

A CRITIQUE OF “STANDARDS OF ECONOMICS”

The brief notes below constitute a critique of the “key principles of economics” that are provided at www.economicamerica.org. These 20 “standards” are intended to provide teachers of economics with a set of “indisputable truths” to guide them in their teaching of economics to high school students. They differ little from the guiding principles behind all standard textbooks for undergraduates.

The following is a brief critique of the economic theory embodied in these seemingly “basic” set of propositions.

1 and 2. **Resources are limited so people cannot have all they want.** This is the traditional “starting point” of neo-classical economics which focuses our attention on how to allocate scarce resources. The focus is on efficiency, which is understood to mean maximizing total production. Thus the central question is how to CHOOSE – how to trade-off one thing for another. Classical economists, such as Adam Smith, looked not only at total production but at how it was distributed between classes (landlords, capitalists and workers), and Marx viewed the appropriation of surplus production (over and above what was necessary for working people) as “theft” by the ruling classes. A total “disinterest” in distribution is one of the defining characteristics of neo-classical economics. An alternative focus for economics would be how to insure a decent standard of living for the people of the world..

3. **People choose different methods of allocation of goods and services.** Note throughout the use of terms such as “people” and “individuals” with no distinction between capitalists and workers. Thus “people” choose their economic systems. The assumption here is that the “choice” is merely a matter of the level at which government decisions are made rather than any disagreement about a system which relies on profit-making as the motive force behind the private provision of goods and services. Thus the “command economy” (which is implicitly identified with communism) is presented as one in which the market plays no role, and there is absolutely no mention of the communists’ abolition of the capitalism class, and subsequent end to distribution on the basis of ownership of property.

4 and 5. **People respond to incentives and voluntary exchange is beneficial.** There is not reference here to the starting point of this “voluntary exchange. The poverty-stricken will take starvation wages and even sell themselves or their children into slavery – this is, of course, “voluntary” in one sense but a more comprehensive approach recognizes that “they have no choice.”

6. **Specialization and efficiency in production will benefit everyone.** Note the un-argued assertion that increases in production means increase in consumption for working people. (Compare principle # 15: investment “can raise future standards of living.”) This abbreviated assertion of how free trade and “efficient production” benefit “everyone” includes in its magnificent sweep an assertion that colonialism and imperialism have benefited the peoples of the world. Without an analysis of how increased production by profit-maximizing corporations leads to increased wages, the ordinary student should, like the ordinary worker, hold his breath before celebrating the expansion of multinational corporations.

7 and 8. **Analysis of supply and demand shows that consumers are sovereign.** After all the “general principles (1-6 above),” students are introduced to their own “role” as consumers in the economic system by encouraging them to examine their own ability to choose how to spend their limited incomes. This analysis serves to convince them that their decisions determine the structure of production. The powerlessness of workers is forgotten and the only economic role they are permitted becomes that of “consumers.” Many students become genuinely confused at this point. And they are right to be confused. The demand for investment goods (plants, machinery etc.), whose purpose is to generate future profits, is not part of their everyday calculations. The fact that the satisfaction of workers’ “consumer” needs is, at best, a by-product of capitalism expansion, is so irrational that it is hard for a sensible person to understand. The ever-expanding production that constitutes the essence of capitalism makes no sense to anyone normal.

9. **Competition is good.** The everyday experience of people who are faced with the “market power” of landlords, banks, and telephone companies receives no recognition in an analysis of a “perfect world” of competition between thousands of small producers. And while businesses consolidate, the unionization attempts of workers are demonized – this form of unity finds few champions among pro-business economists. The fighting that takes place between corporations as to how to divide up their joint profits is the real “heart” of anti-monopoly action by the government –e.g. automobile manufacturers do not want to lose their profits to the oil corporations or the utility companies.

10. **Institutions such as property rights are important in market economies.** The right of private property is the fundamental assertion of the right to appropriate the labor of those who have no such property. It corresponds to the ownership rights of slave-owners, and the feudal control of estates and their peasants, and like them will be enforced by the military power of the state. It sets the foundation for the “free markets” that characterize capitalist relations of production. We must distinguish between restrictions on property rights that let capitalists exploit workers from those that serve to protect capitalists from their own anarchic behavior and thus protect their long-term interests.

11 and 12. **Interest rates equate savings and borrowing.** There is no simple way to explain the role of money in a capitalist system. But it is not hard to point out that the surplus generated in production is divided between those who supply capital in the form of loans and receive their reward in the form of interest, and those who supply it in the form of equity capital (shares) and receive in return dividends and the increase in the value of their shares that results from the re-investment of undistributed profits.

13. **The income of workers depends on the market value of what workers produce and how productive they are.** But production per worker has increased phenomenally in the U.S. between 1970 and 2000, while real wages have fallen. While it is obvious that each individual corporation seeks to increase its profits by reducing wages, the theoretical explanation of why corporation should raise wages is extremely shaky! [The theory of “marginal productivity” has been proven to be internally inconsistent.]

14 and 15. **Profits are the reward to entrepreneurs for risk-taking., and they invest their profits** There is a basic risk-free return (through purchase of government bonds) with additional rates of return based on risk. Capitalists play around this rate, and some do well while others do better. Profits from capital are, in any case, well-hedged. The risk faced by workers is greater than the risk faced by their employers, and workers have no say in what risks will be taken with their lives. Capitalists do indeed invest a substantial proportion of their profits (and interest)— there is a limit to how many yachts anyone can use—and so the process of accumulation of capital continues.

16 and 17. **The government should take care of defense but play a limited role in the regulation of private production.** Government is, at first, assumed to be “neutral” and interested in promoting “production” rather than acting on behalf of corporations. This is the point at which differences within the capitalist class enter into “economics.” An analysis of “defense” spending must begin with a recognition of the “need” for multinational corporations to use force and the threat of force to defend their profits.

18, 19 and 20 **Macroeconomic policy is controversial.** Truly anarchic capitalists (the right-wing conservatives) may sincerely believe that the only reason for recessions and depressions is workers’ unreasonable refusal to accept reduced wages, combined with faulty government policy. Most capitalists, however, look to the government to intervene in the economy, and, at the other extreme from the conservatives, the “liberals” may believe that appropriate government policy can prevent the booms and busts that have characterized capitalist development over the past few centuries.

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