an ascendant revolution its "paradigms" and thereby launched this word into widespread analogical use in the second half of the 20th century. Kuhn's insistence that a paradigm shift was a mélange of sociology, enthusiasm and scientific promise, but not a logically determinate procedure, caused an uproar in reaction to his work. Kuhn addressed concerns in the 1969 postscript to the second edition. For some commentators it introduced a realistic humanism into the core of science while for other the nobility of science was tarnished by Kuhn's introduction of an irrational element into the heart of its greatest achievements.

humans matter in sui
Like my old STS class

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The Structure of Scientific Revolutions



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History

The work was first published as a monograph in the *International Encyclopedia of Unified Science*, then as a book by University of Chicago Press in 1962. (All page numbers below refer to the third edition of the text, published in 1996). In 1969, Kuhn added a postscript to the book in which he replied to critical responses to the first edition of the book.

Kuhn dated the genesis of his book to 1947, when he was a graduate student at Harvard University and had been asked to teach a science class for humanities undergraduates with a focus on historical case studies. Kuhn later commented that until then, "I'd never read an old document in science." Aristotle's *Physics* was astonishingly unlike Isaac Newton's work in its concepts of matter and motion. Kuhn concluded that Aristotle's concepts were not "bad Newton," just different.

Synopsis

Basic approach

Kuhn's approach to the history and philosophy of science has been described^[citation needed] as focusing on conceptual issues: what sorts of ideas were thinkable at a particular time? What sorts of intellectual options and strategies were available to people during a given period? What types of lexicons and terminology were known and employed during certain epochs? Stressing the importance of not attributing modern modes of thought to historical actors, Kuhn's book argues that the evolution of scientific theory does not emerge from the straightforward accumulation of facts, but rather from a set of changing intellectual circumstances and possibilities. Such an approach is largely commensurate with the general historical school of non-linear history.

Historical examples

Kuhn explains his ideas using examples taken from the history of science. For instance, at a particular stage in the history of chemistry, some chemists began to explore the idea of atomism. When many substances are heated they have a tendency to decompose into their constituent elements, and often (though not invariably) these elements can be observed to combine only in set proportions. At one time, a combination of water and alcohol was generally classified as a *compound*. Nowadays it is considered to be a *solution*, but there was no reason then to suspect that it was not a compound. Water and alcohol would not separate spontaneously, but they could be separated when heated. Water and alcohol can be combined in any proportion.

A chemist favoring atomic theory would have viewed all compounds whose elements combine in fixed proportions as exhibiting normal behavior, and all known exceptions to this pattern would be regarded as anomalies whose behavior would probably be explained at some time in the future. On the other hand, if a chemist believed that theories of the atomicity of matter were erroneous, then all compounds whose elements combined in fixed proportions would be regarded as anomalies whose behavior would probably be explained at some time in the future, and all those compounds whose elements are capable of combining in any ratio would be seen as exhibiting the normal behavior of compounds. Nowadays the consensus is that the atomists' view was correct. But if one were to restrict oneself to thinking about chemistry using only the knowledge available at the time, either point of view would be defensible.

The Copernican Revolution

Main article: Copernican Revolution

What is arguably the most famous example of a revolution in scientific thought is the Copernican Revolution. In Ptolemy's school of thought, cycles and epicycles (with some additional concepts) were used for modeling the movements of the planets in a cosmos that had a stationary Earth at its center. As accuracy of celestial observations increased, complexity of the Ptolemaic cyclical and epicyclical mechanisms had to increase to maintain the calculated planetary positions close to the observed positions. Copernicus proposed a cosmology in which the Sun was at the center and the Earth was one of the planets revolving around it. For modeling the planetary motions, Copernicus used the tools he was familiar with, namely the cycles and epicycles of the Ptolemaic toolbox. But Copernicus' model needed more cycles and epicycles than existed in the then-current Ptolemaic model, and due to a lack of accuracy in calculations, Copernicus's model did not appear to provide more accurate predictions than the Ptolemy model. Copernicus' contemporaries rejected his cosmology, and Kuhn asserts that they were quite right to do so: Copernicus' cosmology lacked credibility.

Thomas Kuhn illustrates how a paradigm shift later became possible when Galileo Galilei introduced his new ideas concerning motion. Intuitively, when an object is set in motion, it soon comes to a halt. A well-made cart may travel a long distance before it stops, but unless something keeps pushing it, it will eventually stop moving. Aristotle had argued that this was presumably a fundamental property of nature: for the motion of an object to be sustained, it must continue to be pushed. Given the knowledge available at the time, this represented sensible, reasonable thinking.

Galileo put forward a bold alternative conjecture: suppose, he said, that we always observe objects coming to a halt simply because some friction is always occurring. Galileo had no equipment with which to objectively confirm his conjecture, but he suggested that without any friction to slow down an object in motion, its inherent tendency is to maintain its speed without the application of any additional force.

The Ptolemaic approach of using cycles and epicycles was becoming strained: there seemed to be no end to the mushrooming growth in complexity required to account for the observable phenomena. Johannes Kepler was the first person to abandon the tools of the

no anomalies

Ptolemaic paradigm. He started to explore the possibility that the planet Mars might have an elliptical orbit rather than a circular one. Clearly, the angular velocity could not be constant, but it proved very difficult to find the formula describing the rate of change of the planet's angular velocity. After many years of calculations, Kepler arrived at what we now know as the law of equal areas.

Galileo's conjecture was merely that — a conjecture. So was Kepler's cosmology. But each conjecture increased the credibility of the other, and together, they changed the prevailing perceptions of the scientific community. Later, Newton showed that Kepler's three laws could all be derived from a single theory of motion and planetary motion. Newton solidified and unified the paradigm shift that Galileo and Kepler had initiated.

Coherence

One of the aims of science is to find models that will account for as many observations as possible within a coherent framework. Together, Galileo's rethinking of the nature of motion and Keplerian cosmology represented a coherent framework that was capable of rivaling the Aristotelian/Ptolemaic framework.

Once a paradigm shift has taken place, the textbooks are rewritten. Often the history of science too is rewritten, being presented as an inevitable process leading up to the current, established framework of thought. There is a prevalent belief that all hitherto-unexplained phenomena will in due course be accounted for in terms of this established framework. Kuhn states that scientists spend most (if not all) of their careers in a process of puzzle-solving. Their puzzle-solving is pursued with great tenacity, because the previous successes of the established paradigm tend to generate great confidence that the approach being taken guarantees that a solution to the puzzle exists, even though it may be very hard to find. Kuhn calls this process *normal science*.

As a paradigm is stretched to its limits, *anomalies* — failures of the current paradigm to take into account observed phenomena — accumulate. Their significance is judged by the practitioners of the discipline. Some anomalies may be dismissed as errors in observation, others as merely requiring small adjustments to the current paradigm that will be clarified in due course. Some anomalies resolve themselves spontaneously, having increased the available depth of insight along the way. But no matter how great or numerous the anomalies that persist, Kuhn observes, the practicing scientists will not lose faith in the established paradigm for as long as no credible alternative is available; to lose faith in the solubility of the problems would in effect mean ceasing to be a scientist.

In any community of scientists, Kuhn states, there are some individuals who are bolder than most. These scientists, judging that a *crisis* exists, embark on what Thomas Kuhn calls *revolutionary science*, exploring alternatives to long-held, obvious-seeming assumptions. Occasionally this generates a rival to the established framework of thought. The new candidate paradigm will appear to be accompanied by numerous anomalies, partly because it is still so new and incomplete. The majority of the scientific community will oppose any conceptual change, and, Kuhn emphasizes, so they should. To fulfill its potential, a scientific community needs to contain both individuals who are bold and individuals who are conservative. There are many examples in the history of science in which confidence in the established frame of thought was eventually vindicated. Whether the anomalies of a candidate for a new paradigm will be resolvable is almost impossible to predict. Those scientists who possess an exceptional ability to recognize a theory's potential will be the first whose preference is likely to shift in favour of the challenging paradigm. There typically follows a period in which there are adherents of both paradigms. In time, if the challenging paradigm is solidified and unified, it will replace the old paradigm, and a *paradigm shift* will have occurred.

Three phases

Chronologically, Kuhn distinguishes between three phases. The first phase, which exists only once, is the *pre-paradigm phase*, in which there is no consensus on any particular theory, though the research being carried out can be considered scientific in nature. This phase is characterized by several incompatible and incomplete theories. If the actors in the pre-paradigm community eventually gravitate to one of these conceptual frameworks and ultimately to a widespread consensus on the appropriate choice of methods, terminology and on the kinds of experiment that are likely to contribute to increased insights, then the second phase, *normal science*, begins, in which puzzles are solved within the context of the dominant paradigm. As long as there is consensus within the discipline, normal science continues. Over time, progress in normal science may reveal anomalies, facts that are difficult to explain within the context of the existing paradigm. While usually these anomalies are resolved, in some cases they may accumulate to the point where normal science becomes difficult and where weaknesses in the old paradigm are revealed. Kuhn refers to this as a *crisis*. Crises are often resolved within the context of normal science. However, after significant efforts of normal science within a paradigm fail, science may enter the third phase, that of *revolutionary science*, in which the underlying assumptions of the field are reexamined and a new paradigm is established. After the new paradigm's dominance is established, scientists return to normal science, solving puzzles within the new paradigm. A science may go through these cycles repeatedly, though Kuhn notes that it is a good thing for science that such shifts do not occur often or easily.

Incommensurability

↳ genetics

According to Kuhn, the scientific paradigms preceding and succeeding a paradigm shift are so different that their theories are incommensurable — the new paradigm cannot be proven or disproven by the rules of the old paradigm, and vice versa. The paradigm shift does not merely involve the revision or transformation of an individual theory, it changes the way terminology is defined, how the scientists in that field view their subject, and, perhaps most significantly, what questions are regarded as valid, and what rules are used to determine the truth of a particular theory. The new theories were not, as the scientists had previously thought, just extensions of old theories, but were instead completely new world views. Such incommensurability exists not just before and after a paradigm shift, but in the periods in between conflicting paradigms. It is simply not possible, according to Kuhn, to construct an impartial language that can be used to perform a neutral comparison between conflicting paradigms, because the very terms used are integral to the respective paradigms, and therefore have different connotations in each paradigm. The advocates of mutually exclusive paradigms are in a difficult position: *"Though each may hope to convert the other to his way of seeing science and its problems, neither may hope to prove his case. The competition between paradigms is not the sort of battle that can be resolved by proofs."* (SSR, p. 148). Scientists subscribing to different paradigms end up talking past one another.

Kuhn (SSR, section XII) states that the probabilistic tools used by verificationists are inherently inadequate for the task of deciding between conflicting theories, since they belong to the very paradigms they seek to compare. Similarly, observations that are intended to falsify a statement will fall under one of the paradigms they are supposed to help compare, and will therefore also be inadequate for the task. According to Kuhn, the concept of falsifiability is unhelpful for understanding why and how science has developed as it has. In the practice of science, scientists will only consider the possibility that a theory has been falsified if an alternative theory is available that they judge credible. If there is not, scientists will continue to adhere to the established conceptual framework. If a paradigm shift has occurred, the textbooks will be rewritten to state that the previous theory has been falsified.

Kuhn's opinion on scientific progress

The first edition of SSR ended with a chapter entitled "Progress through Revolutions", in which Kuhn spelled out his views on the nature of scientific progress. Since he considered problem solving to be a central element of science, Kuhn saw that for a new candidate for paradigm to be accepted by a scientific community, "First, the new candidate must seem to resolve some outstanding and generally recognized problem that can be met in no other way. Second, the new paradigm must promise to preserve a relatively large part of the concrete problem solving activity that has accrued to science through its predecessors."^[2] And overall Kuhn maintained that the new paradigm must also solve more problems than its predecessor, which therefore entailed that the number of newly solved problems must be greater than those solved in the old paradigm.^[3]

In the second edition of SSR, Kuhn added a postscript in which he elaborated his ideas on the nature of scientific progress. He described a thought experiment involving an observer who has the opportunity to inspect an assortment of theories, each corresponding to a single stage in a succession of theories. What if the observer is presented with these theories without any explicit indication of their chronological order? Kuhn anticipates that it will be possible to reconstruct their chronology on the basis of the theories' scope and content, because the more recent a theory is, the better it will be as an instrument for solving the kinds of puzzle that scientists aim to solve. Kuhn remarked: "That is not a relativist's position, and it displays the sense in which I am a convinced believer in scientific progress."^[4] ^[5]

Influence

In 1987, Kuhn's work was reported to be the twentieth-century book most frequently cited in the period 1976-83 in the Arts and the Humanities^[6] and the *Times Literary Supplement* labeled it one of "The Hundred Most Influential Books Since the Second World War." The book's basic concepts have been adopted and co-opted by a variety of fields and disciplines beyond those encompassing the history and philosophy of science.

SSR is viewed by postmodern and post-structuralist thinkers as having called into question the enterprise of science by demonstrating that scientific knowledge is dependent on the culture and historical circumstances of groups of scientists rather than on their adherence to a specific, definable method. In this regard, Kuhn is considered a precursor to the more radical thinking of Paul Feyerabend. Kuhn's work has also been regarded as blurring the demarcation between scientific and non-scientific enterprises, because it describes the mechanism of scientific progress without invoking any idealized scientific method that is capable of distinguishing science from non-science. In the years following the publication of *The Structure of Scientific Revolutions*, debate raged with adherents of Karl Popper's doctrine of falsificationism, such as Imre Lakatos.

On the one hand, logical positivists and many scientists have criticized Kuhn's "humanizing" of the scientific process for going too far, while the postmodernists, together with Feyerabend, have criticized Kuhn for not going far enough. SSR has also been embraced by creationists who see creationism as an incommensurate worldview in contrast to naturalism while holding science as a valuable tool.^[7]^[8] It was also in tune with a national change in attitudes towards science^[9] in the United States at the time of the book's publication, influenced by the Cold War confrontation with the Soviet Union, beginning with the launching of the space satellite

Sputnik in 1957. (Rachel Carson's *Silent Spring* was also published in 1962).

The changes that occur in politics, society and business are often expressed in Kuhnian terms, however poor their parallel with the practice of science may seem to scientists and historians of science. The terms "paradigm" and "paradigm shift" have become such notorious clichés and buzzwords that they are viewed as effectively devoid of content.^{[10] [11] [12]} Misused and overused to the point of becoming meaningless, their use in these contexts rarely has any firm foundation in Kuhn's original definitions.

Criticisms

Kuhn's *SSR* was soon criticized by his colleagues in the history and philosophy of science. In 1965, a special symposium on *SSR* was held at an International Colloquium on the Philosophy of Science that took place at Bedford College, London, and was chaired by Karl Popper. The symposium led to the publication of the symposium's presentations plus other essays, most of them critical, which eventually appeared in an influential volume of essays that by 1999 had gone through 21 printings. Kuhn expressed the opinion that his critics' readings of his book were so inconsistent with his own understanding of it that he was "...tempted to posit the existence of two Thomas Kuhns," one the author of his book, the other the individual who had been criticized in the symposium by "Professors Popper, Feyerabend, Lakatos, Toulmin and Watkins."^[13]

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Concept of paradigm

In his 1972 work, *Human Understanding*, Stephen Toulmin argued that a more realistic picture of science than that presented in *SSR* would admit the fact that revisions in science take place much more frequently, and are much less dramatic than can be explained by the model of revolution/normal science. In Toulmin's view, such revisions occur quite often during periods of what Kuhn would call "normal science." For Kuhn to explain such revisions in terms of the non-paradigmatic puzzle solutions of normal science, he would need to delineate what is perhaps an implausibly sharp distinction between paradigmatic and non-paradigmatic science.^[14]

Incommensurability of paradigms

In a series of texts published in the early 1970s, C.R. Kordig asserted a position somewhere between that of Kuhn and the older philosophy of science. His criticism of the Kuhnian position was that the incommensurability thesis was too radical, and that this made it impossible to explain the confrontation of scientific theories that actually occurs. According to Kordig, it is in fact possible to admit the existence of revolutions and paradigm shifts in science while still recognizing that theories belonging to different paradigms can be compared and confronted on the plane of observation. Those who accept the incommensurability thesis do not do so because they admit the discontinuity of paradigms, but because they attribute a radical change in meanings to such shifts.^[15]

Kordig maintains that there is a common observational plane. For example, when Kepler and Tycho Brahe are trying to explain the relative variation of the distance of the sun from the horizon at sunrise, both see the same thing (the same configuration is focused on the retina of each individual). This is just one example of the fact that "rival scientific theories share some observations, and therefore some meanings." Kordig suggests that with this approach, he is not reintroducing the distinction between observations and theory in which the former is assigned a privileged and neutral status, but that it is possible to affirm more simply the fact that, even if no sharp distinction exists between theory and observations, this does not imply that there are no comprehensible differences at the two extremes of this polarity.

At a secondary level, for Kordig there is a common plane of inter-paradigmatic standards or shared norms that permit the effective confrontation of rival theories.^[15]

In 1973, Hartry Field published an article that also sharply criticized Kuhn's idea of incommensurability. In particular, he took issue with this passage from Kuhn:

"Newtonian mass is immutably conserved; that of Einstein is convertible into energy. Only at very low relative velocities can the two masses be measured in the same way, and even then they must not be conceived as if they were the same thing." (Kuhn 1970).

Field takes this idea of incommensurability between the same terms in different theories one step further. Instead of attempting to identify a persistence of the reference of terms in different theories, Field's analysis emphasizes the indeterminacy of reference within individual theories. Field takes the example of the term "mass", and asks what exactly "mass" means in modern post-relativistic physics. He finds that there are at least two different definitions:

1) Relativistic mass: the mass of a particle is equal to the total energy of the particle divided by the speed of light squared. Since the total energy of a particle in relation to one system of reference differs from the total energy in relation to other systems of reference, while the speed of light remains constant in all systems, it follows that the mass of a particle has different values in

different systems of reference.

2) "Real" mass: the mass of a particle is equal to the *non-kinetic* energy of a particle divided by the speed of light squared. Since non-kinetic energy is the same in all systems of reference, and the same is true of light, it follows that the mass of a particle has the same value in all systems of reference.

Projecting this distinction backwards in time onto Newtonian dynamics, we can formulate the following two hypotheses:

HR: the term "mass" in Newtonian theory denotes relativistic mass.

Hp: the term "mass" in Newtonian theory denotes "real" mass.

According to Field, it is impossible to decide which of these two affirmations is true. Prior to the theory of relativity, the term "mass" was *referentially indeterminate*. But this does not mean that the term "mass" did not have a different *meaning* than it now has. The problem is not one of meaning but of *reference*. The reference of such terms as mass is only *partially determined*: we don't really know how Newton intended his use of this term to be applied. As a consequence, neither of the two terms fully denotes (refers). It follows that it is improper to maintain that a term has changed its reference during a scientific revolution; it is more appropriate to describe terms such as "mass" as "having undergone a denotational refinement."^[16]

Incommensurability and perception

The close connection between the interpretationalist hypothesis and a holistic conception of beliefs is at the root of the notion of the dependence of perception on theory, a central concept in *SSR*. Kuhn maintained that the perception of the world depends on how the percipient *conceives* the world: two scientists who witness the same phenomenon and are steeped in two radically different theories will see two different things. According to this view, our interpretation of the world determines what we see.^[17]

Jerry Fodor attempts to establish that this theoretical paradigm is fallacious and misleading by demonstrating the impenetrability of perception to the background knowledge of subjects. The strongest case can be based on evidence from experimental cognitive psychology, namely the persistence of perceptual illusions. Knowing that the lines in the Müller-Lyer illusion are equal does not prevent one from continuing to see one line as being longer than the other. This impenetrability of the information elaborated by the mental modules limits the scope of interpretationalism.

In epistemology, for example, the criticism of what Fodor calls the interpretationalist hypothesis accounts for the common-sense intuition (on which naïve physics is based) of the independence of reality from the conceptual categories of the experimenter. If the processes of elaboration of the mental modules are in fact independent of the background theories, then it is possible to maintain the realist view that two scientists who embrace two radically diverse theories see the world exactly in the same manner even if they interpret it differently. The point is that it is necessary to distinguish between observations and the perceptual fixation of beliefs. While it is beyond doubt that the second process involves the holistic relationship between beliefs, the first is largely independent of the background beliefs of individuals.

Other critics, such as Israel Sheffler, Hilary Putnam and Saul Kripke, have focused on the Fregean distinction between sense and reference in order to defend scientific realism. Sheffler contends that Kuhn confuses the meanings of terms such as "mass" with their references. While their meanings may very well differ, their references (the objects or entities to which they correspond in the external world) remain fixed.

Eurocentrism

More recently, criticism from a different direction has been developed by Arun Bala in his study *The Dialogue of Civilizations in the Birth of Modern Science* (Palgrave Macmillan, 2006). He charges that *The Structure of Scientific Revolutions* is itself a profoundly Eurocentric work, although it is often perceived as opening the door to the multicultural turn in historical studies of science. Bala charges that Kuhn ignores the significant impact of Arabic and Chinese science when he writes:

Every civilization of which we have records has possessed a technology, an art, a religion, a political system, laws and so on. In many cases those facets of civilizations have been as developed as our own. But only the civilizations that descend from Hellenic Greece have possessed more than the most rudimentary science. The bulk of scientific knowledge is a product of Europe in the last four centuries. No other place and time has supported the very special communities from which scientific productivity comes.

—Kuhn, 1962, pp. 167-168

Oh was fairly direct

Bala argues that it is precisely Kuhn's postmodern epistemological paradigm that obstructs recognition of non-Western influences on modern science. Bala argues that this leads Kuhn to treat different cultural scientific traditions as separate intellectual universes isolated from each other. Instead, Bala argues, we would have a different multicultural picture of science by including the contributions

Adam Read 9/17 Opt

The Methodology of Positive Economics

The most basic counsel of this essay is to respect John Neville Keynes's distinction between positive and normative economics, what *is* vs. what *ought to be* in economic matters.^[1] The essay sets out an epistemological program for Friedman's own research.

The essay argues that economics as science should be free of normative judgments for it to be respected as objective and to inform normative economics (for example whether to raise the minimum wage). Normative judgments frequently involve implicit predictions about the consequences of different policies. The essay suggests that such differences in principle could be narrowed by progress in positive economics (1953, p. 5).

The essay argues that a useful economic theory should *not* be judged primarily by its tautological completeness, however important in providing a consistent system for classifying elements of the theory and validly deriving implications therefrom. Rather a theory (or hypothesis) must be judged by its:

- simplicity in being able to predict at least as much as an alternate theory, although requiring less information^[2]
- fruitfulness in the precision and scope of its predictions and in its ability to generate additional research lines (p. 10).

In a famous and controversial passage, Friedman writes that:

Truly important and significant hypotheses will be found to have "assumptions" that are wildly inaccurate descriptive representations of reality, and, in general, the more significant the theory, the more unrealistic the assumptions (in this sense) (p. 14).

Why? Because such hypotheses and descriptions extract only those crucial elements sufficient to yield relatively precise, valid predictions, omitting a welter of predictively irrelevant details. Of course descriptive unrealism by itself does not ensure a "significant theory" (pp. 14-15).

From such Friedman rejects testing a theory by the realism of its assumptions. Rather simplicity and fruitfulness incline toward such assumptions and postulates as utility maximization, profit maximization, and ideal types -- not merely to *describe* (which may be beside the point) but to *predict* economic behavior and to provide an engine of analysis (pp. 30-35). On profit maximization, for example, firms are posited to push each line of action to the point of equating the relevant marginal revenue and marginal cost. Yet, answers of businessmen to questions about the factors affecting their decisions may show no such calculation. Still, if firms act *as if* they are trying to maximize profits, that is the relevant test of the associated hypothesis (pp. 15, 22, 31).

From Wikipedia

Character List

Howard Roark - The novel's hero, a brilliant architect of absolute integrity. Roark has friends and colleagues, but relies on himself alone. He is tall, gaunt, and angular, with gray eyes and distinctive orange hair. Born to a poor family, Roark supports himself throughout high school and college by working odd jobs on construction sites. He brings the same fiery intensity to whatever job he does, whether it is manual labor or architecture. He loves the beautiful Dominique Francon with violent passion. He is the novel's idealization of man, bringing innovative and joyful buildings to the rest of the world.

Ellsworth Toohey - The villain of the novel, and Roark's antithesis—a man with a lust for power but no talent. Since his boyhood, Toohey has despised the achievements of others, and he dedicates himself to squelching other people's talents and ambitions. He is a small and fragile-looking man, but his persuasive voice and knack for manipulation make him a formidable opponent. He encourages selflessness and altruism to coax others into submission. His philosophy is a blend of religion, Fascism and Socialism, and he at times resembles the Russian dictator Joseph Stalin.

Dominique Francon - Daughter of the prestigious architect Guy Francon, her fragile appearance, pale gold hair, and gray eyes belie her capability and bluntness. Dispassionate, cynical, and cold, Dominique nurses a masochistic streak. Although she loves Roark and his beliefs, she initially tries to destroy him before the rest of the world can. Eventually, to punish herself for her behavior, she marries Peter Keating and then Gail Wynand.

Gail Wynand - A ruthless media tycoon who sells his integrity for power. Wynand comes from New York's slums and is an entirely self-taught, self-made man. He had sought power so he could rule the incompetent and corrupt, but in acquiring wealth he becomes like them. His faith in humanity is restored when he meets Roark, who is incorruptible, and he becomes Roark's great ally and friend before finally betraying him.

Peter Keating - A classmate of Roark's who lives only for fame and the approval of others. Keating is good-looking and commercially successful, but he steals his only original ideas from Roark. In order to rise to the top, Keating flatters, lies, steals, kills, and even trades his wife, Dominique, for the opportunity to work on a promising project. His fall is even more rapid than his rise. He realizes the error of his ways too late and lives the rest of his life in frightened misery.

put name on Cortlandt planes

Henry Cameron - Roark's mentor, an intractable and aggressive architect who is in the twilight of his career at the onset of the novel. Like Roark, Cameron suffers greatly at the hands of the world because he loves his buildings, but he does not have Roark's strength and lives a frustrated and anguished life. Ruined physically and financially, Cameron dies still fighting the world.

Catherine Halsey - Toohey's niece and Keating's on-again, off-again fiancée. Halsey is not beautiful, but her innocence and sincerity provide Keating with a refuge from himself. Although Keating loves Katie, he abandons her, and her uncle Toohey slowly destroys her spirit.

Guy Francon - Dominique's father and Keating's employer and business partner. Francon rises to fame nearly as swiftly as Keating, but he has no real talent of his own. Nonetheless, Francon is a fundamentally honest and decent man, and eventually he finds salvation through his love for his spirited daughter.

Stephen Mallory - A gifted but disillusioned sculptor who feels alone and misunderstood until Roark rescues him from his drunken doldrums. Mallory's statues portray a heroic vision of man, but the world rejects his work. Mallory tries to kill Toohey, whom the artist blames for the failings of the world. Eventually he regains his self-confidence through his work on Roark's buildings.

Alvah Scarret - Wynand's editor-in-chief. Scarret clings to Wynand out of habit and inertia. He believes every article and column printed in the *Banner*. Because Scarret's beliefs reflect those of the masses, Wynand uses him to measure public opinion.

Mrs. Keating - Keating's forceful and manipulative mother. Mrs. Keating's preoccupation with money and success prompt Keating to make all the wrong choices. Mrs. Keating devoutly believes that financial success is the surest indicator of a person's quality.

Mike - A tough, phenomenally ugly electrician who admires talent in any form. He instantly recognizes Roark's ability and becomes a staple on the construction sites of the buildings Roark designs.

not in movie

The Dean - The Dean of the architecture school, a staunch traditionalist who frowns on any deviation from the architectural canon. The Dean believes everything worthy has already been designed and views Roark as dangerous.

John Erik Snyte - A supposedly progressive architect who is in fact the ultimate plagiarizer. He has a group of five designers who make their own version of each design and then puts together all of the five designs to create the final sketch.

②

Theory ~~has no~~ ^{needs} context
models have exceptions

less initial knowledge = simpler

Can't run experiments

Can ~~you~~ test it by its assumptions?

(how consulting works - build model)

(best theories true no matter the assumptions)

he says no to testing assumptions

No Euclidian "reality"

must have assumptions

Can't get realism

so people think it's fake

Don't have it be a brief summary of reading
or para

③ Now can I compare them
↳ for potential extra credit

Kuhn: Sci changing
paradigms

Diff, newer theories better able to explain

but can't be proved next to each other

Rand: primacy of individual who believes in
his own knowledge

I am prob being a bit too aggressive

in ~~error~~ saying he thought all pos

was normative - he was trying to

pull pos out of the normative

(4)

Rand

How to compare to Modernity / paradigms

Roark has one idea about architecture

Wants to start a new paradigm of arch

Totally changes society's values - like modeling
based on your preconceived notions

like the Bank ~~board~~ of divo execs

Must have greek columns = power

Then glass had power

↳ Internationalism

That is gone again

4, 211 - end of this

9

Review

Can I claim that all models have biases?

Yes I agree

And interpretation

Friedman disagreed

Can all turn out \leftarrow I think

I really extended this point of view thing
↳ Perhaps a bit too far

Essentially the lenses matter

And our values matter

These can change as well

Draft

Friedman Reaction: Modeling

Michael Plasmeier

In describing the difference between positive (what is) versus normative (what should be) economics, Friedman is essentially talking about the science (or as he believes, art) of economic modeling. Modeling depends on assumptions. Factors must be entered into models. Assumptions must be made about which factors matter. As Friedman points out, having the right assumptions does not automatically lead to the right model output. In addition, it is hard to test the outputs of a model. It is impossible to control all of the factors in an experiment. Models are best when they are simple – contain the least number of assumptions. Models should also be fruitful – produce results.

All of these things point to that positive economics is not totally free of biases. Biases can enter in so many parts to the process. A model is just like an argument. Facts and assumptions are carefully constructed one on top of each other in order to build an argument. Friedman is trying to pull positive economics out from the assumptions of normative economics.

However, I believe that this can't be done. No model can be built without assumptions. We need to answer value questions such as: how important is the individual? How important is the rest of society? Should the rich alleviate the suffering of the poor? These are value questions that each person and each economist must answer. Based on your answer to these your view of economic policies will be very different.

write more
← Interpreting a model is also not straight forward

Comparing to Kuhn

Since I didn't submit a reaction for Kuhn or Rand, I am attempting to address them here by comparing them to Friedman

Kuhn talked about the paradigm shifts of science. Every so often a new theory comes along that is better able to explain visible phenomena. However the new theory cannot be directly compared with the old theory. This compares to Friedman's models because a model could be one theory. The model can appear to explain the phenomenon. However, once and a while a totally new model can come along which describes the phenomenon much better.

Thus I believe that no theory can be purely positive – it must to some extent be normative, because our biases will be visible in the theory. We can't directly observe the economy. We can only observe the economy through economic data. There is noise obscuring this data. As a result we can only build imperfect models. As described above, these models can't be free of biases.

Comparing to Rand

Roark wanted to start a new paradigm of architecture. As shown in the scene with the bank executives, Greek columns and decorations had traditionally signified money and power. However, Roark was trying to install a new paradigm of modern architecture – where power was signified by the size and scale of the building – vast expanses of glass and marble. In the real world this paradigm took a while to

Shows how interpretation is not straight forward

Again I believe

in 1946

than they did before the paradigm shift

take hold throughout the 1970s and 1980s. During that time, people had different ideas about what made a successful urban planning project. At the end of period, another group of people implemented a new paradigm which reemphasized "livable streets" and rejected the scale of modern architecture (as I learned about in my 4.211 class.)

Throughout each of these cases there has been no overarching theory about the purposes of architecture. In each paradigm, a different set of values emerged. This is similar to how I think there can be no positive economics – since nothing is free of assumptions and value judgments. These values can be shared by a majority of society – but changing them takes time.

^
Unlike politics
where people
are mostly
split b/w
paradigms

split b/w
paradigms
like politics
where people
are mostly
split b/w
paradigms

split b/w
paradigms

split b/w
paradigms

split b/w
paradigms

Final

9/17

Friedman Reaction: Modeling

Michael Plasmeier

In describing the difference between positive (what is) versus normative (what should be) economics, Friedman is essentially talking about the science (or as he believes, art) of economic modeling. Modeling depends on assumptions. Factors must be entered into models. Assumptions must be made about which factors matter. As Friedman points out, having the right assumptions does not automatically lead to the right model output. In addition, it is hard to test the outputs of a model. It is impossible to control all of the factors in an experiment. Models are best when they are simple – contain the least number of assumptions. Models should also be fruitful – produce results.

All of these things point to that positive economics is not totally free of biases. Biases can enter in so many parts to the process. A model is just like an argument. Facts and assumptions are carefully constructed one on top of each other in order to build an argument. Friedman is trying to pull positive economics out from the assumptions of normative economics. However, I believe that this can't be done. No model can be built without assumptions. How we choose and enter these assumptions can be subject to bias.

We also can differ in how we interpret a model. We need to answer value questions such as: how important is the individual? How important is the rest of society? Should the rich alleviate the suffering of the poor? These are value questions that each person and each economist must answer. Based on your answer to these your view of economic policies will be very different.

Comparing to Kuhn

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We can't directly observe the economy. We can only observe the economy through economic data. There is noise obscuring this data. As a result we can only build imperfect models. And the result of the model is subject to interpretation. As described above, these models can't be free of biases. No theory can be purely positive – it must to some extent be normative, because our biases will be visible in the theory. The paradigm we look through things matters.

Comparing to Rand

Roark wanted to start a new paradigm of architecture. As shown in the scene with the bank executives, Greek columns and decorations had traditionally signified money and power in 1946. However, Roark was trying to install a new paradigm of modern architecture – where power was signified by the size and scale of the building – vast expanses of glass and marble. In the real world this paradigm took a while to take hold throughout the 1970s and 1980s. During that time, people had different ideas about what made a successful urban planning project than before the paradigm shift. At the end of period, another group of people implemented a new paradigm which reemphasized “livable streets” and rejected the scale of modern architecture (as I learned about in my 4.211 class.)

Throughout each of these cases there has been no overarching theory about the purposes of architecture. In each paradigm, a different set of values emerged. This is similar to how I think there can be no positive economics – since nothing is free of assumptions and value judgments. Roark’s buildings can be interpreted in a different way – based on the person and their viewpoints. Throughout time there were specific viewpoints which were popular with society – and these shaped how Roark’s buildings were viewed.

14.72 Rand
Discussion

9/17

(much uncertainty before class about assignment (the date))

(low turnout)
c50%

Next time: Capital + Freedom - Milton Friedman
Compare + Contrast Friedman + Rand

Ann Rand - only 1 idea:

Me: People ^{System} are more willing to have innovation now
So less relevant

Others: Society is not really collectivist

Revolutions 1960-1970s around the world

Prof: She was writing against the Russian Rev
WW2 - during
1942

⑦

Prof: Arab Spring
Economic?
Religious?

Conformity or freedom?

Paul Ryan, Alan Greenspan - belong to objectivism?
Was less 'interventionist'

(he hasn't read Atlas Shrugged :))

Should your ideas be used for social good/
Collective?

How could policies led to that?

Less 'interventionist'
Less regulations
in securitization

But also Fanny + Freddie making lots of loans

③

But how was he like Rorak?

Should the Fed have tightened up the market
Speculation or real innovation?

- new asset types

- More high tech cos

So less inflation would happen

Less of need for fed for interest

Prof: Totally focused on innovation as success

Says innovators as Roraks

New economy = innovation

Traditional econ: Supply + demand

Scarce resources + unlimited desires

Use resources in as most
efficient way

innovation expands supply curve

↳ production possibility frontier

(4)

Prof: How to an innovation?

Roach: Give way to Roach's of the world

Private property?

Roach blows up this construction site

Ideas are the property of their creator

Prof: Like an extension of the individual

Where does it come from?

-Freedman: It's important

But his view is different

(6)

Roach

Non containing

Not susceptible to other influence

Ideas - comes up w/

learning

(6)

Dominique

(1)

Gate

5

Wyman

Toohy - bad, second hander (just follows)
wants control, power

Cathrine

Francine

⑥ Mallery

⑥ Cameron

⑥ Mike

Divides into good + bad people
⑥

Both Toohy + Roark want control

↓
control stuff
outside him

↑ control him

↑ Or does he want to impose on world
↑ control material world

↑ control people

objects

↑ ↑
he's making the distinction

6

Contracted agent - inferior
or just learn knowledge

If manager has pep rallies
~~the~~ People can leave anytime
Paying for work

Or is that diff than having this
Overarching role

Does they feel or his emp are entitled
to their own view pt

Distinction: Manipulating phy world vs people

Rough - control phy world	Wynants (Gale)	Control people's lives of art	Toohey - impose his idea on physical work	people ? not much credit
Can't control - just riding off of them				

7

Midpoint, ambivalent

Seek to build public opinion not to control
but to build his own biz

Why does he want to build his own biz?

In the end he's a loser

~~Too many~~

Do we divide up characters by biz skills

Dominique

How does she compare

Similar ideals, but fails to act

b/c she doesn't believe one can
~~get~~ push them in society

how does she get admired w/o ideas

more resonates - then pursues stuff herself

⑧
Wynman also appreciates Rark's ideals

Is it passivity?

And sexist?

don't get judged by same standard

all of them live through the man

→ division of standards

Mike

I like Rark w/ innovative ideas

doesn't have them

but he respects those ideas

has integrity

Comes out of his craftsmanship

still working on physical universe

not social world

9

Wynants controls business

Context ; Toohy vs Wynants
Twins

not motivated same way

Wynants just reflects back

Toohy tries to lead mob

but can't control

give people what they want

tries to build something greater

↳ but fails

Can spend \$ on whatever he wants

But not really

Can't really convert it to something you want

(10)

Paul Ryan / freedom to spend \$ how you want
privitization of services
no homosexuality or abortions
very limited go

Ayn Rand: no government controls
stopping Rand

religion gets in way
religious ideals on society
Ayn Rand was very against this

Rand contribute to economic progress through
creation + innovation

She sets up explicitly trusts not how we judge
people

But their motivation
internal vs external
- intrinsic
- power

①

Prof: She has this idea that there is this central nature of humans

'integrity'

Comes from 'inside'

Something really essential to humans

judge system by does it foster this

essential characteristic of humans

'is society constructed in a way that brings out the essence of the individual'

↳ positive notion of freedom

Other theories: negative notion of freedom

Society doesn't impose values on people

it leaves them free to express their values

Can divide ideas up this semester

themselves

(12)

Marx: essence of humans

Does social system bring out this notion

Capitalist system does violence against
human nature

Rand: collectivism does violence " " "

her anger at Tooby is similar

Freeman: Negative view of freedom

Lack of constraint on individual

Man individual operates should not

be interfered w/
Construct society so people can do
what they want

→ Traditional economics avoids making
value judgment → good or bad
which is the center of what Ayn
is involved in
Rand

Evolution of Economics

Ayn Rand is a part

Milton Friedman - jumping into heart of econ as a discipline

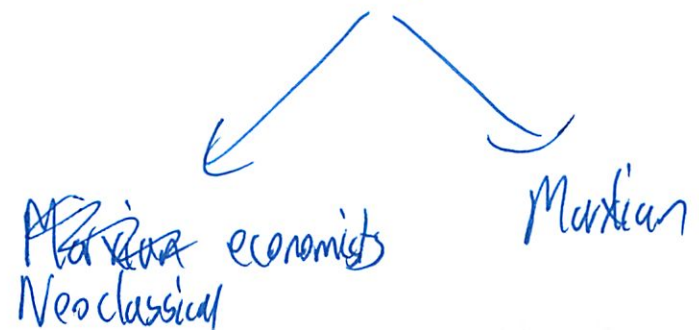
When does economics begin?

Adam Smith - end 18th century

1st half 19th century - Malthus
Ricardo
Mills
to ~~Marx~~ Marx

Classical
economics

Then it diverges



(14)

neo classical ↓

↓ marxian

Ross

Pareto ↓

Marshall

Jevons

Pigou

London



Keynes



Keynes
Sep paradigm

Std. economics
(neoclassical)

1930s-
1970s

Reunifies
1970s

How do you make all these moving parts more coherent (Arendt ton focused on indiv) together?

(15)

Can you build a world where everyone is a Rock?

Ted: Yes
- everyone does what they are best at

Rest of Term: 15 diff ways to build systems
- she doesn't build a system

Next time: Milton Freedman

Kuhn
Rand
2 paragraph email
don't do after class
do Freedman
that is journal

9/20

Michael E Plasmeier

From: Marion COSSON <m-cosson@wanadoo.fr>
Sent: Wednesday, September 19, 2012 3:32 PM
To: Michael E Plasmeier
Subject: 14.72 notes

Follow Up Flag: Flag for follow up
Flag Status: Flagged

:)

Notes from someone else
before I came

Course 4: Friedman

Innovation is the essential characteristic of human being according to Rand

For Friedman, it is political freedom. *Sincerely*

This two thinkers have in common: **individualism** as a paradigm to explain the world. Individual is the basic unit, they build their observation of the world on this individual.

Society does not have an independent existence apart from the people.

Alternative way of looking at the world: cell unit

Classical Liberalism:

Takes the individual as the basic unit for understanding the way the world operates: you judge the system by the way it treats the individual.

4 assumptions (underling material of de declaration of independence):

- *all individuals are equal*: Rand doesn't believe that
- *they are rational*: able to operate in the world
- *they are the same in all times and places*: if that were true, the basic material would be the same everywhere
- *they are driven by their desire*: economic word for desire: preference

He doesn't believe that society is natural to human being: so how do you get it?

Individuals have to come together to form society. Social contract.

Neoclassical economics is this kind of trend of thought.

Paradigm it represents:

Economics is about scarce resources and unlimited desire. This problem is natural for the neoliberal: the way the world is created. (different theory: advertising: not natural desire or a way to give you information about what can fulfill your desire).

Resource: thing that individual can use as a mean to create smthg else.

- **Land** (fixed resource),
- **Labor** (comes out of the population, in some sense fixed)
- **Capital** (stock which comes out of investment = savings: $I = K_t - K_{t-1}$. We forego consumption, you repay your desire by getting more consumption in the end)

Economic growth: you get more out of those limited resources by becoming more efficient. You use resources in the most effective way.

You start with Robinson Crusoe, then you open trade, people can exchange goods with each other. Desires and resources are the same. No change in people desire and resources but you get growth out of trade. You meet demand more effectively.

Jobs: unemployment is not consistent with this theory of scarce resources and unlimited desire.

Neoclassical theory is telling at the same time two stories about the way the world works:

- **way people behave**: each act of behavior is based on a decision: means for the end: maximize utility (for the firms it is profit, for individual it is happiness).
- **competitive market**

M. 72 Friedman

9/20

(1 hr late)

Competitive markets - biz go under

2 stories in neo classical

- decision making
- competitive market

institution that makes firms max. profits

Markets

- provide info
- motivate behavior

Friedman

believes in capitalism

optimize individuals' rights

How do markets do that

②

Me: Vs central control

Market decentralizes decision making

Need

— Currency

Safety

— contract law

— police — being impeded

— "private property"

Give people power

— street gangs

— or gov

— some sort of institution

Rights framework

(3)

Necessary to create decentralized system

Where gov can't interfere in individual societies

Can have welfare programs

but not as efficient

Peoples skills + incomes are different

(did I read the wrong thing?)

Must protect private property

What % of people should pay tax

- income income dist)	are these 2 Very diff things?
- income redistrib		

What are the arguments?

buy votes w/ machine politics
 vote based on what they give ya
 or best for society

4

Fairness in society

Romney & Obama handing out favors

Does wealth come from yourself

Do you give others those opportunities?

Who is the best user of \$?

~~Free~~ Market - more efficient

So is it against redist or dist

Redist income → against capitalism → which
protects freedom

↑ more than efficiency

He needs gov to protect private property

✗ Fears gov but needs it ↗

No particular dist needed - just secured

⑤

Property is not as \neq ly dist as you
think it is.

Money - supply of

Same w/ income dist

need gov to provide \$

but gov is a danger here

Gary Becker

From Wikipedia, the free encyclopedia

Gary Stanley Becker (born December 2, 1930) is an American economist. He is a professor of economics and sociology at the University of Chicago and a professor at the Booth School of Business. He was awarded the Nobel Memorial Prize in Economic Sciences in 1992 and received the United States Presidential Medal of Freedom in 2007.^[1] He is currently a Rose-Marie and Jack R. Anderson senior fellow at Stanford University's Hoover Institution.

Becker was one of the first economists to branch into what were traditionally considered topics belonging to sociology, including racial discrimination, crime, family organization, and drug addiction (see Rational addiction). He is known for arguing that many different types of human behavior can be seen as rational and utility maximizing. His approach can include altruistic behavior by defining individuals' utility appropriately. He is also among the foremost exponents of the study of human capital. Becker is also credited with the "rotten kid theorem". He is married to Guity Nashat, a historian of the Middle East whose research interests overlap his own.^[2]

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- 3 Discrimination
- 4 Crime and punishment
- 5 Human capital
- 6 Families
- 7 Organ markets
- 8 Politics
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- 10 Notable students
- 11 Publications
- 12 See also
- 13 References
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Biography

Born in Pottsville, Pennsylvania, Becker earned a B.A. at Princeton University in 1951 and a Ph.D. at the University of Chicago in 1955. He taught at Columbia University from 1957 to 1968, and then returned to the University of Chicago. Becker is a founding partner of The Greatest Good (<http://www.greatestgood.com>), a business and philanthropy consulting company. Becker won the John Bates Clark Medal in 1967. He was elected a Fellow of the American Academy of Arts and Sciences in 1972.^[3] Becker also received the National Medal of Science in 2000.

Usually considered politically conservative, he wrote a monthly column for *Business Week* from 1985 to 2004, alternating with liberal Princeton economist Alan Blinder. In December 2004, Becker started a joint weblog with Judge Richard Posner entitled The Becker-Posner Blog (<http://uchicagolaw.typepad.com/beckerposner/>).

Nobel Memorial Prize

According to the Prize in Economic Sciences citation, his work can be categorized into four areas:

- investments in human capital
- behavior of the family (or household), including distribution of work and allocation of time in the family
- crime and punishment
- discrimination on the markets for labor and goods.

Becker's lecture, "Nobel Lecture: The Economic Way of Looking at Behavior", subsequently published in the *Journal of Political Economy*, reviews his four key areas of research. He explains that his framework of analysis is not a traditional self-interested motivation but an analysis based on a set of assumptions and individual preferences. Agents are maximizing welfare, which is based on individual conception constrained by income, time, and imperfect memory and calculation capabilities. Much of his research focuses on the impact of the rising value of time as a result of economic growth.

Discrimination

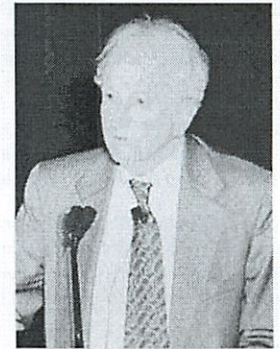
Discrimination as defined by Kenneth Arrow is "the valuation in the market place of personal characteristics of the worker that are unrelated to worker productivity."^[4] Personal characteristics can be physical features such as sex or race, or other characteristics such as a person's religion, caste, or national origin.^[4]

Becker often includes a variable of taste for discrimination in explaining behavior. He believes that people often mentally increase the cost of a transaction if it is with a minority against which they discriminate. His theory held that competition decreases discrimination.^[5] If firms were able to specialize in employing mainly minorities and offer a better product or service, such a firm could bypass discrepancy in wages between equally productive blacks and whites or equally productive females and males.

Becker's research found that when minorities are a very small percentage the cost of discrimination mainly falls on the minorities. However, when minorities represent a larger percentage of society, the cost of discrimination falls on both the minorities and the majority. He also pioneered research on the impact of self-fulfilling prophecies of teachers and employers on minorities. Such attitudes often lead to less investment in productive skills and education of minorities.^[citation needed]

Gary Becker

Chicago School of Economics



Gary Becker speaking in Chicago, May 24, 2008

Born	December 2, 1930 Pottsville, Pennsylvania
Nationality	American
Institution	University of Chicago (1968–present) Columbia University (1957–1968)
Field	Social economics
Alma mater	Princeton University University of Chicago
Contributions	Analysis of human capital Rotten kid theorem
Awards	1967 John Bates Clark Medal 1992 Nobel Memorial Prize in Economic Sciences 1997 Pontifical Academy of Sciences 2004 John von Neumann Award 2007 Presidential Medal of Freedom
Information	(http://ideas.repec.org/c/pbc29.html) at IDEAS/RePEc

This actually
seems somewhat interesting

We'd reading about other famous academics
have I met any who will become one?

Gary Becker recognized that people (employers, customers, and employees) sometimes do not want to work with minorities because they have preference against the disadvantaged groups. He goes on to say that discrimination increases the cost of the firm because in discriminating against certain workers, the employer would have to pay more so that work can proceed without them. If the employer employs the minority, low wages can be provided, but more people can be employed, and productivity can be increased.^[6]

Crime and punishment

Becker's interest in criminology arose when he was rushed for time one day. He had to weigh the cost and benefits of legally parking in an inconvenient garage versus in an illegal but convenient spot. After roughly calculating the probability of getting caught and potential punishment, Becker rationally opted for the crime. Becker surmised that other criminals make such rational decisions. However, such a premise went against conventional thought that crime was a result of mental illness and social oppression.

While Becker acknowledged that many people operate under a high moral and ethical constraint, criminals rationally see that the benefits of their crime outweigh the cost such as the probability of apprehension, conviction, and punishment, and their current set of opportunities. From the public policy perspective, since the cost of increasing the fine is trivial in comparison to the cost of increasing surveillance, one can conclude that the best policy is to maximize the fine and minimize surveillance. However, this conclusion has limits, not the least of which include ethical considerations.

One of the main differences between this theory and Jeremy Bentham's rational choice theory, which had been abandoned in criminology, is that if Bentham considered it possible to annihilate crime completely (through the panopticon), Becker's theory acknowledged that a society could not eradicate crime beneath a certain level. For example, if 25% of a supermarket's products were stolen, it would be very easy to reduce this rate to 15%, quite easy to reduce it until 5%, difficult to reduce it under 3%, and nearly impossible to reduce it to 0% (a feat that would be so costly to the supermarket that it would outweigh the benefit, if it is even possible).

Human capital

Becker's research was fundamental in arguing for the augmentability of human capital. When his research was first introduced it was considered very controversial as some considered it debasing. However, he was able to convince many that individuals make choices of investing in human capital based on rational benefits and cost that include a return on investment as well as a cultural aspect.

His research included the impact of positive and negative habits such as punctuality and alcoholism on human capital. He explored the different rates of return for different people and the resulting macroeconomic implications. He also distinguished between general to specific education and their influence on job-lock and promotions.

Families

Becker's research on human social interactions has had many implications for the family including implications for marriage, divorce, fertility, and social security. Becker argued that such decisions are made in a marginal-cost and marginal-benefit framework and that marriage markets affect allocation into couples and individual well-being. He first analyzed fertility, starting in 1960. His research examined the impact of higher real wages in increasing the value of time and therefore the cost of home production such as childrearing. As women increase investment in human capital and enter the workforce, the opportunity cost of childcare rises. Additionally, the increased rate of return to education raises the desire to provide children with formal and costly education. Coupled together, the impact is to lower fertility rates. His theory of marriage was published in 1973 and 1974. Among its many insights are that (1) sex ratios (the ratio of men to women in marriage markets) are positively related with wives' relative access to consumption in marriages^[7] and (2) men with higher incomes are more likely to be polygamous. He then published a paper on divorce in 1977, with his students Robert T. Michael and Elizabeth Landes in which it is hypothesized that divorces are more likely when there are unexpected changes in income. Many of these insights on fertility, marriage, and divorce were included in Becker's Treatise on the Family A Treatise on the Family, first published in 1981 by Harvard University Press. According to Google Scholar it is one of the most cited books in economics^[8].

A more controversial issue was Becker's conclusion that parents often act altruistically towards selfish children by highly investing in a child in an effort to indirectly save for old age. Becker believed that the rate of return from investing in children was often greater than normal retirement savings. However, parents can not know for sure that the child will take care of them. Since they cannot legally bind a child to care for them, they often resort to manipulation through instilling a sense of "guilt, obligation, duty and filial love that indirectly, but still very effectively... commits children to helping them out." Becker said that social security can cause families to be less interdependent by removing the motivation of parents to use altruistic behaviors in motivating their children to care for them.

Organ markets

An article by Gary Becker and Julio Elias on "Introducing Incentives in the market for Live and Cadaveric Organ Donations"^[9] said that a free market could help solve the problem of a scarcity in organ transplants. Their economic modeling was able to estimate the price tag for human kidneys (\$15,000) and human livers (\$32,000). It is argued by critics^[10] that this particular market would exploit the underprivileged donors from the developing world. This view was endorsed by the National Kidney Foundation in a testimony to the US Congress where Dr Francis Delmonico argued that "a US congressional endorsement for payment would propel other countries to sanction unethical and unjust standards..." Another concern is that if a market for organ donations were introduced, then organs would often go to the patients most able to afford them rather than patients who may have more need for them medically.

Politics

Becker is also famous for his economic analysis of democracy. He asked what determines the extent to which an interest group can exploit another. The basis of his analysis was the concept of deadweight loss.

Becker's insight was to recognize that deadweight losses put an exponential break on predation. He took the well-known insight that deadweight losses are proportional to the square of the tax, and used it to argue that a linear increase in takings by a predatory interest group will provoke a non-linear increase in the deadweight losses its victim suffers. These rapidly increasing losses will prod victims to invest equivalent sums in resisting attempts on their wealth. The advance of predators, fueled by linear incentives slows before the stiffening resistance of prey outraged by non-linear damages.

He is also noted for his advocacy of immigration tariffs, and for his staunch defense of the consequences of neoliberalism in Latin America.

Quotations

- "My teachers taught me that economics was not a game played by clever academics, but a serious subject that helped us understand the real world we lived in. You can do economics and do it in a rigorous way and nevertheless talk about important problems."^[citation needed]
- "So I had this little idea. I saw a way of taking the prejudices of workers and employers and customers and all groups, even governments, and sort of putting that through an

This class is finally getting good → less abstract!

Something
the US
has
done
is it
good

Reflection → I could talk about how I consider this

Becker Reaction

Michael Plasmeier

Today we take the thoughts of Gary Becker for granted. Personally I am always thinking about what the best value is for my time and how I can maximize my own personal utility by how I schedule what I am going to work on. It is thought-provoking to think that people didn't used to think that way. Economics in general can be thought of like this – today we have so many more tools to predict the future. This allows us to make better choices about the long run. I was reading an article in The Economist today about prisons in Latin America. People are loath to spend more on prisons, but it may actually decrease long term costs to society. This fits in with Becker's theory of altruism – that people actually do it because it is in their own long term interests.

One of Becker's famous examples is the cost of parking in an illegal, but nearby spot versus a legal, but far away parking space. He weighed the cost of a ticket and likelihood of getting one against the extra time. This is similar to public transit in Europe. In Europe, most busses and trains do not check your ticket when you board, instead they have occasional inspections. By weighing the frequency of inspections and the cost of a fine against the daily ticket cost, a person may very well calculate it is better to go without a ticket. I remember taking the bus every day and keeping track how often an inspector came. I think an inspector came about every 20 trips. At 2 Euros per trip, this was about equivalent to a 40 Euro fine. However, I still bought a ticket out of principle, which Becker acknowledges is a non-economic sociological perspective. In addition, I have trouble seeing how this model extends to more serious crimes such as rapes and murders where the penalties are quite high.

14.72

9/20/24

Midterm 10/17

1st 2 units

Fountainhead, Neoclassical, Marxist

Give you taste on final

If final > midterm, grad is final only

Essay 1 due 10/15

Assigned next time

Today: Finish Friedman

Discuss Becker

Add more structure

Friedman: Part Positive + Normative Distinction

(did I read the wrong thing)

logical vs judgement

②

Capitalism + Freedom

↑ (what we were supposed to read I think)
(this class makes 0 attempt at logistics)

Normative: good + bad

Positive: Correct + Wrong

~~EM~~ Or logical derivation from 1st principle
but rely on those being correct

Freedom

↳ individual freedom

Normative: Maximize individual freedom
w/o coercion from other individuals

But society's norms

Licensing - restricts careers

(3)

Money constraints

↳ are ok

come through market

? Why

your talents

→ physical constraints from nature

but not from other people

How is it diff when constraints not from market

Who has the power

Norm: Gov is not legitimate force

only through market

Prof: Logically can distinguish

Friedman concerned w/ abuse of power

(4)
Can't trust them - since indiv will abuse power

1. Personal greed

↳ Self interest

Central Bank running \$ supply

- don't really know what is going on

Emphasizes human rationality

Can't know everything

↳ esp hiack (isp)

Must have local knowledge

Chain of logic: doesn't let indiv impose will on other indiv

Can't say wrong or not allowed

Not impose on other people's will

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2 differences
- can't trust ind \rightarrow act in self interest
- ^{indi} can't know everything

Humans are rational

Everyone is sufficiently rational to make them

Freedom from compulsion from other individuals

Thus capitalism is the best system

↳ Decentralization of power

Left argument: Capitalism allows for accumulation of wealth

Which allows people to coerce

McCarthyism - Hollywood manipulating propaganda

⑥ Friedman: It would be even worse if gov controlled all the wealth

We see this in Fantaihead

L Roark is blacklisted

Toohy undermines his support

Instead gets rich patrons

Gail Wynatts

Does ~~Anne~~ ~~Ryand~~ Ann Rand agree?

Yes that capitalism is best

Yes that thinks should be intellectual freedom

But also market can impede freedom
- market didn't like Roark

Ann Rand has a (+) notion of freedom

L You should recognize your own freedom

She doesn't care about others

⑦ Friedman cares about everyone

~~React~~ to

Mark; Diff view on how to recognize
your self as a human freedom

Friedman + gov programs

Wants replacement - not eliminate

Does Friedman care if people starving?

What do you need to get capitalism?

↳ Protect + Create market

- Or will it create itself?

Does Friedman believe that? No

⑧
What do you need in a market?

- rules of the road
- ~~public~~ private property
- money
- all these things depend on go
- competition

↳ That's the plot of this book

That's

BW Capitalism needs gov

But gov could threaten capitalism

Income distribution

Same as Paul Ryan

No redistribution programs

9

But will voters like that

Must back track + justify

People need private property

Friedman's Dist of income is much more — than you think

Some people may want to work overtime

No arguments about ~~one~~ contributing to society

Redefines income to time

↳ Lock

May change later

9/26

Gilder Reaction

Michael Plasmeier

In this book, George Gilder defends a case for capitalism against state-sponsored socialism. However, I feel like this was more of an issue during the Reagan administration than it is now. Defenders of capitalism have slashed tax rates and government involvement in many issues since Reagan. Right before Reagan the top tax bracket was over 70%. It is currently 35%, and many pay far less through various deduction, credits, and the 15% capital gains tax. Their strategy worked. Welfare was reformed under Clinton. Today calling a policy socialism is a death blow. Only 36% of Americans have a positive view of socialism.¹ Democratic presidents try to distance themselves from the concept and attempt to implement only the lightest forms of it.

Have we gone too far? We can certainly see it with supply-side economics. The Laffer curve might have worked at 70%, but there is no evidence it works today. Yet, many politicians have signed pledges never to raise taxes ever, for any reason. This prevents us from making the investments we need to continue to succeed as a country. It prevents us from balancing our budget in a responsible way, creating cuts which are very lopsided and likely to harm the economy much more than a balanced package would. It might even end up harming the wealthy even more than the extra tax would, as the bad economy saps profits. In some ways perhaps Gilder worked too well.

¹ <http://www.gallup.com/poll/125645/socialism-viewed-positively-americans.aspx>

17.72

9/26

Essay I ~~enriched~~ handed out
if something is ambiguous + define it + say that

Today Gary Becker + George Gilder
↑ lots of Econ thought ↑ lots of conservative thought
Reagan learned from him

Next time Communist Manifesto

Popular Summary of larger book

Nightly News version

has predictions (from 1848) ~~also~~ of predictions
of capitalism

Friedman: Normative notion of how to judge a
good society

— protects freedom of individual to
make decisions on their life style

②

Capitalism will max. that freedom

Biggest threat: concentration of power in the government
But gov needs to protect private property

All this due to scarce resources — which comes from nature

Becker

more of a approach

[Maximize utility
Market conditions / equilibrium
Stable preferences

form heart of economic approach

Me: expands Friedman's view to multiple areas

Friedman would prob agree

Prof: But Friedman splits social + economic societies

(3)

(After reading Gelman I can't keep them together
in my mind)

Prof: Why can't we talk about Friedman in multiple
ways

Prof: Friedman is more of an analytical framework
not since they are right
but more of assumptions

Use this skill to use assumptions to predict
↳ See how far this goes in
explaining the world

Positive vs Normative: was a big debate
Are the assumptions ~~made~~ ^{economists} make realistic?
about maximizing behavior

Friedman: Firms don't maximize profits
↳ since use assumptions to make predictions
don't validate the assumptions

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Is this consistent w/ Capitalism + freedom?

Prof: No - spirit of freedom is you create

the institutions of capitalism

- it does not happen naturally
- its from institutions

Theory of firm: Firm profit maximization

is imposed by competitive economy

Prof: Friedman: Limits on theory

look for institutions that structure capitalism

One looks for limits of economic assumptions

Becker: Explains anything + everything from Econ

Can you justify a theory by seeing if its predictions are correct

9

Prof i Econometrics about correlation vs causation

Altruism i Trys to explain by economics

Bothered by empty claims that
its socio-biological

Why is he interested in?

He's trying to pin down basic assumptions

- it not basic 'instincts'

- then in the bio of humans

Says he can't prove it

- but attracted to it

- pin down assumptions

Just because it worked in the
past - doesn't mean it will work in
the future

⑥ Without knowing where assumptions come from
↳ got nervous

So say it's hard wired into humans

But it's hard to think of altruism that way
↳ natural selection

Prof: Recent research suggests this may
actually be true for groups

Prof: How explain diff in behavior b/w
students at MIT + Harvard

- institutional policy
- cultural norms
- environment
- people's perceptions of norms

People apply to school at norms closest to them
- selection

7

Or the opposite of selection
Schools choose who to accept
~~the~~ Prof: That's like bio selection

Or people come in
then school socializes them to the norms

Prof: Pass-fail was supposed to de-stress,
People signed up for lots of hard classes
Upperclassmen teach the norms
So credit limit

Or this comes from business school
taught to behave this way

So Friedman's institutions,

~~Prof:~~
Becker: i bio embedded
3rd way: i school teaches
Valber or Parnandi

← Prof: Over Simplification

8

Prot: Is this liberal?

- people are =
- people are the same

This culture view (esp Veber) is not consistent w/

Gilder

More like Becker or Friedman

Friedman: Can be fixed by negative income tax
Learned income credit

Gilder: Welfare system

me: makes people dept
Prot: We - that's money

~~Gilder~~ Joey: hurts innovation + growth

9

innovation comes from supply side

Gay marriage - against it
traditional family unit goal

innovation

anti-feminist movement

not just that ~~words~~ hurts family

bio-argument

Becker's approach 1-step father

- ~~the~~ Becker doesn't say that's why
instead makes assumption

Gilder takes bio approach into whole
diff relm

Men + women are fund diff

Men are creative, but short time horizon

I'm thinking do retail bank fees help/hurt econ

(10)
But will spend energy on little else besides
their own short term needs

Women are not creative/innovative
but long time horizon - perpetuation of race

So ~~the~~ use both
Women drive men into activities that
drive economic growth

Prof. Similar to Ayn Rand
men + women are diff
men who are creative

Blacks - Welfare system encourages break up
of family

(11)

He's not saying blacks are diff
- that was slavery

But behavior molded by diff institutions they face
More institutional than bio

Also instability of black marriage is due to slavery

Joey: Was he also trying to make bio conclusions
about blacks?

Marxism

Started w/ liberalism / neoclassical

Then looked at variants

All share w/ methodological individualism

Basic unit of analysis ; individual

(12)

Marxism + others : don't center on individualism

(interesting capitalism larger whole pic O)
but people still wealthy

individualism

Marx do you get coherence?
Neoclassical : Market

Marx System exists 1st

People get their character from the system

2 determinants of system

- history, movement of
- social class

Indv are =, and are same at all time + place

↳ Opposite of Marx

indv differ in history and by social class
at each pt in time

(3)

Romey: The 47% are different

↳ Prof: That's class warfare — closer to Marx

Lockian sense of liberal

↳ look up

Capitalism is a system which grows out of history

↳ Feudalism

Socialism

Communism

Marx never really shows what Communism should be

More tears apart Capitalism

Marx is about the way is

not ought to be

(14)

All about making moral judgments
like Rand or Friedman

not ought to be rev
but there will be
cheating one on even

does not think he is about ~~what~~
moral judgments

Friedman is very much about this

As you read split moral judgments
+ predictions