

VOICES ON THE ECONOMY

How Open-Minded Exploration of Rival Perspectives
Can Spark Solutions to Our Urgent Economic Problems

THE VOTE TEXTBOOK
Second Edition

Amy S. Cramer, PhD
Laura Markowitz

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Tucson, Arizona

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ISBN: 978-1-7339103-3-0

Cover design by David Scott Allen

Book design by Michael Leclair

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Voices On The Economy (VOTE)
Tucson, Arizona

*This book is for the great economic thinkers of tomorrow.
We're waiting for you.*

Acknowledgments

Whatever inspiration you take from these pages is the direct result of the efforts of many passionate and committed people who believe in the mission and vision of the Voices On The Economy (VOTE) Program. This book would not exist if not for our generous funders. Foremost among them is the Thomas R. Brown Foundations. Special thanks to Barbara Gray, Sarah Smallhouse, Mary Brown Bernal, Gerry Swanson, and the entire Board of Trustees for believing in the VOTE Program and to Megan Kirts, Norma Roberts, Mark Sammons, and Michela Wilson.

The VOTE Program was incubated at Pima Community College in Tucson, Arizona. We are deeply grateful for its institutional support. Special thanks to Chancellor Lee Lambert and Provost Dolores Duran-Cerda, and the entire team of administrators, faculty, and staff. The VOTE Program would not exist without their steadfast support.

Years ago, a book called *Economic Issues Today* by Robert Carson, Wade Thomas, and Jason Hecht demonstrated how to present multiple perspectives on economic issues in a thoughtful, unbiased way. The VOTE Program stands on their shoulders, and we are grateful to them for inspiring our work. We were also guided by Chip and Dan Heath's *Made to Stick*. Their dynamic formula for communicating ideas is reflected in these pages.

The VOTE Program has benefited from the participation of thousands of educators, interns, administrative support staff, and students, all of whom gifted us with their ideas and enthusiasm. Special thanks to talented research assistants Zachary Forman, Ryan Day, Sheri Pingry, Irving Talavera, Angela Lucero, Zachary Stout, Samir Rein, and Lia McGrath.

We also relied on our beta readers. Many thanks to Ryan Arazi, Owen Buckminster, Tess Carter, Way-Ting Chen, Maggie Chrisman, Caroline Coppinger, Peter Craig, Julia Dalrymple, Dan Docks, Lindsey Ellingson, Veronika Gillis, Mary Beth Ginter, Ali Godoy, Gene Gotwalt, Ilene Grabel, Amal Haddad, John "Doc" Holaday, Kenneth Iserson, Jessica Janecek, Janice Kea, Lillian Keller, Travis Klein, Atinuke Lardner, Alan Lee, Joshua Levine, Austin Lord, Yiru Ma, Ishrat Mahzabeen, Bess Markel, Fiona Markowitz, Heewon Park, Patrick Peatrowsky, Annie Ping, Adam Pinkerton, James Ranney, Francesca Richardson, Lydia Roe, Robert Rubinovitz, John Schwartz, Sandy Shen, Barbara Silverstein, Dhun Silverstein, Doreen Sorce, Jackie Stensel, and Natnicha Sukprawit. Our board members graciously contributed their thoughtful critiques to this book: Amelia Craig Cramer, George DeMartino, Keoka Grayson, and Glenn Maller.

Finally, this book would not exist in the form that you see here without the graphic design talents of Michael Leclair and David Scott Allen and the keen eyes of copyeditors Amanda Krause and Melanie Mallon, and proofreaders Karen A. Thomas, Deb Ring, Laura Poole, and Deborah Heimann.

Writing a book takes a lot of time and focus. We are both deeply grateful to our close family members. Laura thanks MK LeFevour for her love and support. Amy thanks Amelia and Margo Cramer for being her anchors and guides in this long process of writing the VOTE textbook. This book would never have been written if not for the professional support from Chris, Harriet, John, Leslie, Rachel, Rick, Steve, and Theresa. We especially want to thank the many family members, friends, and colleagues who understand and support our drive to realize the greater purpose of this project, which is to help repair the world.

Our hope is that the VOTE Program will empower people of all ages and backgrounds to find their unique voices and join the conversations that shape our lives and our future. What that really means is that all the effort that's gone into creating the VOTE Program—and all the ideas in this book—are for you. We are most grateful to you, our readers, for embarking on this adventure with an open mind and hopefully sparking new solutions that the world desperately needs. We look forward to hearing your voice.



Amy S. Cramer, PhD
 Laura Markowitz
Tucson, Arizona, 2023

Contents

Acknowledgments	ii
------------------------------	----

Part I: Background and Theories

Chapter 1	The World Needs Your Voice	1
Chapter 2	The Power of Definitions.....	23
Chapter 3	Thinking About Thinking	53
Chapter 4	The Great Economic Thinkers	71
Chapter 5	Conventional Theory: Conservatives and Liberals	101
Chapter 6	Radical Theory	143

Part II: Twelve Issues

Chapter 7	Tools to Get Started	187
Chapter 8	Issue: Agriculture	219
Chapter 9	Issue: Product Safety	253
Chapter 10	Tools to Move Ahead	287
Chapter 11	Issue: Livelihood	317
Chapter 12	Issue: Housing.....	355
Chapter 13	Issue: Income Distribution	395
Chapter 14	Issue: The Environment.....	473
Chapter 15	Issue: Health Care.....	557
Chapter 16	Issue: Market Power	649
Chapter 17	Issue: Retirement Security.....	745
Chapter 18	Issue: The Federal Budget.....	843
Chapter 19	Issue: International Trade.....	935
Chapter 20	Issue: Economic Stability	1025

Part III: New Conversations

Chapter 21	Your Voice, Our Future	1125
-------------------	------------------------------	------

Map of the VOTE Book	1148
-----------------------------------	------

Key Terms Index	1161
------------------------------	------

About the Authors and the VOTE Program	1171
---	------

History
has its
eyes on
you



1 The World Needs Your Voice

There's a famous story about nineteenth-century English painter Dante Gabriel Rossetti. It may or may not be true, but it explains why the VOTE Program exists. Our version of the story goes like this:

One day, an elderly man approached the well-known artist and asked Rossetti if he would be so kind as to take a look at a few recent sketches. After glancing at the drawings, Rossetti said, "I don't want to hurt your feelings, but my honest opinion is that these don't show much talent or artistic skill."

The old man looked sad but not surprised. He held out another portfolio. "Please, kind sir, would you take one more minute and look at these sketches by a young art student?"

Rossetti started to give them a cursory glance, but then his eyes widened in surprise. He studied them closely. "These are astonishing!" he exclaimed. "I have never seen anything like this. With

the right encouragement, education, and support, this artist could go far. This kind of talent could change the whole art world. Tell me—who made these drawings?"

Tears rolled down the old man's wrinkled cheeks. "I did," he confessed, "forty years ago. But I didn't have any encouragement, so I never believed in myself. I became discouraged and gave up. Now I see that I have lost whatever talent I might have had because I didn't develop it."

It's heartbreaking to know that there are people like the old man in this story who were never encouraged, supported, or educated to achieve their potential. They check out of the conversations and

tell themselves, "My ideas don't matter." They end up leaving it to others to argue and debate and have passionate opinions. They squander their opportunities to speak up about issues that have everything to do with their own happiness and well-being. The VOTE Program exists to prevent this tragedy from happening to you.



Finding Your Voice

The world needs you to develop your unique talents and gifts. We're waiting for your insights to bring us the brilliant new solutions that will solve our urgent economic problems—poverty, hunger, homelessness, unemployment, pollution, lack of health care, and more. VOTE stands for Voices On The Economy. It's a movement that changes the whole way we think about, talk about, and approach the economic problems we face as a society. I'm sure you've noticed that we argue all the time about the best ways to address these issues, shouting down and shutting out opposing ideas instead of listening with an open mind. The fights can and do get ugly. But the fact that we have different perspectives is actually not a bad thing. In fact, in a democracy, diversity of ideas is a gift. That's where the VOTE Program comes in. We inspire solutions to our urgent economic problems by building a culture of respectful listening, passionate advocacy, and intelligent debate. We do this by teaching you the liberal, radical, and conservative perspectives on economic issues—side by side, in a completely unbiased way. Then, using role-plays and other activities, we invite you to try on those competing voices so you can become fluent in each one. Why, you might ask, is it important for us to become articulate about

ideas that we might not agree with? Because doing so changes the conversations we have about issues. We come to realize that those who think differently from us are not the enemy. Our minds open to new ideas and, most important, to new possibilities for how to solve the economic problems that profoundly affect our lives.

When people from all walks of life find their voices on economic issues, they—you!—become educated voters, our combative debates become solution-focused conversations, and the foundation is set for innovative thinking to emerge. The VOTE vision is a world in which people are freed from material worry so that two things can happen: each of us can contribute our unique gifts to the world and society as a whole can reach its highest potential. We believe the world will be a better place because of *your* voice. We believe you have the capacity to make unique contributions that the rest of us need. When you learn about the issues from multiple perspectives, you might suddenly see something that no one else has seen before. You might spark the solutions we desperately need and change the whole world. So this is no time to tune out, fade out, or stay on the sidelines. It's time to get in the game.

Of course, there are more than three economic perspectives. In the VOTE Program, we



talk about *conservatives*, *radicals*, and *liberals* because these are the terms used in the popular media to describe the dominant ways of understanding economic issues in our society. We use them as catch-all terms to describe the general ideas of each of those perspectives. It gives you a way in to the conversations about economic issues by drawing bright lines between them so you can broadly compare and contrast their approaches. Over time, you'll come to realize that there is a lot more complexity and diversity of thought within the radical, liberal, and conservative camps. In fact, they debate and argue among themselves as much as they do with people from other perspectives.

Multiple Perspectives on Economic Issues

I (Amy) went off to college in the 1970s in the midst of the gas shortage, the coal-worker strikes, children getting brain damage from eating lead paint chips, prices rising as people were losing their jobs, soaring mortgage rates, warnings about the health effects of worsening smog, and more. I kept hearing the different sides of the debates on economic issues being called “liberal,” “conservative,” and “radical.” But as a young person, I had no idea how to evaluate their points of view. Which one was right? What made the most sense to me? How could I be sure I was voting for what I really believed in? “I’ll study economics!” I thought to myself. “That’s where I’ll learn what I need to know to understand the debates going on in our nation so that I can join the conversations.”

Unfortunately, my economics classes were a disappointment. My professors taught as if there were only one way to think about economics. They didn’t even mention that other perspectives existed, and they assigned readings and textbooks that just echoed their personal favorites. So I looked for answers outside the classroom. I went to rallies and protests. I listened to the speakers, but I was

disappointed that people seemed to be talking to—and listening to—only those who agreed with their positions. I turned to the media for answers, but I found newspapers and television reporting to be more of the same echo chamber (and it’s gotten even worse over the decades).

In the midst of my deep frustration trying to make sense of all the noise, I was thrilled to come across a groundbreaking academic book by Robert B. Carson, Wade L. Thomas, and Jason Hecht called *Economic Issues Today*, and for the first time I was given a fair-minded assessment of each perspective. It was astonishing when I could understand the differences between how conservatives, liberals, and radicals see the issues. It transformed my vision of the world from black-and-white to glorious Technicolor. All the arguments in Congress that I read about in the morning paper—from international trade deals to seat-belt laws—suddenly made sense. I recognized the different economic perspectives when they were lampooned on *Saturday Night Live*, satirized in political cartoons, and argued over during my family reunions.

Using *Economic Issues Today* as my inspiration, I created a version of this way of teaching multiple economic perspectives that is accessible to people of all ages and backgrounds. In the VOTE Program we use stories, group exercises, multimedia, jokes, skits, and more to bring alive the voices of the different perspectives. I launched the VOTE Program to help you transform *your* world from black-and-white to Technicolor. I created it for you—and, selfishly, for me—because I want to share the world with people who are respectful listeners, passionate advocates, and intelligent debaters. You have opportunities to vote all the time—not just at the ballot box but also in conversations at work, at school, with family, with friends, and with strangers. Your voice influences the ways other people see the world, so don’t you want to make sure that what you’re saying is what

you actually believe? Imagine you have a headache and need pain medicine. You would want to know the possible side effects of the different available choices. You would read the labels first and then make an informed decision about which one is right for you. The VOTE Program helps you “read the label” on each economic approach.

Why Economics?

Right now you might be thinking, “Economics? That’s not relevant to me!” You wouldn’t be the first to think that, but as an economics educator, I have to confess that I find that response astounding and alarming. It’s like hearing a fish say that water isn’t important. Please understand that economics is not just about how to invest in the stock market or how to balance your checkbook. Did you eat today? Did you travel on a road to get somewhere today? Are you wearing clothes? Do you have a cell phone in your pocket? All these things are directly related to economics. It has everything to do with the quality of the drinking water that comes out of your tap, whether your seat belt works properly, what shoes you’re wearing right now, the age at which you can retire, your decision about whether or not to have kids, if you can go to college, how safe you are walking home at night, where you’re sitting right now, where you live, your career opportunities, and everything else you can think of. Everything in the newspaper—from the sports section to the TV listings—is about economics, as are the feeds on your social media, the debates about financial aid you hear in the hallways at school, and arguments at work about the minimum wage and benefits. And those conversations you and your family and friends have at the dinner table about organic food versus nonorganic food, and what new car to buy? Yes—economics. All the choices available to you have been, are now, and will be shaped by economics. Economics is relevant to your life in every way. If you’re not yet convinced,



Agriculture



Product Safety



Livelihood



Housing



Income Distribution



The Environment



Health Care



Market Power



Retirement Security



The Federal Budget



International Trade



Economic Stability

then please take a look at the issues we’re going to explore in the VOTE Program. There’s nothing on this list that doesn’t affect you and your future in every way possible.

But here’s the problem that usually comes up when people want to learn about economics: nearly all high school and college courses are loaded with technical model building, which can be intimidating. It’s like you have to climb a steep

trail up a mountain of information and try not to twist an ankle on all the jargon before you reach the top, where you will finally feel prepared to have a voice in the discussions. A lot of people give up on understanding economics before they even try. They leave it to the “experts” instead, because they’re scared off by the graphs, charts, and statistics. If you are like the majority of people who don’t want to make the climb, the VOTE Program offers a much more accessible path to understanding economics. We teach you the main ideas without bogging you down with technical details. And if you’re a person who relishes the challenge of mastering mountains of economic models, then the focus on multiple perspectives offered in this book will make your journey into this field even richer and more exciting. No matter which path you choose, you’ll become conversant with diverse ways of understanding the world.

Although I did climb the mountain, and it was rewarding to reach the top and earn my PhD, I was aware all along the way that many people are left out of the conversations altogether, and it was clear to me that this holds us back as a society. We need to become a nation of informed voters. We need everyone’s educated input to spark brilliant new ideas about how to solve our urgent economic problems. We need everyone to fall in love with the questions economists ask about how to create material well-being, because the answers have a profound impact on every aspect of our lives.

There have been countless men and women across the globe who contributed to our under-

standing of economics. But the debates that largely shape our conversations today are credited to three great economic thinkers who were European men: Adam Smith, Karl Marx, and John Maynard Keynes. Economics is a fascinating story of the evolution of ideas. In chapter 4 you’ll learn more about their points of view and the ways in which their voices

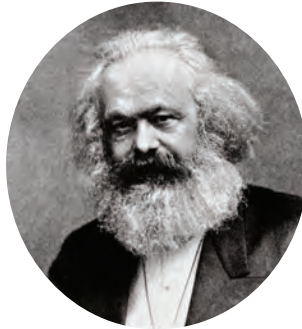
are echoed in today’s arguments. Their differences of opinion will be the main subject of subsequent chapters. We’ll be delving into twelve of the most relevant economic issues of our time, giving you the information and tools to make up your own mind about what *you* believe.

Maybe you’re thinking, “I don’t need the VOTE Program, because I already know what I think. My mind is made up, and I know I’m right. I know how we should move our nation forward.” But how well informed is your opinion? Do you truly know what the other perspectives are saying? How did you develop your opinion? We’re all influenced by our families, our communities, perhaps our religions, and more. Consider that if you had grown up in a different family, or a different neighborhood, or a different religion, you might have a completely different perspective right now. All of our ideas about the world are profoundly shaped by these and other influences.

For instance, let’s say your family members are all die-hard Cardinals baseball fans. On game days all the cousins gather to watch the Cardinals play on television and everyone wears the team colors. When the Cardinals score, everyone chants, “We bleed Cardinal red!” When the Cardinals lose, everyone shouts at the TV



Adam Smith



Karl Marx



John Maynard Keynes

and accuses the other team of cheating. (“Those umpires were probably paid off to look the other way, because the catcher *definitely* tagged the runner at home!”) Every holiday dinner conversation turns into a heated debate about who was the greatest Cardinals player of all time. In this context, how likely are you to become a Yankees fan? How likely are you to decide you prefer soccer over baseball? Similarly, if your family has always been staunchly Republican or Democrat or Democratic Socialist, how likely are you to understand the views of other perspectives or to speak up for a policy or candidate from another party? How likely are you to be open to alternative points of view? I despair when people argue for one economic perspective without truly understanding the other perspectives. It’s dangerous to believe that you’re right and everyone else is wrong when you don’t really understand the other points of view because you haven’t been exposed in a fair-minded way to what others are saying.

Many things can happen when you’re open-minded and have access to this information. One possibility is that you’ll learn the other perspectives and change your point of view. Or your original view will grow stronger. You’ll say to yourself, “I understand what they’re saying, and I’m even more sure I’m right!” You may hear the strengths and weaknesses of each argument and become open to finding middle ground. You’ll think to yourself, “If we compromise, we could solve this!” Another possibility is that by hearing how the people from other perspectives think about the issues, you will come up with a whole new way of thinking about solutions to our urgent economic problems.

You might be wondering why I’m making a big deal about the importance of learning multiple economic perspectives in an unbiased way. It turns out that my experience in college wasn’t the exception; it’s the norm. Most economics courses and books present only a single economic viewpoint—and they present it as the “truth.” The few



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that do include diverse viewpoints nearly always conclude that one or another is the “right” or “best” economic approach. I believe introductory economics education should empower *you* to make up your *own* mind, not convert you to a teacher’s (or textbook writer’s) way of thinking. You need to judge for yourself and find your own voice on the issues—not mimic mine or anyone else’s. It doesn’t matter to me what you decide; I only care that you make an informed decision. If you study the statistics for all the baseball teams and end up more convinced than ever that the Cardinals really are the best baseball team in history, that’s great. Or if you change your mind about the Cardinals and become a die-hard Yankees fan, that’s great. Or if you decide hockey is a much better sport than baseball, that’s great. As you read this book, please repeat this to yourself: “The VOTE Program is not advocating for any of the perspec-

tives; it's helping me make my own educated and informed decisions about what I believe.”

Your Voice Is Your Vote

It's no accident that the acronym for Voices On The Economy spells out the word VOTE. In a democracy we, the people, must decide what our national priorities should be. That's what all the fights in politics are about. When we cast our vote for the candidates who will represent our views in the White House, in Congress, in the state house, on the local city council, or on the school board, for example, we're really voting for the economic perspective we believe will best advance our personal interests and the interests of our community and country. Voting is your opportunity to say, “Here are what I believe should be the highest priorities for our nation. Here is what I want my future to look like. Here is the kind of world I want to live in. This is the path forward that I believe we should take to solve our problems.”

Even if you aren't eligible to vote, you can speak up at the kitchen table, talk to your classmates and coworkers about issues, and use your voice to influence the people around you. If you are eligible but you don't vote, you let other people decide for you what your future will look like. They—and not you—will decide if the minimum wage should go up, stay flat, or be eliminated. They—and not you—will determine how much federal debt we will have. They—and not you—will decide what your retirement security will look like. If nothing else, I hope reading this book convinces you to exercise your privilege to vote whenever you get the chance. Please remember the old man in the story about Rossetti. He didn't use his voice, and he missed out on his chance

to transform the world. The VOTE Program will educate, support, and encourage you, so that no matter what you end up doing in life as a career, you will know how to use your voice to contribute in a meaningful and productive way to the conversations.

The VOTE Ballot

You may or may not already have opinions about the issues we're going to cover in this book. Either way, let's find out if and how your attitudes change as you go through the VOTE Program. You will find the VOTE Ballot on the next page. It doesn't matter if you don't know much or anything about the issues listed there. Make your “1st Vote” by taking your best guess. You will see that there are circles with *L* for liberal, *R* for radical, and *C* for conservative. If you're a conservative on an issue, put a mark on the outside edge of the circle above the *C*. Same goes for if you're a radical (above the *R*), or a liberal (above the *L*). But wait! If you're between two of the positions—let's say liberal and radical—then put a mark on the outside edge of the circle in between the *L* and the *R*. If you lean a little more toward one perspective or the other, move the mark in that direction. You can look at the sample votes in the instructions to see how to make these marks.

Please don't leave any issues blank. We're going to vote again (“2nd Vote”) at the end of each issues chapter. You'll be able to track why you took that position (the “Why?” column) after you become more educated and informed about the issues and the perspectives. Please vote right now on issues 1 through 12 (1st Vote) before you continue reading. Save a copy of your VOTE Ballot in a convenient place. You'll need it twelve more times.

VOTE Ballot



INSTRUCTIONS:

- Decide which perspective you agree with on each issue.
- Mark the outside circle corresponding to your perspective (**C**onservative, **R**adical, **L**iberal).
- If you lean toward another perspective as well, place the mark in that direction.
- After learning about the issue, vote again (2nd Vote) and in the "Why" column, please describe why you support that perspective.

- Sample votes:   

Name _____

Date _____

	ISSUE	1 st VOTE	2 nd VOTE	WHY?
	Agriculture			
	Product Safety			
	Livelihood			
	Housing			
	Income Distribution			
	The Environment			
	Health Care			
	Market Power			
	Retirement Security			
	The Federal Budget			
	International Trade			
	Economic Stability			

The Three Questions of Economics

You’re ready to start your exciting voyage into economics, which is the study of our material lives. But brace yourself, because this starts with a shipwreck. Imagine you are stranded with others on a deserted island. What’s the first thing you’re going to ask? “How can I survive?” Humans throughout the ages have been asking questions about how to survive. This is what makes economics such an interesting social science. Economists break down the question of survival into three components. First, given the resources we have, *what should we make?* This is the **consumption question**. Should we use the driftwood on this island to make a fire to keep warm or to build a raft? Let’s say we decide to build a raft. Sounds like a plan. The second question, then, is *how do we make it?* This is the **production question**. We decide that you’ll collect the driftwood, vines, and tree sap, and I’ll

fashion a hammer from a stone and a stick. We use these items and our labor to build the raft. The third question is *for whom do we make it?* This is the **distribution question**. Who should have a place on the raft? Those other people who also washed up on the beach—should they build their own raft or use ours? The definition of **economics** that we use in this book is *the study of the consumption, production, and distribution of goods and services*—in other words, the questions you would ask if you were stranded on a deserted island.

Because you were not the only one left stranded after the shipwreck, you also would have had to ask questions about how to manage social interactions among the survivors. How would decisions be made? How would conflicts be resolved? What should the group’s priorities be (e.g., laws, governing structures, and policies)? That is the sphere of politics. Politics is the study

Three Questions of Economics

What to Produce?

The Consumption question

How to Produce?

The Production question

For Whom to Produce?

The Distribution question

Economics

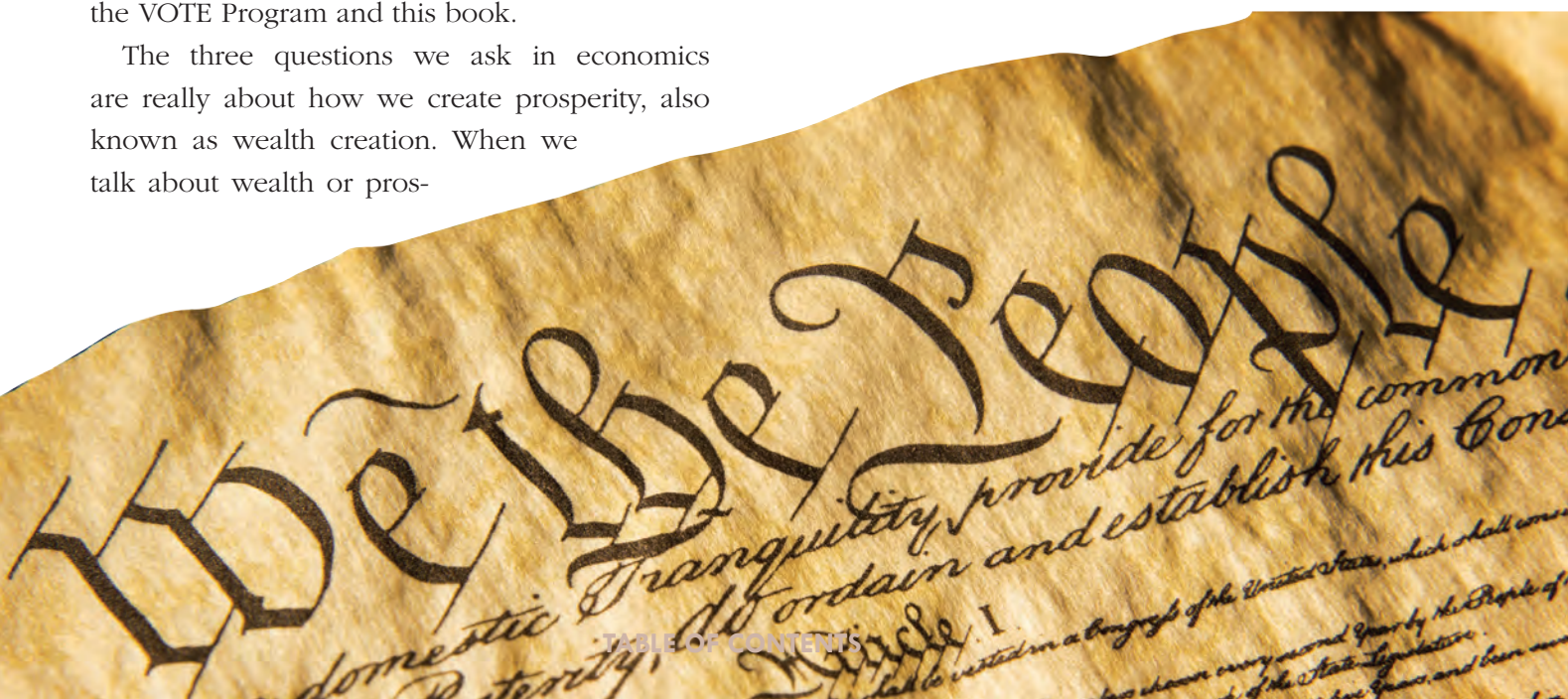
The study of the *consumption, production, and distribution* of good and services

of **governance**—the systems that manage social interactions. Just like on the island, economics and politics are always bound together, which is why the people who started studying this phenomenon years ago called it *political economy*. Later, to dive deeper into these topics, the fields of political science and economics were divided into two separate realms of inquiry. In the VOTE Program, we bring them back together because we not only explore the economic ideas of each perspective, we also examine their policy ideas, which means the laws they want to pass to enact their economic solutions. Our nation has a **representative democracy** or **republic**. We elect others to vote on our behalf to enact laws and policies. Our laws are passed not by a majority of people in the nation but by a majority of elected representatives, whether it's on the school board, or in the state house, or in Congress. Our representatives can't just enact any law they want. All our laws and policies must align with our Constitution (we call this a **constitutional democracy**). While radicals, liberals, and conservatives all agree that peace and prosperity can best be delivered in a political system of a constitutional democracy, they disagree on which economic system can best bring us the material well-being to thrive and which policies will move us forward as a nation. Those disagreements are the heart of the VOTE Program and this book.

The three questions we ask in economics are really about how we create prosperity, also known as wealth creation. When we talk about wealth or pros-

perity, we don't just mean big bank accounts. We mean having everything we need to flourish and live full lives so that we can achieve our potential. This includes the ability to go to the dentist and get your cavity filled, to sleep on a mattress, to wear shoes, and so forth. In other words, we're not just talking about the ability to afford designer shoes and sports cars. We're not talking about **materialism**—the belief that your possessions are the most important things in life. We're talking about **material well-being**—having the goods and services you need to survive and thrive.

One of the things I'm most grateful for are my glasses. When I put them on every morning, I'm reminded of my favorite episode of *The Twilight Zone*, a TV show I watched in the 1960s. The episode is about a man who just wants to be left alone so he can read, but his demanding wife and his demanding job as a bank teller keep interrupting his reading time. So one day he slips into the bank vault to steal a little peace and quiet with a good book. That's where he's hiding when a nuclear blast happens. He emerges from the vault and discovers that he's the sole survivor. At first he's devastated, but he quickly sees the bright side of his situation: now he has all the time in the world to read! As he reaches down to pick up a book, he accidentally drops his glasses and—*crunch!*—he steps on them.



The last man on Earth can't read without glasses, and there's no one left to make him new ones. This is an economics story. We determine what to make—glasses. We determine how to make them—with specially trained opticians working with glass or plastics. And then we determine who will get them. There are billions of people on the planet, and some estimate that a billion or more of us need glasses but don't have them. Think of all the car accidents that happen because of bad vision. Think about the students who fail in school every year because they can't see clearly. Think of the people who fall and break bones because they don't have good depth perception. All this harm and suffering could be prevented with glasses. Who gets glasses and who doesn't? Who gets to live in a mansion, and who has to live on the sidewalk? Who gets a car, and who takes the bus? Who gets a refrigerator full of food, and who goes hungry? These are the kinds of relevant questions we grapple with in economics.

Important Economic Terms

There are a few terms you'll need to know as we get started. **Inputs** are what go into making a product. Inputs are also called **factors of production** or, more simply, **resources**. For example, on your deserted island, you have a coconut tree. You collect the coconut fronds and use them to build a shelter, so in this context coconut fronds are inputs.

Resources include three types: **land**, **labor**, and **capital**. Land generally refers to anything that naturally comes from the Earth, like coconut fronds, clams, ore, diamonds, and animals (except for humans). Soil, minerals, petroleum, lumber, and freshwater lakes are all considered land resources. Labor is human exertion—physical and mental activity. When you climb the coconut tree to pick a coconut, that's labor. Capital, also sometimes called the **means of production**, is any equipment you use to produce the final product, such as a sharp



rock you use to slice the coconut open. You might have heard of a fourth resource called the **entrepreneur**—the person who brings a special talent to create new industries, new firms, and new markets. Since not all the perspectives agree that this is a special fourth resource, we don't include it on our list of resources. Some believe it's just another form of labor.

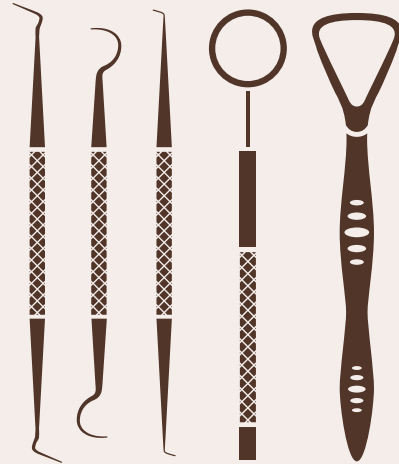
Inputs are what we use for production, which simply means taking resources and turning them into something useful or desirable. An input might start out as one thing and become another, as happened in the movie *Cast Away*. The character played by actor Tom Hanks is stranded on a deserted island. He tries unsuccessfully to open a coconut by banging it with a rock. Desperate and frustrated, he flings the rock away and a piece chips off. That chipped piece has a sharp edge, and he's able to use it to open the coconut. In this example, he turned a rock into a tool. In economic terms, we say that land (the rock) became capital (a tool).

Everything we make is called an **output**, or product. There are two kinds of products: **goods** and **services**. Goods are tangible, meaning they can be touched. They are physical things such as coconut oil and computers. Services are intangible, meaning they can't be touched. You can't touch a

Exercise 1.1: Inputs and Outputs

Let's do a quick exercise to review inputs and outputs. We'll use the example of dentistry. Let's say you go to the dentist. Write down whether each item in the list that follows is an input or output. If it's an input, indicate whether it's land, labor, or capital; if it's an output, indicate whether it's a good or a service. The Answer Key can be found at the end of this chapter.

1. Teeth cleaning _____
2. Gold for fillings _____
3. Dental technician _____
4. Mouth guard _____
5. Drill _____



concert, although you can touch the guitars that the musicians play. The musicians themselves are labor. In this context, the guitars used during the concert are capital because they are equipment used to make the final product (the concert).

There are just a few more terms to know. **Microeconomics** and **macroeconomics** are different ways some economists analyze and understand the economy. *Micro* means small-scale (think microscope), and *macro* means large-scale. Imagine you're playing the game Pictionary. You have to draw a picture that allows your teammate to guess the word. Let's say your word is *farm*. If you're looking through the lens of microeconomics, you start small and go big, so first you draw a carrot. You add a leafy top, squiggly lines for the roots, and a bunny nibbling on it. From there you draw the garden growing around the carrot, and then the barn in the distance, with a herd of cows on the hillside. That's how you get to *farm*. If you're looking through the lens of macroeconomics, you start big and go small, so first you draw the whole spread—barn, farmhouse, plowed fields, cows on

the hill. Then you sketch in the garden, drawing the neat rows of vegetables. Last, you draw the carrot in its row next to the lettuces and cabbages, and the bunny nibbling on it. It doesn't matter whether you go from big picture to small picture (macroeconomics), or from small picture to big picture (microeconomics). They are simply two approaches to economics.

Microeconomics is the study of **markets**. You go to supermarkets and malls, and you shop online, so you know how it works. You want coconut cupcakes (demand); the convenience store has them (supply). Markets are places where demanders and suppliers come together to buy and sell. Macroeconomics looks at the whole economy including **Gross Domestic Product (GDP)**, which is the measurement of all goods and services produced by a nation; **unemployment**, which is the measurement of the number of people who want jobs and don't have them; and **inflation**, which is the measurement of overall price increases over time. We'll be talking about these three definitions in great detail in chapter 2.

Another term that you've probably used before is **theory**. For our purposes, a theory is an explanation of any question you want to think about. Theories always start with a question: for example, when you drop a piece of toast, why does it always land buttered side down? Why does a dog wag her tail? What were television executives thinking when they canceled your favorite show? We come up with theories to answer questions we have about the world around us. **Economic theories** are explanations related to questions about consumption, production, and distribution—what to produce, how to produce, and for whom to produce. A theory is an idea, while a **system** is a set of things that work together in the real world to form a complex whole. An **economic system** is the *actual* consumption, production, and distribution that takes place in the real world.

One chief difference among economic systems is who owns and/or controls the resources (land, labor, and capital). Over the centuries, societies have operated under a variety of economic systems. For example, medieval Europe operated under the economic system of **feudalism**, where only the noble classes owned the land and capital. They controlled the labor by forcing the serfs (peasants) to work for them to earn their food and shelter. Feudalism also existed in India, China, and parts of Africa. In colonial and antebellum America, we had an economic system based on **slavery**, in which the masters owned the labor of the slaves. In twentieth-century Europe, the Soviet Union's economic system was called **Soviet-style communism (state capitalism)**, where the state controlled the labor and owned the land and capital. As a nation, the United States has already rejected all three of these economic systems, so in the VOTE Program we're not going to be talking about them. We won't be suggesting, for instance, that the Soviet Union had a system that we want to emulate, or insisting that feudalism is best, or advocating for the United States to

go back to slavery. We'll only be considering the predominant economic perspectives that people currently debate.

Choose Your Economic System

Let's do a little experiment. Imagine there are two countries, and you have to choose where you want to live. In both Country A and Country B there is private ownership of land and capital, and individuals control their own labor, so owners hire other people to work for them. Let's say each country has an identical firm that runs an entertainment service, Balance It! The employees of Balance It! stand up and balance their notebooks on their heads while they do a classic dance you might have heard of called the hokey pokey. (Trust me, this is actually very entertaining.) When someone's notebook falls, that person sits down. Eventually, there's only one person left standing—the Balance It! winner. The reward for the winner is money, which represents things people want and need, from private helicopters and exotic vacations to dental care and college tuition. Each of the winners in Country A and Country B receive a huge pile of money, and the runners-up receive a big pile of money. No one else who competed receives any money. Here's where you have to make a choice.

In Country A, the winners of the money keep it all. They start businesses that generate wealth for themselves while creating more jobs for others. They also voluntarily redistribute a portion of their wealth through philanthropy to help those who fall through the cracks meet their basic needs. With more people able to earn a good living because there are more jobs and boundless opportunities, the economy thrives.

In Country B, the winners keep a substantial portion of the money. The government redistributes the rest to fund programs that grow the middle class and create a robust safety net to meet people's basic needs. With money in their pockets,

the poor and middle class buy more goods and services, which leads firms to expand and create more jobs. This brings about a thriving economy.

While both Country A and Country B have private ownership of resources, they differ in the role government plays in the economy. Now let's say there's a third country—Country C—where, instead of private ownership, workers cooperatively (together) own the businesses where they work.

The worker-owners of Balance It! get up and do the hokey pokey with notebooks on their heads, and eventually one person is left standing. It is assumed that the winner in this competition was only the winner because all the workers contributed to Balance It!, so all the people in the firm share the pile of money. (The Balance It! worker-owners might also vote to give the winner a special bonus.) A substantial portion of their incomes is paid into a government fund that ensures that all people in society get their material needs met. Everyone in Country C is able to flourish with more opportunities for new worker-owned businesses. This creates a thriving economy.

Now that you have all three choices, please vote. Which country would you choose to live in—Country A, Country B, or Country C?

Country A and Country B both represent the economic system of **capitalism**, which happens to be the dominant economic system in the United States. In capitalism, individuals privately own land

and capital, and people have the legal right to control their labor. Country A represents the conservative view of capitalism, and Country B represents the liberal view of capitalism, but please note that proponents of both the conservative and liberal perspectives believe that capitalism is the best possible economic system. Country C is the economic system of **democratic socialism**, which represents the radical view. Proponents believe the best economic system has a combination of public ownership and worker ownership of resources. We call proponents of this system radicals.

Conservatives celebrate **free-market capitalism**. By “free” they mean free from government interference. Conservatives believe free markets create economic and social harmony, while government regulations and bureaucracies make capitalism inefficient and coercive. Conservatives believe we need to embrace a free-market system to ensure liberty for all.

Liberals believe that businesses should be guided by a democratically elected government through **fair-market capitalism**. The partnership between private enterprise and the public sector creates equity, stability, and transparency with accountability because, when it's left alone, capitalism can lead to unfair competition and unequal opportunities. Liberals believe we ought to guide fair-market capitalism to ensure fairness for all.

Radicals believe capitalism is a system driven by private owners motivated to make a profit rather



than by social need and the common good. They view capitalism as a destructive system that steals from workers and that should be replaced by one that values people over profits. Radicals call that system *democratic socialism* (but please be aware that not all radicals identify as democratic socialists). Radicals believe that when some resources are owned cooperatively by workers and some resources are owned by the whole society, and we have a government where people participate directly in decision-making, then we can build a just economic system for all.

Every time I do this activity in my classes, the students are all over the map when it comes to choosing which country they want to live in—which is really a choice between ideas about the

The problem isn't that we disagree. Looking at issues from different points of view can and should make us stronger. This is a gift of democracy. The problems occur when we disagree without respectfully listening to the other sides, and when we dismiss out of hand the validity of their points of view.

best way to organize the economy. This is not at all surprising; people have been fighting about who controls the land, labor, and capital since the beginning of civilization. Just think about our nation's history. The Revolutionary War was a fight to overthrow British control of the land. The Civil War was fought in large part to end the system of slavery and give all people the right to control their own labor. World War I and World War II challenged imperialism (one country taking control of another country's resources). The Korean War, Vietnam War, and Cold War were fought

to stop the spread of communism (state ownership of resources and state control of labor). We fought the Gulf War, some say, to again stand against imperialism. Even the War on Terror is seen by



some to have been a fight over land, labor, and capital. The history of the world is a history of conflict over the ownership and control of resources, and this is likely to continue to be the case as long as there are human beings.

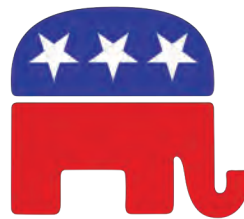
Up until now, we've been talking about liberal, conservative, and radical economic ideas. You should know that these ideas are often represented by political parties in the United States. The **Democratic Party** tends to follow the liberal economic idea of government guiding private enterprise. The **Republican Party** tends to follow the conservative economic idea that government should step back and allow capitalism to operate without interference. The **Democratic Socialists of America** tends to want cooperative ownership of resources and a participatory government. In case you didn't know, Democratic Socialists are represented by a handshake and a rose, Republicans are represented by an elephant, and Democrats are represented by a donkey.

Just as wars are fought over who owns the resources, so too are battles waged within our nation to determine which economic perspective will shape policies, taxation, trade deals, environmental standards, and more. We have conflicts and passionate disagreements, and inevitably some part of the population ends up feeling disappointed with the direction we take as a country. This is normal in a democratic system. Sometimes the liberal view has the majority vote; other times the conservative approach has the majority vote. And sometimes (although far less often but with a definite voice in the debate) the radical view influences national policy. The problem isn't that we disagree. Looking at issues from different points

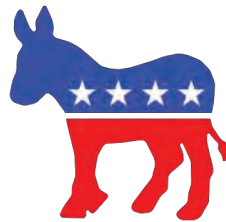
of view can and should make us stronger. As we said earlier, this is a gift of democracy. The problems occur when we disagree without respectfully listening to the other sides, and when we dismiss out of hand the validity of their points of view. These are ideas that could potentially move us forward as a nation. Studies have shown that we tend to surround ourselves with people who echo our own perspectives, which means we don't get enough practice listening to other perspectives

in a respectful way. Recent voting statistics show that Republicans and Democrats are more polarized than ever, with increasing levels of hostility. In decades past, they regarded one another as political opponents, but increasingly the rhetoric has become vicious—nasty memes and political rants dominate the news and social media. They now treat one another as the enemy.

And where are the Democratic Socialists in this fight? Since the financial crisis of 2008, followed by the Occupy Wall Street movement and a surprisingly close run for the Democratic Party's presidential nomination by Senator Bernie Sanders (an Independent from Vermont who identified as a democratic socialist), there has been growing interest in the radical perspective. *Socialism* was the most frequently searched



Republican



Democrat



Democratic Socialist

word on *Merriam-Webster's* website during Sanders's 2016 presidential primary campaign. That year, a survey by the Institute of Politics at Harvard University revealed that half of people ages eighteen to twenty-nine didn't support capitalism, and a third of this group supported socialism. The implications of this are quite significant. As Massachusetts Senator Ed Markey once said, "Although children are only 24 percent of the population,

they're 100 percent of our future." Because of the rising interest in democratic socialism, more Democrats and Republicans have become vigorous, vocal opponents of it.

We need to get better at understanding one another's points of view. Respectful listening and compromise are absolutely vital in a democracy and crucial for sparking new solutions. This is the heart of what we're doing here in the VOTE Program. But why haven't people been doing it all along? Because it's not easy. Bitter feuds and different ways of thinking about our nation have existed since well before the signing of the Declaration of Independence. Leaders debated whether the federal government or local jurisdictions should have more power. Who should own the resources? Who should be allowed to vote? It has always been hard to hear ideas that contradict our own, so please don't be surprised if you find the VOTE Program challenging at times. For each issue in this book, you will be asked to argue the position of each of the economic perspectives—even the ones you vehemently disagree with. Why would we ask you to do this? Because

we believe that you can't really learn how to swim if you've never been in water. You might learn the motions of the crawl, but you can't know what it feels like to float, or to breathe out bubbles through your nose, or to propel yourself across the pool by kicking your legs. Speaking aloud the words and phrases of each economic perspective is like diving into the pool. It gets you inside the ideas so you can really understand the complexities and nuances. Once you do that, you'll be able to make up your own mind about what you believe. You'll come to that opinion with an educated understanding of your choices. The VOTE Program inoculates you against believing oversimplified sound bites meant to be provocative and divisive—things like "Conservatives don't care about the environment!" or "Radicals are un-American!" or "Liberals are antibusiness!"

The VOTE Program is all about helping you become engaged with the larger issues in the world around you. Only half of eligible voters actually cast their ballots in recent years. This is alarming if you care about the future of our country, which has everything to do with your



future well-being. Even if you weren't sure about your positions when you voted on the VOTE Ballot, you will definitely start to form your own opinions about the issues as we cover them in this book. The first step to becoming civically engaged is very simply this: you have to care.

The Next Great Economic Thinkers

The VOTE Program is going to teach you about Karl Marx, John Maynard Keynes, and Adam Smith, the great economic thinkers who laid out their ideas regarding how we can best create wealth and prosperity. We'll trace their voices through to today's radical, conservative, and liberal perspectives. My favorite daydream, which I hope becomes reality very soon, is that you, your friends, and your family members will read this book and participate in the VOTE Program. I imagine you all seated around the dinner table and the conversation turns to issues in the news.

Your friend says, "Okay, I get what you're saying about cracking down on companies that pollute. This is what I think we should do about it, and here's why."


Your sister reaches for the potatoes and says, "Yeah, I see your point, but what if we compromise and find a solution this way?"

Your neighbor passes her the salt and says, "What you're both saying only convinces me more that what I believe is the best way to deal the problem of pollution, and here's why I think so."

Then you leap up, so excited that you nearly spill your soup. "I see the strengths of what you all are saying, and I also see weaknesses in your arguments. But listening to you just gave me an amazing idea for a new way to think about the environment—and about economics in general!"

We're waiting for the next great economic

thinkers. We haven't had a new way of thinking about economics in nearly a century, and we're due for one. My dream is that *you* will be the next great economic thinker. Our world desperately needs you to help navigate us through the uncertain waters ahead. We're looking at challenges on every front: climate change, unaffordable health care, food insecurity, the possibility of drones and robots replacing the majority of human workers in the years to come—not to mention challenges we can't yet even imagine.

We will always have disagreements. The goal of the VOTE Program is not to unite us in agreement. The point is that, through your civic engagement and civil discourse, we can move forward together and advance as a civilization. I have a sense of urgency about this because I won't be here forever, and neither will you. None of us will. I lost close family members at a young age, so perhaps that's why I'm so aware of mortality. If you're extremely lucky, you may get a hundred years, but you don't know when that second date on your gravestone will arrive. No one does. So instead let's focus on the dash—that little line that connects your birth date and your death date that stands for all the days in between your arrival and your departure. We're all living in our dashes, as people like to say, and it's up to us to make the most of this lifetime, however long it will be. It's up to us to use our voices to vote—to say what we mean and add our unique, informed perspective to the conversation. Don't let that dash go by and then years later say with regret, "You know, I did have an idea way back when, but I lost it because I never really knew how to use my voice." My great hope for you is that on the day you die you will look back on your life and know that your voice made the world a better place. 

Chapter 1: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. As new artificial intelligence inventions are used to take orders in fast-food restaurants, more workers are losing their jobs. Which of the three questions of economics relates to this situation?
 - A. For whom to produce?
 - B. What to produce?
 - C. Why to produce?
 - D. How to produce?

2. Juan is a twenty-five-year-old quarterback for a professional football team. In terms of resources, Juan is _____, the goal posts are _____, and the grassy playing field is _____.
 - A. land; labor; capital
 - B. labor; capital; land
 - C. capital; land; labor
 - D. labor; land; capital

3. While driving on a freeway, a rock from the truck in front of you hits your car window and cracks it. The next day, you hire a company to replace the front windshield. In this scenario, which of the following is true?
 - A. The window repair is an output, specifically a service.
 - B. The window repair is an output, specifically capital.
 - C. The window repair is an output, specifically a good.
 - D. The window repair is an output, specifically land.

4. What is studied in microeconomics? Choose all that apply.
 - A. The nursing shortage
 - B. The number of layoffs in the construction industry during the previous decade
 - C. The decrease in average prices in Japan during the 1990s
 - D. The advertising campaigns used to sell sneakers to teens ages thirteen to sixteen

5. Which of the following news article headlines would be of interest to a macroeconomist? Choose all that apply.
 - A. The unemployment rate fell by 0.4% in January
 - B. Wage growth outpaced inflation for the first time in a decade
 - C. Mexico's gross domestic product higher than expected
 - D. Mergers and acquisitions leave only a few players in the gaming industry

6. In the market for pens, writers and pen manufacturers meet. In this context, the writers are the _____ and pen makers are the _____.
- A. producers; consumers
 - B. demanders; suppliers
 - C. sellers; buyers
 - D. suppliers; demanders
7. What is the difference between an economic theory and an economic system?
- A. Theories are explanations about the economy, and systems are actual economies in the real world.
 - B. There is no difference—a theory and a system are synonyms.
 - C. Theories are studies of markets in general, while systems are studies of markets during particular time periods.
 - D. Theories are actual economies in the real world, and systems are explanations about the economy.
8. Which of the following is an economic system?
- A. Feudalism
 - B. Slavery
 - C. Soviet-style communism
 - D. All of the above
9. In capitalism, who owns the capital (the equipment used for production)?
- A. Government
 - B. Groups of workers
 - C. Private parties
 - D. Consumers
10. Match the economic theory (left column) to its preferred economic system (right column).
- | | |
|----------------------|-----------------------------|
| A. Conservative | i. Fair-market capitalism |
| B. Liberal | ii. Free-market capitalism |
| C. Radical | iii. State-owned capitalism |
| D. None of the above | iv. Democratic socialism |

Answers

1. D 2. B 3. A 4. A, B, & D 5. A, B, & C 6. B 7. A 8. D 9. C 10. A – ii, B – i, C – iv, D – iii

Chapter 1: Key Terms

<u>Capital</u>	<u>Feudalism</u>	<u>Output</u>
<u>Capitalism</u>	<u>Free-market capitalism</u>	<u>Production question</u>
<u>Constitutional democracy</u>	<u>Goods</u>	<u>Representative democracy</u>
<u>Consumption question</u>	<u>Governance</u>	<u>Republic</u>
<u>Democratic Party</u>	<u>Gross Domestic Product (GDP)</u>	<u>Republican Party</u>
<u>Democratic socialism</u>	<u>Inflation</u>	<u>Resources</u>
<u>Democratic Socialists of America</u>	<u>Inputs</u>	<u>Services</u>
<u>Distribution question</u>	<u>Labor</u>	<u>Slavery</u>
<u>Economic system</u>	<u>Land</u>	<u>Soviet-style communism</u>
<u>Economic theories</u>	<u>Macroeconomics</u>	<u>State capitalism</u>
<u>Economics</u>	<u>Markets</u>	<u>System</u>
<u>Entrepreneur</u>	<u>Material well-being</u>	<u>Theory</u>
<u>Factors of production</u>	<u>Materialism</u>	<u>Unemployment</u>
<u>Fair-market capitalism</u>	<u>Means of production</u>	
	<u>Microeconomics</u>	

Answer Key to Exercise 1.1

- | | |
|----------------------|------------------------|
| 1. Teeth cleaning | <i>Output: Service</i> |
| 2. Gold for fillings | <i>Input: Land</i> |
| 3. Dental technician | <i>Input: Labor</i> |
| 4. Mouth guard | <i>Output: Good</i> |
| 5. Drill | <i>Input: Capital</i> |



Photo by Amanda Cottrell from Pixels

2 The Power of Definitions

I have a friend who has one of the most amazing jobs in the world—actually, one of the most amazing jobs *out* of this world. She remotely operates a spacecraft that orbits Mars and takes pictures of the alien landscape below. I always like to ask my students what their dream job would look like. I’ve heard a lot of creative answers over the years, including professional surfer, stand-up comedian, robot designer, and sushi chef. Working as an economics educator is my dream job, but my second choice would be to read the newspaper for a living. (Is that not a real job? It should be!) Students who know this passion of mine often ask me why I

care so much about the news. “It’s just stories about what’s happening to other people in other places,” they say, but I completely disagree. The news is brimming with information that’s relevant to my life. For example, it gives me a heads-up when a public service is no longer available (“Highway rest areas closed due to state budget shortfall”),

when I should plan a road trip (“National parks less crowded this season”), what I should do to avoid getting sick (“Salmonella found in romaine lettuce”), where to invest my money (“Biotech firm develops cure for common cold”), where to look for a new apartment (“Downtown rental prices fall”), and more. To me, reading the news is like

binge-watching a great TV show. I need to know the latest events, discoveries, and scandals, as well as, of course, all the different points of view about what’s happening in our world and how to fix what’s going wrong.

Have you ever been in the middle of season 3 of a show when a relative

plops down on the sofa next to you and annoyingly asks, “So, what’s this about?” As you attempt to describe the twists and turns of the plot, you realize it’s a very convoluted story. The news is also complicated, yet from an economics standpoint, it’s all basically about the same three things we would care about if we were stranded with



Photo by Andrea Piacquadio from Pexels

others on a deserted island: what to make, how to make it, and who gets it. You hear a podcast about firms rushing to invest in clean energy in order to take advantage of tax incentives? That's about what to produce. You read that the government is debating new pollution standards? That's about how to produce. You watch a news segment about fast-food workers on strike to demand higher wages? That's about for whom to produce.

Our level of material well-being, otherwise known as our **standard of living**, is determined by our society's consumption, production, and distribution of goods and services. That's why the issues we cover in the VOTE Program aren't just theoretical or hypothetical ideas you study in class and then forget about as you live your life. We're talking about the roof over your head, the food you ate for breakfast, and your ability to see a doctor if you have a health crisis. We all want a decent place to live, access to clean water, the ability to feed ourselves and our loved ones, and everything else necessary to thrive. This is true for people from every economic perspective. To have material well-being, society must produce enough of the goods and services we need and want. There must be jobs so that people can earn a decent living (and hopefully find meaning in their work). And there must be stable and predictable prices—not shooting sky-high one week and hitting rock bottom the next.

Economists want to know if the economy is on track, so they regularly take its temperature. They ask three main questions. First, they want to know if we are producing enough goods and services that people need and want. To find out, they measure the **Gross Domestic Product (GDP)**, which is the money value of all newly produced final goods and services made within the borders of a nation during a certain period of time. Second, they want to know if there are enough jobs for all the people who want one. Economists measure **unemployment** and **employment** by looking at

how many jobs are created, maintained, and lost during a set period of time. And finally, they want to know if prices are stable enough so that people can afford the things they need. Economists measure the changes in price levels faced by businesses and consumers to see if the nation is experiencing **inflation** or **deflation**, which is when prices on average go up or down during a certain time frame. GDP, unemployment, and inflation measures are so important that they are used by economists around the world to evaluate countries' economic performance over time. The fact that they share the same measurements means we can compare and contrast different economic choices and the outcomes of those choices. We may not share the same language, but all nations basically share the same understanding of what these economic numbers signify.

We Make It Up

As humans, we love to organize information. We classify, sort, and count things. But hold on. Back up a step. Before a thing can be counted, it first has to be defined. For instance, if you want to count all the books you own, you first must define *book*. What is it? What *isn't* it? Do e-books count? Do comic books? Do books of matches? Before anything can be measured, we must first define what, exactly, we're measuring. And the definition will affect the results. In this example, the number of books changes depending on how we define *book*. Keep in mind that all the data we collect, organize, analyze, and interpret reflect the definition of whatever we measured.

Let's play with this idea. Have you ever wondered if life exists on other planets? When the first probes landed on Mars in the 1970s, scientists eagerly searched for signs of alien life. Their instruments were calibrated to identify water and carbon, among other things that reflect our current definition of *life*. When carbon dioxide was discovered in the soil, a thrill of excitement went

through the scientific community. But it wasn't the hoped-for microbial life. It turned out to be a product of oxidation (rust). Thinking about definitions and their limitations, I wondered if maybe we actually did encounter alien life on Mars, only we didn't recognize it as such because our definition of *life* was too limited. A few years before that Mars mission, astronomer Carl Sagan warned against what he called “carbon chauvinism”—assuming it must be carbon based because that's how we define life on Earth. He cautioned that we humans are in danger of overlooking the very thing we're searching for when we narrow our definitions and our imagination.

Human beings have made up every single definition that exists. Whether we're defining unemployment, morality, love, amphibian, autumn, or anything else, the meaning wasn't handed down from on high. We invented it! How do you define a year? That depends on whether you use a lunar calendar, a solar calendar, or a combination of the two. How do you define an inch or a foot? For

decades, the U.S. survey foot—the official measurement used by surveyors, who measure and map land—was a tenth-of-an-inch-per-mile different than a regular twelve-inch foot. That tiny difference turned into a huge headache for major construction projects. A high-speed railway had to be recalibrated, and the top floor of a building had to be eliminated because the difference between a foot and the U.S. survey foot put it over the height limit.

Definitions have power, even though we're the ones who made them up. For example, wetlands are defined as having a certain level of moisture in the soil and certain types of aquatic plants. There are laws that say wetlands can't be developed. But when lawmakers redefine *wetlands* as having a lot more soil sogginess and fewer aquatic plants, instantly there are fewer acres of wetlands, and more land is available for development. Another example of the power of definitions is the story of the gray wolves. When they were put on the Endangered Species List, it became illegal



Photo by Jen Healy from Pexels

to hunt, trap, or poison them. Once their populations grew, some argued that they no longer fit the definition of *endangered*, and therefore their populations should be controlled. That turned into a battle over the definition of *endangered*.

GDP, unemployment, and price changes are things we measure, and the definitions of each determine what is counted and what isn't. These numbers have an impact on the choices businesses, governments, and individuals make, so the release of monthly reports is front-page news. But perhaps you've always skipped over those stories because you were put off by the unfamiliar jargon. I get it. The media usually assumes everyone already knows the definitions of these basic economic terms. (In their defense, continually repeating those definitions might get on people's nerves.) In this chapter we're going to look behind the curtain to better understand the defi-

nitions. What are we actually counting and what aren't we including? When you read a headline that says, "GDP Took a Plunge Last Month," you need to know what economists count and what they leave out—and why. When the news anchor says, "The job numbers show record-low unemployment last month," you need to know who was counted as unemployed and who wasn't. Likewise, when you hear on the radio, "The cost of living held steady this month," you need to know which prices were measured and which were ignored. By taking some time here in chapter 2 to explore what these vital economic measures tell us and what they don't, you'll be ready to understand and evaluate the ideas you'll be hearing throughout the VOTE Program from radicals, conservatives, and liberals about what we should do to solve our urgent economic problems and create material well-being for society.





Gross Domestic Product (GDP)

Measuring economic performance is a very old idea. Ancient cultures around the world periodically counted their flocks, their sacks of grain, their clay jars of oil, and so forth. Having one number to represent a nation's economic health is a more recent idea. The story of GDP starts in the 1930s, when an economist at the National Bureau of Economic Research (NBER) named Simon Kuznets decided to measure the economic impact of the Great Depression. He came up with a way to calculate all economic production in the country by individuals, firms, and the government during a given period of time. Like a hit album that went platinum, his calculation became the most important economic number used today in the United States and across the globe. GDP isn't just a way to count everything we make, it is also a way to measure our national income, because everything we make can also be measured as the income generated by its sale. But GDP isn't a crystal ball that predicts the future. GDP is a **lagging indicator**, meaning it measures only what happened in the past. **Leading indicators** forecast what will happen to the economy in the future.

If GDP sounds dry and boring to you, then you're missing something extraordinary. Economies are incredibly complicated. They are made up of a vast number of moving parts. Everyone who works, everyone who buys something, everyone who invents, invests, opens or closes a business—all participate in the economy. Economies are influenced by (and have their own influence on) countless unpredictable factors, from weather and

wars to pandemics and new discoveries. Looked at from that perspective, GDP is quite a marvel because it reduces all this complicated activity to a single number. It gives us a snapshot of the money value of every good and service produced in a given amount of time. Imagine trying to calculate all the romantic heartbreaks that occur in a nation in the month of February, or trying to calculate all the smiles that occur in the country in

a year. It seems impossible, right? Calculating GDP might seem just as impossible, only Kuznets figured out a way to do it. GDP has been poetically described by some as the measure to end all measures, and the window into our country's economic soul.

The Official Definition of GDP

Time to dive down into the definition of GDP. It's officially defined as the total *market value* of all *final* goods and services *newly produced* within a nation's borders *during a given period of time*. Let's look more closely at four interesting parts of this definition.

"Market Value"

For a product to be counted in GDP, it must be a good or a service that is bought and sold in a recognized legal market. The price is called the **market value**. Here's what isn't counted in GDP:

Do-it-yourself projects. GDP doesn't count the value of things you do for yourself for which you don't get paid. For instance, if you wash your own dog instead of taking her to a professional groomer, it's not counted in GDP. Neither is the value of the work done by stay-at-home parents when they act as nurse, chauffeur, chef, cleaner, teacher, day care worker, and adviser. While these services would have been valued at more than \$100,000 a year in 2019, none of that was counted in GDP.

Illegal products. GDP doesn't count the value of illegal goods and services, such as business theft, blackmail, scams, illegal drugs, prohibited weapons, and more. Kuznets deliberately excluded them from GDP calculations because of the difficulty of collecting the data, although

GDP is the
total market value of
all final goods and
services newly produced
within a nation's
borders during a given
period of time.

more recently some countries have begun to measure illegal products and include them in their GDP.

Unreported activities.

If you work in a restaurant and earn tips, but you don't report them to the Internal Revenue Service (IRS), the government agency that collects our taxes, those tips aren't counted in GDP. If your neighbor drives you to the airport, and you

pay her \$20, but she doesn't report it as income, then it's not counted as part of GDP.

Financial transactions and income transfers. If you pay off a debt, buy a stock or bond, or accept a money gift from your rich uncle, none of that counts toward GDP because these transactions are neither goods nor services. They don't involve the production of anything—they involve only a transfer of ownership. The same goes for Social Security benefits, disability payments, and other **government transfer payments**, which is money people receive from government programs.

"Final"

GDP measures only **final goods and services**, so it includes the value of a button-up shirt, but it doesn't include the buttons because the buttons are part of the shirt. Imagine going to the store and having to ask, "Does this button-up shirt come with buttons?" You wouldn't. The buttons are **intermediate goods**, meaning they are a part of the final good, which is the finished shirt. If you counted the buttons in GDP separate from the shirt, you would end up counting them twice—once on their own, and once on the shirt as part of the final product. We don't want to dou-

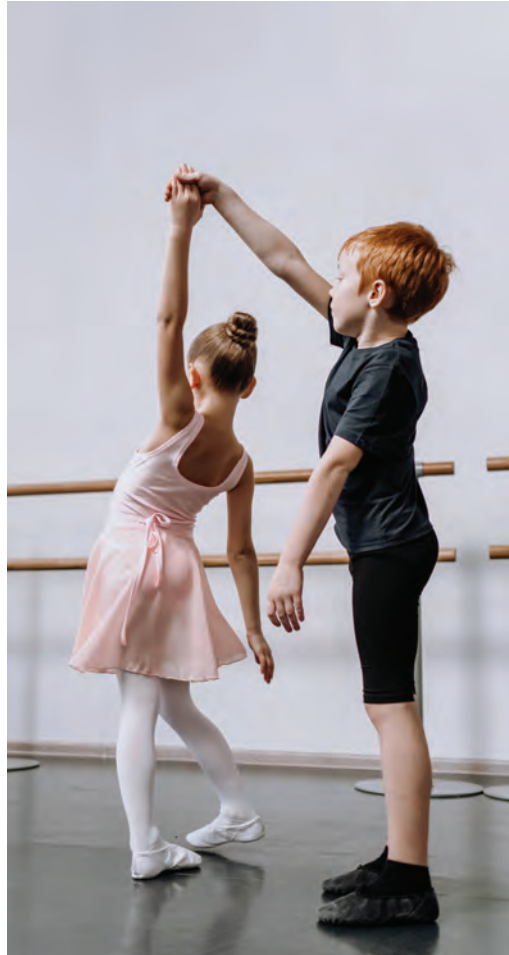
ble count anything in GDP. If you lose a button and buy a replacement, however, that new button is a final good and therefore is included in GDP.

“Newly Produced”

Since GDP includes only newly produced goods and services, used goods don’t count. If you sell your old car, that doesn’t count toward GDP. Likewise, the proceeds from your epic yard sale don’t count, even if you sell your vintage Star Wars figurines. The reason is that used goods were already counted in GDP when they were new. On the other hand, when a car dealer sells a used car, that sale counts toward GDP because the dealer is providing a new service. In other words, it’s the new services, not the used goods being sold, that are counted in GDP.

“During a Given Period of Time”

GDP is measured every quarter (Q) by the Bureau of Economic Analysis (BEA) in March (Q1), June (Q2), September (Q3), and December (Q4). At the end of the year, the quarterly numbers are added together, and we get our annual GDP. It measures the value of goods and services when they’re produced because that is when the resources are used to make them. So when you buy a new TV but it’s last year’s model, just know that it was counted in GDP last year. Even though it sat on the warehouse shelf as inventory until you bought it this year, it was counted when it was produced, not when it was sold.



Now when you hear in the news, “In the United States, the second-quarter GDP numbers are up,” you’ll know it’s referring to the total monetary value of all the final, newly made, legally traded, and IRS-reported goods and services that were produced in the country between April and June

(Q2). GDP may be reported as the total money value or as a percentage change from the previous quarter or the previous year. The important information to glean from that headline is that the value of what was produced in our nation during the second quarter was more than the value of what we produced in the first quarter. So *up* means more and *down* means less. Since GDP is a measure of our nation’s income, GDP going up is good, and GDP going down is not.

Before we continue, you might have noticed that there’s a little wrinkle in this explanation. GDP is always measured in money terms—it’s the money value of what’s produced. So when we compare different time periods,

we need to know if we actually made more or fewer goods and services, or if the change in GDP reflects only the fact that prices went up, went down, or stayed the same. For example, TVs, ballet lessons, airplane tickets, and dog grooming cost less in 1990 than in 2020, so GDP in 2020 would look higher than in 1990 even though we didn’t produce more stuff. When these real differences in price are taken into account, economists call it **real GDP**. If you see a rise in real GDP, it means we actually produced more goods and services.

Photo by Ron Lach from Pexels

GDP is often used to compare the United States to other nations. But please keep in mind that population sizes are likely to be different, so you can't just compare the total GDP numbers in different countries. For instance, in 2018, France and India had nearly the same GDP, but France's **GDP per capita** (per person) was more than twenty times higher, reflecting the vastly different population sizes of the two countries. France had only 66.9 million people, while the population in India numbered 1.35 billion. To make this distinction, economists divide GDP by the number of people in the country to calculate GDP per capita. A higher GDP per capita means people have a higher standard of living on average.

Measuring GDP

Even knowing what's included in GDP and what isn't, calculating GDP is still a very daunting task. The economy is massive, and we're talking about tens of trillions of dollars. To oversimplify the explanation of GDP, let's start by saying there are two groups of actors involved in the economy: people and businesses. People—as individuals, families, and communities—own all land, labor, and capital. They provide those resources to businesses, which are simply organized efforts of individuals or groups of people to make and sell products. Businesses make goods and services using the resources they get from people—their labor, their land, and their capital. This is the circular flow of resources in the economy: land, labor, and capital are turned into goods and services. It is represented by the inside (clockwise) arrows in figure 2.1. This activity generates a second circular flow, which is money in the economy. When people provide resources to businesses (rent them land for their factories, sell their labor, and so on), they earn income. They then turn around and spend that money on goods and services. This is represented by the outside (counterclockwise) arrows in figure 2.1.

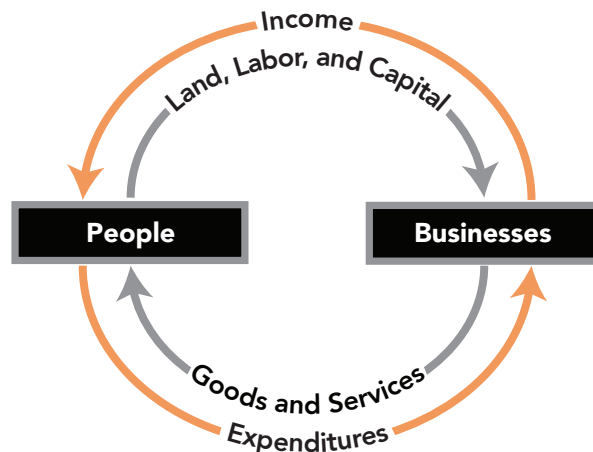


Figure 2.1
Circular Flow of the Economy:
Oversimplified Version

We measure GDP either by counting the nation's income (top orange arrow) or by counting its expenditures (bottom orange arrow). From the income direction, we could add up all the money people get from selling or renting their resources—the wages and salaries they earn for their labor; the rental payments they collect for their land; the interest payments they collect from lending money to firms, which enable businesses to purchase capital (tools and machinery); and the profits firms make when there happens to be money left over. This is called the **income method**. From the expenditure direction, we could add up all the money that's spent by people, businesses, the government (federal, state, and local), and foreigners who buy our products minus the money we spend on foreign products. This is called the **expenditure method**. The expenditure method is a bit complicated, so we'll use a slightly less-simplified version of the circular flow diagram (figure 2.2) to explain how it works.

Every time you receive a dollar of income, you spend a portion of it on the things you want and need. This is called **consumer spending**. A portion of that dollar also goes to paying taxes to the government. Some of it goes to your savings

account at the bank (the financial system), and some of it goes to buying things that were made in foreign countries. When income is used for taxes, savings, or to buy foreign-made products, it's called a **leakage** out of the economy because money leaves the circular flow between people and businesses. It comes back, however, as an **injection** into the economy when the government spends tax dollars, when investors borrow and spend the savings that were loaned out by banks, and when U.S.-made products are sold in foreign countries.

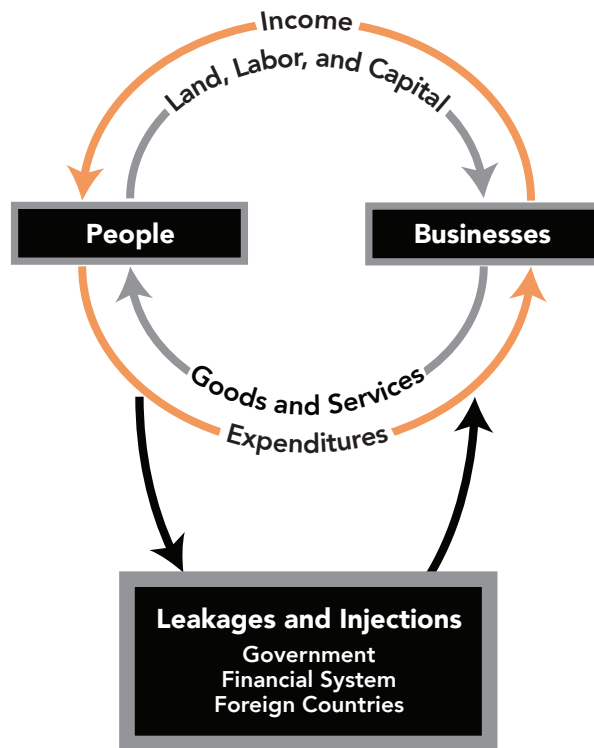


Figure 2.2
Circular Flow of the Economy:
Expanded Version

The expenditure method of calculating GDP uses a formula that has four parts. The first is consumer spending, which is by far the biggest part of our nation's GDP. It refers to all the U.S.-made (domestic) final goods and services we buy—kites, alarm clocks, backpacks, piano lessons, car washes, doctor's appointments, and so forth.

The second is **investment spending**. You'll recall that GDP doesn't count financial transactions such as the buying and selling of stocks and bonds. Investment spending in economics is defined as individuals buying newly constructed homes, and businesses making an investment in their firms by purchasing capital (equipment), factory space, and inventory. For example, a construction company buys cement trucks, a dance school expands its studio, or a watch-making firm stocks up on men's watches to sell in the future. By the way, this component of GDP is generally the least stable. When the economy tanks, it's usually because there's a pullback in investment spending.

The third part of the expenditure calculation is **government spending**. This occurs at the federal, state, regional, and local levels. It could be buying supplies for national defense; spending money on job programs and housing assistance; building more schools, museums, city parks, and playgrounds; expanding public transportation infrastructure; and so forth. When people want to know how "big" government is, they generally refer to the percentage of GDP that comes from government spending.

The fourth part of the equation is **net export spending**, which looks at how many products we sell to other countries (**exports**) compared to how many products we buy from other countries (**imports**). Up until the 1970s, the United States had more exports than imports, but then the global economy took off, and the United States began importing more than it exported. Economists subtract our total imports (M) from our total exports (X) to get net export spending ($X - M$), which is used in the GDP calculation.

If you like equations, you can enjoy this little summary of what we've just covered. GDP is the total of consumer, investment, and government spending, plus net export spending:

$$GDP = C + I + G + (X - M)$$

Exercise 2.1: What Is Measured in GDP?

Let's pause and review what is and isn't counted in GDP. Below is a list of goods and services. In the "Included?" column, please answer "Yes" if it should be included in GDP and "No" if it shouldn't, and under "Reason," please say why. The Answer Key can be found at the end of this chapter.

GOOD OR SERVICE	INCLUDED?	REASON
Tires produced for car makers		
Babysitting your cousins for \$50		
Olive oil from Italy		
Replacement phone batteries		
Customs officials who work at the airport		
Selling your old video game console		
Cupcake pans for bakeries		

Reading GDP on a Graph

Now you understand some of the jargon of economics, and you know what all the fuss is about when the quarterly GDP report comes out. Just as individuals take a keen interest in their annual incomes, we all care about what our nation's annual income looks like. Although frequently revised, the numbers for 2019 came to around \$21.74 trillion. Here's what it looked like when broken down: consumer spending was \$14.76 trillion, investment spending was \$3.72 trillion, government spending was \$3.80 trillion, while the net exports figure was negative \$549 billion (meaning we spent \$549 billion more on imports than we received from exports). Figure 2.3 shows real GDP for 1950 through 2020. You can see we've had an upward trend of economic growth over time. (For the numbers on the y-axis, each \$1 represents \$1 billion. Therefore, \$24,000 on the graph represents

\$24 trillion.) While every perspective agrees that economic growth is a good thing, they differ in their ideas about how much growth is best for society.

Measuring Happiness

We've been talking about GDP because it's a reflection of our economic well-being as a nation. But is GDP actually a measure of happiness? It is not. In 2019, the United States boasted the biggest GDP of any nation in the world. At more than \$21 trillion, our GDP far outstripped the GDP of our nearest competitor, China, which was around \$14 trillion. Our GDP was also strikingly higher than that of our neighbor to the north, Canada, at \$1.7 trillion. But were people in the United States happier than people in Canada? Was the United States the happiest nation in the world that year?

GDP calculates our national income, but it doesn't consider several other factors that are

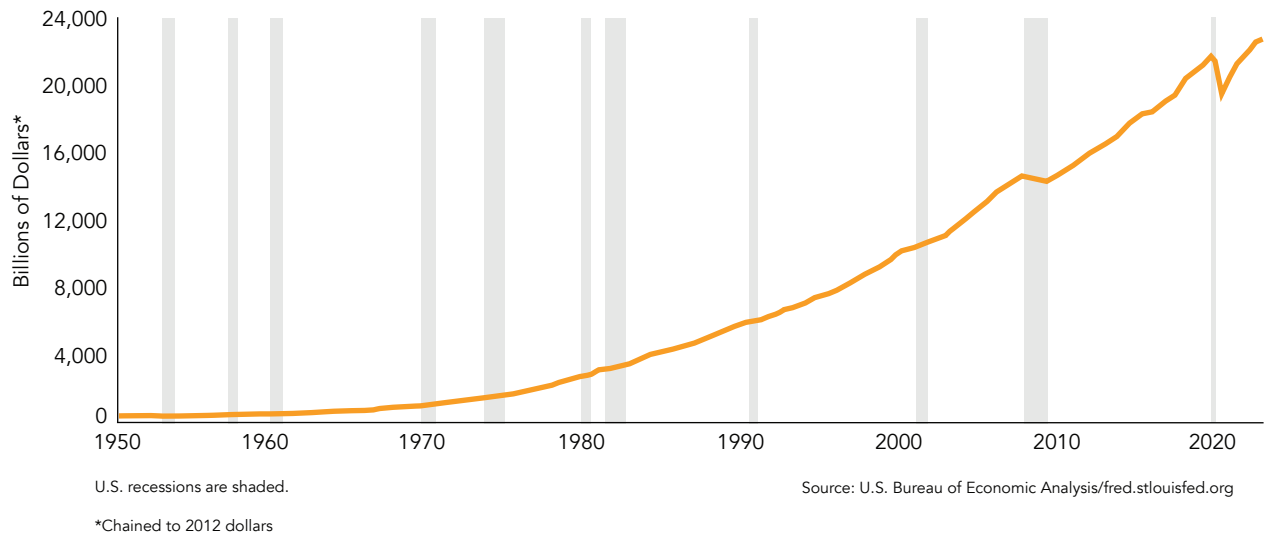


Figure 2.3
Real GDP over a Seventy-Year Period

important to human happiness. For example, more vacations generally lead to more happiness, but GDP doesn't measure leisure time. In fact, people in the United States work more hours on average than people in our **peer nations** (those with similarly developed economies), including France, Germany, Japan, Sweden, the United Kingdom, and Australia. Fresh air, clean water, and beautiful surroundings generally lead to more happiness, but GDP doesn't measure the quality of our environment. In fact, higher production typically means we're generating more pollution, which not only spoils the environment but also leads to higher rates of cancer, asthma, heart disease, and other chronic illnesses. Making things that help the world tends to make people happy, but GDP doesn't differentiate between the "goods" and the "bads" we produce. In other words, it lumps together all goods and services, so it doesn't tell us if we're making lots of lifesaving medicines, adorable puppies, useful computers, and beautiful gardens, or if we're making hand grenades, toxic pesticides, and cigarettes. And while GDP measures the value of what we produce, it doesn't tell us who gets those products—the distribution. Yes, the United States generates trillions of dollars

producing goods and services, but tens of millions of people don't have enough food, health care, decent housing, high-quality education, and other essential goods and services to thrive.

We can't look to GDP to tell us if we're happy, and we can't rely on that number to tell us if we're happier than people in other countries, because their society might be organized very differently from ours. It's not an apples-to-apples comparison. For instance, GDP counts the value of goods and services from fast-food restaurants, day care centers, nursing homes, and construction companies. All of these are common types of businesses in the United States. But in many other countries around the world, people grow their own food, make their own meals, take care of their own children and elders, and build their own homes. Their GDP is dramatically lower than ours because those goods and services didn't go through an organized market. The quality of life in countries with a lower GDP might be just as good if not better than in the US.

In the 1970s, the newly crowned king of the nation of Bhutan, a tiny country in the Himalayas, captured the world's attention when he announced that in addition to focusing on Bhutan's GDP, he

wanted to give equal attention to increasing its **Gross National Happiness (GNH)**. His idea quickly caught on. The leaders of other countries began to think about happiness separate from GDP. No one was saying that GDP wasn't important or that it should be replaced by GNH, but there was a recognition that if people in a society aren't made happier by their increasing levels of production, then something is wrong with the picture. Today, there are many different contenders for the best happiness measure. Nine areas are typically measured: psychological well-being, time use, community vitality, environment, health, education, living standards, good gover-

nance, cultural diversity, and resilience (meaning the ability to recover quickly from difficulties). In 2012, the United Nations began publishing the annual World Happiness Report. Between 2012 and 2019, the countries that ranked at the top were Finland, Norway, Denmark, and Iceland. Finland was the happiest country in the world for many years in a row, including 2019. And where was the United States? We didn't even make the top ten. Out of 153 countries, we landed at number 18 (table 2.1). So while GDP is crucial to tracking economic performance, the idea of having a measurement that separately focuses on the happiness of people is gaining momentum.



GDP Comparisons				Happiness Comparisons			
Ranking	Country		GDP (US\$)	Ranking	Country		Score
1		United States	21,433,226	1		Finland	7.809
2		China	14,432,933	2		Denmark	7.646
3		Japan	5,082,465	3		Switzerland	7.560
4		Germany	3,861,123	4		Iceland	7.504
5		India	2,891,582	5		Norway	7.488
6		United Kingdom	2,826,441	6		Netherlands	7.449
7		France	2,715,518	7		Sweden	7.353
8		Italy	2,003,576	8		New Zealand	7.300
9		Brazil	1,847,795	9		Austria	7.294
10		Canada	1,741,496	10		Luxembourg	7.238
11		Russia	1,692,930	11		Canada	7.232
12		South Korea	1,646,539	12		Australia	7.223
13		Spain	1,393,490	13		United Kingdom	7.165
14		Australia	1,380,207	14		Israel	7.129
15		Mexico	1,256,440	15		Costa Rica	7.121
16		Indonesia	1,119,190	16		Ireland	7.094
17		Netherlands	907,050	17		Germany	7.076
18		Saudi Arabia	792,966	18		United States	6.940
19		Turkey	761,425	19		Czech Republic	6.911
20		Switzerland	731,425	20		Belgium	6.864

United Nations Reports

Table 2.1
GDP and Happiness Measures, 2019



Unemployment

We all want to be able to support ourselves, and we hope that our jobs give us a chance to make a positive impact on others. But there's no one "right" way to feel about working. My brother treated his job in telecommunications as a way to make a living. My sister saw her employment in nursing as a career. And I have always felt that my work as an educator is my chance to change the world. When the three of us lived in the same city, we would meet once a week for dinner and have long conversations about new relationships, old memories, our hopes and dreams, and our work. But when my sister lost her job, unemployment was all we could talk about. It was a trauma for her because it threatened her ability to afford her life. It also eroded her morale and self-confidence. My brother and I worried about how she would cope emotionally and financially.

A happy life is possible with any type of relationship to work. But not having a job when you want one? That is a different story altogether. I've been unemployed, and I remember the panicked feeling that I would never find a job, or that I would have to take a job that wasn't right for me because I couldn't afford to wait for a better one. Unemployment is a very

fraught experience, and let's just agree right now that none of the cold, faceless unemployment numbers we're about to discuss really capture the devastation people experience when they are out of work. Although it is absolutely necessary to measure it so we can address the issue appropriately, let's never forget that we're talking about real people.

Figure 2.4 shows the number of people employed in the United States during a seventy-year period. (For the numbers on the *y*-axis, each 1 person represents 1 thousand people. Therefore, 160,000 on the graph represents 160 million people.) You can see we've had ups and downs, but an overall upward trend of growth over time. This is a good thing. Now let's dive into the definition of *unemployment* and see who is counted on this graph and who is not.

Official Definition of Unemployment and Employment

During the Great Depression, the government decided to count the unemployed. It was the first time this was done in the United States. But as you know, to count anything, you first must define what it is you're counting. You might be thinking, "I can skim this section because I already know the answer to this. Unemployment is obviously when people are out of work." You are right, but you are also wrong (so please continue reading). Let's say that today you read in the newspaper that the unemployment rate for July was 10.2 percent. Who exactly is being counted? The official definition of *unemployment* is not

having a job and wanting one, actively seeking work, and being eligible and available to take a job. The official definition of *employed* is working for pay (not as a volunteer), either part time or full time.

The **labor force** is made up of all employed and unemployed people. There are a few wrinkles in these definitions, however. For example, a person who is temporarily laid off is considered unemployed, but a person who works without pay in a family business for at least fifteen hours a week is counted as employed. If someone is neither employed nor unemployed, then they are not counted as part of the labor force—for instance, a stay-at-home parent who takes care of three-year-old twins. Also, there are categories of people who are not counted as part of the labor force, but who are nevertheless extremely important to the economy, including undocumented workers (an estimated 11 million people in 2019), those in long-term care facilities (more than 200,000 under the age of sixty-five in 2019), people serving in the military (1.3 million in 2019), those who are incarcerated (approximately 1.5 million in state and federal prisons in 2019), and others.

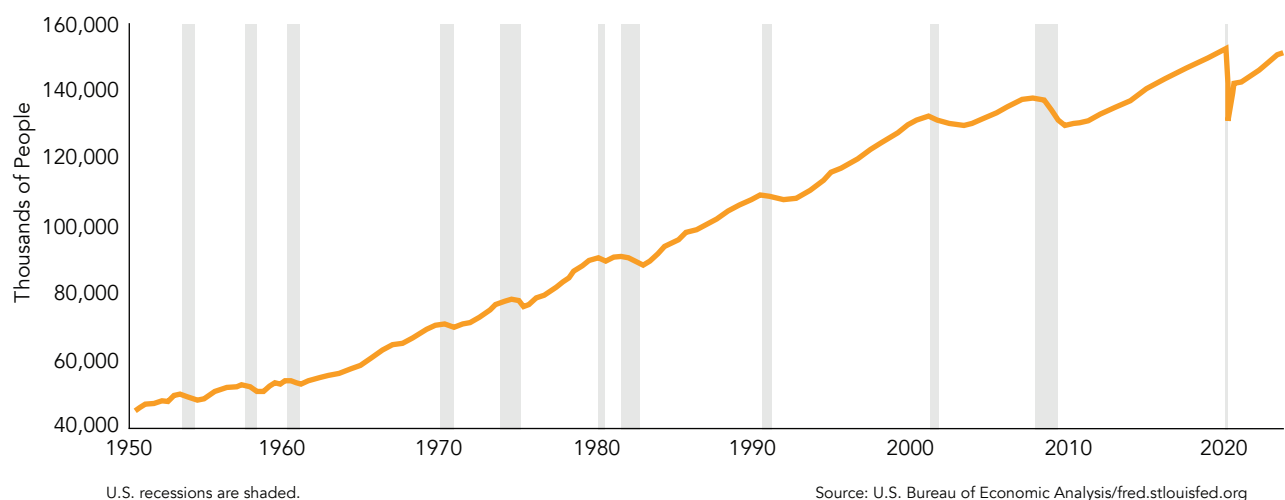


Figure 2.4
Employment over a Seventy-Year Period

Another number you might hear is the **labor force participation rate**. It's the number of people who are active in the labor force (have a job or are actively seeking a job) divided by the number who are eligible to work. For example, in April 2020, the labor force participation rate was 60.2 percent. Slightly more than half of those who were eligible to participate were working or seeking work.

Measuring Unemployment

When you see a headline in the newspaper that says: "1.8 million jobs added in July; Unemployment rate falls to 10.2 percent," you need to know how these numbers were calculated. Employment and unemployment statistics come from the Bureau of Labor Statistics (BLS), which is part of the Department of Labor. There are two different measurements that the BLS reports, and these give us different, but related, information about the employment picture in the United States. The first is called the **establishment survey**. It gathers data on how many people were added or taken off the payrolls of 144,000 large corporations (excluding farms) and the government. The "1.8 million jobs added in July" part of the headline used data from the establishment survey. The **household survey** gathers data from 60,000 households in 2,000 geographic areas. It asks how many individuals are living in the household, how many are age sixteen and older, who is working, who isn't working, and more. The interviews with those households are repeated for four consecutive months, and then the numbers derived from the data are extrapolated to the whole country. The "Unemployment rate falls to 10.2 percent" part of the

Unemployment is defined as not having a job and wanting one, actively seeking work, and being eligible and available to take a job.

headline used data from the household survey. Every month since 1940, the government has conducted the household survey.

Because the household survey and the establishment survey use different data-gathering techniques, they capture different information. Please be

aware of this when drawing conclusions from the headlines. When 1.8 million jobs are added, it doesn't mean 1.8 million unemployed people were hired. Some people might work more than one job, so the number of people hired could be fewer. The establishment survey would miss this nuance, but the household survey would capture it. Also, in certain industries, some firms are allowed to hire people as young as fourteen to work—for example, grocery stores, movie theaters, and fast-food restaurants. Those workers are reflected in the establishment survey but not in the household survey, which only counts people sixteen and older.

Using the household survey, the BLS calculates the official unemployment rate by dividing the number of unemployed people by the size of the labor force. For example, if there are 5 million unemployed people and the labor force is 120 million, the unemployment rate is 4.2 percent. People from every economic perspective agree that the official unemployment rate has limitations. For one thing, it counts only people who are actively looking for work and haven't found a job. If you become discouraged and give up job hunting, you're not counted; you are now referred to as a **discouraged worker**. When many people become discouraged, the official unemployment rate goes down. Yet that doesn't mean more people have jobs. It means more peo-

ple have dropped out of the labor force. Another problem with how we measure unemployment is that anyone who works for pay is considered to be employed, even if that person works part time and wants to work full time. If one full-time worker loses their job and three part-time workers are hired as a replacement, the unemployment rate will go down. That creates a rosier picture of the situation in which three part-time workers want and don't have full-time jobs (they are called **involuntary part-time workers**), and the full-time worker is now unemployed. Discouraged workers and involuntary part-time workers are not counted as officially unemployed; they are counted as **marginally attached**. But the number of marginally attached workers is generally not mentioned in the news. Remember the 10.2 percent official unemployment rate in the headline? That represented 16.34 million people who wanted to work and couldn't find a job. Factoring in the marginally attached, that 10.2 percent was actually 16.5 percent. In other words, millions of people were left out of the counting because of the way unemployment is officially defined. These were real numbers (and real people) from July 2020, when the United States was dealing with the COVID-19 pandemic.

There are other problems with the official unemployment rate. It ignores the fact that people work at jobs below their skill levels when they can't find jobs that suit their experience and quali-

fications. You may know people with college and even graduate degrees who are flipping burgers and working as servers in restaurants because they can't find employment in their chosen fields. These workers, as well as part-time workers who want to be full time, are called **underemployed**. The underemployed are counted as "employed" in the official unemployment rate, so it's important to ask a few critical questions when you see

the latest statistics. "Does lower unemployment signify that we've replaced full-time jobs with part-time jobs? Have we created more high-skilled jobs or more low-skilled jobs?" The official unemployment numbers don't tell us any of this, so we have to dig deeper. At the same time, the unemployment numbers aren't useless. We do need to count the unemployed. We just need to remember that the numbers we come up with are limited because of the way unemployment is defined and measured.



Three Types of Unemployment

Not all unemployment is the same. Economists divide it into three categories. **Frictional unemployment** is accepted as a natural occurrence that is part of a healthy economy. It's the normal turnover in the labor market when people are between jobs because they've chosen to change careers, are looking to enter the workforce after graduation, moved across the country to pursue their dreams, or left a job that was a bad fit. Imagine if you had to be a tailor because your parent was a

tailor, your grandparent was a tailor, and so forth. It might be fine if your passion is to make clothing, but it's not a good fit if you really want to be a neurosurgeon or operate your own food truck. Living in a society with frictional unemployment means people are less likely to get stuck in jobs they hate and for which they're not suited.

Most people would consider this a good thing, although that doesn't mean it isn't potentially devastating to be frictionally unemployed.

Structural unemployment is job loss that occurs when new products are invented and old ones become obsolete, or when firms come up with new ways to produce, such as automating or **outsourcing** (using outside firms to complete part of the production process). Economists say this is progress, and these types of changes in the structure of the economy are natural and desirable. Still, it's painful for those who lose their jobs. I remember when computers replaced typewriters. Some typists retrained and went to work in the computer industry or in other fields, but before they made the shift, they were unemployed. And think about sewing machines. Before they were invented, a skilled seamstress could sew one hundred buttons by hand in a day. With new machinery, buttons could be sewn onto shirts by the thousands in a single day. Many people ended up out of a job because of automation. Outsourcing can lead to job loss in one region even though jobs are added in another. For example, a Massachusetts bakery contracts with a firm in California, or India, or anywhere else to do its accounting. These days there is a lot of heated debate about what will happen to workers when robots replace

When we measure
unemployment, whether
frictional, structural, or
cyclical, please remember
the numbers represent
human beings.

humans in nearly every field—from medicine, to construction, to warehouse work—and what, if anything, should be done about it.

Cyclical unemployment occurs when the economy hits a bump in the road and GDP falls for a period of time. It might be caused by a

stock market crash, terrorist attack, financial crisis, or another reason. The result is that firms have to lay off workers. Then those newly unemployed workers stop buying products, so more firms lose business, and then they lay off workers, and so on. Cyclical unemployment has a snowball effect on the economy. Economists from all perspectives say it's unnatural and has no upside whatsoever, unlike frictional unemployment and structural unemployment. That's why people from every perspective are eager to find a way to prevent it from happening.

When we measure unemployment, whether frictional, structural, or cyclical, please remember the numbers represent human beings. Unemployed people lie awake at night worrying about how to pay their bills. They struggle with depression because they can't contribute to society. They feel powerless and hopeless, yet they still have to summon the energy to wait in employment lines, send out résumés, show up for interviews, and handle rejection. And society as a whole suffers from the losses of what those unemployed people aren't able to contribute. No number can capture the full emotional, financial, and economic picture of unemployment, so I hope you will always remember what's at stake and who is affected when you read the latest jobs numbers.

Exercise 2.2: What Type of Unemployment Is It?

Let's pause and review. Match the description (1 – 6) to the type of unemployment (A – F). The Answer Key can be found at the end of this chapter.

DESCRIPTION	TYPE OF UNEMPLOYMENT
1. Juan lost his in-store sales job when consumers switched to online shopping.	A. Frictional
2. Keisha lost her full-time job at a bank and moved to part-time status.	B. Structural
3. Alex left their job to move to a beach town and work as a pro surfer.	C. Discouraged worker
4. Abdul lost his job at a tech firm when the economy tanked.	D. Not unemployed
5. Erika lost her job and after three months stopped looking for a new one.	E. Cyclical
6. Randy is a full-time student and volunteer mentor.	F. Not in the labor force





Inflation

The word *inflation* might make you think about blowing up balloons, and your thoughts might naturally drift to hot air balloons. If you've ever seen one floating peacefully across the sky, it's a glorious sight. Unfortunately, in economics, inflation is not a relaxing ride. It's a disaster when the prices for groceries, rent, transportation, health care, and everything else you need just to survive start to go up and up and up, but your paycheck doesn't keep up. No matter how you juggle the numbers to try to make ends meet, you inevitably fall further and further behind. When individuals and firms face a steady rise in prices without matching rises in wages and profits, it's terrifying.

Official Definition of Inflation

Inflation is defined as when prices *on average* go up. We're not talking about a pint of raspberries costing a dollar more than last week, or your electric company announcing that it will raise its rates at the beginning of the year. Prices for individual products go up and down all the time. Sometimes you win, sometimes you lose. But when prices on average unexpectedly shoot up by more than 2 percent, it wreaks economic havoc, and everyone loses. Inflation has a corrosive effect on our **purchasing power**, which is how much we can buy with a dollar. Our money doesn't go as far as it did before. I remember in 1978, during my first year in college, inflation was

so bad that prices rose by a shocking 7.59 percent in one year. It nearly emptied my wallet to put gas in my car or go out for pizza or buy a pair of jeans. Having experienced inflation, I can tell you that it's very painful, and no one wants it.

You might be thinking that deflation (where prices on average go down) would be a bonanza in terms of purchasing power. Unfortunately, deflation also leads to economic turmoil. When prices on average plummet, workers lose their jobs because businesses aren't making money. Laid-off workers don't have income to buy those low-priced products, so that's an equally painful situation. In case you ever hear the term **disinflation**, please don't confuse it with deflation.

Disinflation means there's still inflation, but the rate at which prices are rising is starting to come down. This is excellent news—as long as prices don't come down so far that it turns into deflation.

As soon as there's the suggestion that prices on average are in danger of skyrocketing or taking a nosedive, people and firms react. They are like sailors who see a storm on the horizon and decide not to set sail. Individuals and firms might decide not to borrow or lend, and that has serious ramifications for the economy. Just think about all the things that are usually bought and sold on credit—new homes, cars, appliances, a college education, and more. When credit and spending come to a halt, the economy freezes up, and growth stagnates (GDP drops). Also, firms and individuals become unwilling to commit to long-term plans and contracts. For these reasons, inflation and deflation are problems of utmost concern to economists from all perspectives. Now that you understand what's at stake with unexpected price changes, I hope you see why it's of utmost concern to you as well.

Measuring Inflation

There are various ways to measure inflation. One is to look at it from a firm's point of view. That's called the **Producer Price Index (PPI)**. The other is to look at it from a consumer's point of view, which is the **Consumer Price Index (CPI)**. A third way is to see it from both points of view, which is the **GDP price deflator**. Of all these, the measure of inflation we hear about the most in the news is the CPI.

Inflation is defined
as when prices on
average go up. Deflation
means prices on average
go down. Neither
one is good news for
the economy.

CPI measures the changes in prices on average for consumers, but aren't you curious about which prices it actually measures? Does it include pencil erasers? Lawn mowers? Fried chicken? Measuring price changes is an enormous task, so economists use a particular method to make this project feasible. The BLS conducts monthly surveys to find out what every-day products people buy

each month—computers, clothing, food, transportation, medical care, potted ferns, gym memberships, and so forth. The BLS compiles the data in order to get a picture of which goods and services are most important to the majority of people (“Can’t live without my vanilla iced lattes!”) and what portion of household income is spent on those products. Imagine the wheeled basket you push around at a grocery store. Economists create a metaphorical basket of these goods and services and then compare the prices of this year’s or this month’s basket to a basket from a **base year**, which is simply a year everyone agrees to use for comparison. Then they compare the movement of prices on average over time. Figure 2.5 shows the CPI from 1950 to 2020 for all urban wage earners and clerical workers (people who work in office administration). As you can see, prices on average for the fixed basket of goods have generally gone up—sometimes faster and sometimes slower. Price decreases have been rare.

The BLS includes a massive eighty thousand items in its baskets. But let’s take a very simplified version so that you can get the general idea of how CPI is calculated. Let’s say you want to know the price-level change in 2015. We’ll put six

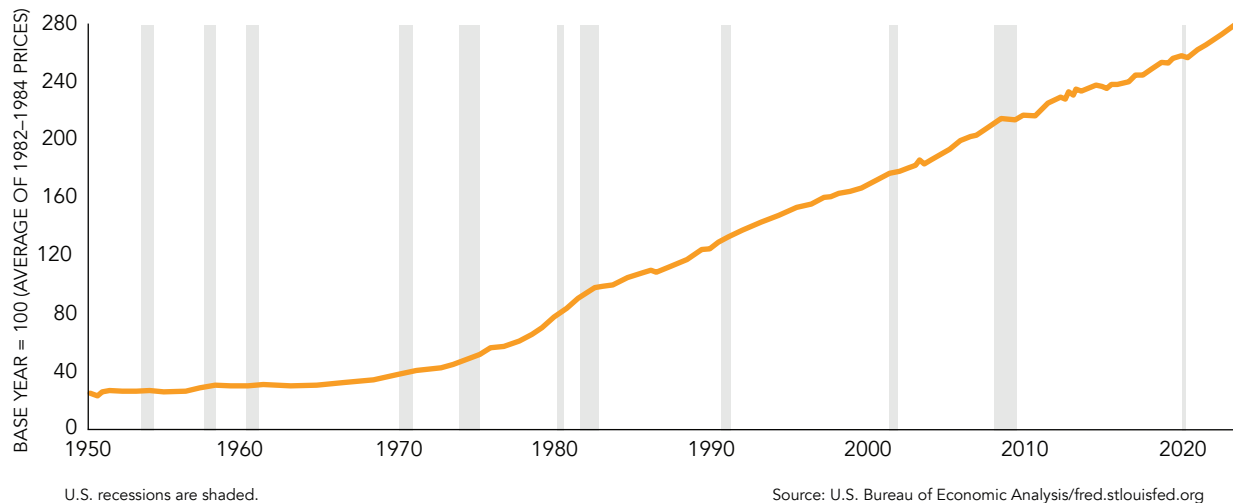


Figure 2.5
CPI (Inflation) over a Seventy-Year Period



items in our basket: window blinds, a computer, a pen, a chair, a sweatshirt, and a television. We add up the typical prices for those things that were charged in 2015. Let's say it comes to \$5,000. Next, we agree that 2005 will be the chosen year for comparison. In other words, 2005 is our base year (the base year could also be an average of a few years, as you can see in Figure 2.5, where the base year is an average of the prices from 1982 to 1984). We then calculate the 2005 prices for that same basket of products, which totals \$4,000. The CPI is calculated by dividing the prices in 2015 (\$5,000) by the base-year prices (\$4,000) and multiplying the result by 100. In this example, the CPI is 125. Since the CPI for the base year is always 100, economists compare 125 (the CPI for 2015) to 100 (the CPI for 2005, the base year) and conclude that prices went up 25 percent from 2005 to 2015. (If CPI goes below 100, say to 94, it means prices went down, in this case by 6 percent.)

The CPI is the most widely published and discussed economic indicator of price changes. It is announced every month as front-page news for the simple reason that everyone cares about prices. Every day, you interact with prices, from

Exercise 2.3: Calculate the CPI

Let's pause and review. Calculate the CPIs for the following years and then the percentage change compared to the base year of 2011, when a fixed basket of goods and services cost \$6,000 (all the numbers for this exercise are made up). The first two are given to you so you can see how your answers should look. The Answer Key can be found at the end of this chapter.

YEAR	BASKET PRICE	CPI	PERCENTAGE CHANGE
2011	\$6,000	100	Base year, so no change
1995	\$3,000	50	Prices were 50 percent lower
2008	\$5,700		
2013	\$6,300		
2018	\$7,800		

the price of the water coming out of your kitchen faucet to the price of a bicycle helmet to the price of your haircut. If, on average, these prices go up or down, there's no doubt your life will be affected. I hope it doesn't happen, but that's the problem with inflation and deflation—it's a lurking possibility in any economy.

Once again, the way we define something affects how it is measured. Which consumer's basket is measured in the CPI? If you live in an urban area, the basket of goods will be different from someone who lives in a rural area and needs snow tires, fencing, woodstoves, and so on. And if you live in an urban area and you're a worker, your basket of goods will be different from the basket of someone who also lives in an urban area but is retired. The BLS does measure different baskets, but only one is officially used to calculate the cost of living—the basket for urban wage earners and clerical workers. The cost of living is just what it sounds like: what it costs to maintain your standard of liv-

ing. CPI is used to calculate the official **cost-of-living adjustment (COLA)**. COLAs directly affect people's wallets. Lawmakers use COLAs to decide whether and by how much to increase the minimum wage, public benefits such as food and housing assistance, Social Security benefits, veterans' pensions, and more. COLAs are also often factored into salary increases in the private sector. The fact that we use only that single basket to determine everyone's cost of living is a big controversy. When COLAs for Social Security benefits are tied to a CPI that reflects an urban worker, seniors struggle to afford the things they need when the prices for medications, hearing aids, and home health-care workers skyrocket. The COLAs don't represent their needs because they are not based on their basket of products.

Controversy number two is that COLAs are based on the urban workers' basket, but food and energy are left out. This is called the **core CPI**. The justification for leaving out those particular products is that the prices for food and energy are **volatile**

prices. They are affected by weather, politics, and other unpredictable factors. They're not a stable measure of what's happening to prices on average in the economy. You might shrug and say, "No big deal. So we leave out food and energy." Not so fast. Do you know anyone who doesn't eat, or use heat or an electric fan, or cook on a stove, or use transportation? Rising food and energy prices make a dent in everyone's monthly budget. Therefore, some argue, it is wrong to leave them out of the basket, especially when that basket is used to calculate COLAs.

Another controversy has to do with whether CPI should take into account the ease of substituting one product in the basket for a related product. A **chained CPI** considers potential substitutes. For example, many would say there is no decent substitute for a cotton sweatshirt, but in reality there are plenty of alternatives.

If the price of cotton sweatshirts goes up, but the price of a fleece pullover stays the same, then a chained CPI assumes a person will buy the substitute. So the chained CPI generally doesn't show as much of a price increase as an unchained CPI. Therefore, when chained CPIs are used to determine COLAs, those COLAs also won't go up as much. Critics of the chained CPI say that if the price of one thing goes up, a consumer may buy it anyway, so the chained CPI doesn't necessarily reflect consumer behavior. Therefore, it's unfair to those who rely on an accurate COLA to meet their monthly budgets.

Two other significant controversies surround

CPI. One is that new inventions take a long time to get added to the basket. Tens of millions of people already used cell phones in the United States before cell phones made it into the basket. The second is that CPI looks at price but ignores quality. Some products improve over time, and some get worse, so simply comparing prices on average

for different years won't give you any information about that. A smartphone in 2020 may cost twice as much as a cell phone in 2005, but the more modern version serves a hundred times more functions than the older cell phone. You might hear about another measure of inflation called the **Personal Consumption Expenditures (PCE)** price index. It is calculated differently and corrects for some of these shortcomings (but it also creates others).

Money Illusion

Understanding how price-level changes affect you, personally, will help you avoid the pitfalls of **money illusion**. That is when you mistakenly believe that what's important about money is the face value of the dollar bill—called the **nominal value**. Sure, we all like to have a \$100 bill in our back pockets, but the purchasing power of that \$100 changes when prices change. If prices on average go up, your \$100 buys less stuff, and if they go down, it buys more. So instead of thinking about the nominal value of money, it is in your best interest to think about the **real value**. This isn't just relevant for the things you buy. It's also incredibly important when it comes to your income. Let's say you work as a delivery person who earns \$20,000



Photo by Karolina Grabowska from Pexels


per year. That is your nominal income. Over the course of the year, inflation goes up a whopping 5 percent. Now you know that means prices on average for everything in your life are 5 percent higher. Ouch! And to make this story more miserable, let's say you don't get a COLA, a raise, or a bonus. You still have \$20,000 nominal income, but your real income—what that \$20,000 can actually buy—is only \$19,000. You lost 5 percent. That's bad news for you. You just lost \$1,000 of purchasing power. If you don't stay alert to the difference between nominal income and real income, then you could find yourself falling further and further behind. Keep this in mind the next time you have a salary negotiation, plan your budget, or consider taking a new job.

Money illusion is also a problem when you borrow or lend. Pay attention to the real interest rate and not the nominal interest rate, or you could find yourself in a hole. Let's say you need wheels and go to the used car dealer. They lend you \$5,000 for a used car purchase, and charge you 6 percent interest. You agree to pay back \$5,300 at the end of the year. But during those twelve months, prices on average go down 5 percent. Because of deflation, when it's time to pay back the \$5,300, the *real* interest rate you pay is now around 11 percent because that \$5,000 you borrowed is now worth only \$4,750 in real terms. You are still going to pay back \$5,300. Yikes! Just remember that deflation hurts you as a borrower. And inflation hurts you as a lender.



Economists use statistics to support their policy ideas, so it's crucial to remember that all the numbers you read were shaped by the definitions that were used in the first place. In political scientist Deborah Stone's book *Counting: How We Use Numbers to Decide What Matters*, she points out that “to count” means two things: “to tally or add up” and “to matter. To be considered.” What matters and what is considered are the subjects of many debates and arguments in economics, including how GDP, unemployment, and inflation are defined and counted. The only way to have a constructive conversation among the different perspectives is to share definitions while also recognizing the inherent limitations of those definitions and the data they yield. Data-driven decision-making is standard practice not only in economics but also in industry, government, education, and philanthropy. Everywhere you look, people want “measurables.” It makes sense to want to make decisions that are based on reliable statistics. The problem is when we look at

those statistics and don't question the definitions behind them. Think about the definition of GDP. It doesn't count the services people do for themselves. Think about the definition of unemployment. The monthly numbers don't include part-time workers who want to be working full time. Think about the definition of inflation. Food and energy aren't counted in the core CPI, which is used to calculate COLAs.

There is nothing to be done about the failure of numbers to give us a complete and accurate picture. Instead, let's be educated about what the definitions mean so we can be clear about what the statistics actually reveal. In the VOTE Program, we ask you to be curious about definitions and remain ever vigilant about what was and wasn't counted. Use this new superpower when you hear the news, when you listen to a debate, when you're talking to friends, and when you're thinking about how to solve our nation's most urgent economic problems. 

Chapter 2: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. When a news headline says, "Homelessness Down 10 Percent," you know
 - A. the assessment of that news depends on who is and who is not counted as "homeless."
 - B. there will definitely be fewer people sleeping on the streets, in parks, and in their cars.
 - C. the current policies to reduce homelessness are effective.
 - D. there is only one correct way to measure homelessness, so the numbers have transparent meaning.

2. Which of the following is included in Gross Domestic Product (GDP)? Choose all that apply.
 - A. The \$50 gift Kenneth's grandmother gave him for his birthday
 - B. The pancake mix, eggs, and milk Alejandro bought at the store
 - C. Repairs to bridges in Minnesota this year
 - D. The mozzarella cheese a pizza company bought to put on their pies

3. What is the investment ("I") component of GDP? Choose one.
 - A. The total of stocks and bonds purchased in a year
 - B. The most stable component of GDP
 - C. Firms selling big-ticket items such as yachts and RVs to consumers
 - D. Firms spending money on workspaces, equipment, and inventory, and individuals buying new homes

4. While GDP is arguably one of the most important numbers for any country, which one of the following is a true depiction of it?
 - A. GDP is a measurement of the highest possible production of goods and services in an economy.
 - B. GDP not only measures goods and services, but it also measures happiness.
 - C. GDP measures what we make, but ignores leisure time, pollution, and the distribution of goods and services.
 - D. A & C are correct.

5. In country Teal, the number of employed is 450,000 and the size of the labor force is 500,000. The unemployment rate for country Teal is ____ percent.
 - A. 90
 - B. 10
 - C. 0.01
 - D. 45

6. Match the term (left column) to its corresponding example (right column):
- | | |
|-----------------------------------|---|
| A. Frictional unemployment | i. Carlos was laid off as a truck driver when self-driving trucks made his job obsolete. |
| B. Structural unemployment | ii. Valerie was fired because she was always late for her teaching job. |
| C. Cyclical unemployment | iii. Elisa quit her nursing job to go to medical school full time. |
| D. Not in the labor force | iv. Joe lost his bartending job when devastating storms shuttered businesses across the country. |
7. Which one of the answers below is the meaning of marginally attached as it relates to unemployment?
- A person who doesn't want to work, but submits false reports to the unemployment office so they can keep receiving benefits
 - An unemployment number that includes discouraged workers and part-time workers who want full-time jobs
 - A person who lives paycheck to paycheck and is in danger of losing their job.
 - An unemployment number that refers to workers who work at jobs without health care or sick-leave benefits
8. If you own an industrial construction business and want to know about the average price increases for excavators, cement mixers, and dump trucks, which one of the following would you check?
- PPI
 - CPI
 - GDP price deflator
 - Base year
9. Suppose that a bundle of consumer goods in 2012 (the base year) was priced at \$4,300, and the same bundle of goods had a total price of \$5,160 in 2020. Which of the choices below is the correct core CPI for 2020 and lists the goods that could have been included in the basket?
- 1.2: plates, throw pillows, tea kettles
 - 1.2: oranges, couches, slippers
 - 120: cars, heating oil, cat litter
 - 120: kayaks, refrigerators, e-books
10. If you agree to borrow \$1,000 from a colleague at an interest rate of 5 percent, but prices during the year go down by 5 percent, you are stuck paying back \$1,050 even though the initial money is now worth \$950 in real terms. Unfortunately, when you agreed to the deal you ignored potential price-level changes. This is a mistake you'll likely never make again, and is an example of
- a real interest rate of 5 percent.
 - a cost-of-living adjustment (COLA).
 - money illusion.
 - disinflation.

Answers

1. A 2. B & C 3. D 4. C 5. B 6. A – ii; B – i; C – iv; D – iii 7. B 8. A 9. D 10. C

Chapter 2: Key Terms

<u>Base year</u>	<u>Government spending</u>	<u>Market value</u>
<u>Chained CPI</u>	<u>Government transfer payments</u>	<u>Money illusion</u>
<u>Consumer Price Index (CPI)</u>	<u>Gross Domestic Product (GDP)</u>	<u>Net export spending</u>
<u>Consumer spending</u>	<u>Gross National Happiness (GNH)</u>	<u>Nominal value</u>
<u>Core CPI</u>	<u>Household survey</u>	<u>Outsourcing</u>
<u>Cost-of-living adjustment (COLA)</u>	<u>Imports</u>	<u>Peer nations</u>
<u>Cyclical unemployment</u>	<u>Income method</u>	<u>Personal Consumption Expenditures (PCE)</u>
<u>Deflation</u>	<u>Inflation</u>	<u>Producer Price Index (PPI)</u>
<u>Discouraged worker</u>	<u>Injection</u>	<u>Purchasing power</u>
<u>Disinflation</u>	<u>Intermediate goods</u>	<u>Real GDP</u>
<u>Employment</u>	<u>Investment spending</u>	<u>Real value</u>
<u>Establishment survey</u>	<u>Involuntary part-time workers</u>	<u>Standard of living</u>
<u>Expenditure method</u>	<u>Labor force</u>	<u>Structural unemployment</u>
<u>Exports</u>	<u>Labor force participation rate</u>	<u>Underemployed</u>
<u>Final goods and services</u>	<u>Lagging indicator</u>	<u>Unemployment</u>
<u>Frictional unemployment</u>	<u>Leading indicator</u>	<u>Volatile prices</u>
<u>GDP per capita</u>	<u>Leakage</u>	
<u>GDP price deflator</u>	<u>Marginally attached</u>	

Answer Key to Exercise 2.1

PRODUCT	INCLUDED?	REASON
Tires produced for car makers	No	Intermediate good
Babysitting your cousins for \$50	No	Unreported income
Olive oil from Italy	Yes	Import good
Replacement phone batteries	Yes	Final good
Customs officials who work at the airport	Yes	Government service
Selling your old video game console	No	Used good
Cupcake pans for bakeries	Yes	Investment good

Answer Key to Exercise 2.2

1. B 2. D 3. A 4. E 5. C 6. F

Answer Key to Exercise 2.3

YEAR	BASKET PRICE	CPI	PERCENTAGE CHANGE
2008	\$5,700	95	Prices were 5 percent lower
2013	\$6,300	105	Prices were 5 percent higher
2018	\$7,800	130	Prices were 30 percent higher



3 Thinking About Thinking

There's a joke about the famous fictional detective Sherlock Holmes. It goes like this: Holmes and his crime-solving sidekick, Dr. Watson, are on a camping trip. It's the middle of the night, and Holmes suddenly shakes Watson awake.

"Watson! Open your eyes!"

"Huh?" Watson says groggily.

"Wake up and tell me what you see!" Holmes says urgently.

"Uh—I see thousands of stars in the sky?"

"Yes!" says Holmes, nodding encouragingly. "And what does that *tell* you?"

Watson yawns. "I suppose it tells me that the universe is bigger and more complex than I can comprehend, so my irritation that you woke me up and my worry that I won't be able to get back to sleep are insignificant in the grand scheme of things."

"Yes, but what does it *tell* you?" Holmes asks again.

Watson considers the night sky. "From the position of the constellations, it tells me it's approximately half past four. And the sky is clear, so it tells me it's unlikely we'll need our umbrellas tomorrow."

"Yes, Watson, *but what does it tell you?*"

"Oh for goodness' sake, Holmes! Just tell me what *you* think it should tell me, and let me get back to sleep!"

"It's elementary, my dear Watson—it should tell you that someone has stolen our tent!"

What does this story tell us? It tells us that we each experience and interpret the world in our own unique ways. It also tells us that more than one thing can be true at the same time.

Here's a little test. What do you see in figure 3.1? Do you see a vase? Do you see two faces in silhouette? You may actually see both, depending on how you look at it.

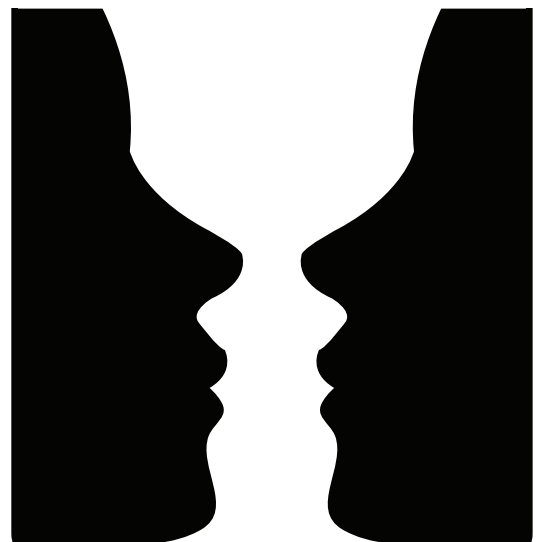


Figure 3.1

Does the picture below (figure 3.2) look like it's moving to you? It isn't, but your eyes may see it that way. What this should tell you is that just because we're positively certain we're seeing something the right way while other people are seeing it the wrong way, we may, in actuality, all be right—or we may all be wrong, or maybe we're the only ones who have it wrong.

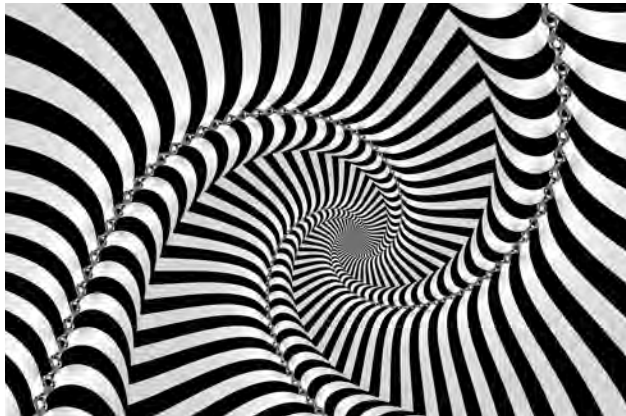


Figure 3.2

In some aspects of our lives, we're perfectly comfortable with the fact that there's more than one way to understand something. For example, if you were asked what the right kind of food is, you would think the question was odd because the right food is the food you feel like eating. That's correct. It might be tacos; it might be salad. *Right* depends on the context. Likewise, if you were asked what the right kind of music is, you would

roll your eyes and say, "That's another trick question. There's no 'right' kind of music." Of course there isn't! It's a matter of opinion. But one type of music might be more "right" in a certain context. For instance, Beyoncé is more right than Beethoven if you want to create a dance-club atmosphere at your party. And Beethoven is more right than Beyoncé when you perform at your classical piano recital. So there are some issues that we agree can have more than one correct answer. Many things could be right.

On the other hand, there are some issues about which we feel uncomfortable saying that many answers could be right. Those become difficult conversations. For instance, what's causing global climate change? Was Christopher Columbus a brave explorer or a ruthless invader? Was life on Earth created by God in six days, or did it evolve over millions and millions of years? There are many issues about which we vehemently disagree. You probably have strong views on these and other controversial questions, and so does the person sitting next to you. There are issues about which we each feel certain that we're right, and it can be very frustrating—and even infuriating—when others are just as certain about an opposite opinion. The beliefs that seem so obviously certain and true have deep roots in our families, cultures, religions, educations, national identities, and more. Our beliefs don't spring into



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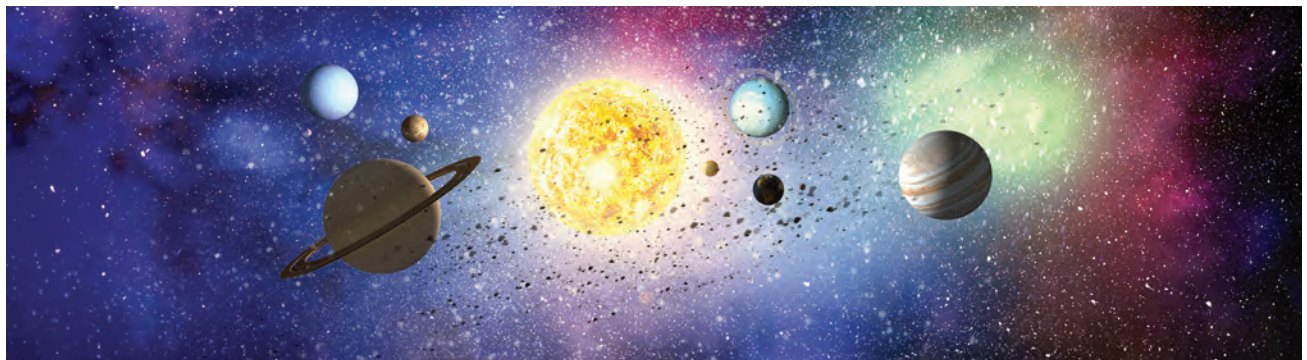


our heads out of thin air; they are the products of our experiences and the influences around us, including our teachers and textbooks.

It takes profound courage to question—let alone go against—the beliefs of everyone around you. That's why sixteenth-century scientist and philosopher Galileo Galilei is one of my heroes. Talk about courage! During Galileo's lifetime, Europeans

believed the Earth was the center of the universe. The Catholic Church considered this official doctrine based on the Holy Scriptures, which described how God created the Earth and all things on it in six days. But Galileo gathered scientific evidence that led him to believe the Earth revolves around the Sun. He stood up for what he believed even though people thought he was crazy. The Church was very powerful at that time and had little tolerance for diverse viewpoints; it condemned ideas that contradicted its doctrine. Imagine the guts it must have taken for Galileo to tell the Pope and the inquisitors that they were wrong. He paid a heavy price. The Church sentenced him to imprisonment for life for spreading an idea they considered dangerous heresy. It forced him to recant everything he ever said about the Earth revolving around the Sun. It destroyed his book and banned him from ever publishing anything else for the rest of his life.

Eventually everyone realized Galileo was right. The Church even apologized to him...359 years later. Today it would be hard to find a person who doesn't believe the Earth revolves around the Sun. But do we all believe this in the same way? Imagine you're in class and I ask, "Who believes the Earth revolves around the Sun?" Your hand shoots up, and so does everyone else's. It's a no-brainer. We all saw that model of the solar system in first grade, with the Sun in the middle and the Earth, Mercury, Venus, and the rest of the planets revolving around it. Now I ask, "Does anyone here think that while the Earth probably

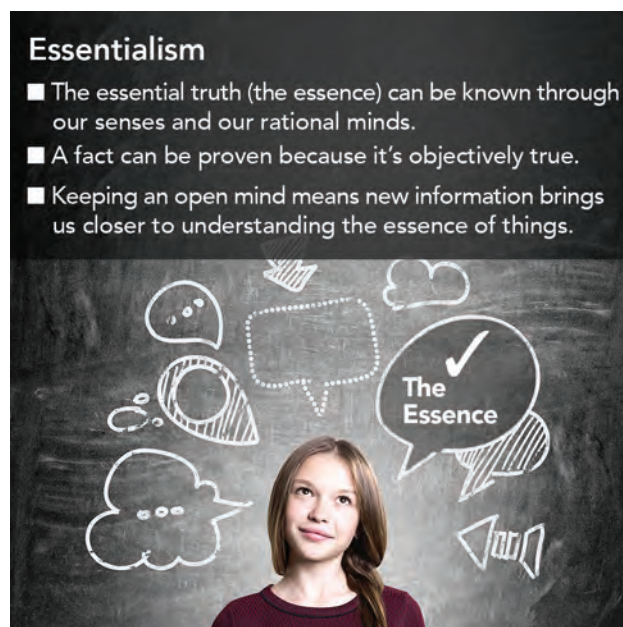


does revolve around the Sun, there's a possibility that one day—maybe a hundred years from now—we'll have new instruments for measuring and a totally different way of understanding the universe, which could lead us to say that the Earth does not revolve around the Sun?" Only some people will raise their hands, and that's because we have different ways to think about truth, facts, and new information.

Buckle up, because we're going to get deep now. There's a branch of philosophy that specializes in how we think about thinking. It's called **epistemology**. It is a complicated area of study, but for our purposes epistemology is useful to see how the different ways we think can either open us up to considering new possibilities or shut us down to alternative ideas.

Essentialism, Non-essentialism, Relativism, and Absolutism

Let's consider four ways people think about thinking. **Essentialists** believe there is an *essence* to everything—an intrinsic and unchanging truth that we can come to know through careful study. They say that as we explore and learn, we can know the truth. Therefore, our ideas about the solar system, human life, and everything else can be true. They say we can know a thing is true by experiencing it through our senses (**empirically**) and by applying reason and knowledge (**rationally**). For example, to an essentialist, it's true that the Earth revolves around the Sun, and it's highly unlikely that new information, or new instrumentation, or new perspectives will change that understanding. Truths are more than just opinion: they reflect reality. However, essentialists change their beliefs when new knowledge is discovered that convinces them there is a more accurate way to understand reality. Staying open-minded to new ideas makes sense to an essentialist because those ideas could help bring them closer to grasping the true essence of the thing.



Non-essentialists believe that there is no fixed "true" essence to reality. They say that as we study and explore and our minds open to new ideas, and as time passes and the contexts of history, law, human development, and other things change, so do our understandings of what is true. To a non-essentialist, the things we believe to be true are only reflections of the knowledge we have in this moment. For example, a non-essentialist says we believe right now that the Earth revolves around the Sun, but it's possible that new information, new instrumentation, or new perspectives will one day change that understanding. Non-essentialists point out that our thoughts and perceptions are shaped by what we think we know, what we expect to see, and what we haven't even thought to look at yet. They say that it matters a lot what we think because it's through ideas that we make sense of the world. So while non-essentialists reject the notion that there is a fixed essence to all things, they embrace the view that ideas have consequences. They say that's why it's important to advocate for one idea over another while at the same time staying open-minded to new ideas, because they could lead to consequences that we prefer.

Non-Essentialism

- What we know to be true changes with context.
- A “fact” is subjective and depends on how you think about it.
- Keeping an open mind means being open to alternative theories and their consequences.



We can leave it to the great philosophers to debate whether there’s an essence to all things—whether essentialists or non-essentialists are correct. But both agree that knowledge keeps evolving, which opens up conversations because this mindset allows for new possibilities. Once upon a time, people believed the Earth was flat; even geniuses such as Leonardo da Vinci and Isaac Newton couldn’t explain how babies were conceived; and until fairly recently, people ridiculed the suggestion that doctors could prevent infections by washing their hands. We are constantly building on our knowledge from previous discoveries. As Newton said, “If I have seen further, it is by standing on the shoulders of giants.” And sometimes building new knowledge requires that

we replace even deeply held beliefs, such as the idea that the world is flat.

Let’s look at two ways of thinking that can frustrate constructive conversations. **Relativists** are sometimes confused with non-essentialists. Relativist thinkers have sophisticated ways of understanding the world as not having one fixed truth. But the popularized version of relativism says, “Since we can’t know what the truth actually is, you go ahead and think what you think; I’ll go ahead and think what I think; and in the end it doesn’t matter either way.” No! It definitely matters because we are constantly making choices and decisions based on what we believe to be true. There are consequences to ideas. For instance, because we believe the Sun and not the Earth is at the center of our planetary system, we’ve been able to launch satellites into space, and we use a solar calendar to measure the passage of time. If you believe one idea is as good as another, you won’t advocate for any particular one, and there is therefore no opportunity for meaningful dialogue. You might even end up not bothering to vote because you think the policies we have don’t make a difference one way or another. It’s as if you shrug and say, “Yeah, whatever.”

Another way of thinking that can frustrate constructive conversations is sometimes confused with essentialism. **Absolutists** say, “My way is the only right way because it is the absolute truth.” No! This is close-minded thinking that rejects all new ideas and leaves us stuck in the dark ages.



For instance, if we had rejected Galileo's new way of looking at the planetary system, we would not have satellites, cell phones, or countless other inventions today. Being open-minded and curious to explore new ideas is what moves humanity forward. Absolutists reject any idea that doesn't fit with their preconceived notions about the world, which blocks opportunities for meaningful dialogue that could expand understanding.

When it comes to the right music or food, relativism makes sense. And when it comes to opposing human trafficking, absolutism makes sense. But when we debate economic perspectives, rejecting relativism and absolutism in favor of intelligent open-mindedness makes the most sense. It's the only way to have the kinds of constructive conversations that can lead to real solutions that move our nation forward and make everyone's lives better.

Economics and Pluralism

Most of us were raised to believe that what we learned in school was true. For instance, you weren't given a textbook called *Chemistry: One Way to Look at It*. You were taught from *Chemistry: The Way It Is*. Today the vast majority of economics classes are taught from a single perspective (liberal, radical, or conservative). The problem is that many students don't even realize they are learning a perspective. It's just taught to them as *Economics: The Way It Is*. In the meantime, economics educators are famous for fervently disagreeing with one another about which perspective is the "right" one. They often are certain that the others are dead wrong. This absolutist way of thinking limits our potential to see solutions. For instance, they might only present research data that supports their views, and if they even acknowledge that there are other

Exercise 3.1: Name the Type of Thinker

Let's practice identifying the differences between essentialist, non-essentialist, relativist, and absolutist statements. Which is which? The Answer Key can be found at the end of this chapter.

1. "As a child I was taught that the atom was the smallest particle. When scientists discovered even smaller ones, I changed my belief. New information brings us closer to the essential truth."
2. "If I drop a shoe from a second-story window, I am completely certain it falls to the ground because of gravity. This is an obvious fact that will never change, so it's a waste of time to consider other theories or explanations."
3. "Juan thinks the forest should be cut down so the city can build a new shopping mall. Ashley is passionate about saving the forest. I say neither one is right or wrong; it's just a matter of preference."
4. "My doctor told me to lift weights to prevent high blood pressure. Then a study came out showing that running was more effective for my age group. New knowledge and changing contexts continually add to what we know so that we keep improving and making decisions that are better for us."

PLURALISM IN ECONOMICS

A commitment to being open-minded to diverse ways of thinking about and understanding economic relationships.



perspectives, they might quickly dismiss them as illegitimate or irrelevant. And relativism—the flip side of absolutism—is just as harmful. Believing that it doesn’t matter what you believe also limits our potential for finding inspiring new ideas, and it brings us classes full of educators and students who don’t recognize that our ability to prosper and flourish is at stake.

The VOTE Program promotes **pluralism** in economics education. Pluralism means being open to a diversity of viewpoints. It’s a commitment to open-minded conversations, whether you approach economics education as an essentialist or a non-essentialist. It’s an opportunity to build on existing knowledge and advance our understanding by considering alternative ways to look at economic relationships.

The Case for Pluralism in Economics

For the past fifty years or so, there’s been a growing movement of educators calling for economics to be taught from more than one perspec-

tive. Although those instructors want to include more pluralism in their courses, in some cases the decision about what to teach is out of their hands. For example, in 2010 the Texas State Board of Education voted to change the state’s social studies curriculum so that it only represented the conservative economic point of view. Social studies teachers *were required by law* to teach students that unregulated capitalism is superior to all other economic systems and to present Republican Party policies more favorably than any other policies. Society loses out when multiple perspectives are not allowed to be taught to students. That’s why students around the world are demanding to be taught economics from multiple perspectives. The International Student Initiative for Pluralism in Economics, for example, has hosted conferences and organized students in dozens of countries worldwide to advocate for more pluralism in economics curricula. Economics students and educators from all the perspectives—radicals, conservatives, and liberals—are part of this call for change.

When we embrace pluralism, we're respecting other people's right to think differently than we do. In our democracy, the majority rules, but the minority deserves respect and appreciation because it provides the majority with a chance to learn and test its ideas against thoughtful critics. Democracy is a system of compromise, which means we won't always have things our way, but neither will anyone else. Using your voice is especially important when you consider other ideas to be dangerous, offensive, or completely wrong. But—and this is the important part—please make sure you've listened respectfully and understood those other points of view before you offer your critique and alternative ideas. The process of listening to others respectfully and then engaging in civil discourse (not leaping up to interrupt with rude comments, snorts of disbelief, or apoplectic rage) is not always pleasant or comfortable, but it guarantees that we will have a healthy democracy and find the best solutions to move forward together as a nation.

Pluralism doesn't mean just mentioning another perspective to metaphorically pat it on the head in a patronizing way, or to use it as a contrast to make the favored perspective look good. It means having an unbiased discussion of multiple perspectives. Some books and courses appear to present diverse economic perspectives, but they are rife with subtle and overt biases. Others invite students to compare different economic systems. But the problem is the economic systems they compare to their favored perspective are outdated and irrelevant, so there really isn't any true pluralism presented. The way

The VOTE Program won't pretend to compare different perspectives while really trying to sell you on a personal favorite. It's about helping you discover what you believe by presenting each of the economic theories in a balanced way.

the systems are presented skews the debate. In one often-used high school textbook, the authors basically ask, "Readers, do you want to go back to an economic system that's based on the kind of trade we had back in the premodern days, when we were all hunters, gatherers, and farmers? No? Well, then you don't want a traditional economic system. And how would you like to live in a communist country like the Soviet Union, where the govern-

ment owns everything and tells you what to do? No? Then you don't want a command economic system. That leaves only one solution: the market economy! So, you see, capitalism clearly is the best economic system." The problem with this sort of comparison is that our country already changed from a traditional economy and also rejected the Soviet Union as an economic ideal. This sets up something that isn't a real option just to give the impression of plurality. Yes, traditional and command economic systems are important things to study, but they should be studied in history classes, not in modern-day economics classes. In the VOTE Program, we compare the relevant, contemporary choices we face regarding our economic system: radical (democratic socialism), conservative (free-market capitalism), and liberal (fair-market capitalism). These economic systems are debated in the mainstream in our country, and you need to know about them in order to have an educated and informed voice in the world.

The VOTE Program won't pretend to compare different perspectives while really trying to sell you on a personal favorite. It's about helping you discover what *you* believe by presenting each of the economic theories in a balanced way. Textbooks



and educators have tremendous power. Students implicitly trust their teachers; likewise, they trust their textbooks to give them accurate and balanced information—but that’s often not the case. This textbook has been written very carefully so as not to influence you in any direction when it comes to the three perspectives. We respect you, and we wholeheartedly support your right to make your own decisions about what you believe.

Ethics and Economics

Let’s step back for a moment and consider what economists are really arguing about. In other words, what are these “perspectives” all about? Each one is a different idea for how to structure and run our economy so that we can promote well-being by generating prosperity. Proponents of the three perspectives we’re going to be examining are all guided by their own sets of **ethics**, which are the moral principles that govern behavior. Ethics underlie every economic theory, practice, and policy. They guide our decisions about what are the right things to do. Sometimes the bitter fights among economists include accusations and insinuations that the opposing sides are unethical—that they lack integrity, honor, or decency. That, of course, may be true of individuals from every perspective, but it’s not true that

liberals, conservatives, or radicals are, as a group, unethical. This is important to remember. They *all* care about integrity and morality.

If you believe that people who think differently from you can’t also be honorable and decent human beings, then you can’t listen to them with respect. And if they hold that prejudice about you, then there’s no way they will hear you respectfully. When we believe strongly in an idea, we might be tempted to become self-righteous and want to claim the moral high ground. It’s just another way to close down conversations. Imagine how disrespected you would feel if someone made negative assumptions about you just because you disagreed with them on how to solve the health-care problem or how to address the national debt. Please remember that each one of us is passionate when it comes to our opinions about how the world ought to be. That’s normal and appropriate. It’s good to care about the world around you. We applaud you for being engaged with ideas in a passionate way. But please don’t dehumanize or demonize those who think differently from you about economics. A politician once said about her opponent during a close-fought election: “I can’t agree with a thing he says, but I don’t let myself think the worst of him as a human being.” A reporter asked how she managed not to hate him

when he was attacking her ideas. She replied, “I just remind myself that he’s a human being, his mother probably loves him, and we both want the world to be a better place, even if we don’t agree on what that looks like or how to get there.”

It might go against the grain of everything that you’ve ever learned in your life, but please be open to the value of pluralism as you study economics. Cultivating an open mind will help you get the most out of the VOTE Program. Using a pluralistic approach, we can concentrate our energies on finding our best answers instead of tearing down opposing positions.

How to Build “Theory-Plus”

You and I and everyone else have theories about how the world works. A theory is a system of ideas intended to explain something. Theories always start with a question: Why is my brother so annoying? Do dogs have the same range of emotions as humans? Is nature more important than nurture? Theories are shaped by our **assumptions**—the things we believe are “givens” and that are most relevant to the question. To build our theory, we create a **model**, which represents our assumptions, and then we draw **conclusions** from our model to answer our initial questions. These three components make up a theory. In the VOTE Program we use “theory-plus.” The *plus* refers to a fourth component: **policy**. Policies are proposals for action that flow directly from our conclusions. It’s policy that we fight about every day in our nation—policies about what’s included in your economics textbooks, policies about wages, policies about hiring and firing at your workplace. It’s because of policies that economic theories are relevant to your life. They aren’t just random or purely academic ideas; they have real consequences in the world. Some people say that academics (and economists) just sit around in their ivory towers all day long, theorizing and

gazing at their navels, which implies that theorizing is unimportant and maybe even a little bit useless. No! The eminent economist Paul Samuelson, who wrote the most widely used economics textbook of the twentieth century, once said, “I don’t care who writes a nation’s laws—or crafts its advanced treaties—if I can write its economics textbooks.” He understood that when you change people’s minds, you change the world. When we can get other people to believe our theory is correct and to base policies on our theory, it changes the entire landscape of everyone’s lives. This is true whether the theory is about economics or houses or astronomy or milk or anything else.

Just to review, the four components of theory-plus are **assumptions**, **model**, **conclusions**, and **policy**. We use the term *a milk chocolate piece* to remember them. Economic theories answer the three questions economists always consider: what to produce, how to produce, and for whom to produce. We’re going to talk about economic theories in a minute (and spend the rest of the book talking about them), but right now let’s use an example that isn’t about economics to practice building a theory. We’ll pretend we’re architects, and we’ll start with the question, *What type of house design offers the best protection from wind and rain?*

Step 1 is to establish our assumptions. Let’s say our assumptions about houses are the following:

- A steep roof keeps rain from getting into the house.
- Shingles are the optimal roofing material because they lie flat on the roof, so a high wind isn’t likely to tear them off.
- Stone is the sturdiest material for walls because it can withstand high winds and driving rain.

Right away, you might be thinking, “But wait! I don’t agree with those assumptions.” Please set



aside your disagreement for the moment. Later you can decide if you still think this theory's assumptions were flawed. But before you form an opinion, you need to learn the theory—especially if it's a dominant theory that takes up a lot of air in our public conversations. You don't want to find yourself having to say, "I disagree with you but I can't say why, because I didn't like your assumptions so I didn't bother to learn your theory."

Now that we've laid out the assumptions, step 2 is to construct a model that represents those

assumptions. The model could be physical, narrative (words), mathematical, or graphical. Since our theory is about houses and we're pretending to be architects, we'll build a physical model. Let's say we construct a scale model of a stone house with a forty-five-degree-angle shingle roof. This is a representation of our assumptions.

Now we're ready to test it against wind and rain to draw our conclusions, which is step 3. We aim a fan at our scale model house to simulate high winds, and then we blast it with a power sprayer to simulate hurricane conditions. How much water got inside? How many roof shingles flew off? We collect that data. Then we do comparisons on scale models of houses that have different designs—for example, an adobe house with a flat roof and a wood-framed house with a tile roof. We pelt them with the same simulated wind and rain conditions. After we've tested the models, we use the data we collected to draw our conclusions. That information answers our initial question: what is the best way to build a house to withstand wind and rain? We conclude: "A stone house with a forty-five-degree-angle shingle roof." A conclusion is simply an answer to the initial question we asked.



Policy is the practical result of a theory. Just think about this house example. You might not have any interest in building a stone house with a steep shingle roof. But let's say we convince insurance companies that this is the best house design in all circumstances. "This information can save us a lot of money," those companies say. "We are going to have a new policy that we'll *only* insure stone houses with forty-five-degree-angle shingle roofs because we're convinced it will reduce the number of claims people make." You really like your brick house and you don't want to move, but you will have to because you don't want to live in a house that has no insurance. So you can start to see here how important policies are. Now let's say the government is also convinced by our conclusions and creates a new policy that it will only award contracts for stone-and-shingle-roof houses. You're a builder who specializes in wood-frame homes. You will have to change your whole business—switch suppliers, lay off your carpenters, and hire stone masons—so your firm will survive. All the other builders will have to do it, too. Soon stone-and-shingle-roof houses are the only houses being produced.

You may not have agreed with the assumptions of the theory, but it won't matter. Once policies are created, you're stuck—you have no choice. Do you see the domino effect a theory can have from assumptions, to models, to conclusions, to policies, to your life? Economic policies—tax reform, health care, international trade agreements, and many, many more—have power over every aspect of your life. Economic policies in our country come from conservative, radical

Economic policies have power over every aspect of your life. That's why we're studying radical, liberal, and conservative perspectives. Don't you want to have a say in what's being decided?

ical (less frequently), and liberal theories. That's why we're studying these perspectives. Don't you want to have a say in what's being decided, which will affect every aspect of your existence? We'll be building radical, liberal, and conservative theories in each of the upcoming issues chapters. We'll describe them in a balanced way, side by side, so you can compare their assumptions, models, and conclusions, and form or confirm your own opinions

about their proposed policies.

Positive, Contextual, and Normative Economics

Earlier in this chapter we described how non-essentialists and essentialists keep their minds open to new information that could change their ideas about issues. In other words, both are open to the study of alternative perspectives. Where they differ is that essentialists believe there is an essential truth that we can aspire to understand. An essentialist economist believes that theory building is a science, meaning theories—assumptions, models, and conclusions—can describe things that are objectively true ("what is"). They say these objective truths are facts, meaning they are not based on value judgments. They call this fact-based approach **positive economics**. Non-essentialists, on the other hand, believe there isn't an essential, unchanging truth to be discovered. They believe that assumptions, models, and conclusions can only describe things that are subjectively true ("what we think it is") because the facts are shaped by the knowledge, tools, and ideas we have in

this moment in history—by our current context. They call this approach **contextual economics**. But non-essentialists say that even though there is no objective truth, what we believe matters. Why? Because beliefs have consequences. They shape how we feel, act, and think.

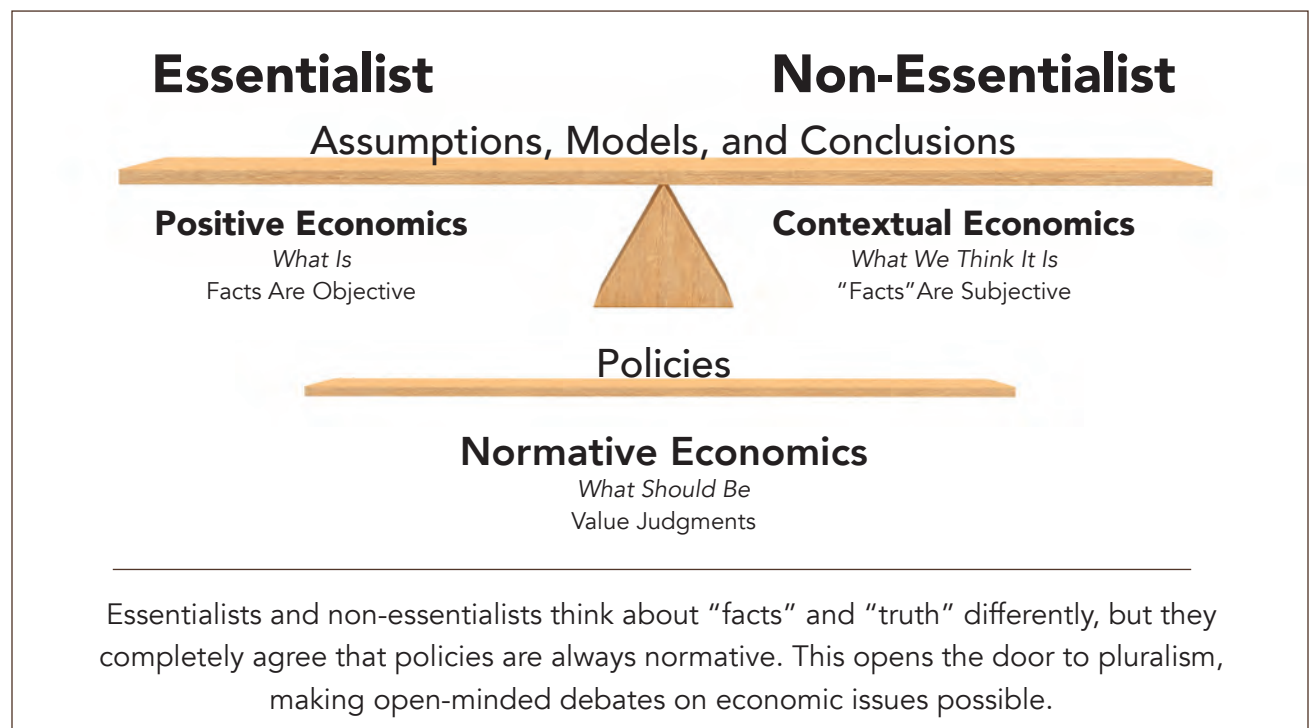
Please keep in mind that essentialists and non-essentialists are not tied to a certain economic perspective. You can have both kinds of thinkers in the liberal, radical, and conservative camps. This adds another layer of complexity. Conversations about issues are contentious because each perspective has different assumptions, models, and conclusions. On top of that, there are disagreements within and between the perspectives over whether facts—the data supporting the theories—are objectively or subjectively true. Given this situation, you might think that nothing can ever be decided. Here's the good news: both essentialists and non-essentialists agree that policies are always a matter of opinion, meaning they are based on norms and value judgments ("what should be"). It's known as **normative economics**.

Our whole chapter on epistemology has brought us to this point: no matter how differently essentialists and non-essentialists think about facts and truth, they agree that policies are solutions we choose in order to shape the society in which we want to live. This agreement is like a door left slightly ajar. Even while we fight, and blame, and swear we'll never agree, the door is open to pluralism because we all approach policy as normative economics. That sliver of light makes it possible for us to engage in policy debates with an open mind and embrace new ideas about how to move our country forward.


But What Is True?!

Every time I teach the VOTE Program, students come up to me after class and say, "Can't you just tell me which perspective is the right one? You know more than I do; you've been thinking about this for a long time. I'm just getting started. Please help me out and tell me what to think!"

I know it would be a thousand times easier for you if I just told you what to believe rather than



inviting you to figure it out for yourself. I'm grateful to the instructors who changed my life with their eloquent persuasion that brought me around to their points of view. I'll admit I sometimes feel a twinge of guilt about not being that kind of educator. But I hope to be a teacher and textbook writer who provides an even more valuable ser-

vice by not pushing you in any particular direction, and inviting you to come to your own conclusions. You will be better off—and the world will be the richer for it—if you develop your *own* opinions and learn how to convey them to others who may not agree with you. It's time to find your voice, and I can't wait to hear you! 



Chapter 3: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. A biologist studies life; an economist studies the production, consumption, and distribution of goods and services; a psychologist studies human experience. What does an epistemologist study?
 - A. Morality
 - B. The origin of the universe
 - C. The relationship between natural and social sciences
 - D. Knowledge

2. Which of the following statements would make sense to an essentialist?
 - A. "I know it is true because I saw it with my own eyes!"
 - B. "Just because I can think through a problem logically doesn't mean it is provable."
 - C. "I can collect data and see connections, but honestly I can report the results in a multitude of ways."
 - D. "I can win any argument because I have learned the art of shifting the focus so that the other person sees things my way."

3. Which of the following statements would make sense to a non-essentialist?
 - A. "Facts don't change, even in different political, economic, cultural, and biological contexts."
 - B. "There is only one true way to interpret the economy."
 - C. "Alternative theories on the economy are equally valid, and therefore people should not support one theory over another."
 - D. "Important consequences result from alternative perspectives on the economy, and those consequences should be the basis of supporting one theory over another."

4. Match the type of thinking about truth (left column) to its description (right column):

<ol style="list-style-type: none"> A. Empiricist B. Rationalist C. Absolutist D. Relativist 	<ol style="list-style-type: none"> i. Theories can be proven through one's senses. ii. Theories can be proven through logic and proofs. iii. Theories are alternative explanations, all equally valid. iv. Theories are either right or wrong.
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5. Pluralism in economics education means an open-minded study of alternative theories, with an understanding that the theory you choose matters. Which of the following use open-minded inquiry that is consistent with pluralism? Choose all that apply.
 - A. Essentialism
 - B. Non-essentialism
 - C. Absolutism
 - D. Relativism

6. Who of the following are committed to ethics (moral principles that govern behavior)? Choose all that apply.
- A. All individuals from every perspective
 - B. Radicals as a group
 - C. Conservatives as a group
 - D. Liberals as a group
7. Every theory starts with certain givens ("assumptions"). A model is then developed to represent those assumptions. Which forms may a model take?
- A. Essentialist, non-essentialist, absolutist, or relativist
 - B. Production, consumption, or distribution
 - C. Descriptive, physical, graphical, or mathematical
 - D. All of the above
8. Which one of the following statements is incorrect?
- A. Conclusions are answers to the initial questions asked.
 - B. Conclusions can be reached by collecting relevant data.
 - C. Conclusions can be reached through deductive reasoning.
 - D. Conclusions are actions taken to ensure a particular outcome.
9. Which one of the following is an example of a policy?
- A. Minimum wage legislation is abolished.
 - B. Minimum wage legislation causes unemployment.
 - C. Minimum wage legislation results in living wages.
 - D. Minimum wage legislation doesn't fix poverty.
10. Essentialists and non-essentialists differ on the subject of positive and contextual economics, but they agree that _____ are the purview of normative economics.
- A. assumptions
 - B. models
 - C. conclusions
 - D. policies

Answers

1. D 2. A 3. D 4. A – i, B – ii, C – iv, D – iii 5. A & B 6. B, C, & D 7. C 8. D 9. A 10. D

Chapter 3: Key Terms

Absolutists

Assumptions

Conclusions

Contextual economics

Empirically

Epistemology

Essentialists

Ethics

Model

Non-essentialists

Normative economics

Pluralism

Policy

Positive economics

Rationally

Relativists

Answer Key to Exercise 3.1

1. Essentialist 2. Absolutist 3. Relativist 4. Non-essentialist



4 The Great Economic Thinkers

When I was still a PhD student in economics, I had to take a comprehensive exam that covered much of what I'd learned in the first year and a half of the program. If I failed the first time, I'd have one more chance to pass. If I failed a second time, I would be kicked out of the program. As the exam drew closer, I stopped sleeping so I could use those hours to study. Naturally I was tired, so I started drinking caffeine, which I never do. I drank as much Mountain Dew as humanly possible to keep myself going. (This was before energy drinks were invented.) If you've ever tried to study for an exam when you haven't slept and you're over-caffeinated, then you know where this story is going. The night before the exam, shaking from exhaustion, stress, and caffeine, all the words on the page became jumbled

and incoherent. My brain felt scrambled, and all the ideas I thought I'd learned during the past three semesters made absolutely no sense. It was as if each idea was a random jigsaw puzzle piece that didn't fit with any of the other random pieces. My stress and frustration blossomed into a full-blown panic by one in the morning. I threw my notes in the air and resigned myself to failing. Then I fell into bed and slept for four hours.

Have you ever tried to put a jigsaw puzzle together without looking at the picture on the box? You have to scrutinize each little piece and try to guess what the big picture looks like from that little dash of blue next to a spot of red. Is that an eye? Could it be a tennis racket? Unless you're a jigsaw puzzle expert, it's very challenging. But doesn't education often operate this way?



The teacher gives you a lot of small bits of information, and you have to figure out what the big picture looks like—whether it's dates of battles and names of treaties or the periodic table of elements. You can get so busy memorizing those little details that you never actually grasp the big picture of what you're supposed to be learning, even while you're getting good grades. To me, this is a lost opportunity. The big picture is the whole point of education!

The morning of my exam, something incredible happened to me. I woke up and all those jigsaw puzzle pieces suddenly made sense. They fit together seamlessly, and I could see the big picture. I went into the exam feeling confident. I passed the test and went on to earn my PhD. I became an economics educator, but I never forgot how it felt to be lost in the details without knowing the big picture. I vowed to myself that

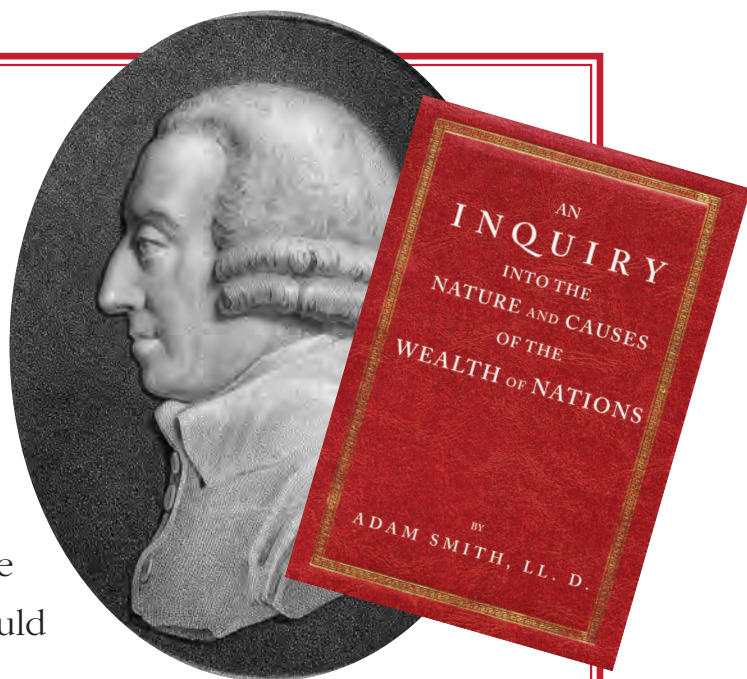
if ever I had the honor and privilege of teaching others, I would start my courses by making sure my students could see the big picture.

History of Economic Thought

This chapter will give you the big picture of the history of economic thought, and it's from this history that today's liberal, radical, and conservative perspectives took root. I'm going to tell you about three great economic thinkers and the theories they developed. Their names are Adam Smith, Karl Marx, and John Maynard Keynes. Once you finish reading this chapter, you'll see how their different ideas still play into our economic policy debates like familiar melodies. You'll recognize their refrains when you read a newspaper article, when you watch stand-up comedy, and when you debate politics over coffee with your friends and family.

Adam Smith

The story of modern economics begins in Scotland in the eighteenth century with Adam Smith (1723–1790). He never actually studied economics because there was no formal study of economics at the time. He was a moral philosopher who pondered the complicated question of how societies could



create wealth so that people could flourish. After much thought, he concluded that the problem traced back to the economic systems that kept the masses from accumulating wealth. In Smith's time, the predominant economic system in Europe

was **mercantilism**, which was based on the idea that nations should trade goods with other nations in order to get as much of the other country's gold and silver that they possibly could. Countries competed to stockpile the most of these

precious metals, leading governments to impose high taxes on imports to prevent their own gold and silver supply from leaving the country. Under mercantilism, governments granted special rights and privileges to certain people to participate in trade, concentrating wealth in the hands of only the well connected. In other words, it made a few people very rich, but mercantilism never made society as a whole wealthy. Neither had the economic system before mercantilism (feudalism) nor had the **agrarian** (farming) economies that came before that.

Smith was excited about a newly emerging economic system that seemed to have amazing potential. People who privately owned their land, labor, and capital met in marketplaces, and prices were determined for those resources as well as final goods and services. Demanders acquired the things they wanted, bringing them levels of material comfort they had never before experienced. Suppliers earned more profits than ever before. And all of this happened with limited government involvement. I'm sure you recognize this economic system as **capitalism**. Smith described it in his world-changing book, *An Inquiry into the Nature and Causes of the Wealth of Nations*. Commonly referred to as *The Wealth of Nations*, it was published in 1776—coincidentally, the same year that the American Declaration of Independence was signed. It popularized capitalism around the world. Smith intrigued readers with his opening description about the potential to create wealth. He wrote about a pin factory where individual workers were only able to produce a small number of pins in a day. But when owners—motivated by profit—had workers each complete one task of production (**specialize**), the number of pins workers were able to produce dramatically increased. This was one of many examples he gave to show how the motivation for profit in the context of private ownership works. *The Wealth of Nations* became a classic during Smith's lifetime, which is quite unusual

because an author is usually long dead before their work is considered a classic. To this day, when we talk about **classical theory** in economics, we start with Smith and *The Wealth of Nations*.

Adam Smith is considered the father of modern economics, as well as the person who popularized the economic system of capitalism. He was a prolific writer, and scholars who study his work like to remind us that his thinking was actually much more layered and nuanced than the legacy for which he's famous. We won't be covering that level of detail about him in this book, but you should know that there are schools of economists who do nothing but study and debate the complexity of his ideas. Please keep in mind that we're crediting to Smith the ideas that are generally attributed to him and that have influenced generations of economists that came after.

Smith wasn't a scientist or a mathematician, so *The Wealth of Nations* doesn't include any graphs or equations to explain his theory. This was not a problem until the mid-1880s, when the scientific method became very popular. A group of economists added math and graphs to Smith's work. This enhanced version of classical theory is called **neoclassical theory** (*neo* means “new”). Today, it is the mainstream (conventional) theory of capitalism.

From the classical and neoclassical point of view, capitalism changed the game for humanity. They invite us to think about the history of the world and try to imagine how many times a minute humans have wanted something, whether a necessity or a luxury, but couldn't get it—food, dental care, education, a wedding dress, a home, transportation, warm clothes. Maybe they prayed to God, or begged the king, or applied to the government bureaucrats, or took out a loan. Maybe the things they wanted existed, but people couldn't afford them; maybe the things they wanted weren't available; or maybe there weren't enough of them to go around. Smith's promise

in *The Wealth of Nations* is that the economic system of capitalism can bring us all untold wealth when there is private ownership of land, labor, and capital. Firms will make us what we want; they will make the profit-maximizing amount using the fewest resources; and those who choose it can have it. Many conservatives believe popularizing capitalism was the key to widespread material well-being. Suddenly there was a way to get the things people wanted and needed, in a system that was open not just to the well connected but to every free person.

The economic system of capitalism has three types of players: demanders, suppliers, and the government. I'll talk about Player 3, the government, in a minute. Player 1, the demanders, own their own labor. They trade it to acquire money (in other words, they get paid for their work). Player 2, the suppliers (we also say firms or businesses), own or hire land, labor, and capital, which could take the form of a chocolate bar factory or a sheep farm or a computer repair shop. Demanders and suppliers meet in markets, where prices for goods and services are determined. The prices signal to buyers what and how much to buy and signal to firms what and how much to make. **Price signals** give firms and individuals a reason to act. Just think of the multitude of decisions being made all the time by countless people about how to use resources. This invisible force that directs every market at every moment is what Smith called the **invisible hand**. No one is in charge or pulling the strings. It all happens naturally.

Price signals give firms and individuals a reason to act. They are an invisible force that directs every market at every moment. Smith called this the invisible hand. No one is in charge or pulling the strings. It all happens naturally.

Let's say there are advances in robotics, and now more people want to buy personal robot assistants because the new models clean bathrooms, make dinner, and play basketball with you. When more people demand them, the price of personal robot assistants will go up. That signals firms to make more of them. Making more of a popular item means firms can sell more and make more profit, and profit is why firms are in business. Price signals play

a really important role in capitalism, functioning as **incentives**, meaning they motivate people and firms to take action.

Smith further said that firms will not only make us the kind of stuff we want and need, they'll do it without wasting resources. The robotics firm is not going to hire more workers than it needs or buy more copper wire than it needs because it wants to make the most money possible. Firms will produce the amount that generates the most profit at the lowest possible cost. No law or government regulation directs them to do this; it simply makes sense to them because it serves their profit interest to do it.

Let me ask you this: would you enlist to go to war and put your life on the line to protect your country if it produced tons of great stuff—none of which you could afford to buy? Most likely you wouldn't. Those who believe capitalism is the best economic system say that everyone who chooses to do so can get the great stuff. How does it work? Price signals ensure that personal robot assistants will go to those who most want them. Let's say there's an investment banker and me, a teacher, and we both really want one. Who is going to



get one? The person who followed price signals and became a well-paid investment banker, or the person who makes a more modest living as a teacher? In capitalism, when we follow price signals, we can make career choices that lead us to be able to purchase the goods and services we want. For example, I chose to be an educator because I wanted to teach economics more than I wanted to have a personal robot assistant or a yacht or a ski chalet in the Alps. At the end of the day, the robot will go to the investment banker because the investment banker wanted it more than the teacher and chose accordingly. And this is how it should be, according to Smith. If I really wanted that personal robot assistant, and if I wanted to be able to acquire it more than I cared about other things, I would have made a different career choice and could have been able to afford one. In capitalism, firms make products for those who most want them. Smith said we don't have to rely on divine intervention, the goodwill of a king, or good luck to get what we most want and need because capitalism will make it available to us through the free market.

Remember in chapter 1 we described the three questions of economics: what to produce, how

to produce, and for whom to produce? According to this theory, firms will make the stuff we want (called **allocative efficiency**). Firms will make the profit-maximizing amount of stuff we want using the fewest resources (called **productive efficiency**). And the stuff will go to the people who want it most (called **distributive efficiency**). These are the three outcomes of capitalism, as promised to us by Adam Smith.

Did you notice what *didn't* happen in this scenario about who gets a personal robot assistant? Player 3 didn't get involved at all. The government didn't tell people to buy personal robot assistants, and it didn't tell firms to produce them. Smith said that in capitalism the government shouldn't interfere with suppliers and demanders. It should leave the system alone to be guided by the invisible hand that arises from price signals. (Conservatives later popularized the French term for "leave it alone"—*laissez-faire*, literally "allowed to do.") A market free from government involvement is called the **free market**. But that doesn't mean we don't need government in capitalism. You wouldn't labor day and night to make money to afford that personal robot assistant if your neighbor could just grab it from you without any consequences. Smith

said the government should *maintain a justice system* to protect private property rights. And it's not reasonable to expect that every firm will have to construct its own power plant, manage its own sewage, pave its own roads, and such. So the second role of government Smith identified is to *create infrastructure*. Firms aren't going to invest in building businesses if people from other countries could simply march in and take over our country, so the third role of government should be to *ensure our national security*. Government should have no other roles, he said. "Little else is requisite to carry a state to the highest degree of opulence from the lowest barbarism, but peace, easy taxes, and a tolerable administration of justice: all the rest being brought about by the natural course of things."

The "natural course of things" he's referring to is the invisible hand. Today, conservatives, who are free-market capitalists, follow this idea. They believe that all our other needs can and should be met through private solutions, including corporate and individual philanthropy. For instance, disaster relief is provided by nonprofit organizations and religious organizations. They believe education, health care, retirement

security, and more are best provided through a private system that brings people the products they want at the lowest possible prices.

Capitalism operates on the assumption that people and firms act out of their own **self-interest**—whatever brings the most benefit to the person or the business. Smith says that is precisely why it works. He believed self-interest is a far more sustainable motivation for caring about the common good than a sense of altruism or social responsibility. Would drug companies risk billions investing in research and development of new medications if they weren't going to make money on them? Not likely, say proponents of capitalism. As Smith wrote in *The Wealth of Nations*: "He intends only his own gain, and he is in this, as in many other cases, led by an invisible hand to promote an end which was no part of his intention. By pursuing his own interest, he frequently promotes that of the society more effectually than when he really intends to promote it." In other words, Smith believed we demand things that lead to our own happiness—such as personal robot assistants, skyscrapers, ballet lessons, medication, vacations, and soup—out of self-interest. And out of their own self-interest, firms supply these things—not because they're try-



ing to make our lives better but because they're trying to make money. Self-interest is the engine that drives capitalism. Smith sometimes used the term **enlightened self-interest** to describe the phenomenon that the pursuit of self-interest is automatically the pursuit of the best possible outcome for all of society.

Capitalism sounded amazing to the people who read Smith's book in the late 1700s, which is why it so quickly became a classic. *The Wealth of Nations* explained that when the economy hits a bump in the road—maybe there's news of an impending attack by aliens from another planet, so spending goes down because everyone is hiding under their beds—it's not a problem. Smith reassured readers that the economy will inevitably fix itself. Here's how it works: When people stop buying, prices will go down. When prices go down, wages—the price of labor—will go down. When wages go down, it's cheaper for firms to produce, so firms will start hiring workers. Now that they have money in their pockets, workers start buying again—not just personal robot assistants but skateboards, tropical fish tanks, houses, concert tickets, computers, and all sorts of things—and the economy picks up again. The government doesn't have to do a thing to fix it because capitalism is a self-correcting system and, according to Smith, the best system for creating economic growth and a better standard of living for everyone. To free-market capitalists, the key is for government to leave it alone—*laissez-faire*.

Neoclassical theorists apply **marginal analysis**—*marginal* means additional—to show how firms and individuals make profitable decisions to do something by comparing the additional benefit of doing it to the additional cost of doing it. You might know this as **cost-benefit analysis**. For example, if it costs a firm \$10 to make a pizza, and it can sell that pizza for \$11, the firm would decide to make it because the additional benefit

exceeds the additional cost. The firm would continue to make pizza until the marginal cost exceeds the marginal benefit, and then it would stop. Decisions are made on the margin, which means that firms don't decide they're going to make one hundred pizzas; they do a marginal analysis as they go along to determine if they should make the one hundredth pizza. Neoclassical theorists say optimal decisions are made by comparing marginal cost and marginal benefit. Should you work another hour? If you do, you'll earn \$15, but you'll miss your bus and have to pay for a ride home, which will cost you \$12, and you'll miss dinner, so you'll have to grab a bite to eat, which will cost you \$5. Working an extra hour will give you \$15 and cost you \$17, so you will decide not to do it because the marginal cost is greater than the marginal benefit. Cost-benefit analysis is used for every kind of decision, including whether to clean an additional 10 percent of pollutants out of the river, whether a city should build a new line for its light-rail system, whether a town should open a new high school, and so forth.

Smith's ideas were further developed by two influential thinkers in the twentieth century. F. A. Hayek (1899–1992) was part of the Austrian school of economics. Hayek ended up teaching at the University of Chicago. Also at the University of Chicago was economist Milton Friedman (1912–2006), who was part of what is known as the Chicago school of economics. Friedman, in turn, influenced President Ronald Reagan (1911–2004), who championed **supply-side economics**—lower taxes and fewer government regulations. Friedman's and Hayek's ideas inform the conservative conversation today in the Republican Party (also called the Grand Old Party, or GOP for short), as well as in the Libertarian Party. Proponents are often called the right (or right-wing), supply-side, and classical/neoclassical.

To sum up the conservative economic position presented in the VOTE Program: *In capi-*

talism, when the economy is free from government interference, the invisible hand of price signals leads markets to self-correct and adjust on their own so that all can prosper. This is why we embrace free-market capitalism through a laissez-faire approach. Conservatives believe we need liberty from government interference in the economy so that people can flourish with unfettered opportunities.

No one would disagree that Adam Smith's ideas changed the world. He founded a whole field of study and transformed people's lives across the planet. By promoting capitalism, he created the global economy that shapes every aspect of our lives today. Yet on the day he died—July 17, 1790—this great economic thinker said that he wished he had accomplished more.



CONSERVATIVE

WHO
Adam Smith <i>The Wealth of Nations</i>
WHEN
18th century
WHAT
Firms are privately owned and guided by price signals (the invisible hand)
WHY
Because when the economy is free from interference, we have the right incentives to create prosperity
HOW
Embrace free-market capitalism
WHERE
In a nation with liberty so all can flourish with unfettered opportunities
THESE IDEAS ARE BROADLY SHARED BY
republicans • conservatives classical/neoclassical theorists Republican Party • GOP • Tea Party libertarians • right • far right supply-side • Austrian school • Chicago school Right to Work movement • deregulators

The Power of the Market

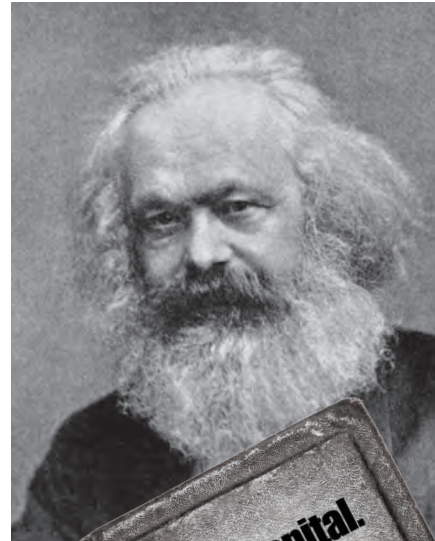
"Look at this lead pencil. There's not a single person in the world who could make this pencil. Remarkable statement? Not at all! The wood from which it's made, for all I know, comes from a tree that was cut down in the state of Washington. To cut down that tree, it took a saw. To make the saw, it took steel. To make the steel, it took iron ore. This black center, we call it lead but it's really . . . compressed graphite. I think it comes from some mines in South America. . . . This red top up here, the eraser a bit of rubber, probably comes from Malaya, where the rubber tree isn't even native. It was imported to South America by some businessmen with the help of the British government. This brass ferrule, I haven't the slightest idea where it came from, or the yellow paint, or the paint that made the black lines, or the glue that holds it together. Literally thousands of people cooperated to make this pencil. People who don't speak the same language, who practice different religions, who might hate one another if they ever met. When you go down to the store and buy this pencil, you are in effect trading a few minutes of your time for a few seconds of the time of all those thousands of people. What brought them together and induced them to cooperate to make this pencil? There was no commissar sending out orders from some central office. It was the magic of the price system. The impersonal operation of prices that brought them together and got them to cooperate to make this pencil so that you can have it for a trifling sum. That is why the operation of the free market is so essential not only to promote productive efficiency, but even more to foster harmony and peace among the peoples of the world."

—**Conservative economist Milton Friedman**, from the PBS Series *Free to Choose, Part I, The Power of the Market*



Karl Marx

The next great economic thinker came along in the nineteenth century. German-born Karl Marx (1818–1883) was profoundly influenced by *The Wealth of Nations* and developed a critique of capitalism that became the foundation of radical theory. Marx looked around, and instead of seeing the prosperity Adam Smith described, he witnessed masses



of people living in poverty. While agreeing with Smith that previous economic systems such as feudalism and mercantilism hadn't worked to create prosperity for the masses, he said capitalism wasn't working either. He published his most influential critique in the first volume of his book *Capital* (*Das Kapital* in German) in 1867. He wrote that the capitalist 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."

Marx must have wondered if there was something wrong with his eyesight because he wasn't seeing what Adam Smith promised in *The Wealth of Nations*. Instead, he saw young children working twelve-hour days in factories and miserable living conditions in slums coated in grit from the smoke belching out of factory chimneys. Marx theorized that there was a direct connection between capitalism and the suffering of the masses. He saw capitalism as a system in which owners steal from wage laborers, and everyone accepts this as a normal fact of life, rather than regarding it as a crime. He pointed to the heart of the problem: capitalism's relentless drive for profit. It creates

incentives for **capitalists** (owners of capital) to engage in inhumane practices such as dangerous working conditions, low pay, polluting the environment, and more. Yes, it delivers untold wealth, said Marx, but capitalism also brings untold misery because it's a system that values profits over people. He said it enriches a small minority while making the vast majority suffer.

Consider your first job. Do you think you were paid what you actually contributed? When I ask my students, friends, and family this question, I hear again and again, "Of course not!" Marx argued that people *know* they're getting paid less than they're contributing. My first job was selling hot dogs on the streets of Hartford, Connecticut, and I sold about \$300 worth of hot dogs per hour. I was paid \$5.15 per hour. That was the minimum wage back then. After the owner paid himself his wages and then paid for all of his overhead—the hot dogs, buns, mustard, cart, permit to sell food on the street, and all the other costs—he kept every-

thing except the \$5.15 he had to pay me for each hour I sold his hot dogs. Marx would say that the rest of the value I created through my labor—the **surplus**—was stolen from me. The owner takes the surplus that the **wage laborer** produces. Marx said that capitalism has this built-in mechanism of theft, which he called **workplace exploitation**. He said the only choices for wage laborers are to stay and be exploited or quit and be unemployed. According to Marx, most of us don't see anything wrong with workplace exploitation because we're taught to believe that this is normal, inevitable, and the way it's supposed to be. The first volume of *Capital* gave people a radical new way to see the worker's situation.

Like Smith, Marx was simply describing what he saw going on in the world around him. He wrote that capitalism is a story of bloody and violent struggle, not a harmonious meeting of suppliers and demanders. His biggest contribution was to shine a light on what he saw as exploitation and the capitalist system of theft, a system rigged in favor of the owners of the machinery, who control wages, benefits, working conditions, profit distribution, and more.

In addition to workplace exploitation, Marx identified something else he saw as a big problem. He called it **capitalist competition**. While owners are not necessarily bad or greedy people, they are stuck in a bad system, which leads them to make harmful decisions. Here's how it works: Let's say an owner of a coffee shop hires workers to sell lattes. Her competitor—the big chain coffee shop across the street—replaces wage laborers with machines to cut costs. Now, if she doesn't cut costs in the same way, her competitor will be able to undercut her prices and put her out of business. She may not want to lay off workers, but to stay in business, she will have to. Other competitors may cut costs by eliminating worker safety equipment, reducing everyone's wages, speeding up production, polluting the environment, producing a lower-quality product, or moving their factories to countries where wages are lower. To stay competitive and make sure her company doesn't go under, she will also do those things, even though she may not want to. Radicals say we're all racing to the bottom, creating worse and worse conditions for wage laborers, more and more difficult choices for owners, and less safe products for



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consumers. They say this is business as usual in capitalism, where firms have to compete to survive. Fueled by the drive for profit, firms will be forced to take steps to increase their profits even though it means making society worse off.

Nowhere in *Capital* does Marx offer solutions to the problems of capitalism. He only set out to write the critique. However, in a small pamphlet called *The Communist Manifesto*,

published in 1848, coauthors Marx and Friedrich Engels lay out a few ideas for what an alternative economic system could look like. Their main idea was to abolish private property and let workers own the equipment, factories, farms, and other capital they used to produce things. “[This new system]...may be summed up in the single sentence: Abolition of private property,” they wrote. “It deprives no man of the ability to appropriate the fruits of his labour. The only thing it deprives him of is the ability to enslave others by means of such appropriations.” Marx and Engels called this new economic system **communism**.

Their pamphlet, which offered some broad notions, was no blueprint for a new economic system, but it became an inspiration for the Russian Revolution of 1917. Russia’s working class rose up and overthrew the czarist (autocratic) system of government, and the revolutionaries seized all private property. But instead of turning it over to the workers, the new government became the owner of the resources. What the Russian Revolution ended up creating was a system of **state capitalism**, where the state—not the workers—owned the means of production. It was not the communism described in *The Com-*

Karl Marx believed
capitalism creates problems
that can’t be fixed—not by
the government intervening
and not by the government
leaving the system alone.

The problem is the
capitalist system itself.

unist Manifesto, but the word *communism* unfortunately became conflated with the state capitalism of the Soviet Union.

When the Berlin Wall fell in 1989 and Soviet communism came to an end, some critics said that meant Marx’s ideas had failed and were therefore irrelevant. But radicals say Marx’s critique of capitalism is as relevant today as it ever was because capitalism continues to be the world’s dom-

inant economic system, and radicals believe the abuses of capitalism continue to destroy the lives of individuals, the integrity of communities, and the ecosystems of the planet. Marx believed that capitalism creates problems that can’t be fixed—not by the government intervening and not by the government leaving the system alone. The problem is the capitalist system itself.

Marx influenced socialist economist and activist Rosa Luxemburg (1871–1919), who influenced Eugene V. Debs (1885–1926), who ran for U.S. president five times as a Socialist Party candidate. Debs influenced U.S. economist Richard D. Wolff, who founded the radical organization Democracy at Work. Wolff influenced many modern-day democratic socialists, whose ideas influenced Vermont Senator (and presidential candidate) Bernie Sanders. Supporters of Marx’s idea to reject capitalism are referred to as radicals, the far left (or leftists), Marxists, democratic socialists, socialists, and communists.

If we didn’t have capitalism, what kind of economic system would bring us the things we want and need without exploiting workers and creating the suffering Marx described—the poverty, slums, sickness, misery, and alienation? The radical idea

to replace capitalism that we talk about in the VOTE Program is **democratic socialism**. Instead of private ownership of resources, this economic system embraces public ownership, community ownership, nonprofit ownership, and cooperative ownership. With public ownership, the democratically elected government is in charge of certain resources so it can ensure that everyone's basic human needs are met—water, electricity, roads, and so forth. Community ownership could be a local park or a stadium that the municipality owns and operates. Nonprofit ownership could be a land conservation group owning and operating a bird sanctuary. There are different types of cooperative ownership. For example, worker-ownership means workers own their firm together and decide together how the business will be run.

Imagine you work in a coffee shop, but now you and your fellow baristas are all co-owners. You use a democratic process to decide how much you each should be paid. You also decide collectively

how to produce and price the coffee drinks you sell, and how to distribute the profit. Radicals call this **workplace justice**. They point out that while firms compete in markets, the worker-owners live in the communities where they work, which means they are motivated to participate in **coordination among competitors**. They make decisions that benefit not just their bottom lines but their own lives, the lives of their neighbors, and the whole community. So your firm and other local worker-owned coffee shops will switch from plastic cup lids to compostable lids because it's better for the landfill on the edge of your town. And when you all go in together to order the new lids in bulk, everyone saves money.

In democratic socialism, a portion of the profit from all cooperatively owned firms pays for things that ensure the well-being of everyone in society, such as health care, higher education, retirement pensions, transportation, day care, housing, elder care, and more. These guarantees of well-being are



allocated to everyone in society. They are provided not through markets but by the government.

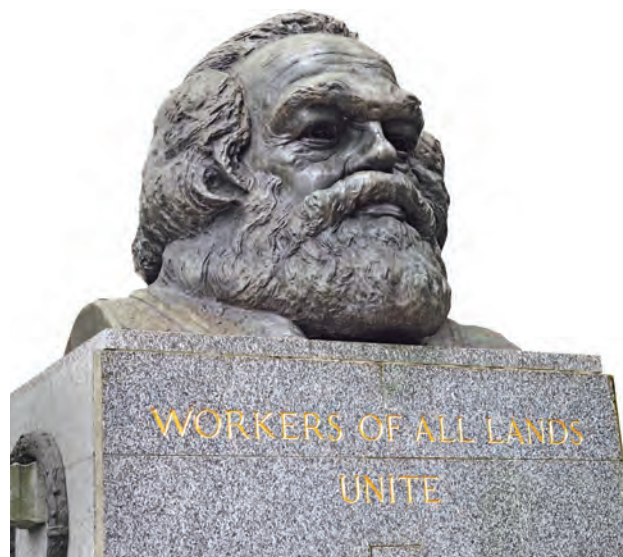
According to radicals, cooperatively owned firms produce things that make people's lives better. The decaf coffee your firm sells will be made without dangerous chemicals because your family and friends are drinking it. When a problem arises—say the new drive-through window is creating traffic jams on the roads—your neighbors, your democratically elected government representatives, and the worker-owners at your coffee shop come together in community councils to solve the problem. Finally, in democratic socialism the impact of production and consumption on other communities around the world is factored in to your decision-making. That's why your coffee shop sources its beans from a collective of local Indigenous growers in Costa Rica that uses natural pesticides. Radicals say this is business as usual in democratic socialism, where competition goes hand in hand with coordination. Fueled by the drive for well-being, worker-owned firms put people and the planet before profit.

To sum up the radical economic position presented in the VOTE Program: *In capitalism, the drive for profit leads firms to exploit workers, which creates suffering, inequality, bloody and violent conflicts, and global crises. This is why we reject capitalism and embrace democratic socialism. All can prosper when private ownership is replaced with cooperative ownership and when the well-being of people and the planet is valued over profits.* Markets and competition still exist in democratic socialism, say radicals, but exploitation of workers is eliminated. They believe we need an economic system that gives workers freedom from exploitation so that all people can flourish with meaningful opportunities.

Karl Marx died in exile in London on March 14, 1883. Only a handful of people attended his funeral. Years later, a large memorial was erected on his grave. It reads, "Workers of all lands unite"—the final sentence in *The Communist Manifesto*.

RADICAL

WHO
Karl Marx <i>Capital, Volume 1</i>
WHEN
19th century
WHAT
Firms are worker-owned and guided by the pressure for good (the invisible synergy)
WHY
Because when the economy values people over profits, we act in everyone's best interest to create prosperity
HOW
Embrace democratic socialism
WHERE
In a nation with freedom so all can flourish with meaningful opportunities
THESE IDEAS ARE BROADLY SHARED BY
democratic socialists • radicals Marxist theorists Green Party • Communist Party socialists • left • far left dependency/world-systems theorists labor rights activists • Occupy movement



The Community-Owned Green Bay Packers

"The Green Bay Packers are a fan-owned team. I'm asked sometimes who's the best owner in sports. I always say it's the 112,000 owners of the Green Bay Packers. This is a very unique arrangement. This started in 1923, when fans, to keep the team from folding in Green Bay, each plunked down a couple of bucks to keep the team afloat. This is a time when no one had a sense that the NFL was going to become the gargantuan business that it is today. And then in 1960 when it really did look like the league could take off, [the NFL] wrote it into their constitution—into their rules of incorporation—that said no other team could be run by a nonprofit entity. That was now not allowed. And what's so interesting about it is you go to a Green Bay game, you go there knowing that 60 percent of the concessions are going to local charities. Even the beer costs half as much as it does at a typical stadium. And you also know you're not going to have an owner who threatens to move the team to Los Angeles unless they're given a billion-dollar enormo-dome across town. It's a very special relationship, and it's one that I've argued a lot that should be replicated, and then sports can be something that keeps our cities afloat instead of weighing them down."

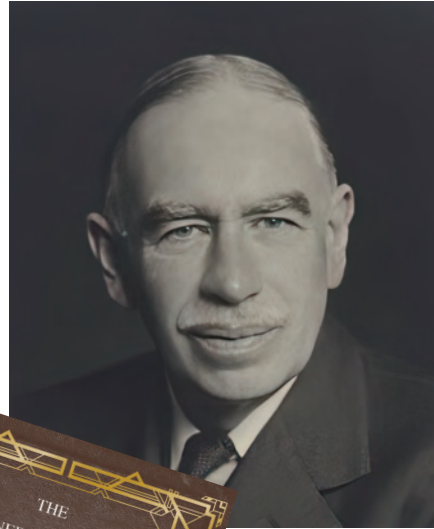
– **Dave Zirin**, author of *A People's History of Sports in the United States*, appearing on *The Laura Flanders Show*



Allen Fredrickson / REUTERS Adobestock.com

John Maynard Keynes

In the 1920s, capitalism in the United States seemed to be delivering on its promise of prosperity. World War I was over, and people were ready to enjoy life again. The Roaring Twenties were famous for jazz music and for women finally winning the right to vote. With more people living in cities than ever before, there were more electrical appliances, such as



telephones and radios, in people's homes. More people drove cars and went to the movies. All this was great for the economy. The nation's overall wealth doubled between 1920 and 1929. But the stock market crash in 1929 set off a financial panic. People lost their fortunes overnight, banks went under, and firms went out of business. This widespread financial ruin plunged the nation into the Great Depression. It was a crisis of mass unemployment and abject poverty that had never been seen before in the United States. In cities across the country, onetime bankers and socialites stood in line with unemployed factory workers and farmers, all hoping to get a free bowl of soup and bread from overburdened charity organizations.

Policymakers were tearing their hair out trying to figure out what to do. They looked to the economists of the day for advice, and what they heard from classical theorists was, "Don't do anything. Just leave the economy alone and let the invisible hand and price signals guide the markets. If you do nothing, the economy will get back on its feet all by itself." But people were angry, scared, and frustrated; they wanted something to be done to move the country out of the Depression. *Laissez-faire* didn't sound like much of a solution. The Russian

Revolution had taken place only twelve years before, and some people started to wonder if maybe communism would be a better economic system. But policymakers weren't interested in rejecting capitalism—that seemed un-American to them. Just when our nation's leaders were desperate for an answer, the next great economic thinker emerged.

John Maynard Keynes (1883–1946) was a British economist trained in the classical school. Like his peers, he was taught to believe that *laissez-faire* capitalism worked because firms respond to price signals. But Keynes looked around at all the people who were starving, homeless, and desperate for a job, and he realized that even though wages had never been lower, firms still weren't hiring. He wrote in his 1936 book *The General Theory of Employment, Interest and Money* (also known as *The General Theory*): "Our criticism of the accepted classical theory of economics has consisted not so much in finding logical flaws in its analysis as in pointing out that its tacit assumptions are seldom or

never satisfied, with the result that it cannot solve the economic problems of the actual world.” The economy was stuck. Without jobs, people had no money to spend, and until they started demanding products, firms had no reason to produce and therefore no reason to create jobs. That meant people would continue to have no money. It was a vicious circle.

Shouldn’t low wages have signaled firms to start hiring, as the classical theorists argued? To Keynes it was clear that firms were ignoring the price signal of lower wages. Even though owners knew, logically, that if they hired workers, then those workers would have money in their pockets to buy the firm’s products, they still didn’t create jobs. Keynes said this happened because the owners had negative expectations—what he called **animal spirits**. While classical theorists were saying that leaving it alone would fix the problem, Keynes was saying yes, it would—in the long run—but “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 passed the ocean is flat again.” He recommended that government take an active role to get money into people’s pockets to immediately grow the economy and bring prosperity back.

This is how Keynes’s idea works: Imagine it’s 1931, and you own a factory that makes roller skates. The country is in the Great Depression, and prices and wages have plummeted. That’s your signal to hire more workers. So do you start hiring workers to make roller skates right now? You don’t—because no matter how inexpensive it is to make them, you don’t believe anyone will buy roller skates when they have no money for food, clothes, or anything else. (This is animal spirits—your negative expectation.) Keynes said the way to stimulate the economy is to get people to start spending. He saw a new role for government in capitalism: it could help put money back in people’s pockets by creating job programs, social security programs, unemployment benefits, and more. When people once again had money to spend,



they would start demanding products, which would signal firms to start producing. Growing demand would lead to more production, which would lead firms to hire more workers. With the return of jobs, the economy would be back on its feet, and capitalism would be up and running again, bringing us untold wealth.

This new way of thinking about the **helpful hand of government** to stimulate the economy is referred to as the **Keynesian** revolution. It is also referred to as Keynesian economics and liberal economics. *The General Theory* remains the most influential liberal critique of free-market

capitalism. Remember that Keynes didn't disagree that the economy, if left alone, will self-adjust in the long run. He just said that it was wrong, economically and morally, to wait around for that to happen while people suffer, when the helpful hand of government can guide capitalism to ensure economic stability. By implementing policies that help individuals and firms, government involvement creates widespread economic well-being, according to Keynes. He rejected Karl Marx's idea that capitalism should be replaced. Unlike radicals, liberals believe wholeheartedly in the wealth-building potential of capitalism. Liberals, like conservatives, believe it's the best economic system ever invented.

Liberals today continue to see an important role for the helpful hand of government in capitalism, not just to stimulate the economy and maximize the wealth-building potential of capitalism but also to regulate industry so that none has

Keynes didn't disagree that the economy, if left alone, will self-adjust in the long run. He just said that it was wrong, economically and morally, to wait around for that to happen while people suffer, when the helpful hand of government can guide capitalism to ensure economic stability.

an unfair advantage over another. **Fair-market** capitalism is guided by government to ensure **stability** and **equity**. Stability in this context means an economy that doesn't seesaw wildly up and down but has constant, steady growth. Equity means we all are treated fairly and have what we need to succeed. This is subtly different from **equality**, which means treating everyone the same. Let's say I want to watch my local Little League team's final game in the playoffs. I arrive late, only to discover that the bleachers are already full. I find a place to watch from behind the fence at third base. Unfortu-

nately, my sister is too short to see over the fence. My best friend can see just fine, but I forgot my glasses, so even though I can see over the fence, the game is a blur. Equity means that we'll each get what we need to see the game. That might be a stool for my sister to stand on and glasses for me. In contrast, equality means we would each get exactly the same thing—a stool and a pair of glasses—whether we needed those things or not.

Equity is important to liberals because they believe that it's not fair that some people have a place at the starting line while others have to start a few yards behind and even more start miles away. The odds are obviously stacked against everyone in the back. Relatively few of them can overcome the unfair disadvantage and succeed. The starting line is a metaphor for all the things we need to have in order to compete in capitalism—for example, education, health care, trans-



portation, and job opportunities. Liberals look to government to help level the playing field so more people can become wealthy under capitalism. Liberals are not saying government should ensure that everyone finishes the race or finishes at the same time. The job of government is to make sure we all have equitable opportunities to compete. It's up to individuals to work hard, study hard, and apply themselves with the determination to succeed. Liberals believe that when people take individual responsibility and have the same opportunities, capitalism will deliver on the promise of prosperity.

Liberals say the helpful hand of government brings us things that we could never accomplish on our own as individuals: Social Security, the minimum wage, public libraries, public transportation, Medicare, public education, and so forth. Liberals point out that we can thank the government for bringing us the internet. They also say you can thank government for protecting you from fraudulent practices by firms and for protecting firms from illegal practices by other firms. This happens through mechanisms such as consumer protection laws, antitrust legislation, worker protections, environmental laws, and trade protections because government reg-

ulations ensure transparency with accountability in capitalism. **Accountability** means firms have a responsibility to society and are answerable for their actions. **Transparency** means firms must disclose information so there can be oversight to hold them accountable.

Keynes believed that when capitalism is guided by government, it promotes peace between countries. His ideas influenced the creation of the International Monetary Fund, the World Bank, and the World Trade Organization. Some credit Keynes's ideas with influencing President Franklin D. Roosevelt, who created the New Deal during the Great Depression. Liberal economists also credit Keynesian thinking with pulling the United States out of the Great Recession, which started in late 2007. They say in both cases, the government helped people have money to spend, so firms were perfectly willing to start up production again and hire more workers, which put the economy on the road to recovery. Famous proponents of Keynesian economics include Harvard professor John Kenneth Galbraith (1908–2006), who advised President John F. Kennedy, and liberal economist Paul Krugman. Their ideas inform the liberal conversation today in the Democratic Party. People who follow liberal theory are called

democrats, Keynesians, progressives, liberals, interventionists, and center left.

In the media and in the popular minds of people in the United States, *liberal* refers to fair-market capitalism or the Keynesian perspective. That's why we use it this way in the VOTE Program. But please be aware that the word *liberal* outside the United States refers to the free-market perspective, which in this country is the conservative perspective. Just to be even more confusing, the term *classical liberal* is another name for conservatives.

To sum up the liberal economic position represented in the VOTE Program: *Under capitalism, when the government intervenes in the economy, all can prosper because the private-public partnership stabilizes markets and creates transparency with accountability, and equal opportunities. This is why we guide fair-market capitalism with the helpful hand of government.* Liberals believe we need the government to guarantee fairness so that all people can flourish with equal opportunities.

Keynes died from a heart attack at his home in Sussex, England, on April 21, 1946, at the age of sixty-three. He was survived by his wife and parents. His obituary in the *New York Times* reported that he was “exhausted by the strain of the International Monetary Conference in Savannah, Ga.” There is no grave for Keynes. His ashes were scattered on the Downs. (Too bad, because he had the perfect quote for his gravestone: “In the long run, we’re all dead.”)



LIBERAL

WHO
John Maynard Keynes <i>The General Theory</i>
WHEN
20th century
WHAT
Firms are privately owned and guided by price signals and government (the helpful hand)
WHY
Because when the economy is stable and equitable, we have the ingenuity and accountability to create prosperity
HOW
Embrace fair-market capitalism
WHERE
In a nation with fairness so all can flourish with equal opportunities
THESE IDEAS ARE BROADLY SHARED BY
democrats • liberals Keynesian theorists Democratic Party progressives • center • center left institutionalist theorists • social economists labor union organizers and members

Excerpt from the Second Inaugural Address of President Barack Obama

“Together we discovered that a free market only thrives when there are rules to ensure competition and fair play. Together we resolve that a great nation must care for the vulnerable and protect its people from life’s worst hazards and misfortune. Through it all, we have never relinquished our skepticism of central authority, nor have we succumbed to the fiction that all societies’ ills can be cured through government alone. Our celebration of initiative and enterprise, our insistence on hard work and personal responsibility—these are constants in our character.... For we, the people, understand that our country cannot succeed when a shrinking few do very well and a growing many barely make it. We believe that America’s prosperity must rest upon the broad shoulders of a rising middle class.... We understand that outworn programs are inadequate to the needs of our time. So we must harness new ideas and technology to remake our government, revamp our tax code, reform our schools, and empower our citizens with the skills they need to work hard or learn more, reach higher.... We, the people, still believe that every citizen deserves a basic measure of security and dignity. We must make the hard choices to reduce the cost of health care and the size of our deficit. But we reject the belief that America must choose between caring for the generation that built this country and investing in the generation that will build its future.... The commitments we make to each other through Medicare and Medicaid and Social Security—these things do not sap our initiative. They strengthen us. They do not make us a nation of takers. They free us to take the risks that make this country great.”



Exercise 4.1: “What’s My Perspective?”

You can tune your ear to start to hear the perspective someone is coming from even if that person doesn’t say it directly. Here’s an exercise that will help. Match the following quotes from well-known individuals to one of the three perspectives. The Answer Key is at the end of the chapter.

Quote 1: “Capitalism does not permit an even flow of economic resources. With this system, a small privileged few are rich beyond conscience, and almost all others are doomed to be poor at some level. That’s the way the system works. And since we know that the system will not change the rules, we are going to have to change the system.” –Martin Luther King Jr., civil rights leader

Quote 2: “We have been ruled by men who live by illusions...the illusion that there is some other way of creating wealth than hard work and satisfying your customers.” –Margaret Thatcher, British prime minister

Quote 3: “You cannot separate the political structure from the economic structure. One has to be an idiot to believe that the average working person who’s making \$10,000 or \$12,000 a year is equal in political power to somebody who is the head of a large bank or corporation. So if you believe in political democracy, if you believe in equality, you have to believe in economic democracy as well.” –Bernie Sanders, U.S. senator

Quote 4: “It was the labor movement that helped secure so much of what we take for granted today. The forty-hour work week, the minimum wage, family leave, health insurance, Social Security, Medicare, retirement plans. The cornerstones of middle-class security all bear the union label.” –Barack Obama, U.S. president

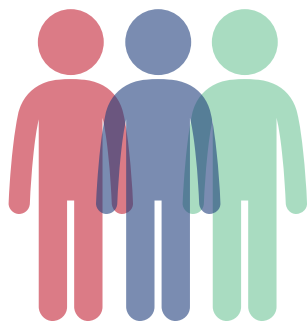
Quote 5: “Capitalism demands the best of every man—his rationality—and rewards him accordingly. It leaves every man free to choose the work he likes, to specialize in it, to trade his product for the products of others, and to go as far on the road of achievement as his ability and ambition will carry him.” –Ayn Rand, writer and philosopher

Quote 6: “Governments will always play a huge part in solving big problems. They set public policy and are uniquely able to provide the resources to make sure solutions reach everyone who needs them. They also fund basic research, which is a crucial component of the innovation that improves life for everyone.” –Bill Gates, entrepreneur

Three Perspectives on the Role of Government

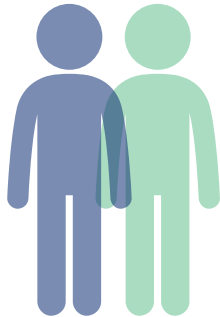
Our nation is a democratic republic with a constitution. The scope of the government's involvement in our lives differs according to the visions of conservatives, liberals, and radicals. For conservatives, government's role is limited to three areas: ensure our national security, protect property through a justice system, and build the infrastructure the nation needs, such as roads, bridges, and utilities. Liberals agree with these three roles of

government and add three more: regulate firms by creating transparency with accountability, stabilize the economy, and create equity through opportunity programs. Radicals agree with all six of those roles of government and add three more: convene, facilitate, and represent community councils so that people can participate fully in their own governance, manage public ownership of resources and production, and provide universal benefits such as health care, higher education, and transportation.



Conservatives, Liberals, and Radicals

National Security
Property Protection
Infrastructure



Liberals and Radicals

Transparency with Accountability
Stability
Equity



Radicals

Manage Public Ownership
Community Councils
Universal Benefits

Figure 4.1
The Roles of Government from Three Perspectives

The Big Picture

Remember at the beginning of this chapter when I promised to give you the big picture of economics so you wouldn't have to try to put the jigsaw puzzle together without knowing what it looks like? Here it is.

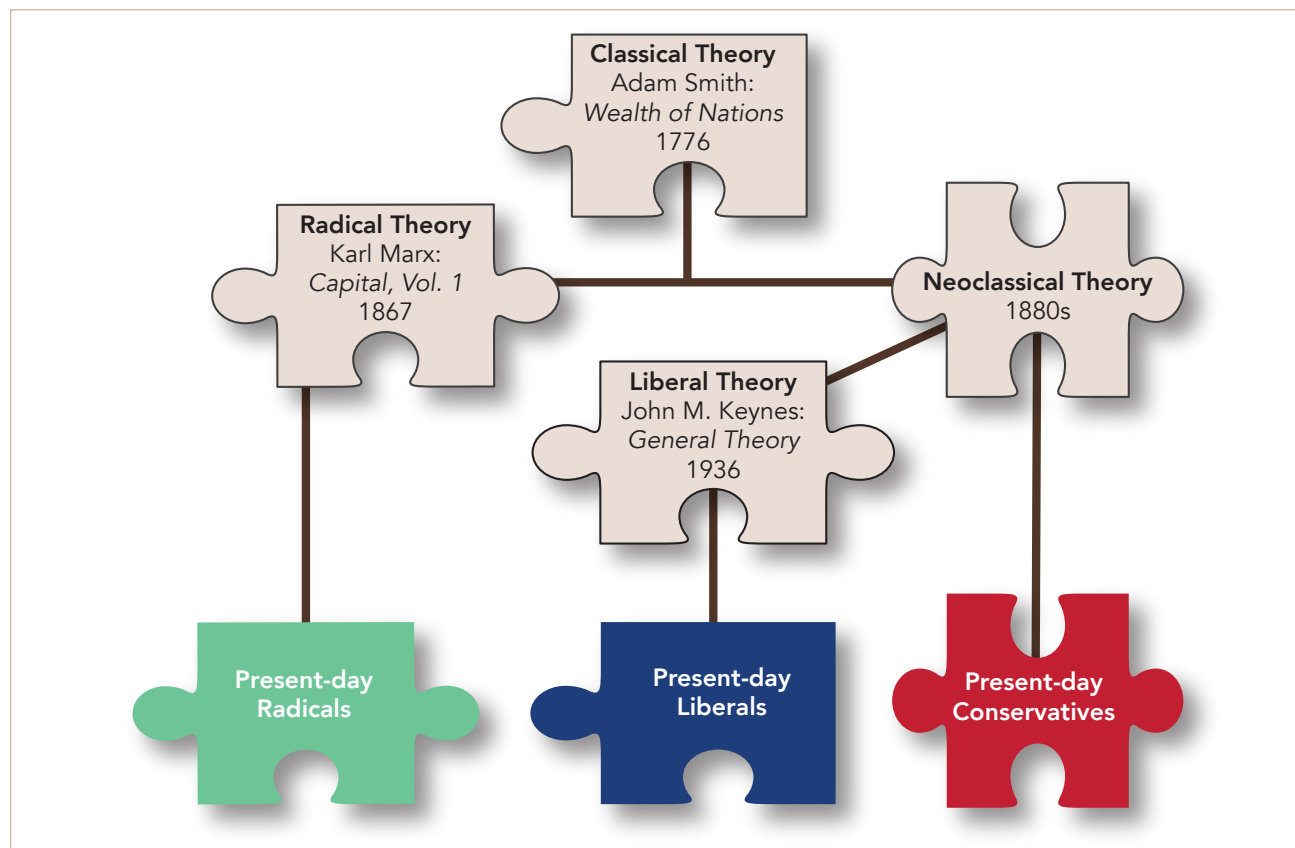


Figure 4.2
The Big Picture of Economic Thought

The debates among conventional economists have been going on since the 1930s. Even though they were diametrically opposed to one another's points of view, some of the leading economists of the past were much more cordial and polite about voicing their disagreements. It was a far cry from the kind of negative rhetoric we hear in our debates today. For instance, in 1951 liberal economist John Kenneth Galbraith wrote to conservative Milton Friedman: "You know, in many ways, how much we enjoyed your visit here last week. This is just my way of adding a personal word of thanks. I hope it won't be too long before we see you here

again. So far as I can tell, also, the students seemed to have suffered no permanent damage. I hope your colleagues perceive no disconcerting change in you. On second thought, I hope they do." Please note the playful and friendly tone. They could disagree but still think well of each other. We've lost this ability these days. The VOTE Program will help get us back to a place where we can acknowledge our differences and use the ideas of our critics and opponents to become better thinkers and better people because of these debates. By the way, while we talk about the big divide in our nation as being between the conservatives and

the liberals, that's not actually the big divide in economics. The big divide is between the people who reject capitalism (radicals) and those who think America is and ought to remain capitalist. Liberals and conservatives land on the same side of that debate.

Now that you have the big picture of modern economics, you'll be able to understand the origins of the debates going on around you about why we should get rid of the Environmental Protection Agency (*laissez-faire!*); or why app developers should own the tech company where they work (*worker ownership!*); or why government should require firms to install safety features in cars (*transparency with accountability!*). Every day, people are debating economics, and I hope you're already starting to tune in to these conver-

sations that are taking place around you. As we start learning about the different issues and what the different perspectives have to say about them, this big picture will help you understand the core differences and figure out where *you* stand and what *you* want to say. The VOTE Program is asking you to decide what country you want to live in. What do you think is the best path forward? Adam Smith, Karl Marx, and John Maynard Keynes are not just three historical figures from some dusty past. Their ideas still influence our conversations today. The name Voices On The Economy (VOTE) has a double meaning. You can hear the voices of the great economic thinkers who have come before you, and you can use their voices to help you find your own. We look back through history so we can find a path forward. ▣



VOTE Perspectives

CONSERVATIVE	RADICAL	LIBERAL
WHO	WHO	WHO
Adam Smith <i>The Wealth of Nations</i>	Karl Marx <i>Capital, Volume 1</i>	John Maynard Keynes <i>The General Theory</i>
WHEN	WHEN	WHEN
18th century	19th century	20th century
WHAT	WHAT	WHAT
Firms are privately owned and guided by price signals (the invisible hand)	Firms are worker-owned and guided by the pressure for good (the invisible synergy)	Firms are privately owned and guided by price signals and government (the helpful hand)
WHY	WHY	WHY
Because when the economy is free from interference, we have the right incentives to create prosperity	Because when the economy values people over profits, we act in everyone's best interest to create prosperity	Because when the economy is stable and equitable, we have the ingenuity and accountability to create prosperity
HOW	HOW	HOW
Embrace free-market capitalism	Embrace democratic socialism	Embrace fair-market capitalism
WHERE	WHERE	WHERE
In a nation with liberty so all can flourish with unfettered opportunities	In a nation with freedom so all can flourish with meaningful opportunities	In a nation with fairness so all can flourish with equal opportunities
THESE IDEAS ARE BROADLY SHARED BY	THESE IDEAS ARE BROADLY SHARED BY	THESE IDEAS ARE BROADLY SHARED BY
republicans • conservatives classical/neoclassical theorists Republican Party • GOP • Tea Party libertarians • right • far right supply-side • Austrian school • Chicago school Right to Work movement • deregulators	democratic socialists • radicals Marxist theorists Green Party • Communist Party socialists • left • far left dependency/world-systems theorists labor rights activists • Occupy movement	democrats • liberals Keynesian theorists Democratic Party progressives • center • center left institutionalist theorists • social economists labor union organizers and members

Chapter 4: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Who is considered to be the “Father of Modern Economics” and which of the following describes his area of inquiry?
 - A. John Maynard Keynes—how government intervention can turn a recession into an expansion
 - B. Karl Marx—how private ownership of resources leads to exploitation of working people
 - C. Adam Smith—how nations become wealthy through private ownership of land, labor, and capital
 - D. Milton Friedman—how a decrease in taxes leads to an increase in economic growth

2. A conservative would say that price signals are incentives for buyers and sellers to act. For example, when people demand more video games, the price goes up and firms start to produce more of them. The result is that in capitalism, firms make what people want. This is technically referred to as
 - A. productive efficiency.
 - B. allocative efficiency.
 - C. distributive efficiency.
 - D. economic efficiency.

3. The mathematical method used by neoclassical theory involves a type of marginal decision making referred to as cost-benefit analysis. Use this type of analysis to identify a correct decision below.
 - A. Eliana owns a food truck. She has decided to close the truck from 2:00 to 3:00 p.m. every day because she makes \$1,200 during that hour while it costs her \$900 to stay open.
 - B. Jo Hsin loves to exercise, but she is indifferent about what kind of exercise. Every day she swims one hour at the local YWCA (she pays \$12 per hour) and her employer gives her a healthy-incentive bonus of \$10 for every hour of exercise. She has decided to keep swimming as her chosen form of exercise because it pays for itself.
 - C. Donald is an excellent student, and he has decided to study for his economics exam and has canceled his night shift as a waiter in a restaurant. He predicts that he would easily make \$150 between wages and tips, but his professor has assured him that an “A” in the class will land him a textbook scholarship for \$200 the following semester.
 - D. Dominic is a deejay at a local club. He has decided to hire an assistant for the night (for \$400), which would allow him to work two rooms instead of one and get paid an extra \$350.

4. Match the dates (left column) to the radical event (right column):

<ol style="list-style-type: none"> A. 1867 B. 1917 C. 2010s D. 1989 	<ol style="list-style-type: none"> i. <i>Capital, Volume I</i> published ii. Modern-day democratic socialism popularized iii. The Russian Revolution iv. Fall of the Berlin Wall leads to widespread condemnation of state-owned capitalism
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5. Joan and Paolo own an accounting firm together. They each earn \$100 per hour. The firm generates \$2,500 of revenue per day, and the total business costs, excluding wages, are \$500. According to radicals, by how much are Joan and Paolo exploited per day, assuming an 8-hour day?
- A. \$900
 - B. \$1,600
 - C. \$400
 - D. \$0
6. All of the following statements are true from a radical perspective. Which one expresses the idea of worker ownership?
- A. Workers have rights to decent pay, safe working conditions, family leave, and overtime pay.
 - B. Workers cooperatively own the businesses in which they work, rather than laboring for others in exchange for a wage.
 - C. Workers ensure that their firms value people and the planet over profit.
 - D. Workers allocate some of their resources to help meet the basic human needs of everyone in society.
7. Liberal theory as described by John Maynard Keynes can be identified by which of the following statements? Choose all that apply.
- A. Capitalism guided by the helpful hand of government gives us the ideal mix of material comfort, opportunity, innovation, and growth.
 - B. The most important things to defend in our economy are profits, private property, and business interests.
 - C. The best way to meet the needs of the majority of people is to reject private ownership in capitalism and replace it with cooperative ownership in democratic socialism.
 - D. Allowing firms and consumers to respond to price signals no matter what the situation is the best way to bring about our collective economic well-being.
8. Match the liberal government roles (left column) to their definitions (right column):
- | | |
|-------------------|---|
| A. Transparency | i. Firms are responsible for their actions. |
| B. Accountability | ii. Firms disclose information so that oversight is possible. |
| C. Stability | iii. There is constant, steady growth in the economy. |
| D. Equity | iv. Everyone has what they need to succeed. |
9. Choose all the answers below that are associated with the liberal perspective.
- A. Keynes, Galbraith, Franklin D. Roosevelt
 - B. Marx, Friedman, Ronald Reagan
 - C. Progressives, interventionists, center leftists, democrats
 - D. Libertarian, socialist, Austrian school, republican

10. Which of the following are roles of government that radicals, liberals, and conservatives all agree are essential?

- A.** National security, accountability, and equity
- B.** Infrastructure, property protection, and national security
- C.** Universal benefits, stability, and property protection
- D.** Manage public ownership, infrastructure, and equity

Answers

1. C 2. B 3. C 4. A – i, B – iii, C – ii, D – iv 5. D 6. B 7. A 8. A – ii, B – i, C – iii, D – iv 9. A & C 10. B

Chapter 4: Key Terms

Accountability

Agrarian

Allocative efficiency

Animal spirits

Capitalism

Capitalist competition

Capitalists

Classical theory

Communism

Coordination among
competitors

Cost-benefit analysis

Democratic socialism

Distributive efficiency

Enlightened self-interest

Equality

Equity

Fair market

Free market

Helpful hand of government

Incentives

Invisible hand

Keynesian

Laissez-faire

Marginal analysis

Mercantilism

Neoclassical theory

Price signals

Productive efficiency

Self-interest

Specialize

Stability

State capitalism

Supply-side economics

Surplus

Transparency

Wage laborer

Workplace exploitation

Workplace justice

Answer Key to Exercise 4.1

Quote 1: Radical perspective • **Quote 2:** Conservative perspective • **Quote 3:** Radical perspective

Quote 4: Liberal perspective • **Quote 5:** Conservative perspective • **Quote 6:** Liberal perspective



5 Conventional Theory: Conservatives and Liberals

Tatyana McFadden was born in the Soviet Union in 1989. She came into the world with a congenital condition called spina bifida, which left her without the use of her legs. “My mother, like many people in Russia at that time, couldn’t afford to care for me properly,” McFadden writes in her autobiography *Ya Sama!* The newborn was placed in a government hospital, where doctors expected her to die within a few weeks. When it looked like she would survive, she was transferred to a state-run orphanage. There, McFadden lay in a crib all day, in a room with a dozen other children. She described how she eventually learned to climb out of her crib and scoot around on her hands, dragging her twisted legs behind her. There were no wheelchairs in the orphanage. She writes that living conditions were harsh. Showers were hose-downs with cold water. Her clothes were ill-fitting castoffs. Meals consisted of porridge for breakfast and thin soups with bits of boiled vegetables for lunch and dinner.

She never left the orphanage for field trips or outings or to play in a park. “There were no books to read,” writes McFadden, “no television to watch, no Internet to explore. There was no one to teach me, no one to read to me. My days had no names; my hours had no numbers.”

At the age of six, McFadden was adopted by an American family and brought to the United States. For the first time in her life she had proper nutrition, education, and medical care—including surgeries to straighten her legs. She

also got her first wheelchair, and her parents enrolled her in sports programs, which is where McFadden discovered her love of racing. With all these new experiences and resources, and with hard work and determination, she became the fastest female wheelchair racer in the world. A Paralympian champion since age fifteen, she dominated in sprints and middle-distance and marathon racing, setting world records. For many consecutive years she won the Boston, London, New York, and Chicago



REUTERS / Danny Moloshok - stock.adobe.com

marathons, which no one before her had ever done. Her picture was featured on millions of cans of Coca-Cola, on McDonald's cups, and on banners lining the streets of London and Rio de Janeiro. She's shared the red carpet with princes, rock stars, sports icons, and politicians. After she graduated from college, she went on to earn a graduate degree in education. She tells her story to inspire people of all ages and abilities.

Liberals and conservatives say we could fill volumes with stories of people like McFadden, who found opportunities in the United States. They say that with the same kind of passion and perseverance, anyone can realize the American Dream of a good job, nice things, a home, and opportunities for upward mobility. Both conservatives and liberals believe the United States is the promised land of opportunity because of capitalism. They say that it's capitalism that creates the levels of

prosperity that make it possible for all of us to realize our potential.

Some people mistakenly think that since they don't believe owning sports cars or expensive watches or designer clothes is what gives meaning to their lives, the conversation about capitalism isn't relevant to them. Please understand that materialism *isn't* capitalism. The promise of maximum economic well-being that Adam Smith wrote about in *The Wealth of Nations* isn't about amassing private helicopters and yachts, say liberals and conservatives. It's about creating the prosperity that allows us to thrive and live meaningful lives so we can achieve our full potential. They say capitalism makes it possible for us to have coats to keep us warm in winter, a decent place to live, good-quality health care, food on the table, education, wedding celebrations, and vacations—and yes, for some, private helicopters and yachts, as well.



Building Conventional Theory

Conservatives and liberals share the same theoretical framework (way of analyzing economics), which is called **conventional theory**. It's also sometimes called mainstream theory, because in the United States it's the most popular way of thinking about capitalism.

In chapter 3 we demonstrated how to build theory-plus (**a milk chocolate piece**). In this chapter we'll build conventional theory to discover how conservatives and liberals answer the what, how, and for-whom questions of economics. A theory is built with three components: assumptions, models, and conclusions. Then, from the conclusions, policy recommendations emerge. Liberals and conservatives *agree* on the assumptions, models, and conclusions. However, they *disagree* when it comes to policy. After we build

conventional theory, we'll discuss their different policy ideas. We build radical theory in chapter 6. It needs its own chapter because radicals do *not* agree with the assumptions, models, or conclusions of conventional theory. We're going to learn how to build the theories of these three major economic perspectives because, in order to think critically about the liberal, radical, and conservative views on the issues covered in the VOTE Program, you'll need to know the basis of their policy recommendations.



Assumptions

Assumptions are statements that the builders of a theory believe don't have to be proven because they see them as self-evident "givens." Conventional theory starts with the assumption of **scarcity**, which is to say that resources are not limitless. For example, our country only has a certain amount of fresh water and a certain number of electricians and tractors. There are limits to our land (anything that comes naturally from the Earth), labor (human exertion), and capital (equipment). Because all input resources are limited, outputs (goods and services) are limited. Conventional theorists say this assumption makes logical sense because if all the land downtown is already in use for other purposes, we can't make more land to put up another apartment building. We can't make unlimited oil changes, chocolate bars, mattresses, rock concerts, pharmaceuticals, or anything else, because eventually we'll run out of resources to produce those things.

The second assumption is that individuals maximize their happiness by seeking to acquire more goods and services and that we each have the ability to make the best decisions about what will bring us the most happiness because we are rational (logical) beings. For example, if someone asks you if you would like one chocolate bar or two chocolate bars, conventional theorists say you'll choose two because you are self-interested and you know that more chocolate is better than less chocolate. A rational person will choose to get more of the things that create happiness. This is going to be true whether we're talking about more candy bars or vacations, if those are things that make you happy. It's also true about giving more donations to the local food bank, if that's what makes you happy.

The third assumption is that firms maximize profit by transforming resources into products that people want, using **technology** to do so. Technology refers to know-how—the best way to

put capital, land, and labor together to produce something in a way that uses the fewest resources to make the most stuff. In popular usage, *technology* has come to mean machines such as computers and other electronics, and that's because machines generally help us use fewer resources when we make products. Conventional theorists say firms use technology because they are made up of people acting rationally to maximize their profit.

By the way, if you've ever taken another economics course, you may have learned that the definition of economics is "the study of scarcity in a world of unlimited wants." We don't use that definition of economics in the VOTE Program because these assumptions of scarcity and unlimited wants are not shared by radical theorists.

Model

It's time to build a model, which is simply a representation of the assumptions. We'll use words to start describing the model, and later we'll switch over to graphs.

The first assumption—scarcity—is about the natural world. We'll actually save that discussion for later in the book when we address macro-economic issues. For now, let's model the second assumption (individuals act in their self-interest to maximize their happiness) and the third assumption (firms act in their self-interest to maximize their profit). Notice that the driving force behind these latter two assumptions is self-interest. According to conventional theory, it is human nature to be self-interested no matter what the economic system.

Remember markets? These are real or virtual places where demanders meet suppliers, and as a result prices and quantities are determined. In a market for a final product, individuals are the demanders, and firms are the suppliers. Markets are the building blocks of the economy. There are two actors: demanders and suppliers.

Demanders are those who want to buy. You've been a demander all your life. Sometimes you're called a consumer, household, individual, or buyer. **Suppliers** offer something for sale. They are also called producers, vendors, firms, or sellers. Please note that when we talk about the video game market, or the chocolate bar market, or the pedicure market, we're not looking at a single company that supplies those goods and services; we're looking at *all* the firms that supply video games or chocolate bars or pedicures—and all the demanders of those goods and services.

When suppliers and demanders meet in a market, demanders will try to buy at a low price since the lower the price, the more they can afford to buy, which maximizes their happiness. Suppliers will try to sell at a high price because the higher the price, the more money they will make, thereby maximizing their profit.

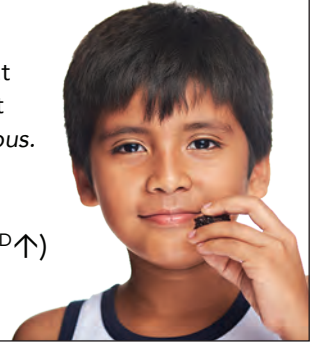
The Law of Demand

What is the most important determinant for whether someone buys something or sells something? Price! That's what conventional theorists say. When the price is right, we're willing to act, and that price also influences the quantity (amount) we'll buy or sell. How much would you pay for a chocolate bar? Forty cents? Fifty cents? A dollar? **Quantity demanded** is the number of units of chocolate bars people will demand at any given price. When price changes, the quantity demanded changes. To state the obvious, when the price of chocolate bars is high, people buy fewer. When the price is low, people buy more. This reflects the assumption of individuals maximizing their happiness, and conventional theorists call it the **law of demand**. Here's how you would write it in symbols: $P \uparrow \rightarrow Q^D \downarrow$ (when price goes up, quantity demanded goes down). The opposite is also true: $P \downarrow \rightarrow Q^D \uparrow$ (when price goes

The Law of Demand

Individuals demand less at higher prices and more at lower prices, *ceteris paribus*.

$(P \uparrow \rightarrow Q^D \downarrow; P \downarrow \rightarrow Q^D \uparrow)$



down, quantity demanded goes up).

Ceteris Paribus

Hold on a minute. It isn't only price that determines if we'll buy more or less, according to conventional theory. There are all sorts of other things going on in the economy that affect markets. There might be a new cure for diabetes, so people who previously avoided chocolate bars are now rushing to the store to stock up on them. Or there might be a new report that says eating chocolate bars increases intelligence, and now parents everywhere are forcing their children to eat chocolate bars day and night. In other words, many things influence a demander's decision to buy or not buy chocolate bars. Conventional theorists know that it's simply not possible to simultaneously factor in everything that's happening in the market. So for the purposes of describing the law of demand, they assume nothing else is changing besides the price and quantity demanded. They use the term ***ceteris paribus***, which is a Latin term that means "with all other factors or conditions remaining the same." The law of demand says, "When price goes up, quantity demanded goes down, *ceteris paribus*." When we read *ceteris paribus*, it tells us that the law of demand isn't factoring in a cure for diabetes or studies about chocolate bars and intelligence.


The Law of Supply

Now imagine that you're a supplier. That might be harder to imagine because we're mostly demanders. But pretend you own a chocolate bar factory. At what price would you sell your chocolate bars? A dollar? Fifty cents? Forty cents? **Quantity supplied** is the number of units of chocolate bars you would supply at any given price. Typically, when the price of chocolate bars is high, you would supply more; when the price is low, you would supply fewer. The **law of supply** says, "When price goes up, quantity supplied goes up; when price goes down, quantity supplied goes down, *ceteris paribus*." In symbols it looks like this: $P \uparrow \rightarrow Q^S \uparrow$ or $P \downarrow \rightarrow Q^S \downarrow$.

The Law of Supply

Firms supply more at higher prices and less at lower prices, *ceteris paribus*.

$(P \uparrow \rightarrow Q^S \uparrow; P \downarrow \rightarrow Q^S \downarrow)$



Joining Demand and Supply

So here's how it works: on their own, suppliers and demanders are stuck. How will demanders get what they need? How will suppliers sell their goods and services? It's when we bring them together—when demand meets supply—that markets emerge and prices are determined. For conservatives and liberals, this is where the magic happens. When demand and supply come together and prices are determined, they signal demanders and suppliers to spring into action. Demanders buy more or less depending on price, and suppliers sell more or less depending on price. Because of price signals, say conventional theorists, markets work to bring us

what we want and need, and suppliers produce them in the right quantities. And this is thought to happen without anyone planning it or managing it—as if guided by an invisible hand.

Let's take a closer look at how prices are determined. In table 5.1 you can see some made-up numbers about chocolate bars that reflect the law of supply and the law of demand. When chocolate bars cost \$1.00, quantity supplied (Q^S) is six hundred units. When the price goes down to \$0.60, Q^S goes down to four hundred units. That reflects the law of supply—the quantity supplied will fall when price goes down. In other words, suppliers will supply less when the price goes down. What happens to quantity demanded (Q^D)? At the price of \$1.00, Q^D is two hundred units. When the price goes down to \$0.60, quantity demanded increases to four hundred units, which reflects the law of demand. Quantity demanded increases when prices go down. In other words, people will demand more chocolate bars when the price is lower. Can you see what's happening? Conventional theorists say, "When price does this, quantity does that." In other words, price happens first and drives the quantity change. They call price the *independent variable* and quantity the *dependent variable*. Quantity changes when price changes. Price goes first. Just keep that in mind.

Price	Quantity Supplied	Quantity Demanded	Surplus or Shortage
\$1.00	600	200	Surplus: $Q^S > Q^D$ and $P \downarrow$
\$0.80	500	300	Surplus: $Q^S > Q^D$ and $P \downarrow$
\$0.60	400	400	Equilibrium: $Q^S = Q^D$, no $P \Delta$
\$0.40	300	500	Shortage: $Q^D > Q^S$ and $P \uparrow$
\$0.20	200	600	Shortage: $Q^D > Q^S$ and $P \uparrow$

Table 5.1
Demand and Supply Schedule

Equilibrium

There's something else really important to notice in table 5.1. Do you see what happens when chocolate bars are at \$0.60? Quantity supplied is *equal* to quantity demanded. Conventional theorists call this significant moment **equilibrium**. Adam Smith assured us that the invisible hand guarantees that firms will supply the things we want and will supply the right amount of them so that everyone who chooses can get them. Equilibrium is the reason. Assuming *ceteris paribus*, there is no reason for price to change when it's at equilibrium, because everyone who wants the chocolate bars at that price can have the chocolate bars, and firms will supply exactly the right number of chocolate bars. At equilibrium, price is stable because there is no unmet demand or unsold supply.

Surplus and Shortage

There are two more things to notice in our example in table 5.1 (still assuming *ceteris paribus*). When the price of chocolate bars is \$1.00, firms will supply six hundred chocolate bars, and individuals will demand two hundred chocolate bars. That means firms will have four hundred extra chocolate bars. This is called a **surplus**. (But please note that this word is used differently from how we used it in chapter 4 when we were discussing radical theory. Here we mean surplus to be when there is more supply than there is demand for a product.) At any price above equilibrium there will be a surplus, but conventional theorists say the surplus will be temporary because of price signals. Think of the day after Valentine's Day, when candy makers are stuck with heart-shaped boxes of candy that nobody wants because the holiday is over, and everyone has a chocolate hangover from eating too many truffles. Candy makers will drop their prices, and bargain hunters will be willing to buy that candy



at the lower price, and the market for Valentine's Day candy will return to equilibrium.

The opposite is called a **shortage**. At \$0.20, for example, firms will supply two hundred chocolate bars, and individuals will demand six hundred chocolate bars. That means there aren't enough chocolate bars for all the people who want them. Quantity supplied is less than quantity demanded, so price goes up. Think of the day *before* Valentine's Day, when you and all the other procrastinators rush into the store to buy last-minute roses because you don't want to disappoint your beloved. But you discover there are only a few scraggly ones left—not enough to go around. Now there is a shortage. Florists will raise their prices because procrastinators will be willing to pay more. The market will once again find equilibrium. Conventional theory says that whether there's a surplus or a shortage, equilibrium is like a magnet, pulling the market back to the point where quantity supplied equals quantity demanded. They say that in the market there's never a problem of having too many or too few things, because prices will automatically adjust people's incentives to supply and demand, which will always bring the market back to equilibrium.

In a well-functioning economy, no one wants a surplus or a shortage, and the great news is we don't have to have either, say conservatives and liberals. You don't have to wake up in the middle of the night and worry if the convenience store will have coffee tomorrow. If there's a surplus or a shortage, price signals will automatically bring the market back to equilibrium, *ceteris paribus*.

The Joy of Graphing

Okay, “joy” may be an overstatement, but I hope you'll come to appreciate the elegance of graphs. Think of them as tools that allow you to create fast summaries of large tables of information. Graphs are the language of conventional theory. In case this is intimidating, just think of

it as a picture of something—like when a friend texts you emojis to communicate without words that she needs caffeine and misses her cat. You already may be comfortable with graphing, but if you aren't yet, please don't worry; it won't take you long to catch on. With a little practice, you'll be able to read a graph and understand the gist of what it represents with almost as much ease as you can interpret your friend's text messages. Once we get into the issues chapters, you'll need your graph-reading skills to understand how conservative and liberal economists view economic issues.

Conventional theorists understand that the world is a very complex system, with countless factors at play that affect the economy—human psychology, history, biology, weather, family dynamics, demographics, technology, and much more. A model only depicts a tiny slice of this complexity. Imagine you want to drive to the beach. You punch the address into your Maps app and wait for it to find the fastest route. Imagine what the trip would be like if your app also referenced every tree, shrub, and flower along the way. That information would be accurate



but not relevant to you. In fact, you would be so tangled up in all the botanical details that by the time you made it to the beach—if you ever actually arrived—you would have missed the best waves for surfing. Conventional theorists say models don't need to show every possible piece of information about the economy; they just need to focus on the relevant aspects of the problems we want to solve. Graphs are versatile tools for conventional theorists. They can be simple, or they can show multiple variables, and they can be multidimensional (although in this book we're only using two-dimensional graphs). The bottom line? Graphs allow conventional theorists to cut through all the noise and help economists understand how markets—and the economy as a whole—change so that they can find solutions.

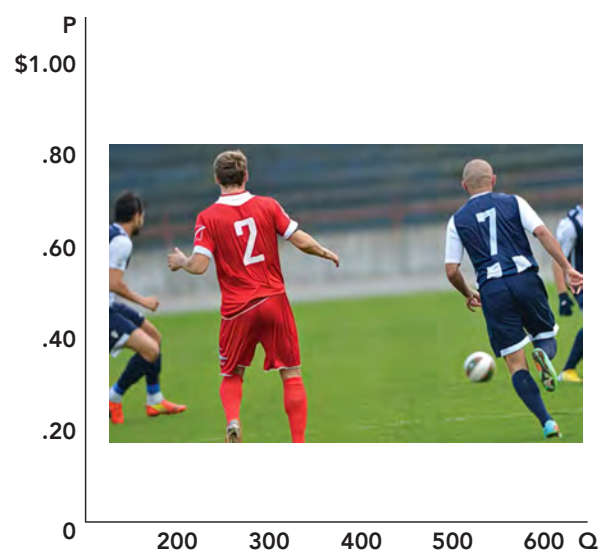
A basic market graph delivers a quick snapshot of the relationship between two variables—price and quantity. When price changes, quantity also changes. (Remember, changes in price come first.) You can draw graphs to model the electric car market, the flower market, the coconut market, the acupuncture market, and any other market. We're going to draw a graph of the chocolate bar market using the numbers from table 5.1. Our graph will simply compress all the information into one picture that's easy to see. Please note that we're using made-up numbers. This is simply an exercise to reflect the law of supply and law of demand in our model of the second and third assumptions of conventional theory.

By the way, if you're a mathematician, then please be warned that the way economists draw graphs might give you a headache. That's because they place the independent variable (price, or P) on the vertical line (y -axis) and the dependent variable (quantity, or Q) on the horizontal line (x -axis). I know what you're going to say: "That's wrong!" In standard mathematics it's the opposite—the independent variable is always on the x -axis and the dependent variable is always on the y -axis. I have

no idea why economists started doing it this way, but I advise you to just roll with it.

Let's draw the chocolate bar market graph. Begin by making a horizontal line for the bottom of your graph. Label it Q for *quantity*, meaning how many chocolate bars. You can jot in the numbers from left to right, beginning with zero (also called the *origin*) and going up to six hundred in increments of one hundred. The numbers get bigger as you move toward the right. The vertical line goes on the left side. Label it P for *price*. Jot in the prices, beginning with zero (the origin point) on the bottom, up to \$1.00, in increments of \$0.20. The numbers get bigger as you move up. Don't forget to give your graph a name. Ours will be "Chocolate Bar Market."

Now you're going to plot the points on your graph. Think of them as players on two soccer teams: supply, represented by an S, and demand, represented by a D. To figure out where Team S and Team D players need to take their positions on your graph, check out table 5.1. (If you already know how to do this, you can skim this paragraph.) Let's begin with supply. When the price (P) of chocolate bars is \$1.00, quantity supplied (Q^s) is six hundred. Put one of your players



(represented by a dot) in that position on your graph. When the price is \$0.80, quantity supplied is five hundred. Put a dot in that spot, and so on. When you fill in all the dots, connect them to make a line, and label it *S*. Team S is all set up on the field now, and you have just succeeded in creating the **supply curve**. (Even if it looks like a straight line, it is referred to as a *curve*.) While you're admiring your supply curve on the left in figure 5.1, notice how when price goes up, quantity supplied goes up. This is called a positive relationship and the curve is said to have a *positive slope*. These are terms you need to know

because conventional theorists use them as shorthand to describe their graphs.

Now plot the points for demand, and label the line connecting all the dots *D*. This is the **demand curve**, on the right in figure 5.1. If you did it correctly, when the price (*P*) is \$0.20, quantity demanded (Q^D) is six hundred, and when price is \$0.40, quantity demanded is five hundred. Now, while you admire your fabulous demand curve, notice that when price goes down, quantity demanded goes up. This is called an inverse relationship and the curve is said to have a *negative slope*.

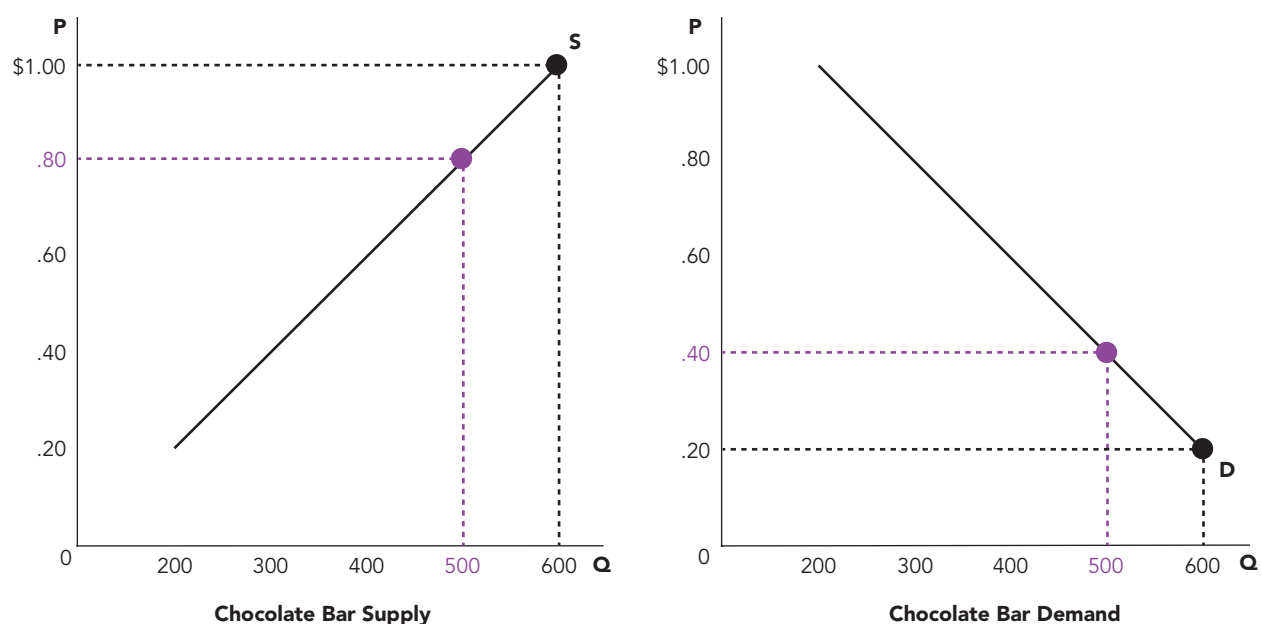


Figure 5.1
Supply Curve and Demand Curve

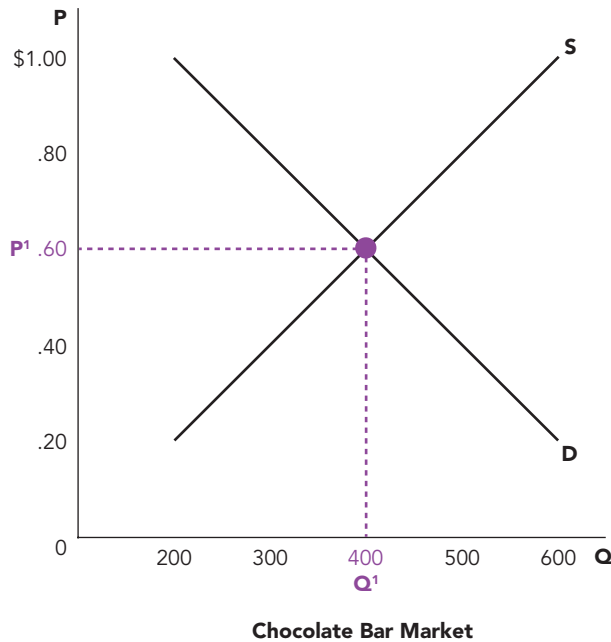


Figure 5.2
Market Graph: Equilibrium

Here's where it gets interesting: check out what happens at \$.60 when we bring together supply and demand (as shown in figure 5.2). Do you see where Team Supply and Team Demand intersect? That point is equilibrium. You can see the dot in the center. This is literally and figuratively the goal for liberals and conservatives. Equilibrium is represented by the price at which the quantity of chocolate bars supplied equals the quantity of chocolate bars demanded. As we discussed, this is a remarkable moment for conventional theorists. They say there is neither a shortage nor a surplus of chocolate bars at equilibrium. In our example, the chocolate bar market is in equilibrium at \$.60, when four hundred chocolate bars are supplied and four hundred chocolate bars are demanded. Congratulations! You have just created a model of a market using conventional theory.

How to Read Shortages and Surpluses

You can see in figure 5.2 that at points below equilibrium (prices below \$.60), the quantity supplied is much less than the quantity demanded, which tells you there's a shortage. And you can see that at points above equilibrium (prices above \$.60), the quantity supplied is greater than the quantity demanded, which tells you there's a surplus. People often become confused about how to read a surplus and a shortage on the graph. Check out figure 5.3. Look at a price above equilibrium—let's say \$.80—and follow it horizontally across the graph. You'll first cross the demand curve, and that point is the quantity demanded ($Q^D = 300$) at \$.80. If you keep traveling to the right, you'll next cross the supply curve, and that point is the quantity supplied ($Q^S = 500$) at \$.80. When quantity supplied is greater than quantity demanded ($Q^S > Q^D$), as it is at all prices above equilibrium, there is a surplus. When there's a surplus, prices tend to come down. When prices start coming down, firms become less willing to supply and consumers become more willing to demand. Eventually, they meet at equilibrium (four hundred bars at \$.60).

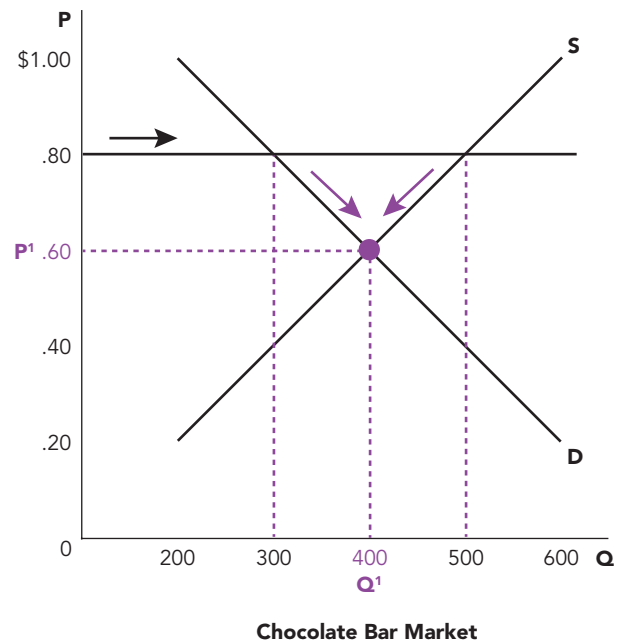


Figure 5.3
Market Graph: Self-Adjusting

Although it's not pointed out on the graph, the opposite happens if you're at prices below equilibrium. When quantity supplied is less than quantity demanded ($Q^S < Q^D$), there is a shortage. When there's a shortage, prices tend to go up. When prices start to go up, firms are more willing to supply and consumers are less willing to demand, until we end up back at equilibrium. And that's why—separate from any outside influence—there can never be a permanent shortage or surplus in capitalism, say conventional economists. Prices and quantities will always return to equilibrium. Just meditate on this for a moment: in the conventional theory model of markets, over time there will *never* be overproduction or underproduction of anything.

Why Do Prices Ever Change?

We've just finished saying that prices will always tend toward equilibrium and be stable there, but that doesn't make sense. In the real world, prices change all the time. When we originally drew the chocolate bar market graph, we assumed *ceteris*

paribus—that the only thing affecting quantity was a change in price. In reality, according to conventional theory, there are a number of external factors that can influence price. We're going to identify and use twelve factors to see how they influence markets at any given time. By the way, we'll talk about external factors as if they only occur one at a time, but please keep in mind that in the real world, a lot of things can change at once.

So how do we model price changes? Up until now, we've been talking about points on the curve and calling them quantity supplied and quantity demanded. When the price changes we **move along** the supply and demand curves to new points of quantity supplied or quantity demanded. But if something else changes—one of the twelve external factors we're about to discuss—it won't just change a point on the curve; it will change the entire curve so that the level of demand or supply increases or decreases *at every price level*. In other words, a change in demand or a change in supply is a **shift** of the whole curve to the left or to the right. You draw a brand-new curve on

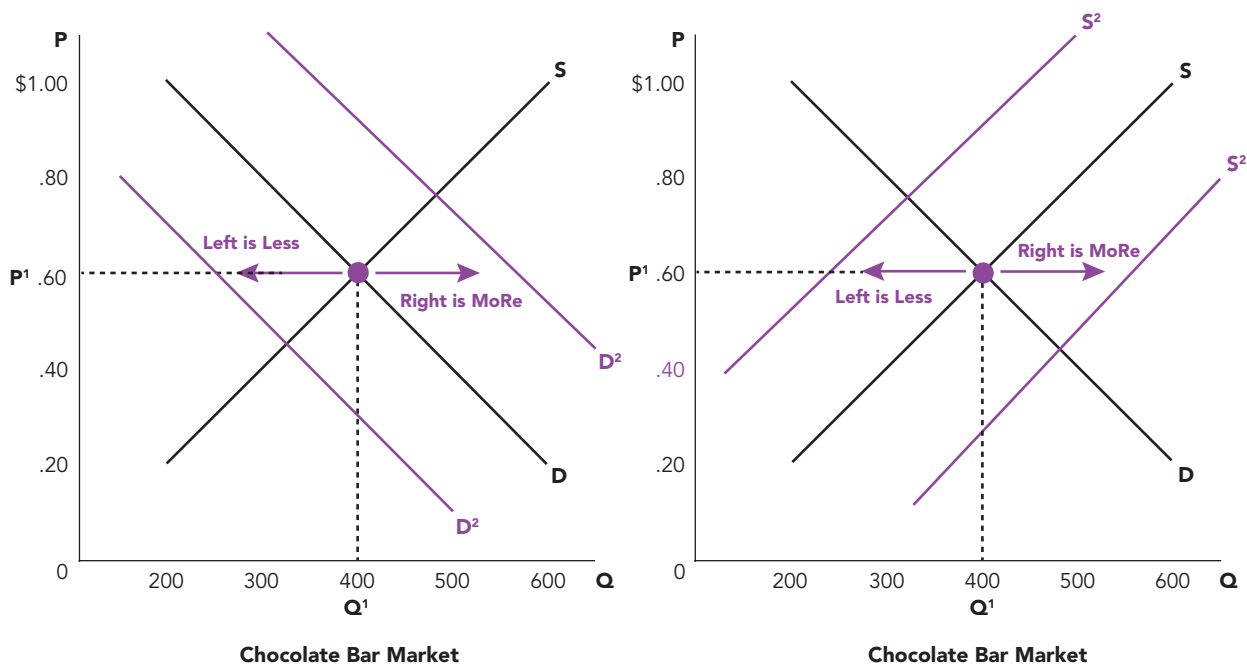


Figure 5.4
Shifting Demand and Supply Curves

the graph and label it D^2 or S^2 to represent the new change. When the demand curve shifts to the left, the quantity decreases at every price level; when it shifts to the right, the quantity increases at every price level. Just remember **Left is Less, Right is moRe**. The graphs are getting busy in figure 5.4. But here's the good news: you'll be able to find the new equilibrium easily, and since you already know the relationships between price and quantity for both supply and demand, you can leave off the numbers on the axes.

Six Factors That Shift the Demand Curve

Imagine you're walking down the aisle at the grocery store, hunting for a snack. Chocolate bars are on sale. A lower price is definitely an incentive to buy. You jingle the change in your pocket and wonder, "What other things besides price might influence my decision about what snack to buy?" If you're a conventional theorist, you would ask it this way: "What are the factors that shift demand?" Let's look at six external factors that shift the demand curve to the right or to the left, changing people's decisions about what snack to buy at every price. For each example, please note that the opposite would shift the demand curve the other way.

1. **Income:** When people have more or less money to spend. For example, average wages go up. People have more money, so they demand more chocolate bars. Demand shifts right.
2. **Preference:** When desire for something changes. For instance, a recent study shows that chocolate increases intelligence. Most people would like to be the smartest person in the room, so they demand more chocolate bars. Demand shifts right.
3. **Prices of Complements and Substitutes:** A **complement** is something that goes with a product. A **substitute** is something that can be used instead of the product. For example, ice cream is on sale, and it's a decent substitute for chocolate bars when people crave a sweet treat, so people buy the ice cream and demand fewer chocolate bars. Demand shifts left. They also like milk to complement their chocolate bars—the two just taste perfect together, so when the price of milk goes down, people buy more chocolate bars. Demand shifts right.
4. **Availability/Convenience:** When it's more or less easy for people to get the product (I like to call it the "laziness factor"). For instance, zoning laws change, and convenience stores selling candy pop up on nearly every corner of every neighborhood, so people buy more chocolate bars. Demand shifts right.
5. **Future Expectations of Price, Income, and Preference:** When people anticipate changes and act accordingly. For example, people expect the price of chocolate bars to go up as Halloween approaches, so they stock up on chocolate bars before mid-October. Demand shifts right. Or they expect their salaries to go up, so they buy more chocolate bars today. Demand shifts right. Or they expect that they will want fewer chocolate bars on January 1, when they make their annual New Year's resolutions to eat healthier, so they buy fewer in December. Demand shifts left.
6. **Number of Buyers:** When there are overall more or fewer people who are potential buyers. For instance, a new law requires chocolate bar buyers to be eighteen years old. No one seventeen or younger can buy chocolate bars, so fewer people buy chocolate bars. Demand shifts left.

When you take away *ceteris paribus* and allow demand factors to change, such as the six listed above, you need a new way to represent the relationship between supply and demand on your graph. You do this by shifting your *entire* demand curve to the left or to the right, as shown in figure 5.4.

Six Factors That Shift the Supply Curve

Imagine you own a chocolate bar factory. You're perusing your monthly financial report and wondering about whether to increase or decrease your supply of chocolate bars for reasons other than changes in the market price. Let's look at six external factors that shift the supply curve to the right or to the left, changing how much firms supply. For each example, please note that the opposite would shift the supply curve the other way.

1. **Cost of Inputs:** When firms must spend more or less for the resources to make their products. For instance, a hurricane in the Caribbean drives sugar prices up, so firms supply fewer chocolate bars. Supply shifts left.
2. **Number of Firms:** When there are more or fewer total number of suppliers of a particular product. For instance, accounting fraud and mismanagement drive some chocolate bar firms out of business, so fewer chocolate bars are supplied. Supply shifts left.
3. **Taxes, Subsidies, and Regulations:** When government legislation leads firms to pay more or less. For example, an increase in corporate taxes, a decrease in subsidies for chocolate bars, or an increase in government regulations for safety equipment in chocolate bar factories means fewer chocolate bars are supplied. Supply shifts left.

4. **Prices of Related Goods:** When it's possible for firms to make a different product using the same resources, firms will make the higher-priced product. For instance, chocolate bar factories can use the same labor and equipment to make chocolate-covered pretzels, so when the price of chocolate-covered pretzels is higher than the price of chocolate bars, firms switch production and fewer chocolate bars are supplied. Supply shifts left.

5. **Changes in Technology:** When firms can make more or less output with the same resources because procedures for production become more or less efficient. For example, firms develop a new packaging system that doubles production without costing more, so more chocolate bars are supplied. Supply shifts right.

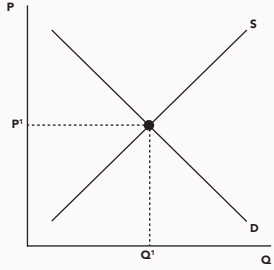
6. **Future Expectations:** When firms anticipate a change in the price of the product. For instance, firms expect the price of chocolate bars to go up around Halloween, so they supply fewer in the months leading up to October. Supply shifts left.

So remember, when you take away *ceteris paribus* and allow supply factors to change, you need to show it on your graph. You do this by shifting the *entire* supply curve to the left or to the right.

Now that you understand what factors shift supply and demand, you can apply this knowledge to analyze market changes. The VOTE Market Change Guide gives you easy steps to follow. Let's take a look at how to use it, and then practice.

VOTE Market Change Guide Instructions

Here is a tool to help you analyze changes in markets from the liberal and conservative perspectives. Have a blank Market Change Guide ready and then follow these instructions to fill it in.

VOTE Market Change Guide																			
<p>A. Read the relevant news article.</p> <p>B. Name a market that is most affected by this news.</p> <p>C. Determine the market change.</p> <p style="margin-left: 20px;">1. Search for the relevant factor.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="text-align: left; padding: 2px;">Demand</th> <th style="text-align: left; padding: 2px;">Supply</th> </tr> </thead> <tbody> <tr> <td style="padding: 2px;"><input type="checkbox"/> Income</td> <td style="padding: 2px;"><input type="checkbox"/> Cost of Inputs</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/> Preference</td> <td style="padding: 2px;"><input type="checkbox"/> Number of Firms</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/> Number of Buyers</td> <td style="padding: 2px;"><input type="checkbox"/> Taxes/Subsidies/Regulations</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/> Availability/Convenience</td> <td style="padding: 2px;"><input type="checkbox"/> Prices of Related Goods</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/> Prices of Comps and Subs</td> <td style="padding: 2px;"><input type="checkbox"/> Changes in Technology</td> </tr> <tr> <td style="padding: 2px;"><input type="checkbox"/> Future Expectations</td> <td style="padding: 2px;"><input type="checkbox"/> Future Expectations</td> </tr> </tbody> </table> <p style="margin-left: 20px;">2. Shift demand or supply curve.</p> <p style="margin-left: 20px;">3. Slide with the price change.</p> <p style="margin-left: 20px;">4. Settle at the new equilibrium.</p>	Demand	Supply	<input type="checkbox"/> Income	<input type="checkbox"/> Cost of Inputs	<input type="checkbox"/> Preference	<input type="checkbox"/> Number of Firms	<input type="checkbox"/> Number of Buyers	<input type="checkbox"/> Taxes/Subsidies/Regulations	<input type="checkbox"/> Availability/Convenience	<input type="checkbox"/> Prices of Related Goods	<input type="checkbox"/> Prices of Comps and Subs	<input type="checkbox"/> Changes in Technology	<input type="checkbox"/> Future Expectations	<input type="checkbox"/> Future Expectations	<div style="text-align: center;">  </div> <p>Market: _____</p> <p>D. Summarize the conservative and liberal views on this market change.</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th style="width: 50%; text-align: center; color: red; padding: 2px;">Conservative</th> <th style="width: 50%; text-align: center; color: blue; padding: 2px;">Liberal</th> </tr> </thead> <tbody> <tr> <td style="height: 100px;"></td> <td style="height: 100px;"></td> </tr> </tbody> </table>	Conservative	Liberal		
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<input type="checkbox"/> Future Expectations	<input type="checkbox"/> Future Expectations																		
Conservative	Liberal																		

A. Read the relevant news article.

B. Name a market that is most affected by this news. Write it on the line below the graph.

Continue to next page

C. Determine the market change. This happens in four steps (you can even think of them as dance steps):

■ **STEP 1: SEARCH** for the relevant factor. Look at the list of twelve factors and check the appropriate box.

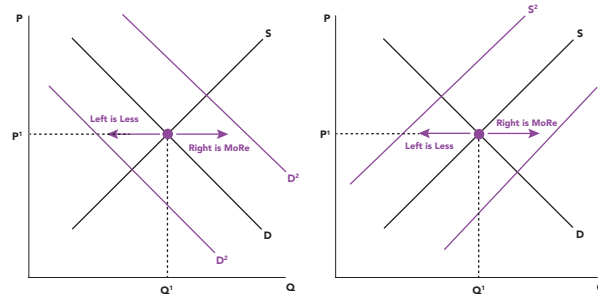
Demand

- ☐ Income
- ☐ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☐ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

■ **STEP 2: SHIFT** the demand or supply curve. If the relevant factor affects demand, then the demand curve shifts either to the right or to the left. If the relevant factor affects supply, then the supply curve shifts either to the right or to the left. To draw the shift, start with a horizontal arrow from the original equilibrium price to the left or right.



■ **STEP 3: SLIDE** with the price change. If, at the original price, quantity supplied (Q^S) is greater than quantity demanded (Q^D), it means the market has a surplus. When there's a surplus, price tends to come down. If, at the original price, quantity demanded (Q^D) is greater than quantity supplied (Q^S), the opposite happens. Use up or down arrows to indicate whether price goes up or down. Here are the two possible answers:

- $Q^S > Q^D$, Surplus, P tends \downarrow
- $Q^D > Q^S$, Shortage, P tends \uparrow

■ **STEP 4: SETTLE** at the new equilibrium. It's the new price where Q^S meets Q^D . Here are the four possible answers:

- New Eq. $P \uparrow$, New Eq. $Q \downarrow$
- New Eq. $P \downarrow$, New Eq. $Q \uparrow$
- New Eq. $P \uparrow$, New Eq. $Q \uparrow$
- New Eq. $P \downarrow$, New Eq. $Q \downarrow$

D. Summarize the liberal and conservative views on this market change.



Here are the possible answers:

- Government interference hurts society.
- Government intervention helps society.

Exercise 5.1: VOTE Market Change Guide

US taking steps to ban junk food from school

THE NEW YORK TIMES

Courtesy of the Arizona Daily Star

WASHINGTON—The Obama administration will begin a drive this week to expel Pepsi, french fries and Snickers bars from the nation's schools in hopes of reducing the number of children who get fat during their school years.

In legislation soon to be introduced, candy and sugary beverages

would be banned, and many schools would be required to offer more nutritious fare.

To that end, Agriculture Secretary Tom Vilsack will deliver a speech today at the National Press Club in which he will insist, according to excerpts provided to the New York Times, that any vending machines

that remain in schools be "filled with nutritious offerings to make the healthy choice the easy choice for our nation's children."

First lady Michelle Obama said last month that she would lead an initiative to reduce childhood obesity, and her involvement "shows the importance all of us place on this issue," Vilsack said.

Use the Market Change Guide to analyze this story from the conventional perspective. For this exercise, assume that the market is for soda. The Answer Key is on the next page, but please don't look until you fill yours out completely.

A. Read the relevant news article.

B. Name a market that is most affected by this news.

C. Determine the market change.

1. Search for the relevant factor.

Demand

- ☐ Income
- ☐ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

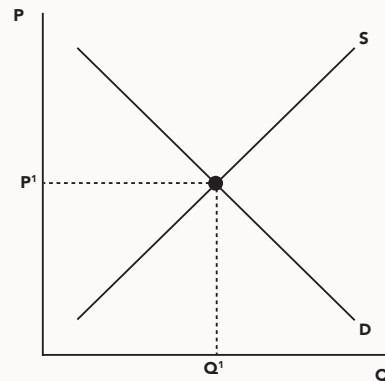
Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☐ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

2. Shift demand or supply curve.

3. Slide with the price change.

4. Settle at the new equilibrium.



Market:

D. Summarize the conservative and liberal views on this market change.

Conservative

Liberal

ANSWER KEY: Exercise 5.1

- A.** Read the relevant news article.
- B.** Name a market that is most affected by this news.
- C.** Determine the market change.
- 1. Search** for the relevant factor.

Demand	Supply
<input type="checkbox"/> Income	<input type="checkbox"/> Cost of Inputs
<input type="checkbox"/> Preference	<input type="checkbox"/> Number of Firms
<input type="checkbox"/> Number of Buyers	<input type="checkbox"/> Taxes/Subsidies/Regulations
<input checked="" type="checkbox"/> Availability/Convenience	<input type="checkbox"/> Prices of Related Goods
<input type="checkbox"/> Prices of Comps and Subs	<input type="checkbox"/> Changes in Technology
<input type="checkbox"/> Future Expectations	<input type="checkbox"/> Future Expectations

- 2. Shift** demand or supply curve.

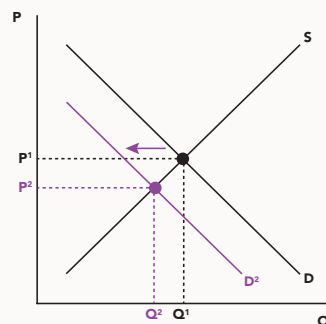
Demand shifts left

- 3. Slide** with the price change.

$Q^S > Q^D$, Surplus, P tends \downarrow

- 4. Settle** at the new equilibrium.

New Eq. $P \downarrow$ | New Eq. $Q \downarrow$



Market: Soda Market

- D.** Summarize the conservative and liberal views on this market change.

Conservative	Liberal
Government interference hurts society.	Government intervention helps society.

Exercise 5.2: Market Change Guide

Please use the Market Change Guide to analyze this story from the conventional perspective. For this exercise, assume that the market is for public transportation. The Answer Key is on the next page, but please don't look until you fill yours out completely.

Union OKs new contract, ending Tucson bus strike

By Becky Pallack

ARIZONA DAILY STAR

The 42-day Tucson bus strike ended Wednesday when drivers, mechanics and other members of Teamsters Local 104 voted to accept a new contract.

The vote was 351-41, an 89 percent approval, said Teamsters Local 104 President Andy Marshall.

Everyone gets a raise under the new contract, he said, but he wouldn't release contract details, saying he didn't want to inflame opinions of people who are angry about the strike.

Professional Transit Management, the contracted operator of the city's Sun Tran bus system, also would not give



Union members try to listen from outside, with standing room only inside, during the voting.

details about the contract.

There were no additional city tax dollars in the deal, which stays within the approved city budget for Sun

Tran, Marshall said. Additional details were not immediately available.

Sun Tran buses will be back to a normal schedule starting

Thursday, Sept. 17. During the strike, the number of buses and bus routes was limited, making for long waits in the heat.

Since the strike began, the Tucson Unified School District has been providing bus service to high school students who rely on Sun Tran to get to class. Though full Sun Tran service is resuming, TUSD will continue to transport those students through the end of the week, said spokeswoman Stefanie Boe.

Courtesy of the Arizona Daily Star

A. Read the relevant news article.

B. Name a market that is most affected by this news.

C. Determine the market change.

1. Search for the relevant factor.

Demand

- ☐ Income
- ☐ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

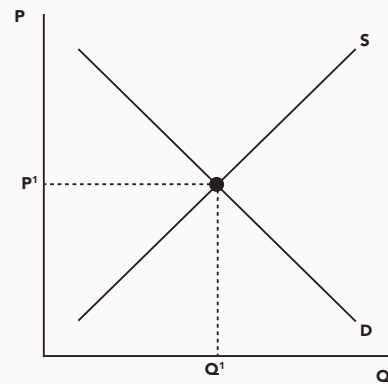
Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☐ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

2. Shift demand or supply curve.

3. Slide with the price change.

4. Settle at the new equilibrium.



Market: _____

D. Summarize the conservative and liberal views on this market change.

Conservative

Liberal

ANSWER KEY: Exercise 5.2

A. Read the relevant news article.

B. Name a market that is most affected by this news.

C. Determine the market change.

1. Search for the relevant factor.

Demand	Supply
<input type="checkbox"/> Income	<input checked="" type="checkbox"/> Cost of Inputs
<input type="checkbox"/> Preference	<input type="checkbox"/> Number of Firms
<input type="checkbox"/> Number of Buyers	<input type="checkbox"/> Taxes/Subsidies/Regulations
<input type="checkbox"/> Availability/Convenience	<input type="checkbox"/> Prices of Related Goods
<input type="checkbox"/> Prices of Comps and Subs	<input type="checkbox"/> Changes in Technology
<input type="checkbox"/> Future Expectations	<input type="checkbox"/> Future Expectations

2. Shift demand or supply curve.

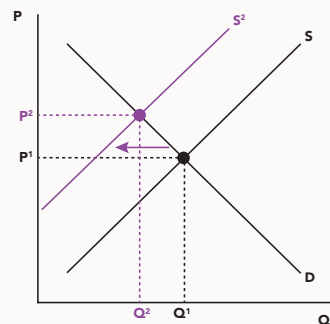
Supply shifts left

3. Slide with the price change.

$Q^D > Q^S$, Shortage, P tends \uparrow

4. Settle at the new equilibrium.

New Eq. $P \uparrow$ | New Eq. $Q \downarrow$



Market: **Public Transportation Market**

D. Summarize the conservative and liberal views on this market change.

Conservative	Liberal
Government interference hurts society.	Government intervention helps society.

Exercise 5.3: Market Change Guide

Please use the Market Change Guide to analyze this story from the conventional perspective. For this exercise, assume that the market is for ice cream. The Answer Key can be found at the end of this chapter.

Western US sees triple-digit temps in early heat wave

By Sally Ho

THE ASSOCIATED PRESS

Courtesy of the Arizona Daily Star

LAS VEGAS—Parts of the Western U.S. are getting an early taste of scorching summer heat, forcing officials in California, Oregon and the desert Southwest states to heed the warnings of dangerous, triple-digit temperatures in the first week of June.

Organizers rescheduled California's state track and

field championship events to start in the evening hours Friday and Saturday. The competition is being held in Clovis in the San Joaquin Valley, where daily highs are expected to top 100 degrees through the weekend, according to the National Weather Service.

Precautions are also in place ahead of Portland's

Rose Festival on Saturday in Oregon, when the mercury is expected to rise to 99 degrees in the city and 103 degrees downstate in Medford.

Marching bands have asked event officials if they can ditch some of the pomp and circumstances by taking off their hats and changing their uniforms during judged

performances to cope with the stifling heat, according to spokesman Rich Jarvis. The popular festival is also renting mist machines and handing out sunscreen around a carnival area on the Willamette River waterfront.

"We're telling people, 'Beware,'" Jarvis said. "It's going to be tough."

A. Read the relevant news article.

B. Name a market that is most affected by this news.

C. Determine the market change.

1. Search for the relevant factor.

Demand

- ☐ Income
- ☐ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

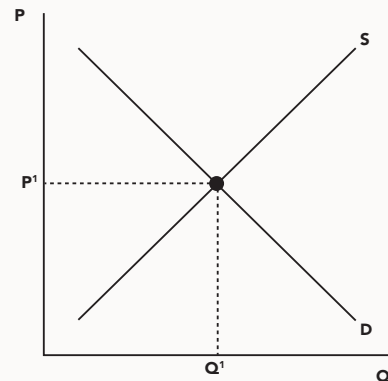
Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☐ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

2. Shift demand or supply curve.

3. Slide with the price change.

4. Settle at the new equilibrium.



Market: _____

D. Summarize the conservative and liberal views on this market change.

Conservative

Liberal

to gain profit, yet their self-interests create the greater good. Deeply impressed, you return to your ship. You can't see the invisible hand, but you can see the effects of this marvelous economic system on this lovely blue-green planet. Where there is capitalism, profit brings prosperity to societies and gives humans what they want and need. As you turn your ship away from Earth, you think to yourself, "What a fantastic idea!"

Conclusions

We just created the market change model of conventional theory. Now let's take a look at the conclusions liberal and conservative economists draw from it. Remember, conclusions are simply the answers to the original questions.

What to Produce?

The model shows that in a market economy, firms make us what we want (allocative efficiency). When demanders want something, demand for it shifts and a higher price results. The higher price signals firms to act in their own self-interest to maximize profit by supplying it in the right quantity. Price signals tell suppliers what to produce because the market economy is guided as if by an invisible hand.

How to Produce?

The model shows that firms make the profit-maximizing amount of goods and services using the fewest possible resources (productive efficiency). To maximize profit, firms won't hire more workers than they need, or buy more delivery trucks than they need, or rent more factory space than they need, because those actions would cut into their profit. Firms won't waste resources, because their self-interest motivates them to maximize their profit. Price signals tell suppliers how to produce because the market economy is guided as if by an invisible hand.

For Whom to Produce?

The model shows that in capitalism, firms' products go to those who most want those products and therefore make choices to be able to get them (distributive efficiency). People have limited budgets, which keep them from getting absolutely everything they want. But in capitalism, when people are unhappy with their budget constraints, they can invest in themselves—by getting more training, for instance—so that they can qualify for jobs that pay a higher wage. More income enables them to satisfy their wants and needs. People follow price signals in the labor market to know which jobs will bring them the income that will afford them the things they want and need. Price signals tell suppliers for whom to produce because the market economy is guided as if by an invisible hand.



Enlightened Self-Interest

Conventional theory says that we flourish as a society because when individuals and firms act out of self-interest, those actions enhance the well-being of all. Adam Smith wrote, “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.” What he meant by “advantages” was profits. Profit is the way we make one another better off, according to liberals and conservatives. As individuals, on our own we can’t possibly make all the things or provide all the services that we want and need. We’re continually depending on others, just as others are constantly relying on us to provide what they want and need. One person creates value (writes a book, builds an app, bakes a cake, walks dogs, cuts hair) and then engages in voluntary exchange with other people. So if you make ovens and other people want and need an oven, they exchange their work as teacher or bricklayer, for example, to earn a wage, which they then trade for the ovens you produce.

You already know this, of course. But conservatives and liberals would urge you to really consider what it means for your life. Consider that there are people all over the world who have no ovens. People in those countries often have to spend their whole day gathering firewood just so they can cook stew over the flames and bake bread in the hot coals. Since you didn’t have to go out and gather wood to make your dinner, you had time to read this book, to start a business, to do volunteer work. Adam Smith said that by acting in our individual self-interest, we end up serving the interests of the whole community—without any intention to do so. That’s what he meant by enlightened self-interest.

The Benefits of the Invisible Hand

- Products we desire
- High standard of living
- Abundance and prosperity
- Incentives and rewards
- Entrepreneurial innovation
- Social mobility
- State-of-the-art advancements
- Business opportunities
- Choice
- Cooperation
- Thriving communities
- Peace and social harmony

Policy

Liberals and conservatives both believe that capitalism is the greatest economic system; they have that in common. But they are like two siblings who grow up in the same house and both love and respect their parents, yet have bitter rivalries about everything else. In fact, there are three siblings in this book: radicals are the third, and we’ll dive into radical theory in chapter 6. All three economic perspectives share the same desire for everyone to flourish in our society, but they have very different visions for how to get there. When it comes to policy—the course of action an individual, group, or government takes based on the conclusions of a theory—conservatives and liberals only agree that it should be pro-capitalism. Beyond that point of agreement, they have very different ideas about which policies will solve our urgent economic problems.

Liberals believe it’s not always best for society to leave it to the invisible hand to bring markets back into balance. They say capitalism works best when government partners with firms to stabilize and stimulate the economy and make competition in the marketplace more equitable. Because business owners have an incentive to act in their



self-interest, liberals say we benefit from having an impartial government that not only provides national security and infrastructure and protects private property, but also ensures transparency with accountability, stability, and equity. For liberals, government intervention is crucial to the success of our economic system because it has the capacity and expertise to do what's in society's best interests. That includes creating social safety nets for those who fall through the cracks, and planning for a secure economic future that ensures the well-being of all.

For liberals, the story of Tatyana McFadden shows how powerful the public-private partnership can be. Without a partnership between government and business, there would have been no accessibility ramps for her wheelchair at the schools she attended, the stores where she shopped, or the airports where she traveled. Without the helpful hand of government, there would have been no wheelchair-accessible bus to pick her up and drop her off at school every

day. It was because of the public-private partnership that McFadden had access to the education, transportation, and health care she needed, say liberals. And it was because of government that McFadden was assured she could attend the university of her choice without being discriminated against based on her disability, so she could have equal opportunities to realize her dreams. They say McFadden was able to realize her potential because of fair-market capitalism.

Conservatives believe it's always best for society to leave markets alone and allow them to self-adjust through price signals and the invisible hand. They say government should have only three roles: protect private property (justice system), build infrastructure (roads and public works), and provide national security. They say the *laissez-faire* approach to capitalism is the most fair and impartial because politicians have the same incentive as anyone else to act in their self-interest, which means that instead of making decisions that serve the public interest, gov-

ernment ends up serving the interests of the groups that finance political campaigns. Conservatives say the better approach to solving problems in capitalism is to leave it up to business owners, who know their own industries and therefore understand better than biased politicians how to solve problems. They say the profit motive will ensure that the owners of firms make the most efficient decisions. And for those in society who fall through the cracks, families, religious institutions, nonprofit organizations, and private and corporate philanthropy create the safety nets that ensure the well-being of all.

For conservatives, the story of Tatyana McFadden shows the power of the free market. Without needing to be told by the government, firms

When it comes to policy, conservatives and liberals only agree that it should be pro-capitalism. Beyond that point of agreement, they have very different ideas on which policies will solve our urgent economic problems.

produced the gym equipment she needed to train and become a champion. Without being told by government, the producers of her racing wheelchairs created state-of-the-art designs that improved the sport for her and many other athletes. Without the government meddling, McFadden was able to secure sponsorships from corporations that provided her with what she needed to realize her dreams. Conservatives say that Tatyana McFadden was helped to realize her potential by free-market capitalism.

This difference in approach to solving problems (with or without government) is the heart of the debate between conservatives and liberals when it comes to economic issues. We'll be examining that debate and those issues, including the radical perspective, in the upcoming chapters.



Conventional Theory: Capitalism

1. ASSUMPTIONS

- i. Scarcity
- ii. Individuals Maximize Happiness
- iii. Firms Maximize Profits

Self-Interest

2. MODEL

- i. Production Possibilities Curve
- ii. Law of Demand
- iii. Law of Supply

Market: Price signals (the invisible hand)

Determinants of Demand

- 1. Income
- 2. Preference
- 3. Number of Buyers
- 4. Availability/Convenience
- 5. Prices of Substitutes and Complements
- 6. Future Expectations

Determinants of Supply

- 1. Cost of Inputs
- 2. Number of Firms
- 3. Taxes, Subsidies, and Regulations
- 4. Prices of Related Goods
- 5. Changes in Technology
- 6. Future Expectations

3. CONCLUSIONS

- I. *What to Produce?*
Firms make what people want.
- II. *How to Produce?*
Firms make the profit-maximizing amount using the fewest resources.
- III. *For Whom to Produce?*
Firms' products go to those who want them most.

Enlightened Self-Interest

Conservative Policy

- a. Embrace free-market capitalism.
- b. Reject government interference.
 - Self-correction



Liberal Policy

- a. Embrace fair-market capitalism.
- b. Support government intervention.
 - Equal opportunity



Conventional Critique of Socialism

In politics today, conservatives (Republicans) and liberals (Democrats) are bitter opponents who constantly shout down each other's economic ideas. Their arguments center on how much government involvement there should be *within capitalism*, but as you just read, they are in perfect agreement that capitalism is the best economic system for creating prosperity. For this reason, they both strongly oppose the radical idea that capitalism should be replaced by democratic socialism. In chapter 6, we'll be taking a closer look at the radical critique of capitalism. Right now let's take a closer look at the conventional critique of socialism.

No Private Ownership

Socialism, be it democratic socialism, market socialism, communalism, or any other form, has at its foundation the communal ownership of property. Sometimes this is also called government ownership, or public ownership, or cooperative ownership. Whatever it's called, say liberals and conservatives, abolishing private ownership and trading it for communal ownership will always result in less productivity and a lower standard of living for everyone. You probably learned in elementary school that in 1620 a group of colonists sailed to the New World on the *Mayflower*

and established a settlement in Plymouth, Massachusetts. Many settlers before them had tried to make a go of it in the New World, but they all failed because of famine and disease. You may have learned that the Pilgrims only survived thanks to the help they received from local Native Americans, who taught the newcomers how to grow corn. You may have learned that the first Thanksgiving was a celebration of the Pilgrims' first bountiful harvest, which signaled a turn in history—European settlers were finally able to survive and go on to build this nation. But this version of the story is not quite right, according



United States public domain

to some conventional economists. They say the Pilgrim settlement almost failed because of the lack of private property rights. This is how they tell the story.

When their settlement was first established, the colonists drafted a document called the Mayflower Compact, which established the rules for the new colony. They agreed that instead of privately owning their own land and growing food on it, they would have a communal farm where everyone worked the fields together. When this was put into practice, however, there were problems. Everyone received the same share of rations from their communal store of supplies, and according to the written accounts by the first governor, this bred resentment because lazy workers received the same amount of resources as hard workers. So what was the point of working hard? There wasn't any—which is why people stopped working in the communally owned fields. The governor of the colony described in his diary how food was left to rot in the fields because no one was willing to go out and harvest it. Even those who had previously shown themselves to be industrious and diligent were unmotivated because of communal ownership. The settlers ate through their store of food and then started to go hungry. Out of desperation the governor allocated separate parcels of land to the colonists to farm. He told them they could keep what they grew to feed themselves and their families. Now highly motivated to work hard because they would reap the rewards, the colonists became industrious. They planted more corn, had healthier harvests, and ultimately flourished. According to this telling of the Pilgrim story, private property was the game changer. From the conventional perspective, this is a cautionary tale. Socialism's ban on private property inevitably leads to poverty for all.

No Profit

The reward system of profit motivates people to be productive, work hard, and innovate, according to conservatives and liberals, and socialism is doomed to fail—and they claim it has failed wherever it has been tried—because when there is no profit motive, there is no incentive to work hard. Here is how they see it: in capitalism people are willing to toil, struggle, take risks, and overcome hardships when they know they will benefit directly from the rewards. In socialism there is no direct reward for going the extra mile, improving one's skills, or coming up with brilliant new ideas because profit is taken by the group and distributed communally. Socialism's rejection of the profit motive kills off the entrepreneurial spirit. Great achievements don't come from government bureaucracies but from individuals pursuing their self-interests. If they aren't going to directly benefit from the profits those innovations bring, then why should they bother? In fact, socialism actually creates a disincentive for people to come up with new inventions and technologies. Workers in socialism have more incentive to protect their job security than to come up with efficiencies that could improve production if the result were to make them less necessary. In every case, say conventional critics, socialism lowers the bar for productivity and returns us to the dark ages.

No Price Signals

Socialism creates the worst scenario for an economy, say liberals and conservatives. Here's their argument: it undermines the very things that leads to the rational distribution of resources, which are price signals. These incredibly complex and elegant mechanisms ensure



REUTERS / Ivan Alvarado - stock.adobe.com

that resources are allocated to their best possible uses, but in socialism the whole system crashes. Suppose government is the only provider of health care (socialized medicine is a common scenario in socialism). It will be the only demander of ambulances, X-ray machines, and bandages. The costs for those resources should reflect how desirable and abundant they are, but when there is only one demander—government—the cost doesn't reflect that at all. As producers, government has no way to determine the ideal quantity to produce. Price signals should guide those kinds of decisions. The end result is that resources are used inefficiently.

There's another problem with not having price signals, say conventional critics. In socialized medicine there is no price for health care or other handouts—they are provided for free. It's not in a market; therefore, people end up overusing it. Without a price signal for health care services, the provider—the socialist government—can't know if it's a good idea to continue offering preventive yoga classes or if it should use that budget for vaccination programs. Prices are vital in a world of scarcity because they direct how society allocates resources so that people can actually get

what they need and want. Prices are the beacons that guide decisions about how to move forward.

There are no substitutes for price signals, say conventional theorists, and socialism fails at its attempts to achieve the same outcomes through **central planning**. Picture a group of people in a conference room somewhere deciding for us what will be produced, how it will be produced, and for whom it will be produced. They say failure is inevitable when any socialist government tries to replace price signals with a planned economy because economic systems are too complex and unpredictable, and all the moving parts are constantly in motion. Socialists may have the best intentions to create prosperity, but micromanagement won't work. There is no rational way any individual, group, or government can make all those countless decisions that are guided organically through price signals and the invisible hand of capitalism, argue conservatives and liberals. Whatever tortured calculation the planning committee in a central office somewhere comes up with will inevitably lead to the wrong allocation of resources, which will give people the wrong combination of products and the wrong quantities of products. For instance, they'll decide to make

stretch polyester shirts instead of the cotton shirts that people actually want. It will lead to shortages and surpluses—warehouses stuffed with boxes of stretch polyester shirts that no one wants, and long lines of people desperate to buy one of the few cotton shirts that were produced.

One reason central planning fails, say conventional theorists, is the **local knowledge problem**—the fact that government planners lack the very specific industry knowledge that private owners have cultivated through training and experience about production. This is not something that a government committee can know. It includes things like the quirks of the particular technology in that industry, the regional transportation delays that can happen, where to find the best tools and materials, the challenges of finding workers with the right skills, the distribution opportunities that are possible during certain seasons of the year, and so forth. A central planning committee can't replicate this local knowledge, say conventional critics, and trying to use it to circumvent price signals threatens our prosperity.

No Hierarchy

Socialist workplaces are often cooperatively owned and run on a democratic basis, with each worker-owner having a vote on decisions about what to produce, how to produce, and for whom to produce. From the conventional perspective, there is good reason to be cautious about using democratic decision-making in firms. If, for example, a firm owned by the workers democratically decides to offer a base wage of \$30 per hour, the business might quickly become unprofitable and uncompetitive if that decision was made in the absence of price-signal feedback. Democratic socialism can actually jeopardize long-term sustainability of firms, they argue. It can become mob rule, and then firms won't make the hard decisions that benefit the company (and society). Further, they say that in cooperatively owned firms there's

a high **transaction cost**—the time it takes to listen to everyone's ideas and feelings about every matter pertaining to the running of the firm. The bottom line for conservatives and liberals is that both mob rule and high transaction costs lead to stagnating businesses and a stagnating economy.

No Competition

When we trade capitalist markets for socialist government control, we end up with mediocre products, no choice, and bureaucratic red tape, say liberals and conservatives. Here's the crux of their argument: suppose there is only one shoe company in your socialist country—communally owned, of course. It makes only one kind of pinchy shoe in a frumpy style with cheap materials. Government-controlled industries can be inefficient and wasteful, can fail to produce what people want, and can overcharge because they have no competition. You need to have shoes to wear, so you'll have to buy the pinchy ones because there are no other options. No competition means there's no incentive to invent more comfortable and stylish shoes. This is true not just about shoes but about everything in society because in socialism the government controls whole sectors of the economy—including health care, housing, transportation, higher education, and so forth. Without competition, we won't get state-of-the-art health care, high-speed trains, or the most energy-efficient housing, but we will get high-priced and low-quality products, say conservatives and liberals. They believe socialism leads to a low standard of living in which everyone is stuck together in the misery of mediocrity and unmet needs.

No Sustainable Democracy

Liberals and conservatives often warn that socialism inevitably erodes democracy and leads to totalitarianism. They offer several reasons this outcome occurs. The first is that socialism's cen-

tral planning takes away individual choice. Even though people can still go to the polls on election day and cast a vote, it's never on the ballot to change the ownership of the sectors that the government controls—the health care system, public utilities, transportation, and so forth. Liberty, choice, and self-determination are traded for more government control, and the end result is less democratic control by the people.

The second reason conservatives and liberals believe that socialism erodes democracy and leads to totalitarianism is that abuse of power is

more likely to occur when control of the economy is in the hands of a few people—even the most well-intentioned people—because there are fewer checks and balances to keep bureaucrats honest. Instead of the government staying out of business (free market) or partnering with business (fair market), socialism empowers the government to run businesses, and so inevitably the government must take on the role of tyrant and enforcer because socialism is a system that demotivates workers. When workers aren't productive, the whole society is on the brink of starvation and

The Dangers of Socialism

according to conventional theory



deprivation, so the only choice left to the government is to step in and force people to work. They may not want to be tyrants, but socialist governments must make sure wealth is generated to keep the whole system going—even if that means terrorizing people to keep them fed.

A third argument raised by conventional theorists is that in a socialist economy there is bound to be less productivity, which means more hunger and deprivation, so it's natural that people will take desperate measures to feed their families. Illegal private markets will form to compete with socialist-controlled markets. The government will have to ban black markets because they are a form of private ownership and those who participate are therefore stealing from the socialist system. The government will have to take on a policing role, interrupting black-market trading and prosecuting people for economic crimes. Critics say that the

outcome of socialism is government coercing people to comply with an economic system they don't actually want.

The fourth argument for why socialism leads to totalitarianism arises from the conventional assumption of the scarcity of resources. Conservatives and liberals say that with private ownership, price emerges from voluntary trade in markets, and price moves people's desires and behaviors to distribute scarce resources in the best ways to meet wants and needs. But socialism forces society to allocate resources toward certain things (housing, health care, transportation, education, and so on), which means those resources aren't available for other things that people might want or need more. Liberals and conservatives say socialism leads to loss of democracy, freedom, and liberty; coercion and violence; and abuse of power.

Economic Well-Being from Different Perspectives

The VOTE Program doesn't advocate for one economic theory over another. Our method is to line up the liberal, radical, and conservative perspectives, side by side, in a balanced and accurate way so you can understand their analyses, evaluate their ideas for yourself, and make up your own mind about what you believe. Then you can use your voice to join the conversation. As we delve into the twelve issues of the VOTE Program, we'll be putting on a mask (metaphorically, of course) and channeling the voices of the conservative, radical, and liberal perspectives for each of the issues to articulate their different ideas for creating economic well-being.

The best way to hear these "voices" is to imagine that you're listening to someone who is a passionate advocate for that perspective. This person really wants you to picture what their ideal world would look like if our country followed their policies for

economic well-being. Try to imagine what their utopian vision would be like. Do you agree with their views? Is that the world you want to live in? Does their analysis of the problem make sense to you? Does their solution make sense to you?

It is through a process of respectful listening, passionate advocacy, and intelligent debate that we will find ways to solve our nation's most entrenched problems. As you go through this process, you might come to believe in your own views even more strongly or see ways for the proponents of the different perspectives to cooperate, compromise, or collaborate on solutions. You might be convinced to change your perspective, or maybe you'll be sparked to come up with brilliant new solutions.

Let's practice listening to the voices of the liberals and conservatives as they describe their visions for economic well-being in the next section.



The Conservative Voice: Free-Market Capitalism

Life, liberty, and the pursuit of happiness are inalienable rights we all cherish. When we create prosperity, we can realize the American Dream because economic well-being is the foundation of a good life. It allows us to flourish and thrive.

What is the best way to create wealth in our nation? The best way is through unfettered capitalism as our economic system, with democracy as our political foundation. The economic system of free markets, resting on strong constitutional protections of private property, gives us all the liberty to realize our highest potential. It unleashes our ability to accumulate the greatest wealth and enjoy the highest standard of living, and it allows us to take care of our most vulnerable populations.

For thousands of years human beings struggled in abject poverty. A select few experienced comfort and material wealth, but the vast majority of people led lives of deprivation. Then we were



given the gift of capitalism. People could own their own land, their own labor, and their own capital. Acting from self-interest, individuals and firms came together in free markets, and that's when the transformation happened: humanity went from the gutter to the skyscraper.

How did we get to the skyscraper? Humans achieved new heights of prosperity through free markets, price signals, and the invisible hand. Acting from self-interest, individuals demanded skyscrapers—and cars, and health care, and entertainment, and everything else we wanted for a good life. Acting in their self-interest, firms responded when the prices for those products went up—by producing more skyscrapers, more cars, more health care, more entertainment, and more of everything else we wanted. When we leave capitalism to its own devices, firms make us what we want, and they do so on their own initiative—not because they are told to do so or out of a sense of altruism. They make what we want because they follow their own motivation to maximize profit. And not only do they make what we want, but they achieve levels of production along the way that our ancestors could never have imagined. Through enlightened self-interest, the free market gives us untold wealth because individual self-interest is beneficial to the greater good. The invisible hand is the force that guides the endless ebb and flow of supply and demand to ensure that we get our needs met. We never have to worry about having enough food or enough housing or enough transportation if we make good decisions in our lives, because the free market delivers everything we want in abundance. When we leave capitalism to its own devices on a foundation of constitutional democracy, the result is perfect equilibrium in every market, to our collective well-being. We can thank capitalism for every meal, every pair of jeans, and every time the lights turn on.

When capitalism is unfettered, all of us are afforded ample opportunities to get exactly what we want, regardless of class, race, age, gender, national origin, sexual orientation, religion, or abil-

ity. Through hard work and personal initiative, we are all able to realize our potential, contribute our genius, support society through our philanthropy, and flourish. Free from government interference in the free market, firms don't discriminate or engage in favoritism or bias, because those behaviors are contrary to the drive to maximize their profit. That means the playing field is level. Everyone has the chance to succeed and prosper. We're fortunate to live in a democracy where we are guaranteed the right to the pursuit of happiness. Only when we leave capitalism alone will it deliver on that promise of freedom because it is inherently efficient, equitable, and responsive. It creates the best possible conditions for us to thrive. When we leave capitalism to its own devices, we realize the American Dream with peace and social harmony.



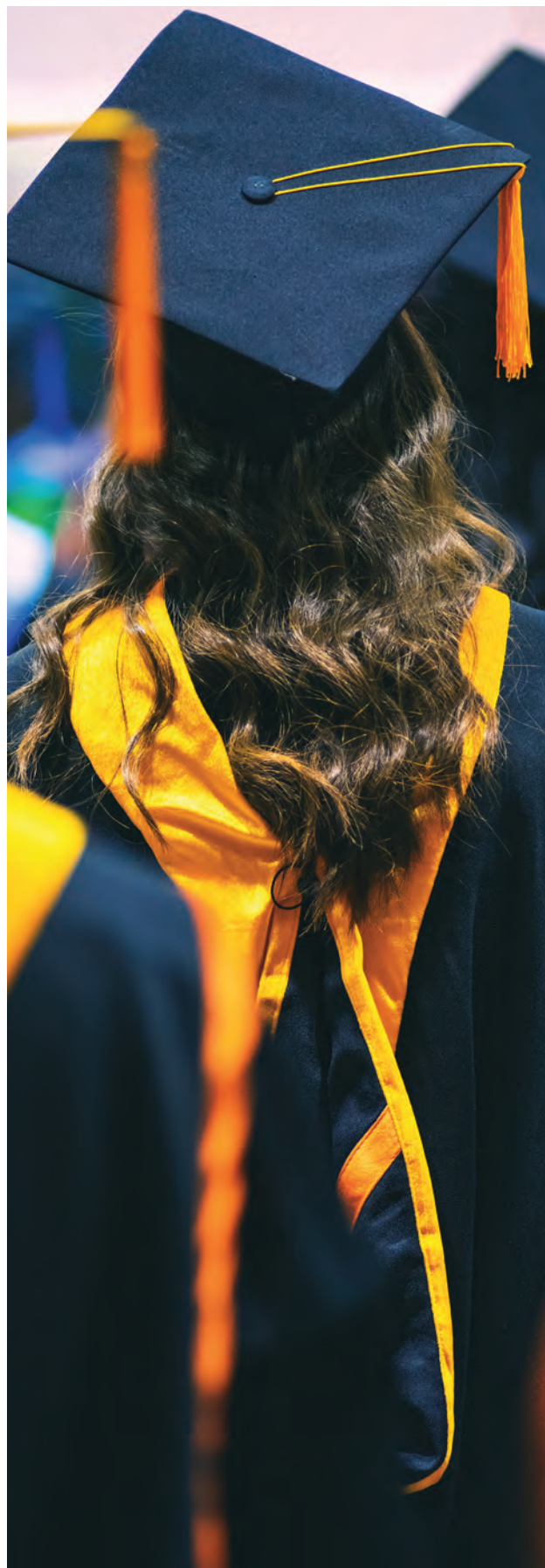
The Liberal Voice: Fair-Market Capitalism

Life, liberty, and the pursuit of happiness are inalienable rights we all cherish. When we create prosperity, we can realize the American Dream because economic well-being is the foundation of a good life. It allows us to flourish and thrive.

What is the best way to create wealth in our nation? The best way is through capitalism in partnership with a democratically elected government. The economic system of capitalism, resting on the strong constitutional protections of a free and open society, ensures fairness and opportunities for all of us to realize our highest potential. It unleashes our ability to accumulate the greatest wealth and enjoy the highest standard of living, and it allows us to take care of our most vulnerable populations.

Throughout the ages, human beings have struggled to rise out of poverty. For millennia we scraped by in conditions of squalor. Only a select few were able to achieve lives of comfort and material security. Then capitalism came along, and private ownership of land, labor, and capital enabled some people to prosper, though many never moved up the economic ladder. Uniting capitalism with our representative government, we created opportunities for those left behind and left out. Government programs and public-private partnerships leveled the playing field so more of us could prosper, and that's when we all realized the promises of capitalism: humanity went from silver spoons for a few to a feast of opportunities for the masses.


How did we create this feast? Government and private industry came together to act in the best interests of us all, taking into account our needs now and the needs of future generations. Government invests in social infrastructure that serves our collective self-interest—things like highways, education, public safety, clean water, health care, transportation, and more. Because of the dynamic partnership between private-sector capitalism and public-sector government, firms are able to innovate and create jobs and products that improve our lives immeasurably, so more people can partake of the feast of capitalism. Capitalism is driven by the profit motive, and it joins with government, which is driven to benefit the public at large. Together they bring us what we could never create on our own as individuals. We act in our own self-interest and our collective self-interest to create the best possible conditions to thrive. We never have to worry about having access to a health care system, and we get the best-trained doctors, cutting-edge treatments, and innovative technologies. We never have to worry about facing natural disasters or other emergencies on our own, and we get the most effective equipment and best-trained personnel. We all win because we all have access to the things we need, including jobs, safe products, and a clean environment.



Through hard work, personal initiative, and assurance of fair competition, we are each able to realize our genius, contribute to society, and flourish. These opportunities are available to people of every class, race, gender, age, national origin, sexual orientation, religion, and ability because the government has ensured that the playing field is level. Through the harmonious partnership of capitalism and democracy, firms don't discriminate or engage in favoritism or bias. Everyone has an equal chance to succeed and prosper. And in hard times the public-private partnership gets the economy back on track through stimulus programs and regulations. We're extremely fortunate to have a government that is of the people, by the people, and for the people. It protects property rights and human rights, the environment, and vulnerable groups that would otherwise be excluded from sharing in the rewards of capitalism. It ensures that capitalist competition is fair and equitable. It ensures that people who work hard will prosper. Capitalism's private ownership and

profit incentive, coupled with government's commitment to our collective well-being, deliver the American Dream with peace and social harmony.

More Sides to the Story

Now you understand how conservatives and liberals analyze economic issues. You know why they differ on their ideas about policy and the role of government in markets and why they are united in their view that socialism is a dangerous, wrongheaded economic system. But there's more to the story. In the next chapter you'll read the radical critique of capitalism and learn how democratic socialists derive their economic policies. Then you'll have everything you need to decode the conversations taking place around you. You'll be ready to apply what you've learned to analyzing the twelve economic issues of the VOTE Program and help guide the future of our nation by using your voice. In the words of the Spider-Man comic books: "With great power there must also come great responsibility!" 

Chapter 5: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.

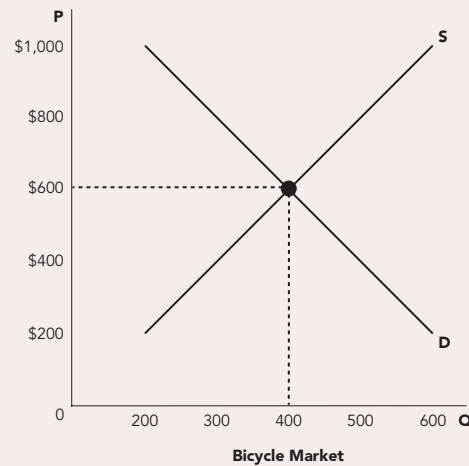


1. All the following are assumptions (givens) of conventional theory EXCEPT:
 - A. Scarcity of resources is an unchanging condition of the natural world.
 - B. Human nature dictates that people will be cooperative and altruistic.
 - C. The self-interest of firms is to maximize their profits.
 - D. The self-interest of individuals is to maximize their happiness by acquiring more goods and services.

2. The law of supply and the law of demand identify relationships between price and quantity. The law of demand states that when price goes up, quantity demanded _____, while the law of supply states that when price goes up, quantity supplied _____.
 - A. decreases; decreases
 - B. decreases; increases
 - C. increases; increases
 - D. increases; decreases

3. Consider the bicycle market graph. Identify the quantity of bicycles supplied and demanded at \$400 and how equilibrium will ultimately be restored.

- A. Quantity demanded (Q^D) is less than quantity supplied (Q^S). Given this surplus, price will tend to go up and the market will settle at equilibrium ($P = \$600$; $Q = 400$).
- B. Quantity demanded (Q^D) is greater than quantity supplied (Q^S). Given this shortage, price will tend to go down and the market will settle at equilibrium ($P = \$600$; $Q = 400$).
- C. Quantity supplied (Q^S) is greater than quantity demanded (Q^D). Given this surplus, price will tend to go down and the market will settle at equilibrium ($P = \$600$; $Q = 400$).
- D. Quantity supplied (Q^S) is less than quantity demanded (Q^D). Given this shortage, price will tend to go up and the market will settle at equilibrium ($P = \$600$; $Q = 400$).



4. In the coffee market, which of the following will shift the demand curve to the right? Choose all that apply.

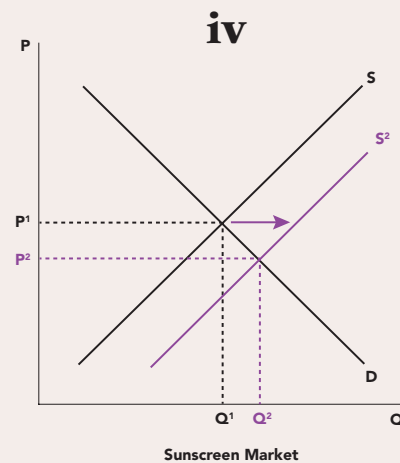
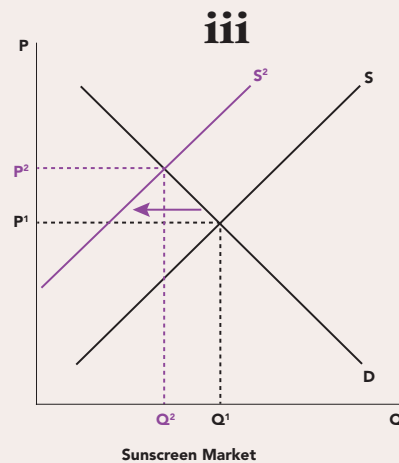
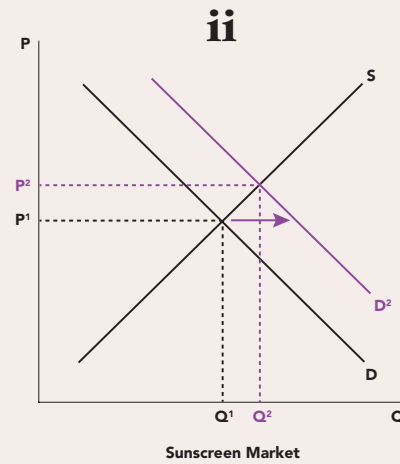
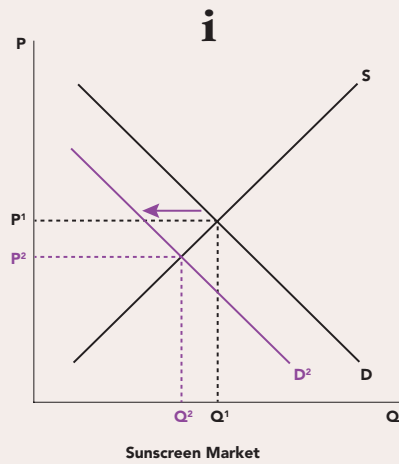
- A. It is expected that the price for coffee will go up because of weather-related problems in Central America.
- B. A new tax is imposed on coffee producers.
- C. Average incomes increase.
- D. The price of tea goes down.

Use the Market Change Guide to answer the next two questions.

5. Advances in artificial intelligence are being used to more effectively fill containers of shampoo, hand lotion, liquid soap, and similar kinds of products. Government determines that there are no new workplace safety issues to consider. Use this information to determine the order of the market change in the sunscreen market.

- | | |
|-----------|---|
| A. Search | i. $Q^S > Q^D$, surplus, price tends ↓. |
| B. Shift | ii. Supply shifts right. |
| C. Slide | iii. Equilibrium price ↓; equilibrium quantity ↑. |
| D. Settle | iv. Technology increases. |

6. Choose the graph that matches the market change described in question 5 and then identify the conservative and liberal views (refer to part 3 of the Market Change Guide).



- A.** Graph iv; Conservative: Government interference hurts society. / Liberal: Government intervention helps society.
- B.** Graph i; Liberal: Government intervention helps society. / Conservative: Government interference hurts society.
- C.** Graph ii; Conservative: Government intervention helps society. / Liberal: Government interference hurts society.
- D.** Graph iv; Liberal: Government interference hurts society. / Conservative: Government intervention helps society.

- 7.** Conclusions answer the original questions: what to produce, how to produce, and for whom to produce. Conventional theory's conclusions show that in capitalism firms won't hire more workers than they need or engage in wasting resources at any level of production. As a result, we end up with
- A.** distributive efficiency.
 - B.** productive efficiency.
 - C.** allocative efficiency.
 - D.** All of the above are correct.
- 8.** Liberals and conservatives agree on the assumptions, model, and conclusions of conventional theory, but they disagree when it comes to policy. Which of the following represents their policy positions?
- A.** Conservatives want democracy in the workplace; liberals want more government oversight.
 - B.** Liberals want government to leave markets alone; conservatives want more government oversight.
 - C.** Conservatives want the invisible hand to guide the market; liberals want a partnership between government and business to guide the market.
 - D.** Liberals want the invisible hand and community councils to create prosperity; conservatives want self-interest and regulations to create prosperity.
- 9.** Conventional theorists believe that socialism is dangerous to the prosperity of a society. Choose the answer or answers below that reflect this view.
- A.** Central planning leads to too many price signals.
 - B.** Without private property, no one works hard.
 - C.** Without the government's help, firms won't know what to produce.
 - D.** No profit motive means there's no incentive to innovate.
- 10.** Conservatives and liberals say that in socialism the lack of hierarchy leads to which of the following outcomes?
- A.** Increased prosperity
 - B.** Mob rule
 - C.** High transaction costs
 - D.** B & C

Answers

1. B 2. B 3. D 4. A & C 5. A – iv, B – ii, C – i, D – iii 6. A 7. B 8. C 9. B & D 10. D

Chapter 5: Key Terms

Central planning

Ceteris paribus

Complement

Conventional Critique
of Socialism

- No competition
- No hierarchy
- No price signals
- No private ownership
- No profit
- No sustainable democracy

Conventional theory

Demand curve

Demanders

Determinants of demand

▪ Availability/convenience

▪ Future expectations

▪ Income

▪ Number of buyers

▪ Preference

▪ Price of complements and
substitutes

Determinants of supply

▪ Changes in technology

▪ Cost of inputs

▪ Future expectations

▪ Number of firms

▪ Prices of related goods

▪ Taxes, subsidies,
and regulations

Equilibrium

Law of demand

Law of supply

Local knowledge problem

Move along

Quantity demanded

Quantity supplied

Scarcity

Shift

Shortage

Substitute

Suppliers

Supply curve

Surplus

Technology

Transaction cost

Answer Key to Exercise 5.3

A. Read the relevant news article.

B. Name a market that is most affected by this news.

C. Determine the market change.

1. **Search** for the relevant factor.

Demand

- ☐ Income
- ☒ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☐ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

2. **Shift** demand or supply curve.

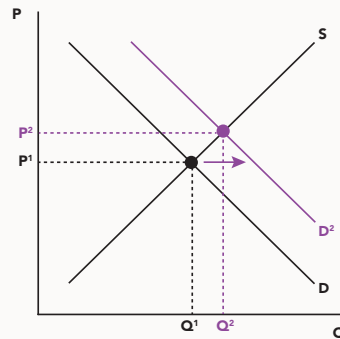
Demand shifts right

3. **Slide** with the price change.

$Q^D > Q^S$, Shortage, P tends \uparrow

4. **Settle** at the new equilibrium.

New Eq. $P \uparrow$ | New Eq. $Q \uparrow$



Market: **Ice Cream Market**

D. Summarize the conservative and liberal views on this market change.

Conservative	Liberal
Government interference hurts society.	Government intervention helps society.



6 Radical Theory

In late 2010, Micah White (pictured below) was only a few years out of college and working as a magazine editor. That spring, he watched on television and social media as protesters across the Arab world marched in the streets demanding democracy and economic justice. It was like a fever, starting in Tunisia and then spreading to Saudi Arabia, Egypt, Yemen, Syria, and other countries. What became known as the Arab Spring deeply inspired White, and it also made him wonder why there wasn't a similar protest movement in the United States. The country was still struggling to recover from the Great Recession, and there was widespread outrage over the fact that the government had bailed out the big banks that were responsible for crashing the economy, while the victims of their corporate greed continued to suffer. Millions were left homeless. Millions of firms were out of business, and unemployment rates still soared.



The magazine where White worked was a nonprofit called *Adbusters* that was founded in 1989 to challenge capitalist **consumerism**—the idea that the more stuff we have, the happier we are. It rejected advertisements (hence the name) and took a radical approach. Articles described the perilous condition of the environment as a result of consumerism, the suffering of humanity, and the spiritual emptiness of a world that seeks gratification through consuming more and more rather than pursuing social and economic justice. The Arab Spring resonated with *Adbusters* readers and staff. Inspired by the contagious energy for

radical social change, White and magazine cofounder Kalle Lasn decided to publish a two-page poster calling for people to show up on Wall Street on September 17, 2011, to take a stand against corporate greed and corporate influence in politics. White came up with the name: Occupy Wall Street.

Five thousand people showed up for the demonstration, but that was just the start of something much bigger. Unlike protests in the past, the activists didn't go home at the end of the day. Instead, hundreds set up tents and formed a protest encampment in nearby Zuccotti Park. Local activists brought them food and water, and the next day more people showed up, and then more. The protest and encampment lasted for months.

You may not have heard of *Adbusters*, but it's very likely that you have heard of the Occupy movement. What started on Wall Street turned into a wave of world-wide demonstrations (and often encampments)—occurring in 951 cities in 82 countries. Some demonstrations turned violent when protesters and police confronted one another. Police were sent to break up protesters' encampments, and some activists were forcibly removed from public spaces. Others were hit with pepper spray. Emotions ran high when police hauled activists away in handcuffs.

The Occupy movement focused on economic justice. Protesters felt it was wrong that 1 percent of the world's wealthiest people owned more than the other 99 percent combined. All over the world, people marched in the streets and voiced their outrage over the growing economic divide between the richest and the poorest. Their motto was "We are the 99 percent." In an article in *The Guardian*, White and Lasn offered their opinion about why the Occupy movement was so successful: "There is not just anger," they wrote. "There is also a sense that the standard solutions to the economic crisis proposed by our politicians and mainstream economists...are

false options that will not work. Deeper changes are needed."

Even after the protests ended, the Occupy movement's radical message continued to echo in the words of political leaders. In 2016 and again in 2020, U.S. Senator Bernie Sanders, an Independent from Vermont, sought the Democratic Party's nomination for president. Sanders spoke passionately about dismantling big banks and closing the gap between the 1 percent and the 99 percent. More than 13.2 million people voted for him in 2016, and 9.6 million in 2020. Some analysts

believe that number doesn't come close to capturing the broader level of support he had among youth and others who couldn't vote. The unexpected groundswell of support for Sanders crossed all demographics and took both Democrats and Republicans by

surprise, particularly because Sanders identified as a democratic socialist. Before his 2016 primary run, few Americans had heard of democratic socialism. He helped popularize the most basic definition: an economic system that prioritizes people over profits.

"Democratic socialism means that we must create an economy that works for all, not just the very wealthy," Sanders explained in a 2015 *Time* magazine article. He also said, "My vision—it's not just making modest changes around the edge." He was referring to his call for free tuition at public universities, campaign finance reform, and a federal jobs guarantee. He advocated for many democratic socialist ideals, including paid family leave for workers, Wall Street reform, and universal health care. Although he didn't win the nomination, his ideas and the



REUTERS / Mike Segar - stock.adobe.com

ideals of democratic socialism changed the public conversation about economic solutions. Between 2018 and 2020, dozens of democratic socialist candidates were elected to national, state, and local offices. Some defeated longtime Republican and Democratic incumbents.

Factories Without Bosses

Before Occupy Wall Street, there was another occupy movement, which had a very different outcome than the one in the United States. After struggling with an economic depression for years, Argentina's economy fully collapsed in 2001. Thousands of factories shut down and millions of people were out of work. The wage laborers who had once been employed in the factories that churned out auto parts, bread, ceramics, and other products suddenly found themselves living in ghost towns of boarded-up factories. The way local activists tell this story, the government was overwhelmed by the crisis and offered the unemployed population little relief and no real solutions to the economic mess. So workers came up with their own solution. They took over the factories where they had once been employed. They knew how to run the machines, so they got them up and running again and went into business together as worker-owners. They used a democratic process to manage the businesses. Each worker had a voice and a vote, and they decided collectively what, how, and for whom to produce. The idea of cooperative ownership caught on all over the country, with thousands of workers taking over the factories where they had once been employed. The *empresas recuperadas* (recovered businesses) movement, as it was called, made the factories productive again, brought back jobs, gave communities a chance to recover, and helped the economy start to improve. Worker-owners across Argentina banded together under a motto that translates as "Occupy. Resist. Produce."

Karl Marx would certainly have been heart-



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ened by this story. He was the one who famously said, "Workers of the world, unite; you have nothing to lose but your chains." But replacing private ownership with cooperative ownership in Argentina was not a harmonious process. It was just as Marx had predicted more than a century earlier when he warned that capitalists would not willingly give up their power. He said that capitalism leads to bloody, violent confrontations between workers and law enforcement, whose duty it is to protect the private property rights of the capitalist owners. In Argentina, the worker-owners and the private owners ultimately took their battles to court. The workers argued that they had a legitimate right to the capital (machinery and factory space) because their tax dollars had funded those factories for years through government grants, loans, tax breaks, and subsidies. A documentary was made about a ceramics factory called Zanon. When the workers won their battle in court, they changed the name of the business to FaSinPat, short for *Fábrica Sin Patrones* (Factory Without Bosses). Other worker-owners won their court cases. In 2017, there were more than three hundred cooperatively owned companies in Argentina, including factories, hotels, media companies, transportation firms, schools, restaurants, health-care providers, and more.



Cooperative Ownership in Democratic Socialism

Democratic socialism can have many different forms of ownership, including public ownership, community ownership, nonprofit ownership, and cooperative ownership. In the VOTE Program, we describe the form of democratic socialism that uses a combination of all these, while emphasizing cooperative ownership.

Seven in ten people in the United States work for someone else. That means three in ten are either self-employed or have an ownership stake in their workplaces. If you and your co-workers

are each partial owners of the place where you work, this is called a **cooperative**. Cooperatives (co-ops, for short) are jointly owned and democratically run enterprises. They can be boxing gyms, veterinary clinics, dairy farms, or any other kind of business. With cooperative ownership, people voluntarily work together to meet their shared social, economic, cultural, and political needs. There are a variety of forms this can take.

Worker-owned cooperatives are literally owned by the workers and are governed democratically, meaning everyone has a voice and a vote and is part of the decision-making process. But it won't look the same in every firm, because worker-owned cooperatives each decide how to structure the business. For example, every member might vote on all or most management decisions. Or worker-owners might vote periodically, while leaving the day-to-day decision-making to designated managers who have expertise in those areas. Some firms have rotating decision-making positions so that everyone in the company has an opportunity to take leadership in those roles. Worker-owners have a say in the company's pay scale and benefits, in the hours they work, and in what and how and for whom their firm produces.



Kenneth Weis Photography

Radicals consider this a major plus of worker ownership. Cooperatives may be small locally run businesses, large multinational corporations, or any size in between.

In Cleveland, Ohio, for example, the Evergreen Cooperatives are a network of cooperatives—worker-owned—that started out in 2008 with a laundry service and then added a solar installation and energy retrofit business. They also created one of the larger urban greenhouses in the United States that produces hydroponic lettuce and other vegetables and herbs. Evergreen uses a mixed model of cooperative and community ownership.

In the Basque Country of Spain, Mondragon started out in 1956 producing paraffin heaters. By 2017 the multinational federation of cooperatives was composed of more than 250 companies with more than 80,000 workers across the globe—most of whom were worker-owners. With tens of billions of dollars in total assets, it was listed as one of Spain's largest multinational businesses. It has divisions in finance, industry, retail, and knowledge (including a cooperatively owned university).



Consumer cooperatives are owned by the customers, who each get a share of the profit. Sometimes it's in the form of a discount. You may already be a member of one. Examples include the Green Bay Packers, REI, Nationwide Mutual Insurance Company, credit unions, food co-ops, and a wide variety of housing cooperatives. Consumer co-ops are structured so that member-owners may vote on certain aspects of the business.

Producer/marketing cooperatives are made up of independently owned businesses (some privately owned and some cooperatively owned). The owners collectively market and sell their goods under one brand or label. You might have been buying products for years from co-ops without knowing it. For example, Organic Valley, Sunkist, Ocean Spray, Welch's, and Land O'Lakes are all cooperatives. Many producer/marketing cooperatives are in the business of agricultural products. This is simply because it's often more profitable for independent farmers to band together and market their products under one label. They prefer to own it together rather than selling their products to a big corporation that takes their profits and doesn't give them a say.

Purchasing/retail cooperatives are also made up of independently owned businesses (some privately owned and some cooperatively owned). They come together under one brand



or label to purchase inputs, which saves them money. You've probably done business with at least one cooperatively owned firm. Examples include Ace Hardware, Best Western, Carpet One Floor & Home, NAPA Auto Parts, and ShopRite Supermarkets.

Just to be clear, cooperatives all have a democratic structure, but they are not "one size fits all." The way they are set up and run reflects the values, personalities, and desires of those involved. They create their own organizational structures and rules to establish work cultures, missions, and procedures, and these reflect their collective values and priorities.

Radicals point out that cooperatives aren't just an interesting theoretical idea; they are a significant part of the U.S. economy. In 2019, there were tens of thousands in operation. In countries around the world, cooperatives have been part of the economy and people's lives for decades. According to the International Cooperative Alliance, there are millions of cooperatives around the globe which employ hundreds of millions of people. It reports that a billion people are either members or clients of cooperatives. Radicals believe that through cooperatives, workers lift themselves out of poverty, creating a society where everyone can thrive. Here's how Mondragon describes its philosophy: "A conscious commitment to cooperate and to

progress together. People who collaborate and join efforts and dedication. People united to do great things. To be more competitive. To get further. That is Mondragon. Joint work to overcome extraordinary challenges. Humanity at work."

Co-op Statistics

Worldwide number of cooperatives:
3 million (U.S. 40,000)

Worldwide number of members:
1 billion (U.S. 350 million)

Worldwide employment:
280 million

Worldwide turnover in U.S. dollars:
2.1 trillion

*Data source: International Cooperative Alliance, 2019



Building Radical Theory in Two Parts

Karl Marx spent most of his life working on a critique of capitalism while writing very little about what kind of economic system should replace it. For more than a century, radicals—who generally agree on the assumptions, models, and conclusions of the critique of capitalism—have bitterly argued and passionately disagreed about what Marx actually believed was the best alternative to capitalism. In the VOTE Program, the radical perspective we present is democratic socialism simply because that is the radical economic system that is most often discussed and debated in the United States. We’re going to build radical theory in two parts: since Marx’s work is a critique of capitalism, part 1 is capitalism; part 2 is democratic socialism.

Radical theory starts with a set of questions concerning wealth creation that should sound familiar to you by now. What should we produce, how should we produce, and for whom should we produce? We build theory with three components: assumptions, models, and conclusions. After we build the theory of capitalism from the radical perspective, we discuss the policy that emerges from the conclusions. Then we’ll do the same for democratic socialism.

Assumptions

Assumptions are statements that don’t have to be proven; they are self-evident “givens” about human nature and the natural world. These can be applied to capitalism, democratic socialism, or any economic system.

The first radical assumption is that there is a **surplus**. To break it down for you, consider that in every generation there are people who can’t produce anything—infants, people with disabilities, the elderly, and so forth. So how do they manage to survive? Every society has members who produce more goods and services than they need for their own personal survival. That’s the surplus. If you produce wheat, or shoes, or medicine, you don’t just produce enough for you; you produce more than you can consume as an individual. Radicals assume that surplus is produced no matter what the economic system (feudalism, mercantil-

ism, capitalism, democratic socialism, and so forth), and that this has been true since humans first came into existence. It’s self-evident, they say, because it’s the only way human society could possibly have survived and reproduced itself over time. At different times in your life, your survival has and will depend on the surplus produced by others.

The second assumption of radical theory is the **class process**. This simply says that when it comes to economic systems, there are differences between who makes the surplus (production), who takes the surplus (appropriation), and who ultimately gets the surplus (distribution). The class process wouldn’t be an assumption if you were alone on a deserted island. In that case, you would be all three—the maker, the taker, and the getter of the surplus. But in human society, it’s more complicated than that. For example, in feudalism a surplus of food is produced. The serfs make it, the lords take it, and they distribute some of it to the knights, who keep the serfs in line and maintain the feudal system. In a slave economy, the enslaved people make it, and the owners take it and distribute some of it to the overseers, politicians, and law enforcement—those who maintain the slave system. In Soviet-style communism, the workers make it, and the state takes it and distributes some of it to the military, bureaucrats, and politicians—those who maintain the communist system. In our current economic system—capitalism—the wage laborers make it,

and the owners take it and distribute some of it to the managers, lawyers, and politicians—those who maintain the capitalist system. In democratic socialism the worker-owners make it and take it, and then they distribute some of it to themselves. Some is reinvested back in the firm to make improvements. A portion is used to pay worker-owned law firms, accounting firms, and other service providers, and a portion is paid to the government to fund goods and services such as infrastructure and social safeguards. All of this maintains democratic socialism.

The third assumption of radical theory is that there are **dynamic interactions over surplus**. People struggle over the production, control, and distribution of the surplus because everyone wants to get their hands on it. Regardless of the economic system, there's always going to be conflict over the surplus, say radicals. To picture this, imagine the Super Bowl. You know what happens at kickoff: every player on the field scrambles at top speed to claim the most advantageous position to take control of the football (the surplus). The desire to catch that ball and control it is the force that compels the players to race around the field. Everyone is driven to

interact in whatever ways will help them get the ball. A football game is an easy way to picture dynamic interactions over surplus. Players block and tackle one another as they each try to be the one to control the ball. But there are also a host of other dynamic and contradictory forces at work in the background of the game—factors that influence who succeeds. There's the weather, the players' training and equipment, interpersonal relationships among teammates, rivalries between teams, old injuries, the screams of the fans, the quality of sleep the players had the night before, the time of day, the position of the sun, the coach's mood, the referee's allergies, and more. Many people really love to watch football because they are fascinated by the complex interweaving of all these dynamic forces—competition, cooperation, harmony, discord, and skill, among others. When it comes to surplus, however, it's not a game, say radicals. The stakes are life and death. Who gets food and shelter, health care, and everything else, and who doesn't get those things, will determine who survives and who perishes.

From the radical perspective, economics is intrinsically interconnected with everything that



makes up a society—human psychology, history, biology, the weather, family dynamics, demographics, technology, and much more. Like in the example of the Super Bowl, all the parts are simultaneously affected by one another. This means there is no *ceteris paribus*—no part is ever held constant. This **holistic** view of economics informs all radical analyses of economic issues.

If your head is spinning right now, you're not alone. Holistic thinking can seem chaotic and unmanageable. Here's something that will help.



Have you ever seen a Rubik's Cube? It's a six-sided puzzle that was invented in 1974 and quickly became wildly popular. (This was before video games and phone apps.) The standard size has nine colored squares on each side of the cube. The goal is to twist and turn the rows so that you land all the same-colored squares together—one side all yellow, another side all green, and so on. But here's the frustrating catch: every time you turn a row, every facet of the cube changes configuration. You can't move just one square without changing the whole cube every time. A Rubik's Cube is the perfect metaphor for the radical perspective's holistic view of economics. A change to one part affects every other part.

When radicals think about solving our urgent economic problems, the Rubik's cube offers another useful way to conceptualize economic relationships. On a standard three-by-three cube, there are more than forty-three *quintillion* possible combinations of colored squares. This would make it the most frustrating puzzle ever invented if not for one small detail: the center squares of each side of the cube are fixed points. In other words, there are six core points that never move, while all the other colored squares twist and shift around them. Once you know that everything else moves around these fixed center points, you can solve the puzzle quite easily. As of 2022, the world record for solving the puzzle was 3.47 seconds by China's Yusheng Du. In 2014, Mohammed Aiman Koli, from India, set the record for solving it using only his feet. It took him 25.14 seconds.

If you smashed a Rubik's Cube, all the movable squares would fall away and you'd be left holding six fixed points. Radicals borrow this idea to represent different economic systems. They use a variation of the Rubik's Cube called a Six-Core Cube. There is one for each economic system—a Six-Core Cube of capitalism and a Six-Core Cube of democratic socialism, for example. The differences between their six core points are what distinguish one economic system from another and, according to radicals, make it possible or impossible for a society to solve its economic problems. The core points reflect the commitments to and structures of ownership, production, governance, sustainability, communities, and meeting people's basic material needs.

Here is one final thought about radical theory's assumptions. The class process and the dynamic interactions over surplus are driven by people's desire to take care of the needs of themselves, their families, and their friends. According to radicals, we each have a self-interested stake in who makes it, who takes it, and who gets it. But while

self-interest in capitalism grows into a destructive force, in democratic socialism it grows into a beneficial force because this economic system recognizes that each person's well-being is intrinsically connected to the well-being of every other individual. This holistic understanding is reflected in its six core points. In other words, in democratic socialism, self-interest is actually **mutual interest**. Let's take a look at how radical theory models the assumptions of surplus, the class process, and the dynamic interactions over surplus in the context of capitalism and then in the context of democratic socialism.

Radical Theory Model: Capitalism

Earlier you read that radicals believe that in every economic system a surplus is produced. Let's first model the assumption of surplus to see how it occurs in capitalism.

Labor Theory of Value

Let's say someone owns a chocolate bar factory. They buy the mixing machines and the wrapping machines. They buy the sugar, milk, and cocoa. Now they have to hire wage laborers to run the machines that mix the ingredients to make the chocolate bars.

A worker applies for a job at that factory. The owner will try to get the worker to labor for the lowest possible wage, while the worker will try to get the owner to pay them the highest possible wage. Their conversation might seem cordial, but radicals say the owner and worker are actually locked in a struggle over who will gain the most benefit. They struggle over what the wage should be, what vacation time the worker will get, how many hours of labor the worker will provide, and how much sick leave they will earn over time. Radicals say that in capitalism the owner will always give the worker the lowest possible wages and benefits to maximize the firm's profit, and the worker will always want

the highest possible wages and benefits to live a good life.

There are two categories of workers, according to Karl Marx. He said a productive worker is one who works with machines and raw materials to make something that can be sold. Unproductive workers are those whose labor doesn't directly produce a good or service that can be sold but who are crucial to the business, nonetheless. Unproductive workers include janitors, managers, administrative assistants, bookkeepers, and other support workers. The factory owners are those who bring together the resources and enable the process of production. For example, let's say a chocolate bar factory owner and worker agree that the worker will make chocolate bars for \$20 per hour, working for ten hours a day. The owner pays the worker \$200 a day to produce chocolate bars on their machines using the ingredients they bought. The costs for materials, machines, support workers, and the owner's salary, total \$3,000 per day. In a ten-hour shift the productive worker makes four hundred bags of chocolate bars, which the owner sells for \$10 a bag. Doing the math, the owner brings in \$4,000. In other words, after the owner's costs of \$3,000, the productive worker's labor added \$1,000 of value. But wait a minute, say radicals. The worker was only paid \$200.

Those machines and ingredients didn't get together and mix themselves. The productive worker's labor brought them together and turned them into chocolate bars that are worth more than the components parts are worth individually. The owner paid the worker \$200 for what radicals call **necessary labor**. It was determined through that silent struggle to be the necessary amount the owner had to pay to get the worker to come to work, and the necessary amount the owner will have to pay to get the worker to come back to work again tomorrow. The leftover \$800 is the value of what the worker produced above and beyond the necessary labor. It's called **surplus**

labor. Since in capitalism it takes the form of money (in other words, it's not bags of chocolate bars), Marx called it **surplus value** and wanted us to recognize that it is the unpaid labor of productive workers that creates the surplus. Radicals model surplus using this **labor theory of value**, which shows that productive labor creates the surplus. A quick summary of this is shown in figure 6.1

Workplace Exploitation

Now let's model the radical assumption of the class process—who makes the surplus, who takes the surplus, and who gets the surplus. In capitalism, it's the productive worker who makes the surplus. The worker is also known as the *proletariat* or *laborer*. In capitalism, it's the owner who takes the surplus. Owners are also called *capitalists* and *bourgeoisie*. So back to figure 6.1, check out the bottom line that represents the \$1,000 of value created by the productive worker. The owners pays \$200 in wages to the worker, as agreed. But what about that other \$800? The owner pockets it.

The act of the owner taking the surplus from the productive worker is called workplace **exploitation**. Radicals say workplace exploitation is perfectly legal and occurs all day long, every day, worldwide. The value of people's labor above what they are paid is stolen every day, yet no one protests this theft. Not the people whose labor is stolen, and not the people doing the stealing. This *class conflict* (or **class struggle**) is so normalized that everyone accepts it as a fact of life, and no one even thinks to change the system. Radicals say people living in capitalism assume that exploitation is as inevitable and unchangeable as gravity. We don't even question it. In fact, we only see two choices: to be exploited or to be the one doing the exploiting. According to radicals, the vast majority will choose to be the owner—the boss, the exploiter—and this is how capitalism perpetuates itself.

When radicals use the word *exploitation*, they



Figure 6.1
The Labor Theory of Value

mean only that the surplus value of labor is stolen from the laborers by the owners of capital. But this word has become a catch-all phrase to refer to a whole variety of abuses, and radicals say this has exacerbated the problem because it makes workplace exploitation even more invisible. For instance, owners may create unsafe working conditions, give wage laborers slop to eat at lunchtime, and keep the bathrooms locked except during breaks. Radicals say that while these behaviors are appalling and probably illegal, we should use the terms *abusive*, *immoral*, or *wrong*, but we shouldn't call them *exploitation*. This is not just a finicky vocabulary lesson. Radicals believe there needs to be one specific word for the act of stealing from wage laborers so that workers can finally recognize what's happening and rise up together to change the system.

Finally, who gets the surplus in capitalism? The owner of the chocolate bar factory takes the surplus but doesn't keep it all for themselves,

say radical theorists. They give a portion to the factory managers, since the owners may not live in the towns where their factories are located, and even if they do, they can't be everywhere at once in the workplace. Managers make sure the wage laborers are not stealing cocoa or slacking off. And owners need to be certain the wage laborers can't sue them, so they give some of the surplus to lawyers to write employment contracts in the owners' favor. They give a portion of the surplus to the accountants to show the profit as a return on their investments and not as theft. They also need to ensure that there aren't too many expensive regulations and taxes imposed on the chocolate bar industry by government, so some of that surplus goes to support whichever political parties are in power and to lobbyists who promote their industry's interests. Radicals say those managers, lawyers, accountants, and lobbyists—in addition to owners—get portions



of the surplus, which motivates them to maintain the capitalist system.

Capitalist Competition

To model the third assumption, the dynamic interactions over surplus in capitalism, we need to describe capitalist competition. While workplace exploitation describes the struggle that takes place between owners and wage laborers, capitalist competition describes the struggle that takes place among capitalist owners. People often use nature metaphors to talk about this kind of competition—“It’s a jungle out there,” or “It’s a dog-eat-dog world,” or “You’re either the shark or you’re shark food.” Capitalist competition is a matter of survival. For example, if one chocolate bar factory owner decides to dump compostable waste in the landfill to save money, all the other chocolate bar factory owners will be pressured to dump their waste in the landfills as well so they can stay competitive. If they can’t stay competitive, they will be driven out of business. Radicals are often accused of painting owners as greedy people who are only interested in lining their pockets with profits and flying around in private helicopters. But radicals say that’s not true. They believe owners can be perfectly nice people—and probably are—but owners are caught in a system (capitalism) that forces them to make harmful decisions in order to maximize their profit. If they don’t, they will lose their firms to competitors. The stakes are high, so they’ll do whatever it takes to stay in business.

Joining Workplace Exploitation with Capitalist Competition

Radicals say when we join workplace exploitation and capitalist competition, it results in the **pressure for bad**: owners are forced to do the wrong thing in order to survive. Because capitalism pressures them to make decisions that value profit over the well-being of people and

the planet, society is affected in negative ways. The pressure for bad causes visible suffering.

Let’s look at six scenarios that describe the six core points of capitalism. Radicals say they demonstrate how workplace exploitation and capitalist competition are at the center of our lives in this economic system and are constantly harming us.

Scenario 1: The Rich Get Richer. A chocolate bar factory owner bumps into the owner of a rival firm. They say, “I just bought new packaging machines and now my factory doubled production. I don’t need as many workers, so I’ve laid off a third of my workforce and I’m saving a bundle of money.”

Their competitor considers the implications of buying even more machines for her factory—what Marx called the **accumulation of capital**. She says, “I’m all for improving our efficiency, but think about the serious consequences to society if we all buy those machines and we all double our production. The massive layoffs that result will drive down wages for the workers who remain because unemployed workers will line up to get their jobs.” Marx called them the **reserve army of the unemployed**. “That feels wrong,” she says.

“So don’t do it,” they say.

But if she doesn’t do it, and all the other chocolate bar factory owners do, then her firm won’t survive. So she will do it. This is the pressure for bad. Radicals say it happens because one of the core points of capitalism is a commitment to private ownership of the means of production, which keeps workers from flourishing.

Scenario 2: Gaming the System. Two chocolate bar factory owners are old friends from business school. They meet for coffee and one tells the other, “I’m getting ready to launch a new line of sugar-free chocolate bars. We’re using a new, less expensive sweetener that’s still controversial, but as soon as we convince the government to approve it, we’re going to make a bundle. Our lobbyist down in Washington says we’ll get the green light next



month after we put a few campaign contributions in the right pockets. We'll be able to increase our profits exponentially!"

Her colleague has read the preliminary studies on that sweetener, which show that it can be dangerous for people with diabetes. "If it could harm consumers, then it shouldn't be approved," he thinks to himself. "I certainly don't want my chocolate bars to harm anyone." He tells her, "I don't want to pressure a government agency to approve a potentially unsafe product."

"So don't do it," she says.

But he will do it because if his firm doesn't, then his costs will be higher than his competitors' costs. They will undersell him, and his company won't survive. This is the pressure for bad. Radicals say it is inevitable because one of the core points of capitalism is a commitment to top-down governance. Decisions are handed down from a few people at the top and society's best interests are ignored.

Scenario 3: Kicked to the Curb. At a confectioners' trade show, the owner of a chocolate bar factory is introduced to a competitor from another state. He tells her, "Even though sales are down, our numbers look good because we cut

our company's pension plan and health benefits. We've saved an enormous amount of money. Our second-quarter profits are substantial."

She is appalled by this revelation. "My workers have been with my company for generations," she says. "I don't want to take away their retirement security and health care."

"So don't do it," he says.

But she will do it, because if her firm doesn't then she won't be able to compete, and she'll go out of business. This is the pressure for bad. Radicals say it occurs because one of the core points of capitalism is a commitment to leaving individuals at risk of not getting their basic material needs met.

Scenario 4: Go Big or Go Home. A chocolate bar factory owner and a competitor get together for lunch. She says, "Our firm is struggling. I've decided to run ads that convince people that chocolate makes them sexier, sportier, happier, healthier, and smarter. I've hired a marketing firm and funded research to spread this idea, and meanwhile, I'm jacking up the price of our products."

Her competitor thinks to himself, "That's just wrong!" Aloud, he says, "You know, I see myself as a person who brings a little sweetness into the

world and gives people a good-quality product. But if I knowingly lie about the benefits of chocolate bars, I won't be able to sleep at night. I don't want to do it."

"So don't do it," she says. "We'll make sure the ads say those benefits are specific to our brand, and when our ad campaign succeeds, we'll buy your company out from under you."

He will do it, because he can't afford not to. If he doesn't, he will lose his business. This is the pressure for bad. Radicals say this happens because one of the core points of capitalism is a commitment to production for profit, even if products cause harm.

Scenario 5: Planet in Peril. Two chocolate bar factory owners sit together at a sales conference. One says, "We instituted a night shift to increase production. It's great for the bottom line. Of course, we've had to find more suppliers because we need twice as much milk, sugar, and other ingredients."

Her competitor says, "Wait a minute: if we all dramatically increase production, we'll strain our natural resources. Dairy farmers will have to raze the forests to make room for more cows to get us the milk we'll need. And we'll put more trucks on the road to distribute all that chocolate, which means we'll be creating more pollution. I don't want to participate in something that has so many detrimental outcomes for our planet."

She says, "So don't do it."

But he will do it, because if he doesn't, and all the other factory owners do, then his firm won't be able to compete. This is the pressure for bad. Radicals say this happens because one of the core points of capitalism is a commitment to unsustainable growth, and it threatens our ability to thrive in the future.

Scenario 6: Race to the Bottom. A chocolate bar factory owner hears that competitors are planning to move to countries with cheaper labor. "They will only have to pay \$1 per hour instead of \$15." He realizes they will rake in the profits.

He says, "My company has been an anchor in the community for fifty years, employing nearly half the adult population—not to mention all the business we give to local office supply firms, electricians, and plumbers. The taxes my firm pays go to fund the local schools, parks, and roads. If I move overseas, the community will become a ghost town. I don't want to do it."

"So don't do it," his competitors say.

But he will, because if he stays and all the other firms move, he won't be able to survive. This is the pressure for bad. Radicals say this happens because one of the core points of capitalism is a commitment to unhealthy communities, so firms race one another to make the most profits and disregard the impact this has around the world.



The Six-Core Cube of capitalism (figure 6.2) revolves around the six core points reflected in these scenarios. Radicals say these dangerous commitments are the reason we can never solve our economic problems in capitalism. The commitments and priorities of this economic system are rotten to the core.

Radical Theory's Six Core Points of Capitalism

Private Ownership: Private owners (capitalists) own the machinery and hire workers to produce on those machines while paying them less than the value of what they produce.

Top-Down Governance: Decision-making is left in the hands of a few elected officials and bureaucrats, so people are not empowered to have a say beyond their occasional vote in an election.

Individuals at Risk: There is no guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food, education, retirement security, and more), so people live in fear and worry about their well-being and survival.

Production for Profit: Firms make things that bring them the most profit, regardless of whether those products are necessary, useful, or beneficial.

Unsustainable Growth: Society makes decisions about resource use without taking into account the long-term impact on the environment and humanity, putting the well-being of future generations in jeopardy.

Unhealthy Communities: Firms disregard the impact of the production, consumption, and distribution of their products here and around the world, resulting in a host of harmful outcomes to individuals, communities, and the environment.

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities

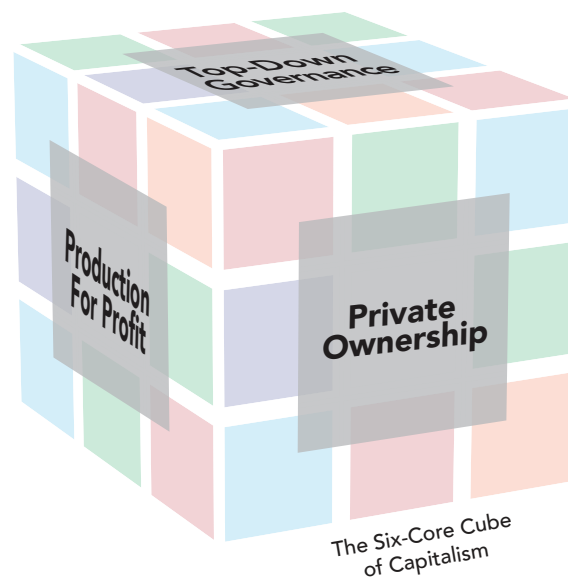


Figure 6.2
The Six-Core Cube of Capitalism

The Drive for Profit and the Visible Suffering

The six core points of capitalism guide countless decisions. They exert a pressure for bad that motivates owners, government officials, and others to value profit at the expense of the well-being of people and the planet. Radicals say we just have to look around us to see that the pressure for bad leads to the **visible suffering**: poverty, hunger, sickness, climate crises, inequality, debt, and more. They say capitalism is a destructive economic system that's killing our planet.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Imagine you're an alien from outer space, hovering above Earth in your spaceship. When you peer down at the planet through your giant unblinking alien eye, you see masses of humans living in desperate poverty. Your eye swivels one way, and you see that some of those Earthlings are working at the planet's worst jobs—sometimes two or three jobs—yet they don't earn enough to feed their children. Your eye swivels the other way, and you see that some humans have pantries and refrigerators full of food that's spoiling because they can't eat it all. Baffled, you zoom your ship closer to the atmosphere to take a better look. You

see a prosperous city, yet there are people living under plastic tarps in parks, under bridges, and in cardboard boxes in filthy alleyways. All around them, you see empty houses and apartments. This confuses you, and you wonder if perhaps you're not understanding human society because you're still too far away. So you zip on your human suit, and, disguised as one of them, you walk the streets. You discover that Earthlings have marvelously advanced medical technology and gleaming hospitals with state-of-the-art instruments. Yet masses of people still suffer because they can't afford health care. They die slowly and painfully from conditions that could be easily treated. Some are children. Deeply confused and distraught, you return to your ship. You can't understand why the visible suffering



exists when clearly the lovely blue-green planet has everything necessary to take care of everyone's basic human needs. As you turn your ship away from Earth, you think to yourself, "What a waste!"

Radical Theory Conclusions: Capitalism

Now that we've created the model for radical theory's critique of capitalism, let's take a look at the conclusions that radical theorists draw from it. Remember, the model answers the original questions.

What to Produce?

The model shows that in capitalism, firms produce what serves their profit interests, regardless of whether it is something beneficial or what people actually want. By distorting people's preferences through advertising and questionable research, for example, firms manipulate consumers into thinking they need what the firm makes and convince people they are getting what they want. Firms must always look for ways to hook consumers so they will buy more. This occurs because capitalism is a system that values profits over people.

How to Produce?

The model shows that in capitalism, firms generate output at an unacceptable cost to society. The problem is not that capitalism is a system that creates wealth, say radicals. Prosperity is something that everyone wants. But the pursuit of that wealth in the context of the obsessive drive for profit leads to unacceptable costs—the visible suffering of capitalism.

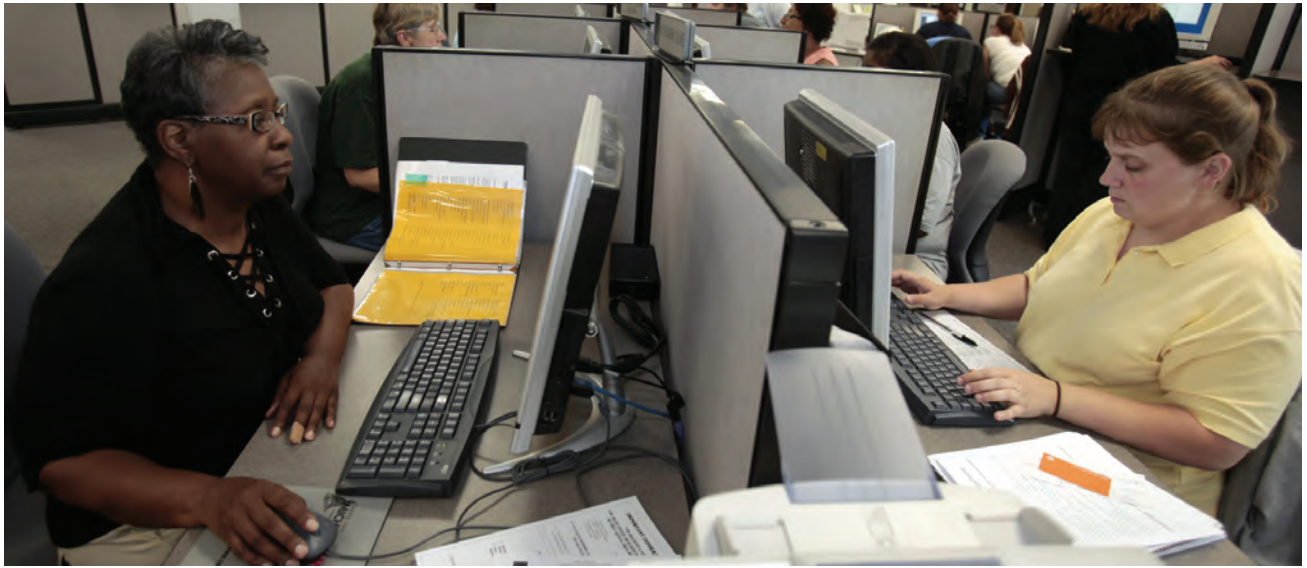
For Whom to Produce?

The model shows that in capitalism, wages don't reflect what workers contribute. Workers create the surplus through their labor, but the fruits of their labor (the surplus value) is stolen from them. The surplus value goes to those who maintain and perpetuate the capitalist system. These are the groups that prosper under capitalism. They buy more than they need—two homes, six cars, closets full of things—while most workers can barely afford the necessities of life.

Alienation

Living in a capitalist society, we can understand why we often feel so bleak, disconnected, isolated, and estranged from one another, say





REUTERS / Rebecca Cook - stock.adobe.com

radicals. It's because success is measured by the bottom line. Radicals believe profit is important because it creates opportunities for people to succeed and innovate. But when we're pressured into chasing the almighty dollar and grabbing short-term gains while ignoring the long-term ramifications of our choices, everyone suffers. That includes the people who are exploited and the people who make their profit off the sweat of others. Radicals say that capitalism's drive for profit—valuing financial gain over the well-being of people and the planet—creates an unhealthy, destructive, singular focus that undermines peace and harmony, a clean environment, safe communities where everyone can flourish, and meaningful connections to our fellow humans.

In capitalism, the absence of connection to one's work, to one's workplace, to what is made, and to one another is called **alienation**. Radicals say that this experience arises in four ways:

- Workers are alienated from the goods and services they produce. They have no control over or rights to the products. Their labor is treated like a commodity, no different from any other input that's bought and sold, as if there's no difference between a worker and a machine.
- Workers are alienated from one another. Capitalism sets people up to compete for the job, the raise, the extra shift, the better hours, the manager's approval, the owner's largesse, and so on. This leaves people isolated and estranged from one another.
- Workers are alienated from the decisions their firms make about production and have no say about the impact those decisions (and products) have on the community and the wider world.
- Workers are alienated from what Marx believed was intrinsic to our human nature: the need to contribute meaning, beauty, and usefulness to shape the world according to our vision and values. Radicals say that capitalism is an assault on our humanity.

Radical theorists conclude that when self-interest is planted in the soil of capitalism, self-interest becomes destructive and leads to alienation. They say capitalism is based on a set of perverse incentives that actually undermine the connection that people truly want and need.

Radical Theory Policy: Capitalism

Based on their conclusions, radicals say we should reject capitalism as an economic system. Although Marx agreed that capitalism created unprecedented levels of wealth, he also said it created unacceptable levels of destruction and suffering. Therefore, capitalism is not the answer for human well-being. Radicals today agree that there are better economic systems that will bring us maximum well-being and end the visible suffering of capitalism.

Radical Theory Model: Democratic Socialism

Some modern radicals believe democratic socialism is the best system to solve the problems that we experience in capitalism and bring us the levels of wealth and well-being that we all want. Let's now build the model of democratic socialism.

Collective Creation of Value

To model the assumption of surplus in democratic socialism, let's describe how radicals understand the way surplus is created. Worker-owners come together to produce goods and services. Regardless of the different roles they have in the firm—machinist, accountant, designer, rock star, forklift operator, choreographer, and so forth—everyone owns the firm together. Surplus is created when productive labor is applied to raw materials and machines. Think of yourself making lattes in your worker-owned coffee shop, using your labor to operate the espresso machine to turn the coffee beans and milk (raw materials) into delicious coffee beverages. Or think of a rock band creating surplus by playing guitars, drums, and keyboards in a theater to entertain people who purchased tickets. You get the picture. This is called the **collective creation of value**. Figure 6.3 shows the collective creation of value in democratic socialism. Notice that the numbers are the same as in Figure 6.1 under capitalism.



Figure 6.3
Collective Creation of Value

But the big difference is that wages in democratic socialism are determined democratically and the surplus value is controlled by the worker-owners.

Workplace Justice

After the costs—salaries, raw materials, machines, utilities, concert T-shirts, and all the other expenses—are paid, there is a surplus. The assumption of the class process (who makes the surplus, who takes the surplus, and who gets the surplus) in democratic socialism is that when workers have an ownership stake in the firm, they make those decisions together. In democratic socialism, worker-owners not only make the surplus, they also take the surplus. Radicals say that when there is no distinction between the makers and the takers,

there is no theft (workplace exploitation). Instead, there is workplace justice. And the worker-owners decide together, using a democratic process, who gets the surplus. For example, they might vote to expand and reinvest in the firm (purchase some new amplifiers, in the case of the rock band), to create an emergency fund, or for philanthropy. Just as private owners in capitalism give some of the surplus to politicians and others who perpetuate capitalism, worker-owners in democratic socialism also make sure surplus goes to perpetuate democratic socialism. For instance, cooperatively owned enterprises hire lawyers, industry advocates, and accountants. Some of the surplus goes to the community through taxes to provide universal access to the things necessary to survive and thrive, including health care, education, transportation, housing, childcare, and retirement security. Radicals say this distribution of the surplus raises the standard of living for everyone.

Because the worker-owners use a democratic process to decide how to divide the surplus among themselves as salaries, there is usually a limit to how much the highest-paid worker can earn compared to the company's lowest-paid worker. The worker-owners establish a pay scale based on factors such as whether the position is full time or part time and the worker's seniority, skill, education, and experience. They decide whether to have a base pay for every worker, and whether they want to use some of the surplus to give themselves bonuses.

Coordination among Competitors

To model the assumption of the dynamic interactions over surplus in democratic socialism, we need to describe coordination among competitors. While workplace justice describes the relationships among worker-owners, coordination among competitors describes the way firms compete and cooperate for the greater well-being of society. People often use metaphors for teamwork to describe coordination—"Many hands make



light work," or "In unity there is strength," or "No person is an island." Coordination is a matter of survival because we all depend on one another for our continued existence and for our success. For example, worker-owned chocolate bar firms might coordinate to create a composting program so their landfills don't get overloaded and produce methane, which is a hazard to everyone's health and the planet.

Radicals are often accused of not caring about profit, but they say that's definitely not the case. They understand that profit is very important for keeping businesses afloat. However, while it's vital to the success of any enterprise, profit is not the most important driver of well-being. Firms need profit to succeed financially, but ultimately, "success" means being a positive force in the world. Radicals are also accused of painting worker-owners as saintly people who have no interest in profit and are driven purely by altruism, but radicals say that's not true. They believe worker-owners can be selfish and even unpleasant people—and some probably are—but they are part of a system (democratic socialism) that pressures them to make decisions that benefit society because they

live in the communities where they work and they are accountable to one another.

Joining Workplace Justice with Coordination among Competitors

When we join workplace justice and coordination among competitors, it results in the **pressure for good**: worker-owners are compelled to do the right thing in order to survive. Because democratic socialism pressures them to make decisions that value people and the planet over profit, society is affected in positive ways, say radicals. The pressure for good leads to tangible benefits at every level of society.

Let's look at six scenarios that describe the six core points of democratic socialism. Radicals say they demonstrate how workplace justice and coordination among competitors are at the center of our lives in this economic system and constantly enable us to have a good quality of life.

Scenario 1: More than a Paycheck. A chocolate bar factory worker-owner bumps into a worker-owner from a competing firm and says, "Our firm just bought those new packaging machines, and they're so efficient that our pro-

duction has shot up. We just voted to give everyone in the company raises next quarter. And with some of the profit, we're going to invest in expansion and create more positions in our firm."

His competitor says, "That sounds amazing. At our next cooperative meeting I'm going to suggest we vote on buying those machines, too."

"You should do it," he says. "It's good for our whole community if all our firms do well."

They will both do it because of the pressure for good. Radicals say this happens because one of the core points of democratic socialism is a commitment to cooperative ownership. People come together as worker-owners and make choices that benefit not only themselves but also the larger society.

Scenario 2: Of the People, by the People, for the People. A worker-owner of a chocolate bar firm and an old friend from business school who is a worker-owner in a different chocolate bar firm meet for coffee. She says, "Did you read the latest news report about some of our competitors? The new sweetener they're using in their sugar-free product lines is making people sick. The government convened a council made up of scientists, public





health experts, and representatives from firms and consumer groups. Our firm is working with them on a prevention strategy that involves more extensive testing. Your firm should offer ideas, too.”

Her friend says, “Let’s see if our firms can work together to develop a testing process. It will be more efficient, and we can share our ideas with the council delegate from the chocolate bar industry.”

They will both do it because of the pressure for good. Radicals say this occurs because one of the core points of democratic socialism is a commitment to participatory governance. Decision-making happens through collaboration among community members, government representatives, worker-owned firms, experts, and other stakeholders, and that creates the best outcomes for society.

Scenario 3: We Have Each Other’s Backs.

At a confectioners’ trade show, a worker-owner in a chocolate bar factory is introduced to a competitor. He says, “Our company offers generous benefits, including family leave and early retirement options. Of course, our firm also pays taxes that fund the universal basic pension and health care for all. Now we’re negotiating with a worker-owned el-

der-care firm to see if we can get a program for our retirees. Your firm should do it, too.”

“That sounds like a great benefit,” she says. “What if our firm goes in on that with you? We could probably get a better deal if there are more of us because we would bring the elder-care company more business.”

They will both do it because of the pressure for good. Radicals say this happens because one of the core points of democratic socialism is a commitment to social safeguards. That means everyone’s basic material needs are met.

Scenario 4: The Right Stuff. Two chocolate bar factory worker-owners meet for lunch. “My firm is struggling,” says one. “We’re hoping business turns around with our new marketing campaign for chocolate protein bars. There have been all those new studies on the importance of protein, and we’re playing up the health benefits of chocolate when it’s eaten in moderation. We think this could be a game changer for us. You should do it, too.”

Her colleague says, “I’ll propose that we vote on it at our next meeting. Personally, I like the idea of adding a healthier product to our line as well.”

They will both do it because of the pressure for good. Radicals say this happens because one of the core points of democratic socialism is a commitment to production for use—making things that are necessary, useful and beneficial.

Scenario 5: Save the Earth. Two worker-owners of chocolate bar firms sit together at a sales conference. One says, “If we institute a night shift, we could produce a lot more. But if we dramatically increase production, the dairy farmers will have to cut down more forest to create additional grazing land for cows, and this will hurt the environment. Instead, we unanimously agreed to take one day off every week. We’re thrilled that the new machines make our lives better. You should think about doing this, too.”

“That sounds awesome!” his competitor says. “We considered adding a night shift, but we worried about speeding up our production and then having to add more trucks to our fleet, which would increase pollution. I’ll bring your great idea back to my firm. An extra day off would give us more time to be with our families and do volunteer work in the community.”

They will both do it because of the pressure for good. Radicals say this happens because one of the core points of democratic socialism is a commitment to sustainable development so we’ll be able to thrive for generations to come.

Scenario 6: Think Globally, Act Locally. A worker-owner from a chocolate bar factory is on the phone with a competitor from another worker-owned chocolate bar factory. She says, “A trade representative from Central America showed us a new report about some cacao bean growers using child labor. We decided to buy from a cooperative of Indigenous cacao bean growers who are fighting child labor practices in their countries. It will be more expensive than what we’ve been paying, but we believe it’s

worth it. You should do it, too.”

He says, “We’ll need to have some conversations about it among our worker-owners, but I’m confident that in the end a majority will agree to switch to the Indigenous cooperative even if we have to pay more for cacao. We should let those other growers know why we’re no longer willing to do business with them. We can use our buying power to motivate them to take care of their communities.”

They will both do it because of the pressure for good. Radicals say this happens because one of the core points of democratic socialism is a commitment to healthy communities, so firms are careful and deliberate about the impact their decisions have around the world.

The Six-Core Cube of democratic socialism (figure 6.4) revolves around the six core points reflected in these scenarios. Radicals say these vital commitments are the reason we can solve our economic problems in democratic socialism. The commitments and priorities of this economic system are beneficial to the core.

Radical Theory’s Six Core Points of Democratic Socialism

Cooperative Ownership: People come together collaboratively as joint owners of their factories, housing, restaurants, and so forth, making decisions about policies and structures through a democratic process of one person, one vote.

Participatory Governance: Diverse stakeholders—representatives from worker-owned firms, consumer groups, community interest groups, experts in the field, public officials, and so forth—work together to generate enforceable action plans and policies that improve life for people.



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development
6. Healthy Communities

Figure 6.4
The Six-Core Cube of Democratic Socialism

Social Safeguards: Guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food, education, retirement security, and more) is both a right and a responsibility for all.

Production for Use: Firms produce things that improve the lives of people rather than producing for the sole purpose of making a profit.

Sustainable Development: Society uses resources wisely today to create the best quality of life while ensuring that future generations have what they need to thrive.

Healthy Communities: Firms take into account the impact of production, consumption, and distribution of their products here and around the world, resulting in a host of beneficial outcomes to individuals, communities, and the environment.

The Invisible Synergy

The six core points guide countless decisions in democratic socialism. They are a pressure for good that leads democratic socialist societies to prioritize the well-being of people and the planet even when it cuts into their profits. The pressure for good leads to tangible benefits that we call the **invisible synergy**. *Synergy* is a word from Greek that means “working together.” In quantum physics, synergy describes the phenomenon of two things coming together to create something greater than the sum of its parts. Synergy defies the mathematics we’ve all been taught that says one plus one can only equal two. It arises from people coming together as individuals, firms, and government within the values and opportunities of democratic socialism. Without central planning or any person or government orchestrating it, the invisible synergy brings us more useful products and more sustainability, say radicals. More job satisfaction and more of our human needs met, more accountability and transparency and more thriving communities. The drive for well-being in democratic socialism puts our whole planet—and the future of humanity and every other species—in the best possible position, according to radicals.

They say that democratic socialism brings us the quality of life we all want and need.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices

Imagine you're an alien from outer space, hovering above Earth in your spaceship. When you peer down at the planet through your giant unblinking alien eye, you see masses of humans living in harmony. Your eye swivels one way, and you see that Earthlings are working hard and contributing to their own well-being and that of their families, while at the same time benefiting the whole society. Your eye swivels the other way, and you see that everyone has pantries and refrigerators full of healthy foods and none go hungry. Intrigued, you zoom your ship closer to the atmosphere to take a better look. You see a prosperous city where everyone has a home because it is a basic human right. You see humans living in a variety of housing—some of it for individuals and families, some cooperative, and some with care for elders and people with disabilities. You are even more curious about human culture, so you zip on your human suit, and disguised as one of them, you walk the streets. You discover that Earthlings have marvelously advanced medical technology and gleaming hospitals with state-of-the-art instruments, and

everyone has equal access to this wonderful medicine because it's a basic human right. Impressed and inspired, you return to your ship. You realize that there is an invisible synergy that makes human society thrive because everyone sharing resources and working together creates opportunities and well-being that is more than just the sum of all the parts. The lovely blue-green planet has everything necessary to take care of everyone's wants and needs, and humans have found a way to share in the bounty, to the benefit of all. As you turn your ship away from Earth, you think to yourself, "What an inspired idea!"



Now that you understand the six core points of capitalism and the six core points of democratic socialism, you are ready to analyze stories you read and hear in the news from the radical perspective. The VOTE Six-Core Cube Guide gives you easy steps to follow. Let's take a look at how to use it, and then practice.



VOTE Six-Core Cube Guide Instructions

Here is a tool to help you analyze the news from the radical perspective. Have a blank Six-Core Cube Guide ready and then follow these instructions to fill it in.

VOTE Six-Core Cube Guide

Capitalism 	Democratic Socialism 
<p>A. Name the problem.</p> <p>B. Identify the relevant core point.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Six Core Points of Capitalism <ul style="list-style-type: none"> <input type="checkbox"/> Private Ownership <input type="checkbox"/> Top-Down Governance <input type="checkbox"/> Individuals at Risk <input type="checkbox"/> Production for Profit <input type="checkbox"/> Unsustainable Growth <input type="checkbox"/> Unhealthy Communities </div> <p>C. Summarize the meaning of that core point.</p> <p>D. Reveal the visible suffering (outcome).</p>	<p>A. Name the problem.</p> <p>B. Identify the relevant core point.</p> <div style="border: 1px solid black; padding: 5px; margin-top: 10px;"> Six Core Points of Democratic Socialism <ul style="list-style-type: none"> <input type="checkbox"/> Cooperative Ownership <input type="checkbox"/> Participatory Governance <input type="checkbox"/> Social Safeguards <input type="checkbox"/> Production for Use <input type="checkbox"/> Sustainable Development <input type="checkbox"/> Healthy Communities </div> <p>C. Summarize the meaning of that core point.</p> <p>D. Reveal the invisible synergy (outcome).</p>

A. Read the article and name a problem that it addresses. Write your answer in line A.

B. Identify the core points that are most relevant to this problem. Although every core point is relevant, choose the one you believe best explains which commitment led to the problem and which leads to the solution.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

Continue to next page

C. Summarize the meaning of the relevant core points. Use these words or your own to describe what those core points mean.

CORE POINT	CAPITALISM SUMMARY
Private Ownership	Owners pay workers less than the value of what they produce and keep the profits for themselves.
Top-Down Governance	Decision-making is left in the hands of a few elected officials and bureaucrats, and people don't have a real say.
Individuals at Risk	There is no guarantee that basic material needs will be met, so people live in fear about their well-being.
Production for Profit	Firms make things that bring them the most profit, regardless of whether those products are necessary, useful, or beneficial.
Unsustainable Growth	Society uses up resources without considering how those decisions will affect people in the future.
Unhealthy Communities	Firms disregard the ways their decisions harm communities and the environment here and around the globe.

CORE POINT	DEMOCRATIC SOCIALISM SUMMARY
Cooperative Ownership	People are joint owners of their firms and make decisions through a fair process of one person, one vote.
Participatory Governance	Decisions are made by community councils of diverse stakeholders who represent our collective best interests.
Social Safeguards	Meeting everyone's basic material needs is everyone's guaranteed right and responsibility.
Production for Use	Firms make things that improve people's lives, rather than producing only to make a profit.
Sustainable Development	Society uses resources wisely today and protects them for future generations.
Healthy Communities	Firms intentionally make decisions that benefit communities and the environment here and around the globe.

D. Reveal the visible suffering of capitalism and the invisible synergy of democratic socialism. Choose the relevant outcomes. There is no absolutely correct answer, but give it some thought. You may also write in an outcome that is not on the list.

The Visible Suffering of Capitalism	The Invisible Synergy of Democratic Socialism
<ul style="list-style-type: none"> ■ Hunger and malnourishment ■ Harmful products ■ Mass poverty ■ Homelessness ■ Extreme income inequality ■ Pollution and climate crisis ■ Inaccessible, low-quality health care ■ Destructive market domination ■ Impoverished elders ■ Exploding public and private debt ■ Damaging trade relationships ■ High prices and no jobs ■ Other 	<ul style="list-style-type: none"> ■ Abundant, healthy food ■ Safe and helpful products ■ Prosperity ■ Housing for all ■ Equitable income distribution ■ Clean environment ■ Universal, first-rate health care ■ Fair and positive competition ■ Secure and dignified retirement ■ A thriving, debt-free society ■ Mutually beneficial trade relationships ■ Jobs and stable prices ■ Other

Exercise 6.1: VOTE Six-Core Cube Guide

Use the Six-Core Cube Guide to analyze this story from the radical perspective. For this example, assume that the problem is childhood obesity. The Answer Key is on the next page, but please don't look until you fill yours out completely.

US taking steps to ban junk food from school

THE NEW YORK TIMES

WASHINGTON—The Obama administration will begin a drive this week to expel Pepsi, french fries and Snickers bars from the nation's schools in hopes of reducing the number of children who get fat during their school years.

In legislation soon to be introduced, candy and sugary beverages

would be banned, and many schools would be required to offer more nutritious fare.

To that end, Agriculture Secretary Tom Vilsack will deliver a speech today at the National Press Club in which he will insist, according to excerpts provided to the New York Times, that any vending machines

that remain in schools be "filled with nutritious offerings to make the healthy choice the easy choice for our nation's children."

First lady Michelle Obama said last month that she would lead an initiative to reduce childhood obesity, and her involvement "shows the importance all of us place on this issue," Vilsack said.

Courtesy of the Arizona Daily Star

Capitalism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

C. Summarize the meaning of that core point.

D. Reveal the visible suffering (outcome).

Democratic Socialism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Democratic Socialism

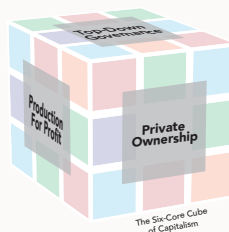
- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

C. Summarize the meaning of that core point.

D. Reveal the invisible synergy (outcome).

ANSWER KEY: Exercise 6.1**Capitalism**

- A.** Name the problem.
Childhood obesity.



- B.** Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☒ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

- C.** Summarize the meaning of that core point.
Firms make things that bring them the most profit, regardless of whether those products are necessary, useful, or beneficial.

- D.** Reveal the visible suffering (outcome).
Destructive market domination.

Democratic Socialism

- A.** Name the problem.
Childhood obesity.



- B.** Identify the relevant core point.

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☒ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

- C.** Summarize the meaning of that core point.
Firms make things that improve people's lives, rather than producing only to make a profit.

- D.** Reveal the invisible synergy (outcome).
Fair and positive competition.

Exercise 6.2: Six-Core Cube Guide

Use the Six-Core Cube Guide to analyze this story from the radical perspective. For this example, assume that the problem is underfunded public transportation. The Answer Key is on the next page, but please don't look until you fill yours out completely.

Union OKs new contract, Ending Tucson bus strike

By Becky Pallack

ARIZONA DAILY STAR

The 42-day Tucson bus strike ended Wednesday when drivers, mechanics and other members of Teamsters Local 104 voted to accept a new contract.

The vote was 351-41, an 89 percent approval, said Teamsters Local 104 President Andy Marshall.

Everyone gets a raise under the new contract, he said, but he wouldn't release contract details, saying he didn't want to inflame opinions of people who are angry about the strike.

Professional Transit Management, the contracted operator of the city's Sun Tran bus system, also would not give



Union members try to listen from outside, with standing room only inside, during the voting.

details about the contract.

There were no additional city tax dollars in the deal, which stays within the approved city budget for Sun

Tran, Marshall said. Additional details were not immediately available.

Sun Tran buses will be back to a normal schedule starting

Thursday, Sept. 17. During the strike, the number of buses and bus routes was limited, making for long waits in the heat.

Since the strike began, the Tucson Unified School District has been providing bus service to high school students who rely on Sun Tran to get to class. Though full Sun Tran service is resuming, TUSD will continue to transport those students through the end of the week, said spokeswoman Stefanie Boe.

Courtesy of the Arizona Daily Star

Capitalism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

C. Summarize the meaning of that core point.

D. Reveal the visible suffering (outcome).

Democratic Socialism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

C. Summarize the meaning of that core point.

D. Reveal the invisible synergy (outcome).

Capitalism

A. Name the problem

Public transportation is underfunded.



B. Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☒ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

C. Summarize the meaning of that core point.

There is no guarantee that basic material needs will be met, so people live in fear and worry about their well-being.

D. Reveal the visible suffering (outcome).

Other: stranded passengers.

Democratic Socialism

A. Name the problem

Public transportation is underfunded.



B. Identify the relevant core point.

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☒ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

C. Summarize the meaning of that core point.

Meeting everyone's basic material needs is everyone's right and responsibility.

D. Reveal the invisible synergy (outcome).

Other: reliable transportation.

Exercise 6.3: Six-Core Cube Guide

Use the Six-Core Cube Guide to analyze this story from the radical perspective. For this example, assume that the problem is rising temperatures. The Answer Key can be found at the end of this chapter.

Western US sees triple-digit temps in early heat wave

By Sally Ho

THE ASSOCIATED PRESS

LAS VEGAS—Parts of the Western U.S. are getting an early taste of scorching summer heat, forcing officials in California, Oregon and the desert Southwest states to heed the warnings of dangerous, triple-digit temperatures in the first week of June.

Organizers rescheduled California's state track and

field championship events to start in the evening hours Friday and Saturday. The competition is being held in Clovis in the San Joaquin Valley, where daily highs are expected to top 100 degrees through the weekend, according to the National Weather Service.

Precautions are also in place ahead of Portland's

Rose Festival on Saturday in Oregon, when the mercury is expected to rise to 99 degrees in the city and 103 degrees downstate in Medford.

Marching bands have asked event officials if they can ditch some of the pomp and circumstances by taking off their hats and changing their uniforms during judged

performances to cope with the stifling heat, according to spokesman Rich Jarvis. The popular festival is also renting mist machines and handing out sunscreen around a carnival area on the Willamette River waterfront.

"We're telling people, 'Beware,'" Jarvis said. "It's going to be tough."

Courtesy of the Arizona Daily Star

Capitalism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

C. Summarize the meaning of that core point.

D. Reveal the visible suffering (outcome).

Democratic Socialism

A. Name the problem.



B. Identify the relevant core point.

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

C. Summarize the meaning of that core point.

D. Reveal the invisible synergy (outcome).

Radical Theory Conclusions: Democratic Socialism

The radical theory of democratic socialism has three conclusions that answer the original questions of economics.

What to Produce?

The model shows that cooperatively owned firms produce things people need and want and that are beneficial to society. This includes providing social safeguards—health care, transportation, higher education, and other basic human needs. This outcome occurs because democratic socialism is a system that values people and the planet over profits.

How to Produce?

The model shows that in democratic socialism, firms produce sustainably so that generations to come will also have the resources they need to thrive. Firms make choices that ensure the well-being of society, which creates the invisible synergy.

For Whom to Produce?

The model shows that in democratic socialism, worker-owners enjoy the fruits of their own labor, and their wages reflect what they contribute. A portion of the surplus also goes to expanding

their enterprises, meeting the larger community's needs, and ensuring the future success of democratic socialism.

Connection

All human beings long for peace, prosperity, and the freedom to live their highest and best selves, say radicals. To achieve those things, we need a strong economy, and profit is only one—albeit important—part. Profit enables firms to stay in business and create the things that are good and useful for people. It funds a decent standard of living for worker-owners, circulates back into the community to support local institutions, and ensures the social safeguards that are everyone's rights and responsibilities. But focusing on profit alone can't give us what we want and need to thrive, say radicals. They believe that in democratic socialism the drive for well-being brings us peace and prosperity, a clean environment and renewable resources for generations to come, dignity and respect in the workplace, fair compensation, and release from worry about survival so we can each achieve our potential. When workers in cooperatively owned businesses forgo higher profits for themselves, it's so there can be a higher standard of living for everyone. Radicals



point out that this doesn't occur because worker-owners are more saintly or evolved than anyone else. They say it's because there's an intrinsic understanding that we are all interdependent—self-interest is mutual interest—and when we act with that understanding, the economy flourishes.

In radical theory, a positive feeling of camaraderie, mutual support, shared purpose, and belonging is called **connection**. This experience arises in democratic socialism in four ways:

- Workers are connected to the goods and services they produce because as worker-owners they have control over, and rights to, what the firm makes.
- Workers are connected to one another because, as co-owners, one person's success is a success for the whole firm. They are connected by mutual interest to cooperate and bring out the best in one another.

- Workers are connected to the mission of their firms because they not only contribute hours of labor, they also have a voice and a vote on decisions that shape the impact their firms have on the world. This creates a sense of belonging and mutual respect.

- Workers are connected to their own humanity because cooperative ownership enables people to contribute something of meaning, beauty, and usefulness through their labor. In democratic socialism, people are able to shape the world according to their own visions and values.

Radicals conclude that when planted in the soil of democratic socialism, we recognize that our self-interest is our mutual interest, and an ever-upward spiral of well-being is ensured. They say that democratic socialism is based on a set of positive incentives that bring us the connection we truly want and need.





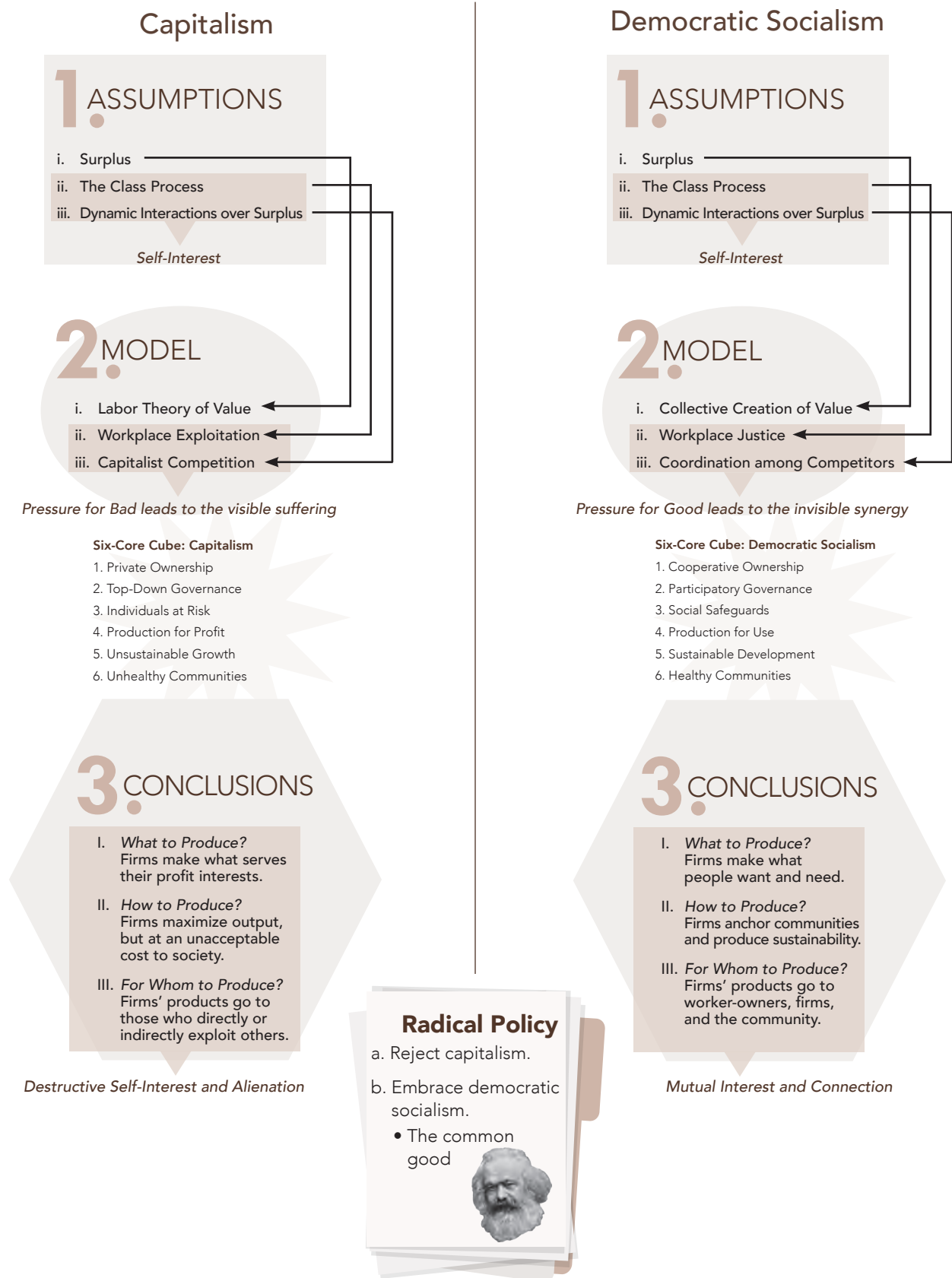
David Shankbone, CC BY 3.0

Policy

Based on the conclusions, the course of action radicals propose is to replace our current economic system of capitalism with democratic socialism. They say it would create unprecedented levels of well-being because it has a commitment to the common good at its core. In democratic socialism, workers are paid what they contribute, the government upholds the interests of the people, society provides each person with what they need to get their basic needs met, firms' products are useful and beneficial, production processes guarantee that future generations will also flourish, and people make decisions that improve communities here and throughout the world. This economic system brings us peace and prosperity.

Radicals say that the Occupy movement in the United States and the growing support for democratic socialist ideals reflect a growing disillusionment with capitalism in our nation and a desire for radical change. From spontaneous encampments in public parks to protest the excesses of capitalism, to electing socialist representatives in many areas of government, radical ideas are taking hold, they say—an evolution, not a revolution, to bring us a brighter future of economic justice. Radicals say that even though the number of people who identify as democratic socialists is still relatively small, these ideas are shaping the mainstream conversations about policy and more people are embracing the radical perspective. They quote an Ethiopian proverb: “When spider webs unite, they can tie up a lion.”

Radical Theory: Capitalism versus Democratic Socialism



Economic Well-Being from Different Perspectives

The VOTE Program doesn't advocate for one economic theory over another. Our method is to line up the radical, conservative, and liberal perspectives side by side in a balanced and unbiased way so you can understand them, evaluate their ideas for yourself, and make up your own mind about what you believe. Then you can use your voice to join the conversation. The best way to hear these "voices" is to assume that you're listening to someone who is a passionate advocate for that perspective. This person really wants you to envision what their ideal world would look like if our country followed their policies for economic well-being.

You can practice respectful listening and try to imagine what their utopian ideal sounds like. Do you agree with their views? Does their analysis of the problem make sense to you? Does their solution make sense to you? This process of respectful listening, passionate advocacy, and intelligent debate is how we'll find our way forward. Maybe you'll be convinced to change your mind, or you'll be even more certain that your view is the best one. Maybe you'll find places where compromise and trade-offs make sense. Maybe you'll be sparked to come up with brilliant new solutions.

In chapter 5 we practiced listening to the voices of conservatives and liberals. Now let's hear the radical vision for economic well-being.



The Radical Voice: Democratic Socialism

Life, liberty, and the pursuit of happiness are inalienable rights we all cherish. When we create prosperity, we can realize the American Dream

because economic well-being is the foundation of a good life. It allows us to flourish and thrive.

What is the best way to create wealth in our nation? The best way is through democratic socialism. When democracy is seamlessly interwoven with the economic system of socialism and rests on strong constitutional values of justice, it gives us freedom to live balanced and meaningful lives. It unleashes our potential to accumulate the greatest wealth and enjoy the highest standard of living, and it allows us to take care of our most vulnerable populations.

Brutal poverty has been the common condition of humans for much of our history because most economic systems are built on one group of people exploiting (stealing from) another group of people: slave masters and enslaved peoples, lords and serfs, the state and workers, and private owners and wage laborers. At the same time, political systems enforced this theft—and continue to do so today. Democratic socialism corrects the glaring injustice of workplace exploitation. It operates from a holistic view of individual and collective well-being and recognizes that when we cooperate and collaborate, we generate abundant wealth and everyone's needs can be met. This understanding of our interconnectedness gives democratic socialism the power to transform our lives. Humanity goes from chains to freedom.


We are set free to achieve our highest potential because the driving force in democratic socialism is to create a good quality of life for all, along with desirable and useful products. Profits are important, but they are not the first priority. We are guided by the pressure for good that arises when we value people over profits, which leads to an invisible synergy that gives us more than just the sum of the individual parts. When we act in ways that serve our mutual interest, we come together in connection, and as a result we are able to live healthy, balanced lives. Democratic socialism is guided by six core points. Through *cooperative ownership*, we prosper because we benefit directly from the fruits of our own labor. Through a commitment to *social safeguards*, people are freed from crushing debt and no longer worry about paying for college tuition, medical care, transportation, and

other basic human needs because each person has a right and a responsibility to make sure these are available to everyone. Firms are committed to *production for use*, which means that the purpose of production is to make things that are necessary, useful, and beneficial. While profit is of course important to the survival of any firm, those profits are made without manipulating society's needs and desires. Through a commitment to *sustainable development*, firms make decisions that are good for communities and ensure that resources will be available for generations to come. A commitment to *participatory governance* brings together public officials, worker-owners, and representatives from other stakeholder groups to engage in open-minded dialogue and find the best ways forward. These collaborations result in transparency, accountability, and innovation. Through a commit-



ment to *healthy communities*, we recognize that we share one Earth and that our global interests are inextricably tied to our local decisions. Democratic socialism gives us the freedom, security, and opportunity to do what is best for ourselves, for our communities, and for our planet.

Democratic socialism joins two of the most inspired and practical political and economic systems humans have ever known: democracy and socialism. It creates opportunities for each of us to realize our genius, leadership potential, and capac-

ity to contribute to society and flourish. These opportunities are freely available to people of every class, race, gender, age, national origin, sexual orientation, religion, and ability. We *can* have it all—material comfort; affordable, healthy, and safe products; housing; medical care; security in our old age; beneficial trade relationships; jobs; and stable prices, as well as a clean environment and ethical relationships with one another. Democratic socialism delivers the American Dream with peace and social harmony. 

Chapter 6: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Match the type of cooperative (left column) with its definition (right column).

A. Worker-owned B. Producer/marketing C. Purchasing/retail D. Consumer	i. Customers join and have an ownership stake in the business. ii. Businesses come together under one label to advertise. iii. Businesses come together under one label to buy inputs. iv. People who work in the organization own it.
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2. Choose the correct meaning of the radical assumption of surplus.
 - A.** The natural world provides more resources than people need and want.
 - B.** At all points of production, quantity supplied is greater than quantity demanded.
 - C.** When people make products, they naturally make more than they need for themselves.
 - D.** The benefits that individuals get when they pay less money than they would have been willing to pay, and that firms get when they make more money than they would have been willing to accept.

3. In a privately owned window company, each week the owner pays \$1,250 in labor costs and \$3,000 in capital, raw material, and support workers (including the owner's own salary). The company earns \$5,000 per week. According to radical theorists, the surplus value is _____. It is produced by the _____ and is taken by the _____.
 - A.** \$750; laborers; capitalists
 - B.** \$2,000; workers; owners
 - C.** \$3,750; bourgeoisie; proletariat
 - D.** \$750; workers; workers

4. Which of the following statements are true about capitalist competition according to radicals? Choose all that apply.

- A.** The bourgeoisie are not necessarily bad people.
- B.** Profit maximization is the primary measure of success.
- C.** It's a dog-eat-dog world where only the winners survive.
- D.** Owners are stuck in a bad system that pushes them to do the wrong thing.

5. In a worker-owned window company, each week the co-owners pay \$1,250 in productive labor costs and \$3,000 in capital, raw material, and support labor costs per week. The company earns \$5,000 per week. According to radical theorists, the surplus value is _____. It is produced by the _____ and is taken by the _____.

- A.** \$750; laborers; capitalists
- B.** \$2,000; workers; owners
- C.** \$3,750; bourgeoisie; proletariat
- D.** \$750; workers; workers

6. Which of the following statements are true about coordination among competitors in democratic socialism? Choose all that apply.

- A.** Co-workers are not necessarily good people.
- B.** Profit is important, but not more important than the well-being of people and the planet.
- C.** In unity there is strength, so when cooperatively owned firms do well it benefits everyone in the community, including competitors.
- D.** Co-owners are stuck in a good system that pushes them to do the right thing.

Use the Six-Core Cube Guide to answer the next two questions.

7. Advances in artificial intelligence are being used to more efficiently fill containers of personal-care products such as shampoo, hand lotion, toothpaste, and liquid soap. As a result, workers are laid off. Choose the core point of capitalism that best fits this scenario and reveal the visible suffering.

- A.** Top-Down Governance; harmful products
- B.** Individuals at Risk; inaccessible, low-quality health care
- C.** Unhealthy Communities; unfair trade relationships
- D.** Private Ownership; mass poverty

- 8.** Advances in artificial intelligence are being used to more efficiently fill containers of personal-care products such as shampoo, hand lotion, toothpaste, and liquid soap. As a result, worker-owners take an extra day off every week. Choose the core point of democratic socialism that best fits this scenario and reveal the invisible synergy.
- A.** Participatory Governance; safe and helpful products
 - B.** Social Safeguards; universal, first-rate health care
 - C.** Healthy Communities; mutually beneficial trade relationships
 - D.** Cooperative Ownership; prosperity
- 9.** According to radicals, all the following are examples of connection that occur in democratic socialism EXCEPT:
- A.** Workers have a voice and a vote in the firm's mission.
 - B.** Workers contribute something of meaning, beauty, and usefulness to the world.
 - C.** Workers are either winners or losers in their firms, so when one is promoted, another is demoted.
 - D.** Workers have control over and rights to the products they make.
- 10.** Which of the following are radical policies?
- A.** Reject capitalism
 - B.** Embrace democratic socialism
 - C.** Prioritize the common good
 - D.** All of the above

Answers

1. A – iv, B – ii, C – iii, D – i **2.** C **3.** A **4.** A, B, C, & D **5.** D **6.** A, B, C, & D **7.** D **8.** D **9.** C **10.** D

Chapter 6: Key Terms

Accumulation of capital

Alienation

Class process

Class struggle

Collective creation of value

Connection

Consumer cooperatives

Consumerism

Cooperatives

Dynamic interactions over surplus

Exploitation

Holistic

Invisible synergy

Labor theory of value

Mutual interest

Necessary labor

Pressure for bad

Pressure for good

Producer/marketing

cooperatives

Purchasing/retail cooperatives

Reserve army of the

unemployed

Six core points of capitalism

- Individuals at risk
- Private ownership
- Production for profit
- Top-down governance
- Unhealthy communities
- Unsustainable growth

Six core points of

democratic socialism

- Cooperative ownership
- Healthy communities
- Participatory governance
- Production for use
- Social safeguards
- Sustainable development

Surplus

Surplus labor

Surplus value

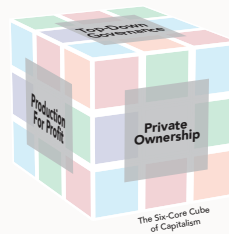
Visible suffering

Worker-owned cooperatives

Answer Key to Exercise 6.3

Capitalism

- A.** Name the problem.
Rising temperatures.



- B.** Identify the relevant core point.

Six Core Points of Capitalism

- ☐ Private Ownership
- ☐ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☒ Unsustainable Growth
- ☐ Unhealthy Communities

- C.** Summarize the meaning of that core point.
Society uses up resources without considering how those decisions will affect people in the future.

- D.** Reveal the visible suffering (outcome).
Pollution and climate crisis.

Democratic Socialism

- A.** Name the problem.
Rising temperatures.



- B.** Identify the relevant core point.

Six Core Points of Democratic Socialism

- ☐ Cooperative Ownership
- ☐ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☒ Sustainable Development
- ☐ Healthy Communities

- C.** Summarize the meaning of that core point.
Society uses resources wisely today and protects them for future generations.

- D.** Reveal the invisible synergy (outcome).
Clean environment.



7 Tools to Get Started

There's an old economics joke about a traveler who visits an island inhabited by cannibals. He passes by a butcher shop that specializes in human brains. The sign in the window reads: "Artists' Brains, \$9/lb—Philosophers' Brains, \$12/lb—Scientists' Brains, \$15/lb—Economists' Brains, \$19/lb."

"Wow!" the traveler exclaims. "Those economists' brains must be popular."

The butcher overhears and says, "Are you kidding? Do you have any idea how many economists you have to kill to get a pound of brains?!"

When you're done groaning, let me tell you the VOTE Program's twist on this scenario. It will help you think about our three different perspectives.

"Wow!" the traveler exclaims. "Those economists' brains are expensive. They must be in demand."

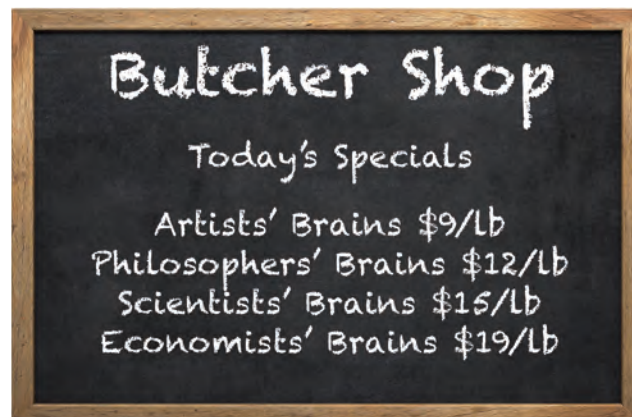
"All brains are in demand," a liberal shopper says, "but economists' brains are by far the tastiest. Everyone loves them, but this butcher has cornered the market. Now he takes advantage of us consumers by purposely offering fewer econ-

omists' brains for sale, and then he jacks up his prices. It's outrageous! We need government to protect consumers and the other butchers from this kind of unfair advantage by regulating the market."

The conservative butcher says, "I'm not doing anything wrong. You've got it all wrong. This is just a matter of supply and demand. It's true that economists' brains are more popular, but do you have any idea how many economists I have to kill to get a pound of brains?! That's what drives up the prices. I'm not taking advantage of consumers, and nothing is stopping the other butchers from selling economists' brains at lower prices. It's a free market."

The butcher's radical apprentice grumbles, "Hah! You've both got it wrong. I'm the one doing all the work of killing the economists, yet I'm getting paid

a pittance. I can't even afford to buy the economists' brains that I produce! The price of those brains is high because of the drive for profit. What we ought to do is switch from capitalism to democratic socialism. If this butcher shop were owned by the workers, and all the firms on our



island were cooperatively owned, we would all get paid what we actually contribute. Then we could all afford these tasty economists' brains."

We don't live on an island of cannibals, so we can't have an informed opinion about this debate—but we *can* have informed opinions about the economic debates that shape every aspect of life where we live. You're about to get into the nitty-gritty details of those debates. You've been through basic training—learned the philosophy and history of economic thought as well

as conventional and radical theory. There are just two more things to cover so you'll be perfectly prepared to dive into the issues. First, you'll need to make sure you're not bringing along a load of stereotypes about the different perspectives. They will weigh you down, and this mission will never get off the ground. Second, you'll need to learn a few new radical and conventional tools. We'll be using them to analyze the first two economic issues in the VOTE Program, which are Agriculture and Product Safety.

Challenging Stereotypes

Radicals, conservatives, and liberals don't agree on the causes of economic problems, and so it's no surprise that they don't agree on the best possible solutions to those problems. In fact, while it may seem like the three perspectives disagree on just about everything except that puppies and kittens are cute, they actually all want the same general outcome for each issue. Are you skeptical? You're not alone. The idea that all three perspectives want the same outcome is the most controversial aspect of the VOTE Program. Many people disagree. They protest that conservatives, radicals, and liberals don't all want a clean environment, affordable housing for all, and an end to poverty. "No!" I often hear from students and other economists. "Some perspectives don't want those things for everyone!" They point to policies proposed by each perspective that potentially could, or do (in their respective opinions), lead to harmful outcomes for some people. Here are examples of the kinds of things I hear again and again when I teach the three perspectives side by side in the VOTE Program:

"They want to take away our health care and let people die!"

"They want to drive businesses under with endless regulations!"

"They want to give freeloaders the same rewards we give hard-working people."

I believe that when you understand the visions from which liberals, radicals, and conservatives operate—the visions for economic well-being I described in chapters 5 and 6—then you will understand the world each perspective hopes to create. Their respective policy proposals come from a utopian idea of what would work in an ideal world—a world in which their perspective reigns supreme. In every case, all three perspectives really do want the exact same outcomes.

It's only when you're standing outside their worldviews and looking in that it might seem as if they don't.

When you realize that the three perspectives share the same goals—each is searching for solutions that will create prosperity for all of us—then you don't have to be afraid of ideas that challenge your own. You can instead become curious and open-minded. This is the golden moment. With that mental attitude, you are in a position to be inspired by different ideas, and that inspiration can spark brilliant new solutions that reveal the best way forward. The shared problem statements and shared goals for the twelve urgent economic issues covered in the VOTE Program are described in table 7.1.

	Issue	Shared Problem	Shared Goal
	Agriculture	Instability in farming threatens food security	A secure food system
	Product Safety	Products can cause harm	The protection that people want
	Livelihood	Poverty causes suffering and deprivation	An end to poverty
	Housing	Unaffordable housing leads to homelessness	Affordable housing for all
	Income Distribution	Income inequality can cause social conflict	Income that rewards people fairly
	The Environment	Polluted air, water, and land can be dangerous	Breathable air, drinkable water, and habitable land
	Health Care	Lack of access to high-quality health care	Health and well-being for all
	Market Power	Large firms can abuse their power	The best products at reasonable prices
	Retirement Security	Seniors are economically vulnerable	Care and peace of mind for the elderly
	The Federal Budget	Irresponsible budgeting and money management	Financial freedom to invest in our future
	International Trade	When trade relationships break down, society loses out	Improved standard of living through trade
	Economic Stability	Inflation and unemployment undermine the well-being of society	Stable prices and full employment

Table 7.1
Shared Problem Statements and Shared Goals

What Is a Stereotype?

Have you ever felt as if you weren't being seen for who you really are—as a unique and complex individual? Have you ever felt that you never even had a chance to be seen as an individual because the other person already made up their mind about you based on how you look, or act, or where you're from? It's a terribly frustrating feeling. A **stereotype** is an oversimplified—and often unflattering and unfair—idea about a group of people, and if you happen to belong to that group, or are in some way associated with that group, the stereotype gets slapped on you without you being able to do anything about it. The other person may not even be conscious of making automatic assumptions about you. Whether conscious or unconscious, stereotypes make it nearly impossible for others to form a fair impression of who you really are. It doesn't matter that you happen to be a complex and unique person with a great sense of humor and a terrible singing voice, or that you are obsessed with video games and someday want to travel to every country on the Equator. When people judge you through the lenses of their stereotypes, they sum you up in the most narrow and ungenerous way. You might find yourself seething with resentment, shame, rage, and frustration. You might find yourself stereotyping them in return. Do you see the situation unfolding here? No one is being considered as a complex individual, no one is being given the benefit

A stereotype is an oversimplified—and often unflattering and unfair—idea about a group of people, and if you happen to belong to that group, or are in some way associated with that group, the stereotype gets slapped on you without you being able to do anything about it.

of the doubt, and no one is open to being curious. How likely are you to start a respectful dialogue with someone you stereotype, or with someone who stereotypes you?

Let's be honest about the fact that not only are we sometimes stereotyped, we also stereotype others. It's an unfortunate part of being human that we all carry around certain preconceived ideas about other groups of people. They are most often associated with gender, race, religion, sexual orientation, national origin, class, age, ability, political and economic perspectives, culture, and legal status, as well as a host of other

categories. Why do stereotypes even exist? Sociologists and psychologists who have studied this phenomenon say stereotypes serve, in part, to make us feel better about our own group identity. It may be the least noble characteristic of humans that to feel better about ourselves, we often put down others.

Stereotyping is a lazy habit. For example, consider this one: "All women love shoes." Some people argue that there's a grain of truth in stereotypes, but the problem with that defense is that even if a woman coincidentally happens to love shoes, it's never fair or accurate to assume *all* women love shoes. When we stereotype, we're too lazy to be curious about the other person. We don't bother to find out what the individual actually likes or thinks or wants or knows, so we pull out the old stereotype and feel smugly supe-

rior or comfortably complacent. And of course we take for granted that our own group is made up of unique individuals who have diverse characteristics—shoe lovers, shoe haters, shoe-“meh” people. Can’t we just realize the same is true for people who are not in our group? It seems like the simplest thing to do, yet we all fail to reject the stereotypes we unconsciously and consciously hold about people who are not in our political parties, religions, social classes, genders, races, and so on. Think of challenging stereotypes as a tool that all three perspectives can share.

You might be thinking all this talk about stereotyping is unnecessary because they are mostly harmless and sometimes even funny. After all, some of the best stand-up comedy plays off stereotypes, right? Maybe. But in the context of the VOTE Program, stereotypes are a buzzkill. They make it impossible for you to hear all the perspectives with an open mind. Imagine if before you even hear their ideas, you’re thinking, “Those radicals are all dangerous extremists,” or “Those liberals are idiots,” or “Those conservatives are all liars.” I guarantee that without an open mind you will struggle with the Issues chapters in this book, and you will have a hard time in life when you interact with people who are different from you and who think differently from you. Every religion and culture has some version of the idea “Do unto others as you would have others do unto you.” Please keep that in mind when you run up against stereotypes about conservatives, liberals, and radicals—and especially keep this in mind if you’re tempted to fall back on them when you disagree with other perspectives. Rejecting stereotypes will help you be a better person, and it will open you up to a rich variety of thoughts and opinions.

One more thing to keep in mind about stereotypes: there’s a difference between people who are socially liberal, conservative, or radical and those who are economically radical, conservative, or liberal. Views on gun laws, abortion, legalizing



marijuana, the separation of church and state, and other social questions don't necessarily link to economic views. Because all these social issues are hotly debated in contemporary society, it's easy to get confused. Just remember that an economic conservative can be anti-gun, an economic radical can be against legalizing marijuana, and an economic liberal can be against the separation of church and state. Social views and economic perspectives don't always match up. In the VOTE Program, we're only exploring economic views.

It's going to be useful to recognize some of the most common stereotypes about each perspective so you can challenge them in your own mind and when they come up in debates and conversation. These are by no means all the ones you'll hear in the world, but this sampling will give you practice recognizing and responding to biases about diverse points of view.

Four Common Stereotypes about Liberals

Stereotype 1: Liberals Believe the Solution to All Problems Is a Government Handout. The stereotype of the bleeding-heart liberal who wants to open the government's wallet and pass out tax dollars to anyone who whines has long been used against liberals when they want to institute social programs to help struggling businesses, families, and individuals. It's the helpful hand of government that lifts people out of poverty, say liberals, through programs that create equal opportunities that give everyone a fair shot to compete in capitalism. Government programs are not handouts; they are hand-ups, according to liberals. And government intervention doesn't weaken us—it strengthens us as a nation. Whether government support is in the form of Head Start programs for preschoolers, food assistance for the hungry, drug rehabilitation programs that divert people from prisons, or job

training programs that give people marketable skills, liberals say fair-market capitalism opens the doors to prosperity for all.

Liberals say a civil society is one where we all take care of those who need help so that everyone can realize their potential and become contributing members of society. Government programs correct inequalities and power differences that make the playing field uneven. Liberals say capitalism flourishes when everyone has equal access to opportunities, so it's smart to feed people who are hungry, educate people who are illiterate, and give job training to the unemployed. From the liberal perspective, this kind of investment is the only way more Americans can realize their potential and use their talents and skills to make our nation as prosperous as it can be.

Stereotype 2: Democrats Are the Party of the Elite and the Wishy-Washy. The stereotype of the Democrats—the political party of the liberals—as constantly waffling and flip-flopping on policy is untrue and unfair, say liberals. They point out that decisiveness may look like strength, but it's like the old saying, “When all you have is a hammer, every problem looks like a nail.” Liberals say that instead of hammering away at every problem and saying, “See how strong and decisive I am!” it makes more sense to study the problem from many angles to find the best solutions. By understanding the context and circumstances of problems and entertaining different ideas, we can find the best solutions to create an economy that works for the greater good. It's not wishy-washy to come up with complex solutions to problems, say liberals, and it's not elite to be intelligent. The idea that liberals are elitists with PhDs and law degrees who talk over everyone else's head while nothing gets done in Washington couldn't be further from the truth. Liberals come from every social class and educational background. But they say if “elitism” means not sticking your fingers in your ears and

blocking out information that doesn't agree with your preconceived notions, then they proudly claim the title.

Liberals believe it's just good sense to make informed decisions by incorporating new information and doing research to chart the best course and then change direction when new information comes to light. Could that look like flip-flopping? Yes. But liberals call it wisdom when leaders' and policymakers' ideas become more nuanced with new information. They say we should embrace complexity and use our intelligence to develop the best solutions. Liberals like to quote John Maynard Keynes, who said, "When the facts change, I change my mind—what do you do, sir?"

Stereotype 3: Liberals Are “Politically Correct.” A common stereotype of liberals is that they always want to give some people special treatment—LGBTQ people, women, people of color, people with disabilities, and so on. Liberals say the term *politically correct* is a put-down because it suggests they are insincere in their commitment to equality and only interested in their personal gain (such as votes on election day). Not true, say liberals. Equality is the very heart of their economic values. They say that their commitment to fair play opens the door wider for more people to participate in capitalism and thereby improve the economy. They would like you to please note that they are not calling for “special treatment” but for equal opportunities for all, which is a core American ideal. They say they are often misunderstood as wanting equal outcomes for all, but that's not true. They believe it's up to the individual to work hard and persevere in order to succeed. They offer people a fair start on the ladder to success, but we all have to do our own climbing. Liberals are proud of their successes securing the rights of people with disabilities to have equal access to jobs, passing the Fair Pay Act, and more. The foundation of the liberal economic perspective is that when more people are able to contribute to

society, the whole nation prospers. They believe we achieve the highest participation by using government programs to remove barriers of discrimination and lack of opportunity.

Liberals say that lack of opportunity can also come about because of personal bad luck—maybe you were born into a family that struggled in poverty for generations, or your home was carried away in a flood, or medical bills led you to bankruptcy. They say that is why we need government programs to help people get back on their feet. Fair-market capitalism gives all people a chance to compete and achieve the wealth and well-being we all desire. Liberals see themselves as humanistic and inclusive—as people who act from conscience. They see themselves as standing up for the rules and making sure everyone plays fair so that capitalism can work for individuals and for the nation as a whole.

Stereotype 4: Liberals Are Antibusiness. Often during budget debates, liberals are stereotyped as being “antibusiness” when they advocate for taxes on the rich and regulations on firms. This couldn't be further from the truth, say liberals, who see themselves as champions of capitalism. They believe business makes us all better off by creating jobs and making the things people want and need, and liberals say that's precisely why we need a partnership between business and government. Regulations that create transparency with accountability enable firms to thrive in a fair marketplace, they say, and also protect firms from a few bad apples crashing the whole system and spoiling it for everyone. For instance, liberals say that if we didn't have environmental regulations, a few firms could end up destroying the resources that other firms need to produce and prosper in capitalism, such as clean water, clean air, and healthy forests. Without oversight, say liberals, we kill the goose that lays the golden egg. They believe government helps business by protecting fair competition and ensuring that a

few firms don't end up with the power to manipulate prices.

Liberals believe government opportunity programs and taxes on the wealthy protect capitalism because these measures prevent extreme levels of inequality. They worry that if the income divide grows too wide, people will take to the streets out of frustration and reject capitalism altogether, which would threaten our whole way of life. For liberals, taxes on the wealthy actually grow the economy because they fund the government programs that put money in people's pockets, and then people go out and spend it, which is very good for business. As demand goes up, firms expand and create more jobs, and the whole economic system prospers. So liberals are proud to be what they believe is the party of the responsible taxers and smart spenders who prime the pump of the economy when necessary, pay it back as the economy grows, and, throughout it all, support businesses to thrive.

Four Common Stereotypes about Radicals

Stereotype 1: Radicals Are a Bunch of Idealistic Hippies. Radicals are often lampooned as 1960s hippie throwbacks who believe that one day we'll all unite in solidarity, hold hands, and sing "Kum ba yah" while we work together in perfect cooperation. Radicals laugh at this stereotype. They say of course worker-owned enterprises don't rely on everyone getting along or sacrificing their individual needs for the greater good. In fact, they say, democratic socialism is actually the most self-interested economic system because when workers have skin in the game as owners of their firms, and when everyone has a voice in participatory government, then people have the best chances of getting their individual needs met. To radicals, the most self-interested way to survive in a competitive world is to join

forces with others who share your goals and interests. They say the wolf who runs with a pack eats better than the wolf who hunts alone.

If "idealistic" means believing that there's a better economic system than capitalism, then radicals proudly claim the title. They say there is always a pressure for bad in capitalism, which always leads to the visible suffering of humankind. In contrast, they say democratic socialism creates a pressure for good, so even if you're a nasty, selfish, greedy individual, it doesn't matter—you'll work collaboratively with others because it's the best way to get your needs met. They believe it's self-interested—not idealistic—to collaborate, coordinate, and cooperate.

Stereotype 2: Democratic Socialists Are Anti-wealth. No human is anti-wealth, if by "wealth" we mean getting our needs and wants met, say radicals. They say this stereotype is completely unfounded because of course everyone wants the material things that help us survive, thrive, and flourish—kitchen gadgets, Broadway shows, energy drinks, headphones, colored pens, sneakers with gel soles, and everything else we value. Rejecting capitalism doesn't mean there won't be wealth, they say. Under democratic socialism, firms still need to make a profit to stay in business. There are still markets and prices, and businesses still produce the things people want. Radicals say if the worker-owned firms make rickety bicycles or moldy bread, or if the packages don't get delivered on time, or if companies squander their resources, then those businesses won't survive. The big difference between democratic socialism and capitalism is that it's up to the worker-owners to decide how wealth is produced, consumed, and distributed, and radicals say this is how we end up with the invisible synergy that enables society to flourish.

Radicals say it's actually capitalism that's anti-wealth—for the 99 percent. The way they see it, when you work for a low wage, and you not

only have to pay your rent and food and phone bills from that paycheck, but you also have to pay for your own health care, your own college tuition, your own bus pass to get to work, and more, you're left with less than nothing. Under capitalism, the majority of people are struggling to dig out from under a mountain of debt, and not because they're buying private helicopters and expensive jewelry, say radicals, but because they're just trying to get their basic needs met. In democratic socialism, social safeguards such as health care, education, housing, transportation, and retirement security are funded through everyone's contributions. Radicals say that even though taxes are higher, people don't have to pay for everything on their own. Society provides those big-ticket items such as a college education at much lower costs than each person would have to pay to provide them individually. Radicals say that under democratic socialism, we get levels of wealth, security, and well-being that only the 1 percent enjoy now under capitalism.

Stereotype 3: Radicals Want to Pay an Uneducated Janitor the Same as an Inventor with a PhD. This stereotype is completely untrue. There is no rule in democratic socialism that says everyone in a worker-owned enterprise has to be paid the same amount. According to radicals, wages can be based on skill, experience, education, seniority, and many other factors. The worker-owners decide for themselves the salaries, base pay, hours, bonuses, vacation time, paid leave, and more. What is ensured, radicals say, is that in democratic socialism there is dramatically less discrepancy between what the lowest-paid and highest-paid workers earn. Instead of the highest-paid workers making four hundred times the average wage laborer's salary, it might be more like six or seven times more. So the janitor probably won't get paid the same as the inventor of the company's best-selling new widget, but the disparity in pay between the

two is a lot less than in capitalism, say radicals, and that means more money is available to fund everyone's well-being.

Radicals don't agree with the capitalist idea that entrepreneurs are a fourth resource—as important as land, labor, and capital. The way they look at it, while the chef in your favorite restaurant is important, you wouldn't dine there if the service was bad, or if the dishes were dirty, or if the floor was sticky. They say you can have a great idea about creating a car company and take great financial risks and work day and night—but without the engineers, the mechanics, the welders, the painters, and the administrative assistants, you won't have any cars. Sure, entrepreneurs are important, say radicals, but worker-owned enterprises operate with respect for the contributions of everyone's work, understanding that each person plays a role in the overall success of the business.

Stereotype 4: Radicals Want a Revolution.

This stereotype is often used to scare people away from listening to the ideas that radicals have to offer. In fact, say radicals, the peaceful change from capitalism to democratic socialism is already under way. They point to the tens of thousands of cooperatively owned businesses that are already thriving in the United States, turning over billions of dollars annually. They point to the diverse candidates running in local, state, and national elections as democratic socialists. Radicals say Americans are already rejecting capitalism, and more are jumping on the democratic socialism train every day, sickened by the gross income inequality between the 1 percent and the 99 percent.

Radicals believe we don't have to kill off capitalism in a bloody revolution to realize the vision of a world in which it's replaced by a democratic socialist economic system. But they acknowledge that part of the power of capitalism is that it makes us believe it's so monolithic that it can never be changed. Radicals like the quote by anthropologist Margaret Mead: "Never doubt that

a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has." Radicals say change can evolve in small increments, like tiny grains of sand shifting a little at a time until suddenly they hit a tipping point and turn into a landslide.

Four Common Stereotypes about Conservatives

Stereotype 1: Conservatives Are Greedy and Heartless. This stereotype is often meant as a put-down, implying that conservatives trample on everyone else at the dessert buffet so they can grab the biggest piece of the pie for themselves. Conservatives have a very different way of looking at it. They say that if by "greedy" you mean motivated to make the most profit, then yes. In that context, greed is the best possible fuel for the economy. They believe that when entrepreneurs work hard to maximize their profit and earn that big piece of pie, they create jobs for everyone and grow the entire economy. Then all those other people at the dessert buffet get their pie, too—because the profit motive leads to a bigger pie for everyone. Conservative economists like the old saying, "A rising tide lifts all boats." They say everyone benefits when we pursue our own self-interest; however, if we have to split the pie equally, we're all going to end up with a lousy crumb of crust.

Conservatives are also stereotyped as heartless and unsympathetic when it comes to helping those less fortunate. But conservatives say they are as concerned as anyone else about living in a society where all people thrive and have what they need to contribute and prosper. Charitable giving is a long-standing practice among conservatives, and not just out of a sense of altruism. Taking care of those less fortunate is in their own self-interest because it makes the streets safer, the schools better, and communities more pleasant

places to live. And they say philanthropy is good business because it gives firms a good reputation. This stereotype is usually used as a put-down when conservatives object to social welfare programs. But from their point of view, government handouts don't do anyone any favors, because they actually enable people to be unproductive. As former conservative House of Representatives leader Paul Ryan (a Republican from Wisconsin) once said, those welfare programs turn the "safety net into a hammock that lulls able-bodied people into complacency and dependence." Conservatives believe free-market capitalism creates the incentives for people to make the choices that will bring them the happiness they want. They are strong advocates for individuals taking personal responsibility for themselves and their families by staying in school, working hard, seizing opportunities, staying out of trouble with the law, and otherwise being productive members of society.

Stereotype 2: Republicans Are the Party of the Rich. It's simply not true that conservatives are all rich. According to an oft-cited 2016 study by Florida State University political scientist Douglas Ahler and data researcher Gaurav Sood, only 2 percent of Republicans made more than \$250,000 a year. The researchers also found that the majorities of both the Republican Party and the Democratic Party were middle class (the research did not include democratic socialists). So why does this stereotype of the rich Republican persist? The researchers say the mass media popularizes certain images of Republicans so that people end up forming a stereotypical idea from what they see, read, and hear in the news. This leaves everyone with a skewed impression of all the political parties. We end up believing there is a deeper income divide among Republicans and Democrats than actually exists.

When critics say conservatives just want to make the rich richer, conservatives respond with a hearty, "Yes, and that's a good thing. We want to reward the wealthy because they're the job

creators.” They say it’s the rich who prime the pump of the economy by expanding industry and creating employment opportunities. And they say the rich create the kinds of jobs that help the country produce the things we want and need, as opposed to creating more jobs for government bureaucrats, who only slow down innovation with red tape and regulations. Conservatives view entrepreneurs as a fourth resource (in addition to land, labor, and capital), and they see capitalism as a reward system for those hardworking and creative geniuses. “We want them to get rich,” conservatives say. “Wealth motivates entrepreneurs to create the things that make our lives better.” They believe that without the profit motive, those treasured members of society would not have put in the sweat and hard work and taken on the risks that brought us lasers, wrinkle-free shirts, cell phones, computers, airlines, and amusement parks. Without the profit motive, there would be no jobs or innovations, and communities would fail to thrive. Conservatives support the rich to keep creating wealth because they believe that is what moves us all steadily upward toward a more prosperous society.

Stereotype 3: Conservatives Want to Pretend Everyone Has an Equal Chance to Succeed.

Please remember that conservatives include people of all genders, races, religions, sexual orientations, physical abilities, and every other kind of diversity. They know as well as anyone else that racism, sexism, and other forms of discrimination exist. But economic conservatives believe social justice and equality come about through free-market capitalism because it gives all people the incentives and the opportunities to compete equally to achieve the wealth and well-being they desire. Conservatives see themselves as moral, responsible adults who take charge of their own lives, and they expect others to do the same. They believe people can rise on their own merits because the system of capitalism is color-blind, gender-blind, and blind to

other differences. If a person produces something that others demand, prosperity is created. They say it’s that simple.

From the early days of classical theory, free-market capitalists spoke out against slavery, and the neoclassical economists continued this tradition. They believe humans should determine for themselves the best use of their privately owned resources, including to whom and under what conditions to sell their labor. They believe slavery—an economic system where someone owns the labor of another person—is incompatible with capitalism because it leads to a misallocation of resources. For example, an enslaved person may have been best employed as a lawyer, while a plantation owner might have been best used to dig ditches. A nineteenth-century Scottish philosopher named Thomas Carlyle criticized classical theory, calling it a “dismal science” for its anti-slavery position. Other economists slammed him for it, although Carlyle’s label persists to this day. Most people who use this phrase mistakenly think it means that economics is boring or constantly delivering bad news, but economic conservatives proudly use the label as proof that they’ve always taken an anti-slavery position.

Stereotype 4: Conservatives Are Stubborn and Pigheaded.

A common stereotype of conservatives is that they won’t compromise, and even actively stonewall, when they don’t get their way. If their critics mean they won’t compromise their principles, then “guilty as charged,” say conservatives, who believe it’s an excellent thing for people to stand up for what they believe. Conservatives say it’s not stubborn or pigheaded to hold to one’s strong beliefs in the face of opposition. In fact, they say this is something to cherish and preserve because it’s only when they bring their convictions to the table that they can make their best contributions to the conversation and be an integral part of the process that moves our nation forward.

A related stereotype is that conservatives stub-

bornly resist change. Please don't think conservatives are just a bunch of stodgy old-timers who grump about how things used to be better when they were young and about how the world is going to ruin. People who align with the conservative economic perspective are all ages and from all walks of life. What they share is the belief that free-market capitalism is the champion of economic innovation, progress, and advancements. They defend conservative principles because they believe these are the only way to achieve a thriving

society. Conservatives say their uncompromising position is a good thing because we shouldn't compromise on what we know brings us the greatest prosperity. Furthermore, they say that this is what we're supposed to do in a democracy. We're supposed to care deeply about our positions and try to persuade others. They say that in a democracy we should not water down our ideals just so we can unite in agreement. Conservatives believe compromise should not mean selling out.

Exercise 7.1: Think Again

Choose one of the stereotypes below and say if it's true or false. If false, explain to a friend or classmate your rationale. The Answer Key can be found at the end of this chapter.

1. Conservatives are greedy.
2. Radicals are anti-wealth.
3. Liberals are "politically correct."
4. Republicans are stubborn.
5. Democrats are wishy-washy.
6. Democratic socialists want a bloody revolution.

Expanding the Models for Agriculture and Product Safety

In the next two chapters, we'll be exploring the first two VOTE issues: Agriculture and Product Safety. Before we delve into these and the other issues, we'll start by learning new tools or new applications of existing tools to help us analyze the issues from the conventional and radical perspectives. It won't keep you out of the conversation to skip the technical tools, but they will help you deepen your understanding.

Conventional Theory Tools

Conservatives and liberals say the secret to capitalism's unprecedented success as an economic system that brings us untold wealth is the invisible hand that guides it—the unseen force created by countless price signals, which direct us to create maximum economic well-being without any one person, entity, or government directing the activities of the economy. Conventional theorists see equilibrium as the point on the graph that represents the optimal amount of goods and services at the optimal prices. This maximizes our **social welfare**, which is when society uses its resources in the best possible way for the greatest good—no waste, no inefficiency.

Marginal Cost and Marginal Benefit

But how can conventional theorists actually know we are maximizing our social welfare at equilibrium? They look at it in two different ways. Let's use the asparagus market as an example. Remember marginal analysis, where decisions are made by comparing the additional benefit (**marginal benefit**) and the additional cost (**marginal cost**) of doing something? The supply curve in figure 7.1 represents farmers' willingness to supply asparagus at different prices. What makes them willing or unwilling? As firms supply more units, their marginal costs go up. There's a complicated explanation for this, which we look at

in a later chapter, but for now just imagine that when the asparagus farmer first grows a crop, the land is rich with nutrients. Putting more units of asparagus into production means the farmer must improve the soil with costly fertilizers, resulting in higher costs. Therefore, the farmer is willing to supply more units only at a higher price. Conventional theorists say the supply curve is the marginal cost (MC) curve.

The demand curve in figure 7.1 represents consumers' willingness to demand asparagus at



different prices. But what makes them willing or unwilling? As people consume more of a product, their marginal benefit (happiness) goes down. The first pound of grilled asparagus gives them more pleasure than the pounds they continue to eat. Consuming more units results in lower additional benefits. Therefore, consumers are willing to demand more units at a lower price. Conventional theorists say the demand curve is the marginal benefit (MB) curve.

At equilibrium, the marginal cost is equal to the marginal benefit. This point is the maximization of our social welfare. We can see it in figure 7.1. Everyone who chooses asparagus can get it, and the asparagus farmers are supplying the right amount, which means resources are being used in the best possible way. You can see why other points on the graph aren't maximizing our social welfare. Looking vertically, at every point to the left of equilibrium quantity (Q^1), the marginal benefit is greater than the marginal cost, which means more resources should be dedicated to asparagus production. And looking vertically, at every point to the right of equilibrium quantity (Q^1) the marginal

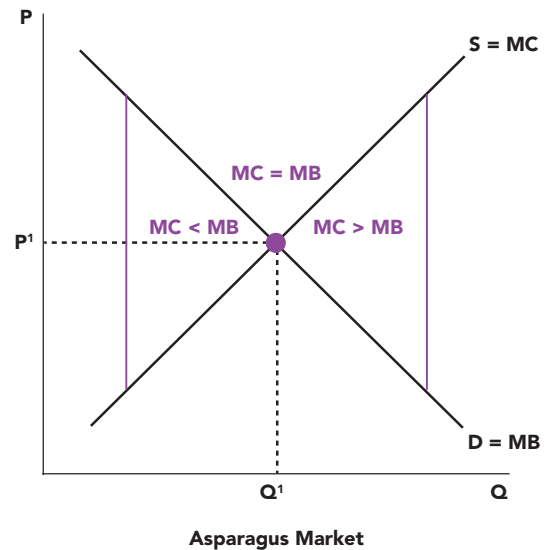


Figure 7.1
Marginal Cost and Marginal Benefit

cost is greater than the marginal benefit, which means that fewer resources should be dedicated to asparagus production. It's only at equilibrium that we're using our resources in the optimal way as a society, where the marginal benefit of any activity equals the marginal cost of that same activity.



Total Surplus

The second way conventional theorists show that equilibrium represents the optimal use of our resources as a society is by looking at the consumer and producer surplus. In the asparagus market, some consumers would actually have been willing to pay more for asparagus (at prices above equilibrium). And some producers would actually have been willing to accept less for asparagus (at prices below equilibrium).

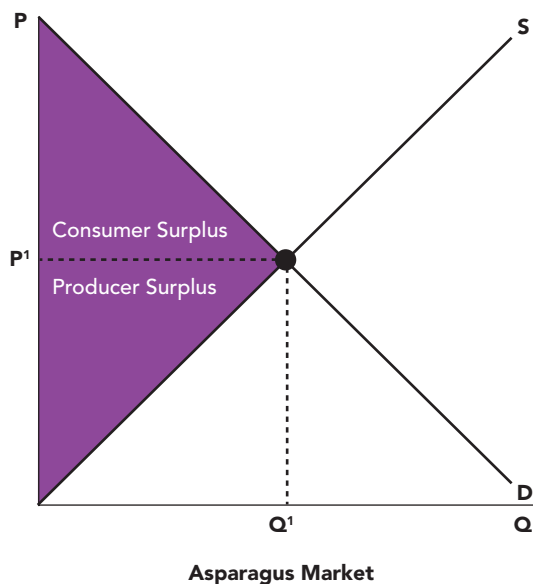


Figure 7.2
Consumer Surplus and Producer Surplus

In figure 7.2, the top triangle (between the equilibrium price and the demand curve) is called the **consumer surplus**—the amount consumers were willing to pay above the equilibrium price. When the market price was \$3.00, for example, and you were willing to pay up to \$4.50 for it because you love grilled asparagus, that \$1.50 difference is the consumer surplus. In this graph the bottom triangle (between the equilibrium price and the supply curve) is called the **producer surplus**—the amount for which producers were willing to sell their asparagus below the equilibrium price. When the market price was \$3.00, for

example, and your firm was willing to sell asparagus for \$1.50, that \$1.50 difference is the producer surplus. Please note that the word *surplus* in this context is different from how we've used it in previous chapters. It refers to the difference between the amount a consumer is willing to pay or a producer is willing to sell and the equilibrium price—not the point at which quantity supplied is greater than quantity demanded, or the amount that is left over after all other expenses are paid.

As you already know, this isn't just about a single asparagus firm. The asparagus market model describes *all* producers and *all* consumers in that market. Together, those two triangles of consumer surplus and producer surplus create the **total surplus**. The entire purple area in figure 7.3 represents the maximization of social welfare, which conventional theorists think of as the sum total of the value gained in society by engaging in trade to improve quality of life. In case it's not perfectly clear from the graph, think about it this way: liberals and conservatives say this is a picture of the optimal satisfaction of our needs and wants regarding asparagus (and every other market, of

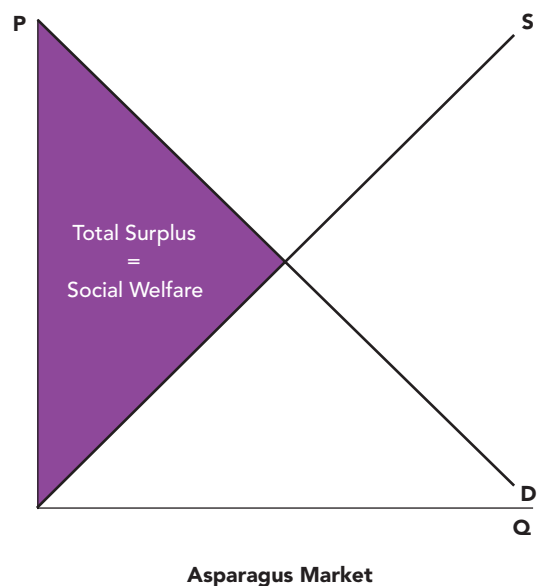


Figure 7.3
Total Surplus and Social Welfare



course—asparagus is just our example). We’re neither overproducing and wasting resources nor are we underproducing and lacking the products we want and need. The important thing to recognize about consumer surplus and producer surplus, say conventional theorists, is that at equilibrium each country’s scarce resources—land, labor, and capital—are used for the most optimal purposes.

Triangle Trade-Off

So how can we apply this tool of social welfare to answer the question of what happens when the market changes because of government involvement? Let’s say you read in the newspaper that new rules for asparagus farmers require them to disclose the names of the pesticides they plan to spray on fields near schools in the coming year, and farmers must have the soil on the borders of those fields tested by an independent laboratory every month to make sure the toxic chemicals are not affecting school grounds. How does this new government regulation impact the asparagus market? Conventional theorists use the Market Change Guide to find out (figure 7.4).

The first step is to *Search*. Looking through the twelve factors, you see that there has been

a regulation imposed on farmers. They have to pay more money for soil testing and other administrative costs. That’s one of the factors that shifts supply. So *Shift* supply to the left—**Left is Less**—which means supply goes down at every price level. Step three is *Slide*. Because supply shifts to the left, asparagus is no longer at equilibrium at the original price. Draw a horizontal line from the original price. It hits the new supply curve first, and the demand curve second. Quantity demanded is greater than quantity supplied. That is a shortage, which means prices start to rise. As prices start to rise, move up and along the supply curve and the demand curve to the new equilibrium price. Step four is *Settle*. The demand and supply curves cross. What do you see? The equilibrium price has increased, and the equilibrium quantity has decreased. You can see this in parts A, B, and C of the Market Change Guide in figure 7.4. But before we talk about part D, there is something new to consider.

In figure 7.5, you can see that because of the regulation, a bite has been taken out of the total surplus—a triangle-shaped bite that represents the lesser amount of asparagus being traded in the market. We call this the **triangle trade-off**.

VOTE Market Change Guide

- A.** Read the relevant news article.
- B.** Name a market that is most affected by this news.
- C.** Determine the market change.
- 1. Search** for the relevant factor.

Demand

- ☐ Income
- ☐ Preference
- ☐ Number of Buyers
- ☐ Availability/Convenience
- ☐ Prices of Comps and Subs
- ☐ Future Expectations

Supply

- ☐ Cost of Inputs
- ☐ Number of Firms
- ☒ Taxes/Subsidies/Regulations
- ☐ Prices of Related Goods
- ☐ Changes in Technology
- ☐ Future Expectations

- 2. Shift** demand or supply curve.

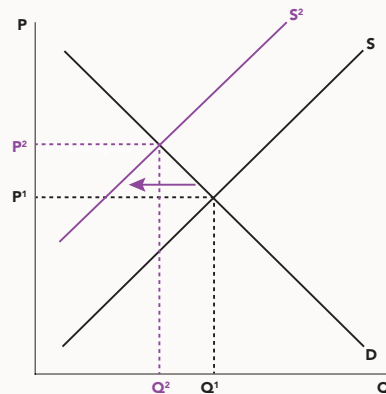
Supply Shifts Left

- 3. Slide** with the price change.

$Q^D > Q^S$, P Tends \uparrow

- 4. Settle** at the new equilibrium.

New Eq. $P \uparrow$ | New Eq. $Q \downarrow$



Market: **Asparagus Market**

- D.** Summarize the conservative and liberal views on this market change.

Conservative

Government interference
hurts society.

Liberal

Government intervention
helps society.

Figure 7.4
Market Change Guide: Asparagus Regulation

Liberals and conservatives agree that the triangle trade-off shows us a technically accurate picture of the change in total surplus when government gets involved in a market. But they disagree about whether the triangle trade-off is good, bad, or neutral. Conservatives read figure 7.5 in the following way: because government got involved, society is now at a lower level of asparagus trade. That gray triangle, which they call the **efficiency loss** or **deadweight loss**, represents the potential trade that could have happened in the market but didn't because of government interference. Conservatives say government interference results in a loss of efficiency for the economy as a whole, which brings us lower social welfare. And they say the problem would have fixed itself because if it became known that certain pesticides were

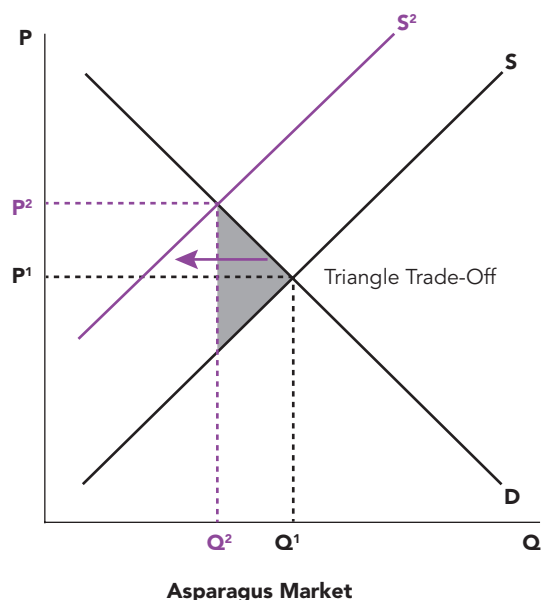


Figure 7.5
Lower Production Triangle Trade-Off

causing harm to children, then either firms would voluntarily change to a safer pesticide or consumers would refuse to buy their products until the firm changed pesticides. In either case, the market would self-correct.

Liberals interpret the triangle trade-off differently. They say there was potential harm that asparagus firms needed to preempt, and the government, through regulation, partnered with the asparagus industry to make sure their production process caused no harm to people. Liberals view that gray triangle as an **equity gain**. It represents the market adjustment that government wisely facilitated. Liberals say government intervention results in a market correction, which ultimately brings us more social welfare.

Now you know how each perspective views government involvement. Check out the answer in part D in figure 7.4.

In the opposite case, when the government gets involved by increasing supply rather than decreasing it, the debate between conservatives and liberals is exactly the same, although the triangle trade-off is on the right side of the equilibrium point. It represents higher production, as seen in figure 7.6. Again, liberals call this an equity gain while conservatives call it an efficiency loss or a deadweight loss.

When it comes to securing our food system and addressing product safety, these are the kinds of heated disagreements that liberals and conservatives have about government involvement and social welfare. The policies we will be debating in chapters 8 and 9 are agricultural subsidies and product safety regulations.

Agricultural (Farm) Subsidies. These are financial supports given by the government to producers of agricultural products. There are a variety of farm subsidies, including cash payments, crop insurance, disaster assistance, agricultural research, and more. Subsidies are a liberal program. As you can see in figure 7.7, firms

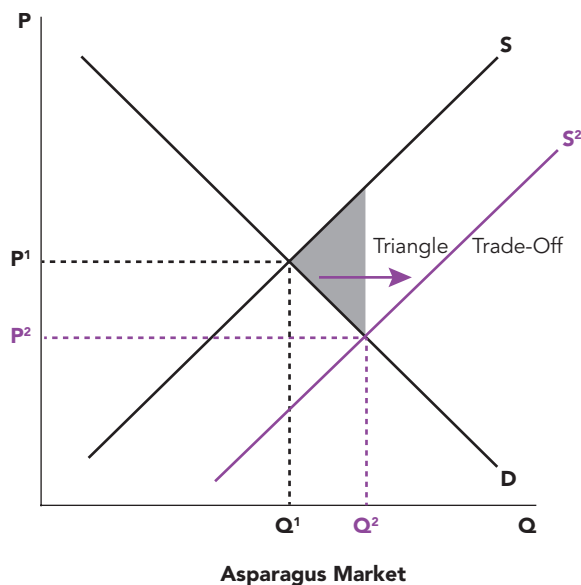


Figure 7.6
Higher Production Triangle Trade-Off

become more willing to supply and the supply curve shifts to the right, resulting in lower equilibrium prices and higher equilibrium quantities.

Liberals think subsidies are a great idea because they help farmers stay in business while keeping food prices down for consumers, and they keep us from becoming dependent on foreign countries for our food. But conservatives are opposed to agricultural subsidies. They say taxpayer dollars are used to pay farmers to grow things that consumers might not even want. As free-market proponents, they want farmers to follow price signals, which will tell them if it's time to switch crops or get out of farming altogether. By considering their own self-interest, farmers will end up making the right foods in the right amounts and at the right prices.

Product Safety Regulations. These are standards for design, manufacture, distribution, and sale of products that are intended to prevent risks to consumers. Product safety regulations are liberal programs. There are a wide range of government agencies that oversee consumer safety, including the Food and Drug Administration, the Consumer Product Safety Commission, the

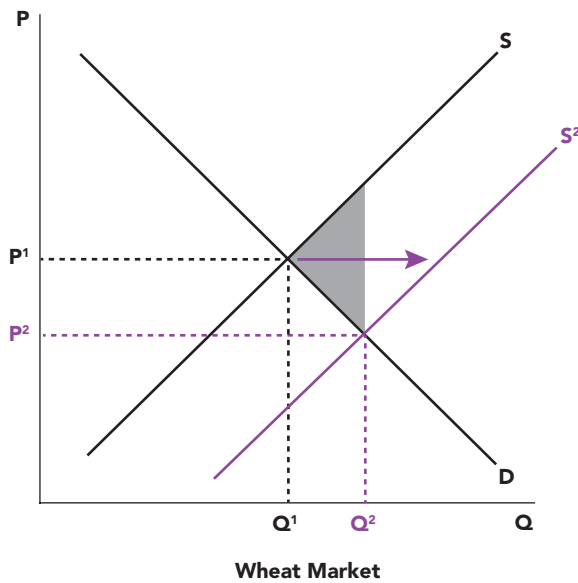


Figure 7.7
Subsidies in the Wheat Market

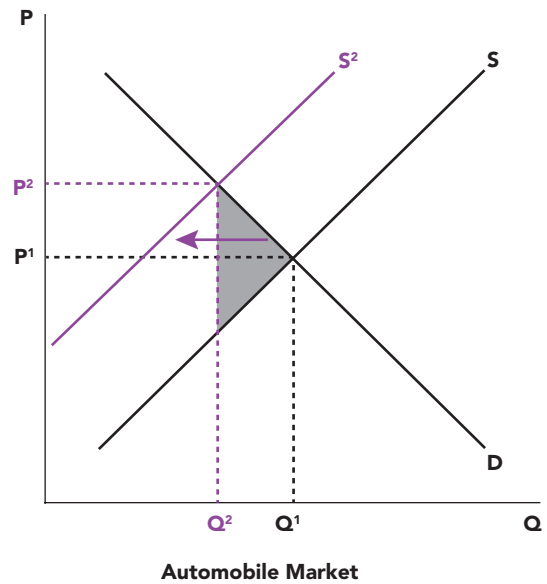


Figure 7.8
Regulations in the Automobile Market

National Highway Traffic Safety Administration, and others. You can see in figure 7.8 that product safety regulations shift the supply curve to the left because firms' expenses go up when they comply with regulations. Regulations make firms less willing to supply at every price level, resulting in higher equilibrium prices and lower equilibrium quantities.

Conservatives think government interference makes us worse off and they believe it should be left to consumers to determine the level of product safety each desires. They say that if people don't want the unsafe products, they won't demand them and the problem will fix itself. Liberals say it's impossible for consumers to know everything they need to know to be able to assess the safety of products, and therefore government oversight is crucial to keep us safe.

Radical Theory Tools

Now let's take a look at the tools you need to understand the radical point of view on the issues of Agriculture and Product Safety. Radicals

use a holistic lens to analyze economic problems. The six core points are constantly exerting a force on economic systems, guiding decisions based on the priorities and commitments of ownership, production, governance, sustainability, communities, and meeting people's basic material needs that they reflect. Ideally, radicals would like to see how all six core points simultaneously interact, but that is impossible. So instead, they focus on one core point at a time, using it as a portal—a way to drill down into the issue. Please keep in mind that assignment of these “portal” core points for each of the issues is somewhat arbitrary because each is relevant for every issue. Since radicals take a holistic view of the economy, the core points can't be thought of as separate from the whole. This may be giving you a brain freeze, but just keep in mind that this makes the radical tools versatile. Later, you might come back and analyze the same issue using a different core point as your portal, which will offer different insights into the issues. The core points that we'll be using as tools in chapters 8 and 9 revolve



around governance. Please recall that government under democratic socialism looks much like what we have in capitalism in certain respects: a representative constitutional democracy with elected officials, three branches of government, and taxation. A big difference between government under capitalism and government under democratic socialism is how decisions are made: top-down versus participatory.

With the radical perspective there are always two parts: describe capitalism and describe democratic socialism. The description of capitalism drills down into the core point of **top-down governance**. It is defined as decision-making left in the hands of a few elected officials and bureaucrats, so people are not empowered to have a say beyond their occasional vote in an election. The description of democratic socialism drills down into the core point of **participatory governance**. It is defined as diverse stakeholders—representatives from worker-owned firms, consumer groups, community interest groups, experts in the field, public officials, and so forth—working together to generate enforceable action plans and policies that improve life for people.

Capitalism: Top-Down Governance

Radicals say there are two problems with our current system of democracy under capitalism and its commitment to *top-down governance*. The first is that while a person may go through the yearly ritual of casting a vote in an election, that's usually the extent of their participation in the political process. Just think of all the things that impact our lives about which we don't have a vote, say radicals: our workplaces, our industries, new development in our neighborhoods, the air quality in our cities, what goes into our water supply, and more. They say that because of capitalism, we lose the chance for full participatory democracy and end up with a diluted form of representative government. This occurs in part because to get elected, politicians must accept hefty corporate campaign contributions. In turn, they are expected to prioritize the profit-making interests of private owners. In capitalism, say radical theorists, decisions that affect us all are left in the hands of those who aren't really working for us but who are working for the wealthiest.

According to radicals, even if we had a government that wasn't being unduly influenced by special interest groups, democracy under capitalism brings us decisions made by those who lack local expertise about the issues. Politicians and bureaucrats in a far-off city can't possibly understand the full effects of their decisions on local communities, say radicals. They lack the relevant knowledge, history, and context. Even the best-intentioned public officials miss the mark. The stakeholders and experts with vital input have no real power. In the end, say radicals, *top-down governance* makes existing problems worse even if the intention of politicians and bureaucrats is to help. This is how the core point of *top-down governance* and the pressure for bad look in capitalism:

Scenario 1. You're an asparagus farm owner, and you meet an old friend from college who

1. Private Ownership

2. Top-Down Governance

3. Individuals at Risk

4. Production for Profit

5. Unsustainable Growth

6. Unhealthy Communities

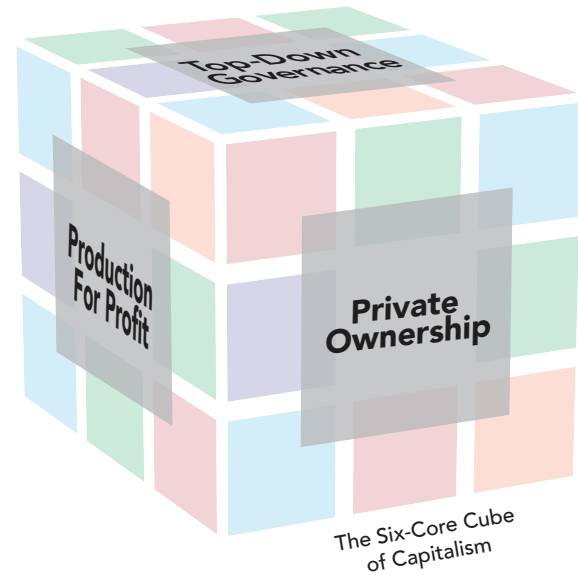


Figure 7.9
The Six Core Points of Capitalism

Top-Down Governance

- Periodic ritual of casting a vote gives us no real say.
- Representatives aren't experts and can't know the local impact of decisions.
- Lawmakers are corrupted by campaign contributions.



owns a competing asparagus firm. She says, “Did you hear? Those citrus growers hired a lobbyist to go down to Washington and get them government subsidies. Now orange growers are making a bundle. We ought to hire a lobbyist and get ourselves some of those subsidies too.”

You think this is a terrible idea. “I don’t want a government handout,” you say. “It’s not necessary, and it costs taxpayers more money. I don’t want any part of that.”

“So don’t do it!” she says.

But you will do it—because if you don’t and the other asparagus growers do, you’ll be driven out of business. Radicals say *top-down governance* in capitalism means the drive for profit corrupts producers, politicians, and lobbyists, leaving us with unsafe products and an insecure food system.

Scenario 2. You’re at a concert with another asparagus farm owner. He tells you, “We’re spraying our fields with that new pesticide, and it’s saving us a bundle. But now the government is threatening to regulate. They’re starting with fields near schools, but soon they’re going to require all asparagus farms to disclose the chemicals we use.

It's going to open us up to lawsuits every time a kid gets a cold. We have to figure out a way to get around this. Let's all kick in and contribute to political campaigns of candidates who oppose regulations. If that doesn't work, let's hire lawyers to get us exemptions."

You say, "I don't want to do that. It's so wrong. We know there are possible links between the new pesticide and liver cancer. Maybe it *should* be regulated."

He says, "So don't do it!"

But you will—because if you don't, you could lose the farm. Radicals say *top-down governance* leads to corporations covering up wrongdoings and cheating the system, and society ends up paying the price with dangerous products and a threatened food system.

Scenario 3. You're at a fertilizer trade show, and you meet a farm owner from another state, who says, "The government is giving tax breaks to farmers who switch to growing crops that can be used as biofuels. Washington is worried about national security and our dependence on fossil fuels. I'm going to plow up my asparagus fields and plant corn, which can be used to make ethanol."

You say, "Those lawmakers might mean well, but the last time the government came up with policies about biofuel, there were all kinds of unintended consequences. They didn't solve our dependence on fossil fuels, and some of those policies ended up creating hardships for people because the price of corn skyrocketed. I don't want to do it."

She says, "So don't do it!"

But you will do it—because if you don't and all the other firms do, you won't stay in business. Radicals say that in capitalism, *top-down governance* means decisions are made by a few bureaucrats, which leaves us vulnerable to special interest groups buying off politicians, who write policies in their favor. In the end, it's the con-

sumer who suffers from harmful products and an unsustainable food system.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say when we build an economy around the six core points of capitalism, it is always rotten to the core and leads to the visible suffering.

The Visible Suffering of Capitalism

- **Hunger and malnourishment**
- **Harmful products**
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Democratic Socialism: Participatory Governance

Radicals believe that when we have an economic system of democratic socialism, in the context of our constitutional democracy, we experience true representation because our elected officials on every level of government are guided by the will of their constituents through a mechanism called **community councils**. These are groups of stakeholders with the power to decide on the policies, budgets, programs, and priorities that they want for their regions and for the nation—and on changes they want made to existing ones. It is the job of those who hold elected offices—from Congress to local school boards—to convene community councils of their constituents and to facilitate their constructive discussions. They represent the groups'



1. Cooperative Ownership

2. Participatory Governance

3. Social Safeguards

4. Production for Use

5. Sustainable Development

6. Healthy Communities

Figure 7.10
The Six Core Points of Democratic Socialism

ideas in Congress, the state house, the school board and elsewhere and work to get them passed. The people who serve on community councils are primarily the stakeholders who have the most to gain and lose from the decisions that are made. These include delegates chosen by their industries, neighborhoods, and firms to represent their interests. There are also experts from relevant fields, advocacy groups, public officials, consumers, and more. For example, if the issue is the use of pesticides on asparagus fields, then community council members would include consumer advocates, delegates from the pesticide industry and farming firms, environmentalists, safety experts, public health advisors, and neighborhood representatives.

Elected representatives not only convene community councils, they and their staff also provide expert facilitation so that meetings are effective and constructive. Community councils rely on **interest-based negotiation**, which is a strategy of identifying the varied and sometimes contradictory needs and concerns of everyone at the table. For example, some may want ways to ensure transparency with accountability from

firms, while others may want more support for research and development. Once it becomes clear what the interests are for each stakeholder, the community council members work together to create win-win proposals that address everyone's needs and concerns, and then they vote on those proposals. After the community council comes to a majority decision, the elected representative goes back to their legislative body and works to get the proposals passed into law. Because this is a democracy, there are back-and-forth discussions and debates with other lawmakers to find support for their various ideas. Elected officials take new information back to their community councils, where the group discusses the feasibility, merits, and drawbacks of potential compromises and trade-offs. There may be times when elected officials must make decisions without the input of the community council. For instance, if there's an issue of national security, it may not be feasible to share sensitive information with a larger group of people. If a decision must be made quickly to respond to a crisis or disaster, there may not be time to convene the community council. Or if a

decision needs to be made for the greater good of the nation, the elected official might vote for it even if it's not the top priority of the local region. These overrides of the community's desires are rare occurrences in *participatory governance*. Radicals say representative democracy without the corrupting influence of campaign contributions by special interest groups has a built-in fail-safe against corruption and abuse of power. If elected officials don't represent the interests of their constituents, they won't be reelected.

It's the nature of a democracy that no one gets everything they want every time, but this participatory process gives us laws, policies, and budgets that reflect what the majority want and need, say radicals. And it ensures that the needs and concerns of those in the minority also have a voice because they have a seat at the table. Community councils address every issue—**food security councils**, **product safety councils**, health-care

councils, housing councils, and so forth. Some say it is just too cumbersome to involve so many people as decision-makers. Radicals counter that *participatory governance* is the most effective for the long term because policies that we adopt truly represent the will of the broadest spectrum of society and the wisdom of the many stakeholders.

When it comes to ensuring a secure food system and bringing people the level of safety they want in their products, radicals offer alternative policies in place of top-down agricultural subsidies and product safety regulations:

Food Security Council's Emergency and Innovation Funds. The government makes money available to help farmers prepare for, respond to, and adapt to instability in agriculture. The policies for how to do this come from stakeholders, including farmers, community leaders, consumers, conservationists, scientists, and public officials. For example, funds enable farmers and scientists to collaborate on developing new strains of drought-resistant crops. They pay for farmers to get trained in best practices of rainwater harvesting, the latest methods for protecting crops from diseases and pests, and techniques to restore soil after erosion from storms. On top of that, farmers receive financial assistance to help them recover after disasters.

Product Safety Council's Hazard Assessment Protocols. Government gives firms support and resources to reduce the risks of dangerous flaws in their products' designs, manufacture, and use by consumers. The policies for how to do this come from representatives from firms, industry, consumer groups, safety experts, engineers, and others. The product safety council develops protocols for firms to follow, and the government provides oversight and enforcement of these policies. For example, teams of outside experts review the product designs for flaws or potential unintended consequences. Other experts test prototypes for problems that could cause the product to be dan-

Participatory Governance

- Elected officials convene community councils that harness local expertise.
- Elected officials facilitate meetings of stakeholders, who have decision-making power.
- Elected officials are required to represent community council decisions at every level of government.



gerous, such as defective component parts or malfunctions. Outside inspectors monitor the production process, checking for possible contamination, human error, wrong calibrations of machinery, and other issues that might cause a product to become unsafe for its intended use. They also monitor the safety of workers. Experts in marketing and communications review users' manuals, product warnings, and age gradings on packaging, and make sure product descriptions are accurate. The protocols help firms produce safer products. And in the event of an unsafe product reaching the market, the government facilitates a recall.

From start to finish, this commitment supports businesses and consumers through true representative democracy. This is how the core point of *participatory governance* and the pressure for good look in democratic socialism:

Scenario 1. You're a worker-owner of an asparagus farm, and you meet an old friend from college who is a worker-owner of a competing asparagus farm. She says, "The food security council is convening, and I hear they're proposing an emergency and innovation fund so that we farmers can invest in drought-resistant seeds and better irrigation systems to weather the next dry spell."

You say, "That's a great idea. Everyone counts on us to produce their food. I'm certain that our firm will send a letter of support to our region's delegate. We could spread the word to the community and other worker-owned farms so they can voice their support for it as well."

She says, "You should do it!"

You'll both do it because a commitment to *participatory governance* means long-term plans and decisions benefit firms and communities, ensuring that we have safe products and a secure food system.

Scenario 2. You're at a concert with another worker-owner of an asparagus farm. He says, "We just got the alert from the product safety council that the cheaper pesticide we've been using is

going through the hazard assessment protocols again because it's just come to light that it may be linked to liver cancer. We had an emergency vote and decided to stop using it on our fields immediately, even though it will cost us more to use the safer alternative."

You say, "I'll have to talk to my co-owners, but I'm sure everyone will want our firm to switch over to a safer pesticide, too—even if the old one hasn't been banned yet. And we'll want to talk with our product safety council delegate to find out which pesticides it recommends as the safest for asparagus production."

He says, "You should do it!"

You'll both do it because a commitment to *participatory governance* means all the relevant stakeholders have a seat at the table and are able to represent the best interests of the community, ensuring reliable products and thriving agriculture.

Scenario 3. You're at a fertilizer trade show, and you meet a worker-owner from another state who says, "Worker-owned farms in my state were just offered money by our food security council to convert five acres of our fields over to renewable energy. It's one part of a bigger plan in our state to make all the farms more self-sustaining."

You say, "That's a great idea. It will save our farm money on energy bills and protect us long into the future."

He says, "You should do it!"

You'll both do it because a commitment to *participatory governance* means we solve big, complex problems by harnessing the ideas, passion, and creative thinking of multiple stakeholders, resulting in the safest products and the healthiest food system.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say when we build an economy around the six core points of democratic socialism, it is always beneficial to the core and gives rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- **Abundant, healthy food**
- **Safe and helpful products**
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices

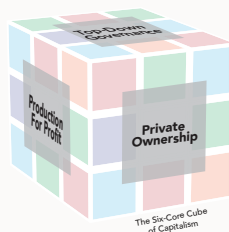
Six-Core Cube Guide

Now that you know the core point of *top-down governance* in capitalism and the core point of *participatory governance* in democratic socialism, the Six-Core Cube Guide can be used to analyze the same scenario we addressed in the conventional tools section. You read in the newspaper that asparagus farmers are required to disclose the names of the pesticides they plan to spray on fields near schools in the coming year, and they must have the soil on the borders of those fields tested monthly by independent laboratories to make sure the toxic chemicals are not affecting school grounds. In figure 7.11 you can see how radicals use the Six-Core Cube Guide to analyze this scenario.

VOTE Six-Core Cube Guide

Capitalism

- A. Name the problem.**
Pesticides could harm children.



- B. Identify the relevant core point.**

Six Core Points of Capitalism

- ☐ Private Ownership
- ☒ Top-Down Governance
- ☐ Individuals at Risk
- ☐ Production for Profit
- ☐ Unsustainable Growth
- ☐ Unhealthy Communities

- C. Summarize the meaning of that core point.**
Decision-making is left in the hands of a few elected officials and bureaucrats, and people don't have a real say.
- D. Reveal the visible suffering (outcome).**
- Hunger and malnourishment
 - Harmful products

Democratic Socialism

- A. Name the problem.**
Pesticides could harm children.



- B. Identify the relevant core point.**

Six Core Points of Democratic Socialism


- ☐ Cooperative Ownership
- ☒ Participatory Governance
- ☐ Social Safeguards
- ☐ Production for Use
- ☐ Sustainable Development
- ☐ Healthy Communities

- C. Summarize the meaning of that core point.**
Decisions are made by community councils of diverse stakeholders who represent our collective best interests.
- D. Reveal the invisible synergy (outcome).**
- Abundant, healthy food
 - Safe and helpful products

Figure 7.11
Six-Core Cube Guide: Asparagus Regulation

You're Ready for the Issues

We're about to start the first issues chapters. Just to give you a sense of what that will be like, here is how the chapters are organized. First, we tell you a story that brings the issue into focus so we can narrow down and define the problem shared by all the perspectives (and recognize the shared outcome they hope to create). Then we're going to discuss the background and history of the issue. After that comes the really fun part. We'll put on masks (metaphorically) and speak to you in the voices of the conservative, radical, and

liberal perspectives. Regarding which one goes first, we're treating it like that inevitable argument you had if there were siblings in your family and you had to ride in a car together and everyone wanted to sit in the front seat. In my family, my mother declared that we would have to take turns. That's what we'll do here: the perspectives will take turns. At the end of each chapter it will be your turn to put on the masks and speak from each of the voices. We'll tell you more about that later. Let's get started! 

Chapter 7: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



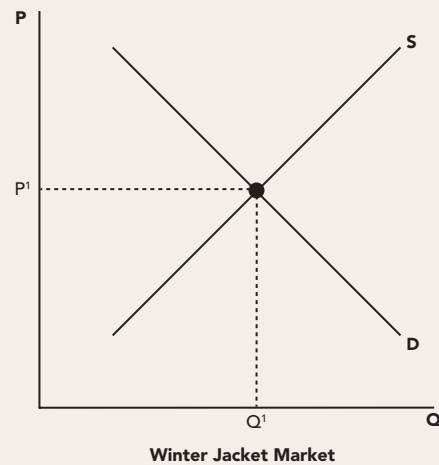
1. All perspectives share the same economic problems and goals, even though they differ on the best ways to solve those problems. Match the issue with the shared goal.

A. Agriculture	i. Affordable housing for all
B. Product Safety	ii. End poverty
C. Livelihood	iii. The protection that people want
D. Housing	iv. A secure food system

2. Which of the following statements are true about stereotypes? Choose all that apply.
 - A.** Stereotypes are always oversimplified, often unflattering, and definitely unfair ideas about groups of people.
 - B.** Stereotypes keep people from seeing others as unique individuals and lead to narrow and ungenerous ideas about people who are different from us in some way.
 - C.** Breaking down stereotypes for just one identity (e.g., economic) is correlated to, and necessarily breaks down, stereotypes for other identities (e.g., social).
 - D.** Stereotypes make it difficult to have respectful dialogues.

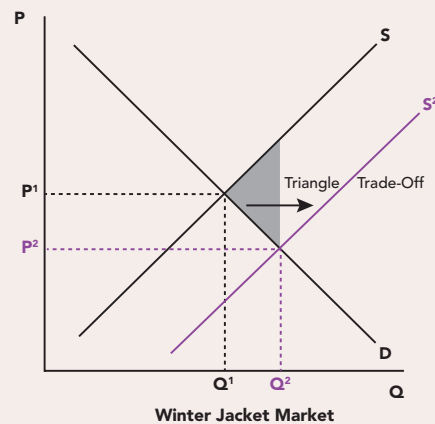
3. Consider the market for winter jackets. According to conventional theorists, equilibrium represents the maximization of our collective social welfare. Choose the two arguments they use to make this point.

- A. At points to the left of equilibrium, $MB < MC$ and to the right of equilibrium, $MB > MC$. Equilibrium is the perfect spot where $MB = MC$ and resources are used in their best possible way.
- B. At points to the left of equilibrium, $MB > MC$ and to the right of equilibrium, $MB < MC$. Equilibrium is the perfect spot where $MB = MC$ and resources are used in their best possible way.
- C. To the left of equilibrium, consumers would be willing to pay less ("consumer surplus") and firms would be willing to receive more money ("producer surplus"). Equilibrium is the perfect spot where total surplus is maximized.
- D. To the left of equilibrium, consumers would be willing to pay more ("consumer surplus") and firms would be willing to receive less money ("producer surplus"). Equilibrium is the perfect spot where total surplus is maximized.



4. Which of the following statements are true from both the liberal and conservative perspectives? Choose all that apply.

- A. The gray triangle trade-off represents an efficiency loss and a loss in social welfare.
- B. The gray triangle trade-off represents an equity gain and a gain in social welfare.
- C. The gray triangle trade-off represents a change in production and resource use as a result of government action.
- D. The gray triangle trade-off represents one of the factors that causes the shift in the supply or demand curves.

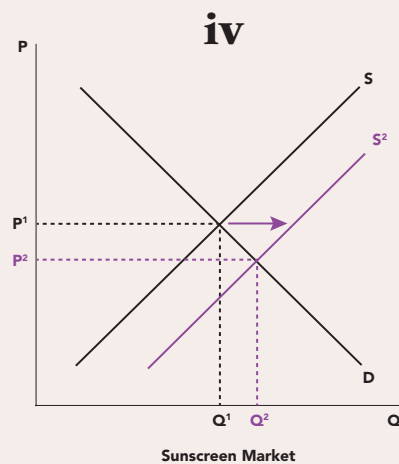
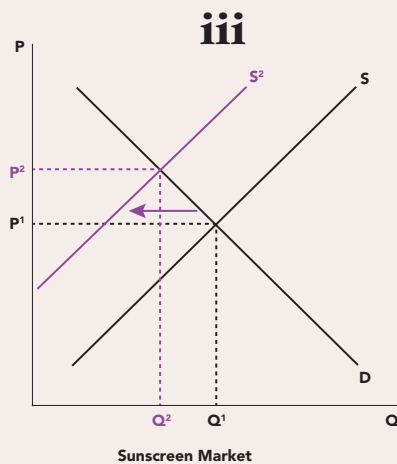
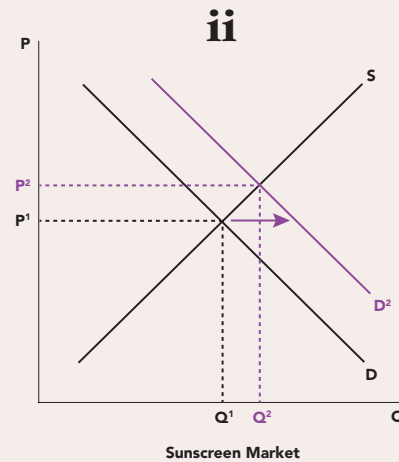
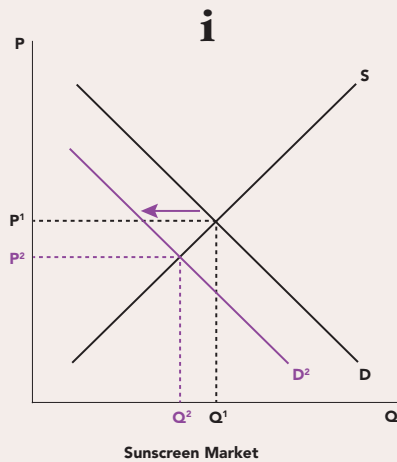


5. Agricultural (farm) subsidies are a liberal policy to address instability in agriculture. Subsidies may take a variety of forms (crop insurance, direct payments, and more). One function of subsidies is to give farmers incentives to produce more of a subsidized product. While liberals and conservatives disagree about whether this is a positive or negative policy, they agree that the resulting equilibrium price will _____ while the equilibrium quantity will _____.

- A. decrease; increase
- B. decrease; decrease
- C. increase; increase
- D. increase; decrease

6. Select the graph that shows the effect on the sunscreen market of a new product safety regulation that requires firms to do additional testing.

- A. i
- B. ii
- C. iii
- D. iv



7. From the radical perspective, all the following are problems with top-down governance EXCEPT:

- A. Elected officials have sole decision-making authority once they are in office.
- B. Special interest groups influence politicians through campaign contributions.
- C. In a representative democracy, elected officials represent constituents instead of each person representing themselves.
- D. Affected parties are often asked to take on an advisory role, but not a decision-making role.

8. According to radical theory, participatory government has many functions, which include _____.
 A. convening and facilitating community councils
 B. working to get community council decisions passed into law
 C. overriding community council decisions in rare cases of national and domestic security issues
 D. all of the above
9. In what way would a food security council's emergency and innovation fund work from the radical perspective?
 A. The federal government requires farmers to find their own self-sustaining ways to rotate crops and set aside conservation land.
 B. Government officials listen respectfully to the advice of the councils, but ultimately representatives vote their conscience.
 C. Elected officials convene food security councils, which determine the type and amount of funding and policies needed to ensure a stable food supply.
 D. During years of plenty, the fund builds up and the council goes on hiatus. It becomes active only during times of catastrophe.
10. A product safety council's hazard assessment protocol is a set of steps firms follow to bring new products to market in democratic socialism. Which one of these choices best describes how the protocols are determined and who or what enforces them?
 A. Groups of stakeholders with specific areas of expertise are convened by elected officials to determine the safety of new products.
 B. Groups of stakeholders are like jury selection in our current society—no particular skills are needed.
 C. Groups of stakeholders advise their assigned government officials on sets of protocols to pursue and hope that the government chooses to convene a product safety council.
 D. Groups of stakeholders are often motivated by profits over people. To avoid this, government officials have the ultimate decision-making authority.

Answers

1. A – iv, B – iii, C – ii, D – i 2. A, B, & D 3. B & D 4. C 5. A 6. C 7. C 8. D 9. C 10. A

Chapter 7: Key Terms

<u>Agricultural (farm) subsidies</u>	<u>Interest-based negotiation</u>	<u>Social welfare</u>
<u>Community councils</u>	<u>Marginal benefit</u>	<u>Stereotype</u>
<u>Consumer surplus</u>	<u>Marginal cost</u>	<u>Top-down governance</u>
<u>Deadweight loss</u>	<u>Participatory governance</u>	<u>Total surplus</u>
<u>Efficiency loss</u>	<u>Producer surplus</u>	<u>Triangle trade-off</u>
<u>Equity gain</u>	<u>Product safety councils</u>	
<u>Food security councils</u>	<u>Product safety regulations</u>	

Answer Key to Exercise 7.1

- 1. False.** Conservatives believe that when people act in their self-interest to make a profit, they're doing everyone a favor because they turn around and create jobs so that more people can prosper.
- 2. False.** Radicals believe that wealth is important to the well-being of society. They just want to make sure the 99 percent have access to it, not just the 1 percent.
- 3. False.** Liberals believe that in the race to succeed, some people are unfairly held back by prejudice and lack of opportunity. They want to level the playing field so everyone has a chance to prosper.
- 4. False.** Republicans believe compromise should not mean selling out our principles. It's only when they bring their convictions to the table that they can make their best contributions to the conversation.
- 5. False.** Democrats don't see every problem as a nail that needs a hammer. They understand that problems are complex and nuanced thinking leads them to find the best solutions.
- 6. False.** Democratic socialists say the change from capitalism to democratic socialism is already evolving in a peaceful way, with more people choosing cooperative ownership and voting for democratic socialist candidates across the nation.



8 Issue: AGRICULTURE

Everything you eat is brought to you by nature. Our food is grown and harvested in myriad ways. But there's a problem that humans have always faced when it comes to our food security: nature is unpredictable.

Picture a dust storm that's a thousand miles wide. You first see it as a black smudge on the horizon, but then it's rolling toward you—a wall of dust that grows bigger with each passing minute. You're standing outside your house, and you're watching thousands of tons of topsoil carried on raging winds, speeding toward you at a hundred miles per hour! When it hits, you remember to close your mouth. You cover your face and shut your eyes, but the grit gets in anyway, and you're coughing up dust. When the monster storm finally moves off to engulf the next town over, you see that your whole world is half buried under sand. Your home, your family's farm, your town—it's all laid to waste. I know it sounds like a Hollywood disaster movie, but this really

happened on April 14, 1935. It's known as Black Sunday. And this storm wasn't an isolated event. Black Sunday was 1 of 263 dust storms that blew through the southern Great Plains of the United States during a ten-year period. In 1934 alone, there were thirty-eight dust storms. That's more than three a month.

I was in elementary school when I first learned about the Dust Bowl. The decade-long disaster merited just one page in our social studies textbook. I remember the grainy black-and-white photograph of a dilapidated farmhouse mostly covered in sand. My teacher explained that the Dust Bowl was caused by a period of severe drought in the 1930s. The way we discussed it, I thought it was a horrific one-time natural disaster that could never happen again. It wasn't until

decades later that I learned it was one of the worst natural *and* human-made ecological disasters to affect the United States. The Dust Bowl killed nearly seven thousand people and left more than





2 million people homeless. It killed animals and ruined ecosystems, and it turned much of the southern Great Plains into a desolate landscape.

The origin of the Dust Bowl traces back to the 1860s. The U.S. government wanted to settle the West and create more prosperity in our nation. Congress passed the Homestead Act, which allowed pioneers to claim 160 acres of land in the Great Plains for free if they farmed it. Later bills expanded the acreage to 320 and then to 640. People rushed to load up their wagons and stake their claims in Kansas, Nebraska, and the Dakotas, and later in Texas, Oklahoma, New Mexico, and Colorado. Picture grasslands where the buffalo once roamed. Now picture industrious pioneers plowing it up to plant their wheat and corn.

The Plains Indians had sustained themselves on the grasslands of the Great Plains for millennia—but not by farming. They hunted buffalo and traded with other Native people for crops because land in the Great Plains wasn't easy to farm. The ground was covered with tough grasses that had long roots, which made it hard to plow. And the weather was unpredictable, with peri-

odic droughts, high winds, and extreme temperatures. Even the earliest European explorers recognized that the area lacked the right conditions for farming.

But in the early 1900s, the weather happened to be unusually cooperative, with steady rains that brought bountiful harvests. So more people optimistically headed west to homestead, while others (called “suitcase farmers”) staked their claims and then hired workers to farm the land while they went back home. Between 1900 and 1930, there were 1 million pioneers in the Great Plains.

In 1930—which, by the way, was the start of the Great Depression—the first of four long droughts hit the southern Great Plains. The dry period lasted ten years. The land dried up, and extreme temperatures and high winds made conditions harsh. Those climate conditions in the past were balanced by the grasses that had evolved there over time to anchor the soil with their deep roots. But this time, with more than 100 million acres of those grasses plowed up to make way for wheat, corn, and other crops with shallow roots, the soil dried out and turned to dust. That dust

was at the mercy of the high winds. That's how Black Sunday and the other dust storms came to be. And the black blizzards didn't just affect the prairie states; the storms made their way east, too, as described on the History Channel: "A massive dust storm two miles high traveled two thousand miles before hitting the East Coast on May 11, 1934. For five hours, a fog of prairie dirt enshrouded landmarks such as the Statue of Liberty and the U.S. Capitol, inside which lawmakers were debating a soil conservation bill."

After the drought ended, the people who remained in the Great Plains returned to farming. Today there are family farmers and large corporate enterprises growing crops on that land. They use better soil conservation methods and farming practices, and agriculture is once again a thriving industry in that region. Droughts are managed by irrigating with water from the Ogallala Aquifer, an underground reservoir. That water supply is not limitless, however, and some experts are concerned that it's being overused. They warn that there may be another Dust Bowl in our near future.

The Dust Bowl is a shocking story. It illustrates not only a historical event that happened nearly a hundred years ago but also something that could happen again. Even under the best conditions, with best practices, there will always be instability in farming because no one has yet learned how to control the weather or how to predict threats to crops—insects, diseases, toxic spills, and more. Radicals, conservatives, and liberals all agree that instability in farming threatens our food security. But as you might imagine, they don't agree on how to ensure a secure food system.

Understanding the Issue of Agriculture

"My grandfather used to say that once in your life you need a doctor, a lawyer, a policeman, and a preacher," said inspirational speaker Brenda Schoepp. "But every day, three times a day, you need a farmer!"

Our ability to feed ourselves is a fundamental issue of survival. We've known since the begin-



ning of human history that agriculture is a very risky and unstable enterprise. In fact, of all the issues we're going to be exploring in the VOTE Program, this is the one people have been grappling with the longest. For most of human history, we've had to spend all our days producing food for our next meals. In North America today, the vast majority of us aren't farmers. We rely on the local grocery store—that is, the market—to supply us with what we need.

What Is Agriculture?

Let me ask you this: When you bite into a cheese sandwich, do you wonder who grew the wheat for the bread? Do you know who raised the chickens that laid the eggs that went into the mayonnaise? Do you ever wonder about the farmers who milked the cows and made the cheese? How did that food get to your plate? Let's do a little experiment. Make a grocery list right now. Jot down five items you want to pick up at the store later. We'll come back to this.

First, let's define our terms for this chapter. **Agriculture** is the science and practice of farming for the purposes of growing crops and rais-

ing animals to sustain us with food and clothing. The term **agribusiness** in part describes modern commercial farms that use advanced technology. The terms big ag, corporate ag, and large-scale agriculture all refer to the largest agriculture firms. Just to give you an idea of the scope of farming in our nation, the United States has long been the largest exporter of food in the world. There were more than 2 million farms in 2017. Half of those were small farms of 45 acres or fewer, according to the U.S. Department of Agriculture (USDA). More than 900 million acres are used for farming, and close to 70 percent of the farmland in the nation is controlled by the top 10 percent of farming enterprises.

Another term you might have heard in conversations about agriculture is **commodity**. It means a product is interchangeable no matter who produces it. So a bushel of wheat grown in Minnesota is no different from a bushel of wheat grown in Nebraska. **Soft commodities** are agricultural products such as wheat and corn, and **hard commodities** are products that are mined, such as gold, oil, and silver. **Commodities exchanges**, also known as commodities markets, are markets



where farmers trade not their crops but financial agreements about the price at which they will eventually sell their crops. These are called **futures**. Futures are simply financial agreements (contracts) that a farmer will sell a set amount of their crop—ten bushels of wheat, for example—at a set price and on a set date in the future, and that a buyer will purchase that amount of wheat at that price, on that set date. With futures trading, wheat farmers can protect themselves from going out of business by being assured in advance of earning a certain income from a portion or all of their expected harvest. This **hedge** (lessening the chance of loss) might sometimes result in lower total profits if the price goes up at harvest time, but it functions as a stabilizing tool for farmers in case the price of wheat goes down.

There are two more relevant terms for this chapter. **Agricultural dumping** refers to exporting commodities at prices that are below what they cost to produce. **Food aid** refers to agricultural products donated by the government to other nations that are in need of assistance to feed their populations.

The Farm Bill

Have you ever seen a hockey game? Imagine the puck whizzing across the ice until it gets slapped in the opposite direction, then whacked back, only to reverse course again and careen off the side, ricochet off a skate, and slam into the goalie’s mask. Well, that’s a fairly accurate metaphor for Congress’s approach to agricultural programs. The government has long been making policies that pertain to agriculture—the USDA was created in 1862 by President Abraham Lincoln, when more than half of Americans were farmers (today it’s less than 2 percent). There’s a dense list of bills that were passed to try to ensure a stable food system. Here are a few notable ones: the Federal Meat Inspection Act of 1890, the Soil Conservation and Domestic Allotment Act

of 1936, the National School Lunch Act of 1946, the Farmer-to-Consumer Direct Marketing Act of 1976, and the Healthy Forests Restoration Act of 2003. You don’t need to know the details about these—just know that agricultural policy historically has been complicated and deeply rooted in our nation’s history.

You probably haven’t ever heard of the Federal Meat Inspection Act or any of those others, but you may have heard of the policy that dominates the national conversation today. In fact, if you’re twenty years old, there have already been four versions of it during your lifetime. It’s called the **Farm Bill**. It was originally called the Agricultural Adjustment Act of 1933, signed by President Franklin D. Roosevelt. In 1938 Congress passed a new version of the Farm Bill and agreed that

Year	Bill
2018 Farm Bill	Agriculture Improvement Act of 2018
2014 Farm Bill	Agricultural Act of 2014
2008 Farm Bill	Food, Conservation, and Energy Act
2002 Farm Bill	Farm Security and Rural Investment Act
1996 Farm Bill	Federal Agriculture Improvement and Reform Act
1990 Farm Bill	Food, Agriculture, Conservation, and Trade Act
1985 Farm Bill	Food Security Act
1981 Farm Bill	Agriculture and Food Act
1977 Farm Bill	Food and Agriculture Act
1973 Farm Bill	Agricultural and Consumer Protection Act
1970 Farm Bill	Agricultural Act of 1970
1965 Farm Bill	Food and Agricultural Act
1956 Farm Bill	Agriculture Act of 1956
1954 Farm Bill	Agricultural Act of 1954
1949 Farm Bill	Agricultural Act of 1949
1948 Farm Bill	Agricultural Act of 1948
1938 Farm Bill	Agricultural Adjustment Act of 1938
1933 Farm Bill	Agricultural Adjustment Act of 1933

Table 8.1
History of the Farm Bill

the issue of agriculture was so important that it should be reconsidered every five years moving forward. The Farm Bill is the federal government's policy to address everything related to agriculture, including farming, ranching, nutrition, and more.

Agricultural Subsidies

The Farm Bill has always been controversial. You may have heard about the fights around the Supplemental Nutrition Assistance Program (SNAP), which is the biggest program funded through the Farm Bill. The part of the Farm Bill we'll be debating, agricultural subsidies, is also highly contentious. Here are a few examples of subsidy programs in the current and past Farm Bills.

Crop insurance is a program that's been around in some form since 1938. The intention behind it is to help farmers stay in business when something unexpected and detrimental happens. Crop insurance works like car insurance—when you have an accident, your insurance company pays to fix your bumper. Farmers buy crop insurance from private companies and are covered in case weather events ruin their crops—droughts, floods, tornadoes, and so forth. The government gets involved by paying (subsidizing) private insurers to offer crop insurance to farmers at a reduced rate and by subsidizing farmers to help them pay the premiums (the cost of the insurance policy).

Loan programs for farmers are intended to help them pay their overhead costs and expand their production. They also are meant to enable farmers to time the sale of their crops so that they will make the most profit. Farmers typically have to wait until their crops are sold before they make any money, so they rely on loans to cover up-front costs of supplies, including seeds, fertilizer, hay, and plows. For example, in 1916 the Federal Farm Loan Act created cooperative banks to lend farmers money. Over time, it morphed into the Farm

Credit System, which is a government-run program with billions of dollars in assets.

Disaster assistance is a government program intended to help farmers who lose crops because of natural disasters—droughts, freezes, hurricanes, floods, pest infestations, and so on. Disaster assistance is paid to farmers on top of crop insurance.

Direct payments are meant to give farmers an incentive to keep their land in production rather than selling it off to developers. The government pays farmers for owning wheat acreage, corn acreage, soy acreage, and so forth.

Conservation reserve programs are intended to create incentives for land conservation so that farmers will preserve vulnerable ecosystems. The government subsidizes farmers to take a certain amount of their land out of production.

Crop commodity programs are meant to protect farmers when prices for their commodities fall lower than what they were counting on charging in order to stay in business. The government subsidizes unexpected dips in price.

Food promotion initiatives use the government to boost markets for farmers at home and abroad. For example, the government has sponsored public service announcements to promote the health benefits of milk and dairy products for children.

Agricultural research programs are meant to use the government to develop better farming technologies. The government has allocated money for research and education in agriculture, including creating land-grant universities.

All of these subsidy programs are a continual source of debate. From the 1940s through the 1980s, when commodity prices were high, Congress entertained the idea of getting rid of or reducing subsidies. But as soon as prices for agricultural products dropped, Congress expanded subsidies to farmers. (Can you hear the hockey puck whizzing by?) In 1996 Congress passed the

Freedom to Farm law, which was a move away from subsidies (*whizz!*), but shortly thereafter it significantly increased subsidies (*whack!*). In 2002 Congress passed a new Farm Bill that increased subsidy payments, added new crops to the list of those subsidized, and created a new price guarantee program (*whoosh!*). In 2008 Congress added subsidies for sugar and certain fruits and vegetables (*whomp!*). The 2014 Farm Bill mostly ended the direct payment program and several other subsidy programs (*whoosh!*), while it expanded crop insurance (*whack!*). There were even more

changes in the 2018 Farm Bill, and where the hockey puck slides next, no one knows.

More than one hundred different crops are subsidized, and traditionally, the top five have been wheat, corn, rice, soy, and cotton. Remember I asked you to make a grocery list? Check it right now. How many of the items on your list are made from those subsidized crops? I'm guessing it's many of them. So you can see that this issue is relevant to your life and what's in your lunch box . . . and hanging in your closet . . . and on the menu at your favorite restaurant.



Now you have the lay of the land. You know the definitions and the history of what our nation has already been doing to address the issue of agriculture. In chapter 7, you learned the tools needed to analyze competing ideas about how

to solve the problem of instability in agriculture. That means you're ready for the best part of the VOTE Program. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on Agriculture

Conservatives, liberals and radicals all agree that instability in farming threatens food security, and they all share the same goal of having a secure food system. But they strongly disagree about how to achieve that end. Should we leave agriculture markets alone and let the invisible hand of free-market capitalism ensure a secure food system? Should we use the helping hand of government subsidies in fair-market capitalism to bring us a secure food system? Should we use food security councils' emergency and innovation funds in democratic socialism to plan for a secure food system? The policy we currently follow is agricultural subsidies in capitalism, which is why we described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

We're going to put on three different masks and talk to you in the voices of the three perspectives. The goal is to persuade you that each perspective has valid points so that you can make up your own mind. Which one makes you nod in agreement as you read along? Which one makes you so angry that you have smoke coming out of your ears? Which one leaves you shaking your head in disbelief that anyone could see it that way? You don't have to agree or disagree with a perspective. You just need to practice respectful listening with an open mind so you can understand all the arguments.



At the end of each perspective you'll find a summary of each point of view. You'll also find eight Talking Points. These are meant to be read aloud to someone else so that you can try on the words and become fluent in the different perspectives. Say them with passion—as if you really mean what you're saying. Please don't just read

the words as if you're reading the instructions for assembling a bookshelf. It's extremely likely that you will deeply disagree with some of the Talking Points, but please say them anyway. By speaking them aloud, you'll gain deeper insight into how others think, which may help you become more persuasive about your own point of view. There are three rules for Talking Points: Say them aloud, say them with passion, and avoid mockery

and sarcasm. That way you can make up your *own* mind and find your *own* voice. Then you can join the conversation and advocate for what you believe is the best way forward as a nation. You might even come up with a new solution. That is what the VOTE Program is all about.

One last note: Please remember that the VOTE Program doesn't take a position on any of these issues. We're just channeling the voices of the perspectives. The conservative voice will go first for this issue, and then for each subsequent issue we'll change the order in which we present the perspectives to keep it balanced. Here we go!

Conservative

Voice on Agriculture



Agriculture

Remember the Dust Bowl and all those homesteaders who went out to the Great Plains to farm their free land? Well, if you think about it, the Homestead Act was like a subsidy since it provided land for free. And what a disastrous idea that turned out to be! We ended up with the Dust Bowl because the government interfered with price signals. People got the land for free, so they didn't value it. They didn't make the kinds of calculations that were needed to determine if this land was actually suitable for wheat production or for growing any kind of crop.

If they'd had to pay their own money for the land, those homesteaders would have investigated its suitability and concluded that it lacked the proper climate and didn't have sufficient rainfall for wheat production. The Plains Indians and early settlers all knew that the Great Plains were not suitable for sustainable European-style agriculture, but that fact was ignored *because* the government was handing out free land. Did we learn from our mistakes? Sadly, we did not. Government meddling continues today, as farmers in the Great Plains are subsidized to produce wheat. And if that's not bad enough, those farmers are not being charged appropriately for the water they use, which means they overuse it and drain the aquifer. This can't be sustained. We're heading for another Dust Bowl, and it's the government's fault.

Let's consider the wheat market in figure 8.1. When there's a drought, farmers' costs go up because they need to pay for more irrigation. As a result, some wheat farmers go out of business,

some switch to growing more drought-tolerant crops, and some choose to switch to producing a crop that brings a higher price. For instance, if people are paying more for kale (because kale is suddenly popular), those wheat farmers will start to grow kale. You can see in figure 8.1 that in all these cases, the supply curve for wheat shifts to the left and the price of wheat goes up. Yes, the wheat market shrinks, but everyone who wants the wheat at this higher price gets it, and because those farmers who still produce wheat can get a higher price for it, they can afford to pay the higher costs for water during the drought. That's how free-market capitalism works: farmers follow price signals and appropriately value their resources (for instance, water). In the end, farmers, guided by price signals, produce what people want. Without anyone having to pass a law or dictate what suppliers and demanders should do, the invisible hand guides the market to maximize our social welfare.

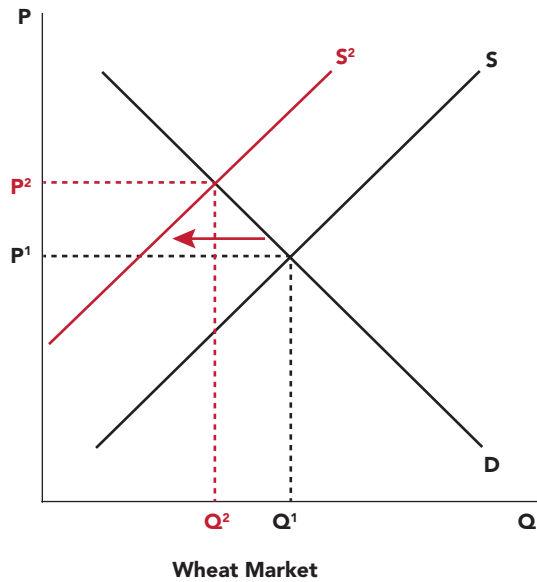


Figure 8.1

Conservative View: Agriculture

Remember when you went to the grocery store to buy bread, mayo, and cheddar for your cheese sandwich? Did you rush out at dawn so you could be the first one there in case they ran out? No.

Capitalism has always brought you the food you want—and with the free market, it always will—so you don't have to worry. When the government leaves them alone, agricultural markets thrive. We have a secure food system because producers grow the most they can in the most efficient way to maximize their profit. Everyone who wants the food at that price can get it, and producers supply the types of food people want. If we want more kale, we get more kale. If we want organic carrots, we get organic carrots. In free-market capitalism, prices signal to farmers what to produce. When we leave markets alone to self-adjust, firms adapt and innovate, and we get the food we want at the right price.

Instability in farming is real, and so is instability in *every* market. When there's a hurricane, for instance, the airline market is affected, the dog-walking market is affected, the skateboard market is affected, and so forth. If you think about it, change is the only thing you can really count on in life. But instead of seeing this as a problem, there's another way to look at it: see it as an



opportunity. When you're in a sailboat and you're trying to go from island to island, you rely on the winds to get you there, but they are constantly changing, so you have to adapt. One wind dies down or changes direction, so you read the wind on the water and then bring your boat around to pick up a better wind to carry you to your destination. Sometimes it's even stronger and gets you there faster, or it might carry you to a place you didn't anticipate, which opens up even more opportunities. Crisis and opportunity are two sides of the same coin.

Businesses always have times of struggle, but liberals, it makes absolutely no sense to try to come to the aid of every dog walker, every airline, and every skateboard producer. It makes no sense to trade the rational solution of following price signals for the chaos of trying to put out every fire for every firm in every industry when there's instability. And we *shouldn't* come to the aid of every farmer. You liberals claim there's something special about agricultural instability that justifies all those farm subsidies, but that's just not true. Even if we accepted the premise that agriculture needs to be treated differently from all other industries, subsidies don't work. Those government handouts create an efficiency loss, and they also lead to an even bigger problem. Subsidies give farmers incentives to stay in the wheat business during periods of drought—even to expand production of the subsidized products by plowing up more land for wheat. When the government starts paying farmers to produce things that *it* decides should be produced,

We have a secure food system because producers grow the most they can in the most efficient way to maximize their profit. Everyone who wants the food at that price can get it, and producers supply the types of food people want.

we don't get the right mix of products, because subsidies destroy price signals. Farmers follow an artificial, government-manipulated signal to produce wheat instead of following free-market prices. The result is that we end up with too much wheat and not enough kale, avocados, and everything else people actually desire. Our tax dollars are paying farmers to produce things that no one wants. Subsidies create inefficiency—resources are wasted—and they reduce our social welfare. And then what happens? The government buys up the

excess wheat and dumps it on developing countries, pushing their farmers out of business, which creates international crises and trade wars. So once again, liberals try to solve a problem and end up making it worse.

As for the radical idea of food security councils' emergency and innovation funds to replace agricultural subsidies, how is that not just a new name for subsidies? Whatever radicals want to call it, it's government meddling, which means it continues to create the same problems we already have. Although actually, the problems aren't the same; they are a thousand times worse because democratic socialism is a system that rejects profit. There is no incentive for anyone to work hard or innovate. It's the profit motive that leads agribusiness to invest in research and development so we can go to the store and buy food that's more nutritious and won't spoil as quickly. Democratic socialism is destined to fail—if it could even get off the ground in the first place—because without

the profit motive our ability to feed ourselves is at risk. Radicals say their tax-funded emergency and innovation funds created through participatory governance (and those endless meetings of their food security councils) help them plan for the long term. Yikes! Radicals want agricultural decisions—and every other decision you can think of—to be made by committee. This is a scary and dangerous idea. Can you imagine this group of “stakeholders” sitting in a room somewhere, drawing up their pie charts and telling farmers what to grow, how much to grow, how to grow it, and what percentage of the land they can use for different crops? Would anyone in their right mind want to live in that country? No one can predict the weather or a sudden kale craze or a study that shows amazing health benefits of popcorn, and in capitalism we don’t need to because we already have long-term planning: it’s called “following price signals.” There is no need to put a committee together to bail out farms or to tell farmers how to do their business. If there’s a hurricane or a drought, price signals guide farmers to use their resources most efficiently, and the profit motive of capitalism ensures that farmers are motivated to get up at the crack of dawn and do the hard work it takes to bring us the food we

want and need.

We should reject the current policy of agricultural subsidies and replace it with unfettered price signals to ensure a secure food system. Let’s end the wasteful programs that flush taxpayer dollars down the toilet and create all the wrong incentives. Our nation is most secure and our farming industry is most robust when we produce efficiently, which means leaving markets alone to self-adjust. That brings us the variety of foods we want in the right quantities at the right prices. We can choose whatever diets we want without the government imposing its will on our dinner plates. When agricultural firms want more stability, they purchase private crop insurance policies to minimize the risks of a failed harvest because of a disaster. And farmers will continue to do what they’ve been doing for years to minimize the risks of falling prices, which is to make a deal to sell their future harvest at a fixed price. Trading in futures has long given farmers the stability they want and at the same time stabilized the prices we pay at the grocery store. We get all this by leaving the market alone. Free-market capitalism brings us a stable and abundant food system so we can have the wheat we want, the kale we want, and the avocados we want.

Conservative

Free-Market Capitalism



Agriculture

BIG PICTURE

When we leave markets alone to self-adjust, firms adapt and innovate, and we get the food we want at the right price.

POLICY POSITION

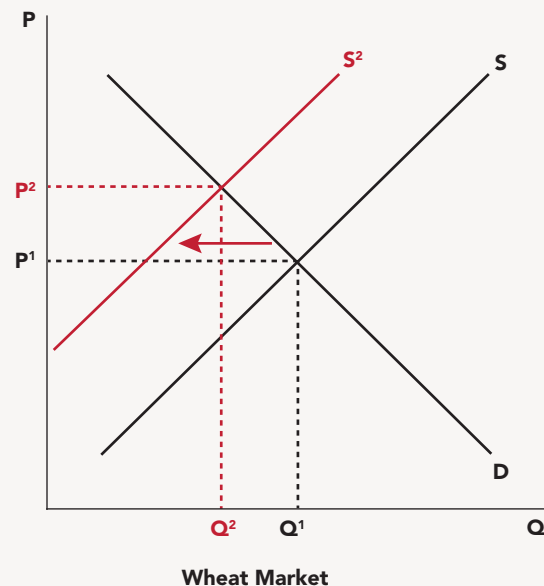
Instability in farming threatens food security, but . . .

- ▶ Liberal policies distort price signals, throw markets off balance, and ruin international relations.
- ▶ Radical policies jeopardize our ability to feed ourselves because there is no profit motive and because no one can act without committee approval.

SOLUTION

Reject agricultural subsidies and replace them with unfettered price signals to ensure a secure food system:

- Private crop insurance markets emerge.
- Futures trading keeps farmers in business.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Agriculture Talking Points: Conservative

1. Capitalism works best when we leave it alone. The free-market approach is simple and elegant: the consumer and the farmer meet in a market without any government interference, and since farmers want to make money, they'll produce what people want to buy. That's how we get the food we want at the right price. The free market is a win-win every time for suppliers and demanders.
2. There's a saying that every crisis is an opportunity. Crisis and opportunity are two sides of the same coin. Instability in agriculture gives farmers an opportunity to innovate and adapt. For instance, since they know there will be years of drought, firms have an incentive to develop crops that use less water. Innovation is how we get a growing and healthy economy. Firms that are flexible and can respond to change will survive, and that's how it should be.
3. Liberal subsidies are supposed to fix a problem, but they end up creating more problems because government handouts reward firms for stagnating. Why should farmers adopt better business practices or meet changing market demands when the heavy hand of government pays them not to? The solution is simple: get rid of subsidies and let farmers come up with their own creative solutions. Let's stop enabling an entire industry to run on welfare.
4. Agricultural subsidies are a huge waste of taxpayer dollars. We pay farmers to overproduce crops that nobody wants. All that excess food floods the market, and we end up wasting our scarce resources. And it gets worse—because then we dump those products on developing countries, which pushes their own farmers out of business and causes international trade crises. Liberals, you've been running this scam on the American taxpayer for nearly a hundred years. It's time to get rid of subsidies.
5. No one can possibly plan the economy by committee—and that's especially true in agriculture. The radical idea of food security councils is a disaster waiting to happen. They are doomed to fail because there is no possible way any one person or group could ever figure out how to allocate resources to the right place, at the right time, in the right amounts to give us the wide variety of food we want in the quantities we need.
6. Radicals, your emergency and innovation fund can't solve the problem of instability in agriculture because your democratic socialist economy generates no money. Why? Because you reject the profit motive. That means there's no incentive for anyone to work hard or innovate. It's the profit motive that leads agribusiness to invest in research and development so we can go to the store and buy food that's more nutritious and won't spoil as quickly. Without the profit motive, our ability to feed ourselves is doomed to fail.
7. Is there instability in agriculture? Of course there is! That's why farmers buy crop insurance policies to mitigate the risk of loss in case of a disaster. And that's why they make deals with buyers to sell a portion of their future harvest at a fixed price. They can take measures on their own to make it possible to stay in business even if the price falls. This is how farmers have historically adapted and innovated to ensure that we get the food we want and need.
8. Our nation is most secure and our farming industry is most robust when we produce efficiently, which means leaving markets alone to self-adjust. That brings us the variety of foods we want in the right quantities at the right prices. We can choose whatever diets we want without the government imposing its will on our dinner plates. All we need to do is to let the invisible hand guide farmers to produce the food our nation actually wants and needs.

Liberal

Voice on Agriculture



Agriculture

The Homestead Act created incentives for settlers to make a better life for themselves and at the same time grow the food needed to feed our nation. The government created avenues of opportunity for prosperity and well-being by offering free land. The problem was not that the government gave land to settlers; the problem was that the government didn't partner with those homesteaders to ensure that they used best practices in farming, or to ensure that some land was being conserved, or to ensure that trees were left as wind breaks across the

Great Plains, or to ensure that water was used appropriately. We needed a partnership between farmers and government to put the right amount of land into production so that farmers didn't destroy the ecosystem. If there had been *more* government involvement, we could have prevented the Dust Bowl! We learned from that unfortunate experience. Today we benefit from public agencies that support and protect agriculture. Today, the Great Plains is once again vulnerable because there isn't enough government oversight of water use. Without strong intervention and enforceable regulations, we will end up with another Dust Bowl.

Let's consider the wheat market in figure 8.2. When there's a drought, higher water costs drive some farmers out of business. The supply curve

shifts to the left, bringing about a higher wheat price and a shrinking wheat market. In normal circumstances, it's perfectly fine when this happens because markets self-adjust in the long run. But food is not the same as any other product. We can live without ski resorts. We can't live without food. Food is necessary for our survival today and every day. The good news is that there is something we can do to restore the market to what it looked like before the drought. We can shift the supply curve to the right—back to where it was before the drought—by using subsidy programs. In figure 8.2 you can see that subsidies shift the supply curve back to the right because subsidy programs offset farmers' costs for water so they can continue to produce our wheat and continue to stay in business and grow the food we need.

With the helpful hand of government, firms are no longer at the mercy of weather, pests, or other unexpected threats. Subsidies create an equity gain that brings us more social welfare because we get the wheat we want in the quantities we want *and* at a low price—all while preserving our nation's farming enterprises.

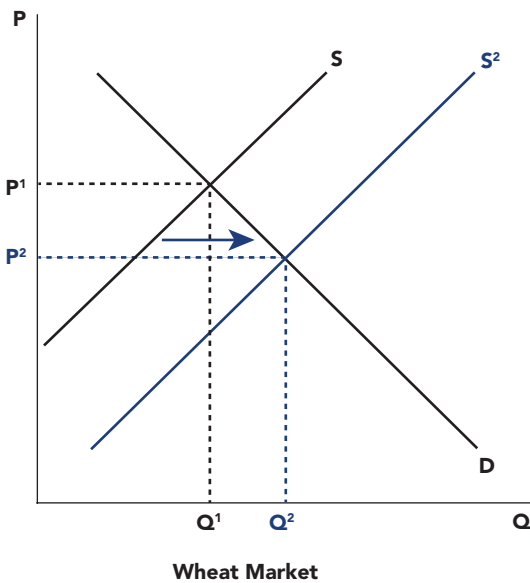


Figure 8.2
Liberal View: Agriculture

A stable food supply is of the utmost importance to our national security. Imagine if we didn't have subsidies and there was a drought. Wheat farmers would start to go out of business. They would sell their farmland to housing and strip-mall developers. When conditions for wheat production became favorable again—when the drought ended—they wouldn't be able to resume their farming businesses and grow our nation's wheat. You can't turn a condominium back into a wheat field. The land would never again be suitable for food production. We would become dependent on other nations to sell us wheat. Just consider military history for a moment. How are wars won? By keeping food from your enemy. Our trading partners today could easily become our enemies tomorrow, so protecting our domestic food supply is critical to our national security. We don't want to be dependent on other nations for our survival. What can save us from this stark scenario? The public-private partnership secures our food supply by preserving our farming industry, which protects our national security and brings us the food we want and need.



Radicals, what a brilliant idea for your food security councils to create emergency and innovation funds for farmers. Wait—that sounds so familiar... because that's exactly what subsidies are! You are clearly right that when there is a weather event or natural disaster that puts farmers at risk of going out of business, we need to step in and help. We've been doing this for generations. It's called "crop insurance," "disaster assistance," "loans," and more. And we already fund expert advice for farmers on best practices. It's called the USDA. We don't need to switch over to democratic socialism to have a community solution. We have already come together to make sure our nation's food system is protected. What do you think the government is? It's us. And we already have a democracy that is of the people, by the people, and for the people. Your food security councils are impractical. You can't ask people with busy lives and businesses of their own to sit through endless committee meetings. The USDA has paid staff and experts who work for us, and it already has mechanisms in place to get feedback from stakeholders. So while we're glad you agree that we need farm subsidies, let's be clear that the way you want to go about providing them is alarming and dangerous. First, it's impractical, and second, democratic socialism undermines the incentive for farmers to toil and labor to feed our nation. Cooperatively owned farms are always hampered by freeloaders who don't want to work hard yet expect to reap the rewards. The profit motive is the reward system that is the key to plentiful

A relatively small investment of our tax dollars brings us a priceless return: national security, a robust farming industry, low food prices, and more food choices than people have ever had in the history of humanity.

food production and a successful economy. Farming enterprises of every size in capitalism bring us innovation, motivation, and refrigerators filled with every kind of food that people want. If you want organic, free-range, non-GMO food, then capitalism ensures that your local store is stocked with those foods. Without the profit motive and private ownership, we'll be left with food shortages, higher prices, and fewer choices. The last thing we would ever want to do is to throw out the

very system that creates our wealth in the first place. Democratic socialism has the equation wrong: it's democracy plus capitalism, not democracy plus socialism, which brings us maximum well-being.

Conservatives, you love your mantra that markets left alone will self-adjust, but we don't live in a time bubble. It's dangerous and misguided to sit on our hands and wait for everything to work itself out while we watch our ability to feed our nation wither and die. We can't afford to become vulnerable to foreign domination. Your do-nothing approach leads to the worst outcomes for our social welfare. Consider farmers—the hard-working, dedicated people who built this country and who sustain us all. If there's a drought and we do nothing, they lose their farms through no fault of their own. Private crop insurance without government support is unaffordable, and the futures market is a gamble that might not pay off for farmers in the end. What happens to consumers? You're at the supermarket, looking to buy bread, cheese, and mayo for your cheese sandwich, but there was a drought, and we did nothing. If you

can even find bread at the store, you can't afford to buy it because the price is triple what it had been. Higher prices and lower quantities are what we get when we do nothing. Conservatives say subsidies create too much wheat production—but that's not a problem. When other nations get hit with famines, wars, and tsunamis, and all the other countries respond with food aid, we can be good global citizens by sending over our wheat. If we follow the free-market plan and get rid of subsidies, we end up with a four-way loss: the country loses its national security, farmers lose their businesses, consumers lose with higher prices, and the entire world loses when we can't come to the assistance of those in need.

We should strengthen the current policy of agricultural subsidies to ensure a secure food system. A relatively small investment of tax dollars brings

us a priceless return: national security, a robust farming industry, low food prices, and more food choices than people have ever had in the history of humanity. We should expand subsidy programs to motivate farmers to continue to grow the food our nation needs to stay strong and free. And while we enjoy living in a land of plenty, we can also help our international neighbors in times of war and famine. Subsidies ensure that we have stable markets so we can maintain our food independence and preserve our nation's precious farmland. We should continue our subsidy programs while making sure legislation is passed to ensure that politicians aren't corrupted by powerful agribusinesses. Only in this way can subsidies be used as they were intended, to bring us a stable and abundant food system so we can have the wheat we want, the kale we want, and the avocados we want.

Liberal

Fair-Market Capitalism



Agriculture

BIG PICTURE

The public-private partnership secures our food supply by preserving our farming industry, which protects our national security and brings us the food we want and need.

POLICY POSITION

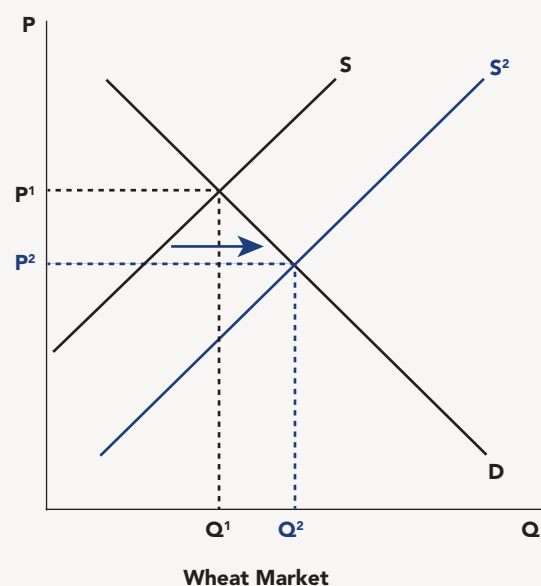
Instability in farming threatens food security, but . . .

- ▶ Radical policies are just subsidies by a different name, but burdened with suffocating red tape, limited choices, and food shortages.
- ▶ Conservative policies give us a four-way loss: bad for farmers, bad for consumers, bad for national security, and bad for international relations.

SOLUTION

Strengthen agricultural subsidies to ensure a secure food system:

- Expand protections for our food independence.
- Preserve the nation's farmland.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Agriculture Talking Points: Liberal

1. Farmers are the quiet, hardworking heroes of our country. Without putting on a uniform or taking up arms, they safeguard our national security by ensuring our food independence. The public-private partnership keeps us from becoming vulnerable to foreign powers for our very survival because government helps farms stay in production. It also gives farmers peace of mind when their livelihoods—and our nation's food security—are threatened.
2. Agriculture is a risky business. No one can predict the weather or any other unexpected event that interrupts food production, such as terrorism, wars, or a pandemic. But while those factors could affect our food supply, they don't because of fair-market capitalism. We don't have to worry about empty shelves at the grocery store, because our farming industry is protected by responsible government intervention.
3. The radical idea to use food security councils to create emergency and innovation funds is what we already have. It's called "subsidies." They just came up with a fancy new name for crop insurance, disaster assistance, and more. But their food security councils are impractical. We can't ask people with busy lives and businesses to sit through endless committee meetings. The USDA has paid experts and mechanisms in place to get feedback from stakeholders. Radicals waste time trying to fix what isn't broken.
4. Radicals, if you want organic, free-range, non-GMO products, fair-market capitalism protects farmers and ensures that your local store is stocked with safe, reliable food. But, without the profit motive and private ownership, we'll be left with food shortages, higher prices, and fewer choices. You throw out the very system that creates our wealth. Democratic socialism has the equation wrong: it's democracy plus capitalism with a government partner, not democracy plus dead-end socialism, which brings us maximum well-being.
5. The conservative idea that in times of crisis farmers adapt and innovate sounds good on paper, but without subsidies, farmers "adapt" by selling off their land to developers. Once farmland is turned into a housing development, a shopping mall, or a parking lot, it's lost forever to food production. Without arable land, our whole nation becomes dependent on other countries for our food. This is a disaster for national sovereignty.
6. Conservatives, farmers can't afford private insurance on their own, and futures markets are a gamble that could easily lose them the farm. Leave it to you to reject farm subsidies, which have worked for decades. Of course there's instability in every industry, but agriculture isn't just any industry. We can't survive without food. We don't want high prices and limited products at the grocery store every time there's a drought or hurricane. Agricultural subsidies keep farmers producing in a high-risk industry.
7. Everyone needs to eat. Food is the foundation of our well-being, so it makes perfect sense to support and protect our food source—the farming industry. The helping hand of government makes it possible for farmers to sleep well at night knowing that their businesses won't go under the next time there's a weather event or human-made disaster. We can sleep well at night knowing that tomorrow, and next week, and ten years from now, our nation will be able to feed itself.
8. Can you imagine the chaos and frustration that would occur if every time there was a drought or a hurricane, we would all have to wonder if we could find the ingredients for dinner at the store, and if we could afford them? Agricultural subsidies give us a four-way win: farmers win because they stay in business, consumers win with low prices and availability of the food we want, the country wins because we can depend on ourselves for a secure food system, and the developing world wins when we give it our surplus food.

Radical

Voice on Agriculture



Agriculture

The Dust Bowl may have looked like a natural disaster, but it wasn't natural—it was human-made. It didn't happen because there wasn't enough government or because there was too much government; it happened because of capitalism. The drive for profit led Europeans to steal the land from the Plains Indians. Capitalism gave farmers incentives to plow up the land, which ended up devastating the ecosystem. The drive for profit caused Black Sunday and turned 100 million acres of farmland into wasteland. The Homestead Act was supposed

to create homes for people and feed the nation, but that's not how it worked. Suitcase farmers saw a way to make easy money off this free land deal. They claimed their land, but they never actually moved there. Instead, they paid wage laborers to plow up acreage when prices were high, and then they abandoned the land when there was no more profit to be made. Suitcase farmers ruined the Great Plains. They may not have wanted to devastate the land and surrounding communities, but the pressure for bad led them to do whatever was most expedient to make a buck. And the irony is that they did it in a perfectly legal way through the Homestead Act. By the way, what happened to those wage laborers? They became Dust Bowl refugees! This production-for-profit economic system destroyed land and lives. It destroyed our nation's food system once, and it's doing it again. Today, large-scale farming corporations in the Great Plains—like the suitcase farmers who had no commitment to the community—are draining the aquifer beyond what it can sustain.

Under capitalism, we will end up with another Dust Bowl.

Let's use the Six-Core Cube of democratic socialism and drill down through the core point of *participatory governance*. Imagine a world where people come together before the weather event that threatens food production and help the farming industry prepare for, adapt, and respond to inevitable catastrophes. In democratic socialism, elected officials convene and facilitate food security councils. Made up of multiple stakeholders, these participatory community councils have the authority to make decisions. Bringing together their different areas of expertise, their different needs, and their different concerns, council members collaboratively decide how to address problems and what resources to allocate to programs. At that point, the elected officials are tasked with representing those decisions in the larger legislative arena to try to get them passed into law. That's how food security councils work. For example, food security councils would ensure that cooperatively owned farms

have the funding to switch to drought-resistant crops, that farmers get training in the best methods to harvest rainwater for irrigation, and that they can afford to restore degraded soil after a tornado. Because planning is important for the success of any endeavor, these measures would be put in place before disaster strikes. With participatory governance, the people with the most knowledge and expertise, as well as those who have the most at stake, all have a voice, so we get the best ideas for preventing crop failure, for recovering from disasters, and for developing innovations to improve production. Worker-owned farms and farming communities don't have to worry that their firms will go out of business or that their communities will become ghost towns.



Figure 8.3
Radical View: Agriculture

Instability is inevitable,
and that means the
stakeholders who
make decisions about
protecting our food
system—farmers,
consumer groups,
communities, scientists,
public officials, industry
experts, and so forth—
plan together for
the future.

Do you know what the weather will be next week? Next month? Next year? Of course you don't—no one does. So here's how we make sure you will have your cheddar, bread, and mayo for your cheese sandwich: we plan for instability. Long-term planning is an ancient idea, by the way. Remember Joseph from the Bible? He interpreted the pharaoh's dream that there would be seven years of plenty, followed by seven years of drought. Out of that prediction came a long-term plan to stockpile grain

during the years of plenty so no one would starve during the years of drought. Because Egypt had that long-term plan, it became the dominant power in the region during the drought years. We don't need a dream interpreter to tell us that we are going to have cycles of abundant harvests and lean harvests. Instability is inevitable, and that means the stakeholders who make decisions about protecting the food system—farmers, consumer groups, communities, scientists, public officials, industry experts, and so forth—plan together for the future. Food security councils anticipate problems and set aside resources for unforeseen calamities because we understand that everyone benefits when worker-owned farms stay in business and thrive. They serve as local economic anchors with prosperous enterprises, and because they live in the communities where they work, they are motivated to take care of the land and use best practices. Participatory governance brings the nation a stable, healthy, and balanced food system by funding

innovation and best practices to plan and prepare for catastrophes.

Because of capitalism, the food system is threatened and will never be secure. We can understand most clearly why this is so when we see the way top-down governance works. When decision-making is left in the hands of a few elected officials, they are supposed to make decisions for the good of their constituents, but the stakeholders aren't truly represented. Why? Because in capitalism firms are forced to buy off politicians with big donations so our elected officials represent their special interests. This crony capitalism is the reason we have corporate welfare in the form of agricultural subsidies. That's why our representatives vote to cut regulations so that big ag can spray our food with their toxic pesticides to save a buck. A firm that doesn't want to play this game of corruption is a firm that won't survive. With top-down governance, there's only one outcome: a government that's in the pocket of big

ag. We're left with their profit-maximizing, low-quality, unhealthy foods that destroy our bodies and our planet. In capitalism the health of our nation's food system is left to wither on the vine.

Instability in farming threatens food security, but conservatives have it all wrong. With free-market capitalism, when we leave it alone, big ag is perfectly happy to watch the small farms go out of business. Then they swoop in and buy up the farmland at a low price. They're just there to suck all the profits they can get out of the land—not to be part of a healthy, sustainable community. The food system is vulnerable to weather and human-made disasters. Without a plan in place, the most vulnerable farms go under. We need people who care for the land because they live and work there. Wheat, corn, and soybeans are the highest-profit crops, so that's what they produce. Conservatives, you say free-market capitalism brings us the food we want and that we get innovations that move us forward as a nation. That's a warped spin on



what really happens. Big ag spends billions on food scientists to invent new ways to turn those crops into the most addictive products possible and on advertising executives and researchers to come up with ingenious new ways to convince us that we want and need those products. Here's the price signal incentive at work: get us hooked on cheese puffs and sugary cereals so we buy more and consume more and never feel full while we grow obese and sicken from diabetes and heart disease. Corporate agribusiness rakes in the profits and calls it a "win" and pours more money into research for even more ways to corrupt the food system for profit. Don't get me wrong—these aren't bad people. They're stuck in a rotten economic system. Caving in to the pressure for bad is the only way their firms can survive in capitalism.

Liberals, let's drop the patriotic pretense that subsidies are mainly benefitting the nation's heroic farmers, who might lose everything because of bad luck and bad weather. The agribusinesses that produce food make more money than most nations. They are in zero danger of going out of business because of a weather event. Those big farming enterprises make money off the backs of migrant wage laborers, who get paid a pittance. And big ag has zero commitment to sustainable farming, so they spray toxic chemicals, factory farm animals, and pollute groundwater, rivers, and streams. Farm lobbyists for big ag pay off politicians to make sure the crops that are most profitable—soy, wheat, and corn—get the most subsidies. The whole middle section of our supermarkets is stocked with nothing but highly processed foods made with those crops—packaged foods that are unhealthy and addictive. Even if you want to eat healthy, you may not be able to afford to. Not when it costs three times more to

buy a bag of fresh vegetables than to buy a bag of cheese puffs or a box of sugary cereal. So what liberals have done is created a state-subsidized national health epidemic of obesity, cardiovascular disease, and diabetes. Let's not forget that we then turn around and dump our excess subsidized products on developing countries and in the process push their farmers out of work. A food system built on tax-funded subsidies is unpalatable and spoiled.

We should replace the current policy of agricultural subsidies in capitalism with food security council policies in democratic socialism to bring us a secure food system. Farmers have what they need to provide plentiful and healthy food. For example, emergency and innovation funds provide expertise and financial support so worker-owned farms can plan and prepare for unforeseen challenges. These funds also help farming communities rebuild and adapt after severe weather events by promoting best practices and the latest research and innovations for sustainability. In democratic socialism, it's acknowledged that a stable food system isn't just about having a lot of food on the store shelves; it's about having healthy, affordable choices. The farmers who produce our food care about the land and use best practices because they live in the communities where they farm, and their food not only feeds the nation, it also feeds their families and their neighbors. That's why we can trust that the food on our plates nourishes our bodies and our whole society. Food security councils make decisions that government officials bring to their legislative bodies to become the laws of the nation, bringing a stable and abundant food system so we can have the wheat we want, the kale we want, and the avocados we want.

Radical

Democratic Socialism



Agriculture

BIG PICTURE

Participatory governance brings the nation a stable, healthy, and balanced food system by funding innovation and best practices to plan and prepare for catastrophes.

POLICY POSITION

Instability in farming threatens food security, but . . .

- ▶ Conservative policies enable big ag to give us unhealthy, addictive food and the illusion of choice.
- ▶ Liberal policies only serve to feed big ag, which exploits workers, ruins the land, and destroys farming communities.

SOLUTION

Replace agricultural subsidies in capitalism with food security council policies in democratic socialism to ensure a secure food system:

- Create emergency and innovation funds.
- Preserve and support farming communities.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Agriculture Talking Points: Radical

1. With participatory governance, we plan ahead instead of waiting for disaster to strike farms and wipe them out. Food security councils invest in research and development of drought-resistant crops, water-harvesting systems, and sustainable equipment. When all the stakeholders have a place at the table and real power to make decisions, we can fund innovations and best practices to make our food system more secure. This is how we get a sustainable and secure food system.
2. Everybody's gotta eat! Food security councils make sure we have the food we want because they understand what it takes for farms to succeed, what consumers want, and how to feed our nation. Why? The people at the table represent all the stakeholders. They are the farmers, the consumers, the industry experts, the environmentalists, the hydrologists, our public officials, and more. With policies in hand, the elected officials are tasked with representing those decisions in their larger legislative arenas.
3. Conservatives, you say the profit motive makes our lives better, but all I see are supermarkets filled with foods that make us sick. Big ag is killing us with obesity, diabetes, and heart disease. Because of capitalist competition, they hire food scientists to design our meals, snacks, and drinks to be addictive so we'll keep buying more and more. Instead of being in the business of feeding people healthy food that sustains us, their business is all about making the most profit. In the meantime, we get sicker and more addicted.
4. The conservative idea to do nothing is dangerous. The food system is vulnerable to weather and human-made disasters. Without a plan in place, the most vulnerable farms go under, and greedy multinational corporations happily swoop in and buy them up for a pittance. We can't afford to lose farming communities to outside investors. We need people who care for the land because they live and work there, and because they want to sustain it for their children and grandchildren.
5. The liberal policy of subsidies underwrites big ag's destruction of our food system, our health, and our future. Our tax dollars fund unsustainable, dangerous practices like producing dairy with hormones and spraying our vegetables with toxic chemicals. Then liberals turn around and dump the leftovers on poor countries. This drives their farmers out of business, and entire nations become dependent on our handouts to survive. Liberals' intentions may have been humanitarian, but their policies destroy food systems throughout the world.
6. Let's be honest about what's really going on here, liberals: rich agribusiness pays off politicians to push farm subsidies in their favor. This is an example of crony capitalism at its worst. Your subsidies are a well-packaged scam to make taxpayers believe we're participating in a patriotic act to save the country's family farms. But in reality you have us subsidizing companies that have more money than many nations, traumatize our food system, and are in zero danger of going out of business.
7. A stable food system isn't just about having a lot of food on the store shelves; it's about having healthy, affordable choices. In democratic socialism, we know that the farmers who produce our food care about the land and use best practices because they live in the communities where they farm, and their food not only feeds the nation, it also feeds their families and their neighbors. We can trust that the food on our plates nourishes our bodies and our whole society.
8. We all plan ahead for possible calamities. That just makes good sense. Through participatory governance, food security councils give farmers emergency and innovation funds to prepare, adapt, and recover from disasters. Farmers are not left on their own to sink or swim. With money set aside for the express purpose of helping them in times of crisis, and with research and development to strengthen their farming operations, we all win with thriving farming communities and a secure food system.

The Shared Outcome

You can hear in the voices that conservatives, liberals, and radicals share the same goal. They all want a secure food system for the nation. They agree that the ability to feed ourselves is a fundamental issue of survival every single day, and that issue will never go away. It's been around forever, and it will continue to be relevant until the end of human civilization. Now it's time for you to be part of the conversation.

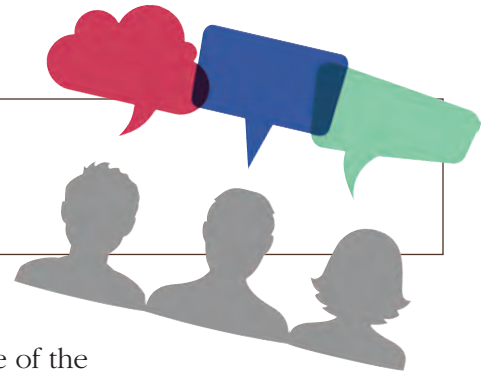
Your Rock-Star Moment

Have you ever wanted to be a rock star? To be the lead singer in a band, you have to learn how to sing, which means breathing the right way, staying on key, and training yourself to pick up cues from the band so you don't start your solo late and embarrass yourself. It takes a lot of practice to get so good at it that, when you finally get out on stage and start to sing, you feel pumped up and confident and unsurprised when the audience roars with approval. Rock stars make it look easy, but that's because they worked backstage for years to get that good. We can't promise you that the VOTE Program will turn you into a rock star, but it will definitely give you voice lessons and practice opportunities. As we mentioned earlier, a big part of the VOTE Program is practicing how to articulate ideas from each of the perspectives.

Just like a rock star captivates the audience, your task is to captivate your listeners with your gift of persuasion. After each Issues chapter, we'll be practicing this important skill using different kinds of exercises, including debates, posters, skits, role-plays, and more. Please use these opportunities to become fluent in each of the perspectives so you can add your voice to the conversations. ☒



Activity: Debate



It's time for the first VOTE activity: the debate. It is your opportunity to practice your powers of persuasion by advocating for one of the three economic perspectives. The goal is to passionately argue in favor of the main ideas of the conservative, liberal, or radical point of view as well as to counter your opponents' ideas with intelligent critiques. Debating teaches you to be a better listener, because you have to hear what the others are saying so you can formulate a relevant response. Sarcasm, insults, and name-calling are off limits, and please don't do an impersonation of a celebrity, friend, family member, or colleague who identifies with that perspective—even if you're really good at impersonations. But feel free to criticize opposing perspectives with intelligent ideas, satire, and humor.

“Point-Counterpoint”

You'll need a group of at least three for the debate activity. If there are more than three you can form teams. Here are the instructions.

- ① On a slip of paper, write “Conservative,” and on a second write “Liberal,” and on a third write “Radical.” Then fold all three and put them in a hat or a cup.
- ② Each person or team randomly picks one of the slips of paper. That is your assigned perspective for the debate. Please remember that you don't have to agree with the perspective (it's actually more fun when you don't).
- ③ Take a few moments to review the talking points and perspective summary for your assigned perspective. You may get nervous when the debate starts, so I recommend you print them out and keep them on hand, just in case.
- ④ Jot down the following notes to prepare your arguments:
 - a. Main points in favor of your perspective
 - b. Main points against the first of the opposing perspectives
 - c. Main points against the second of the opposing perspectives

Please avoid technical jargon (“The supply curve would shift to the right,” or “The Six-Core Cube can't be solved”). Instead, try to come up with conversational ways to make your points. That's what it means to be persuasive. Your goal is to move the listener to agree with your point of view.

WARM-UP

Someone goes first by stating a main point in favor of their assigned perspective. When it's your turn, try to be as passionate, articulate, and convincing as possible, even if you are reading from the talking points rather than summarizing the ideas in your own words. (If you're going to read—and that's a perfectly acceptable option—do pretend you're not reading. That means slowing down, pausing, looking up, making eye contact, and using your hands, face, and voice to convey the appropriate emotion.)

THE DEBATE

Now it's time to debate. There is no formal order. Please follow these guidelines:

- Arguments must be technically correct and passionately delivered.
- Debaters must acknowledge the idea that was just previously argued, even if it's just to agree with it or dismiss it. This helps you develop communication skills rather than just leaving you to pontificate on your assigned point of view or shout down and shut out the other teams.
- The round is only finished when each person has had a chance to say why their position is right and why the other two are wrong. (Again, feel free to use the talking points to bolster your arguments.)
- Please address the ideas without attacking the person who is delivering them.

You'll know this activity is successful when you and the other participants forget that you are playing a role. It might even become a challenge not to interrupt because everyone is so excited to express the ideas of their assigned perspectives. Learning to debate this way will help you become a more persuasive person, and your voice will carry more weight in the world. I recommend that you try debating for several rounds, rotating through the perspectives on this issue until you become fluent in each one.

Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Agriculture. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 8: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.

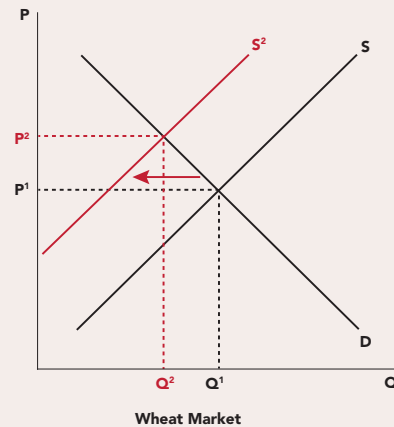


1. Which of the following is a true statement?
 - A. Agriculture is the study of the sale of food products sold at grocery stores.
 - B. Agriculture refers to growing crops and raising animals in relation to food and clothing production.
 - C. The term *agriculture* is defined as large-scale production, while the term *farming* is defined as small-scale production.
 - D. More than 70 percent of our nation's land is used for agriculture.
2. When a product is the same regardless of where it was produced or who produced it, we use which term to describe it?
 - A. Commodity
 - B. Future
 - C. Hedge
 - D. Soft product

- 3.** The Farm Bill, which is the federal government's policy in relation to agriculture, was first passed in ____ (originally called the Agricultural Adjustment Act), and it is reviewed and reconsidered approximately every ____ years.
- A.** 1968; five
 - B.** 1903; ten
 - C.** 1933; five
 - D.** 2000; five
- 4.** Match the subsidy program (left column) to its intention (right column).
- | | |
|---------------------------------|---|
| A. Crop insurance | i. To help keep farmers in business |
| B. Direct payments | ii. To help with cash flow issues |
| C. Loan guarantees | iii. To help develop new technologies |
| D. Agricultural research | iv. To help cover losses from weather events |
- 5.** Which statement is true from a conservative perspective?
- A.** If the price of cotton is too low, farmers leave the industry and the price self-corrects by increasing.
 - B.** Agricultural subsidies for cotton make society better off.
 - C.** When we subsidize cotton, it ultimately hurts our relationships with other countries.
 - D.** Both A and C are correct.
- 6.** Which statement is true from a liberal perspective?
- A.** With farm subsidies, we put the whole nation at risk of becoming dependent on other countries for food.
 - B.** Subsidies help farmers more than people in other industries.
 - C.** Agriculture subsidies decrease retail food prices in grocery stores.
 - D.** Both A and C are correct.
- 7.** Which statement is true in capitalism from the radical perspective?
- A.** When firms follow price signals the nation is ensured of the most food and the types of food that people want.
 - B.** Firms manipulate people to become addicted to unhealthy food and in the process create public health crises.
 - C.** CEOs of big ag pay off politicians to make more profits, but that's because they have to for their firms to survive.
 - D.** Both B and C are correct.

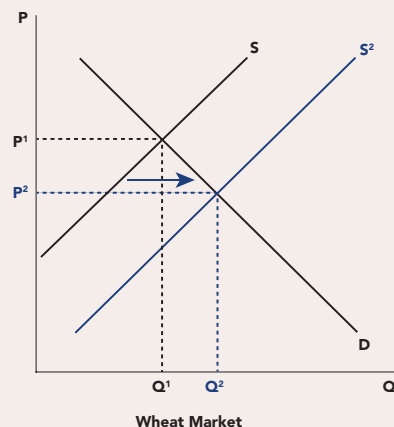
8. Choose the correct conservative interpretation of this wheat market graph.

- A. Increasing crop insurance shifts supply to the left, thereby increasing the price of wheat.
- B. When the price of wheat is too low relative to costs, farmers switch to producing products that are more profitable.
- C. Capitalism's profit-driven focus results in too much wheat produced at too high of a price.
- D. The supply of wheat shifts up and to the left as government interferes with subsidies, resulting in firms making too little wheat.



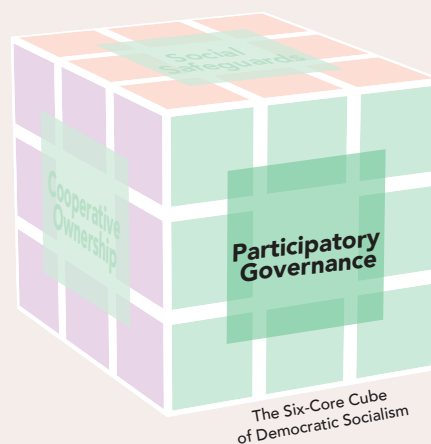
9. Choose the correct liberal interpretation of this wheat market graph.

- A. When the price of wheat is too low relative to costs, farmers switch to producing products that are more profitable.
- B. During severe weather events, subsidies are necessary to keep farmers in business and result in lower prices for wheat as a side benefit.
- C. Capitalism naturally results in more wheat being produced during a weather event, which ensures our national security.
- D. None of the answers above is correct.



10. Choose the correct radical interpretation of this Six-Core Cube of democratic socialism.

- A. Democratic socialism is the economic system that best results in food security because the government owns and runs all the farms.
- B. In capitalism, government is of the people, by the people, and for the people, so our well-being is guaranteed.
- C. Our nation's food security is best ensured when stakeholders such as farmers, consumers, government officials, and others set the policies.
- D. Participatory governance means that elected officials independently decide on the best agricultural policies to get the most food for the most people.



Answers

1. B 2. A 3. C 4. A – iv, B – i, C – ii, D – iii 5. D 6. C 7. D 8. B 9. B 10. C

Chapter 8: Key Terms

- Agribusiness

Agricultural dumping

Agricultural subsidies

 - Agricultural research
 - Conservation reserve
 - Crop commodity program
 - Crop insurance
- Direct payments
 - Disaster assistance
 - Food promotion
 - Loan programs for farmers

Agriculture

Commodities

 - Hard commodities
- Soft commodities

Commodities exchanges

Farm Bill

Food aid

Futures

Hedge



9 Issue: PRODUCT SAFETY

The first car I ever bought was a gorgeous metallic blue Volkswagen Bug that one of our family friends sold to me when I was eighteen. It was refurbished, but it looked to me like it was in mint condition. I fell in love at first sight and happily handed over my \$500. A few days later, I drove it to a mechanic to get it checked out. That's when he delivered the bad news: "The frame is completely rusted out. If you hit a deep pothole, the whole car could fall apart and you could die." My father heard this and was furious. I'd never seen him so angry. He called the family friend and ranted: "How could you sell my daughter a car that's unsafe? Do you not care about whether you're directly responsible for somebody's death? Every time she drives it, her life is at risk!" The woman was appalled to hear that the car she sold me was a deathtrap. "I had no idea! I'm so very sorry," she said, and she immediately gave me a refund and took the car back.

I had been riding in cars all my life and hadn't really worried about my safety. When

I was growing up, our version of seat belts was Mom throwing her arm out to stop us from hitting the dashboard of our station wagon when she slammed on the brakes. I realized I had always assumed that when a person died in a car crash, it was because of something unlucky—like a patch of black ice on the road that no one could have known was there, or a deer jumping in front of the car, which no one could have foreseen. Or maybe it was something they did wrong—like driving drunk or falling asleep at the wheel. For the first time it occurred to me that there were car accidents that happened not because of bad luck or someone being irresponsible or making a mistake but because the car itself was unsafe. I started to wonder about the safety of all the products in my life. Was the fire retardant in my mattress poisoning me? Was the

off-gas from our new carpets giving me lung disease? Was my orange juice tainted with toxic pesticides? I started to read about the issue of product safety and learned about its poster child at the time, the Chevy Corvair. Controversy





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over the car's design launched a national debate about product safety and corporate responsibility.

Here's what happened. General Motors designed a new compact car that came out in 1960—the Chevy Corvair—which had a new type of suspension system. GM's engineers recommended that the car include an anti-sway bar to prevent rollovers, but management made the decision not to install it as standard equipment. Instead, they relied on the cost-free fix of adjusting the tire pressure to compensate for the weight differential that could cause a rollover if a driver oversteered. Later, GM offered drivers the anti-sway bar as an aftermarket option and eventually installed it as standard equipment on later models of the Corvair. Hundreds of people died in Corvair rollovers, and GM was sued dozens of times. The story of the Corvair was recounted in the 1965 book *Unsafe at Any Speed*, written by a young lawyer named Ralph Nader. He dubbed the Corvair the “unsafest” car, and that's how it

became the poster child for the issue of product safety. (By the way, a decade later an independent study conducted by the National Highway Traffic Safety Administration didn't find the Corvair to be any less safe than comparable cars of that time.)

The fact that people are gravely injured and even die from products is a tragedy. Everyone knows it's in the nature of innovation that sometimes things go wrong, and there are unintended consequences from products. And when firms do something illegal—covering up knowledge of potential harm from a product or purposely making a product more harmful, for example—those companies should be held accountable through the justice system. But in all other cases, what should be done to ensure the safety we want in the products we use? Conservatives, radicals, and liberals all agree that products can cause harm. But as you might imagine, they don't agree on how to ensure the protection that people want.

Understanding the Issue of Product Safety

“I am convinced that material things can contribute a lot to making one’s life pleasant,” wrote billionaire banker David Rockefeller, “but, basically, if you do not have very good friends and relatives who matter to you, life will be really empty and sad, and material things cease to be important.”

Wise people in every culture have echoed this sentiment that happiness comes from the quality of our relationships, not from the stuff we own. However, on a practical level, material well-being is vitally important for our survival. We absolutely need food, clean water, and shelter to continue to exist. If you don’t have those things, then over time you will be physically compromised. Right now, billions of cells and countless intricate biological systems are at work in your body keeping you alive and making it possible for you to think, move, digest, and read this page, among everything else going on under your skin. If you think about it, your physical existence is actually quite fragile. You wake up in the morning and heat up your frozen breakfast burrito. Could the microwave oven be causing brain damage? You hop in the shower. Is the water spraying down on you tainted with heavy metals that cause blood cancer? You wash your hair. Does the fragrance in the shampoo trigger asthma attacks? Before you head out for the day, you fill your water bottle. Is it made with plastics that cause liver problems? You catch your bus on time. Is the braking system safe? The issue of product safety is about ensuring that products won’t end up injuring us or killing us. Of course, we all know that happiness comes from connection with friends and family, but if we can’t count on the safety of the material things we interact with on a daily basis, we may not be around to enjoy those connections.



What Is Product Safety?

Imagine it’s flu season and you go to your nearest pharmacy to get a flu shot. While you’re there, you pick up some herbal cold medicine and a random box of party lights that you find on the clearance shelf. On a piece of paper, jot down “flu shot, herbal cold medicine, and string of party lights.” We’ll come back to this later.

Product safety refers to the potential for goods and services to cause harm to consumers. This issue is one of the easiest to understand in the VOTE Program because your life is filled with products, and it always will be. Let’s define our terms for this issue. Product safety is also sometimes called *consumer safety* or *consumer protection*. **Product safety regulations** or **consumer safety standards** are criteria or requirements that firms must meet before they can offer their products on the market. Most product safety standards are concerned with the risks of electrical, chemical, fire, or mechanical hazard or whether a product poses a danger to children. There are safety standards for most products, including spas, tablets, drywall, refrigerators, fabrics, mattresses, painkillers, meat, carpeting, workout equipment, ventilation systems, and so on. Just to give you



an idea of the scope of this issue, in 2017 there were 29 million injuries and 22,000 deaths caused by products. That year alone, there were 251,700 reported injuries related just to toys. There were tens of thousands of visits to the emergency room as a result of people being harmed by unstable furniture, appliances, and other heavy objects tipping over on top of them. Some of these people were even killed. Product-related injuries and deaths cost the United States an estimated \$1 trillion in 2018.

Compliance means a firm is following or meeting the government-mandated or industry-recommended product safety standards. But please keep in mind that just because a firm is in compliance doesn't guarantee that the product is safe. It simply means that the firm is not violating safety standards. Some product hazards come from design defects (an electric drill bit flies off when operated at top speed) or manufacturing flaws (a toxic solvent is used to clean beer vats). Some come from consumer use (buckling an infant car seat incorrectly). **Prevention** is a measure taken before the product is designed, produced, or sold

to minimize the possibility that it will cause harm. For example, the electric drill goes through a testing phase to make sure the bit won't fly off when you're making a birdhouse. The beer firm sends the new solvent to the lab to make sure it's not toxic before it's used to clean the vats. The infant car seat producer includes a diagram so users can properly install it. A common prevention measure is the age-grading recommendation on children's toys, which is meant to prevent infants and toddlers from choking on small pieces. **Quality control** is the process of testing samples of products so producers can assess whether they are safe even when made in different batches, by different workers, or on different machines. Some prevention and quality-control measures are done voluntarily by firms, some are required by industries in order to be certified, and some are mandated by government regulation.

A **safe product** is one that, when installed and maintained according to specifications and when used in the right way for its intended purpose, can be relied on not to cause harm. Smoking cigarettes can cause lung cancer, but a cigarette is technically



Infamous Product Recalls

- | | |
|-----------------------------------|------------------------------------|
| 1. Takata airbags | 7. Pfizer's Bextra pain medication |
| 2. VW diesel engine | 8. Toyota floor mat |
| 3. Vioxx pain medication | 9. Peanut Corp. of America peanuts |
| 4. Firestone tires | 10. Johnson & Johnson Tylenol |
| 5. Samsung Galaxy Note 7 | |
| 6. General Motors ignition switch | |

Source: Dan Burrows, Kiplinger, "10 Biggest Product Recalls of all Time," March 26, 2018.

not defective as long as it doesn't explode in your face when you light it. But what happens when a product is found to be unsafe? Sometimes it is taken off the market through a **product recall**.

In this case, the producer either refunds consumers' money or replaces the faulty part or product.

For millennia, humans have been finding ways to manage the risk of potential harm from products. In ancient times, cup bearers were tasked with taking the first tastes of the food and drink of royalty to

ensure that they weren't laced with poison. The ancient Mesopotamian king Hammurabi carved his consumer protection laws in clay tablets back in 1754 BCE. The Code of Hammurabi described how weights and measures were regulated to make sure no one was cheating in the marketplace. It also outlined laws to ensure that products were safe. Skip ahead to the late 1800s and the proliferation of "patent medicines," which were marketed as remedies purported to cure all kinds of ailments using secret, allegedly government-patented ingredients. Advertised in magazines and newspapers and sold in stores and off the backs of wagons by traveling "snake oil" salesmen, many of these elixirs contained alcohol, opiates, cocaine, and arsenic, as well as other harmful and addictive ingredients. They made children, elders, and adults sick and addicted—and even killed people. This spurred Congress to pass the Pure Food and Drug Act in 1906. Producers were held accountable for false advertising and had to disclose the ingredients in their products. Fast-forward to the cereal box on your breakfast table. On the front it tells you how much cereal is in the box, and on the side it lists all the ingredients, plus the nutritional values found in a serving. It also tells you if your bran flakes

were made on machinery that processed nuts, soy, or wheat, in case you're allergic to any of those foods. That information didn't randomly appear there. The labeling, product warnings, packaging specifications, product testing, and more reflect the efforts of firms, industries, and government to manage the risk of harm from products.

There are a variety of ways consumers, firms, and the government respond to unsafe products.



■ Consumers

Individuals vote with their wallets and stop buying unsafe products. When a critical mass reject the firm's products, it will either correct the design or drop the product in order to be profitable. The idea that consumers are the ones who control what they buy and therefore what is produced is called **consumer sovereignty**. For example, a snack food made by Frito-Lay called Wow! contained the compound olestra. It turned out that this fat substitute acted like a laxative, and consumers ended up with severe stomach cramps. Sales fell dramatically, and the firm eventually discontinued that product.

Advocacy groups organize boycotts and public awareness campaigns to influence more people to vote with their wallets. These may be community groups, nonprofit organizations, or other groups of concerned citizens. They may also advocate for safer products from industry and firms and act as a clearinghouse for information. For example, groups of parents and child-safety experts pressured makers of playground equipment to create safer play environments for kids.

Individuals and groups of people sue firms if they believe the company was **negligent**—that is, failed to take reasonable measures to ensure the product would not cause harm. In 2018, the year's biggest product-liability verdict was against Johnson & Johnson for \$4.69 billion. The jury ruled in favor of the twenty-two women who claimed that the firm's talcum powder caused their ovarian cancer.

■ Firms

Voluntary product recalls may be issued by firms when one of their products turns out to be unsafe. A famous example is the Samsung Galaxy Note 7, which was voluntarily recalled by the manufacturer after the battery was found to overheat and explode.

Trade associations may also set standards, provide certification, and enforce compliance to man-

age risk from products. For example, the American Association of Blood Products has set standards to ensure that donated blood is safe for transfusions.

■ Government

The government issues and enforces regulations when a product is unsafe. For example, it banned the use of a popular pesticide called DDT after it was found to cause premature births as well as a host of other maladies.

Government Regulatory Agencies

There is no overarching law that addresses harmful products, but a long list of government agencies are tasked with overseeing product safety on the federal, state, and local levels. They create and enforce product safety standards. They also require firms to test products regularly in order to demonstrate that they are in compliance, and some agencies collect data on injuries and product recalls—among other things—to inform the public and identify best practices for the industry. There are government regulations about the safety of your local amusement park rides, the solar panels on your roof, and the food that's served at your local restaurant. Because many of the products we use are made in other countries—or use ingredients or parts made in other countries—imports are also regulated by the government. The United States imports trillions of dollars of products from hundreds of countries every year.

In a global economy, the issue of product safety becomes exponentially more complicated. For instance, some pesticides that are banned for use in the United States can still be produced for export. Farmers in other countries buy these chemicals and spray them on their fields. Then they turn around and export their vegetables, fruit, and meat to the United States. It shows up on the shelf in your grocery store, and no product safety regulations were violated. This has been called the “circle of poison.”

Whether government should be the watchdog for consumer safety is a controversial topic. Nevertheless, there have been a variety of consumer protection and workplace safety agencies for more than a century, and the government has created new ones relatively recently. Here are a few examples.

Food and Drug Administration (FDA): Created in 1906, its mandate is to protect and promote public health by supervising food safety, packaging and labeling, tobacco products, dietary supplements, pharmaceuticals, vaccines, blood transfusions, medical devices, cosmetics, veterinary products, and more. For instance, the FDA investigated the potential harm from tobacco use and tobacco addiction. It regulates tobacco products so that companies can't market or sell to children. The FDA also issues recalls on unsafe products. For example, it recalled pet food that was contaminated with an industrial chemical called melamine, which causes harm to animals. To give you an idea of the scope of recalls for medications alone, during a five-year period during the 2010s, close to eight thousand were recalled. Some were taken off the shelves voluntarily by firms, while others were required to do so by the FDA.

National Highway Traffic Safety Administration (NHTSA): Founded in 1970, the NHTSA gives consumers information about cars. You can look at their safety ratings before you buy a car and find out about manufacturer recalls. The NHTSA regulates things like airbags to make sure they deploy correctly and to protect consumers from ones that spray shrapnel. It also regulates odometer fraud (making a car you're looking to buy appear to have fewer miles than it actually has). It also regulates self-driving cars.

Consumer Product Safety Commission (CPSC): Founded in 1972, its mandate is to ensure the safety of consumer products. According to the CPSC, damage from unsafe products costs the nation \$1 trillion every year. Examples of recalls

include children's sleepwear for not conforming to the federal flammability standard, scuba regulators for drowning hazard, dishwashers for fire hazard, windup toys for choking hazard, and a cake knife because the handle can break during use and cut the user. In each case, the CPSC recommends that "consumers should immediately stop using this product." To give you an idea of how often CPSC recalls occur, there were ninety-three children's products recalled in 2017.

Consumer Financial Protection Bureau (CFPB): Created in 2011, its mandate is to protect consumers from unfair, deceptive, or abusive practices in financial markets. If you take out a loan that financially ruins you, this threatens your ability to house and feed yourself and your family, which makes it a product safety issue. The CFPB offers tools to help consumers make good financial choices, and it investigates predatory companies that break the law. For example, the CFPB went after the payday loans industry because companies loaned money to people who could not afford to pay them back and charged high interest rates (of 1,000 percent in some cases). The CFPB ruled that before loans are issued, the lender must determine that the borrower can afford the loan.

This list barely scratches the surface of government agencies tasked with regulating product safety. For example, the Federal Aviation Administration (FAA) oversees the safety of airplanes. The Occupational Safety and Health Administration (OSHA) regulates the machinery used in industry and the safety of workplaces. The Environmental Protection Agency (EPA) regulates chemicals that are used commercially. After reading all these acronyms, you might understand why some people call it an "alphabet soup" of government agencies.

Remember your visit to the pharmacy for a flu shot, when you also picked up some herbal cold medicine and that string of party lights from the clearance shelf? Now look at the list of federal agencies and find the one that regulates your



flu shot. If you picked the FDA, you're right. How about the agency that oversees the safety of that string of party lights? If you chose the CPSC, you are correct. Now here's a slightly complicated one: which agency oversees your herbal cold medicine? If you chose the FDA, you're right—but you should know that while the FDA tested your flu shot to make sure it really does protect you against the flu and does not contain harmful substances, it did not test your herbal cold medicine to make sure it does what it claims. When it comes to dietary supplements—protein powders, omega-3 oils, and calcium, for example—the FDA only checks that products have the ingredients they say they have. It doesn't test them for safety or effectiveness. When

you leave the pharmacy and drive away, which federal agency rates the braking system in your car? The NHTSA. Later, when you go online at home and discover that your bank signed you up for a credit card that you never requested, which agency do you call to complain? The CFPB. At work the next day, you and your coworkers all start to feel nauseated when the air-conditioning system is turned on. Which agency checks that your workplace is safe? OSHA. The point here is that in the background of your life, whether or not you want them to, government regulations touch on nearly every aspect of your daily interactions with a vast number of products.



Now you have the lay of the land. You know the definitions and the history of what our nation has already been doing to address the issue of product safety. In chapter 7, you learned the tools

needed to analyze competing ideas about how to solve the problem of unsafe products. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.



Voices on Product Safety

Liberals, radicals, and conservatives all agree that products can cause harm, and they share the same goal of ensuring the protection that people want. But they strongly disagree about how to do that. Should government agencies partner with firms and industry to create safety standards? Should stakeholders come together in product safety councils so that everyone has a voice and a buy-in regarding safety standards? Should we be leaving markets alone so that consumers can vote with their dollars and firms can respond with the desired safety standards?



It's time to put on a "mask" and debate this policy from each perspective. Please remember that we are not taking a personal position on any of these issues. We're just channeling the voices of the perspectives. The policy we currently follow is product safety regulations in capitalism, which is why we described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the conservatives and radicals each an extra paragraph in this section to expand on their ideas. We change the order of who goes first each time. For this issue, it's the liberal's turn to go first.

Liberal

Voice on Product Safety



Product Safety

Think back to the Chevy Corvair story. General Motors knew that when it chose not to put in the anti-sway bar, it would cause a potential problem with rollovers. But to save money, the company decided not to include it, and instead said that the problem could be fixed by either changing tire pressure or by purchasing the anti-sway bar as an aftermarket option. But those options were not communicated well enough to consumers, leading to the deaths of hundreds

of people. If there had been government regulations in place, we could have ensured that GM—and all the car companies—had clear product safety standards to prevent rollovers. None of those victims would have had to die senseless deaths, GM would have been spared expensive lawsuits and terrible public relations, and the Chevy Corvair could have become the model for a whole new line of safe and sporty cars. The issue of car safety is still very relevant today, and the need for regulation hasn't gone away. GM was sued in 2015 for installing faulty switches on some of its cars, which resulted in 124 deaths. We need to strengthen the public-private partnership between government and business so that drivers won't be harmed in cars that roll over or catch on fire or crash because of a design flaw or manufacturing defect.

Let's consider the market for automobiles in figure 9.1. When there are government regula-

tions, all firms must install standard safety features such as antilock brakes, airbags, backup cameras, and steel frames. And all the firms are required to test their vehicles for safety before their cars go to market. In figure 9.1 you can see that with the higher costs to firms of installing more equipment and running tests, the supply curve shifts to the left, resulting in higher prices and lower quantities of cars. But drivers, passengers, and pedestrians all benefit because cars are safer. And this doesn't unfairly burden individual firms because all car companies have to comply with the same product safety standards. Therefore, it keeps competition fair. With the partnership between government and industry, we have better guarantees that our products are safe. The whole society benefits because people get the safety they want and firms can stay in business and thrive.

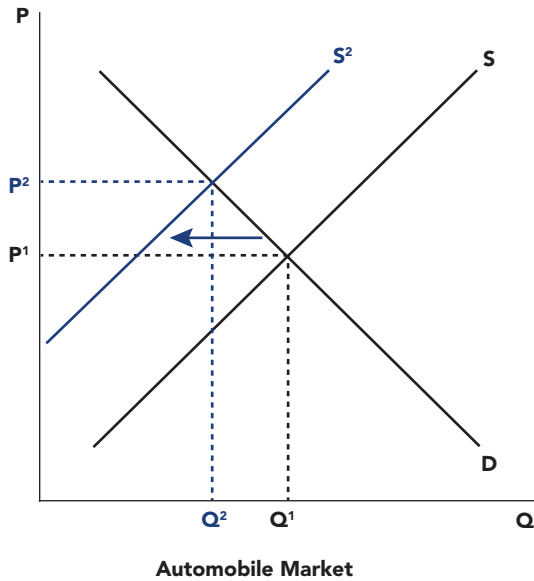


Figure 9.1
Liberal View: Product Safety

When you walk through the parking lot at the grocery store, the backup camera that the government required the automaker to install in my car could save your life. If our choice is that we all pay a little more for a safer car or risk dying or killing someone else in an unsafe car, it's a no-brainer. You and I both benefit when everyone's car has all the latest safety features. You and I both benefit when we can trust that the products in our lives won't injure or kill us. When my daughter was growing up, every morning I would pop two slices of bread into the toaster for her breakfast before school. I don't know how toasters actually work, but I knew I could trust that ours was not going to explode, because I checked the Consumer Product Safety Commission's website for toaster safety recalls before I purchased it. I'm grateful to all the government agencies that ensure the safety of all the products you and I interact with every day. Do these agencies need our tax



dollars to fund their operations, staff, and research? Yes. Do regulations raise prices for the products we buy? Yes. Are our choices limited to only safe products? Yes. And guess what: that's perfectly okay with me! I want my government to work for me to help me and my family stay safe. Because consumer protection agencies exist, I don't have to worry that I haven't done thorough enough research to be sure every product I use is safe. I didn't have to wonder

whether my daughter's crayons were poisonous, or whether the lenses of her glasses were made from materials that could shatter into pieces and blind her, or whether her toothpaste contained cancer-causing chemicals. In fair-market capitalism, the government hires neutral, trained experts to do the research and make the results available so that firms can learn from others' mistakes and successes and improve their designs and so that consumers are empowered to make informed choices. Those scientists and researchers don't work for the firms; they work for us. That means we can count on getting unbiased results. The government-industry partnership develops best practices and gives a helping hand to manufacturers to produce safe products. This is money well spent. Government guides firms and holds them accountable to produce reliably safe goods and services, and it provides accurate information so people can make informed choices.

Products can cause harm to consumers, but, radicals, the problem is not capitalism. The profit motive inspires innovation and brings us the high standard of living and the products we want. In

In fair-market capitalism,
we can have it all—the
great stuff that we want
and safe products—
because government is
there to ensure the safe
part, and capitalism is
there to ensure the
great-stuff part.

democratic socialism firms end up making nothing but dull wooden toys for our children because you'll go overboard trying to ensure everyone's safety. When product safety councils of "stakeholders" decide what firms can produce and how they can make it, we end up living in a nightmare scenario of over-caution. Toasters can catch fire? We'd better learn to heat our bread on sticks over the flame. Creativity is stifled and progress is impossible. We'd still be wait-

ing for cell phones to be allowed on the market because concerned stakeholders would insist on endless studies of the safety of cell-phone towers in relation to the migratory routes of snowy egrets. The few products that do make it through the maze of the hazard assessment protocols might be safer, but we won't have anything that we actually want. We want our cell phones and our 3D printers and our delicious breakfast burritos that we can throw in our convenient microwave ovens on the way out the door. In fair-market capitalism, we can have it all—the great stuff that we want *and* safe products—because government is there to ensure the safe part, and capitalism is there to ensure the great-stuff part. We don't have to make a choice between safety and innovation, and we don't have to bog ourselves down with endless committee meetings. Product safety councils won't work, because there are too many competing agendas, so nothing constructive would ever get done. Let's face it: not everyone's opinions and information are of equal relevance. When we guide capitalism with a public-private partnership, we have impartial experts who rep-

resent everyone's concerns in the most intelligent and efficient ways to help firms and consumers make responsible decisions. This brings us the optimal social welfare.

Conservatives, you say the government should stay out of it and let the consumer decide what and what not to buy. So you're saying you want to wait until *after* you drink the orange juice to learn you've been poisoned with arsenic? You want to find out *after* you stepped into the elevator that the cables are faulty? This nightmare would be your (extremely short) life if you woke up in a world with no government regulations. Yes, government intervention brings us higher prices and higher taxes, but think about the priceless value of not being injured or killed by unsafe products. Your low prices are not low when products make us sick. Think of the money we have to shell out to pay hospital bills, lawyers, workers' compensation, sick pay, and funeral expenses. Your solution is to say, "Buyer beware!" Sure, we can make efforts on our own to do research into products, but none of us has the time to research every single product we use. We can't fund long-term studies on our own. We can't pay inspectors to make sure packaging is safe. We don't have our own labs to test products. This is an impossible undertaking on our own, but luckily, we have fair and impartial government agencies that work for us and do this work. Conservatives, while you grumble about living in a "nanny state," the minute your child gets salmonella poisoning, you'll be the first to blame the government for not doing enough to ensure food safety. You are lucky to live in a country where the government has your

back. Fair-market capitalism gives us the best products, the safest products, and the optimal social well-being.

We should strengthen the current policy of product safety regulations to ensure the protection that people want. In capitalism, firms are motivated to make us what we want, but sometimes their products have design flaws, or the inputs they use are tainted, or the assembly is faulty. People get hurt, and that leads to lawsuits. Firms end up losing money and their good reputations. We should expand consumer protection agencies to prevent all this pain and suffering. They create and enforce needed safety standards. Because all firms must follow the same regulations, no one firm suffers from unfair competition. Businesses thrive and consumers stay safe thanks to the public-private partnership. When government invests in more product safety testing and research, it expands its ability to avert future tragedies. We trade a little red tape for the comfort and security of being able to sleep well at night knowing that our pillow isn't poisoning us with off-gases and the puppy chew toy isn't killing our dogs. The government is in the best position to hold firms accountable to safety standards. Our government agencies are the envy of the world. They exist to help us make informed decisions and help firms create the best designs and manufacturing practices. The helpful hand of government is a win-win that's worked for a hundred years. It gives us the necessary infrastructure for transparency with accountability, equity, and stability, which improve our quality of life. Thanks to government, we have safe cell phones, safe microwave ovens, and safe breakfast burritos.

Liberal

Fair-Market Capitalism



Product Safety

BIG PICTURE

Government guides firms and holds them accountable to produce reliably safe goods and services, and it provides accurate information so people can make informed choices.

POLICY POSITION

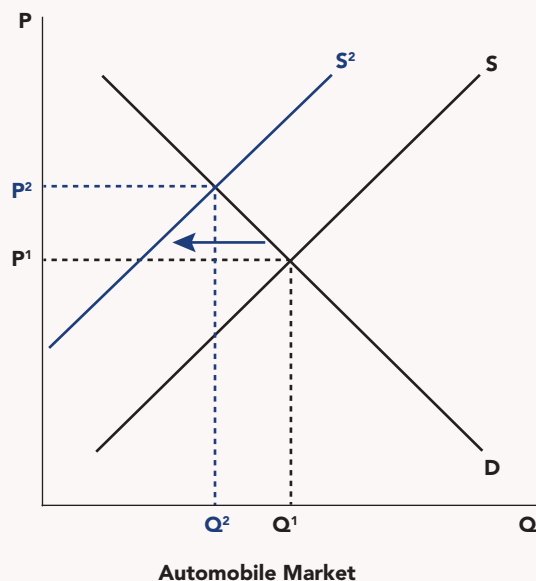
Products can cause harm, but . . .

- ▶ Radical policies stifle creativity and ingenuity with burdensome and inefficient bureaucracy led by amateurs.
- ▶ Conservative policies irresponsibly lead to tragic and preventable catastrophes, and steep costs for those low prices.

SOLUTION

Strengthen product safety regulations to ensure the protection people want:

- Expand government agencies to protect consumers.
- Hold firms accountable to do the right thing.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Product Safety Talking Points: Liberal

1. Do you trust that the toy you bought doesn't have lead paint on it? You can trust it because we have product safety regulations and government agencies to enforce them. It's a fact of life that sometimes products can cause harm. But we mitigate the risks through sensible safety standards. We're fortunate to have a government with the resources and reach to do this work for us. We don't have to wait for catastrophes to happen to get the level of protection we want.
2. Money can't buy you happiness, and it can't give you back your life if you're killed in a terrible accident because of an unsafe product. That's why I have no problem paying a little bit more in taxes and slightly higher prices to be able to have products that won't harm or kill me or my loved ones—or anyone else. When government and business come together to create more safety in our products, the whole society benefits, and we all live happier, healthier, and longer lives.
3. Radicals, firms in democratic socialism end up making nothing but dull wooden toys because product safety councils of "stakeholders" decide what firms can produce and how they can make it. We all end up living in a nightmare scenario of over-caution. Toasters can catch fire? We'd better learn to heat our bread on sticks over the flame. The few products that do make it through the maze of the hazard assessment protocols might be safer, but we won't have anything that we actually want.
4. The radicals have once again come up with a genius idea: use government to make products safer. Thank you for supporting consumer protection agencies, which we already have! Without boring ourselves to death in endless product safety council meetings, fair-market capitalism has efficient government agencies with the expertise and power to oversee and enforce regulations. We can have it all without overthrowing capitalism, and that means safe products in the most wealth-generating economic system ever created.
5. Conservatives say the free market naturally brings us safe products, but we hear in the news every day about products that harm and even kill people. Maybe in the long run the market would bring us safe products, but in the meantime, people are getting sick, being maimed, and dying. Some firms promise anything to get you to buy their product, but they deliberately don't tell you about the possible negative side effects. Government makes products safer by holding firms accountable to give full disclosures to consumers.
6. You conservatives claim that consumer safety regulations do nothing more than create red tape and raise prices. Would you rather have a cheaper product that could make you sick or kill you? Or would you rather have a slightly more expensive but safer product? You are in denial about the true price of those "cheaper" products: the hospital bills, the missed work because of injuries and illness, and the funeral costs when unsafe products lead to death.
7. Our federal agencies can collect and disseminate the information about product safety that we as individuals would never be able to gather on our own. It would be impossible for an individual to amass the data necessary to do a comparative analysis for every product used in daily life. Government works for us and gets it done, and we each pay a few tax dollars to get this lifesaving service. It's a great deal. We should be grateful to live in a country where we have consumer protection agencies.
8. In capitalism, firms are motivated to make us what we want, but sometimes their products have design flaws, or the inputs they use are tainted, or the assembly is faulty. Firms get sued, and they lose money and their good reputations. Consumer protection agencies help them by creating safety standards. Because all firms must follow the same regulations, no one suffers from unfair competition. Businesses thrive and consumers stay safe thanks to the public-private partnership.

Radical

Voice on Product Safety



Product Safety

Try to imagine for a moment why GM decided not to include the anti-sway bar as standard equipment on the Corvair, even after the engineer told the CEO and managers that the car could roll over without that part. “Other car companies aren’t making anti-sway bars standard equipment on their cars,” someone with decision-making power must have said. “That means if we do it, our competitors’ cars will cost less than ours. People will buy their cheaper cars, which will affect our bottom line. If we want to stay competitive and survive, we can’t do it.”

GM made the wrong choice, although it was perfectly legal. It wasn’t that the CEO or managers or stockholders were bad people. It was because they were stuck in the bad system of capitalism, which values profit over people. Now just imagine what they felt on that morning when they opened the newspaper and saw the headline about a Corvair driver dying in a rollover. This is what GM’s executives had to go through over and over again as the injury and death reports about the Corvair piled up—and all because of capitalist competition and the pressure for bad. In order to survive—to feed their kids and pay their mortgages—they were forced to leave drivers vulnerable to harm instead of making the anti-sway bar standard equipment. Decades later, a different group of GM executives was forced to leave faulty switches in cars they manufactured instead of replacing them with ones that worked safely. The loved ones of those who were injured and

killed by a system that values profit over people must bear those losses forever. In capitalism these kinds of tragedies happen all the time and will continue to happen. Because of the drive for profit, it’s not a matter of if—it’s a matter of when.

Let’s use the Six-Core Cube of democratic socialism and drill down through the core point of *participatory governance*. Imagine that a new car design is coming to market, and instead of a top-down federal agency, we have a product safety council made up of industry representatives, consumers, civil and mechanical engineers, safety experts, and other stakeholders. They have the power to approve new products and set safety standards. When there is a safety issue in the design, members share their expertise and concerns so that firms can fix the flaw before the cars are allowed on the road. It might be as simple as requiring a corrective part to be installed on all the cars or a redesign to correct the prob-

lem. Product safety councils work because firms are accountable to their customers and to the whole society. There's a pressure for good that leads them to want to fix problems before products go to market. In democratic socialism, firms have the support they need to make safe products, and firms have buy-in to comply with safety standards. And not only that, but it saves them from having to pay for costly recalls, noncompliance fines, legal fees, and settlements, and they keep their good reputations with customers. Participatory governance is good for consumers, and it's good for business. It creates an infrastructure for safety innovations, and it opens up user-friendly pathways to launching new products.

Product safety councils work because firms are accountable to their customers and to the whole society. There's a pressure for good that leads them to want to fix problems before products go to market.

The very worst thing that I can imagine is that I would be responsible for harming another person, especially if it could have been avoided. When I was in my early twenties, I had a job as a cook. One afternoon we were prepping for dinner, and I questioned whether the fish we were going to serve that night was starting to go bad. The owner told me, "If we put some marinade on it, it will probably be fine." I wasn't surprised. She often dismissed food safety regulations because she

thought of them as being imposed by bureaucrats in Washington or the state legislature—people who'd probably never even worked in the restaurant industry. And while we would occasionally have surprise inspections from the county board of health to make sure the refrigerators were cold enough and the kitchen was kept clean, there was no inspector in the kitchen that day to smell the fish, so the owner was willing to take the risk that she wouldn't get caught. With participatory governance, this story would have gone down very differently. The product safety council that sets the standards is literally made up of we, the people—including restaurant industry representatives, public health experts, consumers, suppliers, and other stakeholders. They come together to decide what kinds of oversight, transparency, and support for firms to put into place. Safe fish, safe microwave ovens, and safe toothbrushes are everyone's concern. Participatory governance enables the best ideas to percolate up, which means consumers and firms have a built-in commitment to instituting those government policies. And because work-



Figure 9.2
Radical View: Product Safety

ers own their own firms and produce things that are used by their families, friends, and neighbors, and because there's a broader social commitment to everyone's well-being, there is even more reason to produce the safest possible products. That's the beauty of the invisible synergy in democratic socialism. We have safe and innovative products because we harness the expertise of many stakeholders to make sure firms are both supported and held accountable.

As long as we have capitalism, we will always have unsafe products. We can understand why this is so when we see the way top-down governance works. Decision-making is left in the hands of a few elected officials, so diverse stakeholders aren't truly represented and have no say. At the same time, businesses are under constant pressure to boost their bottom lines because of capitalist competition, so they use their influence to pressure government to do away with safety regulations or to create agencies that are simply façades with no real effectiveness—even though this means the safety of the products they make is compromised. It's top-down governance that makes it possible for government to be bought off by special interests. Whether the government does nothing or genuinely tries to do something, in capitalism we will continue to be buried under an avalanche of unsafe products. The pernicious effects of the drive for profit leave us all at risk of life and limb.

Conservatives, you're deluded to think that markets left alone adjust themselves and naturally weed out unsafe products. It's a

lie that capitalism gives us what we want. No one I know wants toxic chemicals in their food, or airbags that don't deploy, or toasters that explode. Capitalism keeps on giving us illnesses, public health crises, injuries, and deaths. That should be proof enough that your economic system doesn't work. Let's be real about the fact that in free-market capitalism, harm is cost-effective up to a carefully calculated point. We see again and again that firms are pressured to pay off the fine or settle the lawsuit rather than change their harmful yet profitable practices. The capitalist approach, fueled by the drive for profit and the pressure for bad, is to try to get away with unsafe practices for as long as it enhances the bottom line, admit no wrongdoing if caught, and give the least amount to the victims if forced to pay damages. Free-market capitalism is a free-for-all of "do anything for profit" behav-



Reuters / Gary Cameron - stock.adobe.com

ior on the part of firms. On the other hand, the conservative plan to end all government involvement in product safety *would* be the fastest way to transform capitalism into democratic socialism. When our loved ones end up in the hospital, in a wheelchair, or at the mortuary from all those unsafe, free-market-made products, everyone will wake up from the nightmare of capitalism and insist we get rid of this destructive system that, over and over again, creates the visible suffering.

Liberals, your regulations lull us into a false sense of security that the government has our backs with its agencies and regulations. But it's a lie. Government acts like the school disciplinarian, giving corporations detention and a slap on the wrist, but we all know full well that firms are willing to risk being fined when it's more profitable for them to be negligent. That's business as usual in fair-market capitalism. When the government tells firms they have to build cars with steel frames, those firms use the cheapest, lowest-grade, least-safe steel to maximize their profit. Also, firms hire lobbyists to make sure that regulations are written in their favor. Because of top-down governance, politicians aren't held accountable to their constituents and are corrupted by campaign contributions. This is how the consumer is sacrificed to profit again and again under capitalism, and there's no amount of government oversight that can fix this fatal flaw. You can't regulate us out of this mess. It's like that game called Whac-A-Mole. When a critter pops out of a hole, you have to whack it back down with your mallet, only to have another critter pop up out of another hole. You frantically whack away, but it's

impossible to win. Government plays the role of the mallet in this impossible game of "Gotcha!" You might occasionally get lucky and hit one, but this process will never solve the problem of unsafe products.

We should replace the current policy of product safety regulations in capitalism with product safety council policies in democratic socialism to ensure the protection that people want. Product safety councils bring together the people who have the most knowledge and experience about the product and about safety, including experts from industry, firms, consumer groups, and government. They give firms a clear pathway to bring safe products—new and redesigned—to market. For example, when a new product is designed and manufactured, hazard assessment protocols guide firms to make it safe. Teams of experts assist firms with testing and review to make sure there are no dangerous flaws that could cause harm. Because diverse stakeholders work together, we get the highest level of safety. Government officials convene and facilitate product safety councils and advocate for their policies in Congress, the state legislature, and so on. With participatory governance, good ideas percolate up and become our nation's policies, so we all have buy-in. This is why it works. Participatory governance is true representative democracy, and through product safety councils we are ensured of policies that lead firms to be accountable and transparent. In democratic socialism we can trust that the products in our lives have been made with our best interests in mind so we can have the safe cell phones, safe microwaves, and safe breakfast burritos we want and need.

Radical

Democratic Socialism



Product Safety

BIG PICTURE

We have safe and innovative products because we harness the expertise of many stakeholders to make sure firms are both supported and held accountable.

POLICY POSITION

Products can cause harm, but . . .

- ▶ Conservative policies harm consumers because in free-market capitalism unsafe products are inevitable and even acceptable when cost-effective.
- ▶ Liberal policies lull us into a false sense of security because capitalism always leads firms to value profit over the safety of people.

SOLUTION

Replace product safety regulations in capitalism with product safety council policies in democratic socialism to ensure the protection that people want:

- Establish hazard assessment protocols.
- Firms have buy-in to produce safe products.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Product Safety Talking Points: Radical

1. I want to live in a society where I can trust that the products I use won't harm me. Is that too much to ask? Apparently, it is—in capitalism! There's only one way to really be sure firms are committed to making us the safest possible products, and that's through democratic socialism. Firms are pressured to do the right thing because while profit is important to any business, it's never more important than people's well-being.
2. I'm tired of worrying that my phone is giving me a brain tumor or that the airbag in my car might kill my passenger. We all want to sleep peacefully at night knowing the products in our lives aren't making us sick or harming our loved ones. And we all want to sleep peacefully at night knowing that the products we make aren't causing harm. We can have this when our economic system values the well-being of all.
3. The conservative idea to leave it alone really leaves the fox in charge of the hen house. It won't make us safer; it will do the opposite—because in free-market capitalism, profit is the incentive for firms to act. They cheap out and cut corners on safety in order to boost their bottom lines and beat out the competition. Again and again, we hear about firms who did the math and concluded that harming their customers was more profitable than making their products safe—even factoring in the high cost of lawsuits.
4. Conservatives, you say the free market gives us what we want, but the last time I checked, no one wants toxic chemicals in their food, airbags that kill front-seat passengers, or toys coated in lead paint. Your simple-minded idea that the market naturally self-adjusts to give us the safety we want is incredibly dangerous. How many will first have to die? When it's in our power to prevent tragedies, we absolutely should.
5. No amount of liberal regulations or oversight will ever fix the problem of unsafe products because fair-market capitalism has a fatal flaw: top-down governance. Politicians aren't held accountable to their constituents, and they are routinely corrupted by campaign contributions. Firms hire lobbyists to make sure that laws are written in their favor so they can make more profit at the expense of our safety. In the end, it's the people who suffer with injuries and deaths that could have—and should have—been avoided.
6. Liberals, face facts: your alphabet soup of consumer protection agencies hasn't solved the problem of unsafe products, and it never will. Government acts like the school disciplinarian, giving corporations detention and a slap on the wrist, but those firms are willing to risk being fined and continue to make unsafe products when it brings them more profit. That's business as usual in capitalism. The liberal idea of government regulation doesn't ensure our safety because it's a top-down solution in a profit-driven system.
7. Product safety councils bring together the people who have the most knowledge and experience about the product and about safety, including experts from industry, firms, consumer groups, and government. Because diverse stakeholders work together, we get the highest level of safety. Government officials convene and facilitate product safety councils and advocate for their policies in Congress, the state legislature, and so on. Good ideas percolate up and become our nation's policies, so we all have buy-in.
8. In democratic socialism we can trust that the products we use were made with our best interests in mind. Product safety councils' hazard assessment protocols guide firms to create safer products. When a new product is designed and manufactured, teams of experts assist firms to make sure there are no dangerous flaws that could cause harm. This is good for firms and for society because we get the safety we want, and firms get the support they need when they launch new and redesigned products.

Conservative

Voice on Product Safety



Product Safety

Back in 1960, people were excited to drive that gorgeous Chevy Corvair. The automaker had come up with a sporty new design with innovative features to please its customers. The majority of Corvair drivers had no problems with their cars. And when the company learned about the rollover issue, it manufactured an aftermarket part and then allowed customers to make up their own minds about whether to buy it. Ralph Nader got it all wrong. He accused GM of corporate negligence and dubbed the Corvair the “unsafest car in America,” but later tests

showed it wasn’t. He crucified GM and tarnished its reputation, but in fact GM did the right thing. Not only did the firm make the anti-sway bar available, it also let customers know that they could also prevent rollovers by simply adjusting the tire pressure—a fix that didn’t require them to purchase anything. GM respected its customers by giving them the choice of what safety features to have in their cars. Free-market capitalism brings us the level of safety we want in our cars, our toasters, and all our products because firms are highly motivated to make profit. Their long-term survival depends on a solid reputation with consumers. There’s always going to be danger with cars, as with any product, and it’s up to consumers to do the research and understand the risks and options. In our current “nanny state” of government interference, the problem of product safety is made worse because the mountain of government agencies and regulations gives

consumers the false impression that they don’t have to do their own research. Free-market capitalism works because everyone is self-interested and therefore takes responsibility for the level of safety they want.

Let’s consider the market for automobiles in figure 9.3. If there’s a safety issue with rollovers, some people decide not to buy that car. When people don’t buy it (decrease in preference), the demand curve shifts to the left. This is simple stuff—you already know the basics of the law of supply and the law of demand. But look at what happened: we just solved the problem. By leaving it alone, the market adjusted and brought us fewer unsafe cars. Guided by the invisible hand—meaning no individual or committee or government agency had to do a thing—the free market self-adjusted to bring us safer products. If a product is unsafe, and if safety is important to you, then don’t buy that product. Less demand means

the price goes down, and that signals firms to produce something else. They say, “Gosh, people don’t want our unsafe cars. They must want a better suspension system.” Or “They must want water bottles that don’t have BPA.” Or “They must want pajamas that aren’t flammable.” Because they are in business to make money, firms change their designs and production protocols to make us the safe products we want. All we have to do is leave it alone, and we get what we want.

The fact is that we don’t need any committee, council, agency, or long lists of regulations to represent the needs and desires of consumers. Those wants and needs are already communicated through the choices we make every day when we vote with our wallets.

Before I turned eighteen, my parents made the decisions about what I could buy. I couldn’t wait to become an adult—the captain of my own ship, making my own purchasing choices. I heard the expression “The consumer is king,” and I was really looking forward to feeling that way. What a shocker to find out that consumer sovereignty is a lie. I became an adult and discovered there are government agencies hovering over me like an overprotective parent telling me what I can and cannot buy. My car has to have side airbags, and I’m forced to pay for them even if I don’t

want them. My breakfast cereal box has to disclose all the nutritional values of the ingredients, and we consumers are paying for that whether we want this information or not. But before I purchase something new, I always look up the reviews first. Should I stay at that hotel? Should I buy that treadmill? Should I try the tacos at that new Mexican restaurant? Research on products is at our fingertips, with countless websites dedicated to reviews. As far back as 1930, you could find unbiased research on products in *Consumer Reports* and elsewhere. If I want to know how much niacin is in a serving of my cereal, I can go online and find out. I don’t need the government to micromanage my information. What I do need is lower taxes and lower prices. When we fire the nanny, we get both because firms aren’t forced to sell us features we don’t want. Am I worried that I won’t be able to find a safe toaster or a safe

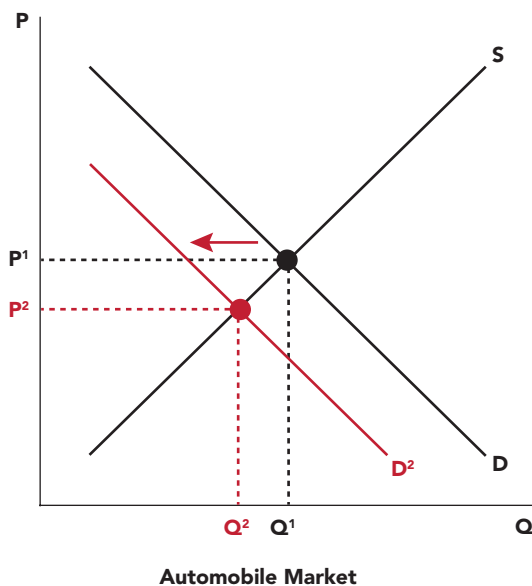


Figure 9.3
Conservative View: Product Safety

power drill? No! Firms want to make money, and if a safe drill is what I want, that's what they'll produce. We don't need to regulate this simple transaction. We need to respect consumer sovereignty and the profit motive that guides firms to make us all better off. Markets self-regulate to bring us the level of safety we want in products when we are free to choose for ourselves.

The problem of products being potentially harmful to consumers is real. From prehistoric times when humans hunted mastodons with pointy spears, to the colonial days when people dangerously galloped on horseback to get from town to town, to this morning when you made a cup of coffee in your kitchen, people have always been at risk of harm from products. Here's a news flash: driving down the highway in a metal box at seventy miles per hour is dangerous! Danger is a fact of life.

Liberals, regulatory agencies are not the answer to unsafe products, and in fact your policies end

up making products even less safe. Before the FDA required pharmacies to use child-resistant pill bottles, adults were careful to put medications out of reach. Then the government said all pill bottles had to have child-safety locks. What happened? A percentage of children found ways to get into them—those caps aren't foolproof. In the meantime, adults felt a false sense of security and carelessly left pill bottles in their reach. The result was more medicine-related poisonings. Likewise, when the government required drivers to wear seat belts, suddenly people had a false sense of security and so they drove more recklessly, which led to more tragedy. When we rely on the government to tell us it's safe to cross the street, we don't take responsibility to learn to look both ways to make sure we won't get hit by a bus. On top of that, all those government agencies limit innovation and choice—and cost us a bundle along the way when our taxes go up and prices for products skyrocket.



If I'm dying and there's an experimental drug that could give me a sliver of a chance to live, I should be allowed to weigh the risks and decide whether to take it. I have a right to try. But your regulations require pharmaceutical companies to get the FDA's green light before I can take it. How ironic is it that the FDA would deny me the chance to live because the drug might kill me? Risk is part of innovation, and the government shouldn't hold us back from being explorers, experimenters, and entrepreneurs if that's what we choose. Had the Federal Aviation Administration been around when the Wright brothers were experimenting with flight, they would never have been allowed to get off the ground.

Radicals, it turns out that your idea to solicit everyone's input about the safety of products is actually the fundamental premise of free-market capitalism. Surprise! But the difference is that price signals are the most efficient and effective product safety council because each and every consumer expresses their needs and concerns about the level of safety they want by voting with their wallets. Unlike in democratic socialism, we achieve this outcome without your time-wasting, soul-crushing committee meetings, where nothing is ever decided and nothing ever gets made. Invention requires hard work and risk taking. In democratic socialism, you create obstacles to both. First, there is no incentive to work hard because there is no profit motive. Second, those few who are still willing to be entrepreneurs run into the brick wall of product safety councils. When a new

folding chair is invented, a stakeholder worries about the possibility of fingers getting pinched. The council then creates a slew of new hazard assessment protocols, and entrepreneurs just give up and go home.

We should reject the current policy of product safety regulations and replace it with unfettered price signals to ensure the protection that people want. People do their own research and decide what products to buy. When they need or want more information, a market for independent, unbiased product safety information emerges. From the point of view of suppliers, it is beneficial to make safety information available because it improves their competitiveness. Firms voluntarily invest in the testing to ensure safer products because firms follow the profit motive, and safe products are good for business. When we leave the market alone, we get the level of product safety we want because people don't buy products that hurt them. Consumer sovereignty drives markets. It's that simple. We don't need any committee, council, agency, or long list of regulations to represent the needs and desires of consumers. Those wants and needs are already communicated through the choices made every day when we decide what to buy and what not to buy. By ridding society of stifling government interference, everyone benefits because we get more choices, and innovative products cheaper, faster—and safer, if that's what we want. With unfettered price signals, we get safe cell phones, safe microwaves, and safe breakfast burritos.

Conservative

Free-Market Capitalism



Product Safety

BIG PICTURE

Markets self-regulate to bring us the level of safety we want in products when we are free to choose for ourselves.

POLICY POSITION

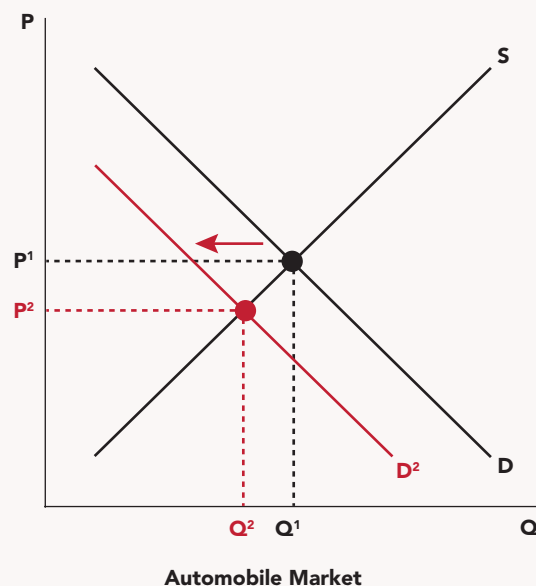
Products can cause harm to consumers, but . . .

- ▶ Liberal policies result in a false sense of security, fewer choices, squelched innovation, higher taxes, and higher prices.
- ▶ Radical policies are bad for business because they discourage entrepreneurs and kill the drive for progress with endless meetings and competing agendas.

SOLUTION

Reject product safety regulations and replace them with unfettered price signals to ensure the protection people want:

- Markets for information emerge.
- Consumer demand determines the safety of goods and services.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Product Safety Talking Points: **Conservative**

1. The beauty of free-market capitalism is that all we have to do is leave markets alone and unsafe products will no longer be produced. The problem fixes itself because consumers vote with their dollars. They won't buy the product, and then firms will either change the product to make it safe or they'll make something else or the firm will go belly up. In any case, the unsafe product will no longer be a problem.
2. The free market works because everyone is self-interested and therefore takes responsibility for their own decisions. We get the safety we want in products by doing the research. Before we purchase something new, we naturally look up the reviews. There are countless websites dedicated to giving us information that helps us make the best decisions for ourselves. We don't need government to tell us what we can and cannot buy. We never have to trade our liberty for safety.
3. You liberals think that the FDA and OSHA and all those other government agencies are keeping us safe, but they're doing the opposite by giving consumers a false sense of security. You require people to wear seat belts, and then people drive faster because they feel invulnerable, which leads to more accidents. And all the red tape generated by those agencies keeps useful products from reaching the market because it takes so long to navigate the maze of safety regulations.
4. I don't need government agencies to tell me I shouldn't let my baby play with something sharp. When we rely on the liberal nanny to tell us it's safe to cross the street, we don't take responsibility to learn to look both ways to make sure we won't get hit by a bus. On top of that, all those government agencies limit innovation and choice—and cost us a bundle along the way when our taxes go up and prices for products skyrocket.
5. Invention requires hard work and risk taking. In democratic socialism, you radicals create obstacles to both. First, there is no incentive to work hard because there is no profit motive. Second, those few who are still willing to be entrepreneurs run into the brick wall of product safety councils. When a new folding chair is invented, a stakeholder worries about the possibility of fingers getting pinched. The council then creates a slew of new hazard assessment protocols, and entrepreneurs just give up and go home.
6. The radical idea to solicit everyone's input about the safety of products is actually the fundamental premise of free-market capitalism. Price signals let each and every consumer express their needs and concerns about the level of safety they want by voting with their wallets. Unlike in democratic socialism, we achieve this outcome without time-wasting, soul-crushing committee meetings where nothing is ever decided and nothing ever gets made.
7. In free-market capitalism, consumer demand drives markets. People do their own research and decide what products to buy. If they need or want more information, then a market for independent, unbiased product safety information will emerge. From the point of view of suppliers, it is beneficial to make safety information available because it improves their competitiveness. Firms voluntarily invest in the testing to ensure safer products because firms follow the profit motive, and safe products are good for business.
8. When we leave the market alone, we get the level of product safety we want because people don't buy products that hurt them. It's that simple. So we don't need any council or regulations to represent the needs and desires of consumers. Those are already communicated through the choices made every day when we decide what to buy and what not to buy. By ridding society of stifling government interference, everyone benefits. We get innovative products cheaper, faster—and safer, if that's what we want.

The Shared Outcome

All three perspectives share the same goal to create the level of product safety that people want. The desire to be safe and not cause harm to others through products is a fundamental issue of survival every single day. This issue will never

go away. It's been around forever, and it will continue to be relevant until the end of human civilization. Now you understand the issue and the different points of view. You're ready to be part of the conversation. ☒



Activity: Role-Play

One of the most fun activities of the VOTE Program is a role-play called “Breakfast with the Family.” You get into character as a family member representing one of the three economic perspectives, and then you pretend that you are having breakfast with two other family members and discussing the news of the day. Role-plays help you practice your powers of persuasion and become fluent in the different perspectives. Please articulate each assigned perspective persuasively in a positive light. Sarcasm, insults, and name-calling are off limits. Do feel free to criticize opposing perspectives with intelligent ideas, satire, and humor.



“Breakfast with the Family”

For this activity, you’ll need a group of three people. If you can’t find a group, use your imagination as best you can. If there are more than three, make teams and swap players out every few minutes. Here is the set-up:

- 1 Randomly assign each person a perspective to represent. You can write them on slips of paper and take turns pulling them out of a hat. Please remember that you don’t have to agree with the perspective (it’s actually more fun when you don’t).
- 2 Sit around a table or in a circle and take a few moments to read through the perspective summary and talking points of your assigned perspective. Also read the cartoon on the next page.
- 3 Take one person from each group—the first “family”—and set a timer for three minutes. Begin with a moment or two of light banter to get into character (for example, “Hey little brother, did you read that cartoon in today’s paper?”).
- 4 Then begin discussing the cartoon from your respective perspectives. You can refer to the talking points if you need help getting started.
- 5 Make sure each person says not only why their position is right but also why both of the other perspectives are wrong.
- 6 After each family member has made at least one comment about why their position is correct and two comments that criticize the other perspectives, that round is finished. If you’re up for a challenge, when you finish you might want to try to switch perspectives!

I predict you’re going to enjoy role-playing, and if you first try it in the classroom you’re going to want to do it again with your friends and family at home. You can use this cartoon or any relevant cartoon, newspaper article, or op-ed piece as the conversation topic. Good luck and have fun!



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Product Safety. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 9: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Product safety addresses the possibility of goods and services causing harm to consumers. What are product safety standards?
 - A. The predetermined level of safety that products must meet before firms can offer them on the market
 - B. A set of international safety rules that predetermine which countries can produce which products
 - C. The safety offered for consumers of only cars, electrical equipment, food, and drugs
 - D. A & C

2. Match the product safety term (left column) to its definition (right column).

A. Compliance	i. Build safety features into the initial design.
B. Quality control	ii. Take the product off the market.
C. Prevention	iii. Test samples of products for safety.
D. Product recall	iv. Follow product safety standards as recommended or required.

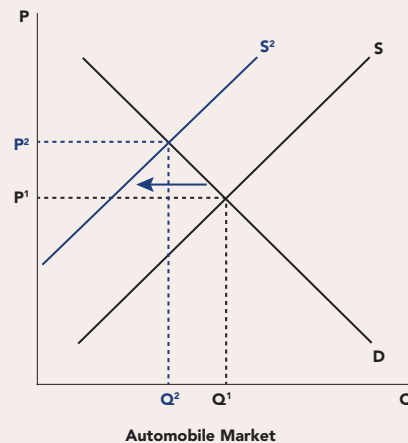
3. Humans have a long history of managing risk from products, dating back to Hammurabi's Code. Choose the ways that consumers on their own can manage risk.
 - A. Government agency regulations
 - B. Voluntary product recalls
 - C. Boycotts, public awareness campaigns, and lawsuits
 - D. Trade-group certifications, standards, and compliance enforcement

4. Let's say you have a serious coffee habit. You drink five cups in the morning, followed by five cups at noon, and then another three at night. Which government agency is tasked with ensuring that the coffee you drink isn't laced with toxic substances?
 - A. NHTSA
 - B. FDA
 - C. OSHA
 - D. CPSC

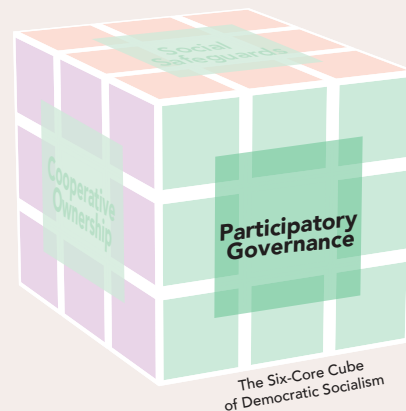
5. Liberals believe we won't be ensured safe products if we give up the economic system of _____, as radicals want, or if we follow the conservative idea of leaving it to consumers to stop demanding unsafe products, a process called _____.
 - A. capitalism; stagnation
 - B. democratic socialism; incentives driver
 - C. state-owned capitalism; hand-in-hand
 - D. capitalism; consumer sovereignty

6. According to radicals, the main reason that consumer safety violations are inevitable in capitalism is
- A. the class process.
 - B. capitalist competition.
 - C. workplace exploitation.
 - D. labor theory of value.
7. Which of the following do conservatives claim is the cost of government-imposed product safety regulations? Choose all that apply.
- A. Fewer choices
 - B. Higher prices
 - C. Purchase of private information services
 - D. Higher taxes

8. Choose the correct liberal interpretation of this automobile market graph.

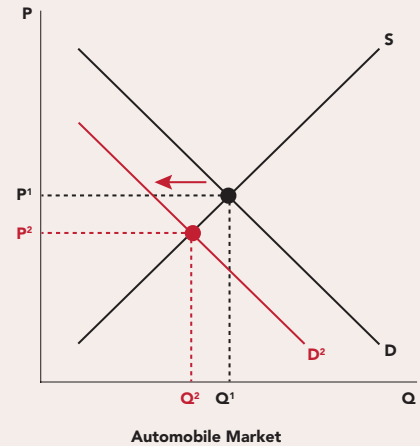


9. Choose the correct radical interpretation of this Six-Core Cube of democratic socialism.
- A. The role of elected officials is to communicate the findings and recommendations of the product safety councils and do their best to bring those policies to fruition.
 - B. The role of elected officials is to convene and facilitate advisory groups in the form of product safety councils, and then use their best judgment to make final decisions regarding policy.
 - C. The role of elected officials is to meet with other elected officials in legislative forums (local, state, federal) and represent their best determination of their constituents' needs.
 - D. The role of elected officials is to get into office and do whatever is necessary to promote their own personal interests.



10. Choose the correct conservative interpretation of this automobile market graph.

- A.** If people don't want unsafe cars, the supply curve shifts to the right, resulting in lower equilibrium prices and lower equilibrium quantities of unsafe products.
- B.** If people don't want unsafe cars, the demand curve shifts to the left, resulting in lower equilibrium prices and lower equilibrium quantities of unsafe products.
- C.** If people don't want unsafe cars, the resulting shortage at the original price pushes prices down, making both firms and consumers unwilling to engage in trade.
- D.** If people don't want unsafe cars, the demand curve shifts to the left, resulting in lower quantities of unsafe products, but at a higher price.



Answers

1. A **2.** A – iv, B – iii, C – i, D – ii **3.** C **4.** B **5.** D **6.** B **7.** A, B, & D **8.** C **9.** A **10.** B

Chapter 9: Key Terms

Compliance

Consumer safety standards

Consumer sovereignty

Government regulatory agencies

- Consumer Financial Protection Bureau (CFPB)

▪ Consumer Product Safety Commission (CPSC)

▪ Food and Drug Administration (FDA)

▪ National Highway Traffic Safety Administration (NHTSA)

Negligent

Prevention

Product recall

Product safety

Product safety regulations

Quality control

Safe product



10 Tools to Move Ahead

You might have heard this classic example of a moral dilemma. A man sits at his wife's bedside, feeling helpless because he can't save her from a wasting illness. There is a new medicine that could cure her, but the man doesn't have \$2,000 to pay for it. He tried to borrow the money from his neighbors and friends, but they had little to spare. He begged the bank officer to approve his loan application, but it was denied because he had no collateral. He pawned his pocket watch and his wife's wedding ring, which were their only valuables, and for weeks he frantically worked extra shifts at his job until he was numb with weariness, but he is still short more than \$1,000. The doctor has just told him that if his wife doesn't get the medicine on this very night, she will surely be gone by morning. Desperate, he races back to the pharmacy just as the pharmacist is locking up for the night. He begs the man to accept half the payment now and swears he will pay the balance plus whatever interest rate the phar-

macist names if only he can have the medicine now to save her life. The pharmacist shakes his head sympathetically and says it simply isn't possible. So the man starts to stumble home, numb with grief, to say a final farewell to his beloved wife. But then he stops and looks back at the shop. All he would have to do is break a window and the cure could be in his hands. She wouldn't have to die. Would it be wrong for him to steal the medicine to save his wife's life?

How do we know what's the right thing to do and what's the wrong thing to do in any given situation? This is a question that has been asked for millennia across every culture by leaders, educators, philosophers, religious scholars, psychologists, and others. It's an important question in the VOTE Program because we ask you to form reasoned opinions about what policies our country should adopt to address economic problems. What do we and don't we fund as a society? What do we and don't we regulate? What do we





and don't we prioritize as a nation? Some of the most bitter fights in our country revolve around disagreements about right and wrong. Is it right or wrong to fund programs for people in poverty? Is it right or wrong to tax some people at a higher rate than other people? Is it right or wrong to promote international trade?

At different times in our history, we could passionately but respectfully disagree about how to fix our nation's economic problems. These days, we treat those who think differently as the "enemy." We are less and less willing to listen with an open mind to different points of view and to consider diverse perspectives. We are less willing to see others as ideological opponents rather than as bitter enemies. We often find ourselves thinking, saying, or just assuming that those ideas we disagree with—or the person who disagrees with us—are unethical (lacking integrity, honor, or decency). We

may even believe that ideas for economic solutions that differ from ours are dangerous and the people who advocate them should be silenced.

Should the man steal the medicine for his wife? There is no universally accepted answer to this question, even among moral philosophers. One person might believe stealing is always wrong. Another might believe it's justified if it will save a life. Another might think it would be okay for him to steal it if he saves her life and then turns himself in to the police to face the consequences. But what if stealing the medicine means someone else who could have paid for it dies because there's a limited supply? Does the wife have a basic right to lifesaving medicine as a human being? Does the pharmacist, who owns the medicine, have the right to charge any amount for it?

Hopefully, you won't ever be faced with this particular dilemma, but the point of this hypo-

thetical scenario is to show you that there are many ways people think about right and wrong and potentially many gray areas that require nuanced thinking. This is relevant to the VOTE Program because when you hear the different policy ideas of the liberals, conservatives, and radicals, you might reflexively shut out or shout down the ones that don't line up with your way of thinking. But that's not going to be helpful. The goal here is not to get you to agree with those ideas;

it is to help you understand what other people have to say and why they see the world the way they do.

Facts or Value Judgments?

There is a subtext running beneath the surface of all the disagreements we've been hearing up to this point in the VOTE Program—the arguments about theoretical differences, the competing stereotypes, and the different policy ideas each perspective proposes. When we've asked you to practice the voices of the various perspectives to really try to understand what the others are saying, this subtext likely tripped you up at times. So let's bring it to the surface, hold it up to the light, and figure out how to keep it from getting in the way of constructive discussions about our urgent economic issues. What is it? It's our fundamental disagreement over “truth” and “facts.”

Now that you've had some practice looking at issues from multiple perspectives, I want to remind you about what we discussed in chapter 3. We touched on the differences between

During a heated
debate, when it starts to
feel as if you're talking
apples and oranges,
knowing about positive
versus contextual
analyses may help you
express your point of view
in such a way that the
other person will
hear you.

essentialist and non-essentialist thinking. Essentialists believe there is a fixed truth to everything that can be known through our rational minds and through empirical evidence. Essentialist economists—and they can be from any perspective—believe that theory building (assumptions, model, conclusions) is a science that gives us facts, which are objective truths. This fact-based approach to determining “what is” is called positive economics. For example, a positive statement would be

“Eight percent of Americans go to bed hungry every night.”

On the other hand, non-essentialists—and they, too, can be from any perspective—don't believe in objective truth. They believe that everything we think is subjective—“what we think it is.” This approach is called contextual economics. That means the ideas behind our assumptions, model, conclusions, and policies change depending on who looks at them, how they are looked at, and when they are looked at, among other factors. So for a non-essentialist, everything is determined by context. They would say, “What is meant by ‘hunger’? How was it measured? What questions did the survey ask?”

Knowing about positive and contextual analyses can help you assess where you're coming from and where the other person is coming from during a heated debate. It's another layer to the conversation that is now explicit for you. Are they frustrated with you because you're saying this thing is a fact? Are you frustrated with them because they're not accepting what is, to you, so

obviously objectively true? When it starts to feel as if you're talking apples and oranges—"what is" versus "what we think it is"—remember this point about essentialism and non-essentialism. It may help you discover better ways to express your point of view so that the other person can understand where you're coming from. However, this a speed bump, not a barrier, to pluralism. Policy debates revolve around value judgments about "what should be." This is called normative economics. Even though they have different ideas about facts and truth, both essentialists and non-essentialists ask the same question: "What should we do about hunger?" They agree that policies are normative.

Before we explore the issues of Livelihood and Housing in the following two chapters, let's consider the basic rules of civil discourse, which are strategies for having constructive and respectful conversations even when you're challenged by ideas you vehemently disagree with and can't support in any way. And then we'll explore some new radical and conventional tools to help you analyze the upcoming issues.

Civil Discourse

We've already established that radicals, liberals, and conservatives all want the same general outcome for each issue. Even so, we come into this conversation—and into the VOTE Program—with certain biases against the other perspectives, and it's not useful to pretend we don't have them. It's a challenge to engage in **civil discourse**—respectful conversations intended to enhance understanding—instead of retreating or attacking out of fear, moral outrage, or self-righteousness. Those reactions shut down any possibility of engaging in the important conversations we need to be having to move our nation forward. The good news is that many have walked this path before us and found constructive ways to engage in civil discourse. We can take inspiration from

the friendship between John Adams, the second U.S. president, and Thomas Jefferson, who followed him to the White House as the third U.S. president. They met at the start of the Revolutionary War and worked together for American independence, but they developed opposite points of view about the role of government. Their ability to be civil toward each other despite their strongly held opinions was tested when they ran against each other for president. But—and here's the inspiring part—although for a time they were bitter opponents, they reconciled later in life and started writing each other letters again and shared their ideas about philosophy, religion, and politics. They still disagreed, but they found ways to appreciate and learn from each other's point of view. They discovered there were some topics about which they actually agreed. Adams and Jefferson had their flaws—just like we all do—but they demonstrated that it's possible even for longtime ideological foes to find not just common ground but also appreciation for those who advocate for different perspectives. By a strange coincidence, they both died on July 4, 1826.



Lethal Mass Partisanship

Voters who agree that the opposition is
"downright evil."— 42%

Voters who agree that "the opposition
lacks the traits to be considered fully human—
they act like animals."— 20%.

Voters who "sometimes think
the country would be better off if large numbers of
the opposition died."— 36%

Source: Nathan P. Kalinowski and Lilliana Mason



If you believe in democracy, then please consider that diversity of ideas is a gift—not a threat. If we lose the ability to stay committed to democracy when conversations become contentious, we could crash the whole system. In the span of human history, we’ve had democracy for a very short time and, in some countries, only intermittently. And there’s no assurance that it will endure in the United States. We think our nation is stable, but all nations are actually quite fragile. History shows us that they rise and fall.

What’s so special about diversity? We might secretly believe that life would be a whole lot easier if everyone just thought the same as we do. But it would be a disaster for humanity, just as it would be a disaster in nature, if there were no diversity. Scientists say variety in ecosystems is the

key to ensuring survival. Imagine if all the trees in a forest were the same species, and a beetle that devoured that kind of tree appeared one day. The whole forest would be wiped out. But a forest made up of many types of trees would survive not just the beetle infestation but also droughts, fires, fungi, and more. In much the same way, we humans need a diversity of ideas to survive. We need different ways of thinking to intermingle and recombine to bring us new resilience, strength, and wisdom. When a seed of an idea from someone else drifts into your mind, it could potentially blossom into a solution that the world needs. You might be the one to see a whole new approach to collaborate or compromise, or you might be the one to find a brilliant new way to move us forward as a nation.

Six Guidelines for Civil Discourse

I like to use the word *human* when I talk about people. “You’re a wonderful human,” I’ll tell a student or my cousin or the IT person who helps me with my computer. I do this because I like to be reminded that no matter how far apart we are in our views about the way the world should be, there is so much more we share in common as human beings. If an alien spaceship were to appear in the sky right now, and we were suddenly facing an invasion by extraterrestrials, I predict that it wouldn’t matter what labels we used for ourselves—conservatives, radicals, or liberals. We would immediately recognize that first and foremost we are humans, and we’re in it together. These guidelines for engaging in civil discourse are meant to help you acknowledge and respect the humanity of other people even if you vehemently disagree with their ideas. Think of these guidelines for civil discourse as a tool that all three perspectives share.

Guideline 1: Listen Thoughtfully. When you automatically want to dismiss what the other person is saying, wait! Try to be mindful. Listen more carefully and even ask them to please repeat what they just said so you can really take it in. Listen and consider their argument before you react or respond. To make sure you’ve really heard, try to reflect back what they’ve said and ask, “Did I understand you correctly?” That way, the other person will feel heard and respected. You’re not saying you agree with their assessment of the issue or their policy idea; you’re saying you’re trying to understand how they see it. By slowing down and listening thoughtfully, you can manage your own emotional reactions and be a better listener. And here’s one more tip: your body language can speak volumes about your openness to what a person is saying. For example, crossed arms can sometimes indicate to people that you feel closed or even skeptical. Tapping your foot or bouncing your knee indicates impatience. Nodding indicates you’re hearing them, while shaking your head indicates you’re rejecting what you’re hearing.

Guideline 2: Critique Issues, Not Individuals. Don’t make it personal. Focus on the issues rather than on the individual during a debate or difficult conversation. Otherwise, you may run the risk of discounting some really good ideas because of your feelings, assumptions, or stereotypes about

the messenger rather than the message itself. You don’t have to like other people to give their ideas a fair hearing, even if their ideas for economic solutions seem wrongheaded to you.

Guideline 3: Use Your Biofeedback. Be mindful of your physical and emotional reactions during difficult conversations. When you start to feel defensive, take a deep breath and tune in to where you’re feeling the stress or tension in your body. Take another breath and try to relax. It can be emotionally draining or triggering to hear ideas that are diametrically opposed to your own. You might even feel personally attacked. As you breathe, remind yourself that while the experience may be unpleasant, it’s important to find common ground with others. Being mindful of your reactions before you respond makes it more likely that the conversation will remain civil rather than devolving into a shouting match or shutting down before you can come to a place of mutual understanding.

Guideline 4: Remember That Empathy Helps. When it’s your turn to share your views, remember that others may feel personally attacked by your ideas, just as you felt when they shared their views. Because you know how it feels, try to let yourself empathize and be kind. You can say aloud or just think to yourself, “I understand this may be hard to hear.” Kindness and empathy are great bridge builders. They can remind you

and your ideological opponents that your shared humanity links you to one another, even if your ideas clash with theirs.

Guideline 5: Aim for Peaceful Persuasion.

Please be a passionate advocate, but make sure you're not threatening or abusive—emotionally, physically, or verbally. Don't be a bully. It won't help you convert anyone to your way of thinking, and it will just make the rift wider. Instead, challenge others' ideas by using intelligent arguments backed by evidence from trustworthy sources (not social media memes). So, for example, you wouldn't want to say, "Anyone who believes that really should have some sense whipped into them." Instead, you'd want to say, "In the 1980s we tried that policy and what resulted was problematic. Let's look at the data."

Guideline 6: Be Open-Minded. It's useful to identify the places where you and your opponents agree and disagree. You may discover areas where

you can find common ground, compromise, generate new ideas, become more certain of your own ideas, or change your mind. Remember that the point of civil discourse isn't to be right or to win; the point is to be heard respectfully and have your ideas be understood, and to hear others respectfully and understand where they are coming from. The point of an open mind is to grow wiser.

These six guidelines for civil discourse may not seem that complicated, but they're going to take some practice, so please be patient with yourself and with others. One last tip for you: when you're done with the conversation, try to thank the others who participated for sharing their ideas and for listening to yours. Remember, if it was stressful or unpleasant or heated for you, then it probably was for them, too. Congratulate one another on getting through it, and remind one another that debate and discourse can get easier with practice.

Exercise 10.1: Keep It Civil

Choose the guideline that is most helpful to create civil discourse in each of the following situations. The Answer Key can be found at the end of this chapter.

1. As you listen to your opponent describe their ideas, you start to grind your teeth in frustration.
2. Before the conversation starts, you think, "I hate the way my opponent talks and dresses."
3. You tune out when the other person starts to talk and focus on what you plan to say when it's your turn.
4. Even though you felt upset when your opponent was talking, you can't understand why they are so upset hearing your ideas.
5. Before they even finish, you jump to conclusions and assume you know what they are going to say—and you reject it out of hand.
6. To drive home your point, you shout and shake your fist at your opponent.

Expanding the Models for Livelihood and Housing

In the next two chapters, we'll be exploring two more economic issues: Livelihood and Housing. Before we dive in, you'll need to learn a few new tools to help you analyze the issues from the conventional and radical perspectives. The great news is that you already have a firm foundation in conventional and radical theories, so these new tools should feel familiar.

Conventional Theory Tools

In this section we're going to look at the difference between input markets and output markets and learn about price controls and elasticity. The policy debates about livelihood and housing are based on different ways liberals and conservatives interpret the information that emerges when these tools are applied.

Input Markets versus Output Markets

So far in this book we've only talked about **output markets**, which are the markets for final goods and services, such as flip-flops, appliance repairs, and pizzas. **Input markets** are the markets for the land, labor, and capital (factors of production) firms need to make those final goods and services. Both input markets and output markets are guided by price signals, say conventional theorists. But the significant difference between these kinds of markets is that in an input market the demanders are not individuals trying to maximize their happiness; they are firms trying to maximize their profit. At the same time, the suppliers may be firms, but they also may be workers or landlords or contractors or other parties who provide the land, labor, and capital to make the final goods and services.

Consider the guitar market. Guitars are an output. Demanders are the consumers, and suppliers are the guitar producers. Nylon strings are a very important input for producing acoustic guitars.

The guitar firms demand nylon strings from the nylon string producers—that's an input market. Other input markets for guitar making include factory space, wood, tools, sandpaper, luthiers (a person who makes stringed instruments), salespeople, IT staff, bookkeepers, and of course the workers who answer phones, sweep the factory floor, stock the shelves, staff the mailroom, make deliveries, and run errands.

Price Controls

A **price control** occurs when the government, for whatever reason, passes a law to regulate the price in a market to limit either how high or how low it can go. These can be used in both input and output markets. In the past we've had price controls in the markets for bread, rice, electricity, gasoline, wages, and rent, among others. Conservatives and liberals (conventional theorists) tell us that when we leave markets alone (*laissez-faire*) they always tend toward equilibrium. That's because if there's a price that's below the equilibrium price, then a predictable chain reaction occurs: more individuals are interested in buying, fewer firms are interested in selling, and a shortage results. With any shortage, there's a pressure for the price to rise. As prices start rising, suppliers become more willing to supply, demanders become less willing to demand, and quantity supplied and quantity demanded meet at a new equilibrium point. The same kind of chain



reaction happens if the reverse occurs. If the price rises above equilibrium price, then fewer individuals will be interested in buying and more firms will be interested in selling, which creates a surplus. When that happens, there's a pressure for the price to fall. As prices start falling, demanders become more willing to demand, and suppliers become less willing to supply, and quantity supplied and quantity demanded meet at a new equilibrium point.

Conventional theorists agree that this is the way markets always work when left alone for long enough. There can be no permanent surpluses or shortages in capitalism because price signals eventually bring the whole system back into equilibrium. But from time to time, the government passes laws to stop prices in certain markets from rising or falling—even knowing that shortages and surpluses result. This is the heart of the debate we'll be exploring in the chapters on Livelihood and Housing.

There are two kinds of price controls: price ceil-

ings and price floors. A **price ceiling** is a maximum amount that can legally be charged for a product. It can be set at any level, but an effective price ceiling is set below equilibrium to keep the price (P) lower than would occur naturally. For a variety of reasons, the government may want prices to be lower than the equilibrium price in order to draw more people into the market. For example, the government might want to motivate more people to eat chocolate because of a study linking chocolate consumption and higher intelligence. But take a look at figure 10.1. Does something seem strange to you? A ceiling is up above your head, but the line for the price ceiling on the graph is actually below equilibrium. What's that



all about? Just think about a helium balloon. A ceiling keeps it from doing what it would naturally do on its own—float up, up, and away. This is exactly what a price ceiling does. It prevents the price from rising to equilibrium, which is where it would naturally go. Take another look at the figure and you'll see

that the quantity supplied (Q^S) is less than the quantity demanded (Q^D), which means a shortage. Price ceilings tend to cause shortages.

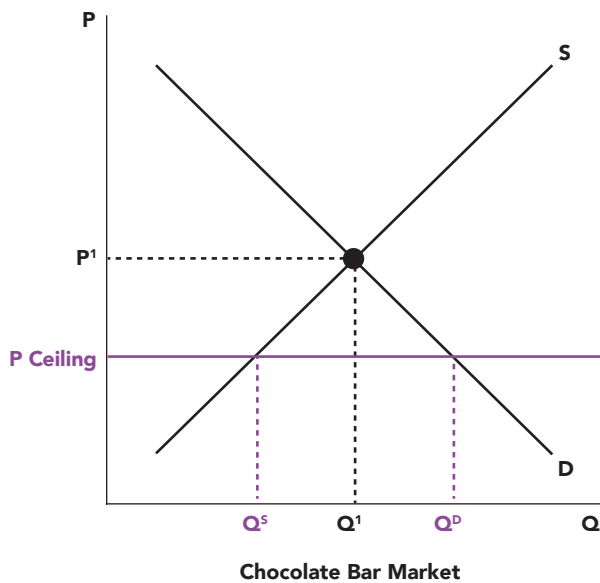


Figure 10.1
Price Ceiling

A **price floor** sets a minimum amount that legally can be charged for a product. It can be set at any level, but an effective price floor is set above equilibrium to keep the price high. For a variety of reasons, the government may want the price to be higher than the current equilibrium price. For example, the government might want to push people out of the chocolate bar market because of the proven relationship between chocolate consumption and obesity. But take a look at figure 10.2. Was there some mistake? A floor is below your feet, but the line for the price floor on the graph is actually above equilibrium. What's going on? Think about it this way: if you're standing on the second floor of a building, the floor keeps you from dropping to the ground, which is where you would naturally fall because of gravity. This is exactly what a price floor does. It prevents the price from falling to equilibrium, which is where it would naturally

go without the price control. And look at how the quantity supplied is greater than the quantity demanded. Price floors tend to cause surpluses.

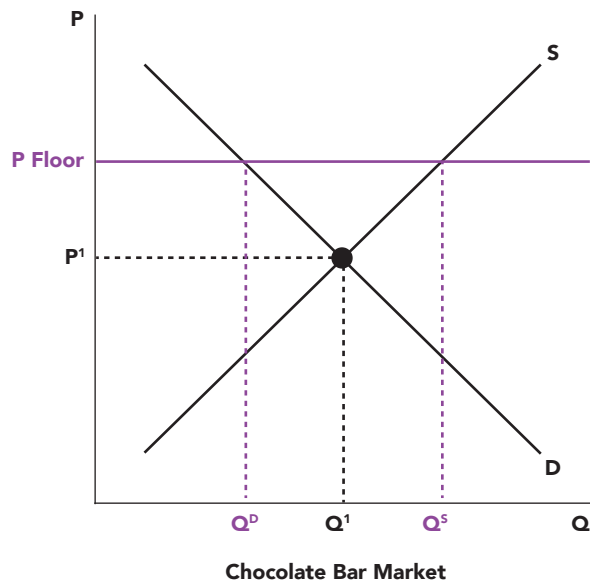


Figure 10.2
Price Floor

Price Elasticity

Before you make up your mind about what you think about price controls, there's another tool you need to know. If you and I were to take a foot-long stretchy rubber snake and play tug-of-war with it, how far would the snake stretch, relative to the force of our tugging? We might stretch it ten feet between us—that's pretty far. We would say the stretchy snake is sensitive, responsive, or **elastic**. But if we tried to play tug-of-war with a hard plastic snake, it wouldn't stretch at all—not even an inch. So we would say the solid snake is insensitive, unresponsive, or **inelastic**. In market models we use this idea of **elasticity** to analyze how sensitive the quantity demanded and quantity supplied are when there is a change in price. The terms we use to talk about this are **price elasticity of demand** and **price elasticity of supply**. Let's practice using them in sentences: When the

price of medicine goes up, people's demand for it falls by only a small amount. So conventional theorists say, "The price elasticity of demand for medicine is inelastic." When the price of pizza goes up, firms supply a lot more pizza. So conventional theorists say, "The price elasticity of supply for pizza is elastic." But wait a minute. Don't we already know from the law of demand that when price goes up, the quantity demanded goes down? And don't we already know from the law of supply that when price goes up, the quantity supplied increases? Yes, we do already know that. But what elasticity adds to this conversation is to tell us *by how much*.



Determinants of Price Elasticity of Demand

Will you still buy something if the price suddenly skyrockets? That depends on the elasticity (sensitivity to the price) of what you want to buy. One of the most expensive medicines ever sold, Soliris, treats a rare type of anemia that affects relatively few people. At one point, the price for the drug went up to \$678,000 a year. People who have the disease will die without this medication. Now, let's say you have this terrible disease. Will you buy Soliris even if the price goes up? Of course you will, if you can. Generally speaking, people will beg, borrow, and possibly even steal to get it because they need it to stay alive. In other words, the price elasticity of demand for Soliris is highly insensitive to a change in price. It's the hard plastic snake—relatively inelastic.

Price elasticity of demand—how sensitive quantity demanded is to a change in price—is based on four criteria, which are listed in order from most important to least important.

1. Necessity versus Luxury.

The most important thing that determines whether the quantity demanded is sensitive or insensitive to price change is whether you need the product. If it's a necessity, you will buy it even if the price skyrockets. The price elasticity of demand for necessities is

inelastic, so quantity demanded falls very little when price goes up. On the other hand, if it's a luxury item such as a robotic vacuum cleaner, you won't buy it when the price goes up. The price elasticity of demand for luxuries is elastic. Quantity demanded falls significantly when the price goes up.


2. Number of Substitutes. Let's say you go to the doctor for your dose of Soliris and you find out that the price went up from \$6,780 a year to \$678,000 a year. After you recover from the shock, the first thing you would likely ask is, "Do you have any cheaper versions of that medicine? I'll take generic!" The fewer substitutes there are, the more likely you are to buy Soliris at any price, which makes the price elasticity of demand inelastic. The more substitutes there are, the less likely you are to buy it at that price, which makes the price elasticity of demand elastic.

3. Fraction of Income. Let's say you ate a lot of garlic for lunch and you have a date. You really want a breath mint. At the store you discover the price of breath mints has doubled. They now cost \$2. The extra dollar is such a small fraction of your income that you go ahead and buy them anyway. In this case, the price elasticity of demand is inelastic. Now let's say it took you a year to save up \$5,000 to buy a used car. When you go to the dealer with your

\$5,000 in hand, the car you had your eye on now has a sticker that says “Hot Deal! \$10,000!” You won’t buy it at that higher price if the extra \$5,000 is a big fraction of your income. A bigger fraction of income means the price elasticity of demand is elastic.

- 4. Time Factor.** Let’s say you’re running late, but when you get in the car, you remember that you’ve been running on empty for two days. If you run out of fuel, you’ll miss an important appointment, so you pull into the nearest refueling station. That’s when you see the price has doubled overnight. Do you buy it anyway? If your immediate need to be on time is greater than your need to save money, then yes—you’ll buy it anyway. The price elasticity of demand is inelastic when the need for something is immediate. But over time, you won’t need fuel as urgently, because you’ll find substitutes. You’ll join a ride-share program or take public transportation. Assuming the price for fuel stays high, the demand will be price elastic in the future.

Four Determinants of Price Elasticity of Demand*



1. Necessity versus Luxury
Luxury: Elastic
Necessity: Inelastic

2. Number of Substitutes
Many Substitutes: Elastic
Few Substitutes: Inelastic

3. Fraction of Income
Large Fraction: Elastic
Small Fraction: Inelastic

4. Time Factor
Future: Elastic
Immediate: Inelastic

*in order of importance

On the next page, you can see what price elasticity of demand looks like on a graph, where flip-flops are a luxury with many substitutes (elastic) and sunglasses are a necessity with few good substitutes (inelastic). Notice on the Market Demand for Sunglasses graph (figure 10.3, on the left) that when the price goes from \$5 to \$10, the steep curve shows that quantity demanded for sunglasses falls by one unit. The steep slope shows that the price elasticity of demand is inelastic. When price goes up, the quantity demanded falls a little. On the Market Demand for Flip-Flops graph (figure 10.3, on the right), when the price goes from \$5 to \$10, the flat curve shows that quantity demanded for flip-flops falls by thirty units. The flat slope shows that the price elasticity of demand is elastic. When price goes up, the quantity demanded falls a lot.

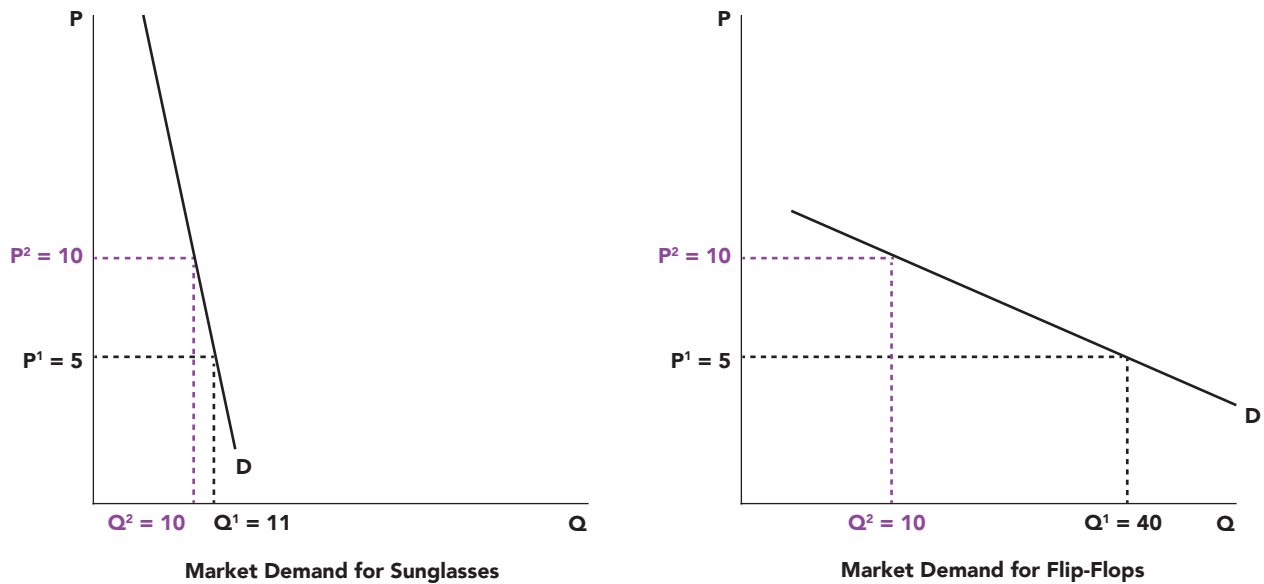


Figure 10.3
Elasticity and Market Demand

If you want an easy way to remember what elasticity and inelasticity look like on a graph, check out the graphs below (figure 10.4). Look at the left two graphs: each represents the extreme of elastic and inelastic. A **perfectly inelastic** demand curve means that no matter how high the price goes up, you will still buy it. A **perfectly elastic** demand curve means you'll buy it at a particular price, but if that price increases even by a penny, quantity demanded will fall to zero. It's easy to remember which one is which: on the right two graphs, where purple lines are overlaid, one forms the letter *I* for inelastic, and the other forms the letter *E* for elastic. By the way, please

note that when we talk in general terms about elasticity and inelasticity, we mean it's *relatively* elastic or inelastic. In contrast, we say “perfectly elastic” or “perfectly inelastic” when it's absolutely so.

Total Revenue and Price Elasticity of Demand. The amount that a firm is going to earn by selling a unit of its product at a particular price (in other words, the price of a pair of flip-flops multiplied by the quantity of flip-flops sold) is called **total revenue**. The relationship between total revenue and price elasticity of demand is important. The firm is motivated either to increase or decrease price depending on elasticity.

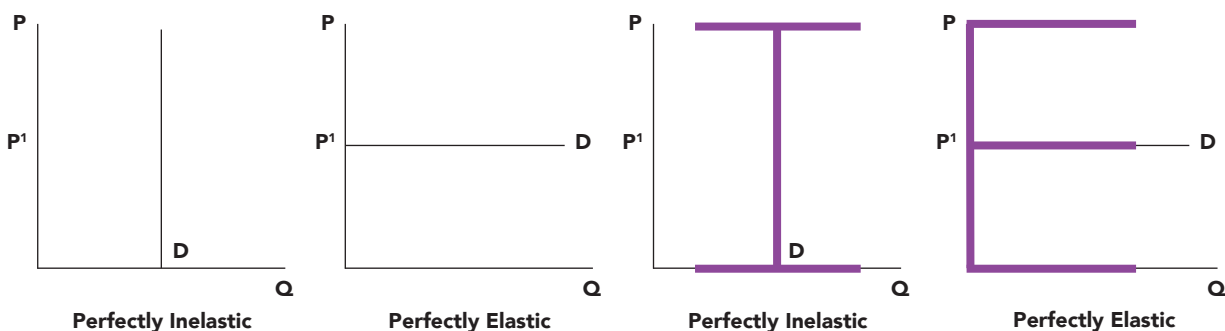


Figure 10.4
Perfectly Elastic and Perfectly Inelastic Demand Curves

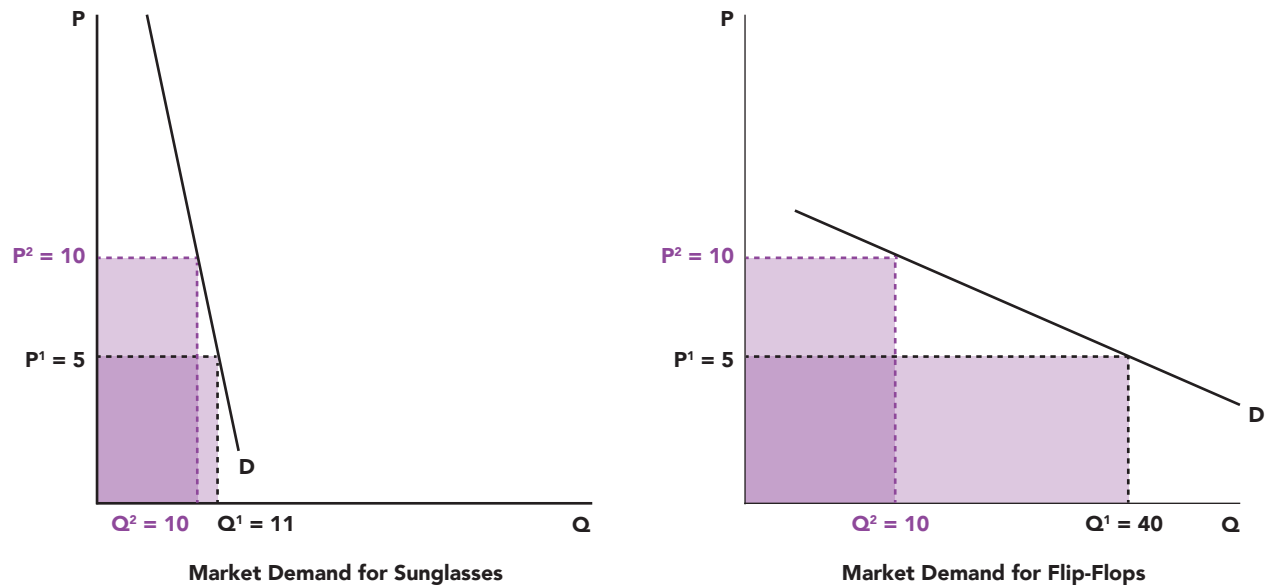


Figure 10.5
Total Revenue and Price Elasticity of Demand

Consider the demand for sunglasses. In the left graph in figure 10.5, sunglasses originally sell for \$5 a pair. The quantity sold at that price is eleven units. The total revenue is \$55. Now let's say the price for sunglasses goes up to \$10. The quantity demanded falls, but only by one unit—down to ten units—because sunglasses are a necessity, and there are no substitutes. Sunglasses are a product with inelastic demand. Total revenue goes from \$55 to \$100. So you can see that when demand for a product is inelastic, firms want to raise prices because when prices go up, total revenue increases. That's not surprising. Most people think, "Of course firms always want to raise their prices to make more money." But that isn't true. Firms only want to raise prices when the price elasticity of demand is inelastic because many people will buy the product anyway, which brings firms a higher total revenue. On the other hand, what will a firm do when demand for their product is elastic? Let's say you sell flip-flops at \$5 a pair. The quantity demanded is forty units so the total revenue is \$200. But when the price doubles to \$10 a pair, the quantity demanded falls

dramatically to ten units because many people switch over to sandals, so the total revenue plummets to \$100. You can see that when the price for a product demanded is elastic, firms are likely to lower prices so they can make more money.

Determinants of Price Elasticity of Supply

We've looked at elasticity from the demand side, but there is another aspect to consider. What difference does elasticity make to supply? As a supplier of sunglasses, for example, you ask, "When the price for sunglasses increases, how sensitive (or responsive) will my firm be to supplying more sunglasses?" Price elasticity of supply is based on a variety of different determinants, some of which include:

1. **Available Inputs.** When suppliers are able to produce more of a product quickly because inputs are readily available, then the price elasticity of supply is elastic. That means when price goes up even by a small amount, the quantity supplied can increase by a lot.



Your pizza company can easily thaw out more cheese from the freezer or run to the distributor and buy more cheese at the last minute so they can throw together many more pizzas when the price goes up on Super Bowl Sunday. Supply for pizza is elastic. But the cruise ship company can't create more honeymoon suites at the last minute if the price goes up when hordes of newlyweds suddenly all want to book honeymoon suites. Price elasticity of supply for honeymoon suites on cruise ships is inelastic.

- 2. Inventories.** If it's difficult to keep inventories of a product, price elasticity of supply is inelastic. "Difficult" here means that when a product sits in a warehouse or is otherwise not in the market, firms have to pay money to store or maintain the product, or they have to pay taxes on that unsold inventory. When they don't have a ready stock of inventory on hand, producers are unable to increase supply when price goes up. Clearly, you can keep an inventory of sunglasses without

incurring great costs, but you can't keep an inventory of movie theaters without having a lot of costs. Therefore, the price elasticity of supply for sunglasses is elastic, whereas the price elasticity of supply for movie theaters is inelastic.

- 3. Complexity of Production.** When the process of producing a good or service is complicated, the price elasticity of supply is inelastic. Complex production makes it challenging for firms to react quickly to price changes because it requires specialized land, machinery, and labor that can't easily be substituted or coordinated. Making flip-flops is relatively simple, requiring plastic, one or two machines, and a workspace with electricity. Making movie theaters, on the other hand, is a very complicated process, involving surround-sound systems, popcorn machines, specialized seating, high-tech screens and projection systems, along with heating, cooling, electricity, and plumbing—not to mention land and zoning permits. Therefore, the price elasticity of supply for movie theaters

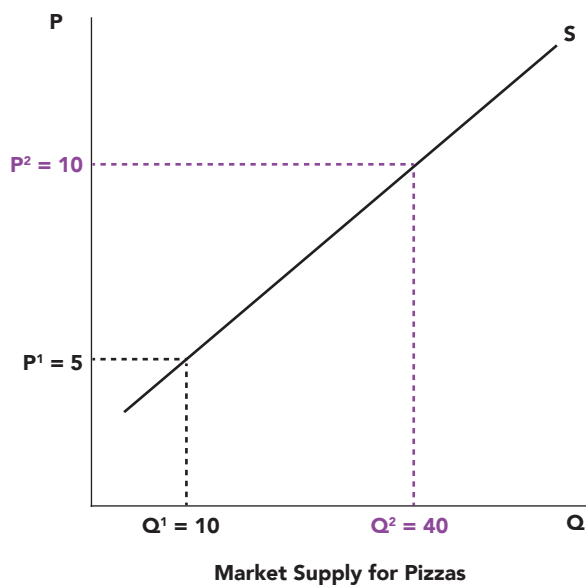
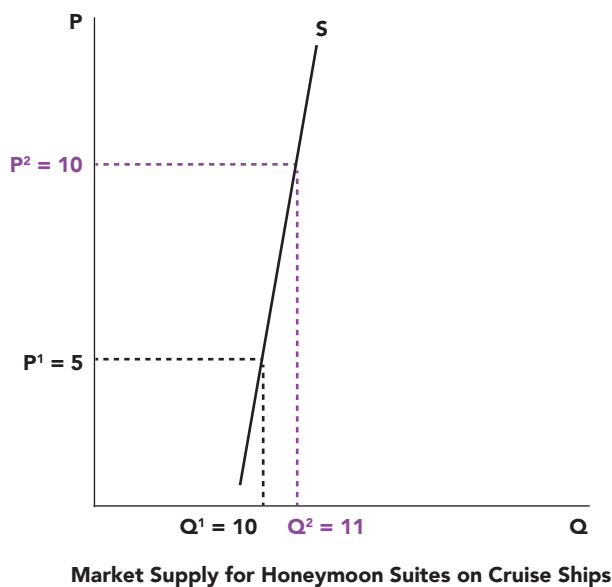


Figure 10.6
Elasticity and Market Supply

is inelastic, while the price elasticity of supply for flip-flops is elastic.

- 4. Time Factor.** When a supplier runs short of a product that can't be replaced quickly—movie theaters or honeymoon suites on that cruise ship—there's nothing to be done for the moment. The price elasticity of supply is inelastic. But in the future, the price elasticity of supply could become elastic as firms increase their capacity to produce more. For instance, over time the cruise ship company could build more or larger cruise ships with more honeymoon suites.

Figure 10.6 is what price elasticity of supply looks like on a graph. The steep curve means the price elasticity of supply is inelastic: when price goes up, firms aren't able to increase their supply by very much. The flat curve means the price elasticity of supply is elastic. When the price goes up, firms are able to supply a lot more.

Factoring Elasticity into Price Controls

Finally, it's time to put together these tools so we can apply them to the issues of Livelihood and Housing. When a price ceiling or price floor is set, a shortage or a surplus results, according to conventional theory. This doesn't change when we factor in elasticity. But now the important question becomes: *how much* of a shortage or a surplus?

Imagine we have a price control in the electricity market. Because electricity is necessary for survival and has very few substitutes, the demand curve is highly inelastic. As for the supply curve, because electricity needs elaborate infrastructures and can't be easily stored, the supply curve is also highly inelastic. Now let's combine elasticity with price controls. Here's where the conversation gets really interesting. Take a look at figures 10.7 and 10.8.

As you can see, the price ceiling creates a shortage in both cases, but it's less extreme when elasticity is factored in. Conventional theorists agree that elasticity is a fact in markets, and they agree that over time demand and supply become more elastic as new substitutes are brought to market.

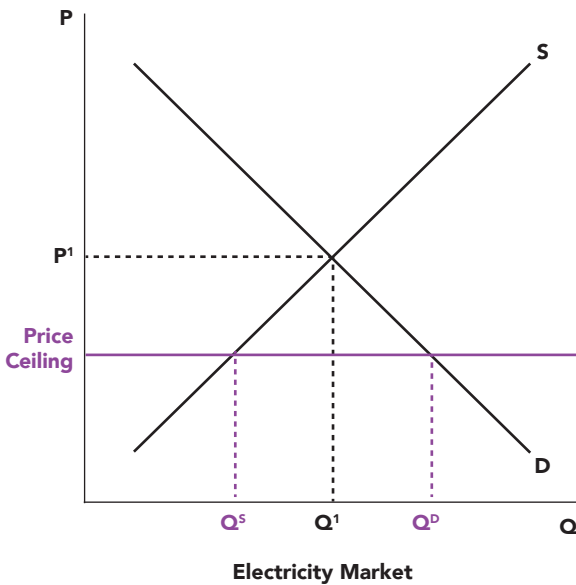


Figure 10.7
Price Controls without Showing Elasticity

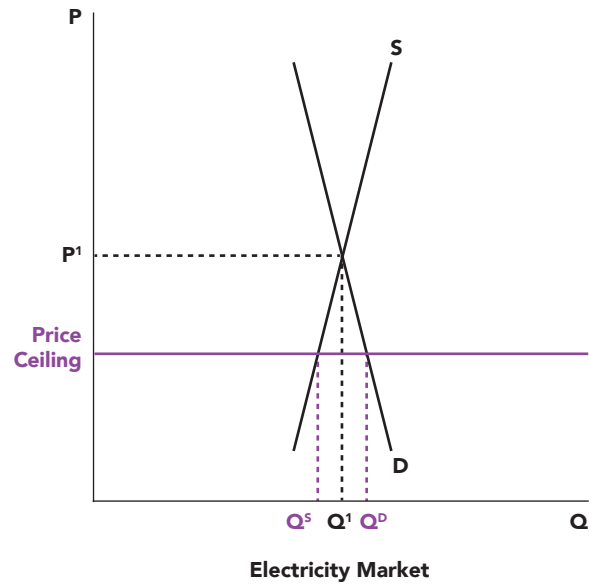


Figure 10.8
Price Controls Showing Elasticity

But liberals and conservatives disagree on whether a price control—with a resulting surplus or shortage—is ever justified.

Liberals say that when government puts a price ceiling on electricity, which is price inelastic on both the demand and supply sides, suddenly the many people who haven't been able to afford electricity can now heat their homes and turn on lights and surf the internet. Liberals also say that the shortage that results from the price control is minimal and less relevant than the fact that necessary electricity is going to people who need it to survive and thrive. They argue that price controls can make good economic sense. And while elasticities could change over time, their point is that *right now* the price elasticity of electricity is inelastic on both the demand and supply sides. On the other hand, conservatives say a price ceiling is never a good idea in any situation because it locks in shortages and surpluses, and that's a problem regardless of how big or small they are. Rolling blackouts would ensue, which would hurt everyone. On top of that, as price elasticity changes *over time*, those shortages and surpluses become even

more extreme. Those who couldn't afford electricity are still sitting in the dark when producers no longer have incentives to make electricity.

When it comes to ending poverty and addressing the lack of affordable housing, these are the kinds of arguments that conservatives and liberals have about price controls. The policies we will debate in chapters 11 and 12 are minimum wage legislation (price floor) and rent control laws (price ceiling).

Minimum wage legislation. Labor is essential to producing anything, whether it's a good or a service. In chapter 11 we'll be considering minimum wage legislation in the low-skilled labor market. The **minimum wage** sets a price floor in the labor market. Just like any other market, there is a price and a quantity. We refer to the price as the wage (W) and the quantity as the number of workers (N). Because labor is an input market, the suppliers are the workers, and the demanders are the firms. Workers supply more labor at a higher wage, and firms demand more labor at a lower wage. But before we can draw a graph depicting the low-skilled labor market, we need to deter-

mine the elasticity of low-skilled labor demand and the elasticity of low-skilled labor supply. In other words, how *sensitive* is the quantity of labor demanded or the quantity of labor supplied to a change in the wage? If the wage goes up, the firm demands fewer workers. How many fewer depends on the price elasticity of demand for low-skilled labor. And if the wage goes up, more workers will supply low-skilled labor. How many more depends on the price elasticity of supply for low-skilled labor.

The determinants for elasticity in input markets are different from the determinants we discussed for output markets, but there is some overlap. Substitutions, for instance, play a big role in the elasticity of labor demand. What else can be substituted for the input? In the low-skilled labor market, when wages go up, fast-food restaurants, custodial services, hotels, landscaping firms, and so forth continue to demand low-skilled workers because they don't have the option of replacing them with a machine that can do the work—at least not yet. So far, there is no machine that can effectively bus tables at the burger joint or sweep the floor at the guitar factory. When wages go down, firms are

even more likely to continue to hire low-skilled workers rather than trying to invent or invest significantly in machines to replace them. For these reasons, the elasticity of labor demanded in the low-skilled labor market is inelastic.

Adaptability plays a big role in determining the elasticity of labor supplied. How easy is it for workers to use their current skills in a different job? For example, if you work as a shelf stocker in a grocery store and the wage drops for low-skilled jobs, you probably will continue working at the lower wage because your skill isn't easily transferable to working as a drummer, a tennis player, or a sushi chef. When wages go down, low-skilled workers have no specialized skills that could transfer to a new job, so they supply their labor even if the pay decreases, because they have no other options. What happens when the wage goes up? Since wages are generally laddered—workers with higher skills also get a pay raise when low-skilled workers get a pay raise—higher-skilled workers aren't drawn into the low-skilled labor market even when they pay higher wages. For these reasons, the elasticity of labor supplied in the low-skilled labor market is inelastic.

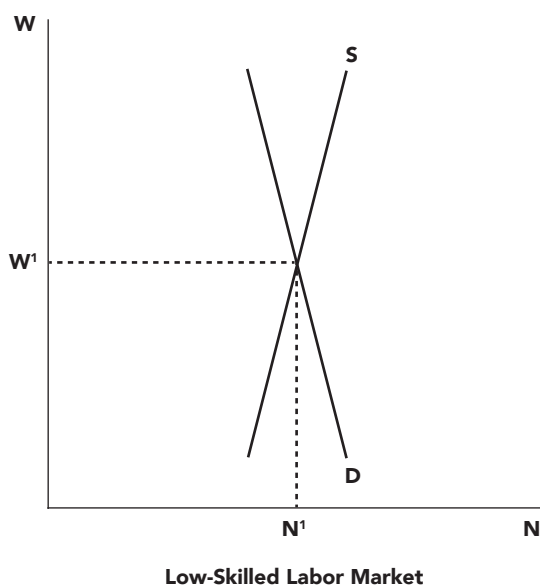


Figure 10.9
Inelastic Demand and Supply

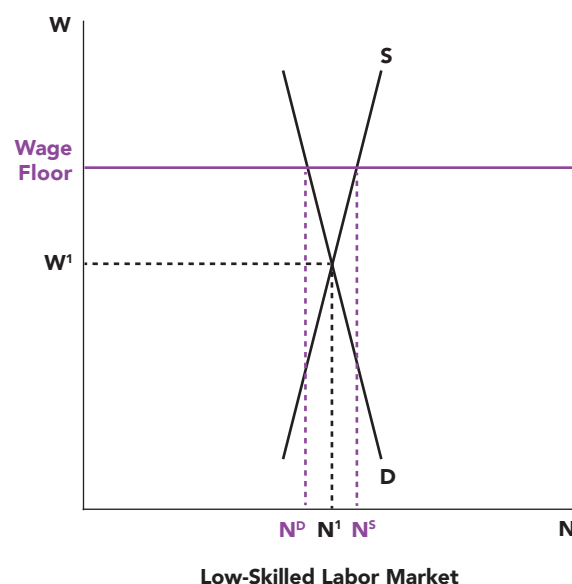


Figure 10.10
Price Controls and Elasticity

Figure 10.9 shows the low-skilled labor market with inelastic demand and supply. The quantity of low-skilled workers is N , and the wages are W . You'll notice the slopes are quite steep for both demand and supply. Figure 10.10 shows the same market with the minimum wage price floor. Since the supply of low-skilled workers is greater than demand at that price floor, and both curves are inelastic, a small surplus of workers results (unemployment).

Conservatives think there is absolutely no justification for creating any unemployment at all, so they reject the minimum wage policy in favor of free-market wages, saying it creates more poverty rather than solving the problem. Liberals, on the other hand, say the surplus is minimal and temporary, and a minimum wage is the key to ending poverty. You will see this graph again in chapter 11 when conservatives and liberals offer their different points of view about whether the minimum wage is beneficial or harmful.

It is important to note that conventional economists often disagree among themselves about the degree of elasticity for low-skilled labor supply and demand. However, this disagreement doesn't substantively change the debate we'll be having in chapter 11. For our purposes, we'll assume that this point of contention is not an issue.

Rent control laws. Housing is an output market and takes many forms, including apartments, manufactured homes, duplexes, single-family homes, mansions, and so forth. In chapter 12 we'll be considering rent control in the low-end apartment market. **Rent control** is a price ceiling in the housing market. The price is rent (R), and the quantity is the number of apartments supplied and demanded (Q). The suppliers are the landlords (property owners), and we know they are willing to supply more low-end apartments when the rent goes up. Demanders are the tenants. We know tenants are willing to demand more low-end apartments when the rent goes down.

But how elastic is the supply and demand of low-end apartments? If rents go down, by how much less will landlords supply low-end apartments and by how much more will tenants demand those apartments? To determine this, we consider the main determinants for the price elasticity of demand and supply in output markets. Let's start with demand. When rents for low-end apartments go up, tenants continue to demand low-end apartments at the higher rent since apartments are a necessity—people need a place to live in order to survive. And there are very few substitutes for low-end apartments apart from moving into a homeless shelter. On the other hand, when rents go down for low-end apartments, people who live in duplexes, single-family homes, standard and luxury apartments, and mansions aren't going to race to get their rental applications in for low-end apartment buildings. It's not a substitute for higher-end housing. For these reasons, the price elasticity of demand for low-end apartments is highly inelastic.

On the supply side, suppliers can't easily make more low-end apartments when rents go up because inputs aren't readily available, the production is incredibly complex, and it isn't easy to store inventory. Landlords will continue to supply the same quantity of apartments at the higher rent. And when rents go down, it takes a long time to transform apartments into other types of rentals. The landlord can't just rent the space to a shoe company or a taco bar, so landlords will continue to rent to apartment-dwellers even when the rents are lower. For these reasons, the price elasticity of supply is also highly inelastic.

Figure 10.11 shows the low-end rental apartment market with inelastic demand and supply. You'll notice the slopes are quite steep for both curves. You can also see the same market with a rent control price ceiling (figure 10.12). Since the quantity demanded is greater than the quantity supplied at that price ceiling, and both curves are inelastic, we end up with a small shortage of housing.

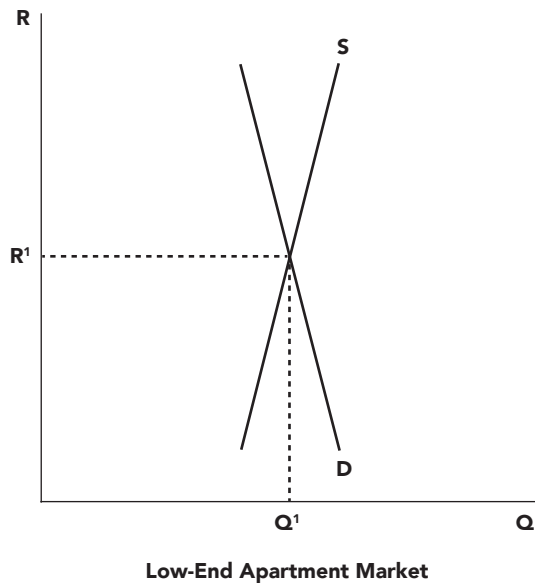


Figure 10.11
Inelastic Demand and Supply

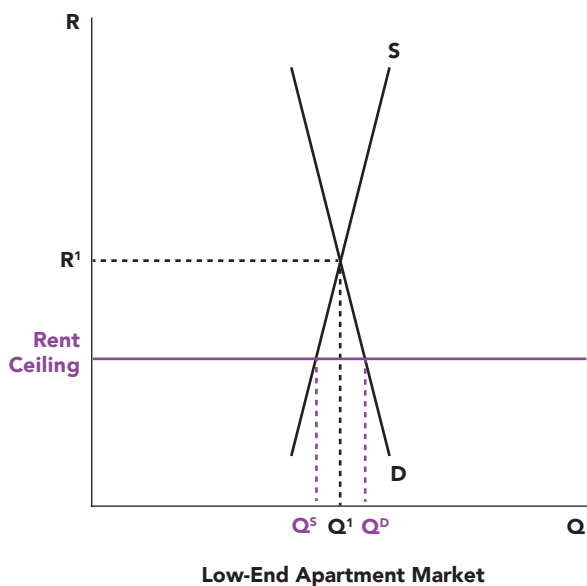


Figure 10.12
Price Controls and Elasticity

Liberals are enthusiastic about rent control because they say it protects the poor from unaffordable rent hikes, and the shortage it creates is minimal and temporary. Conservatives, on the other hand, strongly oppose rent control laws, saying they unfairly punish landlords, and no amount

of shortages they create are acceptable. They want free-market rent signals. You will see this graph again in chapter 12, when liberals and conservatives argue for their respective points of view.

Radical Theory Tools

Now let's take a look at the radical tools you need in order to understand their point of view on the issues of Livelihood and Housing. The six core points reflect the commitments to and structures of ownership, production, governance, sustainability, communities, and meeting people's basic material needs. Radicals say all six core points could be used to analyze every issue. To analyze Livelihood and Housing, their tools are the core points that relate to ownership. **Private ownership** is defined as private individuals (capitalists) own the machinery and hire workers to produce on those machines while paying them less than the value of what they produce. The description of democratic socialism will drill down into the core point of cooperative ownership. **Cooperative ownership** is defined as people come together collaboratively as joint owners of their factories, housing, restaurants, and so forth, making decisions about policies and structures through a democratic process of one person, one vote.

Capitalism: Private Ownership

Karl Marx offered two central critiques of *private ownership* in capitalism. The first is workplace exploitation. Wage laborers are hired by private owners to operate the machines and transform raw materials into products, yet they are not paid the full value of their labor. Instead, the surplus value they create is stolen by owners, who keep portions for themselves and distribute other portions to those who maintain this system of exploitation. The second critique is alienation. In capitalism private owners must treat the labor of workers as a commodity—as if humans are in the same category as machines. Instead of work

1. **Private Ownership**

2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities

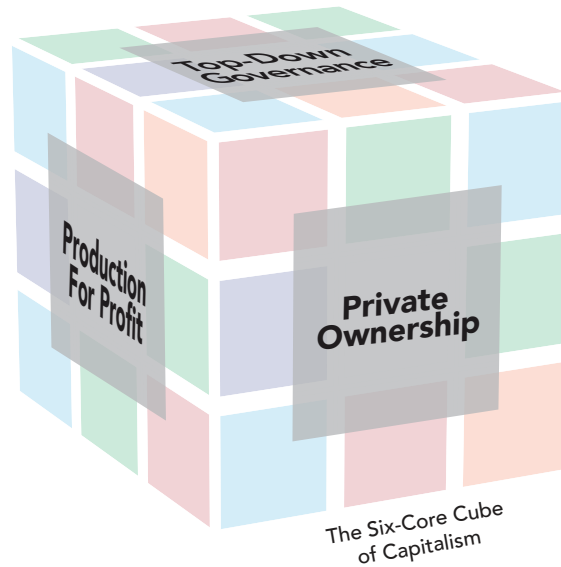


Figure 10.13
The Six-Core Cube of Capitalism

enabling people to contribute their unique gifts to society, work becomes a dehumanizing experience in which wage laborers are alienated from one another, from their jobs, from the things they produce, and from the processes of production.

If you think about it, say contemporary radicals, it's an enormous task to feed, house, clothe, and care for the human population. No individual

could produce everything needed for their own survival. It's necessary that we labor as a society to produce what we all need to thrive. But with *private ownership* we can't have our housing, our health care, our education, and every other thing we need to live a decent life, they say, because the main purpose of private ownership is not to give us those things. Instead, the primary goal is to maximize profit for the owners. In the process some people might get some or even all of what they need, but the system of capitalism is not set up to generate well-being for everyone. Radicals say it benefits the few—not the masses.

This is how the core point of *private ownership* and the pressure for bad look in capitalism:

Scenario 1. You own a construction company, and you meet an old friend from college who owns a competing firm. She says, “Our profits were down so we forced out the union and fired workers who were used to those higher wages. We replaced them with low-skilled workers. We don't have to pay as much and we can just train them on the job.”

You think this is a terrible idea. “I don't want to fire my workers,” you say. “These are the dedi-

Private Ownership

- Capital is in the hands of the few, not the many.
- Owners exploit wage-laborers.
- Workers are alienated from their labor.





cated people who helped me grow my company and made it successful.”

“So don’t do it!” she says.

But you will do it—because if you don’t and the other firms do, you’ll be driven out of business. Radicals say *private ownership* in capitalism leads to more poverty and homelessness.

Scenario 2. You’re at the dog park with another construction firm owner, who tells you, “I’ve started to buy up dilapidated houses in the low-income part of town and kick out the tenants. I’ll only have to do the bare minimum to give the illusion of luxury, and then I’ll turn around and rent them out for a healthy profit. I’ll be raking in the money. You should do the same.”

You say, “I don’t want to do that. It’s so wrong. The people in those neighborhoods are already struggling to get by. We’ll just be making their lives harder by making housing unaffordable.”

He says, “So don’t do it!”

But you will do it or your firm won’t survive. Radicals say with *private ownership*, the products we need are controlled by a few capitalists, so masses of people end up worse off, including

having no roof over their heads and no way to afford the necessities of life.

Scenario 3. You’re at a cement trade show, and you meet a construction firm owner from another state, who says, “Cities and states around the country are throwing all kinds of incentives our way to get us to move our businesses to their areas. They’re begging us to bring job opportunities, so we can write our own tickets. We can make millions more in rebates, credits, and tax exemptions, and all we have to do is set up shop wherever we can get the sweetest deal. And if we want to move in a few years to another area that makes us a better offer, we can. You should get in on this.”

You say, “It seems wrong to fund our private business expenses with taxpayer money, and I don’t want to play one city off against another when those communities are already hurting financially. But let’s say I do it, and then I get a better offer. I move my firm out of that city and now I have to fire my employees. They will lose the jobs their tax dollars paid me to create. Those workers are now worse off than before my firm moved there. This seems like a terrible idea. I don’t want to do it.”

She says, “So don’t do it!”

But you will do it or you won’t be able to compete, and you could lose everything. Radicals say with *private ownership*, capitalists profit from public money, yet the public has no say in how their business decisions affect the public’s well-being. This leaves society without sufficient decent low-income housing and jobs that pay a living wage.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say when we build an economy around the six core points of capitalism, it is always rotten to the core and leads to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- **Mass poverty**
- **Homelessness**
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Democratic Socialism: Cooperative Ownership

Cooperative ownership leverages the mutual interests of participants because when people have an ownership stake in the places where they work, live, shop, and study, then people have skin in the game. The pressure for good leads them to make decisions that are beneficial to the well-being of all. Radicals say when

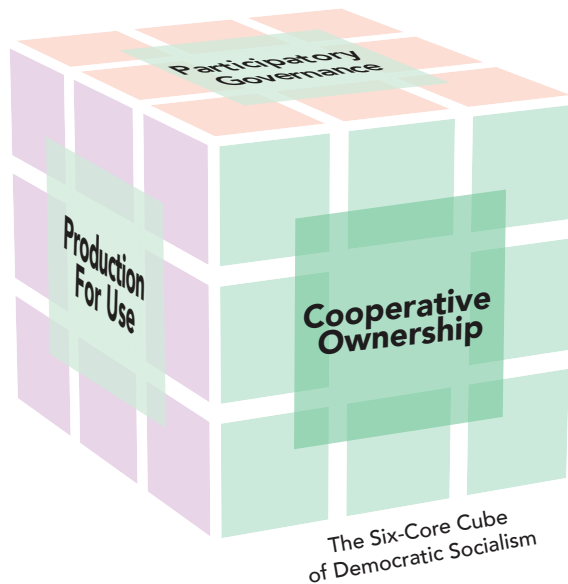
people rely on one another for the success of their enterprise, they become highly motivated to find creative and equitable solutions to conflicts and challenges. A central characteristic of *cooperative ownership* is that people make decisions together about everything from fees and pay scales to worker benefits, management policies, and production processes.

Radicals say when there is worker ownership, there is no exploitation, because those who make the surplus are the same as those who take the surplus, and they make decisions together about how to distribute it. Instead of feeling alienated, cooperative owners experience a sense of pride in their workplaces, the things they produce, their communities, and their homes—and a feeling of connection to their coworkers, co-owners, and co-residents.

When it comes to ending poverty and the lack of affordable housing, radicals offer alternative ideas to minimum wage legislation and rent control laws.

Worker-owned business incubators.

To address poverty in democratic socialism, **worker-owned business incubators** offer cooperative owners financial resources, technical support, legal advice, and community networking so they can take a good idea and turn it into a successful worker-owned business. While they help start-ups create feasible business plans and find funding, these business support centers also provide ongoing professional development to existing worker-owned firms so they can expand their entrepreneurial capacity. Incubators for worker-owned businesses are clearinghouses for sharing resources with other worker-owned enterprises, inspire new ideas, and research best practices. They provide mentoring, consulting, and opportunities to develop new markets. Because the success of firms is vital to a thriving economy for all, worker-owned business incubators are supported by taxpayer funds.



1. Cooperative Ownership

2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development
6. Healthy Communities

Figure 10.14
The Six-Core Cube of Democratic Socialism

Resident-owned communities (ROCs). To address the lack of affordable housing, radicals use cooperative housing, which comes in all shapes and sizes. The one thing **resident-owned communities** have in common is that the structure is co-owned or co-leased by the residents, who make management decisions collaboratively—for instance, how to handle noise disturbances, safety concerns, main-

tenance schedules, and so forth. ROCs can be anything from manufactured home communities, to luxury apartment buildings, to intentional cohousing communities where residents have private living quarters and share common spaces.

This is how the core point of *cooperative ownership* and the pressure for good look in democratic socialism:

Scenario 1. You're a worker-owner of a construction firm that builds resident-owned communities, and you meet an old friend from college who is a worker-owner of a competing construction firm. She says, "Our profits were way down last quarter so we turned to the worker-owned business incubator in our city for advice. Their team analyzed our business plan and production costs and recommended that we vote on taking across-the-board pay cuts for three months so we can afford new equipment upgrades. They forecast a boost in production within a quarter."

You say, "Our firm also took a hit last quarter. We've been scrambling to figure out a way forward. I'll suggest we also get advice from our local worker-owned business incubator. Last time we consulted

Cooperative Ownership

- Capital is owned cooperatively and used for the benefit of many.
- Worker-owners decide together how to distribute the profit.
- Workers are connected to their labor and their communities.





them, they helped us get a loan to expand.”

She says, “You should do it!”

So both your firms will do it because, with *cooperative ownership* in democratic socialism, every firm’s success is good for the whole community, and everyone is invested in the institutions and structures that support businesses. This leads to jobs that pay a living wage and decent, affordable housing for all.

Scenario 2. You’re at the dog park with another worker-owner of a construction firm. He says, “In addition to the fact that worker-owners get paid a decent wage, our firm voted to put money into a fund that we worker-owners can borrow from to buy into resident-owned housing cooperatives in our community. Will your firm want to be part of this fund?”

You say, “I’m sure we will because there’s already been talk from a number of my co-owners about starting their own resident-owned apartment complex. They want it to be specifically for families with small children and elderly parents.”

He says, “You should do it!”

Both of your firms will do it because *cooperative ownership* in democratic socialism makes it possible for people to earn a good living and have the housing they want in their communities.

Scenario 3. You’re at a building supply trade show, and you meet a worker-owner from another state, who says, “When we launched our business with the help of the worker-owned business incubator a few years ago, the consulting team brokered a partnership between our company and a local university and hospital to use our services. We agreed to help more of our worker-owners afford houses in the neighborhoods adjacent to those anchor institutions to improve those neighborhoods. A group of younger cooperative owners got together and created a resident-owned mixed-income housing community. There’s been a snowball effect. That neighborhood is revitalized, and new businesses are springing up there every week.”

You say, “Our cooperative also transformed


some of the run-down neighborhoods near our factory by investing in the community. But we hadn't considered partnering with our local anchor institutions. That sounds like good business. I'll bring that idea up at our next meeting."

She says, "You should do it!"

Your firm will do it because *cooperative ownership* in democratic socialism creates sustainable communities for generations to come, including a variety of housing options and wages that make it possible for worker-owners to afford their lives.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say when we build an economy around the six core points of democratic socialism, it is beneficial to the core and gives rise to the invisible synergy.

You're Ready for the Next Two Issues

Now you have the tools you need to understand the policy debates about livelihood and housing. Hopefully, you're starting to understand the subtle and obvious ways the three perspectives look at the big questions—questions that affect you in every way in your own life. What are we actually going to make with all the resources we have available to us? How are we going to make those things? And who is going to get them? As you read about livelihood and housing, you'll start to figure out what you believe are the best ways forward to end poverty and to create affordable housing for all. 

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- **Prosperity**
- **Housing for all**
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices

Chapter 10: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



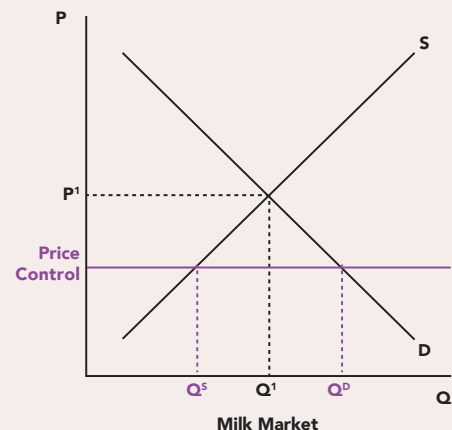
- You say, "Studies show that people are more likely to have an accident on a bicycle than on an electric scooter. This is a proven fact." Your uncle says, "Facts are tricky. I want to know if the study considered city streets or country roads. How did it define 'accidents'? Were children included in the statistics?" Your mom says: "The mayor gave a speech yesterday saying we shouldn't allow electric scooters on sidewalks. I agree with her." In this conversation, your approach is _____, your uncle's is _____, and your mom's is _____.

 - positive; contextual; positive
 - normative; positive; contextual
 - contextual; normative; normative
 - positive; contextual; normative
- Which of the following statements are true about civil discourse? Please choose all that apply.

 - Expressing moral outrage is important to show how passionate you feel about an issue.
 - It's important to listen respectfully except when you know your opponent is completely wrong.
 - Avoiding difficult conversations or pretending to agree is the best way to have a civil dialogue.
 - It's important to criticize ideas, but not individuals.
- A price control is a price set by law to be above or below the equilibrium price. Which statement about this graph is true according to conventional theorists?

 - This price floor causes a shortage of milk.
 - This price ceiling causes a shortage of milk.
 - This price floor causes a surplus of milk.
 - This price ceiling causes a surplus of milk.
- In a city that has buses, a subway system, ride-share services, and bicycle lanes, a taxi company is considering raising its rates. You are hired as a conventional economist to analyze how this price increase could affect the company's total revenue and profits. What advice would you give?

 - Do not raise rates right away. The price elasticity of demand will become inelastic over time.
 - Keep rates the same. The price elasticity of demand is neither elastic nor inelastic.
 - Do not raise rates and maybe even lower them. The price elasticity of demand is elastic.
 - Raise rates. The price elasticity of demand is inelastic.



5. Conventional theorists say that minimum wage is a _____ set above equilibrium wage for low-skilled workers. This means _____.
- A. price ceiling; a surplus of workers will result, at least in the immediate future
 - B. price floor; a shortage of workers will result, at least in the immediate future
 - C. price ceiling; a shortage of workers will result, at least in the immediate future
 - D. price floor; a surplus of workers will result, at least in the immediate future
6. Rent control affects millions of tenants and landlords every year. Which of the following statements is an accurate portrayal of the elasticity of low-end apartment demand and supply?
- A. Because there are few substitutes for low-end apartments and because they can't be easily adapted for other uses, both supply and demand are relatively inelastic.
 - B. As rents for low-end apartments go down, lots of other types of renters will enter the market, making the demand of low-end apartments relatively elastic, while the ease of converting apartments to office space makes the supply of low-end apartments relatively elastic.
 - C. Elasticity of supply and demand of low-end apartments is irrelevant to the discussion of rent control.
 - D. While the necessity of low-end apartments makes demand relatively elastic, the expense of holding an inventory of low-end apartments makes supply relatively inelastic.
7. Karl Marx criticized private ownership because of its effect on wage laborers. Which two of the following options represent his views on this subject?
- A. Owners of capital exploit workers.
 - B. Workers are alienated from one another and the products they make.
 - C. For survival, private owners are forced to make choices that benefit society as a whole.
 - D. Workers who own their own companies cooperatively have a higher standard of living.
8. Match the idea about worker ownership (left column) to its meaning (right column).
- | | |
|-------------------------------|---|
| A. Connection | i. Creative and equitable solutions |
| B. Democratic decision-making | ii. Those who make the surplus also take it |
| C. No exploitation | iii. A voice and a vote |
| D. Cooperation | iv. Positive ties to coworkers and co-residents |
9. Worker-owned business incubators offer all of the following EXCEPT:
- A. financial and technical support.
 - B. standards for hiring and firing part-time employees.
 - C. research on best practices.
 - D. business planning and mentoring.

10. What kind of housing can be a resident-owned community (ROC)?

- A.** Mobile home park
- B.** Luxury apartments
- C.** Suburban single-family homes
- D.** All of the above—any kind of housing can be an ROC

Answers

1. D **2.** D **3.** B **4.** C **5.** D **6.** A **7.** A & B **8.** A – iv, B – iii, C – ii, D – i **9.** B **10.** D

Chapter 10: Key Terms

Civil discourse

Cooperative ownership

Determinants of Price Elasticity of Demand

- Fraction of income
- Necessity versus luxury
- Number of substitutes
- Time factor

Determinants of Price Elasticity of Supply

- Available inputs
- Complexity of production
- Inventories
- Time factor

Elastic

Elasticity

Inelastic

Input markets

Minimum wage

Output markets

Perfectly elastic

Perfectly inelastic

Price ceiling

Price control

Price elasticity of demand

Price elasticity of supply

Price floor

Private ownership

Rent control

Resident-owned communities

(ROCs)

Six Guidelines for Civil Discourse

- Aim for peaceful persuasion
- Be open-minded
- Critique issues, not individuals
- Listen thoughtfully
- Remember that empathy helps
- Use your biofeedback

Total revenue

Worker-owned business

incubators

Answer Key to Exercise 10.1

1. Use Your Biofeedback; **2.** Critique Issues, Not Individuals; **3.** Listen Thoughtfully;

4. Remember that Empathy Helps; **5.** Be Open-Minded; **6.** Aim for Peaceful Persuasion



11

Issue: LIVELIHOOD

Have you ever wondered what you would do if you couldn't afford your life? Years ago, I read a newspaper story about an Ohio man named Timothy Bowers. He was sixty-three years old when he was laid off from his job making deliveries for a pharmaceutical wholesaler. When he looked at his budget, Bowers realized there was no way he would be able to afford his life on a minimum wage job, which was the only employment he was likely to find. So he came up with an extreme financial plan. Bowers walked into a Columbus bank and held up a teller at gunpoint. He demanded \$80, and then he walked over to the bank's security guard and turned himself in. Yes, Bowers's financial plan was to get himself arrested and thrown in prison. You see, he knew that bank robbery carried a three-year prison term, which meant he would be ensured a roof over his head, three meals a day, health care, and clothes until his release at age sixty-six. At that point, he would

be old enough to draw on his Medicare and full Social Security benefits. His story was reported around the country. It might surprise you to learn that Timothy Bowers isn't the only one with this extreme financial plan. It's more common than you might think. Whether liberal, radical, or conservative, we can all agree that something has gone terribly wrong in our nation when people choose prison over freedom.

Every time I think about the harsh realities of poverty and the choices people are forced to make to survive, I wonder about a group of students I taught years ago. I've spent most of my teaching career in higher education, but for five years I taught sixth-grade social studies in

a school where 85 percent of the student body qualified for free lunch. That's another way of saying that most of them lived in poverty. It was one of my all-time favorite jobs. Because few students in my classes had



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ever been outside the neighborhood, I started a program called Around the World to ignite their interest in different cultures and ideas. We learned about a new country every week. On Fridays I brought in food from the country we were studying so they could taste different cuisines. We made costumes and learned about different sports, beliefs, histories, languages, and more. My hope was that one day they would have the education and support to experience the wonders of the world firsthand. But the reality was that most of the students in our school had parents and grandparents who also grew up in poverty. Many were from that same neighborhood and had never left. Some of my students lived in homes without electricity, which meant they couldn't see the page to do their homework at night. Others had no running water because their parents couldn't pay the utility bills. One of my students told me she lived in a room with six other people. They had to sleep in shifts. It was normal for many of my students to come to school hungry and go to bed hungry. Their main meal of the day was the lunch they were served in the school cafeteria. I don't know what they ate on weekends, when the school was closed. Most of them had loving, caring, and concerned parents and grandparents who nevertheless

rarely showed up for parent-teacher conferences. They had no time because they struggled to make ends meet by working at two or three low-paying jobs.

Money doesn't guarantee happiness, but poverty guarantees suffering. Hunger hurts. Not having medical treatment hurts. Being homeless hurts. Tens of millions of people in our country don't have livelihoods that sustain them. This is not just their problem; it's everyone's problem because we're not able to realize our highest potential as a nation when people are working hard but still can't get ahead. They spend all their time struggling to survive, and they have no time or energy left to contribute their brilliance and talents to the world. Conservatives, radicals, and liberals all agree that poverty causes suffering and deprivation, and they all want an end to poverty.

Understanding the Issue of Livelihood

"Only in our dreams are we free," wrote novelist Terry Pratchett. "The rest of the time we need wages." A **livelihood** is the means through which people obtain the necessities of life. It's how they earn the income they need in order to support their existence. The general definition of **poverty** is having an insufficient livelihood to afford the

things one needs to survive. When you're forced to do without those things, you suffer. For example, if you can't afford medical treatment, you live with pain. If you can't pay for food, you go to bed hungry. If you can't pay the gas bill, you shiver from the cold all winter. A "good" livelihood fundamentally means you're able to earn enough money to cover your expenses so you don't have to worry about the electricity being shut off, or the bank repossessing your car, or the landlord evicting you from your apartment because you're behind on the rent. Poverty causes physical hardship, and it creates emotional stress when your financial situation seems depressingly hopeless.

The odds of suddenly inheriting a fortune or picking the winning lottery numbers are astronomically low, but the more feasible answer to poverty is a job that pays enough for you to meet your needs. Do you know how much your life costs? Let's do an exercise. On a piece of paper, write down the average cost of your (or your family's) monthly expenses. You can estimate if you need to, but please include groceries (food, cleaning products, personal care products, and so

forth), clothes, housing (rent or mortgage, maintenance, and taxes), utilities (water, electricity, natural gas, sewage, and trash/recycling collection), transportation (bus pass, car payments, gas, insurance, and maintenance), education (tuition, tutoring, and other lessons), health care (medications, doctor visits, insurance premiums, gym memberships, dentist visits, glasses), communication (your cell phone, tablet, computer, Wi-Fi), entertainment (movies, sports, video games, event tickets, restaurants, vacations), and any other regular payments you make (pet care and student loan or credit card debt payments, for example). Now multiply that number by twelve, which is the number of months in a year, and that gives you a pretty good idea of the amount you or your family need to earn after income taxes to afford your life every year. But just to be clear, that's a low estimate because it doesn't include unexpected expenses such as replacing a broken appliance, repairs after a fender bender, an unexpected trip to attend a funeral, a surprise root canal, or all the holiday, birthday, and Valentine's Day gifts you want to buy. It also doesn't include cost-of-living



increases. Hang on to this piece of paper, and feel free to keep it private. We're going to revisit this number later.

What Is Poverty?

Poverty can look different and can be experienced in different ways. Some low-income people have a roof over their heads and some don't. Some have jobs, and some can't or don't work for a variety of reasons. You've probably seen homeless people living on the streets, pushing their belongings around in a shopping cart. You may not have seen families living in their cars or elderly people who have to choose every month between buying medication or buying food. Millions of working families struggle to pay their bills and fall further and further behind every month. The **working poor** are people who have regular jobs but still don't earn enough to cover their minimum expenses.

Where do we draw the line and say this person is poor and that person isn't? That is a controversial question, and one that has a direct impact on tens of millions of Americans. If their incomes before taxes fall below the poverty line—it's technically called the **poverty threshold**—then they qualify for government assistance, including food stamps, housing, early childhood programs, and health care. They also may qualify for privately funded scholarships, emergency food aid from nonprofit organizations, and more. If they earn even a single dollar above the poverty threshold, then they won't get that assistance. The story of how the current poverty threshold is calculated starts back in 1963, when an economist named Mollie Orshansky was working in the Social Security Administration. She was studying the poverty rate of children in the United States. To figure out which children could be considered poor, she first calculated the minimum daily amount of food a person needed to survive. Then she estimated what that food would cost and multiplied it by the number of days in the

year. Since the U.S. Department of Agriculture estimated that families spent on average a third of their income on food, Orshansky simply multiplied that number by three, and that's how she came up with the equation for the poverty threshold. Orshansky was one of the few women economists of her day to influence public policy. When President Lyndon B. Johnson established the Office of Economic Opportunity, Orshansky's formula was adopted as the **Official Poverty Measure (OPM)**.



You may have already noticed the big flaw in the OPM: It only looks at what it costs for food. It ignores the costs of housing, health care, clothes, transportation, day care, utilities, and other essentials. And it doesn't factor in whether you live in low-cost rural Arkansas or New York City, which is one of the most expensive places on Earth. So your cash income before taxes, regardless of where you live, has to be lower than the OPM poverty threshold for you to be considered "poor." The poverty threshold is the same for all Americans.

The government continues to triple the inflation-adjusted cost of a 1963 minimum-food diet,

adjusting for family size, composition, and the age of the person or people in the household, in order to determine the OPM. Most people agree this is flawed, especially since food is no longer a third of families' total expenses. By 2021, it was closer to 10 percent. In 2010 the government came up with a more nuanced way to calculate the poverty threshold: the **Supplemental Poverty Measure (SPM)**. It is a more comprehensive look at a person's income level. Instead of setting the level at the OPM's three meals a day, it sets a poverty threshold

that includes the average cost of food, clothing, shelter, and utility costs (often called FCSU for short). To determine whether a person or family falls above or below that line, the SPM calculates income by adding cash income (adjusted for the local cost of living) and in-kind (noncash) benefits such as housing assistance, school lunches, and SNAP. It then subtracts necessary expenses such as taxes, child-support payments, out-of-pocket medical expenses, child-care costs, and work expenses, and that final number is the income that a person would compare to the average cost of FCSU to see if they fall below the poverty threshold. Also, it has a more expansive definition of a household, including people who aren't legally related but who live together. It also sets separate thresholds for renters and homeowners, adjusting for different housing costs in different geographic areas. Most people agree that the SPM offers a much more accurate and realistic picture of the financial status of Americans. Yet,

If you fall above the
poverty line but still worry
about money all the
time, you're not alone.
In 2017, forty percent of
Americans couldn't cover
an emergency expense of
\$400. That means nearly
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paycheck, car accident, or
medical diagnosis away
from financial ruin.

at least through 2022, the OPM was the measurement used by the government to determine who was poor and who wasn't poor, even though it was considered to be problematic from every perspective.

You can see the importance of this difference in the definition of the poverty threshold when you compare numbers of how many people in the United States fall under the poverty line. According to the U.S. Census Bureau, in 2017 there were close to 40 million who fell below the OPM and nearly 45 million who fell below the

SPM. So just think about this: if the SPM had been the measure used to determine who qualifies for public assistance, there would have been an additional 4.5 million recipients that year.

Remember that monthly budget you wrote out earlier? If you fall above the poverty line but still worry about money all the time, you're not alone. According to a 2017 Federal Reserve report, *Economic Well-Being of U.S. Households*, 40 percent of Americans can't cover an emergency expense of \$400. That means nearly half of us are one missed paycheck, car accident, or medical diagnosis away from financial ruin.

Workers and Wages

Poverty has been a fact of human existence for millennia, and today billions of people on the planet suffer because they can't afford to meet their basic needs. This issue is one of the most persistent problems we face as a species. In modern societies we can't go out and hunt and

gather whatever we need to survive. Instead we need jobs that pay us enough to afford our lives. At the same time, society needs to have workers to make the things that everyone requires for survival.

The contributions of workers to the prosperity and strength of the nation is recognized around the world every year, but the day on which the celebrations happen has an interesting backstory. On May 1, 1886, a new law mandating an eight-hour workday was supposed to take effect in Illinois. When some employers chose to ignore it, workers went on strike. At a Chicago labor rally three days later, a bomb exploded, killing eleven people—some were police and some were striking workers. This became known as the Haymarket affair (depending on their perspectives, some also called it the Haymarket riot or the Haymarket massacre). In 1891 the International Socialist Labor Congress voted to celebrate International Workers' Day on May Day (May 1) to honor those who had been killed during the Haymarket affair five years earlier. However, U.S. President Grover Cleveland didn't want Labor Day to be associated with Haymarket, so in 1894 he chose September for our nation's celebration of workers. Today, International Workers' Day is celebrated around the world on May 1 in honor of those who died in Chicago, while in the United States we observe Labor Day on the first Monday of September. Although it's not observed these days, May 1st is actually known as Loyalty Day in the United States. The idea for it started in 1921, and it was made an official national holiday in 1958. On Loyalty Day people were encouraged to pledge their loyalty to the United States—to affirm that they weren't communists. It's no coincidence that Loyalty Day was popular in the 1920s and 1950s because these were the two periods in U.S. history in which there was intense anti-communist sentiment (known as the **Red Scare**).

The groups that advocated for an eight-hour

workday back in the late 1800s were **labor unions**, which are organized associations of workers. Unions were first established in the United States in the 1860s and have been—and still are—a controversial institution in the United States and in other countries around the world. Union members pay dues to the organization and elect representatives who negotiate on their behalf with management. The idea behind unions is that workers have more power to demand better pay and better working conditions when they negotiate collectively rather than each person negotiating with management individually. The process is called **collective bargaining**. When unions and management are unable to come to an agreement, union workers may go on **strike**—that is, they refuse to work—as a way to apply pressure to management. Workers who cross the picket line and continue to work during a strike, or who are hired to replace striking workers, are called **strikebreakers**. The derogatory term you might have heard used is **scabs**.

The establishment of labor unions in this country and around the world has been fraught, with many heated and often violent fights between workers and management. In this country, unions pushed for the laws that established the forty-hour workweek, child labor laws, safer working conditions, and better wages and benefits for workers. In 1935 the National Labor Relations Act, signed by President Franklin D. Roosevelt, regulated labor unions. It allowed businesses to be one of four types with respect to unions: a **closed shop**, meaning all workers must be members of the union and pay dues; a **union shop**, where some workers are allowed to put off becoming union members until a set amount of time; an **agency shop**, where workers can choose to join the union and pay union dues or not join but still pay the same fee as union members; or an **open shop**, where workers aren't required to be in a union or to pay any fees to the union. The height of union involvement



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was in 1954, when more than a third of U.S. workers were union members. By 2018 only one in ten belonged to a union, but unions continue to play a role in many industries. For example, in 2018 the University of Vermont Medical Center workers went on strike over stalled contract negotiations. Also that year, fast-food workers and other service industry workers around the nation went on strike to demand union representation and higher wages. Arizona teachers went on a walkout to protest low wages and decreases in school funding. (The teachers couldn't call it a strike because they're not legally allowed to strike, according to the state's constitution.)

The union movement has been challenged more recently by the **Right to Work movement**, which pushes back against the idea of mandatory membership in unions. As of 2017 there were twenty-seven states that had right-to-work laws, allowing workers to refuse to become union members and pay union fees. They argue that it's not fair to compel a worker to join a union as a condition for employment because this violates the worker's rights. This is controversial because, some argue, those workers still benefit from the union's collective bargaining, and therefore it

isn't fair that they don't pay dues and support the union's work.

Government Anti-Poverty Programs

Back in 1913, the U.S. Department of Labor was established "to foster, promote, and develop the welfare of working people, to improve their working conditions, and to advance their opportunities for profitable employment," according to



the bill signed by President William Howard Taft. Since then, the government has had a variety of policies that affect livelihood and address poverty.

In the twentieth century, there were two main government initiatives aimed at solving poverty. The first, in the 1930s, was Roosevelt's New Deal, which was intended to pull the nation out of the Great Depression. The second, in the 1960s, was President Lyndon B. Johnson's War on Poverty, announced on January 8, 1964, during his State of the Union address. At the time the national poverty rate was close to 20 percent, and Johnson explained, "Our aim is not only to relieve the symptom of poverty, but to cure it and, above all, to prevent it." As part of the War on Poverty, the Equal Pay Act made it illegal to pay women less than men for their work in the same jobs. In addition, the Civil Rights Act made it illegal to discriminate based on race, sex, national origin, religion, and other categories in hiring. Johnson also signed the Economic Opportunity Act, which created the Office of Economic Opportunity. You've probably heard of some of the programs that came out of the War on Poverty: Supplemental Nutrition Assistance Program (SNAP—also known as food stamps), Medicaid (health care for low-income people), and many other programs have been around for decades. Here are a few.

Job Corps: Administered by the U.S. Department of Labor, Job Corps was originally intended to give low-income youth opportunities to get job experience and training by working for the federal government to improve national parks, national forests, and national land. Today it gives people ages sixteen to twenty-four vocational and educational training, and it offers certification programs for jobs such as nursing assistants, clinical medical assistants, dental assistants, emergency medical technicians, and insurance claims processors.

Head Start for School Readiness: Head Start programs are premised on the idea that multigenerational poverty can end if every child enters the

school system mentally, physically, and socially ready and able to learn. Administered by the U.S. Department of Health and Human Services, funds are allocated to a wide variety of agencies to serve children from birth to age five. Programs include early childhood education, nutrition support for children and pregnant women, health care, and social services.

AmeriCorps VISTA (*Volunteers in Service to America*): VISTA started in 1965 as a domestic version of the Peace Corps. Service volunteers were assigned to work in impoverished communities around the nation. In 1993 VISTA became part of AmeriCorps, which is administered by the Corporation for National and Community Service. This public-private partnership pays young people a small salary for a year of service and learning in schools and nonprofit organizations that serve underprivileged people. For example, AmeriCorps volunteers have worked with the Red Cross to help communities hit by hurricanes.

Federal TRIO Programs: Administered by the U.S. Department of Education, the idea is to create pathways out of poverty through higher education. TRIO offers a variety of programs, including Upward Bound, which provides grants to low-income rural students so they can be the first in their families to attend college. Veterans Upward Bound supports those who have served in the military by offering mentoring, tutoring, and other assistance so they can attend college. Educational Opportunity Centers serve low-income adults who want to pursue post-secondary education by offering financial planning and help with applications.

Whether any of these government programs actually improved outcomes and moved people out of poverty is still hotly debated today, but the stated intention was to give low-income people the education, skills, and experience to work their way up the economic ladder. Each president since Johnson has had their own approach

to addressing poverty. Generally speaking, Democratic presidents have supported the expansion of these types of government programs. For example, President Barack Obama signed the Lilly Ledbetter Fair Pay Act, which allowed women to sue for damages over wage discrimination. And generally speaking, Republican presidents have primarily advocated for reducing or eliminating social welfare programs in favor of private-sector solutions. For example, President George H. W. Bush's Points of Light foundation emphasized the role of volunteerism and philanthropy. Democratic socialists, for their part, have primarily called for universal basic income and tax-supported public education through university. Despite their divergent approaches, all three perspectives support a child tax credit or a child allowance to reduce poverty. However, they structure it in different ways.

In the background of all these programs, policies, and ideas, there's a debate that our country has been having since the Great Depression. It is centered on whether minimum wage legislation is an effective policy for addressing poverty. It's a complicated question, so let's dive in.

Minimum Wage Legislation

The idea for federal minimum wage legislation came out of President Franklin D. Roosevelt's New Deal. It's the lowest amount permitted by law to pay a worker per hour. When the minimum wage was first established in 1938 as part of the Fair Labor Standards Act, it was set at \$0.25 per hour. The country was still struggling to get out of the Great Depression, and Roosevelt regarded the new law as a way to stimulate spending. The contemporary debate about raising the minimum wage is a conversation about how to ensure a decent livelihood, but Roosevelt never intended the minimum wage to be a direct solution to poverty. He explained, "The proposition is simply this: if all employers will work together to shorten hours and



to raise wages, we can put people back to work." He wanted to get more money into the pockets of working people so they would go out and buy things. This would signal firms to ramp up their production, which would create more jobs. He also believed the minimum wage would be fair to firms, saying: "No employer will suffer because the relative level of competitive cost will advance by the same amount for all of them." He hoped this approach would bring the nation out of the Great Depression and lift people out of poverty.

The federal minimum wage is adjusted by an act of Congress; it doesn't rise automatically with the annual rise in the cost of living (COLA stands for cost-of-living adjustment). In 2016 it was \$7.25 per hour. That had been the rate since July 2009. So from 1938 to 2016, the country went from a federal minimum wage of \$0.25 per hour to \$7.25 per hour, which is a 2,800 percent increase. That sounds amazing until you consider the difference in what a quarter could buy in 1938 versus what \$7.25 could buy in 2016. Many people suffer from

money illusion, which is believing that the face value of a dollar bill—the nominal amount of money—is what matters, as opposed to the real amount, which is what it can buy based on the current prices. Let's say I offer you \$5,000 to help me pull weeds for an hour. You say, "That sounds amazing! I can work for two hours and afford to buy a car!" But what if the cost of living was much higher than it is today? If I told you that you couldn't even buy a banana for \$5,000, would you still want to work for me for that wage?

The real value of money is what you can actually buy with that amount. Money is something that we trade for goods and services, so you want to make sure you're not under any illusions that the amount of money you have will get you more of those things than it actually will. This is extremely relevant when you're thinking about wages. Let's say your employer rewards you with a 2 percent

raise at the beginning of the year because you're doing an excellent job. You're delighted to see more money in your weekly paycheck until you realize that the cost of living has gone up 3 percent in the past year. So even though your paycheck is now bigger, it buys you less because average prices are higher. Do you see the problem? Even with the raise, you are financially worse off than you were a year ago. This is why knowing the difference between nominal amount and real amount is so important when it comes to wages.

To have a constructive discussion of the role of minimum wage in people's lives, we need to consider the real value of the minimum wage as opposed to the nominal value. If in 2016 you wanted to buy as much with your \$7.25 per hour minimum wage as you could in 2009, you would actually need to earn \$8.16 per hour. So in terms of what that money could buy, the minimum

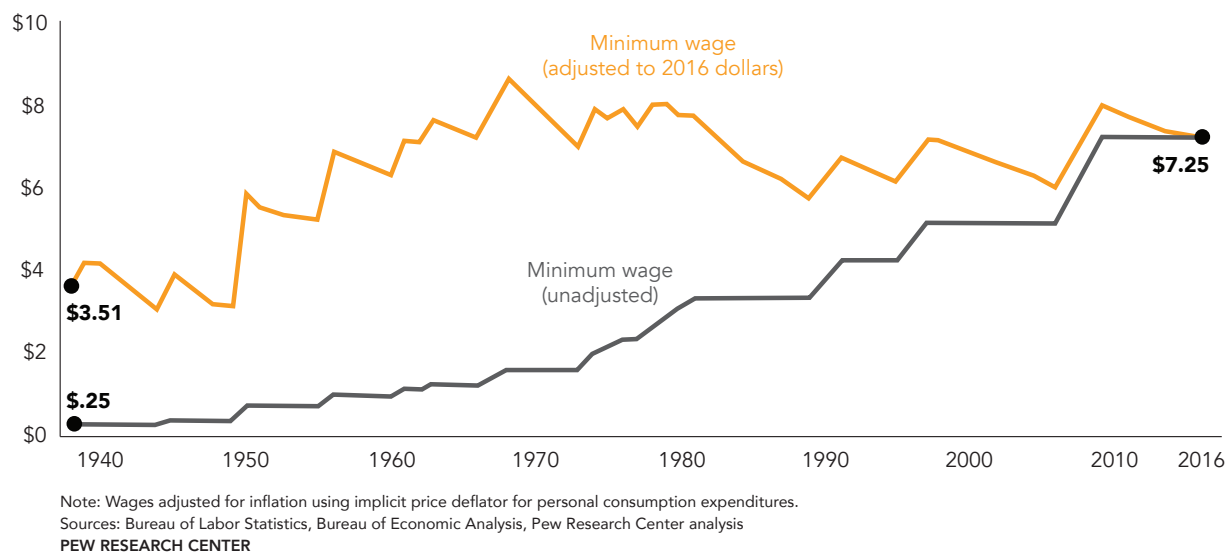


Figure 11.1
Federal Minimum Wage (Nominal and Real), 1938–2016

wage was worth *less* than it was seven years earlier. And as you can see in figure 10.1, that difference was at its height in the late 1960s, meaning you could buy a whole lot more with a \$1.60 per hour minimum wage job in 1968 than you could with a \$7.25 minimum wage job in 2016.

The federal minimum wage is only one wage floor. States, counties, and cities can pass their own laws setting a minimum wage. In 2019 there were twenty-nine states that had a higher minimum wage than the federal rate. Workers in those areas must be paid whichever rate is higher. For example, if Seattle has a higher minimum wage than the state of Washington, a worker in Seattle will be paid the higher amount. We think of the minimum wage as the bottom rung of the income ladder, but some jobs pay even less because there are exemptions to federal, state, and city laws. For example, in some cases farmworkers, tipped employees, independent contractors, babysitters, seasonal and recreational workers, commissioned salespeople, newspaper delivery people, and young workers may be paid below minimum wage. Also, firms that have fewer than a certain number of employees may be exempted from paying their workers the minimum wage.

How many people are affected by minimum wage legislation? Slightly more than half a million people earned the federal minimum wage in 2017, according to the Bureau of Labor Statistics. That might not sound like a big number, but tens of millions of people earn the state or local minimum wage. And because the minimum wage establishes the lowest wage that an employer can pay, it has an impact on every salary up the ladder. Let's say you've worked in a business for five years and you're making \$11 an hour. If the minimum wage goes up to \$11 an hour, your employer will likely offer you a higher hourly wage to reward you for your seniority at the firm and convince you to stay. It's safe to say that all

firms, workers, and consumers across the United States are affected in some way by the debate over minimum wage legislation.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of livelihood. In chapter 10, you learned the tools needed to analyze competing ideas about how to solve the problem of poverty. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.



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Voices on Livelihood

Radicals, conservatives, and liberals all agree that poverty causes suffering and deprivation, and they all share the same goal of ending poverty. But they strongly disagree about how to do it. Should we develop more worker-owned businesses to eliminate poverty? Should we let free-market capitalism move people out of poverty through an unfettered labor market? Should the government strengthen minimum wage laws to lift the standard of living for workers? The policy we currently follow is minimum wage legislation in capitalism, which

is why we described it in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on a "mask" and debate this policy from each of the perspectives. Please remember that we are not taking a personal position on any of these issues. We're channeling the voices of the perspectives so you can hear what the debates sound like and then make up your own mind about what you believe. We change the order of who goes first each time. For this issue, the radical voice will start.



Radical

Voice on Livelihood



Livelihood

Every day that I stood in front of my sixth-grade class, I saw the fallout of poverty. It was wrong that my students couldn't concentrate on their work because their stomachs were growling. It was wrong that they didn't hand in their assignments because the electricity had been turned off at home and it was too dark to read. Their parents worked hard at jobs that society needed done—cleaning houses, digging ditches, serving as cashiers, doing yard work, and

bussing tables—yet they still didn't earn enough money to put food on the table or stay ahead of their bills. Every day in our country, families struggle without the most basic necessities—no indoor plumbing, no proper nutrition, no adequate place to live. In capitalism, wages for low-skilled labor are so low that even working at two or three different jobs doesn't afford a decent livelihood. The parents of my students wanted a better life for themselves and their children, but the system of capitalism keeps people stuck at the bottom. Workers aren't paid their fair share of the value they create, be it in a privately owned company, a hierarchical nonprofit organization, or a top-down government agency. At the end of the school year, I was haunted by the awareness that my students were likely to end up as trapped in poverty as their parents. There might be a few exceptions who would manage to finish school. They would get their degrees and find better-paying jobs. But then they would face decades of student loan

payments in addition to the emptiness of knowing that their “success” meant they would have to exploit others or benefit in some way from that exploitation. Those are the only choices anyone gets in capitalism: exploit or be exploited.

Let's use the Six-Core Cube of democratic socialism to drill down through the core point of *cooperative ownership*. Across industries and in every community, worker-owners are able to earn a decent living because they enjoy the fruits of their own labor and no one exploits them. Imagine a group of workers getting together and realizing that one has a truck, another has a carpet-cleaning machine, another is an expert at floor waxing, and another has bookkeeping experience. They decide to pool their skills and resources and invest together to launch a cleaning business, which they will own cooperatively. It takes hard work and long hours to start a company, but they share the labor, expenses, and profits. When the business expands, new people buy

in and become co-owners. When life circumstances change, a co-owner may choose to sell their share of the company back to the other co-owners. With cooperative ownership, there is no private owner stealing the surplus value of the workers' labor, which means that at the end of the month, after the firm's bills are paid, there is more profit to share among the worker-owners. If the firm flounders, they work together to improve their services and business practices because each has a personal stake and investment in the success of the enterprise. With cooperative ownership, workers earn decent livelihoods, so they can create a better quality of life for themselves, their families, and their communities.

Cooperative owners work together to improve their services and business practices because each has a personal stake and investment in the success of the enterprise. They earn decent livelihoods, which means they are able to create a better quality of life for themselves, their families, and their communities.

In college I was hired to deliver pizzas. I used my own car (a chartreuse 1975 VW Bug, by the way), and money for gas and maintenance came out of my own pocket. The job paid below minimum wage because it was expected that I would earn tips. That first night, I discovered the local college kids liked to order the \$9.99 pizza, hand me a \$10 bill, and tell me to "keep the change." And then, when my shift ended at two in the morning, the owner said, "Now mop the floors." Any job can be satisfying, but not when the worker is exploited and disrespected. That's why we need cooperative ownership.

Later in life, when I became a full-time teacher and mother, I chose to hire a local worker-owned landscaping company for my home instead of a company that used wage laborers. The worker-owners were highly motivated to make their company succeed, so they did an excellent job. And I felt good knowing my landscapers were not only doing their best work for me, they were also getting more than just a paycheck. They each had an equal say in pay, benefits, and the division of labor, and also in how their firm was run. When they made decisions about what to plant and what chemicals to use, they considered the impact on the community because they and their families lived there, too. The company incorporated the latest technology, but new innovations didn't put workers' jobs at risk. Instead, everyone benefited from the upgrades. We end poverty with cooper-



Figure 11.2
Radical View: Livelihood



ative ownership in democratic socialism because people prosper directly from their own hard work. When workers own the means of production and use democratic processes to make decisions, it ensures that everyone can earn a decent livelihood.

No one wakes up in the morning and thinks, “Today, I’d like to toil at back-breaking, mind-numbing jobs for very little money. I’d like to work long shifts and never get to see my kids, and I’d really like to worry about putting food on the table, clothes on our backs, and a roof over our heads while I take on a second and third job—even though I still won’t be able to get ahead of the bills.” But that’s what happens every day in capitalism for masses of people. I remember in kindergarten one of the first lessons I learned from Mrs. Hutchinson was that stealing is wrong. Isn’t that what we all learned? Yet every day in capitalism private owners steal from their workers, and this theft is completely legal. It’s not even a secret. But we all just accept it as a fact of life. We’ll never solve the problem of poverty in capitalism because it’s an economic system built on exploitation and the relentless drive for profits.

Conservatives, you say we should get rid of the minimum wage and let the labor market magically self-adjust to bring the right wage for low-skilled workers. You keep trying to sell us on a stale fantasy of free-market capitalism as the cure for poverty. But the reality is that free-market capitalism leads to a nightmare of suffering. Just look at our history! The relationship between owners and wage laborers has always been bloody and violent. Why? Because owners need to exploit workers in order to survive, and workers need the theft to stop in order to rise out of poverty. They need justice. You love to point the finger at imaginary “freeloaders” in democratic socialism, but capitalism is a system of freeloaders who live off the sweat of hardworking people. The drive for profit forces owners to exploit them. They buy new machines and productivity goes up, but guess what? Workers’ wages don’t. Then they lay off workers and thereby create a reserve army of the unemployed. Now workers have to scramble to compete with one another for the few jobs that remain, which alienates them from one another and further drives down wages. That’s how owners continually increase the rate of exploitation,

whether they want to or not. And let's be clear: your free-market capitalism counts on it. In any direction you move, leaving it alone creates ever-higher levels of poverty.

Liberals, your minimum wage "fix" only lessens the amount of the theft—it doesn't eliminate it. Let's say you raise the minimum wage from \$5 to \$10 per hour. When workers create \$15 of value each hour, instead of \$10 being stolen, \$5 gets picked from their pockets every hour. How is this fixing anything? I'm certain that my kindergarten teacher didn't say that stealing a lot is bad, although stealing a little is okay. Stealing anything is wrong! Your minimum wage legislation is just a slightly more palatable way to package the theft. And it keeps us from making the real changes necessary to eliminate poverty because it keeps workers' bellies filled just enough so that they'll go back to work the next day, but without demanding their fair share. At the same time, firms constantly make an end-run around your minimum wage. They just pick up and move or outsource the jobs to lower-wage countries or countries with no minimum wage so they can exploit foreign workers. In the end, the minimum wage might actually make poverty worse than the conservatives' idea of leaving it alone. The policy gives us more unemployment and more poverty worldwide. No matter how you

slice it, you can't solve the issue of livelihood with fair-market capitalism because that whole term is a contradiction: there's no such thing as fairness when there is workplace exploitation.

We should replace the current policy of minimum wage legislation in capitalism with worker-owned business incubators in democratic socialism to end poverty. They give technical and financial support to start-ups and to existing cooperatively owned firms, including loans, mentoring, grants, research on best practices, and so forth. Worker-owned business incubators, funded with tax dollars, help entrepreneurs bring their new innovations to market, investing in the good ideas that benefit society. Supporting new business is an investment that gives back, because a portion of the surplus generated by firms funds everyone's health care, higher education, transportation, and other needs. Sharing responsibility for these high-cost goods and services establishes the foundation of well-being across the nation, ensuring that people will not be impoverished. When we have cooperative ownership in democratic socialism, firms make decisions that are good for the many and not just for the few. That's how we get food on the table, a roof over our heads, and clothes on our backs so we all have the chance to live happy and meaningful lives.

Radical

Democratic Socialism



Livelihood

BIG PICTURE

When workers own the means of production and use democratic processes to make decisions, it ensures that everyone can earn a decent livelihood.

POLICY POSITION

Poverty causes suffering and deprivation, but . . .

- ▶ Conservative policies lead to more poverty because survival in capitalism depends on increasing rates of workplace exploitation and a reserve army of the unemployed.
- ▶ Liberal policies may lessen the theft—barely—but don't fix the underlying problem, and they leave workers with the false belief that this is as good as it gets.

SOLUTION

Replace minimum wage legislation in capitalism with worker-owned business incubators in democratic socialism to end poverty:

- Support new enterprises to build the economy.
- Generate wealth to alleviate everyone's financial burdens.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Livelihood Talking Points: Radical

1. Across industries and in every community, cooperative ownership enables people to earn a decent living. We are the ones who benefit from the fruits of our own labor because we own it together. At the end of the month, after the firm's bills are paid, there is more profit to share fairly among worker-owners. That means we can all earn a decent livelihood, create a better quality of life for ourselves and our families, and give back to our communities.
2. With cooperative ownership, we get more than a paycheck. We get a real say in what goes on at work, from how much we earn to what benefits we get. We decide together how the firm is run and the ways we want our companies to impact our community and the planet. We don't have to worry that when we improve our business with the latest artificial intelligence it will put people's jobs at risk. Our goal is to make life better for ourselves and for our whole society.
3. Conservatives, once again you try to sell us your free-market fantasy of the labor market, but every day in capitalism, private owners steal from their workers. And those low-skilled workers have no choice but to put up with this theft and spend their lives laboring for low pay and no benefits. And you do whatever is necessary to increase the rate of exploitation. You love to point the finger at imaginary "freeloaders" in democratic socialism, but capitalism is a system of freeloaders who live off the sweat of hardworking people.
4. Owners exploit workers because it brings them profit, and when we leave it alone, as conservatives want to do, then those owners have no constraints. When they buy new machines and productivity goes up, workers' wages don't. Then, because of those new machines, owners lay off workers and create a reserve army of the unemployed. While workers scramble to compete for the few jobs that remain, wages are driven down even more. Every way you look at it, the workers are the losers in free-market capitalism.
5. Liberals, you want to be the good guys who fight for a better livelihood for workers by pushing for a higher minimum wage. But the problem isn't how much the hourly wage is; the problem is that the whole system of capitalism is based on private owners exploiting workers. A higher minimum wage won't solve that. Minimum wage may limit the amount owners can steal, but the stealing continues. All you're doing is trying to give us a slightly more palatable way to package the theft.
6. The minimum wage creates a dangerous illusion that all it takes to solve poverty is a few more dollars in workers' paychecks. This keeps us from making the real changes that would eliminate poverty. It keeps workers' bellies filled just enough so that they will go back to work the next day. And in our global economy, firms do an end-run around the minimum wage and move jobs to countries where labor is cheaper. Fair-market capitalism is a contradiction. There's no fairness with workplace exploitation.
7. Worker-owned business incubators make it possible for more worker-owned firms to launch, and they help firms succeed by giving them technical and financial support—loans, mentoring, grants, research on best practices, and so forth. Through cooperative ownership, people enjoy the fruits of their own labor and prosper. Our tax dollars fund the incubators because our whole society benefits when entrepreneurs bring their new innovations to market and when businesses thrive.
8. By supporting more people in forming successful cooperatively owned enterprises, we raise everyone's standard of living because a portion of the surplus that's generated by every firm pays for everyone's well-being—health care, higher education, transportation, and so forth. Sharing responsibility for these high-cost goods and services establishes the foundation of well-being across the nation: opportunities to prosper and freedom from worry about meeting our material needs.

Conservative

Voice on Livelihood



Livelihood

When I taught sixth grade, it was sad and frustrating to see how the parents and grandparents of my low-income students had gotten stuck in poverty. They depended on government handouts to get by—food stamps, housing vouchers, Medicaid, and more. Those who worked had low-skilled jobs that paid wages the government artificially inflated above what they should have been. All this government interference created a perfect storm of disincentives for people to get a marketable skill and education that would actually lift them and their families

out of poverty. It's only when people have the right motivations to act that they become the scientists, doctors, teachers, and plumbers our nation needs. I knew with a sinking heart that many of my students would end up stuck in the same trap of poverty. And it's completely unnecessary because there are plenty of ways to get ahead in this country. They could have learned a trade and eventually started a business. They could have earned a degree, found a skilled job, and worked their way up the ladder to success. This country is brimming with opportunities, but people need the right incentives to make the effort.

Let's consider the low-skilled labor market in figure 11.3. When we leave it alone, if the equilibrium wage is too low relative to the cost of living for a decent livelihood, it will self-adjust and the problem of poverty is solved. How does this happen? In a nation that doesn't have a minimum wage to distort price signals, the low wage for low-

skilled labor signals to people, "If you stay in this low-skilled labor market, you're not going to be able to afford your life." Those who are able will get out of this market by finishing their education or getting job training or applying for a better job so they can get the livelihood they need. Of course they will—because they are motivated to have the things they need in life, and no one is giving them handouts. In figure 11.3 you can see that as they leave the market, the supply of low-skilled labor shifts to the left and the wage naturally rises. Those remaining in the low-skilled labor market are the people who are actually appropriate for those jobs—those who can *only* do low-skilled work, for mental, physical, and emotional reasons. They will now get paid a decent wage. Those who are perfectly capable of doing higher-skilled work start to climb the ladder to more prosperity. People at every level benefit when we leave the labor market alone to self-adjust.

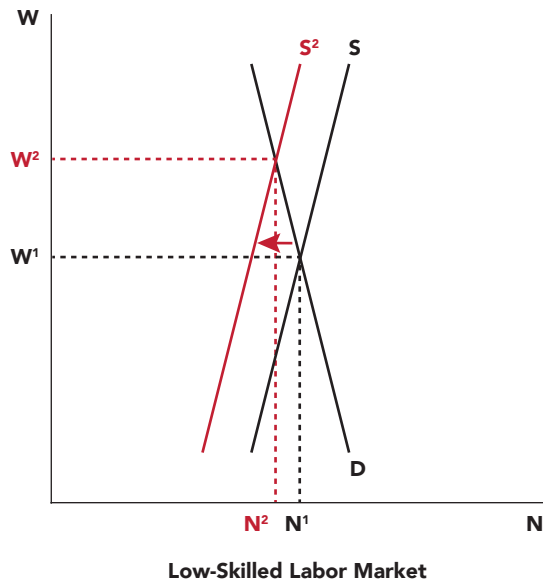
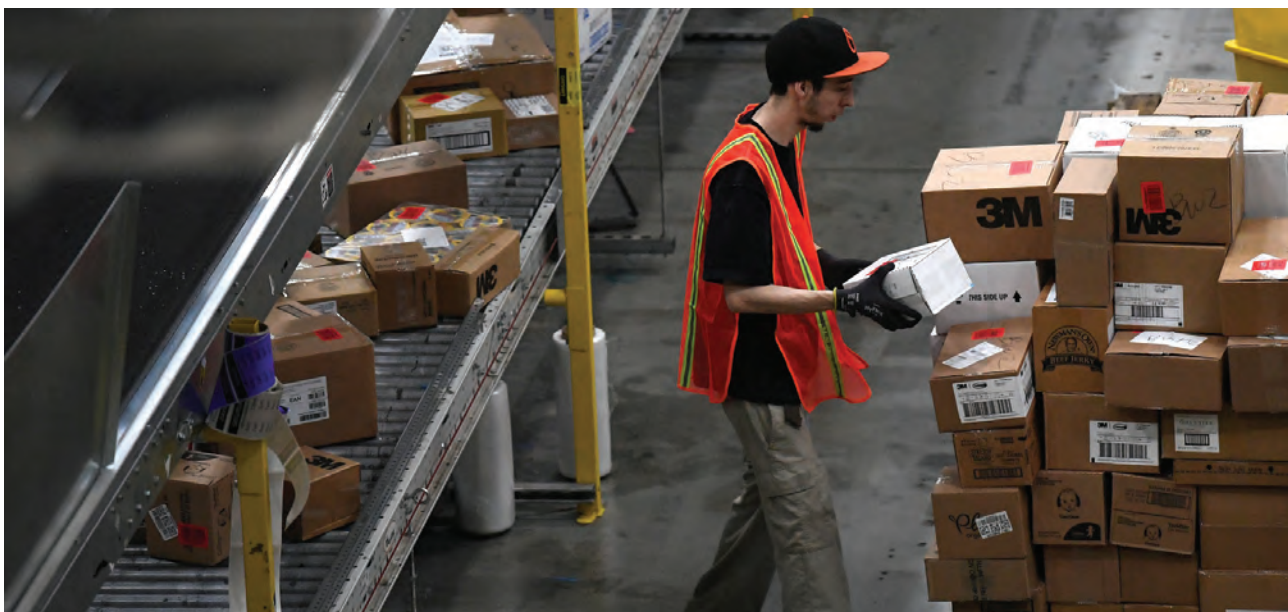


Figure 11.3
Conservative View: Livelihood

My brother-in-law is a perfect example of how price signals motivate people to make the choices that bring them the kind of life they want. He's a very bright guy, but he flunked out of every school he went to until one summer he worked as a roofer in Phoenix, Arizona, in brutal 116-degree heat. It dawned on him that this sort of grueling manual labor was going to be the only option

open to him if he didn't finish his degree. So he went back to the classroom, applied himself to his studies, and eventually became a doctor. Today, he owns a private plane and a ski condo, and he saves people's lives. That's a success story we want to repeat across our nation. Not everyone has the ability to become a doctor, but everyone can contribute to society and in the process create a good life for themselves. When I was training to be a teacher, I worked in a school for young people who had severe disabilities. It was so wonderful to see them eagerly learning how to do all kinds of important jobs—sorting the mail, working a cash register, bussing a table, and other work that we consider “low-skilled.” Becoming employable meant a chance at more independence. We do a great service to people who have no other choices beyond low-skilled jobs—including people just starting their work lives—when we get rid of the incentive to stay for those who don't belong in that market. Then the people who actually belong there can finally get paid a livable wage. Through free-market capitalism and the profit motive, people follow price signals and have incentives to make choices that allow them to prosper.

When you see a bird that you think looks hungry, you feel sorry for it, so you feed it. It



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seems like you're doing the compassionate thing. But then what happens? The bird becomes dependent on your bird feeder and stops using its own innate abilities to find worms and seeds to feed itself. It becomes impoverished. You meant well, but you taught the bird to be helpless, and now you have significantly reduced its chances of survival. It's the same in parenting. You love your children and want to give them everything you didn't have, but so often you forget to give them what you *did* have, which was the motivation to work hard and overcome

obstacles to achieve what you want in life. This is exactly what happens with low-skilled workers who rely on government handouts and policies that supposedly protect them. Instead of helping them, government interference ends up demotivating them to take responsibility for their own lives. What might have started with good intentions ends up leaving people stranded in poverty.

You liberals might have your hearts in the right place, but here's the problem that so often shows up with your policies: you say that you want to solve poverty, but you actually make it worse. Minimum wage is a disaster. You require firms to pay a wage that's above equilibrium, and what happens? Employers hire fewer workers and unemployment goes up. Right off the bat, your policy creates more poverty—not less. And those workers who get laid off won't be saying, "Hey, that's okay. The surplus of workers created by the liberal minimum wage wasn't that much, so no problem." And

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let's not ignore the fact that when firms are forced to pay a minimum wage, they may not be able to stay in business, which means more job losses. If they do manage to stay afloat, they have to pay more for labor, which means they have to charge more for products, and that drives up prices. So all those now-unemployed people have no income and are slapped with higher prices for everything they need to survive. Good job, liberals. Let's hit them when they're down.

Do you remember the last time you had to do a group project at work or at school? Argh! There's

always someone in the group who coasts along doing nothing and still gets rewarded with the good grade, the bonus, or the promotion. Those free riders let everyone else put in the time and hard work while they sit with their hands out, ready to reap the benefits. Radicals, your idea of cooperative ownership is basically a group project on steroids. You poison the whole work ethic because the people who would have worked hard don't want to be suckers, so they stop working too, and then nothing gets produced. On top of that, in democratic socialism you give people free health care, free transportation, free this, and free that. Sounds nice until you realize that now no one is motivated to do anything. Why should they be, when everything is handed to them? Obviously, this plan isn't going to be sustainable—not when no one is producing, and people are lined up to collect their freebies. We end up with impoverishment of the masses. Work-

er-owned business incubators spread this harmful idea like an uncovered sneeze during flu season. They give money away to cooperatively owned businesses. But whose money are the incubators and the businesses using? Their own? Not a chance! They're gambling with our tax dollars. It's not their money at risk, so worker-owners aren't dedicated to the success of their firms. And when they fail—because no one is motivated to succeed, workplaces are run by mob rule, and there are no experts at the helm—the incubators just reach into the community pocket and grab more cash to risk on another dead-end idea.

We should reject the current policy of minimum wage legislation and replace it with free-market wages to end poverty. The free market is our only viable solution for people to prosper because when wages aren't set by a government bureaucrat, they're determined by the reality of supply and demand. That's great news. It means that everyone who wants a job gets a job at whatever

wage naturally emerges. And everyone works at the jobs for which they're best suited. When we pursue our self-interest in a system of private ownership and unregulated markets, we get the best outcomes. People are motivated to move up from the low-skilled labor market and use their talents and skills to bring the world inventions and innovations that make everyone better off. They create entertainment that moves and engages us, beautiful buildings where we can live and work, and everything else we want. Those who stay in the low-skilled labor market can finally earn a decent wage, while others use it as the first step on the ladder to better opportunities. Leaving the low-skilled labor market alone, people are guided to make decisions that not only improve their own well-being but also enrich the well-being of our whole society. That's how we get food on the table, a roof over our heads, and clothes on our backs so we all have the chance to live happy and meaningful lives.

Conservative

Free-Market Capitalism



Livelihood

BIG PICTURE

Through free-market capitalism and the profit motive, people follow price signals and have incentives to make choices that allow them to prosper.

POLICY POSITION

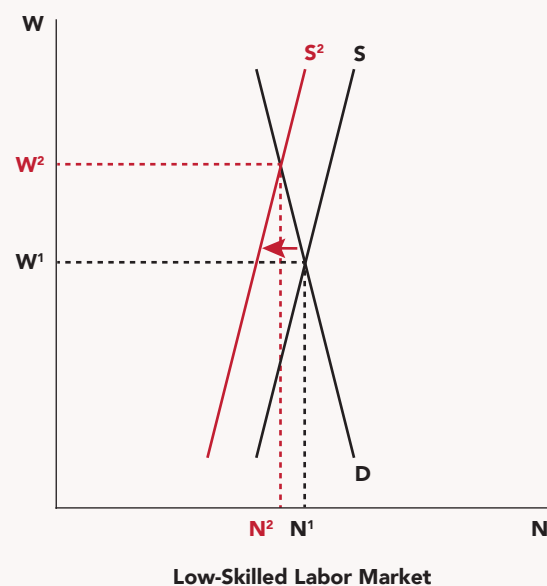
Poverty causes suffering and deprivation, but . . .

- ▶ Liberal policies make poverty worse by creating higher unemployment, driving up prices, and forcing firms to go under.
- ▶ Radical policies sap motivation to work hard, which means nothing gets produced, and waste tax dollars on enterprises that are doomed to fail.

SOLUTION

Reject minimum wage legislation and replace it with free-market wages to end poverty:

- People are motivated to move up the ladder.
- Livable wages arise naturally.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Livelihood Talking Points: **Conservative**

1. Poverty solves itself when markets are free from government meddling. When the price signal for low-skilled work is free from interference, those who can do higher-skilled work are motivated to make choices that put them in a position to earn a better livelihood. They finish their education, learn marketable skills, work hard, and apply for better-paying jobs. They work their way up the ladder to prosperity.
2. We'll always need low-skilled workers, and there are people whose skill levels are appropriate for low-skilled jobs. When the price for wages is left alone, the people who weren't appropriate for those jobs leave the market. This is good because they shouldn't have been in that market in the first place. We should let wages adjust naturally to where they should have been all along. Then people who belong in the low-skilled job market can finally earn a decent livelihood.
3. When you see a bird that looks hungry, you feel sorry for it, and you feed it. It seems like you're doing the compassionate thing. But then what happens? The bird becomes dependent on your bird feeder and stops using its own innate abilities to find worms and seeds to feed itself. It becomes impoverished. Liberals, this is exactly what you do when you make low-skilled workers dependent on handouts and policies that supposedly protect them. You demotivate them and in the process leave them stranded in poverty.
4. The minimum wage jacks up employers' costs so firms have to lay off workers or go out of business. Either way, we get more unemployment. Ouch. And now those firms have to raise the prices of their products because they're paying higher wages. Cost of living goes up. Double ouch. So the great idea liberals have to solve poverty leaves people unemployed and paying more for everything. This is what they always do—attempt to solve a problem with government meddling and end up making things worse.
5. We all want to create wealth, but trading private ownership and wage labor for cooperative ownership means that some people coast along and grab a free ride on the backs of diligent, hardworking people. And those hard workers don't want to be suckers, so they eventually stop working hard because why should they break a sweat if no one else is? Radicals, you poison the whole work ethic because in democratic socialism no one is motivated and nothing gets done.
6. Worker-owned business incubators are government-funded committees that use our tax dollars to fund start-ups. Here's the problem with this idea: I won't be dedicated to the success of my cooperatively owned business because it's not my money I'm risking. So when my new enterprise fails because none of us really knows what we're doing, it takes us forever to vote on every decision, and we have no expert at the helm, we'll just go back to the committee and let the community fund our next dead-end idea.
7. Here's why the free market is our only viable solution for people to make a good living. In the low-skilled labor market, the wage isn't set by a government bureaucrat. It's determined by the reality of supply and demand. That's great news because it means everyone who wants a job gets a job at whatever wage naturally emerges. Those who stay in the low-skilled labor market finally can earn a decent wage, while others use it as the first step on the ladder to better opportunities.
8. When we pursue our self-interest in a system of private ownership and unregulated markets, we get the best outcomes. People are motivated to move up from the low-skilled labor market and use their talents and skills to bring the world inventions and innovations that make everyone better off. We get entertainment that moves and engages us, beautiful buildings where we can live and work, and everything else we want. People are guided to make decisions that improve their own well-being and also enrich the whole society.

Liberal

Voice on Livelihood



Livelihood

In the middle school where I taught sixth-grade social studies, I often felt uncomfortable talking about America as the land of opportunity for all. I was acutely aware of the irony of saying this to students whose parents and grandparents had never gotten a toehold on the ladder to success. Most of them still lived in the same run-down neighborhood where they had been born and raised, and I knew that the chance of my students escaping during their lifetimes was statistically low. We all hear about the kids who make it out because they

are geniuses or prodigies. Those exceptional cases are inspiring, but those stories also become a barrier to solving the problem of poverty for everyone because we get used to the idea that only the very talented deserve to rise and for the rest it's going to be a lifetime of economic struggle. Not a single one of my students was recruited by the NBA or given a full ride to Harvard, and while I and the other teachers talked about college as an option for our students, we knew the odds were stacked against them. America should live up to its promise as a land of opportunity, but it's an empty promise when people spend all their waking hours working two or three jobs and still fall below the poverty line. The term *working poor* should be an oxymoron. We need to fix the system and give people a fair shot at rising in the world.

Let's consider the low-skilled labor market in figure 11.4. As we know, a price floor in any market always brings about a surplus, and a surplus of low-skilled workers indicates unemployment. But applying the tool of elasticity reveals *by how much* unemployment goes up. This is extremely important in our conversation about the minimum wage and whether it will end poverty. In the low-skilled labor market, both the supply and demand curves are highly inelastic. When we put a price floor—a minimum wage—on highly inelastic supply and demand curves, we end up with only a small surplus of low-skilled workers. And that minimal job loss caused by the price floor is reversed immediately, as you can see in figure 11.4. Why? Because when poor people get money in their pockets, they spend it right away. Firms respond to the increased demand by expanding

and creating more jobs, which means the demand for low-skilled workers goes up. That's how the minimum wage creates more employment. Poverty is solved and society as a whole flourishes.

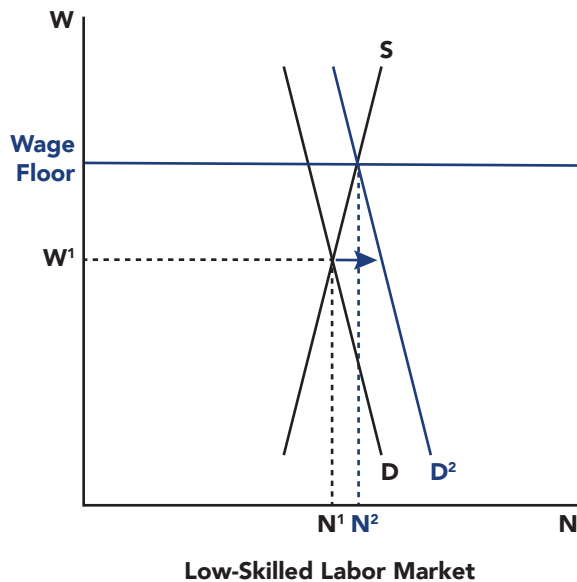


Figure 11.4
Liberal View: Livelihood

I was recently cleaning the windows of my fifth-floor apartment, and while leaning precariously

over the balcony, I couldn't help but think about how window washers are always at risk of falling to their deaths if they don't know what they're doing. My arms were aching as I squeegeed off the last window, and I had a new appreciation for the workers who make it look so effortless. Later I went out to lunch and watched the server pour cups of coffee without spilling a drop and expertly balance heavy trays piled high with plates of waffles and burgers. On the way back to my air-conditioned office, I noticed three groundskeepers using a clever system of ropes looped over branches to guide dead tree limbs safely down without hitting themselves or the cars parked on the street below. We should be thanking the people who do these backbreaking and challenging jobs that we call "low-skilled," but that actually require a lot of skill to do them well. And we should be making sure workers can earn a decent livelihood for their hard work, because it's right and fair. It's not just good for low-income workers—it's good for all workers because wages are laddered. That means when the bottom rung starts higher, all the rungs above it also go up. When workers earn a decent living, they are able to buy the things they need, and with



REUTERS/Lucas Jackson

increased demand, firms hire more workers, so more people thrive.

Radicals, your idea to replace the minimum wage with cooperative ownership not only makes poverty worse for people who are already poor, but it leads to more of us being poor. You want to throw out the very thing that solves poverty, which is fair-market capitalism, and replace it with your dead-end, straitjacket approach to business. Here's a reality check: in the context of democratic socialism, cooperative ownership doesn't generate wealth. The entre-

preneurs who bring us the new ideas that become tomorrow's economic drivers have no motivation to spend years tinkering in the garage or toiling in the lab to perfect a new design, because the rewards of genius, talent, and effort have to be shared with people who didn't work hard or have great ideas. And when workers are forced to buy into the firms where they work, they end up stuck there, suffocated by the lack of opportunities to try new careers. Your worker-owned business incubators make it possible for poor people to cooperatively own firms, but how is it beneficial for the businesses when low-skilled people with no expertise to contribute are handed a voting share of the company? The businesses fail! And to make it worse, the low-skilled worker can't even get an entry-level job, because in democratic socialism firms aren't allowed to hire wage laborers. So how will they ever get the experience they need to succeed? Radicals, you take away opportunities for people to gain the skills that

We should be thanking the people who do these backbreaking and challenging jobs that we call "low-skilled" but that actually require a lot of skill to do them well. And we should be making sure workers can earn a decent livelihood for their hard work, because it's right and fair.

could become a stepping stone to improving their lives. You take away people's best shot at escaping from poverty. Please don't incubate more of this misguided idea.

Conservatives, your do-nothing approach to improving the livelihoods of the poor leaves low-skilled workers vulnerable to being paid an unfairly low wage. You say that if someone doesn't like the wage, then that person can just leave the low-skilled labor market and go back to school and get training to qualify for a higher-paying job.

Stop blaming poverty on people being unmotivated to improve their lives. No one wants to be poor! Have you looked at the price of tuition lately? And day care? And how can they pay their bills while they're in school? It's also naïve to say a person can just move into a better-paying job overnight. Most of the working poor have few options, which is why they get stuck in low-wage jobs in the first place. Your idea to abolish the minimum wage is like abandoning them in the middle of the ocean with no life preservers and telling them it's their fault if they drown because they aren't motivated enough to swim faster. Leaving it alone ultimately hurts all of us. When low-income people don't earn a fair wage and therefore can't afford to buy products, firms have to lay off workers. That unemployment creates even more poverty. Eventually, firms will go out of business. The conservative "fix" leads to unemployment, hurts low-skilled workers, and puts our whole economy at risk.

We should strengthen the current policy of minimum wage legislation to end poverty. It's a lifeline for motivated people who are struggling to earn a decent living and make their lives better. People who work forty hours or more a week at low-skilled jobs should, at the very least, be able to afford the basic necessities of life for themselves and their families. When we make the minimum wage a living wage, this becomes possible. We calculate the amount based on a realistic assessment of what people actually need to earn in order to support themselves and their families. Raising it to a living wage is the right and fair thing to do. We also end the travesty of the "working poor" by expanding the minimum wage so there are no longer any exceptions—it includes commis-

sioned salespeople, tipped workers, farm workers, seasonal and recreational workers, and others. This policy is good for individuals, families, and businesses because all can prosper. We get more money into the pockets of low-income people. This stimulates the economy because they have immediate needs and spend the money right away, creating a boost in demand. As a result, businesses thrive, and they turn around and hire more workers. More people now have opportunities to rise out of poverty. This is how we create the optimal conditions for our whole nation to thrive. With fair-market capitalism, we get food on the table, a roof over our heads, and clothes on our backs so we all have the chance to live happy and meaningful lives.

Liberal

Fair-Market Capitalism



Livelihood

BIG PICTURE

When workers earn a decent living, they are able to buy the things they need, and with increased demand, firms hire more workers, so more people thrive.

POLICY POSITION

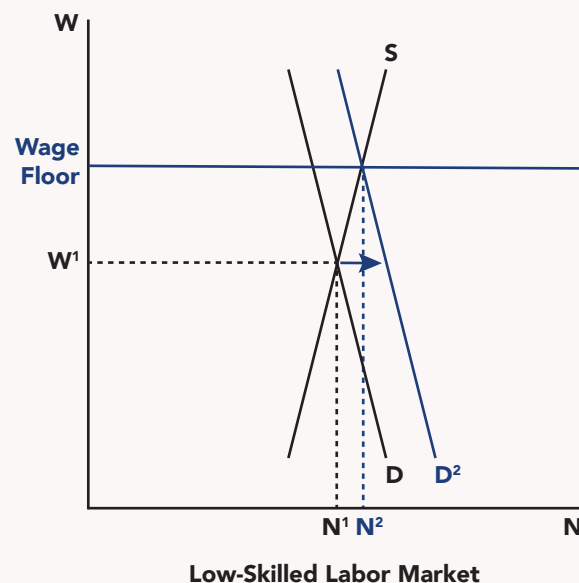
Poverty causes suffering and deprivation, but . . .

- ▶ Radical policies squelch entrepreneurial drive and impoverish the whole society, while firms flounder and workers stagnate.
- ▶ Conservative policies exacerbate poverty because working people stay poor and firms go under when people can't buy their products.

SOLUTION

Strengthen minimum wage legislation to end poverty:

- Raise it to a living wage.
- Boost the whole economy.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Livelihood Talking Points: Liberal

1. Have you ever waited tables at a diner on a Sunday morning? Have you ever mowed lawns and trimmed trees at a resort? Have you ever cleaned motel rooms? Those jobs require hard work, focus, and expertise, but we dismiss them as “low-skilled” and don’t pay those workers a decent wage. Nobody who works full time should be living in poverty. The term *working poor* should be an oxymoron. Low-skilled workers deserve our thanks and should be paid a living wage.
2. Do you want to know how to end poverty? Guarantee all workers a living wage. That will lift millions of people out of poverty. And getting more money to low-income people stimulates the economy because they have so many material needs that they spend the money in their pockets right away. The boost in demand helps business and circles back around to workers when firms expand and start hiring. A living wage means more jobs, and more jobs mean more prosperity for all.
3. Radicals, you want to throw out the very thing that solves poverty, which is fair-market capitalism. Democratic socialism won’t generate wealth, because the entrepreneurs who bring us the new ideas that become tomorrow’s economic drivers have no motivation to spend years tinkering in the garage or toiling in the lab to perfect a new design. With cooperative ownership the rewards of genius, talent, and effort are shared with people who didn’t do all that hard work.
4. The radical policy of worker-owned business incubators has a major flaw. When people with no expertise are handed a voting share of the company, businesses fail. This problem can’t be fixed because in democratic socialism, firms aren’t allowed to hire wage laborers, so workers can’t get experience. Radicals prevent people from gaining the skills that could become the stepping stones to improving their lives and adding value to firms.
5. Conservatives blame the poor for being unmotivated to improve their lives. It’s naïve to think a person can just move into a better-paying job overnight. Have you looked at the price of tuition lately? How will they pay their bills while they’re in school? Most of the working poor have few options, which is why they get stuck in low-wage work. The free-market approach makes the odds worse that they’ll ever be able to work their way up to a decent livelihood.
6. When people are stuck in poverty because they can’t earn a fair wage, the whole economy suffers. Conservatives, you shoot yourselves in the foot by opposing the minimum wage because when people have no money in their pockets, businesses don’t thrive. Firms have to lay off more workers or go belly-up. So then we end up with higher rates of poverty. Once again, your idea to do nothing puts our whole economy at risk.
7. Strengthening minimum wage legislation is the best way to help people rise out of poverty. It’s a lifeline for motivated people who are struggling to earn a decent living and make their lives better. People who work forty hours or more a week at low-skilled jobs should, at the very least, be able afford the basic necessities of life for themselves and their families. By raising the minimum wage to a living wage, this becomes possible. It is the right and fair policy for our country.
8. We end the travesty of the “working poor” by expanding the minimum wage so there are no longer any exceptions—it includes commissioned salespeople, tipped workers, farm workers, and others. This policy is good for individuals, families, and businesses because all can prosper. We get more money into the pockets of low-income people, businesses expand, and people have more opportunities to rise out of poverty. This is how we create the optimal conditions for our whole nation to thrive.

The Shared Outcome

The issue of livelihood has been with us since the beginning of human civilization and will always be our central priority because it speaks to our survival. We will always strive to earn enough to afford what we need to support ourselves and our families. All perspectives agree that it is desir-

able and possible to end poverty. So it's time for you to try on the different perspectives and join the conversation as a respectful listener, passionate advocate, and intelligent debater. In this way, you will find your own voice, and in the process you may even spark some new ideas that will enable people to thrive. ☒



Activity: Skit



This activity is your chance to steal the show! You will write and perform a skit that represents the view of one perspective, including critiques of the other two perspectives. Skits help you find your voice by giving you the opportunity to embody different characters that represent different economic points of view. The usual ground rules apply: please articulate each assigned perspective persuasively in a positive light. Sarcasm, insults, and name-calling are off limits, but please feel free to criticize opposing perspectives with intelligent ideas, satire, and humor.

“All the World’s a Stage”

For this activity, there must be three groups—each representing a different perspective. Depending on how many people are available to participate, the groups can have one person each (to perform a one-person show) or many people (to have a full cast of characters). Here is the set-up:

- 1 Randomly assign each group a perspective to represent. You can write them on slips of paper and take turns pulling them out of a hat. Please remember that you don’t have to agree with the perspective (it’s actually more fun when you don’t).
- 2 Get together with your group members and review the talking points and perspective summaries for your assigned perspective. Then plan your skit. Come up with a story line (for instance, workers complaining at a fast-food restaurant), a title (for instance, “My Sad Burger”), the setting (for instance, Burger’s Burgers), and the list of characters (for example, Narrator, Worker A, Worker B, Manager, Owner, Customer, Health Inspector). By the way, if yours is a one-person show, you may either do a monologue or play multiple characters.
- 3 Write a script. Create a scenario that will make your audience care about the characters. Each member of your group must have at least two lines of dialogue. Try to avoid jargon and instead put the ideas in terms that anyone would understand. The goal is to represent your assigned perspective in a positive light while criticizing both of the other perspectives.
- 4 Do a read-through. Distribute copies of the script to all group members, assign characters, and then say each line aloud to make sure the ideas make sense and the words are comfortable to say. Time your second read-through and make sure your skit is between three and five minutes long. If necessary, add or cut lines.

- 5 Rehearse. Now that everyone knows their roles and feels comfortable saying their lines aloud, it's time to act. You don't have to memorize your lines—you can read from the script—but please speak with emotion and conviction. You don't want to sound like you're reading or you'll put your audience to sleep. Get into character and give impassioned deliveries of your lines. The key to a good skit is to really sell the idea that your assigned perspective is correct and the other two perspectives are absolutely wrong.
- 6 For the performance, plan to have a few props and simple costumes. For example, if you are playing multiple characters, a change of hats can be quite effective to signal to your audience that you changed roles. Or you can draw simple signs to hold up, giving your audience cues when there is a scene change.

Enjoy yourself! This is your chance to move people's hearts and minds to new ways of thinking. Imagine that you want to win the award for best performance and try to give your audience a memorable experience.

Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Livelihood. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 11: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Which one of the following answers describes the term *livelihood*?
 - A. The income under which people qualify for government assistance
 - B. When people with regular jobs remain poor
 - C. The way in which people are able to meet their basic necessities of life
 - D. An inability to meet the basic necessities of life

2. Match the term related to poverty (left column) to its definition (right column).

A. Supplemental Poverty Measure (SPM)	i. Income (broadly defined as cash earnings with benefits added and costs subtracted) compared to costs for food/utilities/shelter/clothing
B. Official Poverty Measure (OPM)	ii. Income (narrowly defined as cash earnings) compared to the cost of food times three
C. Poverty threshold	iii. Income generated from full-time work not sufficient to meet basic needs
D. Working poor	iv. Income level below which government assistance is available

3. Which of the following statements are true? Choose all that apply.
 - A. Labor union representatives bargain with management on workers' behalf over pay, hours, benefits, and working conditions.
 - B. Labor union representatives negotiate on workers' behalf about which workers will be paid the minimum wage and which workers will be exempt.
 - C. Right-to-work laws make it illegal for employers or unions to require union membership or collect union dues without the explicit agreement of each employee.
 - D. Right-to-work laws make it illegal to exempt certain groups from minimum wage legislation, for example, youth, farmworkers, and tipped employees.

4. Let's say you dropped out of high school five years ago and now you want to go to community college. Which government program is intended to help you achieve your goal?
 - A. Head Start
 - B. TRIO
 - C. Minimum wage
 - D. Job Corps

5. According to radical theory, the main problem with a capitalist economy is that owners of capital hire wage laborers to use the owners' machines to make products, but those workers are paid less than the value they contribute. The process by which the capitalists take the surplus value produced by workers is called
- A. pressure for bad.
 - B. capitalist competition.
 - C. exploitation.
 - D. discrimination.
6. According to liberals, which problems will result if we don't have a capitalist economic system that's balanced with minimum wage legislation? Choose all that apply.
- A. Unfair low wages
 - B. Working poor
 - C. Unemployment
 - D. Stagnation
7. A server at a restaurant overhears a liberal, a radical, and a conservative arguing about minimum wage legislation. As she hands them the check, they ask her what she thinks. "Well, if the minimum wage went up, maybe I could pay my bills," she says. Which of the following statements reflects the conservative's response to the server?
- A. "You've got it right. A raise in the minimum wage leads to a livable wage. The benefits to workers outweigh the loss to the corporations."
 - B. "You've got it completely wrong. If the minimum wage goes up, firms will lay off workers and raise prices, which means you might lose your job and be forced to pay more for the things you need."
 - C. "You've got it completely wrong. Raising the minimum wage won't fix poverty, because capitalism is the cause. To create real change, we need worker-owned cooperatives."
 - D. "You've got it right. When the minimum wage goes up, more people will have money to spend, so firms will expand and start to hire. More people will have money in their wallets and good jobs."

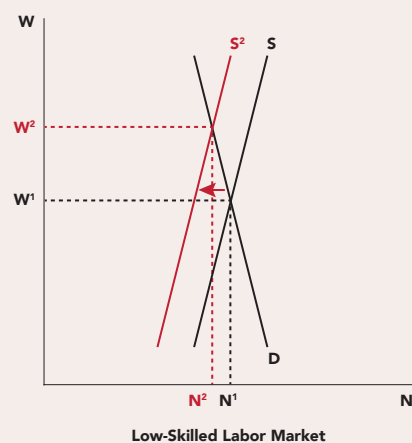
8. Choose the correct radical interpretation of this Six-Core Cube.

- A. In democratic socialism, government cooperatively owns all of the businesses, hires all of the workers, and pays everyone a living wage, resulting in decent livelihoods for all.
- B. In democratic socialism, workers own businesses cooperatively while necessities are funded and provided by the society as a whole, resulting in decent livelihoods for all.
- C. In democratic socialism, a minimum wage is guaranteed to all employees based on the independent decisions of elected officials, resulting in decent livelihoods for all.
- D. In democratic socialism, people make individual choices of what to supply and what to demand, resulting in decent livelihoods for the maximum number of people.



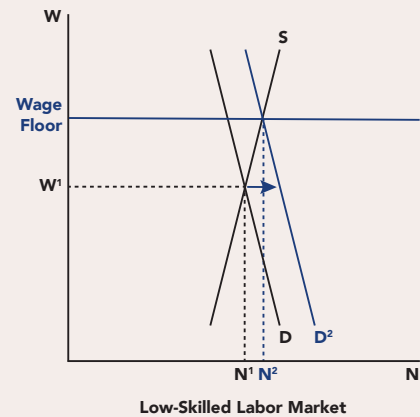
9. Choose the correct conservative interpretation of this graph of the low-skilled labor market.

- A. The low-skilled labor market will naturally adjust to a higher wage when those who were previously flooding the market are given the appropriate motivation to seek higher-skilled work.
- B. The low-skilled labor market will appropriately self-correct to a higher wage when people with skills no longer have incentives to participate due to the high taxes necessary to pay for government programs, and they return to the low-skilled labor market.
- C. The government is an impediment to higher wages. Instead, right-to-work laws create a wage floor, the supply curve shifts to the left, and higher wages result.
- D. Both A and C are correct.



10. Choose the correct liberal interpretation of this graph of the low-skilled labor market.

- A.** The minimum wage decreases employment in the low-skilled labor market and lowers the salaries of all employees because wages are laddered.
- B.** A higher minimum wage will not only raise pay for low-skilled workers, but those higher wages will also incentivize firms to produce, expand, and hire more workers, resulting in higher wages and more employment.
- C.** For a higher minimum wage, it isn't necessary to set a wage floor. Instead, regulations can be imposed on all firms equally, thereby shifting the demand curve of low-skilled labor to the right and bringing about a higher wage.
- D.** A combination of A and B is correct.



Answers

1. C **2.** A – i, B – ii, C – iv, D – iii **3.** A & C **4.** B **5.** C **6.** A, B, C, & D **7.** B **8.** B **9.** A **10.** B

Chapter 11: Key Terms

Agency shop

Closed shop

Collective bargaining

Government anti-poverty programs

- AmeriCorps VISTA
- Head Start for School Readiness
- Federal TRIO Programs

▪ Job Corps

Labor unions

Livelihood

Official Poverty Measure (OPM)

Open shop

Poverty

Poverty threshold

Red Scare

Right to Work movement

Scabs

Strike

Strikebreakers

Supplemental Poverty Measure (SPM)

Union shop

Working poor



12 Issue: HOUSING

When I was a child, I loved the game Monopoly. I had four friends in the neighborhood, and we used to race home after school to play. I still remember lying on a scratchy carpet and carefully counting out \$1,500 in pastel-colored bills for each player. It felt like a fortune. We took turns choosing our metal tokens—shoe, iron, dog, car, thimble. It was a good omen when I rolled the highest number and got to go first. I loved the strategy and the camaraderie of our Monopoly games. There was wheeling and dealing, and there were tough decisions to be made. Should I buy the railroad, which delivered a steady return on investment, or save my money just in case I landed on Park Place? Should I build houses or save my cash to buy more properties? I learned what a utility was from playing Monopoly. It was always very satisfying to pass Go and collect \$200. But when I landed on someone else's property, the owner would stick out a hand and demand

the rent: "Pay up!" Paper money would be flung across the board.

Monopoly sometimes caused bitter fights. We would accuse one another of cheating or of gang-ing up and making side deals. Sometimes, we would get so upset that we would stop talking to one another for a few days. But then we'd be huddled around the Monopoly board again the next week, playing to win. And I loved to win! We all did. I still remember feeling confident and clever. Losing was a different story. When things started to go downhill and I had to mortgage my properties and sell back my houses to the bank for half the money I'd paid for them, I would feel utterly defeated.



We think of Monopoly as child's play, but it actually teaches us lessons for life. It taught me how to think about investing, taking risks, and planning ahead. It taught me that success depends on a combination of factors, including luck, hard work, and talent. I still hear

echoes of those childhood arguments we had over Monopoly games in the angry debates in society today. People accuse one another of taking advantage by charging too much rent, or of cheating, or of colluding and making side deals. There are arguments over whether some people are unfairly jailed while other people have a “Get Out Jail Free” card.

Monopoly has been played by a billion people around the world. It’s been played underwater, in a moving elevator, in world tournaments, and it’s even been played in space. The game has been translated into forty-seven languages and sold in 114 countries. The history of Monopoly is fascinating. It is a game about capitalism—privately buying and selling land and developing it to make a profit. But originally the game from which Monopoly was derived was meant to criticize the idea that land should be privately owned. The version of the game that we play today was developed by an out-of-work home heater salesman named Charles Darrow. He’d lost his job during the Great Depression, so he sat in his house in Philadelphia and redesigned a game that had already been around for thirty years. The original concept was the brainchild of journalist and actress Lizzie Magie at the turn of the twentieth century. She had been influenced by an economist named Henry George, and she designed her game to demonstrate George’s idea that private ownership of land worked well for some owners but worked terribly for tenants. Magie called it *The Landlord’s Game*, and patented it in 1904. There were two sets of rules. The anti-monopolist rules led to all players benefiting when wealth was created. The monopolist rules only rewarded those who created monopolies and drove opponents into bankruptcy. While the game was intended to point out problems that arise from private ownership of land, by the time Charles Darrow sold Monopoly to Parker Brothers in 1935, it had become a celebration of capitalism and a training ground for how to profit from the private ownership of land.

For many of us, Monopoly was our first introduction to the complex world of housing. We learned to buy and sell real estate, pay rent, secure mortgages, deal with banks, budget our limited dollars, and handle unexpected personal financial crises. But as I’m sure you are aware, in the real world, the issue of housing is not a game. It’s vital to our survival. Conservatives, radicals, and liberals all agree that unaffordable housing leads to homelessness. They share the same goal of creating affordable housing for all. But they disagree about how to do it.

Understanding the Issue of Housing

“The ache for home lives in all of us,” wrote poet Maya Angelou, “the safe place where we can go as we are and not be questioned.” Another poet, Robert Frost, wrote, “Home is the place where, when you have to go there, they have to take you in.” Sentimental ideas about home abound. I’m sure you’ve heard “Home is where the heart is” and “Home, sweet home” and Dorothy’s famous line in *The Wizard of Oz*, “There’s no place like home.” The emotional experience of home is central to our psychological and spiritual well-being. But that’s *not* what we’re going to be talking about in this chapter. Our conversation focuses on the availability and affordability of the actual physical spaces where people live. Housing is fundamental to our existence. We all need a place that shelters us from storms, extreme temperatures, wild animals, and other threats to our continued existence. We all need a space in which to conduct our personal lives—make food, sleep, bathe, raise children, and close the door on the world to enjoy a measure of privacy.

Let’s do a little exercise. Check out an apartment rental site online and look up what it costs to rent a one-bedroom apartment in your area. What is the absolute cheapest rent you can find? Now do a little digging and find out what the



minimum wage is in your area. Write these figures down. We'll come back to this later.

What Is Housing?

Housing simply refers to places where people live—our residences. We humans have come up with a marvelous variety, including single-family homes, cabins, mansions, nursing homes, mobile homes, palaces, low-end apartments, RVs, group homes, cooperative housing, manufactured homes, castles, condominiums, yurts, luxury apartments, trailers, lofts, boxcar homes, assisted-living facilities, and more. In the course of your lifetime, it's very likely that you'll end up living in a variety of homes. The options you'll have will depend on whether you find yourself in an urban, suburban, or rural area and on your finances. It's helpful to understand the alternatives so you can make the right choice for your situation.

Apartments are residential units. They might be in a high-rise building or in a house subdivided into several units. Some apartment buildings are investment properties owned by individuals or by for-profit corporations and rented out to tenants. A **tenant** is the person who leases (rents)

a property from a **landlord** (owner). **Rent** is the term for the regular payment a tenant makes to an owner for use of the property. Can you guess what the highest rent in New York City was in 2014? CNN reported that one tenant paid \$500,000 to rent a six-bedroom suite for a month. It took up the entire 39th floor of the Pierre Hotel.

If tenants fail to pay the rent on time or violate the rental contract in other ways, landlords may **evict** them, which is a legal process to force a renter to vacate the property. In some cases, owners hire **property managers** to maintain the property and manage the tenants, including negotiating leases, collecting rents, and responding to requests for repairs and other matters. When people occupy an empty or abandoned property without paying rent to the owner, they are called **squatters**.

While apartments are intended to be rented out, other privately owned housing may either be owner-occupied or rented out by the owner. For example, **condominiums** (also known as condos) are residential units in a building or complex of buildings that are privately owned by individuals who also own a percentage of the shared



spaces—hallways, lobby, the land on which it's built, and so forth. Condos generally have **condominium owners associations (COAs)**, which are elected bodies made up of owners. COAs establish and enforce rules and requirements for renters and owners. They make decisions about things like parking, noise, pets, weeds, garbage, paint colors, and more. A **condo board**, which is an elected body made up of owners who are required to be members of the COA, reviews complaints, makes policy, and oversees the property management company. If you buy a condo, you'll pay a monthly fee to the COA to maintain the common areas such as the landscaping, hallways, roof, elevators, and so forth.

Of all the types of housing there are, you're probably most familiar with privately owned single-family homes. The land and the structure are owned by individuals. The structures are detached and vary in size and shape, from McMansions to mobile homes. When I was growing up, one of my best friends had a mobile home in Vermont, which was fantastic for me during ski season. Whenever I stayed there, I marveled at how clever it was that someone had invented a home that a person could

put down in a convenient place and then take with them if they wanted to move. The average size of a new single-family home in the United States is around 2,500 square feet, but in the early 2000s, tiny houses became more popular. These range from 100 to 400 square feet. Some of them are built on trailers or made from repurposed boxcars and shipping containers. One of the more unconventional types of single-family homes are Earthships, which are structures made from recycled materials such as glass bottles and used tires. Whatever typical or unusual form they come in, single-family homes that are part of planned developments often have **homeowners associations (HOAs)**. To purchase a home in one of those developments, owners must join the HOA and pay regular dues. Governing boards are usually made up of homeowners, who create and enforce the rules for the neighborhood. These might focus on issues like parking regulations, paint colors, landscaping, and trash collection.

Like privately owned housing, cooperative housing, also known as resident-owned communities (ROCs), come in a variety of types. But no matter what type it is, all ROCs have in com-

mon that the structure and land are co-owned or co-leased by the residents, who make management decisions collaboratively. In resident-owned mobile home communities, for example, the residents co-own the land. An elected board made up of resident-owners decides how much co-owners will pay into a common fund every month to cover property taxes, maintenance, and other fees. They also decide the priorities for investment in their community. They might vote to repave the roads, install a basketball court, put in better lighting, and so forth.

Co-op apartments are often confused with condos. These resident-owned communities are entirely owned by a nonprofit corporation established by residents, so when you buy a co-op apartment, you actually purchase shares in the corporation—you own a percentage of the whole apartment building, but don't directly own your individual apartment. Co-ops are governed by a **co-op board** made up of representatives elected from among the shareholders (all of whom are residents). The co-op board sets policies and oversees the management of the property and use of the co-op fees that shareholders pay every month.

My aunt Barbara lives in New York City in a co-op apartment. She's away a lot—sometimes for six months at a time—and I often think it would be great to sublet her place for part of the year. But her co-op board voted not to allow sublets. Board members can change the policy if that's what the residents want. Co-op owners are active participants in the decision-making process about their building. For example, they vote on who can move in as a new resident (legally, they can only consider a potential shareholder's financial status and willingness to follow the co-op's rules). They decide whether units can be rented to non-owners, have a say in what kind of new roof or playground or hallway carpeting should be purchased, and so on.

When I was in college, I lived in a group house instead of living in the dorm. It was fun because there was always someone around to talk to, and we shared cooking and other chores. We had weekly meetings to discuss whose turn it was to clean the bathroom. This kind of experience is fairly typical for many college-age people. Later, I was interested to learn that some people continue to live in group housing. **Co-housing communities** are active in the majority of states and in many countries around



the world. Sometimes they are also called **intentional communities**. A person may own their own separate home, or the land on which it's built, or a percentage of the living space in a shared building. What's the same in each community is that residents generally participate in the design of the community and are intentional about creating opportunities for social interactions among those who live there. They typically share some communal spaces. For example, they might design a central courtyard or a community garden. They might create a kitchen and dining area large enough for the whole community to gather and share meals. They might have community pools, recreation rooms, and so forth. Everyone takes responsibility for maintaining the property together and making decisions together using a democratic process. By the way, this is not the same as a **commune**, which is an intentional community where people share incomes and all the spaces are communally owned.

There are a wide array of financing arrangements for housing. Cooperative housing is sometimes funded by loans from traditional and cooperative banks and credit unions as well as land leases from **community land trusts (CLTs)**. These are nonprofit organizations that buy up land and take it out of the for-profit real estate sector so it can be made available for housing and other uses. If you own a property privately, you probably had to get a **mortgage** to buy it. That's a loan for which you pay interest. The lender (usually a bank) holds a **lien** on the property, which

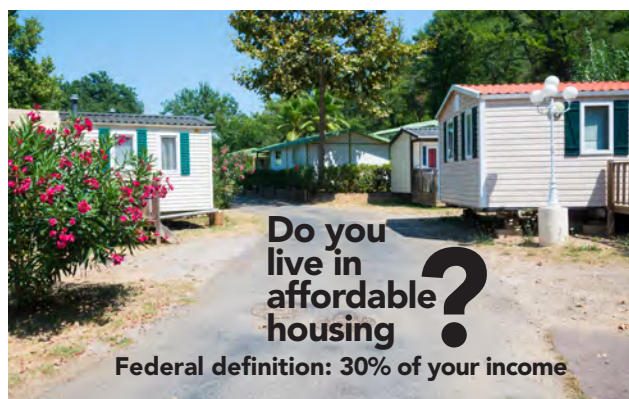
means it has the right to claim it if you don't pay back the loan. If you **default** on your loan—that is, you don't pay what you owe every month—the bank can **foreclose**, which means it takes full possession of the property and you forfeit all the money you paid for it up to that point. That's the worst-case scenario for homeowners.

No matter what kind of housing you live in, there's always a risk that something will go wrong. It could be a financial catastrophe, a natural disaster, or a personal crisis. If you lose your home, your options for housing are limited. Many localities offer **temporary housing**, which is a place where people who have no home or are temporarily unable to use their home may stay on a time-limited basis. Some of these include homeless shelters, transitional housing, extended-stay motels, drop-in centers, halfway houses, and emergency shelters that are set up during storms and other extreme weather events. Losing a home is one of the most stressful and traumatic experiences a person can have. That's why this issue of housing is so important.

Affordability and Homelessness

The federal definition of **affordable housing** is a residence that costs no more than 30 percent of a person's gross annual income, including all **utilities**—gas, electricity, water, sewage, trash, recycling, and so forth. If you pay more than that, you are considered **cost burdened**.

José Morales rented an apartment in a working-class neighborhood in San Francisco for forty years. When he first moved in, it was easily affordable on his salary as a tennis instructor. Then he hurt his back, and rents went up, and by 2007 he was paying \$864 a month to stay in his apartment. But his entire monthly income was only \$900. That left him with a grand total of \$36 to pay for everything else—food, electricity, transportation, medication, clothes, telephone, and more. In other words, Morales spent 96 percent of his annual net income on rent. He was



one medical emergency or accident away from homelessness, and the same is true for tens of millions of people in the United States today.

Think about your situation. What is 30 percent of the annual income of your household? Remember I asked you to write down the rent for a one-bedroom apartment and the minimum wage in your area? Take a look at those numbers and calculate how much a person makes working forty hours a week at that wage. When you have the number, multiply it by fifty-two weeks and that gives you the gross annual income for a minimum wage job in your area. Now multiply that number by 0.30 (which is 30 percent). That is the amount a person can afford for housing where you live—including utilities—without being cost burdened. Now check the monthly rent for the lowest-cost rental you found. Is it affordable? Keep in mind

that the rent might not include the utilities, so that will cost extra. Look up the address of the rental and ask yourself whether a person living in that neighborhood would need a car to get to work. Is it close to public transportation? What's the crime rate? Are the schools decent? Is there a grocery store nearby? These are the questions a person asks when searching for housing.

This exercise looks at a one-bedroom rental, but now imagine that a family needs affordable housing. They would be looking at a two-bedroom or bigger rental. What are the prices like for those units? According to the National Low Income Housing Coalition (figure 12.1), if you lived in Colorado in 2018, for example, you would need to earn nearly \$24 an hour to afford a two-bedroom apartment. Based on numbers from the U.S. Department of Housing and Urban

2018 TWO-BEDROOM RENTAL HOME HOUSING WAGE

Represents the hourly wage that a household must earn (working 40 hours a week, 52 weeks a year) in order to afford the Fair Market Rent for a **TWO BEDROOM RENTAL HOME**, without paying more than 30% of their income.

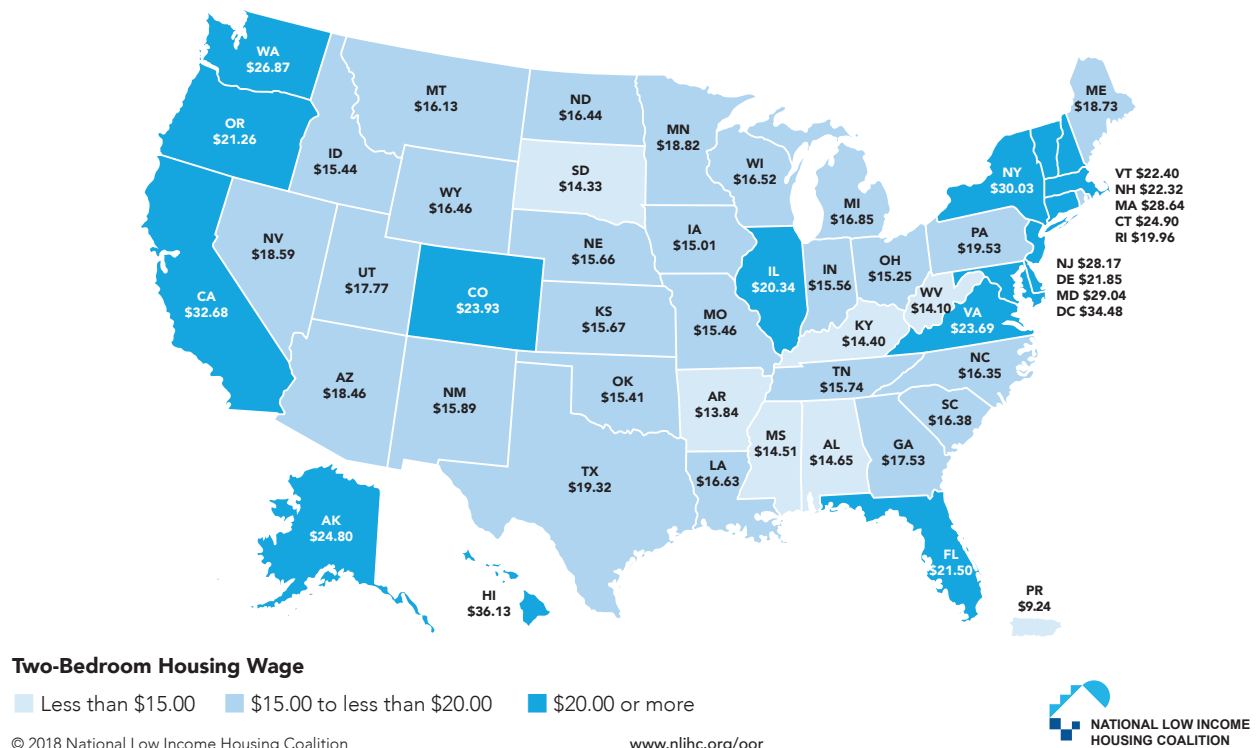


Figure 12.1
Hourly Wage Needed to Afford Housing



Lucy Nicholson/REUTERS AdobeStock.com

Development (HUD), there was no place in the country where a family with only one full-time worker earning the prevailing minimum wage could afford to rent a two-bedroom apartment. As a result, in the United States in 2017 nearly half of all renters were cost burdened. In Florida, the cost-burden rate was 56 percent. In Miami, it was nearly 63 percent.

Being able to afford a place to live is critically important to a person's well-being. That might help explain the success of a political party based in New York City called the Rent Is Too Damn High. It was founded by Vietnam War veteran Jimmy McMillan. He ran for mayor of New York City several times, and he ran for governor in 2010. "The people I represent can't afford to pay their rent," he said during a televised debate. "They're being laid off right now as I speak. They can't eat breakfast, lunch, or dinner. Listen! Someone's child's stomach just growled." Although his name wasn't on the final ballot, McMillan garnered more than 41,000 write-in

votes. In our country, people worry about what will happen if they lose their homes. They worry that they will end up homeless.

It's hard to know exactly how many people in the United States experience homelessness, but every year on a specific night in January, HUD tracks how many people are staying in shelters, other temporary housing, and on the streets. It's called a **point-in-time count**. In 2017 there were approximately 554,000 people without homes counted on that January night. Single adults made up the largest proportion, while a third were households with children. HUD identifies four different categories of homelessness: those who are already without homes, those who are about to become homeless, families with children who don't have stable housing, and people who flee their homes because of domestic violence and don't have another place to live or resources or support to obtain housing. Many experts believe that the actual number of people experiencing homelessness is significantly higher than the point-in-time count shows. They

say it's extremely challenging to locate and identify people experiencing homelessness in the wide variety of situations in which they live. Many can't get a bed in a shelter or don't want to go into a shelter because they have a mental illness or are afraid of violence. Some live in their cars, temporarily stay on couches at the homes of friends or relatives, and so forth. The lack of affordable housing is the number one cause of homelessness, according to the National Law Center on Homelessness & Poverty.

Unemployment, poverty, and low wages are the second, third, and fourth identified causes. This is a problem that affects communities across the entire country. Without a place to call home, it's very challenging for a person to get an education; find and keep a job; keep a family together; maintain good health, hygiene, and nutrition; and stay safe. To be homeless is to be terribly vulnerable. One cold snap or heat wave or bad storm could mean death—not to mention the violence, hunger, illness, and deprivation that goes along with homelessness.

Across the country, public and private programs address the issue of affordable housing. We'll talk more about public efforts in a moment. On the private sector side, there are a variety of approaches to provide housing and make it affordable for the poor, and there are a variety of types of organizations that are involved. Religious groups and nonprofits support and sponsor local shelters and other housing programs. One of the most well-known nonprofit organizations is Habitat for Humanity, which has helped more

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than 29 million people in the United States and worldwide afford housing since 1976 through its volunteer home-building and renovation programs. Private philanthropy is another significant player. A funding collaborative of nine private foundations—among them the Kresge Foundation, the Bill & Melinda Gates Foundation, and the MacArthur Foundation—has invested tens of millions of dollars to address the shortage of affordable rental housing throughout the nation. In addition, the corporate

sector has launched multimillion-dollar initiatives for affordable housing, including UnitedHealthcare's investment of \$5.1 million to convert a vacant commercial building in Boston into an affordable housing development. The tech firms Cisco, LinkedIn, and Pure Storage together donated \$20 million to support affordable housing in Silicon Valley. There are many potential benefits for corporate investment in affordable housing. It's good for the company's reputation, it's good for the communities where they are headquartered, and it's good for ensuring a stable workforce.

Housing Legislation and Rent Control

Using government to address the issue of affordable housing has long been a controversial idea. The first federal law to deal with low-income housing was the Housing Act of 1937, also known as the Wagner-Steagall Act. Signed by President Franklin D. Roosevelt as part of the New Deal, it was intended to eliminate unsafe and unsanitary housing conditions for the poor, clean up slums,



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and help low-income families have a decent place to live through public housing options. **Public housing** is funded by the federal government and administered on the state and local levels. These apartments, single-family homes, and other types of residences are rented to eligible low-income, disabled, and elderly tenants at a rate lower than the market price. These and other public housing programs are managed by **public housing authorities**, which are private firms that are paid by the government to screen tenants for income eligibility, perform inspections of the properties, collect rents, maintain the properties, and so forth. Close to 1 million households lived in public housing in 2018, according to HUD. By the way, a **household** includes all the people living under the same roof, whether or not they are related.

HUD is the central government agency in charge of public housing and other housing programs. Before President Lyndon B. Johnson signed the Housing and Urban Development Act of 1965, there were a number of federal agencies that dealt with housing. These were all consolidated under HUD, which then became a cabinet-level position. Under Johnson, the Fair Housing Act, which was part of the Civil Rights Act of

1968, made it illegal to discriminate on the basis of race, color, religion, and national origin when renting or selling real estate.

In the 1970s the government changed strategies. The Housing and Community Development Act of 1974, under President Gerald Ford, instituted **Community Development Block Grants**, which are federal funds given to local jurisdictions so that people who live in those areas can decide how to use the money to address poverty and homelessness in their communities. The government's role also changed, so that instead of building the actual physical buildings to house people, it switched to funding programs that subsidize the rents in the private housing market. In particular, the 1974 law made significant changes to **Section 8 housing**. (It's called Section 8 because it originally came from Section 8 of the Housing Act of 1937.)

There are two Section 8 programs you might have heard of. One is **project-based rental assistance**, where funds are paid to owners of private properties that are HUD-approved to be low-income housing. They then offer housing at a lower rate. The rental subsidy is tied to the rental unit, so when tenants move out, the unit continues to be rent-subsidized for the next qualified tenant. In

other words, tenants don't take the subsidy with them when they move to another property. Just to give you an idea of the size of this program, in 2018 there were 1.2 million units of project-based rentals, according to HUD.

But there was a problem with public housing and Section 8 housing that worried residents and lawmakers alike. The problem was that these programs concentrated poverty in certain areas and correlated with higher crime rates, worse schools, and other social ills. The second Section 8 program, **tenant-based housing choice vouchers**, were meant to counteract this concern by giving low-income renters more options for where to live. Those who qualify receive a rent-subsidy voucher that they can use in the private housing market as long as the unit is approved by HUD. If the tenant moves, the voucher moves with them and they can use it to rent a different approved unit. In 2018 there were more than 2.2 million tenants using housing choice vouchers, according to HUD. The intention of the program is to make rents affordable for low-income tenants, thin out the concentration of poverty, and create more mixed-income communities.

Who is eligible for Section 8 housing? HUD determines this by income level, taking into account the average median income for each region. It clearly wouldn't be fair to compare Oklahoma City with Los Angeles. To determine income eligibility, the agency identifies three categories: If you're low income, you earn 80 percent of the median income in your area. If you're very low income,

The issue of affordable housing is very relevant for many, including the middle class. There seems to be one policy that keeps coming up as an option when housing prices become unaffordable in a community. That policy is rent control.

it's 50 percent. And if you're extremely low income, it's 30 percent. HUD prioritizes extremely low income people and then very low income people for Section 8 programs. But the supply of Section 8 housing for both programs is far less than the demand. Some affordable-housing advocates estimate that there are only around a third of the number of units available than what's actually needed to house those who are extremely low income. Waiting lists are typical for all HUD programs. Once a

person is on the waiting list, it can take years to get into affordable housing. And in some areas of the country, it can take years just to get on the waiting list.

There have been a slew of other housing programs since 1974 that address affordable housing. Some are designed to help low-income tenants afford to buy their own homes. Some focus on housing for the disabled and elderly, and others are aimed at revitalizing existing public housing properties and turning them into mixed-income developments. The U.S. Department of Agriculture offers housing assistance in rural areas, including rental assistance, home loans, and cooperative housing for the elderly and disabled. In total, the federal dollars spent on all the above housing assistance programs in 2018 came to \$43.9 billion, according to the Center on Budget and Policy Priorities.

A program not included in those numbers, but widely in use, is the **Low-Income Housing Tax Credit (LIHTC)**, designed to give incentives to investors to finance lower-profit housing projects. For example, religious institutions that own land

and have a mission to help the poor partner with private developers to build affordable housing. The program was created under the Tax Reform Act of 1986. By 2022, 3.44 million units were built using LIHTC. Another effort to create more affordable housing is **inclusionary zoning**, which requires landlords to rent or sell a certain number of units in new developments at a reduced rate to low-income tenants.

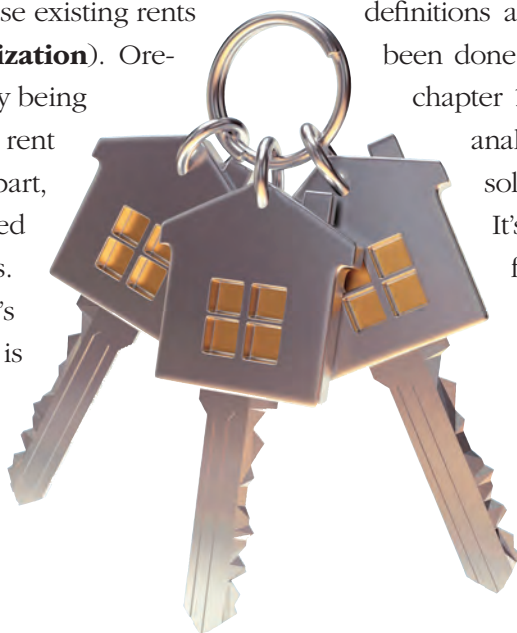
All the housing programs we've just been describing are designed primarily for the very poor. But the issue of affordable housing is very relevant for the middle class as well. There seems to be one policy that keeps coming up as an option when housing prices become unaffordable for people up and down the income ladder. That policy is rent control. Rent control laws have been around in cities and local jurisdictions for decades as another variation of a public strategy to address the issue of affordable housing. What makes rent control different from public housing and Section 8 programs is that eligibility is not based on a person's income. Instead, it focuses on landlords, limiting how much they are allowed to charge for rent and how much they can raise existing rents (this is called **rent stabilization**). Oregon made history in 2019 by being the first to pass a statewide rent control law. For the most part, rent control has been allowed in only a dozen or so states. Yet in some of the country's largest cities, rent control is common. In 2014 more

than a million people in New York City lived in either rent-controlled or rent-stabilized apartments. That same year, half the rental units in Washington, DC, were rent controlled. In San Francisco it was 75 percent, and in Los Angeles it was 80 percent of multifamily units. There is a growing movement to expand rent control in states where it already exists and overturn bans and exemptions on rent control laws in the rest of the country. At the same time, there is pushback against rent control laws. For example, a proposition to repeal a California law that limits the state's ability to determine types of rent control failed in 2018 and again in 2020. A large majority of states in 2022 had taken action to prevent rent control policies from being enacted. Only a handful of states had no barriers to rent control or actively supported that policy.

The bottom line is that of all the government policies and programs meant to address affordable housing, rent control affects the most households in our nation. As you can tell, this is a hotly contested issue.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of housing. In chapter 10, you learned the tools needed to analyze competing ideas about how to solve the problem of homelessness. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on Housing

Conservatives, radicals, and liberals, all agree that unaffordable housing leads to homelessness. They share the same goal to create affordable housing for all, but as you might have guessed, they don't agree on how to do it. Should we leave the market alone and let price signals for rents solve the affordable housing problem? Should people own their own residences cooperatively as a way to make housing affordable? Should the government help people to afford housing by passing laws to control rent prices? The policy we currently follow is rent control laws in capitalism,

which is why we described them in detail in the previous section. This is a liberal idea, so to keep it fair, we'll give the conservatives and radicals each an extra paragraph in this section to expand on their ideas. It's time to put on a mask and debate this policy from each of the perspectives. Please remember that we are not taking a personal position on any of these issues. We're just channeling the voices of the perspectives. As you know by now, we change the order of who goes first each time. For this issue, it's the conservative's turn to go first.



Conservative

Voice on Housing



Housing

I loved Monopoly because it taught me so much about having a successful financial life. It taught me when to buy, when to sell, and how to plan ahead. It helped me to hone my skills of negotiation and deal making. It taught me not to get sidelined by unexpected setbacks and to take advantage of lucky breaks. It taught me that no matter where you start off in life, there are going to be opportunities. But you have to get in the game in order to succeed. I got in the game when I left home to go to college. Although I couldn't afford Park

Place on my student budget, I found affordable housing. Depending on my financial circumstances, I lived in dorms, in a student group house, and in a postage-stamp-sized studio apartment that rattled every time a train went by. In graduate school, I had a small stipend, so I split the rent on a one-bedroom apartment with my sister and her husband. Years later, with my career on track, I moved to a city where I was able to afford to buy a house. After building up equity in it over years, I sold it, and my family moved into a rental apartment. We used the money from the sale of our property to pay for our daughter's college tuition. That was a strategy I can trace back to my Monopoly days. As I head toward retirement, we might decide to buy another house, keep renting, move into a retirement community, or get an RV and hit the road. Monopoly teaches us to have a strategy, stay nimble, and change course when necessary. In real life, whatever the roll of the dice, if we play it smart and let price signals

guide our decisions, it works out in the best possible way.

Consider the low-end apartment market in figure 12.2. Imagine that the rent goes up to an unaffordable level, and you are living there. What would you do? You would do the only logical thing there is to do: you would move to a more affordable place. When housing is too expensive, people move out and find substitutions. You might share a place with a group of friends. You might move to a location that has lower rents. Or you might get a job where room and board are included. And what happens to the demand curve for low-end apartments when you and hordes of other people move out? It shifts to the left, which means the equilibrium price falls. As you can see in figure 12.2, because of the inelasticity of supply and demand for low-end apartments, rents go down by a lot. On top of that, there is only a very slight decrease in equilibrium quantity, which means low-end apartments remain available and

abundant, with plenty of choices and affordability for all budgets. So just by being left alone, the problem solves itself.

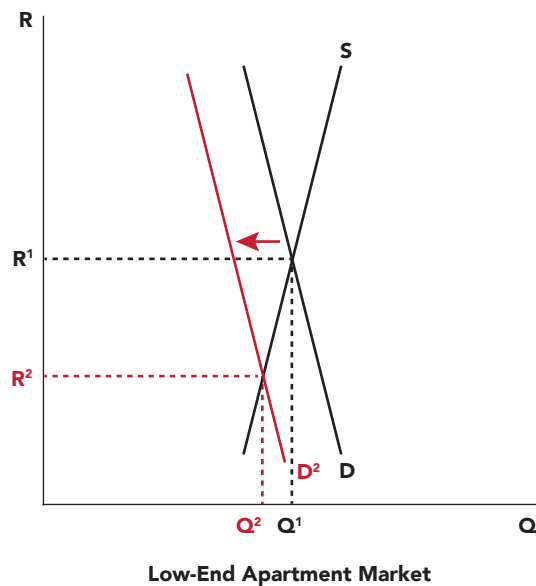


Figure 12.2
Conservative View: Housing

When Gotham City is in trouble, the commissioner calls for Batman by beaming a signal into the sky. Today, there are areas of the country that are frantically signaling that they need people to move there, and their signal is price. Rents are low! My cousin is a perfect example of how this decision-making works. After high school, he decided not to go to college, and staying in his parents' home wasn't an option. He's a smart guy, so he determined that the best thing to do would be to move to whatever place in the country had the cheapest possible housing relative to the highest possible pay for entry-level work. This was the 1980s, before the internet became ubiquitous, so he actually went to the library and paged through big books of statistics to look up average housing costs and average salaries. That's how he found the ideal location: Indianapolis. He packed up his things and moved there. He did what any person should do, which is to follow price signals. When housing is unaffordable in one area, move to a more affordable area. And this strategy is not just good for you—it's good for the nation. This is how we attract the doctors, the business-



Mike Segar/REUTERS Adobestock.com

people, and the teachers to the communities that need them the most. When the invisible hand of free-market capitalism guides people's choices, we get the housing we want, and producers are motivated to supply it.

In our nation, private property owners have rights. Interfering with their ability to make a profit is a violation of those rights. It is unfair and wrong for the government to single out the housing industry and penalize landlords with the bad policy of rent control. We don't punish auto mechanics by requiring them to fix cars at half the price. We don't punish shoe manufacturers by requiring them to sell sneakers at half the price. We must support visionary entrepreneurship. It's the developers and investors who take the risks to supply our needed goods and services, and they are the ones who should reap the well-earned rewards. We would never want to discourage anyone from being in the business of providing us with everything that brings us a good life. This is what guarantees milk in the grocery store, an airline that is willing to fly you across the country, and a roof over your head. Landlords provide essential services to countless people across the country. Some people are not in the position to own a home, nor do they even want to. Some people would rather rent than take on the repair bills, property taxes, yard work, and worry about depreciating values of their investment. Thank goodness there are landlords who are willing to provide rentals

When housing is too expensive, people find substitutions. You might share a place with a group of friends. You might move to a location that has lower rents. Or you might get a job where room and board are included. When people start moving out, rents drop. Just by leaving it alone, the problem solves itself.

and take those burdens off their tenants. The very last thing that we should ever do is to enact government policies that makes it less appealing for them to be engaged in the business of apartment rental markets.

Affordable housing is a wonderful thing. But radicals, your idea of resident-owned communities sounds like a nightmare of mutual cooperative destruction. Just imagine the constant meetings about whether we're allowed to cook fish because it stinks up the hallways. There are huge transaction costs for all that bickering and time-consuming group process, which make living in res-

ident-owned housing cooperatives another full-time job. I work hard to afford a roof over my head, and my home is my castle. When I come home from work, the last thing I want is to have other people telling me what to do and how to do it. Our homes should be our sanctuaries—not the scene of endless bickering with neighbors. And the whole place will fall into disrepair because when everyone owns it together, no one is ultimately responsible. “No thanks” to cooperative ownership. And community land trusts are another terrible idea. Radicals want the government to buy up land so that committees of people can decide where to build affordable housing. That might sound good on paper, but the paper is wrong because no CLT can possibly plan for what the best use of that land should be. There are too many moving parts. It's the profit motive and price signals that move resources to

their optimal use so that we get the housing we need. Disrupting that delicate balance by pulling land out of the private market means we'll end up with too much or too little housing relative to the jobs available, to the population, to the available water, and so forth. Yes, housing is guaranteed in democratic socialism, but what does that really mean? Guaranteed inefficiency, inconvenience, frustration, loss of choice, and lack of room for individuality.

Liberals, your policy of rent control laws doesn't solve the problem of lack of affordable housing; it actually *creates* homelessness. Here's how it happens. The government passes a law that says rents for low-end apartments have to be below the equilibrium rent. Now the quantity demanded for those apartments increases. Of course it does, because people want to pay less for housing. But what else happens? Developers who would have built more affordable housing don't because investors who might have been interested in buying those properties and renting them out are no longer interested. Price controls lead to shortages. In this case, it's a shortage of low-end apartments, and presto! Government intervention brings us homelessness. The few low-end rental apartments that are available become even worse places to live. Because of rent control, landlords have less money and no incentive to invest back into their properties for upkeep and improvements, so the housing falls into disrepair. Some people accuse owners of being "slumlords," but owners who want to make the properties better can't afford to when the government holds them back with rent control. So you can thank a liberal for the leaky faucets, peeling paint, and broken screens. And let's be clear: liberal policies of public housing and Section 8 are not the solutions. Those government programs create more homelessness. They send a signal to people to expect free or heavily

subsidized housing. Instead of taking action to put a roof over their heads, people continue to live out of their cars or languish in shelters waiting for their handout.

We should reject the current policy of rent control laws and replace them with free-market rent signals to ensure affordable housing for all. With unfettered price signals, developers build the variety of affordable housing that people want because there is a market for it, and investors are willing to become landlords because it's profitable to do so. People optimize their circumstances by moving to the places that give them the best combination of a high-paying job and affordable housing. The whole country is better off in free-market capitalism because communities attract the workforces they need and there are homes for all. That is how we get a robust, thriving society. For those who fall through the cracks, philanthropy provides a safety net. It's in our human nature to take care of our friends, families, and communities. Firms participate because it enhances their reputation and lifts the quality of life for the communities where they are based and where they do business. Also, religious groups and nonprofit organizations provide affordable housing because it's their mission to care for others. When we allow price signals to direct housing choices and combine that with private philanthropy, everyone who wants housing can have it. Landlords are motivated to maintain their rental properties, so tenants have nicer places to live. When we get rid of government interference and allow the profit motive to guide our choices, we'll solve the problem of homelessness, and people will be safer, healthier, and happier. This is how swamplands become luxury high-rise apartments, empty lots become affordable housing developments, and desert scrub becomes flourishing mobile home communities.

Conservative

Free-Market Capitalism



Housing

BIG PICTURE

When the invisible hand of free-market capitalism guides people's choices, we get the housing we want and producers are motivated to supply it.

POLICY POSITION

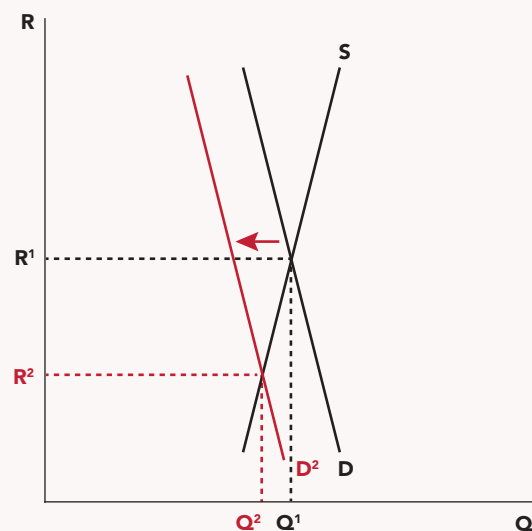
Unaffordable housing leads to homelessness, but . . .

- ▶ Radical policies undermine the sanctity of our homes and trade price signals for central planning, which creates a chaos of bad decisions about allocating land for housing.
- ▶ Liberal policies oppress landlords and hurt tenants, creating shortages of affordable housing and no incentives to keep the few available in good repair.

SOLUTION

Reject rent control laws and replace them with free-market rent signals to ensure affordable housing for all:

- People optimize their circumstances.
- Private philanthropy serves as the safety net.



Low-End Apartment Market

- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Housing Talking Points: Conservative

1. When Gotham City is in trouble, the commissioner calls for Batman by beaming a signal into the sky. Today, there are areas of the country that are frantically signaling that they need people to move there, and their signal is price. When housing is unaffordable in one area, people move to a more affordable area. This strategy is good for the nation. This is how we attract the doctors, the business people, and the teachers to the communities that need them the most.
2. In our country, we must support visionary entrepreneurship. When it comes to housing, it's the developers and investors who take the risks to supply it, and they are the ones who should reap the well-earned rewards. We would never want to discourage anyone from being in the business of providing us with everything that brings us a good life. This is what guarantees milk in the grocery store, an airline that is willing to fly you across the country, and a roof over your head.
3. Radicals, your plan of resident-owned communities sounds like a nightmare of mutual cooperative destruction. I don't want to live in a place where everyone is in my business and there are constant meetings to regulate whether people are allowed to cook fish because it stinks up the hallways. I work my butt off to have a roof over my head, and my home is my castle. Your plan would turn my sanctuary into a nightmare of nosy neighbors, endless bickering, and no one taking responsibility for basic maintenance.
4. Radicals, no community land trust can possibly plan for what the best use of that land should be. There are too many moving parts. It's the profit motive and price signals that move resources to their optimal use so that we get the housing we need. Disrupting that delicate balance by pulling land out of the private market means we'll end up with too much or too little housing relative to the jobs available, to the population, or to the available drinking water.
5. Liberals, rent control isn't fair to owners. They're the ones who take the risks and who should reap the well-earned rewards for providing housing. And your policies of public housing and Section 8 are not the solutions. Those government programs create more homelessness. They send a signal to people to expect free or heavily subsidized housing. Instead of taking action to put a roof over their heads, people continue to live out of their cars or languish in shelters waiting for their handout.
6. Rent control laws cause shortages of affordable housing, which leads to more homelessness. If you lower the price for something, of course more demanders want it, and of course fewer suppliers provide it. Investors become unwilling to be landlords, so developers don't build low-cost housing. And current landlords have no motivation to keep their properties in good repair, so tenants who somehow manage to find an affordable home can thank a liberal for the leaky faucets, peeling paint, and broken screens.
7. With unfettered rent signals, developers build the variety of affordable housing that people want because there is a market for it, and investors are willing to become landlords because it's profitable to do so. Then, people optimize their circumstances by moving to the places that give them the best combination of a high-paying job and affordable housing. The whole country is better off in free-market capitalism because communities attract the workforces they need and there are homes for all.
8. For those who fall through the cracks, philanthropy provides a safety net. Individuals participate because it's in our nature to take care of our friends, families, and communities. Firms participate because it enhances their reputation where they do business. And religious groups and nonprofit organizations participate because it's their mission to care for others. When we allow price signals to direct housing choices, and combine that with private philanthropy, everyone who wants housing can have it.

Radical

Voice on Housing



Housing

Have you ever started to lose at Monopoly? I can remember games where I spent too many turns in jail, and then I kept landing on properties that other people already owned. I did the only thing I could do, which was to start mortgaging my properties, and then eventually I sold them to my opponents just so I could pay the rent. I still remember the sickening feeling in my gut as every roll of the dice landed me on someone else's property and another rent check was due. There was no safe place for me on the board except jail, but then it was

hardly worth playing anymore. The owners—my friends, my cousins, my siblings—saw my plight, but they shrugged and said, “Sure, we’d like to give you a break, but we can’t because our competitors aren’t, so when we land on a new property we won’t have the money to buy it, but they will. We’ll lose the game.” At a certain point I just gave up and vowed never to play that dreadful game again. But the problem in real-life capitalism is that we have to play because it’s the only game in town. And is the aim of the game of capitalism to get people into housing? No! It’s to make money off people who are desperate to have a roof over their heads so they can survive. This is what Lizzie Magie was trying to demonstrate with The Landlord’s Game.

Let’s use the Six-Core Cube of democratic socialism and drill down through the core point of *cooperative ownership*. Think of any kind of housing where you might want to live and imagine that it’s

not owned by a corporation or a bank. Instead, it’s owned jointly by the residents. You might move into a high-rise apartment building that’s cooperatively owned and become one of the shareholders. Or you might get together with a group of friends, neighbors, or strangers and create a co-housing community in the suburbs where together you own the land and each has a single-family home and you share a kitchen, garden, and swimming pool. Or you might be part of a group that converts empty fields into a cooperatively owned mobile home park. In democratic socialism there is a commitment to providing a wide variety of decent, affordable housing options for everyone, including vulnerable populations. For those who need help beyond the social safeguards already provided in democratic socialism, government-assisted ROCs ensure that they have adequate, affordable housing. In every community, stakeholders are empowered to decide how the land in their communi-

ties is used to develop the housing that's needed. By taking land out of private markets and making it a shared resource, we can fulfill our obligation as a society to provide housing as a basic human right. Firms have the incentive to build the housing that communities want because it earns them an honest living and improves their own cities and neighborhoods. In every way, cooperative ownership is good for individuals, for businesses, and for the nation. When people have the housing they need—and when they can pay for it without going broke—the whole society benefits.

By taking land out of private markets and making it a shared resource, we can fulfill our obligation as a society to provide housing as a basic human right. In democratic socialism firms have the incentive to build the housing that communities want because it earns them an honest living and improves their own cities and neighborhoods.

When I was in my thirties, I was in a position to “own” a home. I put that word in quotation marks because after signing the mortgage papers, I realized the bank actually owned more of the house than I did. But it was “my” house since I was responsible for all the maintenance and repair bills, the property taxes, and the insurance. I was aware that, as a homeowner, I could lose my investment through all sorts of bad luck. I worried about floods, earthquakes, roof leaks, mold, and electrical fires. Eventually, I sold the house and moved into a rental apartment. Now I lie awake at night worrying that the corporation that owns the building

will jack up my rent and I'll have to move. No matter which way we turn in capitalism, housing is rigged against us because the profit-driven bank and the profit-driven corporation are forced to sacrifice our housing security for their bottom lines. In democratic socialism, cooperative ownership of housing gives us control over our own homes. Co-owners make decisions using a democratic process, and housing is one of our social safeguards. This guarantees that affordable housing is a priority for every community. It makes the most sense when housing is an investment in people, not an investment for profit. We have the resources to produce decent and sustainable options as a society with cooperative ownership. When housing is cooperatively owned we get a



Figure 12.3
Radical View: Housing



wide variety of affordable and desirable options, and individuals have a vote and a voice in their living situations.

As long as we have capitalism, we will always suffer from a lack of affordable housing because the problem is private ownership. Land should belong to everyone. But in capitalism land is just another resource to be monetized by banks and corporations. The vast majority of us are at their mercy. And land shouldn't be treated as a commodity to buy and sell for profit. In capitalism, this scarce and precious resource is not being used to create the housing people need. In crowded urban areas, for example, speculators buy up apartment buildings and allow them to fall into disrepair or stay empty in the hopes that the area will become gentrified. **Gentrification** is a strategy to renovate properties when neighborhoods become desirable so as to attract more affluent tenants, thereby pushing out the low-income residents. As a consequence, people become homeless because they can't find affordable housing. Even if you own a home, the minute you fall on hard times and can't make your mortgage payments, the bank swoops in and forecloses. Same goes if

you fall behind on the rent—you're evicted. Then those private owners and banks turn around and pressure local government to pass anti-vagrancy laws, so even the streets are no longer an option for you because homelessness is now a crime. No matter what your current circumstance in life may be, you're a few rent checks or mortgage payments away from ending up homeless. That's the promise of capitalism.

Liberals, your government housing policies are like the *Titanic*. The whole system is sinking, but you keep rearranging the deck chairs as if this is going to keep the whole thing afloat. First you came up with public housing to replace slums—and then your housing projects turned into slums. Then you came up with Section 8 housing, which continued to concentrate poverty and its attendant problems in those areas. So you introduced the voucher system. It is slightly less patronizing to people because it promises them some personal choice in the matter of where they live, but the program still can't possibly meet the needs of the lines of people waiting years just to get on the five-year-long waiting list. Low-Income Housing Tax Credits are another capitalist scam

to line the pockets of developers and investors while pretending they are creating the affordable housing we need. In reality there are so many loopholes that only a fraction of those units actually go to low-income people. And rent control is no solution either. Even if there were rent control laws across the whole nation, capitalism feeds on profit, so by making housing less profitable for landlords, you discourage them from providing housing. That leads to more homelessness. Liberals, your efforts are futile: you're trying to fix what can't be fixed: the systemic failure of capitalism. It's a sinking ship that leaves millions without a roof over their heads, and millions more waiting in dread to join them.

Conservatives, you are guilty of selling us the lie that unfettered capitalism brings us the best quality of life. Your American Dream is a hoax. Millions and millions of hardworking people can barely afford to rent a decent place to live. Across the nation they give their blood, sweat, and tears to their jobs and still have to worry every day about keeping a roof over their heads. And your solution is a bad joke. People who are unable to find affordable housing can't just move themselves and their families to another city. Even if it were possible, the disruption to everyone's lives and their social networks and communities would be devastating. Your plan would create masses of domestic migrants. The problem isn't that this country doesn't have the resources to provide housing for all. We could solve homelessness and build strong communities today if we stopped seeing the provision of housing as a way to make a buck. If we leave it to your free-market capitalism, landlords will always raise rents as high as they can get away with while they maximize their profit by doing the minimum upkeep and

repairs—even when this hurts their tenants. And even if they don't want to evict tenants who can't pay, or turn people out of their homes to convert the property into more profitable vacation rentals, private owners will do it anyway. In capitalism a landlord who isn't doing that is a landlord who doesn't survive. The result is homelessness on a massive scale. This is the true story of free-market capitalism—a tragic tale repeated over and over.

We should replace the current policy of rent control laws in capitalism with resident-owned communities (ROCs) in democratic socialism to ensure affordable housing for all. These can be any type of housing people want, with any type of structure that people decide. ROCs are flexible and adaptable, and they respect people's dignity and well-being. In democratic socialism, no one else can own your home and profit from your need to put a roof over your head. Housing is a right and also a responsibility, so everyone pays in to a universal housing fund as part of their taxes. With the assistance of housing councils, the money is given to those who need it. It might take the form of a housing voucher for a family, funds for new developments, or direct provision of housing through government-assisted ROCs. With cooperative ownership, we no longer have the problem of homelessness. Everyone has a home base from which they can succeed and thrive. Also, housing councils are made up of stakeholders in local areas who use community land trusts to plan the best use of land for affordable housing now and into the future. When land is used for the good of everyone, then swamplands become desirable co-op high-rise apartments, empty lots become affordable co-housing developments, and desert scrub becomes flourishing resident-owned mobile home communities.

Radical

Democratic Socialism



Housing

BIG PICTURE

When housing is cooperatively owned, we get a wide variety of affordable and desirable options, and individuals have a vote and a voice in their living situations.

POLICY POSITION

Unaffordable housing leads to homelessness, but . . .

- ▶ Liberal policies, whether tax credits, vouchers, or public housing, can't ever be sustainable solutions because they don't challenge the core problems of private ownership and the drive for profit.
- ▶ Conservative policies leave people in the lurch because they can't all simply move when private owners jack up the rent, plus landlords are forced to maximize rents and minimize upkeep to turn a profit.

SOLUTION

Replace rent control laws in capitalism with resident-owned cooperatives in democratic socialism to ensure affordable housing for all:

- A home is a basic human right.
- People choose the type of housing they want.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Housing Talking Points: Radical

1. In democratic socialism cooperative ownership of housing gives us hands-on control over where we live. Co-owners make decisions together using a democratic process of one person, one vote. That means you can feel secure knowing your monthly fees won't just go up arbitrarily and things that need to be repaired will actually get fixed. And when bad luck strikes—like a plumbing problem or a tornado—co-owners come together and take care of it.
2. Housing is not a luxury; it's a necessity for our survival. Communities make it a priority to ensure there are affordable options for people at every stage of their lives. When housing is an investment in people and not an investment for profit, there are plenty of resources in our communities to afford everything we need to produce decent and sustainable options. No one has to live in fear of being homeless. People have the housing they need and the whole society benefits.
3. Liberals, rent control is not a solution. Even if there were rent control laws across the whole nation, capitalism feeds on profit, so by making housing less profitable for landlords, you discourage them from providing housing. That leads to more homelessness. Liberals, your efforts are futile. You're trying to fix what can't be fixed: the systemic failure of capitalism. It's a sinking ship that leaves millions without a roof over their heads, and millions more waiting in dread to join them.
4. Liberals, first you came up with public housing to replace slums—and then your housing projects turned into slums. Section 8 housing isn't much better, so you introduced the voucher system. Now people wait for years just to get on the five-year waiting list! Low-Income Housing Tax Credits are a scam to line the pockets of developers and investors, so please don't pretend it's bringing us the affordable housing we need. Your housing policies fail because residents have no ownership stake, voice, or vote.
5. Conservatives, the American Dream in free-market capitalism means that millions of hardworking people toil away, day and night, and still have to worry about keeping a roof over their heads. Your solution is a bad joke. People who are unable to find affordable housing can't just move themselves and their families to another city. Even if it were possible, the disruption to everyone's lives and their social networks and communities would be devastating. Your plan would create masses of domestic migrants.
6. Conservatives think price signals will magically save the day and cure us of homelessness. They won't. In free-market capitalism landlords will always raise rents as high as they can get away with, and they maximize their profit by doing the minimum upkeep and repairs. Even if they don't want to evict tenants who can't pay or turn their affordable housing into profitable vacation rentals, they will. In capitalism, a landlord who isn't doing that is a landlord who doesn't survive.
7. People must have homes to succeed in life. That's why we all contribute to ensure that housing is a basic right. For those who need help beyond the social safeguards already provided in democratic socialism, government-assisted ROCs ensure that they have adequate, affordable housing. Also, housing councils are made up of stakeholders in local areas. They use community land trusts to plan the best uses of land so that society can fulfill its guarantee of housing for all—now and into the future.
8. With resident-owned communities, we get a wide range of affordable housing choices. You like being around other people? Choose co-housing, where everyone shares meals and responsibilities, or a co-op apartment, where neighbors make decisions together, or a resident-owned mobile home park. You'd rather do your own thing? Choose a single-family home. The point is that no one is making a profit off your need to put a roof over your head, and that's how we solve the problem of the lack of affordable housing.

Liberal

Voice on Housing



I loved to play Monopoly, and even when I lost a game, I was eager to play again. That's because we all started off as equals on the game board, which meant I always felt hopeful that I could win the next one. No one had an unfair advantage—we were all given the same \$1,500 in Monopoly money before the first turn, and we all began the journey around the board from the same square. In the real world, though, we don't all start out with the same resources and in the same place in life. Some are born into wealthy families that own lots of properties. Some

are born into middle-class families that scrape by, weighed down by debt. And some are born into low-income families that are homeless. These different circumstances make a huge difference in the opportunities we get in life. But those who are “winners” often don't see it that way. They believe they deserve what they have, and they don't recognize that they benefited from an uneven playing field from day one. A social psychologist named Paul K. Piff, at the University of California, Berkeley, actually studied the phenomenon of how people behave when they win at Monopoly. Piff arranged it so that one player had an unfair advantage throughout the game—rolling more than two dice each turn, starting with twice the money, and collecting more than \$200 for passing Go. The researchers observed that players with the unfair advantage exhibited louder, ruder, and more obnoxious behaviors as they started to win (they hogged the pretzels!), even though the game was clearly rigged in their favor. The advantaged

players credited their success to their strategy and believed they were entitled to their gains because of their hard work and skill. It's often true that those who live in a bubble of privilege end up feeling entitled to having more than others, and often they blame the “losers” for not working hard enough or being smart enough or special enough. Monopoly is an imperfect reflection of capitalism because in life we don't all start out on that even playing field. The Piff experiment is much more like real life. Our policies have to take that into account and give people equal opportunities to live in affordable housing.

Let's consider the low-end apartment market in figure 12.4. Imagine you can't afford the rent. There are very few substitutes for low-end apartments, and when landlords have the power to raise rents above 30 percent of a person's income—the definition of affordability—then we end up with more people who are cost-burdened and vulnerable to becoming homeless. Without government inter-

vention, what would be your options for affordable housing in this situation? Your sister's sofa until she kicks you out, the local park until you get arrested for vagrancy, or your car until it's repossessed or towed. But before it comes to that, rent control laws can help keep your low-end apartment affordable. How? State or local government sets a price ceiling on rent. Of course we know that price ceilings can cause unacceptable shortages, but not in this case, because of the inelastic nature on both the demand and the supply sides. As you can see in figure 12.4, rent control makes rents affordable for low-income tenants. This is a good policy for landlords and tenants alike because owners benefit from having a stable tenant population and reliable cash flow. Government programs alleviate any minimal shortages that might occur for two reasons. First, public housing is supplied by the government. That is an increase in the number of suppliers, which shifts the curve to the right. Second, targeted tax credit programs and certain Section 8 programs subsidize landlords. This gives them incentives to continue to supply housing, so again the supply curve shifts to the right. For both of these reasons, we end up with lower equilibrium rent (Rent Ceiling) and higher equilibrium quantity (Q^2) of low-end apartments.

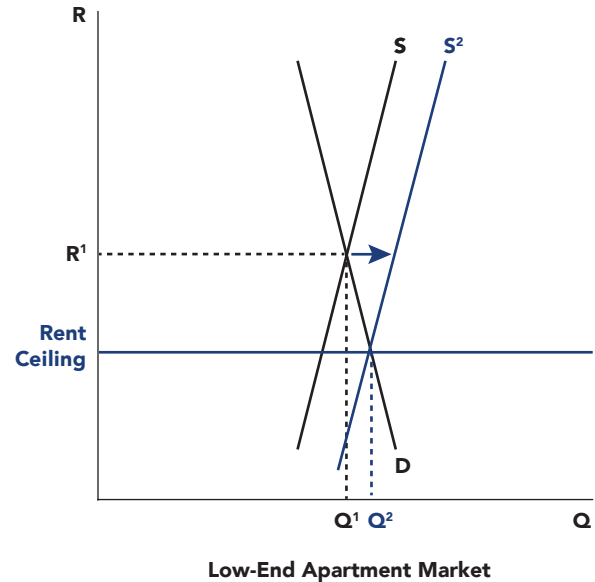
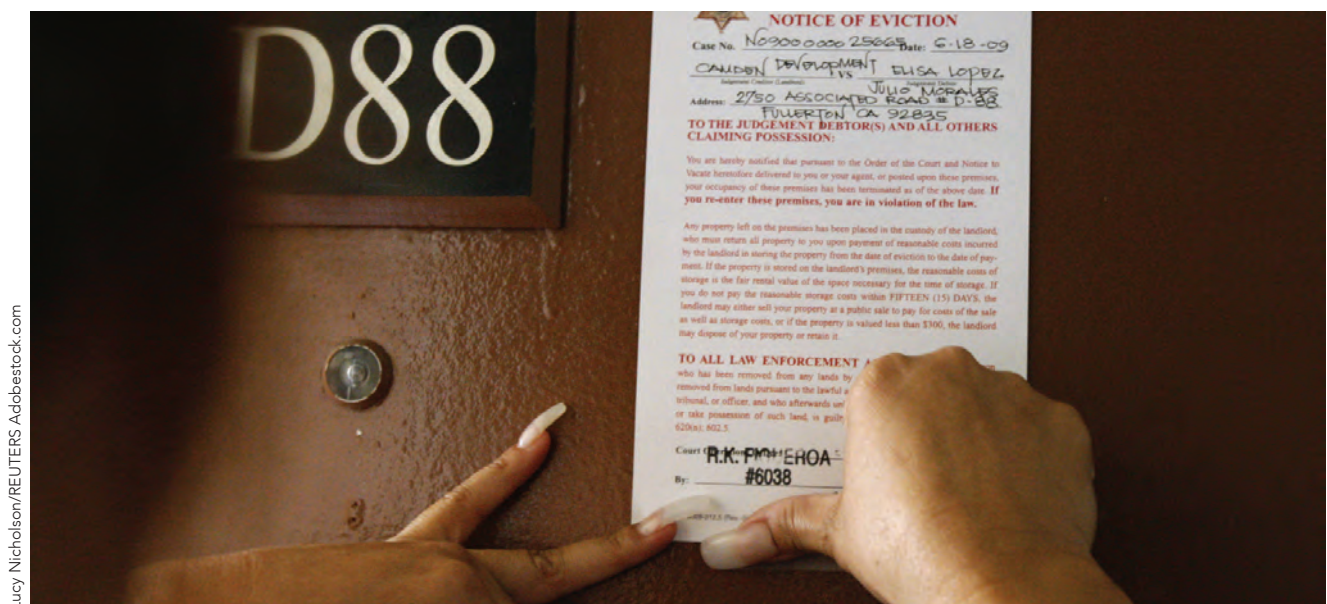


Figure 12.4
Liberal View: Housing

A year ago, I was walking into the grocery store, and I happened to catch the eye of a homeless man in his mid-twenties standing by the door. He looked startled. “Wait,” he said, “weren’t you my sixth-grade teacher?” I had last seen Tyler (I’ve changed his name here) when he was eleven years old and full of promise and big dreams for his life. Now he was experiencing homelessness.



He told me he'd fallen on hard times and lost his apartment. He looked exhausted and defeated. I remembered him as a bright, curious boy, but in his present circumstances it would be very challenging for him to get a job—no address, unwashed, using all his energy just to survive another day. I offered to buy him some groceries, and he hesitated, embarrassed. I insisted. We each took a cart, and he rolled past the

aisles of junk food and zeroed in on protein—a roast chicken, lunch meats, milk. I couldn't convince him to take more. Before we parted, I told him where he could find information on government-assisted housing programs and offered to help. He thanked me, shouldered his backpack, and walked off into the night. My heart breaks when I think of all the people in Tyler's situation. I couldn't possibly take them all grocery shopping, but I'm grateful I live in a country where we do the right thing and help people who need affordable housing. Through tax-supported public housing programs and policies such as rent control, we keep individuals and families from falling through the cracks. With a home, they can have the good nutrition, rest, hygiene, and safety they need to flourish and be contributing members of society. Liberal government programs and policies create a stable supply of affordable housing so that people can keep a roof over their heads.

Conservatives, you have faith in the invisible hand to make all things right, but price signals need to be tempered with compassion. Our higher moral value as a society is to care for one another and promote equity. And it's in

The game of Monopoly is an imperfect reflection of capitalism because in life we don't all start out on that even playing field. Our policies must take that into account and create equal opportunities so everyone can have affordable housing.

our self-interest to do so because the helpful hand of government is what makes our nation strong. We all benefit when we end homelessness. Your idea to leave landlords to their own devices means soaring rents. It's guaranteed because we know that when a product is necessary, with few substitutes, the producer makes more money by raising the price. But when that happens with housing, it creates mass homelessness.

There is no substitute for housing—not the car, not the park bench, not the temporary homeless shelter. And private philanthropy is wonderful, but it will never be enough. Solving homelessness is a massive undertaking that can only be done with the resources of our government in partnership with the private sector. Your flippant notion that low-income families can just pack up and move to a new place where housing is affordable is completely naïve. It's expensive to move to a new place, and even if they manage to move, those low-income tenants are now at the mercy of a new landlord who can raise their rents with impunity. If you had your way and we got rid of rent control laws and government housing assistance programs, it would create chaos and suffering for millions of families. You can't tell people to pull themselves up by their bootstraps and then take away their boots.

Radicals, your idea to leave it to community land trusts to lease public land for cooperatively owned housing is rife with potential for cronyism and corruption. There is a limited amount of land on which housing can be built, so which group of wannabe cooperative owners gets the

lease from the housing councils? It is the group that knows the most people who show up to the meeting, has the most friends, knows the stakeholders on the committee, and so forth. That is the end of democracy and the opening for totalitarianism to creep in. Also, without the profit motive, the buildings are never constructed because the plumber, the electrician, the mason, the architect, and everyone else won't bother showing up for work every day. Not every project is motivated by altruism. Those builders are not always building housing for only their own family and friends. People respond to profit, which you devalue in democratic socialism. But let's say you do somehow manage to get your cooperatively owned (poorly made) housing built. Then the nightmare really begins. Endless meetings, factions bickering, and residents fighting to make every decision. Drove of people will beg to go back to the better system of capitalism, where they can rent an apartment, be assured of affordable housing because there is rent control, and go home at night to the blissful peace and quiet of their own private lives with no endless cooperative meetings to endure.

We should strengthen the current policy of rent control laws to ensure affordable housing for all. It helps low-income tenants by making rents affordable, it helps communities by creating more affordable housing options, and it helps landlords by ensuring steady income streams and stable tenants. We should expand the program by bringing rent control to more areas of the country where affordable housing is desperately needed, and by giving landlords more options and more incentives to invest in affordable housing—property tax breaks, funds for repairs, and so forth. This is fair, and it also creates buy-in from landlords. Every single state is dealing with a lack of sufficient affordable housing. Getting people into affordable housing saves our nation billions in programs that address the fallout from homelessness—hunger, crime, drug addiction, and disease. With fair-market capitalism, we use programs and regulations to fix the problem. When the government partners with the private sector, swamplands become elegant high-rise apartments, empty lots become affordable mixed-income housing developments, and desert scrub becomes flourishing mobile home communities.

Liberal

Fair-Market Capitalism



Housing

BIG PICTURE

Liberal government programs and policies create a stable supply of affordable housing so that people can keep a roof over their heads.

POLICY POSITION

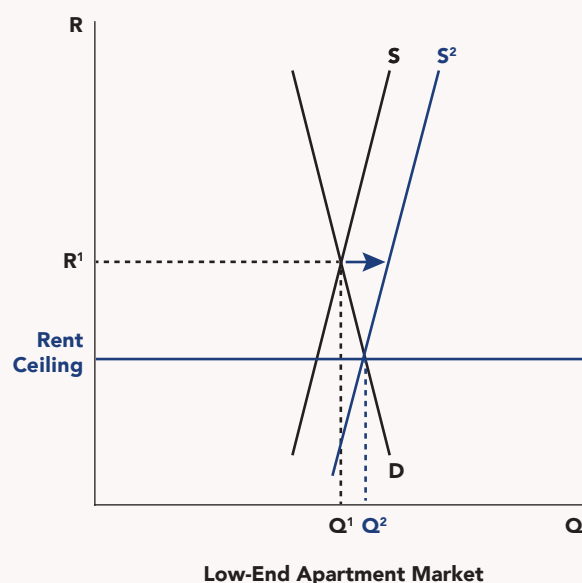
Unaffordable housing leads to homelessness, but . . .

- ▶ Conservative policies lead to even more homelessness because landlords can and do take advantage of tenants' economic vulnerability.
- ▶ Radical policies lead to cronyism, corruption, shoddy construction—if buildings even go up at all—and a nightmare of endless meetings.

SOLUTION

Strengthen rent control laws to ensure affordable housing for all:

- Expand incentives for landlords to keep them in the game.
- Taxpayers save billions when homelessness ends.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Housing Talking Points: Liberal

1. A home isn't a luxury—it's a basic necessity for every human being. It's the foundation for well-being—for decent nutrition, good hygiene, a good night's rest, and personal safety. No matter whether it's a tiny attic apartment or a palace, home is our personal sanctuary. Homelessness derails people's lives, and we all miss out on the contributions they could be making if they weren't so dragged down with the business of daily survival.
2. It's in everyone's self-interest to ensure that each of us can afford a decent place to live. Why? Because homelessness traps people in poverty, which ultimately ends up draining our country's resources. We're fortunate to have a government that does the right thing by partnering with private industry to create more affordable public housing and affordable private housing options. Instead of turning our backs on the homeless, we build a thriving economy and stronger society.
3. Conservatives, relocating is expensive, and these are poor people, so telling low-income people to pack up and move to a new city is not a practical solution. And even if they managed to move, without rent control, they'll just be at the mercy of a new landlord who will gouge them with impunity. You're the first to preach about hard work and people needing to pull themselves up by their bootstraps. But then you turn around and want to take away their boots.
4. Conservatives, you have faith in the invisible hand to make all things right, but our higher moral value as a society is to care for one another. When it comes to a product that is a basic necessity, such as housing, the profit motive needs to be tempered with compassion and reined in. There are no real substitutes for affordable housing—not the car, not the park bench, not the temporary shelter. And private philanthropy won't house everyone, while doing nothing gets us nothing—except more homelessness.
5. Radicals, without the profit motive, your cooperative housing never gets built because no one bothers to show up at the work site. It's naïve to think every project is motivated by altruism. Those builders are not always building housing for only their own family and friends. But let's say they do miraculously show up at the building site. Those worker-owners get paid the same whether they do a good job or a bad job, so your housing is guaranteed to be poorly made.
6. Radicals, community land trusts are rife with potential for cronyism and corruption. There is a limited amount of land on which housing can be built, so which group of wannabe cooperative owners gets the lease from the housing councils? It is the group that knows the most people who show up to the meeting, has the most friends, knows the stakeholders on the committee, and so forth. That is the end of democracy and the opening for totalitarianism to creep in.
7. Rent control should be expanded to more areas of the country where affordable housing is desperately needed. It makes decent housing available to low-income people and also helps landlords, because they can rely on a steady income stream and low turnover of their tenants. Let's expand the role of government by giving landlords more options and more incentives to invest in affordable housing—property tax breaks, funds for repairs, and so forth. This is fair, and it also creates buy-in from owners.
8. There is not one state in the union that doesn't struggle with a lack of sufficient affordable housing. Getting people into affordable homes saves our nation billions in programs that address the fallout from homelessness—hunger, crime, drug addiction, and disease. When the government partners with the private sector, we get the affordable housing we need. The government has the power to use programs and regulations to fix the problem. When we can fix a problem, we *should*.

The Shared Outcome

All three perspectives share the same goal of creating affordable housing for all. The issue of housing has been with us since the beginning of human civilization and will always be a central priority because we can't survive without it. We will always need a roof over our heads. All perspectives agree that it is both desirable and

possible to end homelessness and make housing affordable. So it's time for you to try on the different perspectives and join the conversation as a respectful listener, passionate advocate, and intelligent debater. In this way, you'll find your own voice on housing, and you may even spark some new ideas in the process that can solve this problem. ☒



Activity: Poster

It's time to get in touch with your creativity. Sometimes, the best way to convey complex ideas is to use images, not just words. A powerful poster can change people's hearts and minds. Please don't think you must be a talented artist for this activity. Stick figures will work just fine.



Sketch your preliminary ideas here.

“A Picture Is Worth a Thousand Words”

To get started, you will need three groups. This activity is most enjoyable when each group has at least two people, but individuals can also create a poster on their own. You will need a large piece of posterboard and colored markers—the more colors the better. Here are the instructions:

- ❶ Randomly assign each group a perspective to represent. You can write them on slips of paper and take turns pulling them out of a hat. Please remember that you don’t have to agree with the perspective (it’s actually more fun when you don’t).
- ❷ Get together with your group members and review the talking points and perspective summaries for your assigned perspective. Then plan your poster. Decide how to convey your assigned perspective’s ideas for solving the problem of lack of affordable housing and what the positive result looks like. Also make sure your poster shows how the other two perspectives fail to solve the problem. Let your creative juices flow.
- ❸ Considering your blank poster board, strategize how to use the space to convey your ideas. For example, you might want to draw lines to create three areas—one for each perspective—or you might come up with one image that integrates all three.
 - Whatever you draw, make sure the images and words are big enough and colorful enough so that people in the back of the room will be able to see and read your poster.
 - Limit the words on your poster to no more than twelve.
 - Please don’t use copied images, or graphs, or Six-Core Cubes, or anything technical (for instance, the word *inelastic*).
- ❹ After the poster is finished, write up your poster presentation. You will be asked to get up in front of the room and talk the audience through each aspect of the poster, so make sure it includes:
 - an explanation of how the poster represents the positive aspects of the assigned perspective,
 - an explanation of how the poster critiques the first of the other two perspectives, and
 - an explanation of how the poster critiques the second of the other two perspectives.

By the time you finish this activity, you should be able to describe clearly what’s going on in the images you chose for your poster, and at the same time your poster should speak for itself. Good luck and have fun!

Re-Vote

Now that you’ve immersed yourself in all three perspectives, it’s time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Housing. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the “Why?” column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 12: Test Yourself!



Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.

1. Imagine that you earn \$2,000 a month gross (before taxes) and that you've found a one-bedroom apartment to rent for \$600 per month (not including electricity, gas, water, and trash). Is this apartment affordable according to the federal definition of affordability?
 - A. Yes, \$600 is 30 percent of your gross earnings of \$2,000 and your housing is therefore officially affordable.
 - B. No, because the rent doesn't include utilities. Once those are factored in, you will have to spend more than 30 percent of your gross income on housing.
 - C. Yes, because your annual gross income is \$24,000, and your annual rent is \$7,200, which is an affordable 30 percent of your gross income.
 - D. No, because in addition to the utilities not being paid, it is also necessary to factor in HOA fees. This amount will be much higher than the 30 percent affordability number of \$600 per month for the base rent.

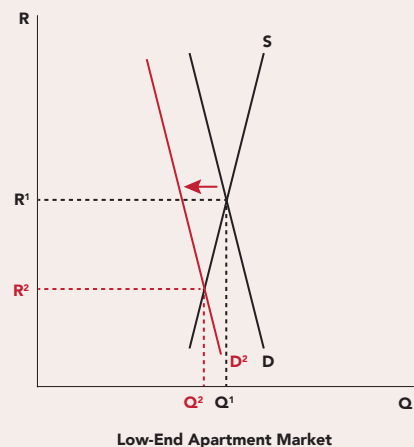
2. Match the type of housing (left column) to its definition (right column).

<ol style="list-style-type: none"> A. Apartment B. Condominium C. Co-op D. Single-family home 	<ol style="list-style-type: none"> i. Residential units in which both the land and the entire structure are privately owned ii. Residential units in a building owned by a nonprofit corporation in which the residents own shares iii. Residential units in a building plus a percentage of shared spaces that are privately owned iv. Residential units in a building owned by a landlord and rented by a tenant
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3. Which of the following addresses the problem of unaffordable housing from the private sector? Choose all that apply.
 - A. Religious groups
 - B. Nonprofit organizations
 - C. Private philanthropy
 - D. Public housing authorities

4. Suppose you are struggling financially and are having trouble paying the rent. You turn to the government for assistance and eventually you're approved to move into a particular privately owned apartment complex where the units are rent-subsidized. Which one of the choices below describes your new housing situation?
 - A. Section 8: Tenant-Based Housing Choice vouchers
 - B. Section 8: Project-Based Rental Assistance
 - C. Public housing
 - D. Low-Income Housing Tax Credit

5. From the viewpoint of a conservative, what is most likely to happen when price ceilings are imposed on residential rents?
- A. Those whose needs for housing are most urgent will be able to get the housing they want.
 - B. Poor people will be able to find adequate low-end housing.
 - C. Homeowners will reduce their own use of housing space, making more available to others.
 - D. People will have difficulty finding housing to rent.
6. Complete the following sentence that best fits the radical perspective: "Housing is a basic human necessity. In capitalism,
- A. the main purpose of housing is to monetize it, not to provide shelter."
 - B. price signals ensure that the best, least expensive, highest-quality options will be available to the most people."
 - C. rent control causes a shortage when fewer landlords choose to supply and more tenants choose to demand."
 - D. a combination of private and public efforts to ensure affordable housing means that everyone who needs a home gets a home."
7. Liberals believe that both radical and conservative policies don't adequately address the issue of housing, but for different reasons. Their critique of conservatives focuses on _____, while their critique of radicals focuses on _____.
- A. the conservative policy of price ceilings; the radical commitment to government ownership of all housing
 - B. the surplus of housing; the endless meetings needed for co-ownership.
 - C. the necessity and lack of substitutes for low-end apartments; the allocation of land by housing councils.
 - D. the tendency for landlords to raise rents; the exploitation of tenants
8. Choose the correct conservative interpretation of this low-end apartment market graph.
- A. When the rent is too high in one place, people leave in search of affordable rents elsewhere. This not only gets people into affordable housing, it is how we populate the country according to the needs of each community.
 - B. Affordable housing is ensured when a price ceiling is set in the market, thereby shifting the demand curve left, from D to D².
 - C. By eliminating all government housing programs and policies, the demand for low-end housing decreases, resulting in lower rents and fewer available units.
 - D. The best way to reduce rents and increase affordability of low-end apartments is to make it less profitable for firms to supply. When this happens, demanders drop out of the market and prices respond.



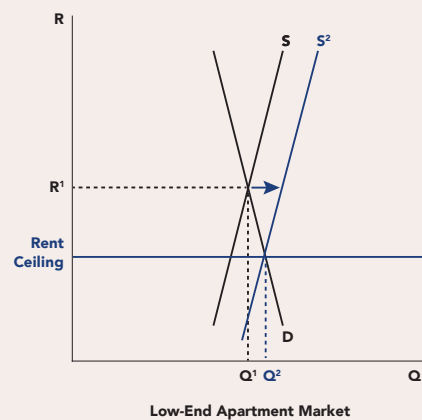
9. Choose the correct radical interpretation of this Six-Core Cube.

- A. When land is privately owned, people get the right mix of low-end, high-end, and middle-range housing that society needs to prosper.
- B. Low-income people have access to affordable housing because the government builds, controls, and allocates all the housing.
- C. Cooperative ownership gives people the right mix of options for the kind of affordable housing they need to prosper.
- D. B and C are correct.



10. Choose the correct liberal interpretation of this low-end apartment market graph.

- A. As with all price ceilings, unsustainable levels of housing shortages (and therefore homelessness) will result.
- B. Inelastic supply and demand of low-end apartment rentals means that price ceilings initially will lead to minimal housing shortage.
- C. The minimal shortage is alleviated in part because landlords are subsidized, which shifts the supply curve to the right.
- D. B and C are correct.



Answers

1. B 2. A – iv, B – iii, C – ii, D – i 3. A, B, & C 4. B 5. D 6. A 7. C 8. A 9. C 10. D

Chapter 12: Key Terms

<u>Affordable housing</u>	<u>Evict</u>	<u>Property manager</u>
<u>Co-housing community</u>	<u>Foreclose</u>	<u>Public housing</u>
<u>Commune</u>	<u>Gentrification</u>	<u>Public housing authorities</u>
<u>Community Development</u>	<u>Homeowners association (HOA)</u>	<u>Rent</u>
<u>Block Grants</u>	<u>Household</u>	<u>Rent stabilization</u>
<u>Community land trust (CLT)</u>	<u>Housing</u>	<u>Section 8 housing</u>
<u>Condo board</u>	<u>Inclusionary zoning</u>	▪ <u>Project-based rental</u>
<u>Condominium</u>	<u>Intentional community</u>	<u>assistance</u>
<u>Condominium owners</u>	<u>Landlord</u>	▪ <u>Tenant-based housing</u>
<u>association (COA)</u>	<u>Lien</u>	<u>choice vouchers</u>
<u>Co-op apartment</u>	<u>Low-Income Housing Tax</u>	<u>Squatter</u>
<u>Co-op board</u>	<u>Credit (LIHTC)</u>	<u>Temporary housing</u>
<u>Cost burdened</u>	<u>Mortgage</u>	<u>Tenant</u>
<u>Default</u>	<u>Point-in-time count</u>	<u>Utilities</u>



13 Issue: INCOME DISTRIBUTION

What are the ingredients for a good life? A German writer named Heinrich Böll wrote a short story about this very question. It's been told and retold (and changed in the retelling) for more than fifty years. Here's how we tell it in the VOTE Program.

A rich investment banker is on vacation in a small coastal town. She wanders into a restaurant for lunch and orders the catch of the day. After one bite, she closes her eyes reverently. "I've eaten in the finest restaurants in the world," she tells the cook, "and this is by far the most delicious fish I've ever tasted!"

"You can tell the fisherman yourself," says the cook. "He's right outside."

She finds the fisherman relaxing in the shade. He's very glad to hear she liked his fish.

"I'm just curious," she says. "How much time do you spend fishing each day?"

"In three or four hours, I can usually catch enough to feed my family and make a good living."

"What do you do for the rest of the day?"

"I spend time with my children. I take walks. I play cards with my friends. Some nights, my wife and I go out to hear live music."



The investment banker says, “You know, with the fish you’re able to catch here, you could be wealthier than you ever imagined. You could be like me. I own a beach house and a ski condo. I collect modern art and send my kids to the best schools. I also make substantial donations to charities.”

The fisherman looks intrigued. “What would I have to do?”

“First, for five days a week, you’ll have to fish from morning til night. On the weekends, you’ll drive to the city and sell your fish there, because you can charge more for it. Eventually, you’ll make enough money to buy a second boat. Then you’ll hire other fishermen to work those boats for you. You’ll quickly make enough money to buy a third boat, and eventually you’ll own a fleet of boats. Then you’ll really make some money!”

“That’s interesting,” he says. “What happens next?”

“Well, once you have your fleet, you’ll open a processing plant to can the delicious fish and sell it around the world. You’ll make even more money!”

“And that’s it?”

“Not at all! You’ll move to a big city like London, or New York, or Paris, and you’ll turn your fish business into a multinational company. You’ll own fleets of fishing boats around the world. You’ll sell many kinds of fish. That’s how you’ll turn your millions into billions!”

“How long will all of this take?” asks the fisherman.

“Only twenty or thirty years.”

“And after I make this fortune—what happens then?”

Money is important
because it enables us to
meet our material needs
so that we can realize our
dreams and ambitions. In
other words, it’s the means
to an end, but it’s not
the end in itself.

“That’s when all your hard work really pays off,” says the investment banker. “You’ll retire. You’ll move to a small coastal town and have all the time in the world to go fishing, visit with your grandchildren, take walks, and play cards with your friends. At night, you might go out with your wife to hear live music. Doesn’t that sound amazing?”

The fisherman laughs. “If I had the ambition to be rich, I’d take your advice. I thank

you for the ideas, but I really can’t see the point of spending decades chasing a fortune just to be able to live the life that I’m already living right now.”

We each have our own definition of a good life. For the fisherman, it was the lifestyle he already had. For the investment banker, a good life meant making a fortune. Your idea of a good life might be something else altogether. There’s no “one size fits all,” but regardless of what you choose, money plays a role. Money is important because it enables us to meet our material needs so that we can realize our dreams and ambitions. In other words, it’s the means to an end, but it’s not the end in itself. This chapter explores the issue of **income distribution**, which is how money is divvied up among the population. People often confuse the issue of income distribution with the issue of livelihood. Livelihood is about people being able to meet their basic material needs, thereby bringing an end to poverty, while income distribution is about who gets what in society. Liberals, conservatives, and radicals all agree that income inequality can cause social conflict, and they all share the same goal of income that rewards people fairly. But they fiercely disagree about what “fair” means and how to achieve it.

Of all the issues we explore in the VOTE Program, this one tends to bring up the most mixed emotions. When you think about your money compared to other people's money, you may feel envy, longing, frustration, anger, glee, guilt, a sense of entitlement, contentment, and more. If you notice yourself having complicated reactions while you're reading this chapter, please know that you're not alone. The person sitting next to you on the bus, at school, or at work is probably having similarly complicated feelings about their income compared to other people's income. The reason, according to social scientists, is that many of us don't simply want more money so we can buy ourselves more stuff. We also care about how much we have in relation to how much others have. Our satisfaction or dissatisfaction with our income depends, in part, on how we perceive our relative position to others.

There's a well-known study from the 1990s that looked at this question of relative position. Students, staff, and faculty at Harvard's School of Public Health were given two choices. They could either earn \$50,000 while everyone else earned \$25,000, or they could earn \$100,000 while everyone else earned \$200,000. Participants were told that the prices for goods and services are the same in both scenarios, so choos-

ing \$100,000 meant the person could buy twice as many products than if they chose \$50,000. What would you choose? Would you rather have half as much stuff if it means having twice as much as everyone else has? Or would you rather have twice as much stuff, even though it's half as much as everyone else? Interestingly, researchers Sara Solnick and David Hemenway found that people's preferences were split down the middle. (Just to note, the subjects in this study weren't given the option of choosing to have the same income as others.) The surprise was that half the respondents were perfectly willing to go with the \$50,000, even though \$100,000 would have given them a higher standard of living. The researchers concluded that we don't care only about getting more goods and services. At least 50 percent of us also care about making more than others. They wrote, "Many seemed to see life as an ongoing competition, in which not being ahead means falling behind."

You might have heard the phrase "keeping up with the Joneses." It's shorthand for not wanting to fall behind others in your socioeconomic class. I remember when I was a girl, my neighbor Ira Friedman and his family were the first people on our block to get a color TV. All the kids in the neighborhood squeezed onto his couch to watch



Photo by Andy Beales on Unsplash

The Wizard of Oz in color. We were so excited that we raced home to tell our parents. Soon, other parents in the neighborhood went out and bought color TVs. Whether it was because they really wanted one, or it was because everyone else on the block had one, or it was because they were afraid of missing out, there was an unspoken competition. No one wanted to fall behind. Being able to afford the latest thing becomes a measuring stick for how well we're doing compared to others—how well we're keeping up with the Joneses (or the Kardashians). This happens at every level of income and wealth. I read an article that said the big competition among the super rich was what kind of helicopters they had on their yachts. Then it turned into a competition to build private spaceports for their private spaceships.

Income and Wealth

When we talk about our money and other people's money, we're actually talking about income and wealth. These are two different things, although the terms are often used interchangeably. **Income** is money received on a regular basis—it's literally the money coming in. For instance, you might earn a wage or salary from working or draw a pension in retirement. (A wage earner is paid by the hour, while a salaried person receives a fixed amount of money to do the job.) Income can also come from ownership. For example, you might collect rents on a property you own, receive interest payments on a loan you made, or earn profits from owning a business. Some income is money transferred from the government, which are benefits distributed to you by the government—Social Security, unemployment, Temporary Assistance to Needy Families (TANF), and others. **Wealth** is a close cousin to income. It's the total value of your **assets**, which are things you own that could be converted into cash. Assets can be real estate, stocks and bonds,

gold, art collections, jewelry, musical instruments, businesses, sports cars, and so forth. Because the value of assets changes depending on the market for those things, your wealth (some use the phrase “what you're worth”) may change daily. Income and wealth affect one another because with more income, you're able to buy more assets to increase your wealth.

The circumstances of your birth determine the wealth you start out with in life. If your ancestors were able to build wealth and pass it down to their children, and those children added to that wealth and passed it down—and so on for generations—you'll be born into a wealthy family. If your ancestors spent generations in poverty because they were brought to this country as slaves, they were displaced from their native land, they migrated to the United States from a poor country, or for other reasons, you won't inherit wealth. That means it will be more challenging to accumulate wealth in your lifetime to pass down to future generations. In other words, wealth builds wealth. The descendant of sharecroppers who becomes a famous neurosurgeon and earns \$1 million a year will likely never be able to match the wealth of descendants of someone who came over on the Mayflower and had generations to grow their family fortune. The word *fortune* means wealth, and it also means luck.

The world's wealthiest people started from a variety of classes. Some inherited their money, and others worked their way up from poverty or middle-class backgrounds. There are currently a few dozen people on the planet who control the vast majority of the world's wealth. In 2017, eight individuals had more wealth than 3.6 billion people, which was roughly half the population of Earth. Unless you've been living in a cave, you've definitely heard of some of them: Microsoft founder Bill Gates, investor Warren Buffett, Amazon founder Jeff Bezos, and Facebook founder Mark Zuckerberg. You may not have heard of Larry Elli-

son, founder of Oracle; Amancio Ortega, founder of Inditex (the world's largest clothing retailer); or Steve Ballmer, former CEO of Microsoft. Let's do a quick exercise. Grab a piece of paper and jot down three reasons that could explain why some people get rich (in terms of income and wealth) and others don't. Please don't read on until you write your answers.

Now that you have your list, compare it to the one below. Is there any overlap with yours? Which reasons do you disagree with, and which surprise you? Is one factor sufficient, or do you believe there has to be a combination of factors to become wealthy? Later in the chapter, when we hear the conservative, radical, and liberal voices on income distribution, these questions will crop up again.

Popular Explanations for Why Some People Are Rich and Others Are Not

(in alphabetical order)

- Connections
- Debt
- Education
- Effort and hard work
- Exploitation
- Globalization
- Hierarchy
- Inheritance (from family or through marriage)
- Luck
- Natural talent
- Opportunity (discrimination and privilege)
- Savings and investments
- Skill
- Taxes that favor the wealthy
- Technological innovations
- Transfer payments
- Unions

Fair or Unfair?

The fact that eight people have more wealth than half the people on the planet combined is cause for a lot of surprise. The issue of income distribution focuses on the third question economists ask: For whom to produce? In other words, who gets the goods and services society makes? The obvious answer is that they go to those who can afford to buy them. In school, at work, in the news, and on social media, these are the different opinions we hear all the time:

"It isn't fair that a handful of people control the vast majority of the world's resources, because those resources should be used for the benefit of all."

"It isn't fair to make the wealthy out to be greedy villains because it's their contributions that enable the rest of us to prosper.."

"It isn't fair that society gives advantages to some people, while others are held back from succeeding."

What is fairness, exactly? On one level, fairness means that the same rules and standards apply in similar situations. In other words, it's fair when people who do the same job at the same skill level are treated equally and rewarded equally. On another level, fairness means you agree with the structure by which rewards are determined. Putting these two levels of fairness together, imagine that all the high school band directors in a school district earn the same salary. Judging by the first level, that seems like a fair outcome. But now you have to ask about fairness on the second level. How was their salary determined in the first place? Who made the decision, and what information was used to determine the value of band directing?

Fights about whether rewards are fair permeate every area of life. In my family, this topic was a real bone of contention. All the children had to do chores, and we all received the same allowance. That sounds fair, because we were held to the same standards—chores had to be com-



pleted—and earned the same reward (the first level of fairness). But my chore was washing the dishes after dinner, which took about thirty minutes each night, and my brother's chore was to roll the garbage can to the curb, which took about sixty seconds once a week. Yet we received the exact same reward, because our allowance wasn't tied to the amount of work we did. I argued that the structure of allowance determination was ethically wrong (the second level of fairness) because I had no say in which chore was assigned to me, and I disagreed with how the time, skill, and effort that it took to accomplish the chores were valued. Filled with resentment, I complained bitterly that it was unfair.

President Theodore Roosevelt once said, "Comparison is the thief of joy." Our sense of fairness is shaped by our very human tendency to compare ourselves with others. For instance, you

might be perfectly happy earning \$10 per hour until you learn that your coworker makes \$20 per hour. Primatologist Frans de Waal found this also to be true in monkeys. He taught two capuchin monkeys to trade a pebble for a food reward. Then he put them in side-by-side cages so they could see each other. At first, they were both happy to trade their stones for pieces of cucumber. Then the researchers changed the reward. The monkey on the right handed over a pebble and received a grape. Witnessing this exchange, the monkey on the left quickly offered another pebble to trade. When the researchers gave it a cucumber and not a grape, it rattled the cage, slapped the counter, and threw the cucumber away. After seeing its neighbor earning a different—and we assume more delicious—reward for doing the same task, it rejected the reward that it had been perfectly willing to accept before.

As a person with siblings, a member of a friend group, and an adult in the working world, I can relate to the frustrated monkey. We have feelings when we're in the lunch line and the other kid gets a bigger piece of cake, or when our friends take an around-the-world trip that we can't take, or when a coworker gets a raise. What do we humans often say? "No fair!"

A series of economic experiments explores how people react to situations they perceive as fair and unfair. These have been around since 1982. One is called the Ultimatum Game. There are many variations, but the classic version goes like this: I give you \$10 and tell you, "If you can get the person next to you to agree to accept a portion of this \$10, then you can both keep your shares of it. But there is a catch. No counteroffers are allowed. It's 'take it or leave it.' And if that person rejects your offer, I'll take back my \$10, and neither of you will get anything." Try it right now with the person sitting next to you, or text a friend and try it. After you finish, read on.

Let's say you offered to split the \$10 evenly with your friend Gia—a fifty-fifty split. Research shows that Gia is likely to accept this arrangement. But if you propose to keep \$9 and give her \$1, the odds are high that she will reject your offer. So we have to ask ourselves, why would Gia say no to a free dollar? One theory is that we care so strongly about fairness that we're willing to take a loss if it means preventing another person from gaining an advantage from what we perceive as extremely unfair behavior. According to this theory, Gia's rejection of your offer is her way of punishing you for making such an insulting offer. Knowing that her loss guarantees your loss, she restores the balance (and perhaps her sense of dignity). By the way, as the one who made the offer, you may care just as deeply about fairness as Gia, but perhaps to you, the low-ball offer was perfectly fair. From your perspective, you were giving her an opportunity to get a free

dollar—and what could be wrong with that? The outcomes of the Ultimatum Game are influenced by our different cultural norms and expectations. In some cultures, it is unheard of to refuse a free gift. In others, it's an insult to be given less than half. But regardless of your culture, I would bet that if you were offered \$1 million while the other person kept \$9 million, you would take it.

The Ultimatum Game is a hypothetical situation, but in real life we make decisions about fairness and income all the time. When I was in my twenties, I had a job as an administrative assistant, which I loved until I found out that another employee was paid a lot more. Our jobs required comparable skills, and we had the same level of experience and seniority. The fact that I was paid less really rankled me. I brought this income disparity to the attention of my supervisor. He dismissed my complaint, so I quit. Then I found a job as a cook in a restaurant, and a few months later I discovered that I was being paid a lot more than the other cook. I thought, "How ironic! I quit a job because the wages were unfair to me, only to get a new job where my wage is unfair to someone else." (I quit that job soon after, because I didn't want to be a hypocrite.)

Whether rewards are distributed fairly is examined and debated in an area of inquiry called **distributive justice**. This is a topic that has engaged economists, social scientists, and philosophers for generations.

Workplace Discrimination

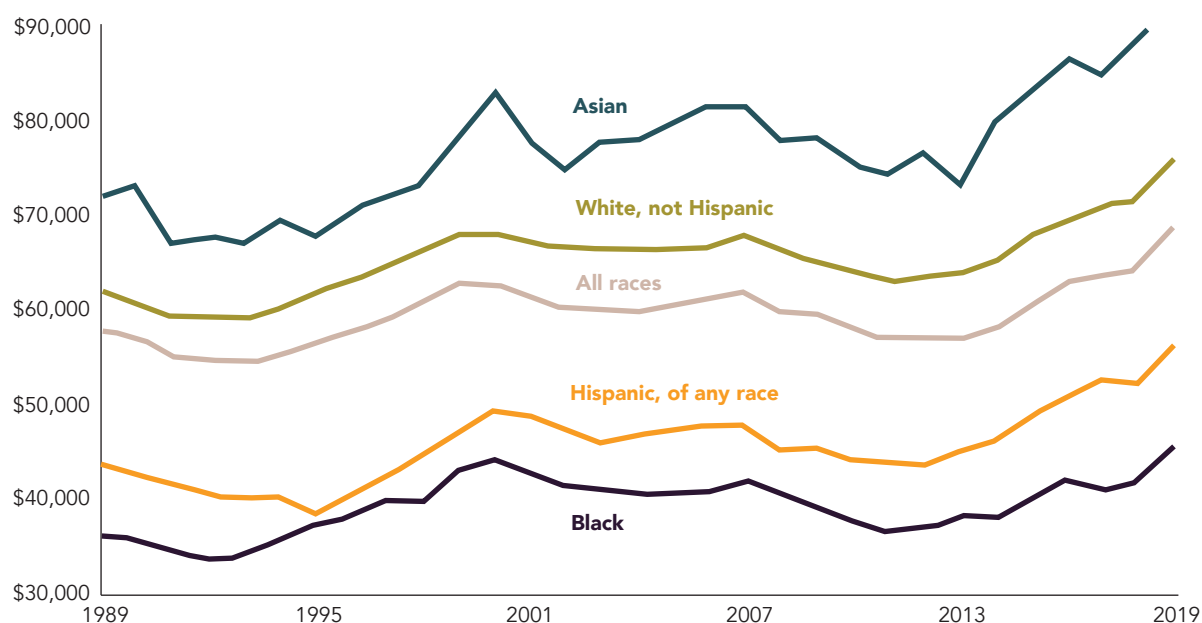
As I said above, fairness means two things: people are treated equally, and rewards are determined appropriately. We'll address the rewards question later in the chapter. Right now, let's talk about what happens when people aren't treated equally—when there is discrimination in the workplace based on gender, race, ethnicity, religion, sexual orientation, size, age, national origin, or other factors. Discrimination in all its forms is

categorically rejected by all three economic perspectives as being morally wrong and bad for the economy. If you or someone you love has ever experienced it, then you know how painful, frustrating, and infuriating it can be. Experiences of discrimination are deeply personal. You're treated unfairly by others because of something you can't change—and don't even want to change—about yourself. On top of that, when they pass you over for the job or the promotion, their behavior jeopardizes your material well-being. Researchers have spent decades tracking income gaps among groups. They find that the median income for Black and Hispanic people is consistently less than the median income for White and Asian people, as you can see in figure 13.1. In each of those groups, there are also income gaps based on gender, with women consistently earning less than their male counterparts.

While there is complete agreement from every perspective that discrimination in the workplace should not exist in any form, they don't all agree that discrimination plays a significant role in the

income gap shown in figure 13.1. As you can imagine, this is highly controversial. Some believe that conscious and unconscious biases in hiring, job assignments, mentoring, training, salary levels, bonuses, promotions, and so forth are key factors that affect income distribution. Others believe that although discrimination exists to a small extent, most income disparity is the result of individual choices. Regardless of these disagreements about the scope of the problem, all three perspectives believe discrimination in the workplace should be eliminated. Let's look at their different ideas for how to accomplish this:

Radical solution to workplace discrimination. Radicals believe workplace discrimination is a deep and abiding problem. They say humans have a long, unhappy history of certain groups dominating others. They argue that systemic racism and sexism, as well as all types of prejudices and biases, have held back society for generations. Radicals solve the problem with participatory governance. Because discrimination occurs in every economic system, including democratic social-



Source: Peter G. Peterson Foundation/United States Census Bureau, *Current Population Survey, 1989 to 2019 Annual Social and Economic Supplement*, September 2020.

Figure 13.1
Income Disparity along Racial Lines, 1989–2019

ism, they put preventive measures in place on the federal, state, and local levels. Using antidiscrimination councils made up of representatives from historically marginalized groups, industry, government, and other stakeholders, they establish nondiscrimination policies, set standards and guidelines for worker-owned firms to follow, and create processes of accountability. Radicals say this guarantees fair treatment for all. With the pressure for good in democratic socialism, the whole society is engaged to address and dismantle systems of oppression.

Liberal solution to workplace discrimination. Liberals believe workplace discrimination is a significant problem that needs to be monitored and addressed. They say our society must correct for the mistakes made in the past by celebrating our differences and practicing inclusion. To liberals, diversity makes our nation stronger. They solve the problem of discrimination in the workplace using government. For example, they support equal pay legislation to ensure that wages are fair, and they advocate for strong civil rights protections so that firms can be held accountable. Liberals say fines and lawsuits against firms that discriminate create a motivation to change behavior. Since firms are in business to make money, they will do the right thing to avoid losing profit. According to liberals, with the profit motive and

Discrimination in
all its forms is
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and bad for
the economy.

the helpful hand of government in fair-market capitalism, the problem is fixed.

Conservative solution to workplace discrimination.

Conservatives believe the income gap is, for the most part, not caused by workplace discrimination. They say it is the result of choices made by individuals about whether to get an education, work hard, seize opportunities, and follow price signals to have

the incomes they choose. Still, conservatives acknowledge that discrimination exists in the labor market. They say that all it takes to fix the problem is to leave it alone. They want to eliminate burdensome regulations, getting government out of the way so that price signals in a free market can end discrimination in the workplace. For example, if there is discrimination against hiring women, demand for male workers will go up, which means the wages for those workers will rise. When it becomes expensive to hire only men, firms will look for ways to maximize profit and gain a competitive edge, so they will hire women at their lower wage. Other firms also need to stay competitive, so they will also hire women. As demand for female workers rises, so will their wages. Conservatives say a free-market economy ultimately makes it unprofitable to discriminate, so firms won't do it. They say that when left alone in a free-market economy, the problem fixes itself.



Thinking about the fisherman story, the Harvard study, the Capuchin monkeys, and keeping up with the Joneses, you can see that this question of fairness and income distribution is relevant to you. It will be a question every time you earn a paycheck. We all want to be treated fairly. From every economic perspective, there's agreement that workplace discrimination is unfair and would be eliminated with their policies. Getting more or less of a reward for doing the same work is unfair. It's unfair if the cake is meant to be divided equally, and then someone gets a gigantic piece,

and someone else gets a sliver, and someone else gets none. That's all about the first level of fairness. The next part of our discussion is about the disagreements surrounding the second level of fairness, which is whether the rewards were determined appropriately in the first place. This is a thorny question. Liberals, radicals, and conservatives agree that income inequality can cause social conflict. And they all share the same goal of income rewarding people fairly. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for Income Distribution

Conventional (conservative and liberal) theory and radical theory use different economic tools to analyze this issue. Before we explore each one, let's talk about a tool that all three perspectives use to illustrate income distribution.

Shared Tools

Back at the turn of the twentieth century, an American economist named Max Lorenz came up with a way to graphically show how income or wealth is divided in a nation or globally. It's called the **Lorenz curve**. A Lorenz curve that is used to illustrate income distribution in the United States shows how income is divided among all the families in the nation. First, 100 percent of the nation's income is divided into quintiles, which are five equal groups of something. Those lines are on the vertical (*y*) axis in figure 13.2. Then we take 100 percent of families (people who live together and are related) and divide those into quintiles as well. You can see those lines on the horizontal (*x*) axis. If 20 percent of families receive 20 percent

of the nation's income, and 40 percent of families receive 40 percent of the nation's income and so on, when you plot it on the graph and connect the dots, you get a 45-degree line. We call this the line of **perfectly equal distribution**. That's what you see in figure 13.2. In other words, it shows that everyone's income is exactly the same.

But in reality, 20 percent of the families don't get 20 percent of the income. According to the U.S. Census, in 2017 those with the lowest income (first quintile) received 3.8 percent of the nation's total income. The second quintile received 9.2 percent. So 13 percent ($3.8 + 9.2$) of the total national income was distributed to the lowest 40 percent of families. The third quintile received 15.1 percent, which means 28.1 percent ($13 + 15.1$) of the nation's total income was distributed to 60 percent of families. The fourth quintile received 23.1 percent, so 51.2 percent ($28.1 + 23.1$) of the nation's total income was distributed to 80 percent of families. And the top quintile—the highest-earning families—received 48.8 percent. In other words, just about half of the nation's total income was distributed to the top 20 percent of families. In figure 13.3, you can see the line of perfectly equal distribution (everyone receives the same amount of income). The bowed curve to the right of the perfect equality line shows the **actual distribution** of income in 2017.

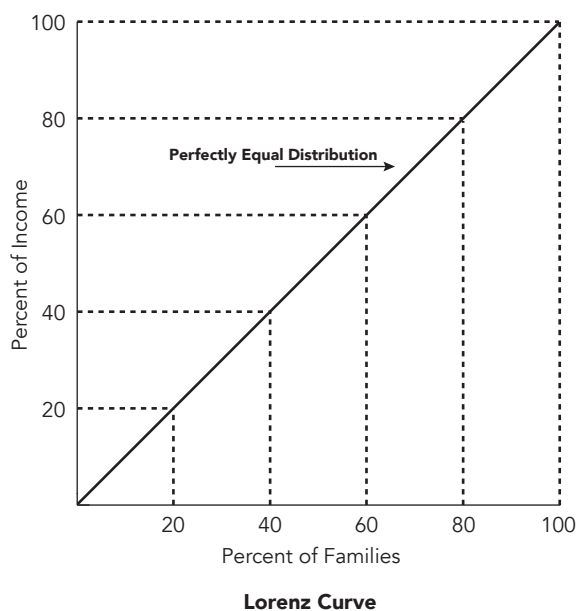


Figure 13.2
Lorenz Curve: Perfectly Equal Distribution

Gini Coefficient

Generally speaking, you won't pick up a newspaper and see a Lorenz curve. Instead, you're more likely to read about the **Gini coefficient**.

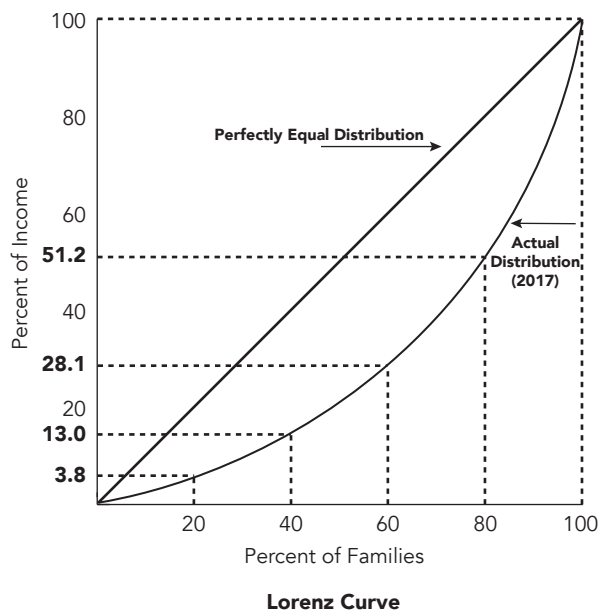


Figure 13.3

Lorenz Curve: Actual Distribution, 2017

It was created by Italian statistician Corrado Gini in 1912, and it assigns an easy-to-grasp numerical value to income distribution. To calculate the Gini coefficient, you must first draw the Lorenz curve and then measure the area between the line of perfectly equal distribution and the line of actual distribution. Looking at figure 13.4, the Gini coefficient is the shaded area (A) divided by the total area to the right of the line of perfectly equal distribution, which is the triangular area formed by B, C, and D (including the shaded area A).

When everyone earns exactly the same amount, there is no shaded area because the distribution of income is perfectly equal. In that case, the Gini coefficient is 0. At the other extreme, if all the income in the nation is distributed to a single family, it's perfectly unequal, and the entire BCD triangle is shaded. In that case, the Gini coefficient is 1. Just remember that a Gini coefficient closer to 0 means there is more equal income distribution, while closer to 1 means there is more unequal income distribution. For example, if Country A has a Gini coefficient of 0.2 and Country B has a Gini coefficient of 0.8, Country A has more

equal income distribution than Country B. By the way, sometimes the numbers appear in percentages rather than in decimal form. So a Gini of 0.2 could also be expressed as 20 percent. The three economic perspectives often use the Lorenz curve and Gini coefficient to measure and talk about income distribution.

Conventional Theory Tools

Because wages are the main source of income for most people, the question of whether your wage appropriately rewards your contribution at work is very relevant. Up until now, we've used foundational conventional theory tools that analyze market changes. Starting with this issue and moving forward, our tools branch out and become even more complex and interesting, but let's start with a quick review. You'll recall that three resources are involved when we produce anything. They are land, labor, and capital. Land is what comes naturally from the earth, labor is any human exertion, and capital is the equipment used for production. Those are all inputs. Outputs are the final goods or services that are

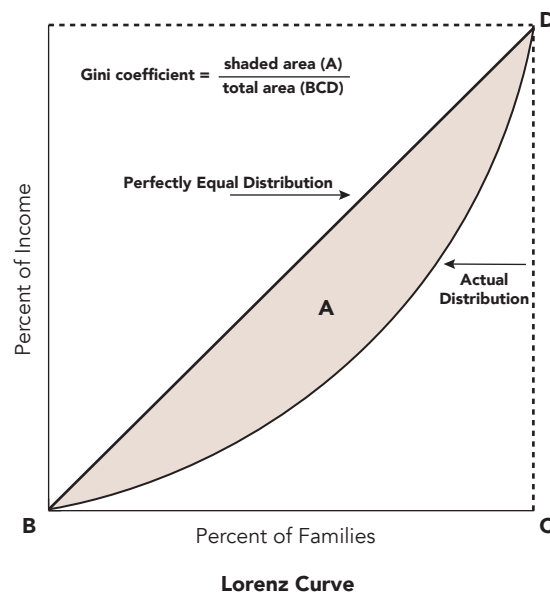


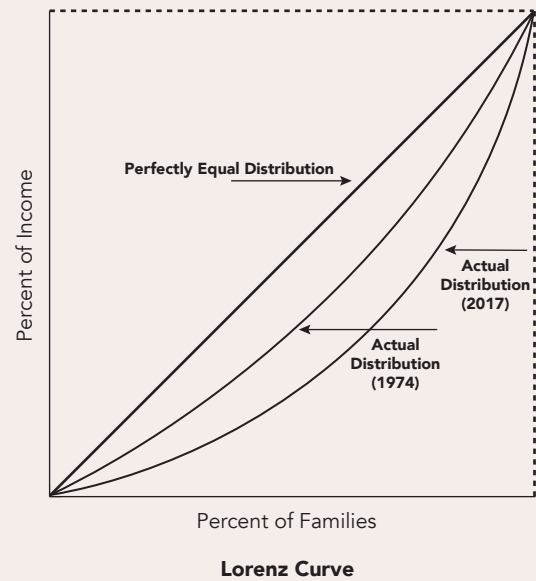
Figure 13.4

Using the Lorenz Curve to Calculate the Gini Coefficient

Exercise 13.1: Comparing Income Distribution on a Lorenz Curve

The Lorenz curve and Gini coefficient are useful ways to compare income distribution in different years or compare the income distribution of different nations. For this exercise, take a look at the Lorenz curve on the right and answer the following questions. The Answer Key can be found at the end of this chapter.

- Was our nation's total income distributed more or less equally in 1974 compared to 2017?
- The two Gini coefficients were approximately 0.35 and 0.48. Which year is associated with which Gini coefficient?



Lorenz Curve: Comparing 1974 and 2017

produced. Let's use an example of a crayon firm to talk about what happens in input and output markets. Please keep in mind that markets reflect all suppliers and demanders, not just single firms and individual buyers.

The crayon market is shown in figure 13.5. As with all other output markets, the crayon suppliers are the firms, and the crayon demanders are the individuals who want to buy the product. Firms supply more crayons when the price is higher, and individuals demand more crayons when the price is lower. And where supply and demand meet is the equilibrium price and quantity of the final product. As you can see, the equilibrium price (P^1) is \$2 for a box of crayons, and the equilibrium quantity (Q^1) is 5 billion.

Input markets are simply the markets for the resources needed to make crayons. There are separate markets for land (wax and dyes), labor (workers), and capital (the factory space and

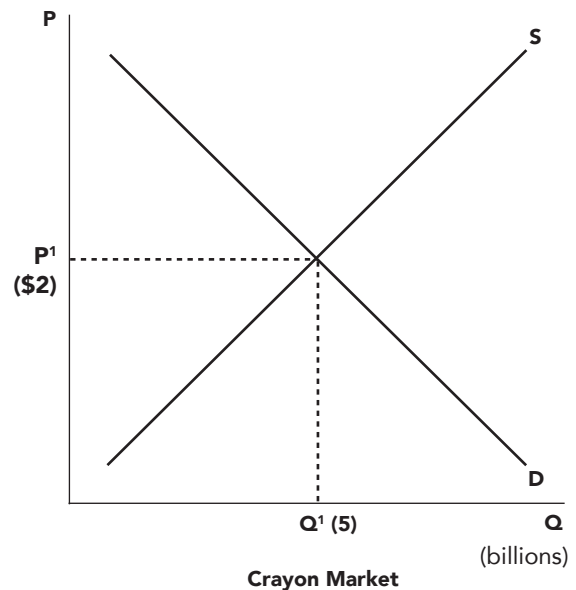


Figure 13.5
Crayon Output Market



Photo by Macro Mama

machines). Let's focus on the input market for crayon labor, shown in figure 13.6. The suppliers of labor are the workers, and they supply more labor at a higher wage. The demanders of workers are the crayon firms, and they demand more workers at a lower wage. From this relationship

emerges the equilibrium price at which the crayon factory workers will supply their labor each day—we call this the wage (W^1), which is \$50—along with the number of workers demanded and supplied at that wage (N^1), which is 8,000.

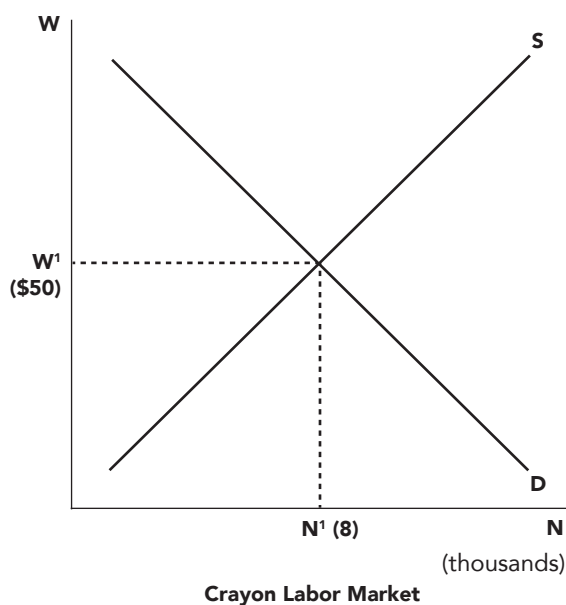


Figure 13.6
Crayon Labor Market

Law of Diminishing Marginal Returns

People really love their crayons. It's estimated that a child will use up 720 crayons by the age of ten. The biggest crayon maker produces nearly 3 billion a year—an average of 12 million a day. That's crazy, right? Given the high demand for crayons, we need to produce a lot of them. Do you think all the world's crayons could be produced in one factory alone if the number of machines and the square footage of the factory floor didn't change, but the number of workers were variable?

When this question is usually posed, the classic way it's asked is, "Can you produce all the world's food in a flowerpot if you allow the number of workers and tools to vary, but you don't change the size of the flowerpot?" Obviously, you can't. It's a ridiculous notion. But what's the technical reason? I'll show it, and then I'll explain it.

Let's say you have a crayon factory. You break down the process of making crayons into different steps. First, the wax is melted, and then fillers are stirred in (these help the wax stick to the paper when you draw with the crayon). Next, dyes are mixed in to give the crayons their vivid colors. Then the colored wax is poured into molds, where it cools and hardens. Finally, a paper label is wrapped around each crayon piece and sealed. The crayons are ready to be boxed together in their rainbow assortments and shipped to stores everywhere. Let's say you have the factory, machines, and raw materials. Now you need workers to melt the wax, mix in the fillers, and add the dyes. You hire a worker, and in a single day she produces 50 boxes of crayons.

You then hire a second worker to be on the mixing crew, and the two workers together produce 150 boxes of crayons per day. That's because one opens the bags of fillers and dye and is ready to pour as soon as the wax hits the right temperature, which improves efficiency. Having a second worker increases production by 100 more boxes of crayons per day. But when the firm hires a third worker, will the crew of three now increase production by another 100 boxes or more of crayons per day? You quickly run into a problem. The three workers crowd around the mixing machine and get in one another's way. They bump into each other, bags of dye spill, and workers are left standing around to wait their turn because they can't all reach the mixing machine at the same time.

The third worker ends up contributing only an additional 70 units of boxes. As more workers are hired, this scenario becomes more extreme. So, can all the world's crayons be made in this one factory? No (as you already knew). Now you understand the technical answer, which is that when an additional unit of a variable input (in this case, a worker) is added to a set of fixed inputs (in this case, a mixing machine), the marginal (addi-

tional) output (crayons) for each additional unit of input (workers) will decrease. This is called the **law of diminishing marginal returns**. In this example, it kicks in with the hiring of the third worker. You can also remember it as "the law of it-gets-too-crowded."

Workers	1	2	3	4	5	6	7
Total Output	50	150	220	270	300	325	330
Marginal Output	50	100	70	50	30	25	5

Table 13.1
Example of the Law of Diminishing
Marginal Returns

In table 13.1, you can see that the first worker produces 50 boxes of crayons, and when the firm adds a second worker, the team of two produces 150 units in total. So hiring a second worker gives the firm marginally 100 more units. Then the company hires a third worker, and because the three workers get in one another's way, they produce less efficiently. Three workers produce 220 units in total, so a third worker gives the firm marginally 70 more units. The marginal returns continue to decline with each subsequent worker, and by the time the firm hires the seventh worker, there is only marginally 5 more units.

In production, at least in the short term, there is always a resource that can't be changed right away. Conventional economists say this is the nature of production. Some inputs are fixed while some are variable. It might be the square footage of the factory, the number of workers, or the amount of equipment. This limits the productive capabilities of any one input, including labor. Hold that thought. You'll need it very soon to understand how conventional theorists answer the question of whether wages reward workers' contributions fairly in capitalism.

Marginal Revenue Product

Given the law of diminishing marginal returns, and because firms are in business to make a profit, the burning question any owner asks is, “What is the ideal number of workers (n) I should hire to maximize my profit?” Let’s say you own the crayon factory. You have to hire workers to produce the crayons. All the workers in the crayon labor market (and the welder market and the corporate lawyer market, and so forth) are assumed to have the same skill level (training, dexterity, brain power, strength, and so on). You pay each crayon worker the equilibrium wage of \$50 for an eight-hour day of work. Before deciding what the optimal number of workers would be, you need to figure out how much money each additional worker generates for a full day of work and then compare that amount to the wage you would have to pay each worker.

Recall that boxes of crayons sell for \$2 apiece, and Worker 1 produces 50 boxes, generating \$100. Worker 2 produces 100 additional boxes of crayons, generating \$200, and so forth. Conventional economists call the money generated by each worker the **marginal revenue product (MRP)**. It is calculated by multiplying the price of the crayons (\$2 per box) by the **marginal output** (the number of additional boxes of crayons produced when adding each additional worker). Table 13.2 shows what it looks like for this example.

Workers	1	2	3	4	5	6	7
Marginal Output	50	100	70	50	30	25	5
Marginal Revenue Product	\$100	\$200	\$140	\$100	\$60	\$50	\$10

Table 13.2
Example of Marginal Revenue Product

To make profitable hiring decisions, you compare the wage you pay the workers to their mar-

ginal revenue product. In figure 13.7, the graph on the left represents the labor market for crayon workers and the equilibrium wage of \$50 for a day of work. The graph on the right represents your firm’s MRP curve. It shows the marginal revenue product for the first worker at \$100, the second worker at \$200, the third worker at \$140, and so on. The MRP curve emerges from connecting each of the dots.

To determine how many workers you should hire to maximize profit, bring the two graphs together by reading them horizontally from the equilibrium wage of \$50. Worker 1 makes \$100 in revenue, and you pay \$50 in wages, so you will definitely hire the first worker. Worker 2 makes you \$200 in revenue, and you only have to pay another \$50 in wages, so yes—you will definitely hire the second worker. What about Worker 3, who brings in \$140 in revenue, while you pay another \$50 in wages? You can see that it’s profitable to hire the third worker. The same goes for Worker 4, who makes \$100 in revenue for your firm while you’re still paying only another \$50 in wages. Even Worker 5 is profitable, because while they make \$60 in revenue, you pay only another \$50 in wages. That’s a profit of \$10.

Now it gets tricky. Should you hire Worker 6? You have to pay another \$50 for a full day of work, and by the end of the day, the sixth worker will add \$50 in marginal revenue product. It might seem like it’s not advantageous, but you can see on the righthand graph in figure 13.7 that for every hour Worker 6 produces crayons up until reaching eight hours (a full day), the MRP is still greater than the wage. (If this is confusing, look at the MRP curve between Worker 5 and Worker 6. You can see it’s in the positive zone right up until the last minute of work completed by Worker 6.) So yes, you should definitely hire the sixth worker to work full time. You will add workers to your factory until the marginal revenue product is equal to the wage. But what about

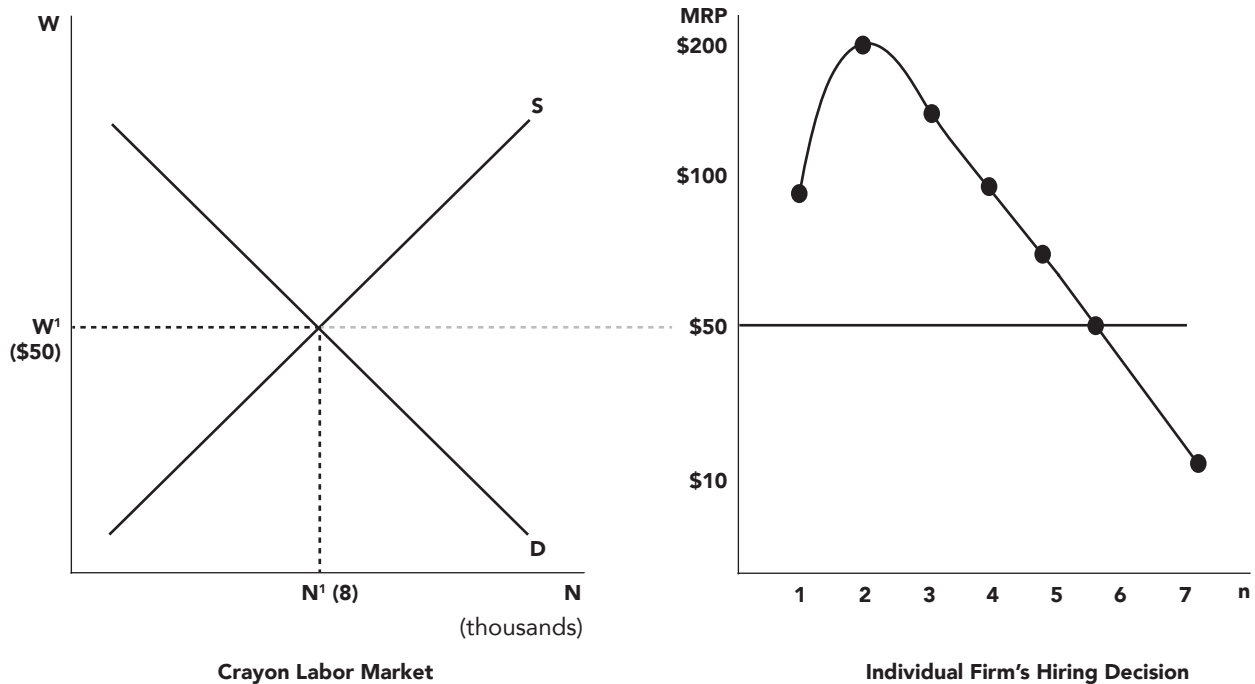


Figure 13.7
Determining Number of Workers Hired by an Individual Firm

Worker 7? You would not hire the seventh worker even for a part-time position because their MRP is less than the wage you would have to pay. So the answer to how many workers you should hire for your crayon factory is exactly six, say liberals and conservatives. To be profitable, firms continue to hire workers until the marginal revenue product is equal to the wage ($MRP = W$). As soon as it costs a penny more to hire another worker, it's not profitable, and a firm won't do it.

We've been looking at marginal revenue product from the point of view of the firm up to now, but what about the workers? Are they being rewarded fairly? Absolutely, say conventional theorists. They made all those rainbow-assortment boxes of crayons that sell around the world, and their contribution to the firm (the marginal revenue product) exactly equals their wage. You might get confused here and say, "Wait a minute. Only Worker 6's marginal revenue product was \$50, so only Worker 6 was paid fairly at \$50 a day." But here's what you're missing, say liberals and conservatives. The order in which the workers were

hired doesn't make any difference. Since it was completely random that one worker filled out the application and started before another worker, it just so happened that the last one to get hired was Worker 6. That means any of the workers *could* have been the sixth worker, so therefore every worker *is* the sixth worker. In other words, the contributions of every worker are measured by the contributions of the sixth worker (\$50 per day), and therefore everyone is paid fairly at \$50 per day. They say people get paid fairly for what they contribute to output, and this structure for wage determination holds true for workers across every industry and at every level—from bankers to janitors to teachers.

The Ant and the Grasshopper

The whole section you've just read is the conservative and liberal technical explanation for the promise of capitalism, which is the conventional belief that hard work is rewarded fairly. This is a message we hear all the time in the media, around the dinner table, and at my daughter's elementary

school. Years ago, she was in a first-grade performance of *The Ant and the Grasshopper*, based on Aesop's fable. She played an ant. She and the other ants worked hard collecting food for the winter, and then the grasshopper stopped by and asked to share their food. He explained that he was too busy playing his fiddle to store up any food for himself. The ants turned him away, delivering the moral of the story, which is that there's a time for work and a time for play, and if you play when you should be working, you'll suffer the consequences.

The lyrics of the song my daughter sang went like this: "Diligence is quite a virtue / Working hard will never hurt you / When you're through there's always a reward / We don't pretend it's easy, but at times work can be fun / and you'll never feel the feeling / that's as good as the one that you feel when you're done / Work work / Work work." This is the first-grade version of what we've just been discussing and looking at in figure 13.7. It perfectly sums up the conventional point of view about work and wages.

Capitalism is an economic system that rewards people fairly, say liberals and conservatives. They agree wholeheartedly on this point, and they also agree that workplace discrimination in all its forms is against the principles of capitalism. But they have sharp disagreements about how to create the right conditions for capitalism to work the way it should so it can bring about fair income distribution. Both perspectives use policies that focus on tax reforms to address this issue.

Capitalism is an economic system that rewards people fairly, say liberals and conservatives. But they have sharp disagreements about how to create the right conditions for capitalism to work the way it should so it can bring about fair income distribution.

Liberal policy: Progressive taxes to fund government programs.

Liberals solve the problem of unfair income distribution by funding programs that create equal opportunities for all. They say that although income does reward people fairly, the playing field isn't level from the start, which means some people are denied opportunities to contribute their best to society and reap the highest rewards for doing so. Even when workplace discrimination is eliminated, there's still the crucial question of whether individuals have the oppor-

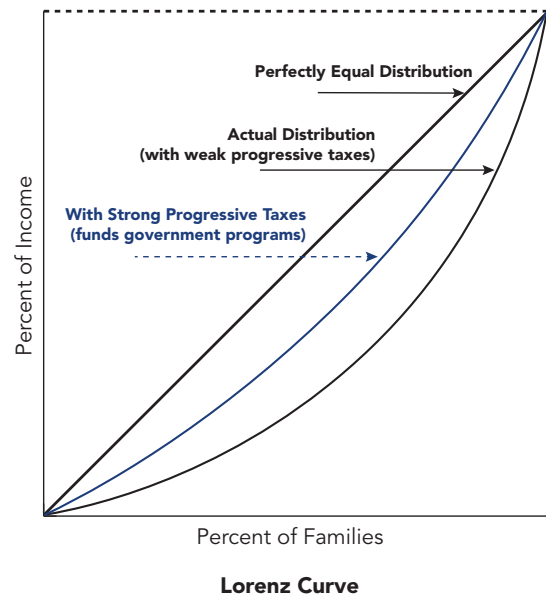
tunities they need to qualify for the job in the first place—the right nutrition, education, health care, financial aid, access to the internet, personal connections with people who can help advance their career (**social capital**), and so forth. Those who start out with an unfair disadvantage have to overcome more challenges than their middle-income and wealthy counterparts to achieve the careers they want and make their best contributions to society. We need to correct that situation by making the playing field fair so that everyone has an equal shot at success, say liberals.

They propose a redistribution of income through **progressive tax policy**, which tax people at increasingly higher rates the more income and wealth they have. Income levels determine one's **tax bracket**, and each bracket pays a different rate. Any time a person moves into a higher tax bracket, only the amount earned over the bracket threshold is taxed at that higher rate. Liberals say this is fair to earners at every level. The revenue from progressive

taxes funds not only national security, protections for private property, and infrastructure but also government agencies and programs that create equity, stability, and transparency with accountability. These expanded roles of government level the playing field. Funding equity means funding early childhood education, Medicaid, SNAP, and other public assistance programs that give people the material well-being they need to be able to participate and contribute to the economy. This liberal idea, called **tax and transfer**, uses government to redistribute wealth by taxing the wealthy at a higher rate and then spending the revenue to help the disadvantaged rise up the socioeconomic ladder to success. Once all people have equitable opportunities to compete, liberals say, “May the best player win!” In other words, the government’s job is to guarantee equal opportunities, not equal outcomes.

Liberals consider the Lorenz curve in figure 13.8 and say the original income distribution is unfair because some people start off with more advantages than others. For example, a fast-food worker is fairly compensated in that position, but if he’d had access to the internet as a youth, he could have learned programming and been more richly compensated as a video game developer. Even though income reflects contributions appropriately in capitalism, people are prevented from contributing their best when they lack opportunities, and they lose the chance to earn a higher income. Liberals say that because opportunities aren’t allocated on a level playing field, some income reflects a person’s privileges and advantages, not just their contributions. Also, the successful made more use out of infrastructure (roads to transport their goods, the energy grid that powers their office buildings, and so forth) and public education (to prepare their workforce), which all of us pay to fund. Therefore, it is only right that the wealthy pay it back through higher tax rates. The blue line shows this correction. With progressive taxes to fund government programs, and with laws that address work-

place discrimination and create transparency with accountability, income distribution moves closer to perfect equality, and the economy is stronger for all of us because everyone is able to participate to the best of their abilities. Liberals say that with progressive taxes, income is fair because the helping hand of government corrects the distortion in the original distribution of the nation’s total income and ensures that income rewards people fairly.



Lorenz Curve

Figure 13.8
Lorenz Curve: Liberal Perspective

Conservative policy: Flat consumption tax and defund government programs. Conservatives say that income distribution in a free market, left alone, is completely fair. They blame the problem of unfair income distribution on progressive taxes and demotivating government programs. Conservatives reject them for several reasons. First, progressive taxes unfairly punish the wealthy, which sends the wrong signal. Instead of motivating entrepreneurs to work hard, invest, and create jobs, higher tax rates discourage them from starting and expanding businesses. There’s no point to becoming profitable and successful in this envi-

ronment. As a result, we have growing income disparity because then only the super rich stay in the game, and with less competition, they can gobble up more market share and get even wealthier. Second, the government takes the money from hard-working people and hands it over to those who didn't work hard, giving them a free ride, which saps their motivation to work. Third, those government housing, food, and health-care programs create a disincentive for people to contribute because those programs are means-tested. If they earn too much, they will lose them, so people don't work. This widens the income gap even more. Conservatives say the promise of free-market capitalism is that everyone can follow price signals and have the income they deserve.

Conservatives propose unfettered distribution of income, which occurs when we get rid of harmful progressive taxes. They say we work hard, contribute our best talents and abilities to society, seize opportunities, and succeed because free-market capitalism creates social mobility. Anyone can go from rags to riches. And being born into poverty isn't necessarily a disadvantage—in fact, it is a powerful motivator to work hard, stay in school, seek out apprenticeships, put in extra hours, and get valuable experience that will one day translate into a higher income. Conservatives want to get rid of income taxes, which demotivate people from working. This will create a prosperous society where all people contribute and all people thrive. They also want to abolish all progressive taxes and government handout programs and instead use **flat consumption tax policies**. These are taxes on purchases, and the tax rate is the same for all—regardless of income. The revenue from these taxes fund the three roles of government that conservatives support: national security, protecting private property, and infrastructure—highways, power grids, water treatment plants, and so forth. Flat consumption taxes ensure that we won't have bloated government bureaucracies, but we will have what we need as a society to prosper and thrive.

Conservatives consider the Lorenz curve in

figure 13.9 and say that when we get rid of progressive taxes, the income distribution curve is no longer distorted by government interference. It now reflects the choices and efforts people make using their free will to pursue their careers. When the wealthy are no longer unfairly penalized for earning a higher income, everyone in society is motivated to become well-off by making the most of their talents, skills, and gifts, because they know their contributions will be fairly rewarded. Society benefits when more people participate in the economy and bring us new inventions and better ways to produce, and government can still have the revenue it needs to fund essential services by using flat consumption taxes. Also, when society is no longer burdened by government programs that hold back the lowest earners by making them dependent on means-tested handouts that keep them stuck in poverty, we'll see a surge in motivation to learn new skills and work harder. Productivity will rise and the income gap will lessen on its own. Conservatives say free-market price and wage signals fix the problem and ensure that income rewards people fairly.

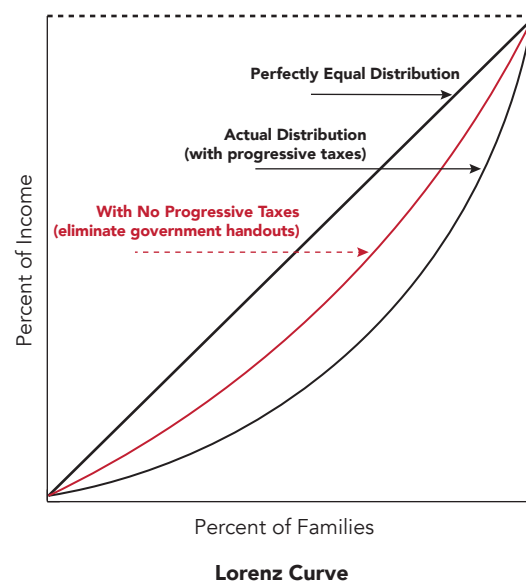


Figure 13.9
Lorenz Curve: Conservative Perspective

Radical Theory Tools

Now it's time to take a look at the radical tools you'll need to understand the issue of income distribution. Remember, there are two parts: radicals describe capitalism and then describe democratic socialism. Their model for each economic system is the Six-Core Cube, which is anchored by six core points around which everything is constantly shifting. The core points reflect the commitments to and structures of ownership, production, governance, sustainability, communities, and meeting people's basic material needs. The commitments of each economic system lead to very different outcomes.

Income Distribution in Capitalism

Radicals say all six core points could be used to analyze every issue, because all six commitments and structures of the economic system are constantly in play. To analyze income distribution in capitalism, they use the core point of **unhealthy communities**. The term *unhealthy communities* can be confusing because it sounds like an outcome—something gone wrong in a commu-

nity. But it's actually a process that leads to the outcome. *Unhealthy communities* is defined as firms disregarding the impact of the production, consumption, and distribution of their products here and around the world, resulting in a host of harmful outcomes to individuals, communities, and the environment.

In capitalism, the way firms treat individuals, communities, and the planet has devastating consequences on every level, say radicals. Workers and whole communities are viewed as expendable—to be used up and tossed away when they no longer have value. Private owners pay the lowest possible wages, cut overtime, cut benefits, and make their workers poorer while they grow wealthier off the workers' labor. Firms move into communities and plunder as many natural resources as possible, further enriching themselves at the expense of people and the planet. Those who live in those communities have no control and no say about how the land, water, air, and capital in their own backyards are used. They are at the mercy of firms that have no long-term commitment to the well-being of the people who work for them or the

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
- 6. Unhealthy Communities**

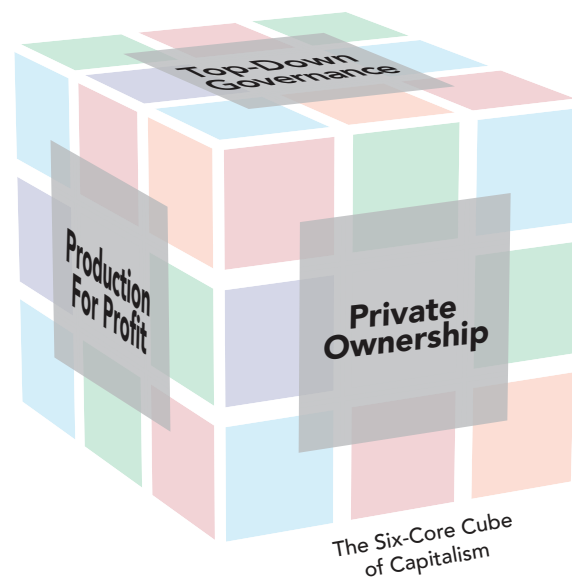


Figure 13.10
The Six Core Points of Capitalism

communities where they do business. They pick up and move their firms at the drop of a hat when it's profitable to do so, abandoning communities and turning neighborhoods into ghost towns. Both the unemployed in the abandoned towns and the impoverished workers in the newest location of production are stuck living with pollution, illness, and other hazards from the firm's production. This is what happens when there is no local ownership of resources, say radicals. The drive for profit extracts and gobbles up as much land, labor, and capital as it can, and then moves on to prey on the next community. In the process, the few at the top grow grotesquely wealthy while the masses sink deeper into poverty.

Please don't be lulled into thinking that the problem is just a few greedy owners, say radicals. This is not about a few bad actors. It is a systemic problem caused by capitalism itself. Private owners have no choice—they must focus on their bottom lines or they'll be plowed under by the competition. They may genuinely want to consider the effect of their production decisions on local communities, and they may wish they could take into account the repercussions of their distribution decisions on the rest of the world, but if they do so, it will cut into their profits. Then a competitor will muscle in and drive them under. All the owners fear that they will be driven out of business, so they race to the bottom. They look for more ways to cut corners on workplace safety, environmental standards, and product quality to boost their profits. But here's the kicker, radicals say: no one can win this race. Capitalists claw and fight their way to the top, but the joke is on them. There is no finish line in capitalism, because there's never enough profit. Capitalism is insatiable, consuming everything in its wake, and always needing more. In this economic system, there is no win-win, and there's not even a win-lose option. We all lose—owners, workers, and communities across the globe.

Unhealthy Communities

- People and the planet are treated as expendable.
- There is no local control over resources.
- Firms race to the bottom.



Built on the core point of *unhealthy communities*, capitalism trades the well-being of all for the profits of a few.

Here is how the core point of *unhealthy communities* and the pressure for bad work in capitalism:

Scenario 1. You're having coffee with an old friend from grad school who owns a competing crayon factory. She tells you, "I bought a bigger mixing machine, and now my factory is able to turn out twice the number of crayons per day. I've doubled my profits in the first quarter because my workers are now twice as productive. My business model is wildly successful and all that money goes right to me. I don't even have to give raises this year."

You say, "It doesn't seem right to get richer and richer at the expense of workers. I can see where this will lead. Eventually, we'll be able to replace half our workforce with the new machines, and we'll be raking in the profit. But our laid-off employees and their families will be out on the street. I don't want to do it."

“Then don’t do it,” she says.

But you will do it, and so will all the other owners. You have to stay competitive or you’ll lose your business. Radicals say *unhealthy communities* leads to extreme income inequality because in capitalism, people are expendable, and the only commitment owners have is to show a profit.

Scenario 2. You’re playing tennis with a competitor, who says, “At our factory up north, we switched to using those new dyes for our crayons. They’re so much cheaper. With the money I saved, I launched an aggressive advertising campaign, and sales tripled this quarter.”

You say, “But studies show those new dyes may be toxic. Children who put the crayons in their mouths could get very sick. And your factory is polluting the community’s groundwater with those toxic chemicals. It will harm people, and then families will be saddled with overwhelming medical debt. They’ll start seeing more bankruptcies in their city. It’s a terrible idea. I don’t want to do it.”

He says, “So don’t do it.”

But you will do it, and so will all the other owners. If you don’t, you’ll be driven out of business. Radicals say *unhealthy communities* means local workers and their families and neighbors end up paying in money and suffering for the bad decisions of the faraway owners of firms. Lack of local control over resources leads to more severe income inequality across the nation.

Scenario 3. You’re at a trade show and meet a competitor, who says, “Kids are spending more time on computers and less time coloring pictures, so sales have been down. I had to cut all my full-time workers to part time so I could stop paying them benefits. Now I’m getting ready to move the factory to a country with lower wages and no workplace safety standards. We’ll have our highest profits ever by this time next year.”

You say, “Sales are also slow for us, too, but I just can’t bring myself to convert my longtime workers to part time. They need their benefits

and full-time wages to support their families. Your strategy just makes people’s lives harder and makes the income gap wider. And moving to another country will deplete their resources and hurt the local economies where we have our factories. I don’t want to be a part of that.”

They say, “So don’t do it.”

But you will do it, and so will all the other owners. You’ll have to if you don’t want to be the next factory driven out of business. Radicals say in capitalism, *unhealthy communities* means firms race to the bottom, the rich get richer, the poor get poorer, and extreme income inequality devastates the masses and harms the planet.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering
of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- **Extreme income inequality**
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Income Distribution in
Democratic Socialism

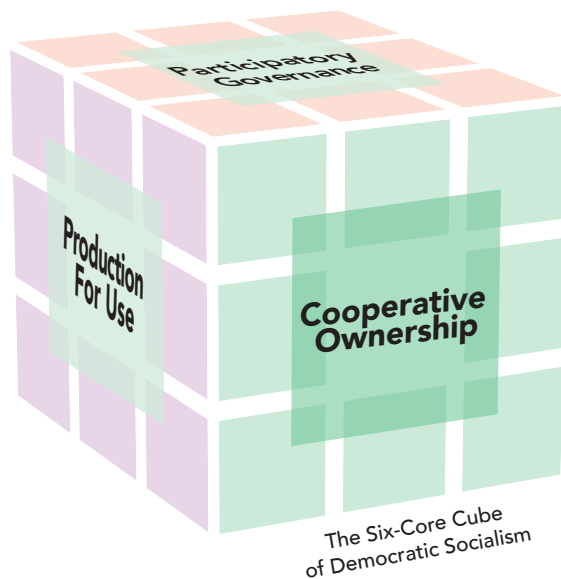
To analyze the issue of income distribution in democratic socialism, radicals drill down into the core point of **healthy communities**. It is defined

as firms taking into account the impact of the production, consumption, and distribution of their products here and around the world, resulting in a host of beneficial outcomes for individuals, communities, and the environment.

Radicals say worker-owned firms treat individuals, communities, and the planet in beneficial ways on every level in democratic socialism. Worker-owners use a democratic process to make sure everyone is paid a wage that fairly compensates them for their contributions and provides each person with an income that meets their needs. They each have a vote to determine work hours, benefits, and other policies in the workplace. Co-owners understand that everyone in the firm plays an important role, and they value one another's contributions at every level. Radicals hold to the view that workers are productive collectively, not individually, which means rewards in the firm are tied to the productivity of everyone working in concert. Even though the worker-owners may decide to have different salary levels, there is a relatively small gap between the highest and the lowest wages in the firm. Because worker-owners

live in the communities where they produce, their firms are trusted institutions in those communities. Even if they make products that aren't used locally but are shipped far away to be used by others, worker-owned firms in democratic socialism view themselves as long-term partners who add value to their communities as well as suppliers of valuable goods and services to people in other places. The well-being of people and the planet is the first priority of all economic decisions in democratic socialism. Worker-owned firms operate with the understanding that we all share one planet, so it is in their best interest to be accountable—not just to their own communities and country, but to the whole world. A decision to make safer crayons translates into children halfway around the world expressing their creativity without getting sick from toxic chemicals. A decision to make the crayons biodegradable translates into less-polluted landfills across the planet. A decision to source the wax from worker-owned firms in other countries promotes workplace justice on Earth.

A commitment to *healthy communities* is about following the golden rule and treating others as



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development

6. *Healthy Communities*

Figure 13.11
The Six Core Points of Democratic Socialism

you would want to be treated yourself, say radicals. The people who will be affected by changes in their community have a say in those decisions. When every community has control of its own resources, then the people who live there have the power to decide how they will be used. So when a firm wants to build a new crayon factory, the worker-owners consult with the local council that manages the community's resources to ensure that the new enterprise will benefit people and the environment for generations to come. And here's the great news, say radicals: everyone is a winner in the economic system of democratic socialism—individuals, worker-owned firms, and communities throughout the world. Because people own the means of production together as worker-owners, fair income distribution is baked into the economic system. Rewards for production are predistributed fairly because people have an ownership stake—and with it, a voice and a vote. We live in a global economy, so when the economic system is built around *healthy communities*, everyone's well-being is assured, and we have peace and prosperity.

Healthy Communities

- People and the planet come first.
- Firms think globally and act locally.
- There is local control over resources.



The Ant and the Grasshopper Retold

“Work hard and you will be rewarded” is a concept unrealized in capitalism, but it is within our grasp in democratic socialism, say radicals. The moral of Aesop’s fable about the ant and the grasshopper is, “There’s a time for work, and there’s a time for play,” and if you can’t distinguish between the two, you’ll be left out in the cold. But Nobel Prize–winning novelist Toni Morrison and son Slade Morrison wrote an alternate version of the fable that has a radical twist, in which the grasshopper offers a different interpretation of its contribution. During the summer, the grasshopper plays music, and the ant dances to it. In the fall, the ant gets to work preparing for winter, but the grasshopper is busy making music. When winter comes, the cold and hungry grasshopper asks the ant for help. The ant refuses, saying to the grasshopper: “You should have known what tomorrow would bring. Then you wouldn’t be begging for anything.” The grasshopper replies, “I’m an artist, that’s what I do! You loved my music, so respect me too!... I quenched your thirst and fed your soul. You can’t spare me a doughnut hole?” Radicals say the diverse contributions people make to society are valued in democratic socialism. It’s understood that people have more to give to society than adding a few more zeros to the bottom line.

Radical policy: Universal basic income and maximum wage cap. Radicals say equitable income distribution is the norm in democratic socialism because workers are empowered as co-owners to create a fair system. Any remaining issues of income inequality are solved in two ways. First, they predistribute wealth through a **universal basic income (UBI)**. This is a set amount of money each person over the age of eighteen receives monthly. It’s not means tested, meaning everyone gets a UBI regardless of their income. (Wealthy people who don’t need it can donate it to organizations whose work they support, or choose not to collect it, but that is up to the individ-

ual.) The UBI is unrestricted money, so it can be used any way a person chooses. The amount of the UBI is sufficient to keep people out of poverty. Although everyone receives the UBI, radicals say the effect it has on income is proportionally greater for the lowest earners. For example, an annual UBI of \$15,000 for a person who makes \$30,000 increases their annual income by 50 percent. A \$15,000 UBI for someone who earns \$300,000 is only an increase of 5 percent per year. Radicals say this is a simple and elegant way to narrow the income gap. It's also a social commitment to valuing contributions that don't command a high salary but add to the quality of life in the country. Artists, immigrants, students, temporarily disabled workers, new entrepreneurs, families with children, and many others can rely on the UBI to make ends meet while they enrich society, work their way up in the world, heal from an injury, or take calculated risks to launch new ventures.

The UBI and all the other social safeguards that guarantee each person a decent standard of living are funded through progressive taxes in democratic socialism. There is no need to hoard wealth out of fear that there will be some future financial catastrophe because the big-ticket, necessary items are guaranteed to all—health care, higher education, day care, retirement income, and more. Progressive taxes are not viewed as a burden on society in democratic socialism. While effectively lowering the income levels of the top-earning quintile, those people can continue to enjoy a high standard of living and can sleep well at night knowing everyone else can, too, say rad-

The Universal Basic
Income is unrestricted
money, so it can be
used any way a person
chooses. The amount
of the UBI is sufficient
to keep people
out of poverty.

icals. Everyone is harmed when the income gap is too wide. Progressive taxes in the context of democratic socialism eliminate the conscious and unconscious fear and resentment that are the toxic byproducts of income inequality.

The second policy radicals propose to prevent dangerous income disparity is to put protections in place for firms. The worker-owners vote on how to distribute the money made by the firm and how to reward

people in the company for their contributions, but radicals acknowledge that even with a democratic process, it's possible that majority rule will result in unfair income distribution. **Maximum wage cap** legislation establishes a ceiling on how much people are allowed to earn relative to the other worker-owners in their firm. By setting a percentage difference between the highest and lowest wages of worker-owners in a firm, undue power and influence are kept in check. Innovation, skill, and hard work are rewarded, and people are motivated to contribute their best because they know the rewards will be fair. The inventor can still earn more than the person who answers phones if that's what the worker-owners decide, but the disparity between their incomes will be within reasonable bounds. The maximum wage cap is determined through participatory governance, considering the opinions of worker-owners, experts, and government representatives. Radicals say that democratic socialism's focus on *healthy communities* ensures that income rewards contributions fairly.

Here is how the core point of *healthy communities* and the pressure for good work in democratic socialism:



Figure 13.12
Healthy Communities: Radical Perspective

Scenario 1. You're having coffee with an old friend from grad school who is a co-owner in a competing worker-owned crayon factory. She tells you, "We bought a new mixing machine, and now we're able to turn out twice the number of crayons per day, and it's much more energy efficient. We've already doubled our profits in the first quarter and saved significantly on our electric bill. We had a special vote to decide how to distribute the profit, and the majority voted to give a 3 percent pay raise for our lowest earners. We want to lessen the wage gap even more than we're required to do under the maximum wage cap."

You say, "That's a wonderful idea. You're using machines to improve the way you produce and help the environment, and you're improving life for all your worker-owners. Our firm should check out that new technology. I think it would be wonderful to give raises to our lowest earners, too. Their jobs might not be the most highly skilled, but we couldn't stay in business without their contributions."

"You should do it," she says.

Both of your firms will do it because in democratic socialism, a commitment to *healthy communities* means the needs of people and the planet

are the first priority. Machines are used to make people better off and make production more environmentally friendly, and the firm's profit is used to make society a better place for all—not just the wealthiest.

Scenario 2. You're playing tennis with a competitor, who says, "One of our founders developed a nontoxic dye for crayons. It's safer for the worker-owners who use the mixing machines, and it's also better for the environment. Plus, no parent will have to worry that our crayons will make their children sick. We voted to give her a bonus and a raise that will still keep her within the maximum wage cap. In our firm, we believe that innovators should get a higher level of pay, commensurate with their level of contribution. And we voted to give a portion of next quarter's profits as across-the-board bonuses, because we each make valuable contributions to the success of our firm."

You say, "The maximum wage cap is good for all of us. Maybe our firm should set the pay scale higher for innovators and those whose work effort goes above and beyond. Our founders already get a year-end bonus to reward them for the sweat they put in to get our firm off the ground. I think it's fair, and I appreciate a work environment where compensation isn't 'one size fits all.'"

"You should do it," he says.

Both of your firms will do it because in democratic socialism, a commitment to *healthy communities* means that income disparity is not a problem for society because there is a cap on how high salaries can be set relative to the other salaries in a firm, and worker-owners have a say in what the pay scales look like. The system is balanced and inherently fair.

Scenario 3. You're at a trade show and meet a competitor, who says, "It's a relief that we all have our basic needs met in democratic socialism, and the UBI is really helping our low-income customers afford our products. At the start of the school year and at holiday time, sales of our 120-color

jumbo crayon boxes soar. When the vote comes around again about whether to renew progressive taxes to fund the UBI, I'm voting 'Yes!' You should, too."

You say, "Actually, I'm one of the people who pays more under the progressive tax structure, but I think it's fair. It not only helps our firm's business grow because people can afford our products, it directly benefits the community where I live and work, and it helps communities around the world because their worker-owned firms also prosper when we can buy their products in our local stores. So I'll definitely be voting 'Yes.'"

"You should do it," they say.

Both of your firms will do it because in democratic socialism, a commitment to *healthy communities* means making decisions that lessen income inequality so that people everywhere can thrive in the global economy.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- **Equitable income distribution**
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of income distribution. This is an extremely relevant and personal debate for you and for all of us as a society. Next,

we'll explore the conversations that are taking place around you about income disparity, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.





The Issue

In my forties, I finally realized my lifelong dream to run a marathon. Actually, I ran three marathons—very slowly. To prepare, I had to build stamina, get coaching to improve my technique, and go to bed early every night so I could wake up at four a.m. to train. My reward for participating was a deep sense of satisfaction. Think about running a race as a metaphor for the issue of income distribution. To prepare to get a job, you have to train—in school, internships, or apprenticeships. You benefit from coaches and mentors. You skip the parties and get a good night's sleep so you can be at work on time. And your reward at the end of the pay period may be a deep sense of satisfaction, but it's also a paycheck.

One of the greatest races in the twentieth century was an epic competition between the first two men to break the four-minute mile (or the first we know of, since our distant ancestors may well have run even faster while racing away from rampaging lions and stampeding elephants). Before 1954, it was considered humanly impossible to run a mile in under four minutes. But a medical student from England named Roger Bannister proved that wrong. Bannister grew up in a working-class family and earned a scholarship to Oxford University, where he studied medicine. He once told a reporter that he became a runner as a youth to avoid bullies. He was eleven years old when Germany bombed London during World War II, and

he told the reporter that when the sirens sounded to warn of air raid attacks, he would sprint to the nearest bomb shelter. Bannister was a gifted runner, but he gave up the chance to compete at the 1948 Olympics because he felt it would be wiser to focus on his studies. In 1952, he competed in the 1,500-meter event in the Helsinki Olympics and came in fourth place. The British press was critical of his performance, so Bannister decided to prove himself by breaking the four-minute mile. He used his medical knowledge to develop a training program for himself.

Many runners wanted to be the first to set this world record, but it was Bannister who did it. On May 6, 1954, a crowd gathered at Oxford Uni-

versity's Iffley Road Stadium to witness Bannister make history. He came across the finish line in 3 minutes and 59.4 seconds. He was hailed as a champion, but in fact he held the world record for only forty-six days. Australian runner John Landy beat his time by 1.5 seconds. Bannister and Landy faced off a few weeks later at the British Empire and Commonwealth Games. Their race became known as the Miracle Mile. Landy was in the lead, but at the final turn, he glanced over his left shoulder to see where Bannister was, and Bannister edged passed him on the right to win. After the Miracle Mile, Bannister devoted himself full time to his career as a neurologist and gave up competitive running. But his remarkable accomplishment inspired others to try to run the mile even faster. In 1999, a new world record was set by Moroccan runner Hicham El Guerrouj, who ran the mile in 3 minutes and 43.13 seconds.

You may be surprised to learn that Roger Bannister didn't win any money by setting a new world record. He earned the deep satisfaction of achieving what others previously thought was impossible. Today, many world-class athletes are well rewarded with multimillion-dollar salaries in addition to bonuses and prize money when they win championships, and even more money on top of that from endorsements. For example, the winners of Wimbledon and the U.S. Open each won more than \$3 million in 2019, while the female and male winners of the Boston Marathon each received \$150,000 that year. There are different ways we feel rewarded for hard work and effort, and money is one of them. When you look at your paycheck, you hope and expect that it rewards you fairly. This is the crux of the issue of income distribution.

Understanding Income Distribution

What do you think income distribution should look like in the United States? Earlier in the chapter, we showed a Lorenz curve depicting the actual income distribution in 2017. Remember, we took 100 percent of American families and divided them into five groups (quintiles) of 20 percent each. Then we showed on a graph what percentage of the nation's total income each quintile received. Another way to look at the distribution of income is to draw a rectangular bar for each quintile of families and arrange them from lowest (left) to highest (right). Then imagine you have one hundred pennies to represent 100 percent of the nation's income. When you place the corresponding number of pennies in each box for each quintile, it looks like figure 13.13.

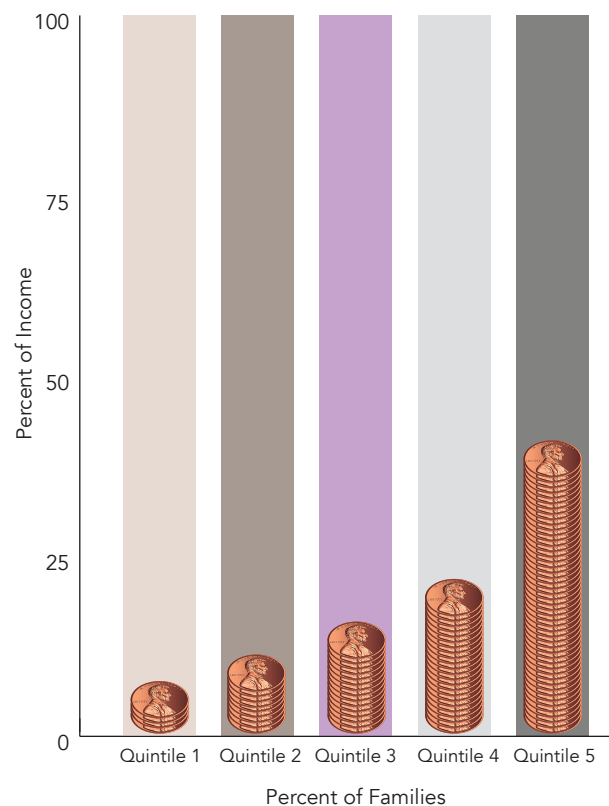


Figure 13.13
2017 Income Distribution: Bar Graph

Now comes the fun part. Pretend you're in charge and rearrange the pennies to show the income distribution you think is ideal for a nation. What number of pennies would you give to each quintile? Should each get twenty pennies so it's perfectly equal? Should there be a steady incline from bottom to top quintiles? Or should the bottom four quintiles each get one penny apiece and the top quintile get ninety-six pennies? Or maybe you're happy with how it already is, and you don't want to change anything. Take a moment to consider your answer.

People have different ideas about what is the ideal distribution of income and wealth. A well-known study on wealth distribution was published in 2012 by researchers Michael Norton of the Harvard Business School and Dan Ariely of Duke University. They asked a nationally representative sample of 5,522 Americans where they would choose to live based on the distribution of wealth in that country. The catch was that participants would not be able to choose the quintile to which they would be assigned once they moved to that country. There were three countries in all, and researchers showed them pie charts repre-

senting wealth distribution for each. In Country A, the majority of the wealth—84 percent—went to the top quintile, the middle quintiles together controlled 15 percent, and the bottom two quintiles together controlled less than 1 percent. In Country B, distribution was more equal across all the quintiles, with the lowest quintile controlling 11 percent and the top controlling 36 percent of wealth. Country C had perfect equality, meaning each quintile controlled 20 percent of the nation's wealth. You can see the different pie charts in figure 13.14 (note that the totals may be slightly over or under 100 percent due to rounding).

Participants were shown two pie charts at a time and then asked to choose between the two. Which country would you choose to live in—keeping in mind that you wouldn't be able to select your quintile? Although this is about wealth distribution, consider which country most closely matches the ideal income distribution that you determined above.

The researchers were surprised that a whopping 92 percent of respondents chose Country B over Country A, and 77 percent chose Country C over Country A. There was only a small per-

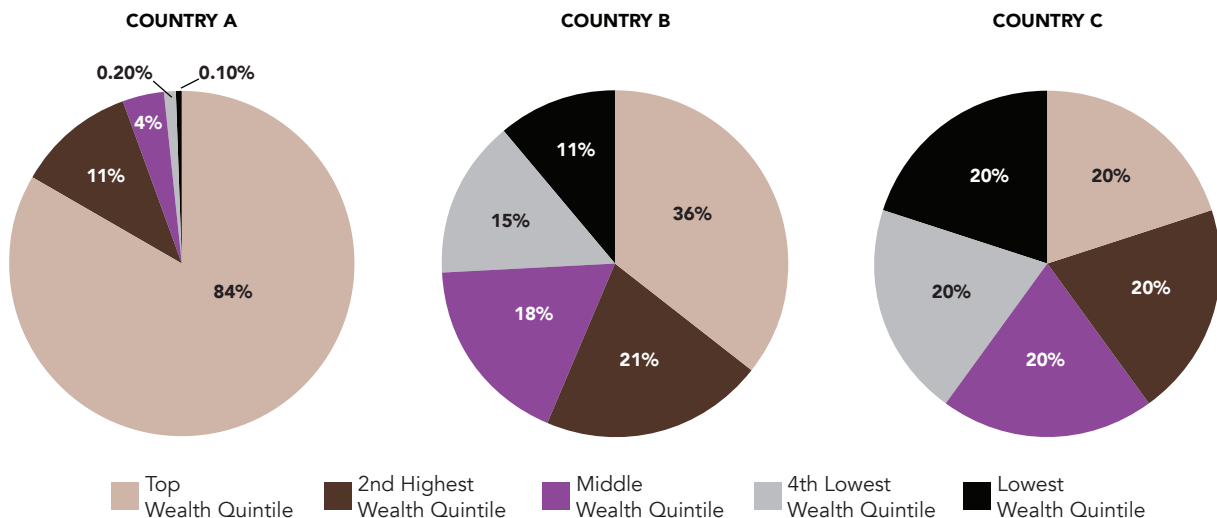


Figure 13.14
Wealth Distribution Experiment

centage difference between those who chose Country B versus Country C. After people made their choices, Country A was revealed to be the United States, and Country B was revealed to be Sweden. Country C was fictitious. The researchers concluded that there is a remarkable level of agreement among Americans about the ideal distribution of wealth, and it was even more noteworthy given the diversity of the participants in the study. They represented a cross-section of genders, races, ages, backgrounds, political affiliations, and regions of the country.

The story of the American Dream is that if you work hard, you can succeed and move up the income ladder. But is it true that there is economic mobility from generation to generation? A study published in 2014 by Harvard economist Raj Chetty shows that there's not as much economic mobility as people might think. He found that mobility depends on your zip code. You can see from his data in figure 13.15 that where you

live makes a difference. If you grow up in Atlanta in the bottom quintile, you'll have a 4.5 percent chance of reaching the top quintile in that metro area in your lifetime. In Minneapolis, it's 8.5 percent. In San Francisco, it's 12.9 percent. Chetty found that "high-mobility areas" tend to be more integrated and have more income equality, better elementary schools, more social connections, and less instability in families.

Economists are very interested in assessing the ability of families in the lowest quintile to move into higher quintiles. They disagree about why economic mobility does and doesn't occur. Radicals blame the drive for profit in capitalism and exploitation of workers for keeping people impoverished. Conservatives blame government for using means-tested assistance programs, which end up forcing families to split up or pressuring individuals not to work so that they can stay under the poverty line and qualify for benefits. And liberals blame too little government intervention for

The Geography of Upward Mobility in the United States

Chances of Reaching the Top Fifth Starting from the Bottom Fifth by Metro Area

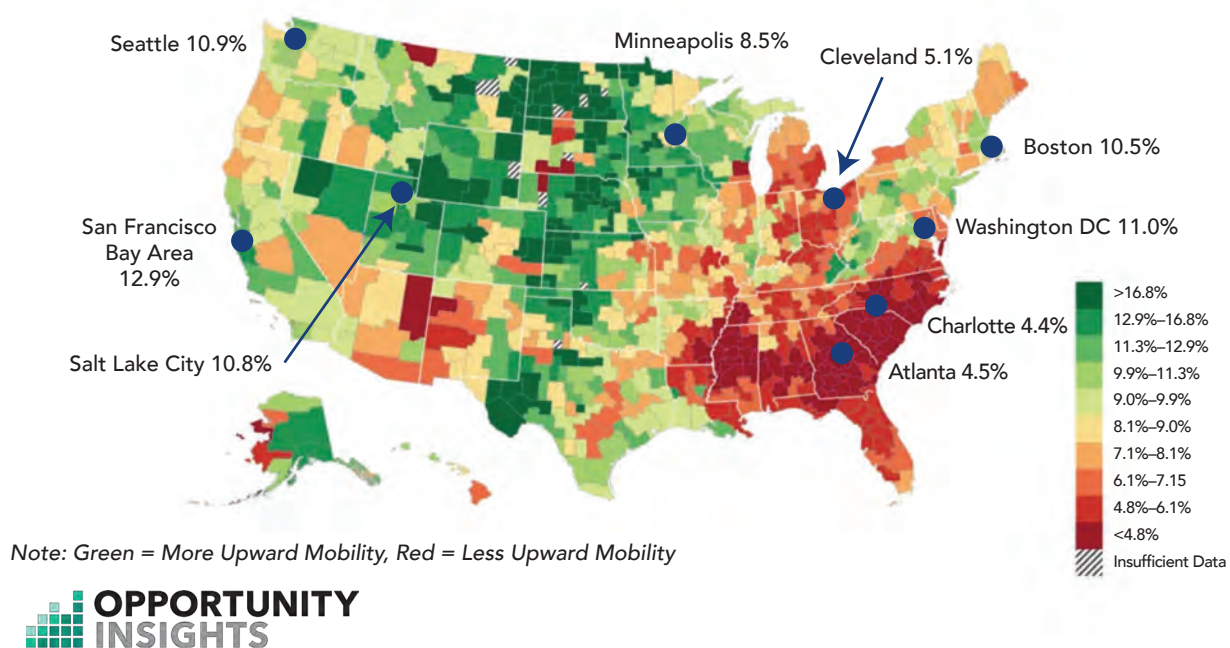


Figure 13.15
Geography of Upward Mobility in the United States, 2014

the broken system that keeps families in one of the wealthiest nations in the world from having what they need to thrive, including good nutrition, early childhood education, good schools, safe streets, and more. When people get stuck in the lowest quintile, it's referred to as the **poverty trap**, and when families stay trapped over generations, it's called the **cycle of poverty**. Regardless of the theory for why it occurs, no one from any of the perspectives thinks this is a good thing for individuals or society.

Average versus Median Income

Despite Teddy Roosevelt reminding us that “Comparison is the thief of joy,” it's sometimes hard to resist. How does your income compare to others' income? To answer this question, you have to know the difference between average (or mean) income and median income. The **average income** is the total income of households (unrelated people who live together) or families (related people who live together) in the nation divided by the number of households/families. But there is a problem with averages that you have to keep in mind. Suppose you want to know the average income of all the passengers on a train. There are four of you, with incomes of \$20,000, \$40,000, \$60,000, and \$80,000. Add those amounts together and divide by 4 to get the average income—\$50,000. That's easy. At the next stop, the founder of a wildly successful tech company boards the train. His income is \$10 billion. Suddenly, the average income of train passengers jumps to just over \$2 billion. You can see the problem with averages. They are skewed by outliers.

Median income is a more accurate way to make comparisons because the number is not affected by outliers. The median is the middle. Picture a line. Half of households/families have an income above that median line, and half have an income below it. So you're back on the train

and you want to know the median income of the five passengers. It is \$60,000. Half of incomes (\$20,000 and \$40,000) are below it and half are above it (\$80,000 and \$10 billion). In 2018, the median household income in the United States was \$63,179. The median individual (**per capita**—per person) income for people age fifteen and older was \$33,706. If this was your annual income, then half of individuals earned more than you, and half earned less. Median income tends to be more useful when describing the actual distribution of income, but in other circumstances, it's more helpful to use average income. The important thing is to know the difference between average and median.

When we talk about income inequality, it's essential to distinguish between domestic and global. It might surprise you to learn that the *2018 Global Wealth Report* from Credit Suisse Research Institute found that a person who had \$4,210 was richer than half of the world's population. No one in the United States would say a person with a net worth of \$4,210 is well-off. One accident or health crisis could easily wipe out their savings and leave them in debt. The sobering point is that billions of people around the globe have very little income and struggle to meet their basic material needs. The report also showed that a net worth of \$93,170 would have put you in the richest 10 percent on Earth, while a net worth of \$871,320 would have made you wealthier than 99 percent of humanity. So on the whole, Americans in every quintile are among the richest when compared to the rest of the world.

The Top 1 Percent

Since the Great Recession of 2008, there has been a lot of controversy over the 99 percent versus the 1 percent. The 1 percent refers to the top 1 percent of the top quintile in the United States. But you may not realize there is quite a big range in income levels among the 1 percent. To make



it into the top 1 percent in 2017, for example, required an **adjusted gross income** (income before taxes are deducted) of nearly \$516,000. According to the IRS, that described 1.4 million Americans. With an income of nearly \$2.4 million, you would reach the top 0.1 percent. To be in the top 0.01 percent, you'd have to earn nearly \$12.9 million. The mega rich are the 0.001 percent. There were 1,433 of these super-wealthy individuals in 2017. They each had a gross adjusted income of nearly \$63.5 million a year. Please keep in mind that these numbers are only annual income. The amount of wealth they had—their net worth—was no doubt significantly higher.

Many of the 1 percent are CEOs of firms. Their incomes typically include base salaries, bonuses (basically, short-term incentives to work hard or meet certain goals), and stocks. They often also have **stock options**, which give them the chance to buy a certain number of shares

in the company at a certain price during a certain period. It's complicated, but all you need to know here is that stock options can increase a CEO's income considerably. While Tesla CEO Elon Musk earned no salary in 2018, his stock options package was worth billions of dollars. Stock options are long-term incentives used to retain top executives. Executive compensation also includes benefits such as health care, paid vacation time and sick leave, and **perks** (which is short for perquisites, meaning special privileges), including things such as use of vehicles including cars, helicopters, private planes, and yachts; expense accounts for travel, dining, entertainment, and housing; plus season tickets to sports events and more. CEOs may also have employment contracts that guarantee them a **golden parachute**, which is a financial payout in the event they're let go.

In 2018, the average annual earnings for CEOs of the top 350 firms—including their stock options, but not counting all their benefits and perks—was \$17.2 million. That amount was 278 times more than the average earnings of workers in their firms. Since that's the average, of course some were higher, and some were lower. Walmart CEO Doug McMillon earned 1,076 times more than the average Walmart worker, whose salary was \$21,952 a year. Todd Jones, CEO of worker-owned Publix Super Markets, earned 62 times more than the median pay of a full-time worker. Figure 13.16 shows a comparison

of income after taxes and government benefits among the different quintiles from 1979 to 2017. Compare the black line—the income of the top 1 percent—to the other lines, which represent three quintiles: the top, middle, and lowest. As you can see, income disparity has grown dramatically over the past four decades, especially for the top 1 percent—even in comparison to the top quintile (the olive-green line). These same numbers could also be represented by a more bowed-out Lorenz curve or a higher-percentage Gini coefficient.

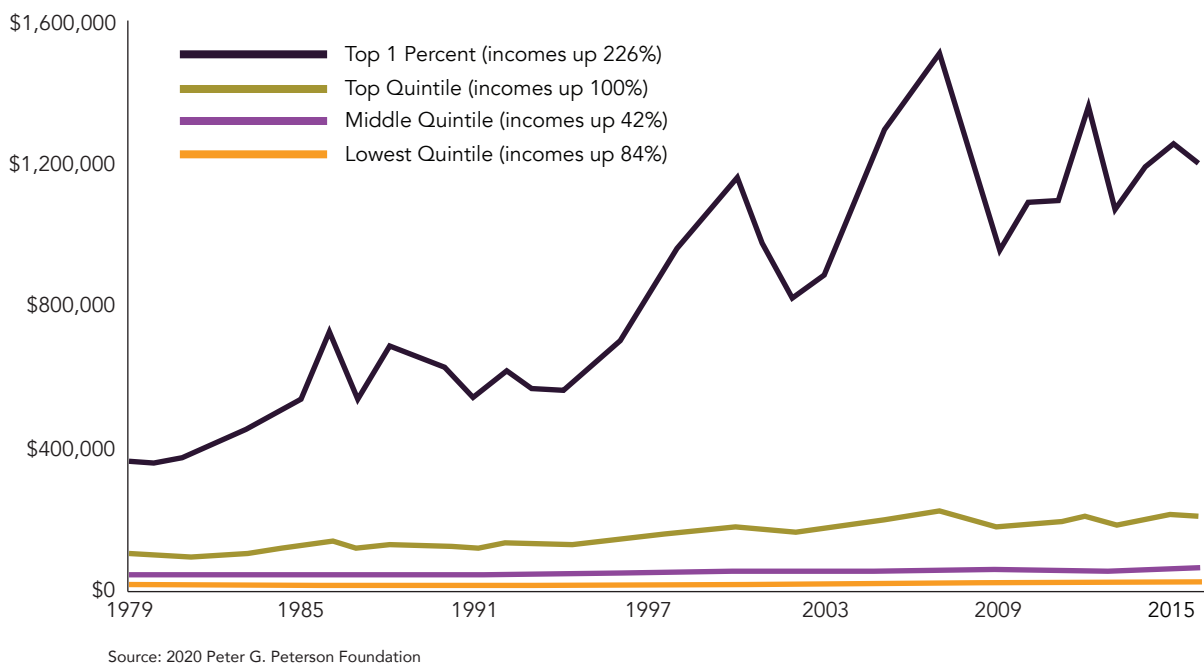


Figure 13.16
Comparing Income Distribution

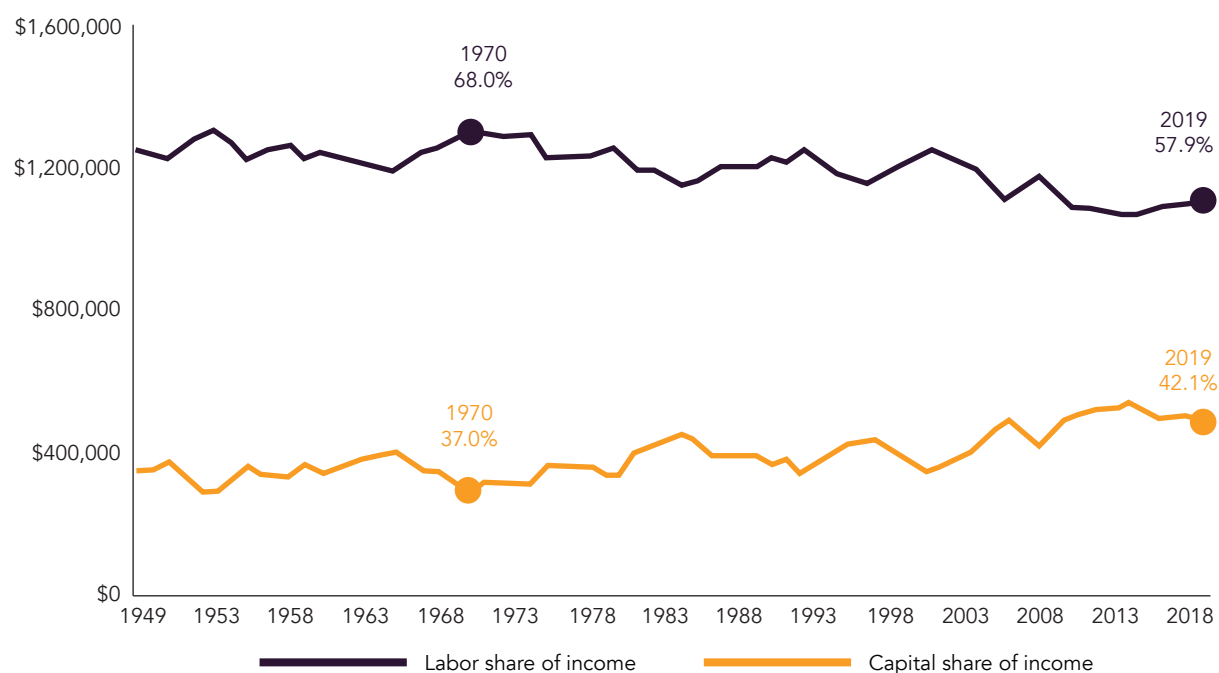
Labor Share and Capital Share of Income

Quintiles are only one way that economists sort the population into different income groupings to get a picture of income distribution. Another way it can be done is to divide the total amount of income in the nation into two categories: income from labor, and income from capital. The labor share comes from working at a job and earning a wage or salary. The capital share comes from owning assets such as land, machines, buildings, and patents. Capital assets generate income in the form of rents, royalties, interest, profits, and so forth. Figure 13.17 compares the change in labor share versus capital share over time. Between 1970 and 2019, the labor share declined while the capital share went up. If you look back again at figure 13.16, it makes total sense that the income of the top 1 percent has increased at a much higher rate than everyone else, because they are the ones who own the capital. That information

is consistent with what we see in the growing capital share.

How We Compare to Peer Nations

We talked about how Americans are, on the whole, wealthier than most of humanity. But when it comes to income distribution, how do we compare to other nations who have similar levels of industrialization and economic development? There are two different ways we can answer this question. The first is to compare income inequality *before* taxes and transfers are factored in. The second is to compare it *after* taxes and transfers are included. A study by the Organisation for Economic Co-operation and Development (OECD) measured it both ways in 2014. It revealed that the United States fell somewhere in the upper mid-range of income inequality *before* taxes and transfers. But *after* taxes and transfers, we scored in the top three most unequal nations. So the picture



Source: U.S. Bureau of Economic Analysis (BEA)

Figure 13.17
Income Shares for Labor and Capital

really changes depending on when income is measured—before or after taxes and transfers, as you can see in figure 13.18. Using the Gini coefficient, it shows the *before* numbers on the horizontal axis and the *after* numbers on the vertical axis. The size of the country dot indicates its relative population size, and not all country names are listed. As you can see, the United States redistributes less of its total income through taxes and transfer payments than do economically similar nations.

Taxes take money from some, and transfers redistribute money to others. This method is widely used throughout the world to flatten the income gap, but tax and transfer is highly controversial in the United States. Conservatives, liberals, and radicals can't agree on its impact. Does it cause the problem, solve the problem, or distract us from the root cause of the problem? To follow the arguments, you'll need to know a few things about taxes. Read on!

Categories of Taxes

You probably know the old saying that there are only two things in life you can be sure of: death and taxes. The idea of paying money to the local, state, or federal government to fund services has been around for at least 4,500 years. There's evidence that early civilizations in Mesopotamia taxed people (they paid in livestock), and China had a 2,600-year-old agriculture tax that lasted until 2006. Broadly speaking, there are three approaches to taxation (see figure 13.19). Because these are controversial, we'll list them alphabetically to be unbiased.

Flat taxes. Everyone pays the same tax rate with flat taxes. If there is a 5 percent flat income tax, for example, then everyone pays 5 percent of their income, regardless of how much they earn or how much wealth they own. The rich end up paying a higher dollar amount because they have more income to tax, but the rate at which their

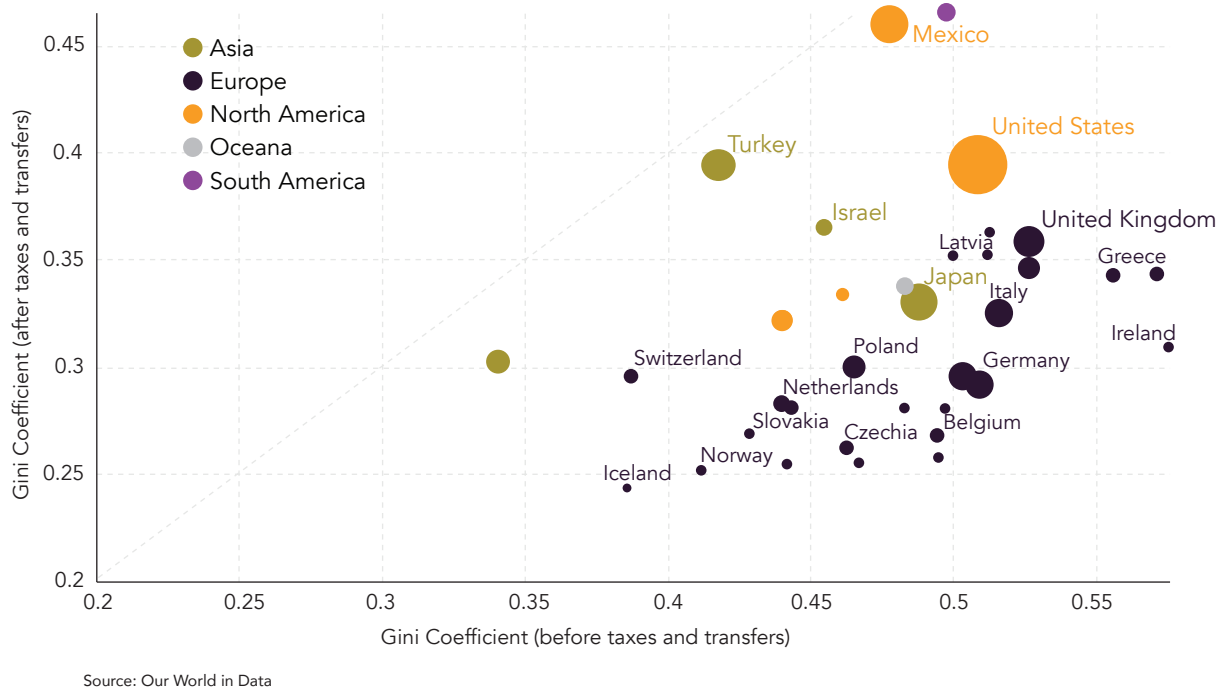


Figure 13.18
Inequality of Incomes before and after Taxes, 2014

income is taxed is the same as everyone else's at every income level. Inheritance taxes and property taxes are examples of flat taxes. Another name for flat taxes are proportional taxes, because everyone pays the same proportion of their income or wealth.

Progressive taxes. People with more money pay a higher tax rate with progressive taxes. For example, a progressive income tax means the highest earners are taxed at a higher rate than middle earners, and middle earners are taxed at a higher rate than low-income earners. Some flat taxes become, in effect, progressive. One example is an **excise tax**, which is a special sales tax on certain goods (cigarettes, yachts, gasoline, and so on). It becomes progressive when an excise tax is applied to a luxury item that only the rich will buy (yachts, for example). Since it only affects the wealthy, it is considered progressive.

Regressive taxes. People with less money pay a higher tax rate with regressive taxes. For example, a regressive income tax means the lowest earners are taxed at a higher rate than the middle earners, and middle earners are taxed at a higher rate than the highest earners. Some flat taxes become, in effect, regressive. For example, an excise tax on a good or service that is used by everyone, such as bread, rent, or clothing, is regressive because it is a larger percentage of the poor person's income. In other words, a 5% tax on bread affects the poor more than the rich.

Types of Taxes and Transfers

Complaining about taxes is something of a national pastime. It reminds me of how my friends and I liked to grumble about the bumpy ride on the school bus, even though we missed it when we had to walk. Just because you hear people grouching about paying their taxes, however, that doesn't mean they are against taxes altogether. People from every perspective agree that some taxes are necessary to fund the appropriate roles

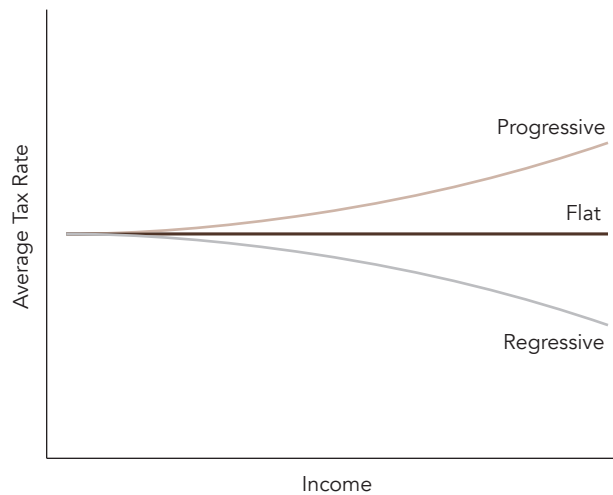


Figure 13.19
Progressive, Flat, and Regressive Taxes

of government. They just have strong disagreements about what those roles should be. More than half of people surveyed by the Pew Research Center in 2013 disliked filing their tax returns, but that was mostly because the form was so confusing. Even Albert Einstein once complained that it was too complicated. Still, more than 50 percent of those surveyed said they felt they were paying the right amount in taxes, and 4 percent even felt they weren't paying enough.

Regardless of your feelings about taxes, you should know about some of the most common ones. Please note that each of the following could be flat, progressive, or regressive, depending on how it's structured. The odds are you'll be paying some of these in your lifetime. Once again, since these are controversial, we'll list them alphabetically.

Capital gains taxes. These apply to the profit you earn from the sale of an asset such as property, stocks and bonds, or gold bars. Many wealthy people earn their income from investments rather than wages, so they're more concerned about paying taxes on their capital gains than on their

salaries. Billionaire Warren Buffett famously said: “I pay a lower tax rate on much of my income than my cleaning lady does.” He was referring to the fact that his capital gains tax rate was lower than her income tax rate.

Consumption taxes. These are local, state, and federal taxes on purchases. For example, a state sales tax is a consumption tax. When purchases are rung up at the register, a percentage of the sales price is added to the total. An excise tax is a type of consumption tax. A **value-added tax (VAT)**, which is used in more than 150 countries, is a pass-along consumption tax that gets charged and paid at each stage of production by firms as they add value to the product. It’s ultimately paid by the consumer, because those charges are wrapped into the price of the final product.

Estate taxes. These taxes apply to the assets of a deceased person. The tax is paid out of their estate before the assets are distributed to their heirs. By the way, a handful of states have an **inheritance tax**, which is different from an estate tax. Instead of the tax coming directly out of the estate, the person who inherits pays the tax. The amount owed depends on the value of the inheritance.

Income tax. A person pays a percentage of the income they earn in a calendar year to the government. **Taxable income** includes salaries or wages, plus other income such as dividends earned on stocks, money from rents, and so forth. **Gross income** is the total of all the wages, rents, investment dividends, and so forth that you earn in a year before any taxes are taken out. Have you ever looked at your paycheck and won-

People from every perspective agree that some taxes are necessary to fund the appropriate roles of government. They just have strong disagreements about what those roles should be.

dered, “Where did all the money go?!” Some employers deduct an amount every pay period to pay your income tax, plus Social Security and Medicare (referred to as *FICA* on your pay stub). The money left for you to spend or deposit in your bank account is your **net income**, also known as your take-home pay or disposable income. As described earlier in this chapter, in a progressive tax system,

the amount of income you earn puts you in a certain income tax bracket that lawmakers determine. Each tax bracket has a different tax rate. Let’s say you get a bonus at work that increases your income and pushes you into a higher tax bracket. You only have to pay the higher tax rate on the portion of your income that crosses the line into the higher tax bracket. The change in rate from one tax bracket to another is called the **marginal tax rate**.

Property taxes. These are paid by individuals and corporations every year on real estate (land and buildings) and sometimes also on cars, boats, motorcycles, and other tangible property (*tangible* means you can touch it).

Wealth tax. This is a tax on a person’s total net worth that is paid annually by those whose assets exceed a certain amount. As of 2022, a wealth tax has never been implemented in the United States, but it’s often debated as a way to redistribute wealth in society.

Government transfer payments. These are different from taxes, so we’re tacking on the topic here, at the end of the list. Transfers are an idea to redistribute (transfer) wealth from the well-off

to low-income people through government assistance programs. The idea is to use tax revenue to help those in need meet their material needs. Government transfers include Social Security, Medicare and Medicaid, Supplemental Nutrition Assistance Program (SNAP—previously known as food stamps), and others. A universal basic income (UBI) is a proposed transfer payment that gives a set amount of money to every adult of a certain age on a monthly basis or annually to use as they choose. In most versions of a UBI, everyone receives the same payment regardless of their income level (hence the word *universal* to describe them).

History of the Progressive Income Tax

Taxes have been around for millennia, but Americans didn't pay an income tax until the Civil War. Up until that point, the federal government raised most of its revenue through excise taxes and taxes on imported goods, but then President

Abraham Lincoln needed to raise more funds for the Union Army. The Revenue Act of 1861 established the first federal individual income tax. People who earned more than \$800 a year paid a flat 3 percent income tax. The Revenue Act of 1862 replaced this flat tax with the nation's first progressive tax and established the Internal Revenue Service (IRS) to collect those taxes. Those who earned more than \$600 a year paid 5 percent, and those who earned more than \$10,000 a year paid 10 percent. Ten years later, the income tax was repealed because it was determined to be unconstitutional. But it returned in 1913, after passage of the Sixteenth Amendment to the Constitution, which gave Congress the power to collect "taxes on incomes, from whatever source derived, without apportionment among the several States, and without regard to any census or enumeration." From that point on, the majority of government revenue has come from individual income taxes.

During the next 150-plus years, income tax

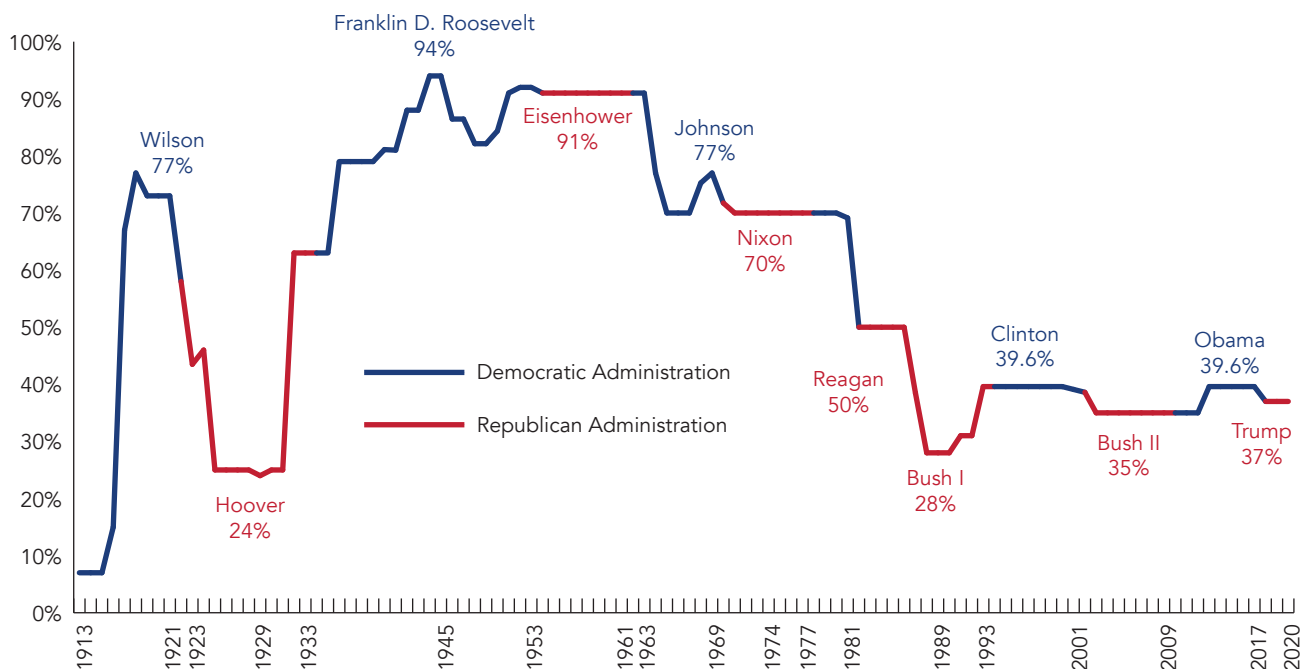
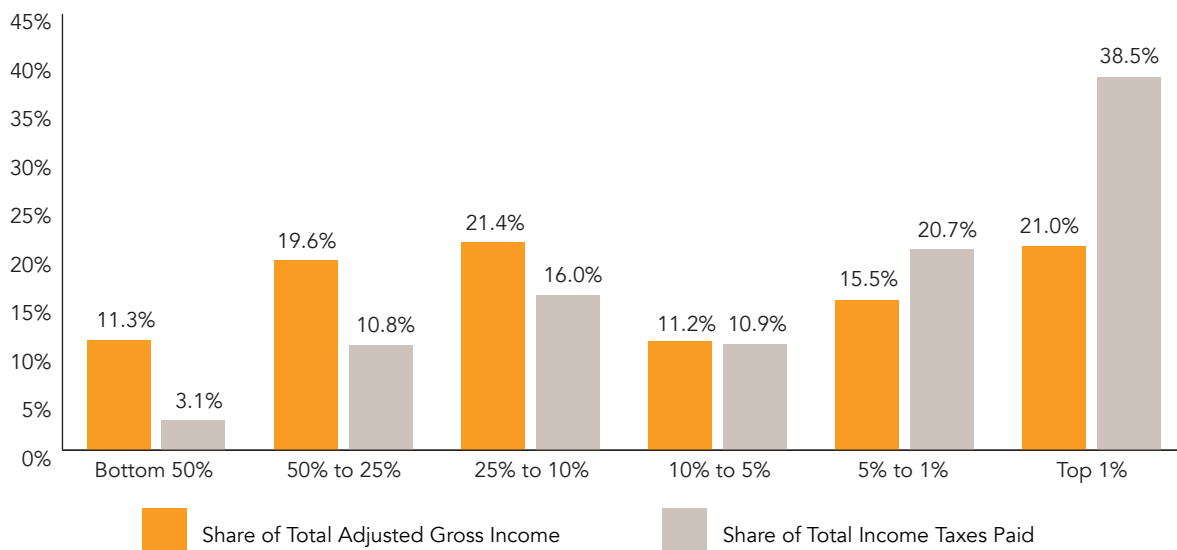


Figure 13.20
Top Income Marginal Tax Rates, 1913–2020

rates on the top 1 percent have varied widely depending on which party controls the White House and Congress. As you can see in figure 13.20, Democrats (in blue) tend to raise taxes on the top earners. The highest it ever reached was 94 percent. That was in 1944, during World War II, under President Franklin Delano Roosevelt. The Republicans (in red) tend to lower the top marginal tax rate. The lowest it ever reached (after it was reestablished in 1913) was 24 percent. That was in the 1920s, under President Herbert Hoover. In the late 1900s and early 2000s, our fights over tax rates turned into screaming matches, but the actual top marginal tax rate from the 1980s to the 2020s has been relatively low when considered in a historical context.

The question of fairness is central to the conversation about taxes and income distribution. Is

it fair to cut taxes on the wealthy? Is it fair to raise taxes on the wealthy? For example, in 2017, under Republicans, the Tax Cuts and Jobs Act lowered the highest marginal tax rate from 39.6 percent to 37 percent. Opponents of the bill (liberals and radicals) argued that this was unfair because those 1 percent of the population received 21 percent of the total income of the nation. Conservatives argued back that the bill *was* fair, because although it lowered the tax rate on the wealthy, those highest earners still ended up paying the lion's share of the nation's income tax revenues. As you can see in figure 13.21, while the top 1 percent earned 21 percent of the income, they paid 38.5 percent of the nation's federal income tax revenue. Fair or unfair? That depends on your point of view.

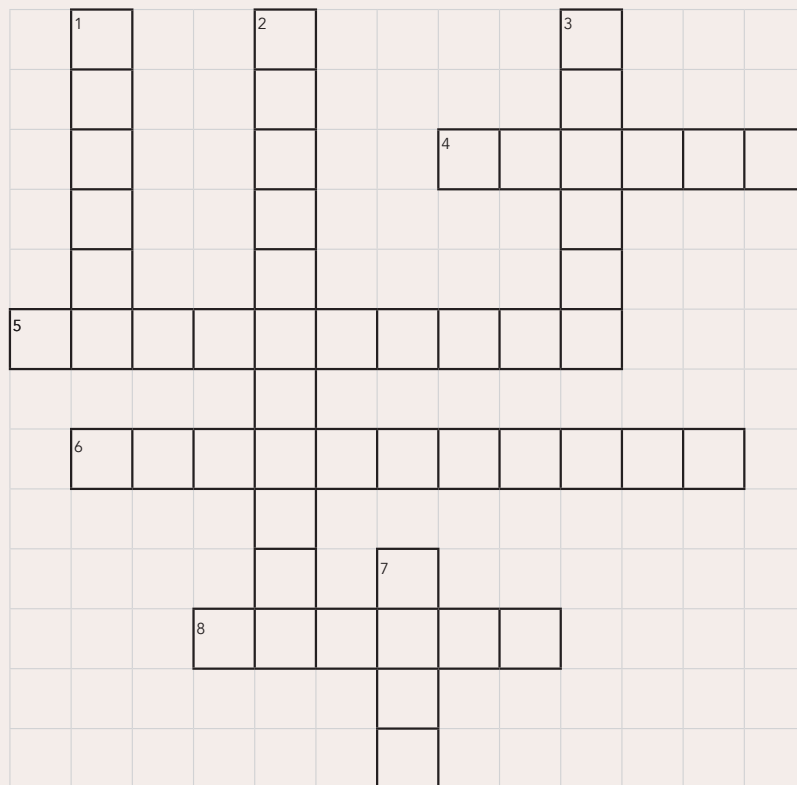


Source: Tax Foundation/IRS, *Statistics of Income*, Individual Income rates and Tax Shares (2019).

Figure 13.21
Percentage of All Income Taxes Paid by Income Group, 2017

Exercise 13.2: Crossword Challenge

Let's do an exercise to review this section. Print this page, and then fill in the crossword puzzle. Read the Across clues and Down clues and write your answers in the blank spaces. When you finish, check your answers against the Answer Key at the end of the chapter. Good luck!



Across

4. Tax on what you earn
5. Higher tax rate as income decreases
6. Tax on what you buy
8. Tax on total net worth

Down

1. Tax on assets after death
2. Higher tax rates as income increases
3. Tax on specific products
7. Same tax rate for all



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of income distribution. You learned the tools needed to analyze com-

peting ideas about how to solve the problem of the social conflict caused by income inequality. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.

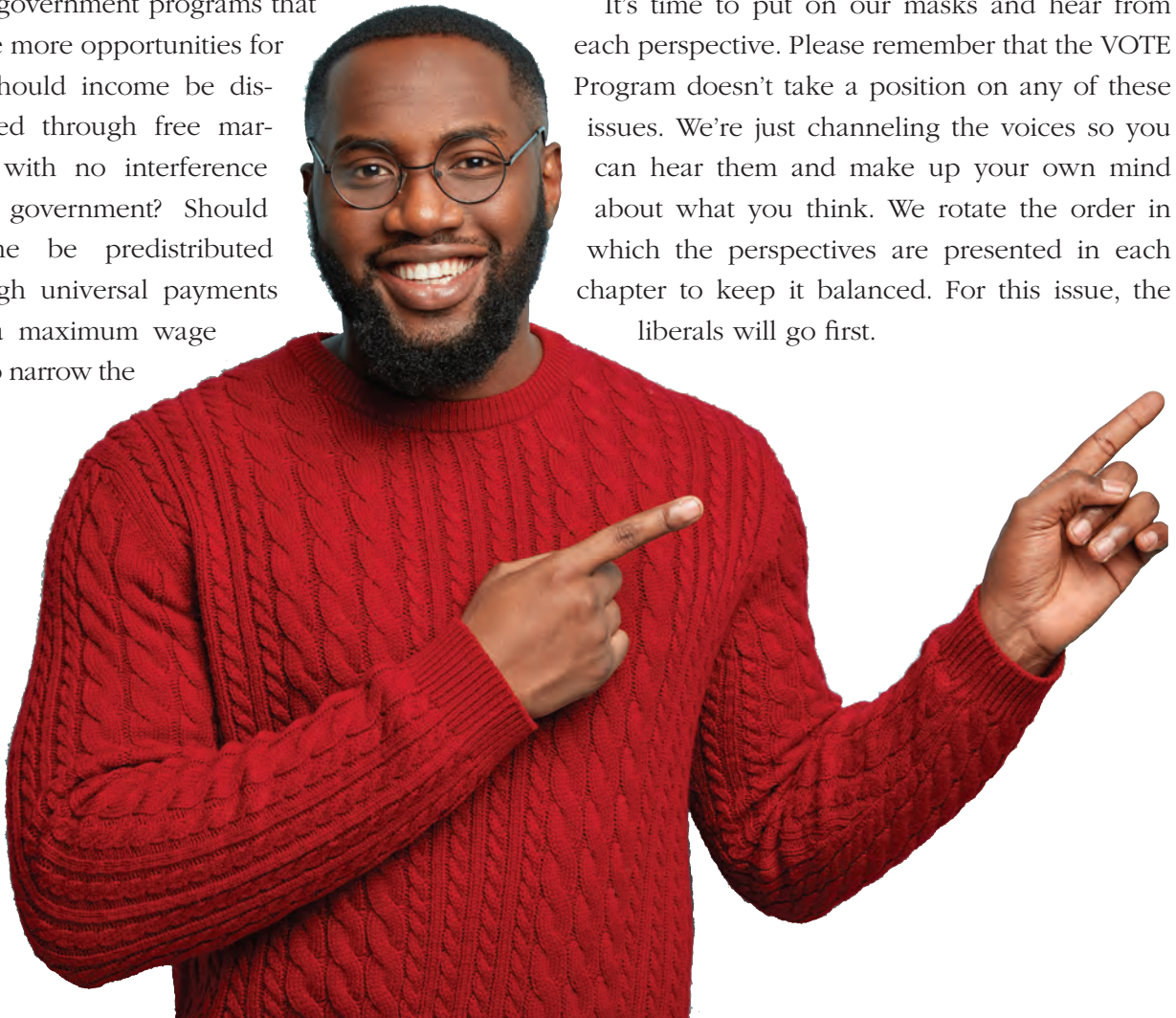


Voices on Income Distribution

Liberals, conservatives, and radicals all agree that income inequality can cause social conflict. They share the same goal that income should reward people fairly, but they don't agree on what "fairly" means or how to achieve it. Should income be redistributed from the wealthiest to fund government programs that create more opportunities for all? Should income be distributed through free markets, with no interference from government? Should income be predistributed through universal payments and a maximum wage cap to narrow the

income gap? The policy we currently follow is progressive taxes in capitalism, which is why we described them in detail in the previous section. They are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on our masks and hear from each perspective. Please remember that the VOTE Program doesn't take a position on any of these issues. We're just channeling the voices so you can hear them and make up your own mind about what you think. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the liberals will go first.



Liberal

Voice on Income Distribution



Income
Distribution

Roger Bannister not only had natural talent, including a runner's build and the ability to focus on his goals, he also had grit, determination, and confidence to attempt something everyone said was impossible. He also benefited from certain advantages and opportunities. He was a student at Oxford, which was among the best medical schools on the planet, so he had access to advanced knowledge about the human body. He used it to create a training program that helped him increase his speed and stamina on the racetrack. He was also able to afford shoes, and he had access to good nutrition so that when he raced,

he could deliver his top performance. Being a white man and coming from England gave him opportunities to gain valuable racing experience and coaching from experts. You could say that Bannister had a head start before the race even began. It happens all the time in life that some people have special advantages that give them a lead. Imagine that you and I decide to race from one end of the hallway to the other, but before we get going, I take five steps forward. Someone says, "On your mark, get set, go!" and we sprint as fast as we can toward the finish line. It's no surprise to anyone that I win this race, and we all recognize that it's because I had a head start. In a race down a hallway, it really doesn't matter who wins or loses. In real life, it can mean life or death. The rewards for winners are a comfortable existence with food, security, a home, health

care, and more. Losers are consigned to lives of misery—debt, hunger, insecurity, homelessness, chronic health problems, lower life expectancies, and a host of other problems. We want society to be a competitive environment powered by a reward system, because that motivates people to do their best. But no one will bother showing up for the race if they know it isn't fair from the get-go. We need to level the playing field so that everyone can do their best and contribute to their highest ability.

Let's consider the Lorenz curve in figure 13.22. The bowed-out black line indicates the actual distribution before progressive taxes, and the picture it gives is alarming. Clearly, there is an unacceptable disparity between the lowest quintile and the highest quintile. Some families have more than they need, and some don't have enough to meet their

basic material needs. The blue line shows how we fix this problem. With progressive taxes to fund opportunity programs, the income gap is flattened. It's fair that the wealthy pay higher taxes for two reasons. First, some income inequality is a reflection of unfair advantages—not just hard work and contribution. Some of those in the highest quintile started life with the advantages of a full belly, early childhood education, enrichment opportunities, homes, tutors, and so forth. Progressive taxes correct for the part of their reward that comes from their privilege rather than their hard work. Second, some income inequality reflects the unequal use of society's shared resources. The wealthy used the nation's infrastructure and services to build their fortunes—the roads, schools, airports, police, firefighters, energy grid, and more. But these were paid for by everyone. Therefore, it's right that those who benefited the most pay the highest percentage in taxes. With tax and transfer, we redistribute income from the highest quintile to the lowest by taxing the wealthy and using those funds to pay for government programs that create equal opportunities for all. Now everyone has what they need

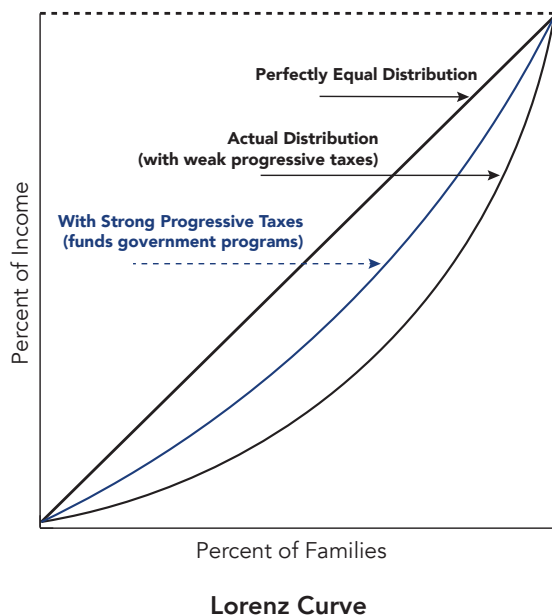


Figure 13.22
Liberal View: Income Distribution

to show up at the starting line ready to race. Then it's up to individuals to work hard and do their best. As the Lorenz curve shows, income differences remain, but when the blue curve represents fairly earned rewards, then income disparity is no longer a problem. Everyone is motivated to strive hard and work their way up to a higher income because there is a level playing field.

A few months before my daughter started kindergarten, I asked a kindergarten teacher what she needed to know to be prepared for this big step. “To be ready for school, she needs to know her numbers, her letters, and how to use scissors,” I was told. This news was a relief because she’d already learned those things in three years of preschool. But it got me thinking about all the children who don’t have the opportunity to attend preschool. Already, at age five, they start the race behind their peers. Some fall further behind as they move from grade to grade, and the gap becomes even more pronounced when they are also grappling with hunger, homelessness, and inadequate health care. My daughter benefited from having middle-class parents, just as I benefited from being born to parents who had the means to give me a good start to life. My father’s father worked his way up from an impoverished childhood to become president of an international corporation. He achieved the American Dream with hard work and determination as well as with the helpful hand of government, which funded the public schools he attended, made the roads in his neighborhood safe, ensured that his drinking water was clean, and offered merit scholarships, job training programs, and more. He paid it back when he became successful by paying a higher tax rate than lower-income earners. My own hard work and ambition led me to earn a good income as a professor, and although I could have taken some of my salary and paid the preschool tuition for a child from a low-income family, that wouldn’t have solved the larger social problem

of unequal opportunities. Instead, we use a much more sensible and efficient method to address the advantage gap. I gladly pay my taxes when they are used to fund government programs that create equal opportunities. I'm talking about childhood education, food aid, housing assistance, and Medicaid. It benefits me when every child has a chance to grow up to be the next great leader, inventor, or teacher. It benefits me when adults can get essential job training, financial aid for higher education, addiction treatment, and other assistance. The more opportunities there are for all, the better it is for society as a whole. Through government programs that promote fairness, we level the playing field and give everyone an equal opportunity to succeed and contribute to society.

Conservatives, your arguments against progressive taxes are built on the rickety scaffolding of faulty logic. You say the rich are motivated by the promise of wealth, and so we should lower their taxes, while the poor are motivated by having their government assistance programs taken away. The last time I looked, we're all human beings with the same motivations. This hypocrisy is just your elaborate justification for making the rich richer and the poor poorer. You scapegoat the neediest among us, take the food from the mouths of their children, and deny them adequate health care, which you say will cure them of their so-called laziness. Government programs don't make peo-

It benefits me when every child has a chance to grow up to be the next great leader, inventor, or teacher. It benefits me when adults can get essential job training, financial aid for higher education, addiction treatment, and more. The more opportunities there are for all, the better it is for society as a whole.

ple lazy. A hand up, such as food stamps, is not a hand-out. Handouts are being born with a trust fund and an automatic acceptance letter to the best private schools. That makes people lazy. Your idea to get rid of progressive taxes and replace them with flat consumption taxes ruthlessly punishes the poor, because flat taxes are regressive. A flat tax on food, electricity, or anything else burdens the poor disproportionately more than the wealthy. This is the land of the free, not the land of the free-for-all, where the wealthiest can grab up all the riches and refuse to pay their fair share. The 1 percent doesn't deserve

special treatment in the form of lower taxes, because they didn't succeed just through their own hard work. The people who make the most off publicly funded infrastructure should be giving back the most. The rich don't deserve special treatment, and the poor are not freeloaders. The idea that the rich are persecuted in this country when we require them to pay their fair share is what's keeping us from closing the widening income gap. Beware, conservatives. If we follow your prescription, not only will people be stuck in the cycle of poverty, but the poor and middle class will inevitably come to believe that socialism is a better option. Then we'll be facing massive social upheaval, thanks to your misguided ideas.

Radicals, you are wrong on so many levels it's hard to know where to start. First, giving everyone a universal basic income would be a total

disaster. Wealthy people don't need it, so it's a colossal waste of money on that end. When you start handing out the UBI checks to the people who do need it, the scheme will backfire because they won't bother to show up for work anymore. Not to mention you already have a big problem motivating people to work hard in your democratic socialist society. Cooperative ownership means freeloaders can leech off the few people in a worker-owned firm who might actually care about making a profit. But even those workers will lose their ambition. Why? Because in addition to the terrible idea of a UBI, you also want to institute a maximum wage cap. No one will strive to be an innovator or a leader if there's no fair reward for their effort and ingenuity. It's like you intentionally want to kill your economy with these policies. Instead of creating opportunities to get ahead in life, the UBI creates opportunities to kick back, relax, and not bother going to work. The maximum wage cap discourages hard work and innovation for those who do show up for work. On top of that, in democratic socialism, you've got universal free everything—health care,

higher education, housing, day care, and whatever else you can think of. If you give people all these freebies, they'll take them, and then they'll stay home and enjoy themselves. Nothing will get made, so your society will have no money to pay for those benefits, including the UBI. You say the UBI can be funded through a progressive tax, but where is your tax base? In your unproductive and lethargic economy, there isn't any. Anyone who is interested in working hard and being an entrepreneur will have fled to capitalist countries, where effort is rewarded. Radicals, it's an immutable fact of life that hard work is the key to prosperity. Stop pushing policies that stifle the incentives to strive for a better life.

We should strengthen the current policy of progressive taxes that fund government programs to ensure that income rewards people fairly. This is how we close the income gap. The helpful hand of government provides Head Start to give every child access to preschool. It provides Medicaid to give everyone access to health care. It provides food assistance so no one goes hungry, and housing assistance to keep people off the streets. This



just makes good sense, because we know that people aren't able to contribute to society when their basic material needs are not met. A child who hasn't eaten can't concentrate, a woman living on the street who can't take a shower won't be hired, a man who suffers from an untreated health condition can't keep his job. An immigrant who has no job training can't qualify for a job. By investing together through progressive taxes, we create equal opportunities in society. We should expand government assistance programs so they do an even better job meeting people's needs and setting them up to run their best race. Then it's up to all of us to put in the effort, make good choices, and improve our economic circumstances. It's right and fair to tax the wealthy at the highest rate because they often start out in life with unfair

advantages. Also, they were successful in part by making the most use of the nation's infrastructure and government services to build their fortunes—things we all pay for, including roads to transport their goods; schools that educate their workforce; police, firefighters, a justice system, and a patent office that protects their private property; a state department that negotiates beneficial international trade agreements; and more. We redistribute wealth in our country from the richest to the poorest and open doors for everyone. This is how we flatten the income gap and harness the power of incentives in capitalism, while keeping the system fair. With redistribution of income from the top to the bottom, we get the prosperity we all want, the opportunities we all want, and the satisfaction of knowing that we are fairly rewarded.

Liberal

Fair-Market Capitalism



Income
Distribution

BIG PICTURE

Through government programs that promote fairness, we level the playing field and give everyone an equal opportunity to succeed and contribute to society.

POLICY POSITION

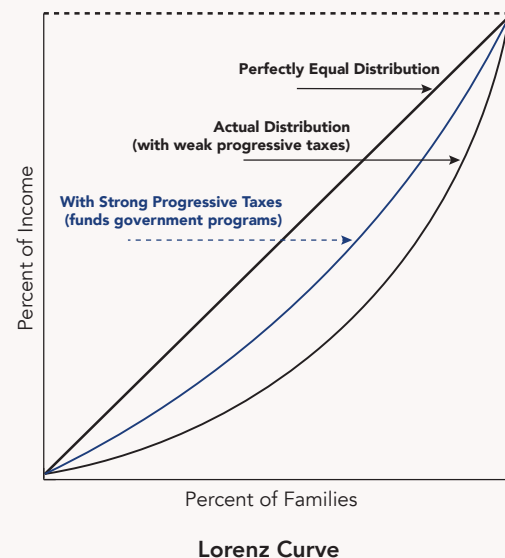
Income inequality can cause social conflict, but...

- ▶ Conservative policies unfairly blame the poor and trap them in a cycle of poverty while making the rich even wealthier, which leads to extreme levels of income inequality.
- ▶ Radical policies undermine everyone's motivation to work hard, penalize entrepreneurs, and lead to a society where all are equally impoverished.

SOLUTION

Strengthen progressive taxes that fund government programs to ensure that income rewards people fairly:

- Expand government programs to create more equal opportunities.
- Those who benefit the most pay it forward.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Income Distribution Talking Points: Liberal

1. In our society, some people have a head start in life while others are behind before the race even gets going. This is a big problem because winning and losing are a matter of life and death. Winners get a comfortable existence with food, a home, and health care. Losers get debt, hunger, and shorter life expectancies. So the right thing to do is to make the race fair by ensuring that everyone starts out with equal opportunities so we can all run our best race.
2. I gladly pay my taxes when they are used to fund government programs that create equal opportunities. I'm talking about childhood education, food aid, housing assistance, and Medicaid. It benefits me when every child has a chance to grow up to be the next great leader, inventor, or teacher. It benefits me when adults can get essential job training, financial aid for higher education, addiction treatment, and other assistance. The more opportunities there are for all, the better off society is as a whole.
3. Conservatives, government programs don't make people lazy. A hand up is not a handout. Handouts are being born with a trust fund and an automatic acceptance letter to the best private schools. That makes people lazy. You say the rich are motivated by the promise of wealth, while the poor are motivated by hardship. The last time I looked, we're all human beings with the same motivations. This hypocrisy is your elaborate justification for making the rich even richer and the poor even poorer.
4. This is the land of the free, not the land of the free-for-all, where the wealthiest can grab up all the riches and refuse to pay their fair share. Contrary to what conservatives say, the rich don't deserve special treatment in the form of lower taxes. They didn't succeed just through their hard work. The idea that the rich are persecuted in this country when we require them to pay their fair share is what's keeping us from closing the widening income gap.
5. Radicals, you are wrong on so many levels it's hard to know where to start. First, giving everyone a universal basic income would be a total disaster. When you start handing out UBI checks, the scheme will backfire because no one will bother to show up for work anymore. A system of freebies means nothing will get made. You say the UBI can be funded through progressive taxes, but with what tax base? In your unproductive and lethargic economy, there isn't any.
6. Radicals want to institute a maximum wage cap in democratic socialism to prevent society's innovators and leaders from profiting off their skills and talents. It's as if radicals intentionally want freeloaders to leech off the few people in a worker-owned firm who might actually care about making a profit. This policy kills the wealth-potential of the economy. Anyone who has a great idea, or is interested in working hard and being an entrepreneur will flee democratic socialism for capitalist countries, where effort is rewarded.
7. We close the income gap by using progressive taxes to fund government assistance programs that give people the opportunities they need to rise. We fund Head Start to give every child access to preschool. We fund Medicaid to give everyone access to health care. We provide food assistance so no one goes hungry, and housing assistance to keep people off the streets. This just makes good sense, because people are able to contribute their best to society when their basic material needs are met.
8. It's right and fair for the rich to pay more because they often start out in life with advantages, and they benefit the most from the things everyone's taxes fund—the nation's infrastructure, our justice system, beneficial international trade deals, copyrights and patents, and more. We redistribute wealth in our country from the richest to the poorest so we can open doors for more people to succeed. This is how we flatten the income gap and harness the power of incentives in capitalism, all while keeping the system fair.

Conservative

Voice on Income Distribution



Income
Distribution

Roger Bannister discovered his natural talent for running when he was fleeing from bullies and bombs. Then he developed it with dogged determination, perspiration, and discipline. His steady efforts led him to a brilliant outcome: he showed the world that the impossible was possible. It wasn't easy. The win wasn't handed to him. In fact, his spectacular failures in the years leading up to his success served as a powerful motivator. Did he have advantages? Sure. We all have unique advantages and disadvantages. Let's say you and I decide to race down the hallway. We start side by side, and someone yells "Go!" You're faster

than I am—maybe your stride is longer, or you're naturally gifted at running—so you win. Society should want you to keep running because you're good at it, and we need everyone to develop their talents. The last thing the government should say to you is, "Now that you've won, we're going to take away part of your reward, or change the rules so that you can't win next time." Competition is meant to inspire us to give it our all. People with the highest incomes did just that. They put in the hard work and effort to succeed, and they should never have to apologize for that. They certainly shouldn't be punished for rising to the top of the income ladder. They should be honored in the same way we honor those who, like Roger Bannister, achieved excellence in their chosen area of endeavor. Whether you were born in a mansion

or in public housing doesn't make competition unfair. Maybe the fact that you were born rich actually keeps you from doing your best because everything is handed to you on a silver platter. Maybe being born into poverty is an advantage because it motivates you to study hard, earn a scholarship, and make the most of your opportunities. The beauty of competition in a free-market environment is that everyone brings their A game because the rewards are fair, so they play to win. The whole society benefits when everyone runs their best race.

Let's consider the Lorenz curve in figure 13.23. When we have progressive taxes that fund government handouts, the gap between the top and the lower quintiles is unacceptably wide. Extreme income inequality is the direct result of government

interference. Handouts to the poor sap their motivation to work hard and move up the income ladder. Government assistance actually prevents them from doing so, because low-income people can't afford to increase their income or they will lose their benefits. In other words, those means-tested handouts trap people in poverty. To pay for this folly, the government taxes the top quintile at the highest rate, which penalizes the rich for being successful. Progressive taxes give entrepreneurs a disincentive to expand their businesses and launch new ventures because they know the government will just end up redistributing their hard-earned profits to free riders. Therefore, there's no point in trying to become profitable and successful. That's how the income gap widens even further, because now only the super rich stay in the game. With less competition, their wealth gallops ahead of everyone else's. We fix this problem by eliminating progressive taxes and the demotivating programs they fund. The red line shows what happens when we take government interference out of the equation. We get rid

of all progressive taxes and allow unfettered distribution of income to reward people fairly. The income gap flattens on its own when people in the lowest quintiles become highly motivated and are no longer restricted from acquiring skills and seizing opportunities to get ahead. At the same time, with no limits to the rewards they can win, entrepreneurs launch businesses that compete with the big dogs. Those businesses create the jobs that give people in the lower quintiles the chance to climb the ladder to success. The free market is an elegant system that flattens income inequality, invites everyone to follow wage signals, and ultimately allows us all to achieve the level of income that we most fervently desire.

When I was in the eighth grade, my school gave everyone state standardized tests to determine the level of classes we'd be assigned in high school. Because of a vision problem that had not yet been diagnosed, I bombed the test and was assigned to the lowest-level classes. Unlike today, students couldn't choose for themselves what level of classes to take. Our standardized test scores put us on academic tracks in high school, which affected our college and career options. Getting tracked into the lowest-level classes was devastating. I went to the principal and made a deal with him. He agreed that I would be allowed to take honors classes in high school if I earned straight A's in the eighth grade. It was the only way to prove that my standardized test scores weren't an accurate reflection of my abilities. What did I do with this opportunity? I invented a new way to study that got around my vision problem, and I made a rigorous homework and review schedule, and then I kept to it. It was an exhausting and stressful year for me. I had to work twice as hard as all my friends, but in the end my effort paid off. I rose to the top of my class. Adversity motivated me to step up and work hard for the reward I wanted. Now let's imagine that before I graduated, the same principal came to me and said,

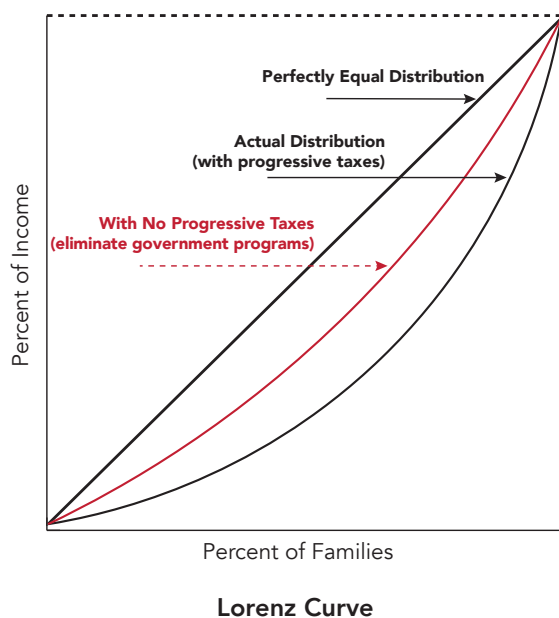


Figure 13.23
Conservative View: Income Distribution

“Since you’re at the top of the class, we’re going to give some of your A’s to your classmates who didn’t work as hard.” I can’t imagine anyone would think this is fair. We work hard because there is a promise of a just reward for our efforts. Once word got out that this was the new policy, do you think anyone would bother pulling an all-nighter to ace a test? No one would do it if the lazy were rewarded and the hard workers were punished. We need a sensible and practical reward system, whether we’re talking about grades, money, or any other reward. People earn what they deserve in free-market capitalism because we are all free to make the choices that bring us the income we desire.

When everyone takes home a big trophy for participating in a chess tournament even though some of the competitors didn’t win a single game, that trophy is not only meaningless, it sends the wrong signal. It tells those who have no talent for chess to keep devoting their time to playing chess. And it sends the opposite message to those who won all their games. It tells them that their natural gift for chess, and the effort they made to develop it, doesn’t matter. The reward for winners is the same as the reward for losers, so the person who should be encouraged to strive to become a world champion gives up, and the person who should be encouraged to find a better fit for their talents continues their fruitless attempts to master the game. Giving out trophies to everyone just for participating is a problem. Consider that you wouldn’t want to be about to go under the knife and wonder if the surgeon really passed

The free market is an elegant system that flattens income inequality, invites everyone to follow wage signals, and ultimately allows us all to achieve the level of income that we most fervently desire.

her exams and earned her degree—or just received it for participating in medical school. Of course we should support and encourage people when they show up and participate, but let’s not treat everyone the same. Not everyone has the ability to become a chess champion, or a top neurosurgeon, or a skilled plumber. We need rewards to send the right signals to motivate people the right ways. The very worst thing we can do

is to reward people for doing nothing, because they will continue to do nothing if that brings a reward. This is precisely what occurs when the government plays Robin Hood and takes from the rich to give free handouts to the poor. The poor stay stuck in the poverty trap, while the rich are penalized for their success, and the whole society suffers.

Radicals, giving everyone a universal basic income is a terrible idea that you make even worse by funding it through progressive taxes in democratic socialism. Progressive taxes in any economic system are an assault on the American Dream. They breed resentment and entitlement. You end up with class warfare when you force the people in the top quintile to cede their hard-earned fortunes to support people who don’t lift a finger to work. In an atmosphere of resentment on one side and entitlement on the other, what happens? The government steps in as the enforcer to seize assets and catch cheaters. To keep this system going, democratic socialist government needs a sprawling bureaucracy to control everyone. We’ve seen time and time again that high levels of government interference turn countries

into totalitarian police states. We won't be worrying about the income gap at that point—we'll be worrying about saving our democracy. And the UBI on its own tanks any economy because a free monthly check gives everyone a strong incentive not to work. No one bothers to show up at their jobs and nothing gets made, which means that no wealth is generated. Ultimately, your UBI fails because there isn't any money to fund it and the economy stalls out. But I guess you'll be correct in one way. We'll achieve income equality because we'll all be miserably poor together. To top it off, there's your maximum wage cap, which is meant to keep the salaries of CEOs down by tying them to the average worker's salaries. But the reason those high achievers are CEOs in the first place is that they aren't "average." These extraordinarily talented leaders grow the economy by innovating and creating jobs. With a maximum wage cap, they won't choose to do those jobs because the wage signal is skewed. When your top players are benched, there are damaging, long-term ramifica-

tions for the whole society. So we'll end up with a national epidemic of underachievement flavored with a sense of entitlement, thanks to your radically misguided ideas.

Liberals, you blunder into every economic problem with the same bad idea to let government interfere, and it always makes the situation worse. Here you go again, this time with progressive taxes. Whether an income tax, an estate tax, a capital gains tax, or a wealth tax, they are completely unfair and destructive to rich and poor alike. You know that smart phone in your pocket that does amazing things? It's a phone, it's a camera, it's a computer, and it's made your life better in countless ways. Our best interest as a society is to make sure inventors, innovators, and producers are fairly rewarded for bringing us cell phones as well as all the other things that improve our quality of life. Rewards motivate them to keep bringing us transformative new products. Will those people grow rich? We hope so. Is it unfair that their incomes are higher than others in society?



Absolutely not. But your progressive taxes send the exact opposite message. Instead of rewarding the successful, they punish them. At the same time, progressive taxes do no favors to the poor. They fund transfers and government assistance programs, which have the predictable effect: they sap all motivation. The poor don't feel the need to work hard and make a better life for themselves. And once they accept those needs-based benefits, they are in a double bind. If they try to work their way out of poverty, they'll lose their free stuff if their income goes above a certain level. So you give them a strong incentive not to work. Instead of giving them a step up, your programs keep the poor forever stuck on the bottom step. This is the real poverty trap. When the lower quintiles get the message that it's not necessary to work because the higher quintiles will take care of them, and the higher quintiles get the message that hard work will be punished with higher taxes, then we're looking at economic and societal collapse, thanks to your liberal policies.

We should reject the current policy of progressive taxes and replace them with flat consumption taxes to ensure that income rewards people fairly. We want people to work because it's how we get a thriving economy. When we stop taxing people on their income, we're giving them an incentive to do the very thing we want them to do: work hard and prosper. Flat consumption taxes replace progressive income taxes, motivating entrepreneurs to start new businesses and bring us the innovations that improve our lives. We also eliminate demotivating government programs so peo-

ple can work their way up from poverty. With flat consumption taxes to fund only the most limited roles of government, more people work hard, income is distributed more equitably, and the economy thrives because free-market price signals guide all people to contribute their best. Of course, we do need to fund government's necessary functions—infrastructure, national defense, and the protection of private property. The best way to do that is through a tax on what people buy, rather than on what they earn. We keep the consumption tax flat so it's fair to everyone. We all pay the same tax rate on all the products we buy. The rich will still pay substantially more in taxes because they will not only buy more, but they will buy more expensive items. In the meantime, for those in society who struggle to move up or who fall through the cracks, free-market solutions create the opportunities they need to get ahead. By replacing government meddling with the right incentives, we no longer have a dangerously wide income gap. For those few who might still need help, friends and family have always—and will always—step in and give them a hand up. Religious organizations, foundations, and crowdfunding exist to do this very thing. Corporations practice philanthropy and individuals give to charity because doing so improves their reputations, helps donors find meaning, and makes our world a better place to live. With unfettered distribution of income, we get the prosperity we all want, the opportunities we all want, and the satisfaction of knowing that we are fairly rewarded.

Conservative

Free-Market Capitalism



Income
Distribution

BIG PICTURE

People earn what they deserve in free-market capitalism because we are all free to make the choices that bring us the income we desire.

POLICY POSITION

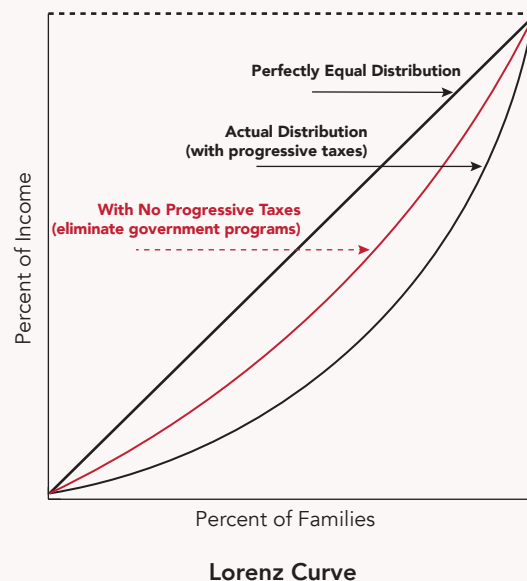
Income inequality can cause social conflict, but...

- ▶ Radical policies result in a toxic combination of resentment, entitlement, demotivation, and police-state oppression, all to ensure equal starvation.
- ▶ Liberal policies punish high earners and kill incentives, while government handouts create dependency and keep the lowest earners permanently stuck.

SOLUTION

Reject progressive taxes and replace them with flat consumption taxes to ensure that income rewards people fairly:

- Individual hard work pays off and lifts society.
- Charitable giving provides opportunities to rise.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Income Distribution Talking Points: Conservative

1. Competition is meant to inspire us to give it our all. People with the highest incomes achieved their success by putting in the hard work and effort. They should never have to apologize for that. They should be honored for achieving excellence in their chosen areas. The beauty of competition in a free-market environment is that everyone brings their A game because the rewards are fair, so they play to win. The whole society benefits when everyone runs their best race.
2. Whether you were born in a mansion or in public housing doesn't make competition unfair. Maybe the fact that you were born rich actually keeps you from doing your best because everything is handed to you on a silver platter. Maybe being born into poverty is an advantage because it motivates you to make the most of your opportunities. We all have the ability to follow wage signals, strive to reach our goals, and achieve the success we choose.
3. Radicals, your UBI, funded through progressive taxes is an assault on the American Dream. It breeds resentment and entitlement. You end up with class warfare when you force the people in the top quintile to cede their hard-earned fortunes to support people who don't lift a finger to work. With resentment on one side and entitlement on the other, the government has to step in as the totalitarian enforcer. Then we won't be worrying about the income gap—we'll be worrying about saving our democracy.
4. Entrepreneurs should be rewarded for their ingenuity and hard work. Instead, radicals want to impose a maximum wage cap to flatten income inequality. But what it really flattens is everyone's ambition to work hard and innovate. Putting a ceiling on income ruins the economy because the great leaders and thinkers we need to drive the economy forward don't have the right wage signal, so they don't choose those jobs. When your top players are benched, it hurts the whole society.
5. Liberals, consider that smart phone in your pocket. It does amazing things. It's a phone, it's a camera, it's a computer, and it's made your life better in countless ways. Our best interest is to make sure that the inventors, innovators, and producers are rewarded because they bring us the things that make our lives better. Rewards motivate them to keep bringing us transformative new products. But instead of rewarding the successful, you punish them with demotivating high taxes.
6. Under the liberal plan, the poor are in a double bind. If they try to work their way out of poverty, they lose their government handouts. They can't afford to take an entry-level job that might turn into a career because they would make just enough to disqualify them from receiving assistance but not enough to cover their basic material needs. Instead of giving low-income people a step up the ladder, liberal programs keep the poor forever stuck on the bottom rung.
7. Flat consumption taxes should replace progressive income taxes to ensure unfettered distribution of income. When we stop taxing people on their income, they have an incentive to work hard and prosper. We motivate entrepreneurs to start businesses and encourage innovation, which improves life for everyone. We can easily fund the necessary roles of government through flat consumption taxes, and not only will more people work hard, but income will be distributed more equitably.
8. For those in society who struggle to move up, or who fall through the cracks, free-market solutions create the opportunities they need to get ahead. By replacing government meddling with the right incentives, we no longer have a dangerously wide income gap. Everyone at every income level is highly motivated and everyone has the opportunity to succeed. For those few who might still need help, friends and family, religious organizations, crowdfunding, and corporate philanthropy give them a hand.

Radical

Voice on Income Distribution



Income
Distribution

Roger Bannister didn't break the four-minute mile record on his own. Other people grew the food he ate, paved the roads he trained on, made the shoes he wore. But Bannister is written up in the books, and we honor him for his impressive achievement. We should never forget that it takes teams of people behind the scenes to accomplish anything in society, from running restaurants, to producing smartphones, to breaking records. But in capitalism, those nameless, faceless workers, whose contributions are essential to the success of every

venture, are cheated out of their just rewards. That's because capitalism was designed to benefit some at the expense of others. Let's say we're going to race each other to the end of the hallway. We stand side by side at the starting line, and as soon as someone shouts "Go!" I leap onto your back, and you have to carry me to the finish line. When we get there, I steal the reward for myself. And to add insult to injury, I declare, "I won!" and ignore the fact that it was your effort—not mine—that made it possible for me to reach the finish line. This is what happens every day to workers in every field and industry in capitalism. The workers whose effort and contributions made the enterprise a success end up with a pittance while the owners pocket the profit. In democratic socialism, the race is fair from the get-go because we're not aiming to have winners and losers. We

acknowledge that we're all in this together—your success benefits me, and mine benefits you. So we link arms and help one another across the finish line. Cooperation brings out the best in humanity because when we own it together, we make decisions democratically about how to divide the rewards fairly. Never losing sight of the fact that we share our workplaces, our local communities, and our planet, we make decisions that value everyone's well-being so each person can run their best race.

Let's use the Six-Core Cube of democratic socialism and drill down into the core point of *healthy communities*. Imagine that socioeconomic circumstances are no limit to anyone's opportunities to participate, prosper, and make their best contributions to the economy because income is predistributed. This happens through

worker-ownership, because each person in the firm has a voice and a vote, deciding through a democratic process how the firm's profits are shared. A programmer can take an entrepreneurial risk and launch a new worker-owned company with a motivated team of people. Together, they make it succeed. They bring new products to market that improve everyone's lives—not just in their local community but throughout the country and around the world. In worker-owned firms, people are cherished as resources with unique skills and abilities, so new machines don't replace workers. Instead, the machines make everyone's income go up. Innovators are well rewarded in worker-owned firms, and the wage gap stays within reasonable bounds, motivating each person to work hard because their collective efforts are also well rewarded in this fair and thoughtful system. In democratic socialism, the golden rule prevails in every aspect of life. We do unto others as we want them to do unto us. We want to have our basic needs met, so we make sure everyone has their basic needs met. We want to have a say in what we earn, so we make sure all co-owners have a say about the pay scale in their

workplaces. We want to live in communities with resources that everyone can enjoy, so we make sure people throughout the world can have the same control over the resources in their cities and towns. Instead of living with the social unrest that wide income disparity inevitably brings, we live in a harmonious society and a peaceful world. Firms make the world a better place by thinking globally and acting locally.

When I was young, I lived a few hours from New York City, and my father took me to see musicals on Broadway. My dream was to become a Broadway star. One of the things I love best about musicals is the mind-boggling amount of skill and talent it takes to stage one. In addition to actors who can sing and dance, there are people who have the genius to write the script, compose the score, design and build the sets, sew the costumes, choreograph the dances, direct the actors, play the music, market the show, and produce the whole thing. It's as complex as landing a spaceship on the moon. Unfortunately, I wasn't gifted with a beautiful singing voice, so I did the next best thing to acting and became a teacher. Getting up in front of a class is another way to communicate ideas that move people and help them look at the world in new ways. I've taught large lectures and small classes, and sometimes I even sing to my students. But it would be wrong to think that the teacher alone is responsible for the success of any class. Behind the scenes are the unsung heroes who wrote the course catalog, made the schedule, registered the students, and marketed the classes—not to mention the administrators, computer experts, custodians, and payroll personnel, and the bus drivers, the people who invented buses, and the people who paved the roads that we all use to get to class. And let's not forget the people who make computers and highlighters and energy bars for late-night studying. Everything we do is a production involving the efforts of everyone. This is why we need



Figure 13.24
Radical View: Income Distribution

everyone to participate in the economy. It's a mistake to think the greatest rewards should go to the people who grab all the glory at the front of the classroom, or as the figureheads of large corporations, or star in their own TV shows. I love listening to acceptance speeches at award shows when the winners thank their makeup crew, their stunt doubles, and their mothers. But we shouldn't just acknowledge others with words. We should also make sure their incomes are the fair reward for the gifts they give us. When we value everyone's contributions, everyone is able to prosper and enjoy their fair share of the abundance we all create together.

I once saw a morning news show where the host cut a pumpkin pie into ten slices. He laid out five plates representing the different levels of wealth in the United States. Then he invited random shoppers to make their best estimates about how the pie—representing all the wealth in the nation—was actually distributed. No one came close to guessing right. Nine pieces went onto the plate representing the richest families, and the top 1 percent of those hoarded four pieces to themselves. The lonely tenth piece of pie was divided into two unequal parts. The bigger slice went on the plate for the second richest, and the smaller piece went to the middle class. The families in the second-poorest group got only a few paltry crumbs scraped off the bottom of the pie plate. And what about the poorest? Not only did they get no pie—not even a crumb—they got stuck with a bill for pie to the tune of thousands of dollars, which represented the debt carried by people in

Cooperation brings
out the best in
humanity because when
we own it together,
we make decisions
democratically about
how to divide the
rewards fairly.

poverty. The way wealth and income are distributed in capitalism is a travesty that should make us all sick to our stomachs. There are enough resources in our nation to take care of everyone today and for generations to come. But thanks to capitalism, we're stuck with nauseating levels of economic inequality. It's baked into the system, and it doesn't make a difference if it's the fair-market or free-market flavor. The poverty trap of

capitalism is baited with the promise of pie for all who work hard, but it's really just a bait and switch. The poor toil and sweat, hoping to earn their just rewards as the American Dream promises. Instead, they fall further and further behind while the bank accounts of the rich grow more and more bloated by sucking up the profits from exploitation. Don't believe for a minute that there could be any policy in capitalism that would bring about true economic justice. It won't come from more opportunity programs or another reshuffle of taxes. The only solution is a radical one: democratic socialism, where income is fairly distributed, and everyone is guaranteed their fair share of the pie.

Liberals, your policy of redistribution through progressive income taxes in capitalism can never fix the problem because unfair income distribution is coded into the DNA of your economic system. There's no changing its fundamental nature. Regardless of how many school lunch programs and job training programs and early childhood education programs you fund, capitalism has this congenital flaw that will never go away. You deceive yourselves into thinking that you're man-

aging capitalism when one person claws their way out of poverty and makes it to the top of the income ladder. “Success!” you declare. You deliberately blind yourselves to the fact that capitalism is only set up for a few to win. You might change a player or two on the Forbes 500 list, but you’re not changing the game. Without switching to a more just economic system, your programs will only ever scratch at the surface. Progressive taxes in capitalism don’t reverse the damage caused by the race to the bottom. People and the environment are still viewed as expendable while elite, mega-rich owners consolidate their global chokehold and pay off liberal politicians to look the other way. The few programs you’re able to squeak through don’t solve the problem of income inequality, and they’re offensive and patronizing to poor people. You set up government as the stern parent of a teenager who can’t be trusted when you require proof of poverty to get basic needs met. Food, housing, medical

care, and access to preschool are human rights, not special privileges. Yes, you take a smidgen of their desperation away, but then you make them jump through hoops to get more food stamps, and they have no energy left to protest against your rotten system that’s the reason they’re starving in the first place. You might sound virtuous when you say the rich should pay more, but what you’re not admitting is that the obscene wealth of the rich was made at the expense of the poor. As long as you persist in lying to yourselves that capitalism can deliver equal opportunities, you will never truly repair the income divide that threatens the security and well-being of our nation.

Conservatives, you’re peddling three huge lies to the American people. The first is that the people at the top deserve their riches because they made their money through their own hard work and by pulling themselves up by their bootstraps. As usual, you ignore the fact of workplace exploitation. Owners get rich off the backs of



the workers who labor in their firms, and then they invest their money in other firms that exploit their workers, making themselves even richer. So when you say the wealthy deserve their rewards because the system is fair, what you're really saying is that we should all celebrate—and try to emulate—people who steal. The second lie, which is even more outrageous than the first, is that we can all thrive in capitalism. You say people succeed or fail only because of the personal choices they make. You even call the so-called failures—the poor—*lazy* and *unmotivated*. This is both untrue and insulting. Capitalism enriches the owners of capital while their workers become more impoverished. After a hard day at work, exploited workers are forced to work a second and even third job just to make ends meet. With free-market capitalism, you're not even trying to pretend that the rich owe society anything, even though they owe society everything. No one pulls themselves up by their own bootstraps. Your flat consumption taxes are regressive, so they hurt the poorest, and on top of that, they institutionalize the idea that the rich have no responsibility to pay back what they owe to society. Your final deception is that helping the rich get richer is the road to a healthy economy because it motivates everyone to work hard. There's nothing remotely healthy or advantageous when the richest control nearly all the wealth in our nation and the 99 percent struggle to get by. It's like you're saying it would be healthy for a family if one child eats all the food while the other nine kids are left to squabble over a measly forkful of peas. We all know that is a ridiculous idea.

We should replace the current policy of progressive taxes in capitalism with a universal basic income and maximum wage cap in democratic

socialism to ensure that income rewards people fairly. When every adult is guaranteed a monthly income that can be used in any way they choose, we raise the income levels of the lower earners proportionately higher than the higher earners, which narrows the income gap. People are free to contribute their talents and gifts to society and participate in the economy, including pursuing important occupations that aren't generally lucrative, such as the arts and family caregiving. We can easily fund a UBI through progressive taxes in democratic socialism. It's only right that those who succeed pay back the most into the system that set them up for success in the first place. The net effect is a higher standard of living, more people participating in growing the economy, and a society with less income disparity. To that end, we also use a maximum wage cap that applies across the nation. It sets a percentage limit on how high a salary can be relative to the lowest salary in a firm. This ensures that the income gap will never swell to dangerous levels that could topple our society. Income is predistributed through a combination of worker ownership and income distribution within the firm decided democratically, along with a UBI, all the other social safeguards, and a maximum wage cap. This is how we do the right thing in democratic socialism. Because there is a core commitment to *healthy communities*, firms, community stakeholders, elected representatives, and individuals make decisions that are not only good for their local region but benefit the whole world. Economic justice is built into the system. With this appreciation for our intrinsic interconnection, we get the prosperity we all want, the opportunities we all want, and the satisfaction of knowing that we are fairly rewarded.

Radical

Democratic Socialism



Income
Distribution

BIG PICTURE

When we value everyone's contributions, everyone is able to prosper and enjoy their fair share of the abundance we all create together.

POLICY POSITION

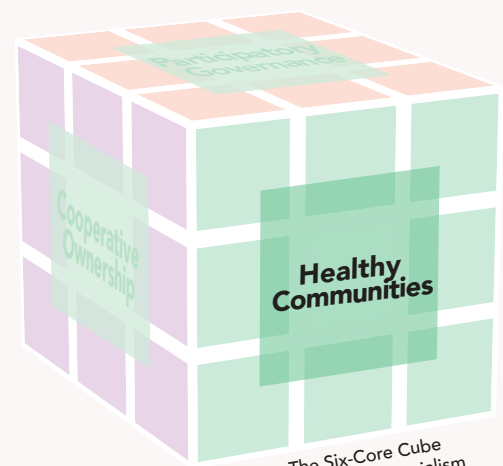
Income inequality can cause social conflict, but...

- ▶ Liberal policies perpetuate the dangerous notion that a few government programs funded by taxes on the wealthy can rectify the fundamental injustice perpetrated by capitalism.
- ▶ Conservative policies are built on bald-faced lies that the mega rich earn their income fairly, that anyone can be rich, and that we're all better off when the rich get richer.

SOLUTION

Replace progressive taxes in capitalism with a universal basic income and a maximum wage cap in democratic socialism to ensure that income rewards people fairly:

- Everyone gets what they need and deserve.
- The wage gap flattens.



The Six-Core Cube
of Democratic Socialism

- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Income Distribution Talking Points: Radical

1. In democratic socialism, the race is fair from the get-go. We acknowledge that we're all in this together; your success benefits me, and mine benefits you. Cooperation brings out the best in humanity because when we own it together, we make decisions democratically about how to share the rewards fairly. Never losing sight of the fact that we share our workplaces, our local communities, and our planet, we make decisions that value everyone's well-being and the well-being of the world.
2. The golden rule prevails in democratic socialism. We want to have our basic needs met, so we make sure everyone has their basic needs met. We want to have a say in what we earn, so we make sure all co-owners have a say about the pay scale in their workplaces. We acknowledge others with words, but also with incomes that are the fair reward for their contributions. This predistribution of income is the foundation of our economic well-being.
3. Liberals, your progressive income tax can't bring equitable income distribution because capitalism is set up to have only a few winners. No matter how many school lunch programs and job training programs you fund, this fact remains true. A few people might claw their way to the top of the income ladder, but that doesn't solve the systemic problem of income inequality. You've changed a player or two on the Forbes 500 list, but you haven't changed the game.
4. Liberal programs fill people's bellies and take a smidgen of their desperation away, but then make them jump through so many hoops to get those benefits that they have no energy left to protest the rotten system that is causing them to starve in the first place. You might sound virtuous when you say the rich should pay more, but what you're not admitting is that the obscene wealth of the rich was made at the expense of the poor.
5. Conservatives, you peddle a dangerous lie when you say the people at the top deserve their riches because they made their money through their own hard work and by pulling themselves up by their bootstraps. Owners get rich off the backs of their workers, and then they invest their money in other firms that exploit their workers, making themselves even richer. So when you say the wealthy deserve their rewards, you are in effect saying that we should applaud them for stealing.
6. Flat consumption taxes are regressive. Here go conservatives, once more privileging the rich, hurting the poorest, and institutionalizing the idea that the rich have no responsibility to pay back what they owe to society. They claim that helping the rich get richer is the road to a healthy economy because it motivates everyone to work hard. There's nothing remotely healthy about a society where the richest control nearly all the wealth in our nation and the 99 percent struggle to get by.
7. When every adult is guaranteed a monthly UBI that can be used in any way they choose, we raise the income levels of the lower earners proportionately higher than the higher earners, which narrows the income gap. People are free to contribute their talents and gifts to society, including pursuing important occupations that aren't generally lucrative, such as the arts and family caregiving. The net effect is a higher standard of living, more people participating in growing the economy, and a society with less income disparity.
8. Income is predistributed fairly to start with because we have worker-ownership in democratic socialism. Economic justice is baked into the system. Dangerous income disparity is further prevented through maximum wage cap legislation. It applies across the nation, setting a percentage limit on how high a salary can be relative to the lowest salary in a firm. This ensures that the income gap will never swell to dangerous levels that could topple our society.

The Shared Outcome

All three perspectives share the same goal that income should reward people fairly. The issue of income distribution has been with us since the beginning of humanity, when we had to divide the spoils of the hunt. It will always be an issue that humans must negotiate with one another. Now that you have become fluent in the liberal,

conservative, and radical perspectives on this issue, you can understand and articulate their points of view as a respectful listener, intelligent debater, and passionate advocate. This puts you in the best position to help move our nation forward. You might even discover a whole new way to think about this problem that will spark new solutions to extreme income inequality. ☒



Three-in-One Activity

Try this Three-in-One activity for Income Distribution. It's a way for you to understand an issue from the inside—to feel how policies affect your life. It begins with a neutral round to establish the scenario. In subsequent rounds, the policy of each perspective is factored into the scenario so that you can see how the issue is solved. Ideally, you'll need a group of six people, but if you don't have a group, use your imagination as best you can.

“It’s Off to Work We Go”

Here is the scenario for this activity. You all work in a crayon firm, and everyone has a particular job, which stays the same for each round of the activity. The table below shows the six crayon factory jobs and the salaries for each.



JOB	SALARY
A. CEO	\$10,000,000
B. Vice President	\$300,000
C. Technician	\$75,000
D. Salesperson	\$50,000
E. Receptionist	\$40,000
F. Custodian	\$25,000

Round I: Neutral

- 1 Form groups of approximately six people.
- 2 Starting with the person whose last name is closest to A, accept a job at the crayon factory in the order given in the table above.
- 3 Note your job and salary. In this round, there are no income taxes, so this amount is your take-home pay.
- 4 Notice your immediate emotional response to both your position and your salary.
- 5 Now make eye contact with someone in your group and tell them how you feel about your salary and position. Be as honest as possible.

Next, we'll see what happens when each perspective implements their policy ideas. Please note that the progressive income taxes used by liberals and radicals in this activity are a simplified version of real-life progressive income taxes.

Round II: Liberal Perspective

In this scenario, Democrats use progressive income taxes to fund government programs that level the playing field so that lower-income people can compete. In column 3 of the table below, a progressive tax has been added. Column 4 shows the government transfer payments and benefits that lower earners are qualified to receive. Column 5 shows your new total income under the liberal plan. Column 6 shows that each individual pays a portion of the costs for social services more or less depending on several factors, including if they qualify for government subsidies and tax breaks.

1 Job	2 Starting Salary	3 Progressive Income Taxes	4 Government Transfers (needs-based)	5 Total Income	6 Health Care, Housing, Education, Retirement
CEO	\$10,000,000	40% (-\$4,000,000)	None	\$6,000,000	Partial Self-Pay
VP	\$300,000	25% (-\$75,000)	None	\$225,000	Partial Self-Pay
Technician	\$75,000	10% (-\$7,500)	None	\$67,500	Partial Self-Pay
Salesperson	\$50,000	10% (-\$5,000)	None	\$45,000	Partial Self-Pay
Receptionist	\$40,000	0% (\$0)	None	\$40,000	Partial Self-Pay
Custodian	\$25,000	0% (\$0)	+\$12,000	\$37,000	Partial Self-Pay

No matter how you feel personally about the liberal policy, this exercise is a role play in which you act as if you agree with stronger progressive income taxes and talk about the policy in a positive way. The purpose is to deeply understand the liberal perspective.

- Refer to the following Liberal Perspective Statements.
- Read aloud a statement that corresponds to your job in the crayon firm.
- Deliver it without sarcasm. Make eye contact with group members. Be convincing.

“It’s Off to Work We Go”

Liberal Perspective Statements

CEO AND VP

- ❶ I’m comfortable paying higher taxes because my success is not just a result of my hard work; it’s also because I had privileges and opportunities that gave me a head start.
- ❷ I’m fine taking home less pay because my taxes fund government programs that level the playing field so more people can succeed, and that ultimately raises my standard of living.
- ❸ I’m happy to pay my fair share of taxes because government keeps my business strong with educated workers, firefighters, roads, and more.

SALESPERSON AND TECHNICIAN

- ❶ I’m delighted that lower taxes for the middle class leaves more money in my paycheck, and when I spend it, I’m creating jobs for other people.
- ❷ I feel lucky to live in a society where wealth is redistributed so that it relieves the burden on the hardworking middle class.
- ❸ It’s fair that those in the middle class, who are the backbone of this nation, can pursue the American Dream and watch our families prosper.

RECEPTIONIST AND CUSTODIAN

- ❶ I’m grateful to have a job so I can contribute to society, and I’m grateful that government programs help me afford the housing, education, and health care my family needs.
- ❷ Even though my job doesn’t pay much, I feel optimistic about my opportunities to rise because our nation funds programs that level the playing field for people like me.
- ❸ I’m proud to work hard, and with our government’s help, my kids and grandchildren have more opportunities to realize their potential and contribute to society.



Round III: Conservative Perspective

In this scenario, Republicans have no income tax. They use flat consumption taxes to fund what they believe are the three necessary roles of government. In column 3 in the table below, notice that incomes don't change. Column 4 shows how income is redistributed through charitable giving by the higher earners and charitable receiving by the lower earners. Column 5 shows your new total income under the conservative plan. Column 6 indicates that health care, housing, retirement, and education are wholly paid for by each individual. However, with no income tax, everyone has more money to fund what they choose, and prices are lower because there is less government interference.

1 Job	2 Starting Salary	3 No Income Taxes	4 Charitable Giving (10%) & Receiving	5 Total Income	6 Health Care, Housing, Education, Retirement
CEO	\$10,000,000	\$10,000,000	-\$1,000,000	\$9,000,000	Self-Pay
VP	\$300,000	\$300,000	-\$30,000	\$270,000	Self-Pay
Technician	\$75,000	\$75,000	None	\$75,000	Self-Pay
Salesperson	\$50,000	\$50,000	None	\$50,000	Self-Pay
Receptionist	\$40,000	\$40,000	+\$5,000	\$45,000	Self-Pay
Custodian	\$25,000	\$25,000	+\$15,000	\$40,000	Self-Pay

No matter how you personally feel about the conservative policy, this exercise is a role play in which you act as if you agree with eliminating income taxes and talk about the policy in a positive way. The purpose is to deeply understand the conservative perspective.

- Refer to the following Conservative Perspective Statements.
- Read aloud a statement that corresponds to your job in the crayon firm.
- Deliver it without sarcasm. Make eye contact with group members. Be convincing.

“It’s Off to Work We Go”

Conservative Perspective Statements

CEO AND VP

- 1 I feel good about my salary because it reflects my contributions to society as someone who creates products that improve people’s lives.
- 2 I deserve to keep all the income I earn because I’ve made countless personal sacrifices to achieve my success, so I should reap the rewards and spend it as I choose.
- 3 I’m delighted that my paycheck is bigger with no income tax because I can support society with more charitable giving.

TECHNICIAN AND SALESPERSON

- 1 I’m satisfied with my salary because I work hard and earn a decent living, and I still have time for the rest of my life, including family and leisure activities.
- 2 I like my decent middle-class income, and I’m happy with my paycheck because I can save and invest for the future.
- 3 I feel content earning what I need to pay my bills, and I’m glad that I can make my customers happy.

RECEPTIONIST AND CUSTODIAN

- 1 I think what I earn is fair, and philanthropy helps me to afford more education so I can qualify for a better-paying job.
- 2 My salary is fair because I choose to spend time with my family and do the things I enjoy instead of putting in extra hours at the office.
- 3 My income works for me because I get to clock in, do my job, clock out, and live a simple, happy life without worrying about being in charge or managing others.



Round IV: Radical Perspective

In this scenario, Democratic Socialists have a maximum wage cap of thirty times the lowest earner in the firm. In column 2, the maximum wage cap is applied, and only the CEO's salary is reduced. In column 3, some of the original CEO salary is redistributed as across-the-board raises of 50 percent. In column 4, Democratic Socialists use progressive income taxes. In column 5, a universal basic income (UBI) is added. Column 6 shows your new total income. Column 7 indicates that health care, housing, education, and retirement security are fully funded by the government. Since the crayon firm has more money left over from the original CEO salary reduction, the worker-owners decide where to invest it—for example, in expansion, capital improvements, benefit increases, philanthropy, and more.

1 Job	2 Starting Salary with Maximum Wage Cap	3 Partial Redistribution of CEO Salary (+50%)	4 Progressive Income Taxes	5 UBI	6 Total Income	7 Health Care, Housing, Education, Retirement
CEO	\$10,000,000 \$750,000	\$750,000 \$1,125,000	60% (–\$675,000)	+\$12,000	\$462,000	Covered
VP	\$300,000	\$300,000 \$450,000	40% (–\$180,000)	+\$12,000	\$282,000	Covered
Technician	\$75,000	\$75,000 \$112,500	40% (–\$45,000)	+\$12,000	\$79,500	Covered
Salesperson	\$50,000	\$50,000 \$75,000	20% (–\$15,000)	+\$12,000	\$72,000	Covered
Receptionist	\$40,000	\$40,000 \$60,000	20% (–\$12,000)	+\$12,000	\$60,000	Covered
Custodian	\$25,000	\$25,000 \$37,500	0% (0%)	+\$12,000	\$49,500	Covered

No matter how you feel personally about the radical policy, this exercise is a role play in which you act as if you agree with a UBI and a maximum wage cap and talk about the policy in a positive way. The purpose is to deeply understand the radical perspective.

- Refer to the following Radical Perspective Statements.
- Read aloud a statement that corresponds to your job in the crayon firm.
- Deliver it without sarcasm. Make eye contact with group members. Be convincing.

“It’s Off to Work We Go”

Radical Perspective Statements

CEO AND VP

- 1 I feel comfortable with my salary because I’m paid well, but I’m not paid an outrageously high amount compared to other worker-owners in our firm, which would be unfair to them.
- 2 I make plenty of money to live a very good life, and I have the satisfaction of making the world a better place and being part of a firm that shares my values.
- 3 I’m happy to make less than I did before because it means we’re able to improve our firm, help our community, and give all our worker-owners more financial security.

TECHNICIAN AND SALESPERSON

- 1 I love my job because it earns me a comfortable living, and I can do what I love instead of chasing a higher income, thanks to the UBI.
- 2 I feel lucky that I can earn a good living and have a say in production practices and salary levels, and I never have to worry that my job will be outsourced and I’ll be laid off.
- 3 I make good money, and the maximum wage cap means our firm has the means to offer a generous pension fund, emergency fund, and community building fund.

RECEPTIONIST AND CUSTODIAN

- 1 As a worker-owner, I am pleased that my salary finally reflects my real contributions at work, and with the UBI on top of that, I can finally get ahead.
- 2 I’m satisfied with my income because I have an equal say in setting the salary levels, and with a maximum wage cap, I feel respected as a vital member of the team.
- 3 At our firm, expertise and experience are rewarded fairly, so if I want a higher income, I know I can get more training to improve my skills and move up.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Income Distribution. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues and have educated and informed opinions.

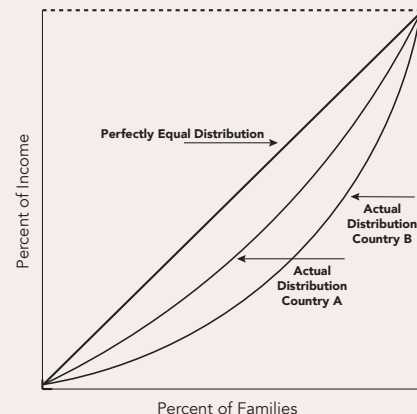
Chapter 13: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers at the end.



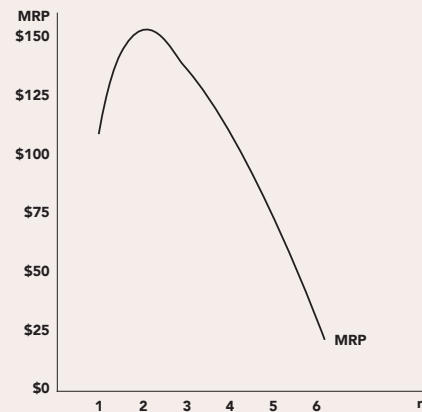
- There is a big difference between income and wealth. Which of the following are only examples of income? Choose all that apply.
 - The current value of Juan's car
 - The wage Nancy gets for working at the car wash
 - The interest Jada gets from owning a U.S. Treasury bond
 - The total amount of money in Clyde's stock portfolio
- Liberals, conservatives, and radicals reject workplace discrimination in all of its forms, agreeing that it is both morally wrong and bad for the economy. But they have different ideas about how to eliminate it. Match the perspectives (left column) to their ideas (right column).

A. Liberals	i. Human nature, left alone, fixes the problem.
B. Conservatives	ii. Unfettered price signals create profit incentives.
C. Radicals	iii. Government sets antidiscrimination laws and penalties for violations.
D. None of the perspectives	iv. Antidiscrimination councils establish policies and accountability.
- The Lorenz curve illustrates the relative levels of income inequality between countries. On the graph to the right comparing Country A and Country B, one country has a Gini coefficient of 0.25 and the other has a Gini coefficient of 0.54. Of the two, which country has more income inequality, and which Gini coefficient matches that country?
 - Country A, Gini coefficient 0.25
 - Country A, Gini coefficient 0.54
 - Country B, Gini coefficient 0.25
 - Country B, Gini coefficient 0.54



4. According to conventional theorists, people get paid what they contribute to output because profit-maximizing firms continue to hire until the marginal revenue product of each worker is equal to the wage of that worker. Assume there is an equilibrium wage of \$100 per day in the phone worker industry. Looking at the marginal revenue product curve for Z's phone company, how many workers will the firm hire?

A. 5
B. 4
C. 3
D. 2



5. According to the radical perspective, why does capitalism's core commitment to unhealthy communities result in extreme income inequality? Choose the correct answer.
- A. In search of profit, firms race to the bottom, looking for opportunities to create high-paying jobs throughout the world.
- B. By keeping ownership of workplaces local, production is inefficient and workers are increasingly exploited.
- C. Owners understand that workers and the environment must be preserved or their profit base will be undercut, so they allocate resources to preserve people and the planet.
- D. In constant danger of losing their business to competitors, owners are pressured to pay workers the least amount possible and accumulate the most profit possible.
6. While there are three categories of taxes—progressive, flat, and regressive—there are many types. Match the type of tax (left column) to the example of it (right column).
- | | |
|----------------------|---|
| A. Income tax | i. Tax paid on your weekly wages |
| B. Consumption tax | ii. Tax paid annually for owning your car |
| C. Capital gains tax | iii. Tax paid when you bought a new couch |
| D. Property tax | iv. Tax paid when you sold a profitable stock |
7. Which one of the following statements is true from the liberal perspective?
- A. All people should have equal pay. Period.
- B. People should not necessarily have equal pay, but they should definitely have equal opportunities.
- C. Progressive taxes are designed to punish the rich to give handouts to the poor.
- D. Government legislation in the form of maximum wage caps and universal basic income should be used to bring about more equitable income distribution.

8. According to conservatives, extreme income inequality results from which one of the following?
- A. High income taxes on the wealthy and demotivating government programs for the poor
 - B. Lack of cooperative ownership of firms
 - C. The motivation people feel when they see others succeeding
 - D. Lack of opportunity for some individuals
9. In democratic socialism, extreme income inequality is addressed by having a/an _____ to ensure that everyone has enough money each month to meet their basic material needs, and a _____, which limits the amount of money that some worker-owners in a firm are permitted to earn relative to others.
- A. universal basic income; minimum wage law
 - B. maximum basic necessities; universal constrained high wage
 - C. universal basic income; maximum wage cap
 - D. umbrella barrier insurance; midline worker compensation
10. The three quotations below reflect the liberal, conservative, and radical perspectives. Choose the answer that gives the order in which they are shown.
- I. "We don't want to turn the safety net into a hammock that lulls able-bodied people into complacency and dependence."
 - II. "Capitalism does not permit an even flow of economic resources. With this system, a small privileged few are rich beyond conscience, and almost all others are doomed to be poor at some level."
 - III. "You built a factory and it turned into something terrific or a great idea....Keep a hunk of it. But part of the underlying social contract is you take a hunk of that and pay it forward for the next kid who comes along."
- A. Radical; Liberal; Conservative
 - B. Liberal; Conservative; Radical
 - C. Conservative; Liberal; Radical
 - D. Conservative; Radical; Liberal

Answers

1. B & C 2. A – iii, B – ii, C – iv, D – i 3. D 4. B 5. D 6. A – i, B – iii, C – iv, D – ii 7. B 8. A 9. C 10. D

Chapter 13: Key Terms

<u>Actual distribution of income</u>	<u>Income distribution</u>	<u>Stock options</u>
<u>Adjusted gross income</u>	<u>Inheritance tax</u>	<u>Tax and transfer</u>
<u>Assets</u>	<u>Law of diminishing</u>	<u>Tax bracket</u>
<u>Average income</u>	<u>marginal returns</u>	<u>Taxable income</u>
<u>Categories of taxes</u>	<u>Lorenz curve</u>	<u>Types of taxes and transfers</u>
▪ <u>Flat</u>	<u>Marginal output</u>	▪ <u>Capital gains tax</u>
▪ <u>Progressive</u>	<u>Marginal revenue product (MRP)</u>	▪ <u>Consumption tax</u>
▪ <u>Regressive</u>	<u>Marginal tax rate</u>	▪ <u>Estate tax</u>
<u>Cycle of poverty</u>	<u>Maximum wage cap</u>	▪ <u>Government</u>
<u>Distributive justice</u>	<u>Median income</u>	<u>transfer payments</u>
<u>Excise tax</u>	<u>Net income</u>	▪ <u>Income tax</u>
<u>Flat consumption tax policies</u>	<u>Per capita</u>	▪ <u>Property tax</u>
<u>Gini coefficient</u>	<u>Perfectly equal distribution</u>	▪ <u>Wealth tax</u>
<u>Golden parachute</u>	<u>of income</u>	<u>Unhealthy communities</u>
<u>Gross income</u>	<u>Perks</u>	<u>Universal basic income (UBI)</u>
<u>Healthy communities</u>	<u>Poverty trap</u>	<u>Value-added tax (VAT)</u>
<u>Income</u>	<u>Progressive tax policies</u>	<u>Wealth</u>
	<u>Social capital</u>	

Answer Key to Exercise 13.1

- a.** According to this Lorenz curve, income was distributed more equally in 1974. How can you tell?
Because the actual distribution curve for 1974 is closer to the line of perfectly equal distribution than the actual distribution curve for 2017.
- b.** The Gini coefficient for 1974 was 0.35, and the Gini coefficient for 2017 was 0.48.

Answer Key to Exercise 13.2

	¹ E			² P				³ E			
	S			R				X			
	T			O			⁴ I	N	C	O	M
	A			G				I			
	T			R				S			
⁵ R	E	G	R	E	S	S	I	V	E		
				S							
	⁶ C	O	N	S	U	M	P	T	I	O	N
				I							
				V		⁷ F					
			⁸ W	E	A	L	T	H			
						A					
						T					

Across

- 4. Tax on what you earn
- 5. Higher tax rate as income decreases
- 6. Tax on what you buy
- 8. Tax on total net worth

Down

- 1. Tax on assets after death
- 2. Higher tax rates as income increases
- 3. Tax on specific products
- 7. Same tax rate for all



14 Issue: THE ENVIRONMENT

If you've ever had mice in your home, then you know how tricky it can be to remove them. But did you know there are more than 4,400 patents for mousetraps? It's "the most frequently invented device in U.S. history," according to Ruth Kassinger, author of *Build a Better Mousetrap*. Tens of millions of mousetraps are sold every year. To start our conversation about the environment, I want to tell you a story about a mousetrap from one mouse's point of view. No one knows the origins of this little folktale, but this is how we tell it in the VOTE Program.

A mouse is living a comfortable life under the floorboards of a farmhouse kitchen when one morning, it peeks through a crack and sees the farmer holding a mousetrap. "Now we'll catch the critter that's been nibbling on the bread at night," he tells his wife. A shiver of dread goes through the little mouse. It races outside and runs to the chicken coop, squeaking frantically, "Danger! Danger! There's a mousetrap in the house! We need to do something!"

The chicken looks up from pecking at the ground and says, "I can understand why you're upset, of course, because you live in the house, and you're a mouse. But I'm a chicken, and I live in the chicken coop. A mousetrap is no danger to me. You'll have to deal with this yourself."

Frustrated, the mouse rushes to the pigsty to tell the pig. "Terrible news! There's a mousetrap in the house! What shall we do?" The pig snorts sympathetically and says, "I'm very sad to hear about your situation in the farmhouse, but it doesn't affect me here in my pigsty. Seeing as we're friends, though, I'll pray for you." It goes back to rolling in the mud.

Stung, the mouse races out to the pasture and

tells the cow, "There's a mousetrap in the house! It's a disaster! We need to take action!" The cow chews a mouthful of grass thoughtfully and then says, "That's dire news for you, little mouse, but it's not really an issue for me here in my pasture. I'd love to help, but I've got a lot of grazing to get done, and I need to stay



focused. You're on your own, but you have my best wishes."

Disheartened, the mouse slinks back to its nest in the farmhouse and cowers in fear. Late that night, it hears a loud *snap!* in the kitchen. A venomous snake has been caught by the tail in the mousetrap and is thrashing around. Just then, the farmer's wife rushes into the kitchen to check the trap, and the injured snake bites her ankle. The farmer rushes in and kills the snake and then calls the doctor. The doctor prescribes medicine, but the next day, the woman's ankle is swollen, and she has a raging fever.

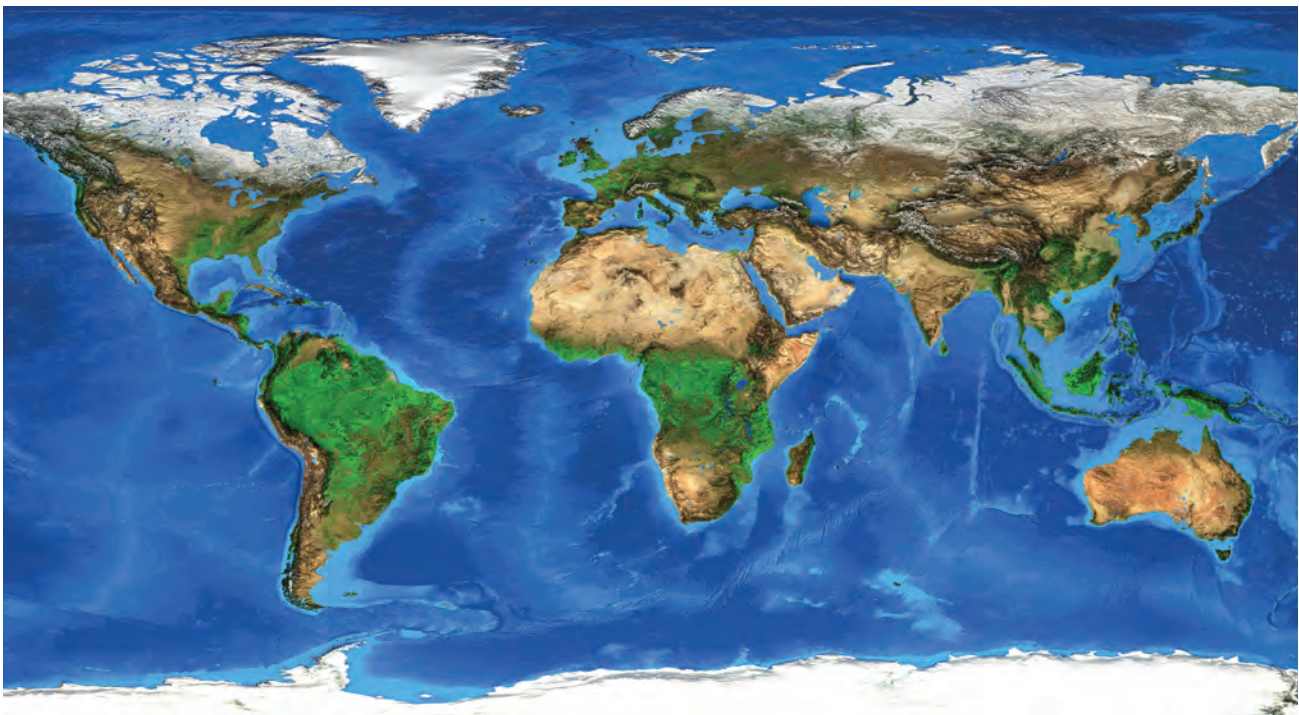
"Everyone knows you treat a fever with fresh chicken soup," the worried farmer tells himself as he heads out to the chicken coop with his axe to find the chicken.

The next day her fever is even worse. Concerned friends and neighbors drop by to console her. Realizing he has no food in the pantry to serve these guests, the farmer walks out to the pigsty to slaughter the pig.

A few days later, the poor woman dies. The heartbroken farmer plans the funeral. There will be a lot of mourners to feed, so he traipses out to the pasture and butchers the cow.

That night, the mouse slips out of its hiding place and wanders around the empty chicken coop. It looks forlornly at the empty pigsty. It hears the crickets chirp in the empty pasture. "Danger! Danger!" the mouse says to no one.

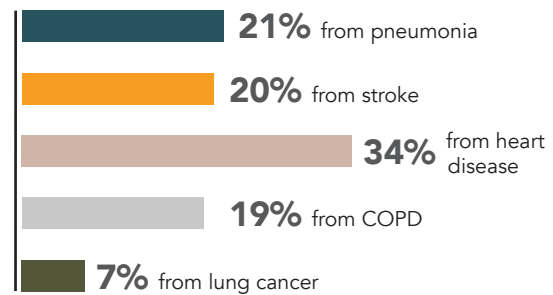
The mousetrap story gives us an important lesson to consider as we think about the issue of the environment, which is that when one is threatened, all are at risk. We all share this one round planet, and what happens in one place eventually affects the whole world. Everyone and everything is interconnected by the simple fact of geography. But like the chicken, the pig, and the cow, we don't always think of it that way. We tend to identify with our nationalities, cultures, religions, and even economic perspectives before we think of ourselves as Earthlings. I learned this lesson in the second grade, when we were asked to memorize the names of the four oceans. I proudly recited them: "The Atlantic, the Pacific, the Indian, and the Arctic." But when my teacher showed us a map of the world, I was confused. Clearly, there aren't four oceans. There's only one ocean on our planet, which just happens to be called by different names in different locations.



There are complicated ramifications of sharing one planet when it comes to pollution and climate change. The pollution of one person, or community, or country affects the whole world. Even if you were to go to a remote island in the middle of nowhere, you would find plastic washed up on the beaches. The birds in the Midway Islands, which are two thousand miles from the nearest continent, have bellies full of plastic. Let's say you leave an empty yogurt container on the beach in San Diego. When the tide comes in, the container is carried out to sea on currents that come together to form **gyres** (picture swirling vortexes). There are five gyres in the world's ocean, and they draw trash together into massive areas of debris made up of visible plastics and broken-down bits of plastics (microplastics), which are invisible to the naked eye. That yogurt container left on the beach in San Diego may become part of the Great Pacific Garbage Patch, which floats between Hawaii and California. In 2018, the surface of it measured more than 617,000 square miles—twice the size of Texas. There are floating garbage patches in the South Pacific and the North Atlantic as well. They are all composed mostly of micro particles of plastic and debris that have broken down in the ocean. Ecologists and oceanographers say 70 percent of trash in the ocean sinks to the bottom, so the problem is even more enormous than we can imagine. Some estimate that a garbage truck's worth of plastic enters the ocean every minute of every day—with devastating consequences to fish and other marine life.

We all share the ocean, and we also share the atmosphere. When smokestacks and cars spew pollution into the air in one country, the pollution doesn't respect borders. Air currents pick up pollutants and spread them to all parts of the world. A 2010 study found that 29 percent of the particles measured in the air in San Francisco originated from coal plants in China—more than 6,500 miles away. Millions of people die every year from the

adverse effects of pollution. Air pollution—indoor and outdoor—alone was responsible for causing the premature deaths of 7 million people in 2019, according to the World Health Organization (see the percentages of the various causes in figure 14.1). It also causes long-term health problems, from asthma to developmental disabilities in youth. Countries spend trillions of dollars every year to deal with the problem.



Source: World Health Organization
Please note: numbers are rounded up, so total = 101%

Figure 14.1
Premature Deaths from Air Pollution, 2019

Of all the issues we cover in the VOTE Program, the environment is the most urgently relevant to our survival as a species. Human beings aren't separate from the environment. Pollution affects our health, and climate change threatens our way of life and continued existence. Radicals, liberals, and conservatives agree that polluted air, water, and land can be dangerous, and they share the same goal of ensuring that we have breathable air, drinkable water, and habitable land. Without these, we won't be able to live. However, they have very different ideas about how to achieve it.

The Environment and Economics

When we talk about the environment, we mean the **natural environment**. This includes land, water, air, living organisms (plants, animals, insects, microorganisms, and so forth) and nonliving things such as minerals, sunlight, tem-

perature, precipitation, and soil. In contrast, the **built environment** is made up of the things humans create—cities, farmland, suburbs, roads, dams, canals, and more. The materials we use from the natural environment to produce goods and services are **natural resources**, which are things that come from the environment. We’ve referred to this category of resources as *land* in previous chapters. The environment is inseparable from economics. When economists ask their three questions—What should we make? How should we make it? For whom should we make it?—the answers all relate back in some way to the environment.

Let’s say you consider the human need to move from point A to point B. You ask yourself, “What should I make?” A stagecoach? A car? A high-speed train? An airplane? Each option has environmental consequences. If you decide to produce horse-driven transportation, for example, there will be an environmental impact from the horse manure. Every 1,000-pound horse creates 9.1 tons of manure a year. On the other hand, if you decide to produce gasoline-powered cars,

each one typically produces 4.6 metric tons of carbon dioxide a year. Likewise, high-speed trains and airplanes have their own unique impacts on the environment.

Suppose you decide to make a car. You ask yourself, “How will I make it?” To produce anything means you put together resources in such a way that the thing you make is more valuable than the sum of its parts. To make a car, you need steel for the frame, rubber for the tires, copper for the wiring, and so on. Those are natural resources. Some will be **renewable resources**, which replenish themselves in a relatively short time span (rubber comes from trees), and others will be **nonrenewable resources**, which can’t be replenished or readily replaced (copper needs to be mined). But no matter what kinds of resources you use, there will always be **byproducts of production**. These are secondary products that come about in the course of making something. For example, welding together the steel frame produces fumes that enter the atmosphere. The leftover paint that is washed down the drain as the car comes off the production line is another byproduct of



production. Not all byproducts are waste—think of the cowhides that are the byproducts of producing beef and end up being used to make the seats in your car—but waste byproducts are the ones we’ll be talking about in our discussion of the environment.

The third question economists ask is, “For whom do we make it?” Let’s say I need a car, but I live in Alaska, and you produced the car in Japan or Ohio. The car will have to be transported to Alaska. The byproducts of ships, trains, and trucks that carry products to their destinations also have an impact on the environment. And when I start to drive my new electric car, it will affect the environment through emissions that are indirectly generated by electric companies. If it is a gas-powered car, I’ll periodically get the oil changed and flush the radiator fluid, which might seep into the groundwater. Finally, when the car dies, I will have it hauled away. Some of it will be sold for scrap metal or parts, and the rest will end up in a landfill. The plastic will break down over time, and those particles will drift into the air, land, and water.

You can see from this simple example that the environment and economics are inseparable—from the beginning to the end of consumption, production, and distribution (or “cradle to grave,” as economists like to say). The environment enables our lives in every way, and it limits human enterprise, because resources are not limitless. Humans have always had a profound impact on the natural world. Archaeologists study the detritus of ancient people to learn how they lived, documenting the many ways that early humans changed the environment as they went about their daily business of hunting, gathering, and migrating with the seasons. I sometimes wonder what future archaeologists will conclude about our civilization from the trash we’re leaving behind. I’m sure they’ll puzzle over the preponderance of plastic water bottles.

Local Pollution and Global Climate Change

The Earth is a breathtakingly complex web of interconnecting **ecosystems**, which are communities of diverse organisms and nonliving things that coexist in a specific environment. Just imagine a pond and all the things that live in, around, and on top of the water. **Ecology** is the scientific study of the relationships and interactions within and between ecosystems. These include the smallest microscopic organisms as well as continents, glaciers, volcanos, the atmosphere, and your backyard. We use the word *nature* to refer to the sum of all these parts. Even with many factors constantly interacting, shifting, and changing in nature, ecosystems are remarkably adaptable. They have their own built-in resilience and are able to adapt to changes—up to a point. We’ll refer to that as the point of **ecological resilience**. That means the ecosystem is able to adapt to disturbances and still be viable (support the diverse organisms that depend on it). In a healthy ecosystem, life continues to be supported. In an impaired ecosystem, survival is threatened or living things simply can’t survive any longer.

Human involvement can drastically affect an ecosystem’s ability to bounce back. For example, when we dam a river, build a housing development, drill for oil, or mine for coal, we harm and sometimes even wipe out ecosystems. There are a wide variety of human-made disturbances, but the main one we’ll be discussing is **pollution**. It’s defined as the addition of harmful contaminants into an ecosystem. Local pollution has long been a problem for cities, suburbs, and rural areas. You hear in the news about drinking water contaminated with lead, smog so thick that people are cautioned not to go outside, children getting sick from fumes from a landfill near their neighborhoods, and more. Those reports are often overshadowed by grim news about global **climate change**, also referred to as *global warming*. Ris-

ing temperatures around the planet are caused by certain gases, such as water vapor, carbon dioxide, and methane. They get trapped in the atmosphere, where they absorb sunlight. All that heat warms up the lowest level of the atmosphere—the troposphere—and the planet below. This is called the *greenhouse effect*. Some greenhouse gases occur naturally, and that natural level is what makes our planet warm enough to be habitable. Every living thing on the planet evolved to exist within the temperature gradients that natural greenhouse gases provide. The problem is that human activity adds more of those gases to the atmosphere, which pushes the planet's temperature up. Some people think local pollution and the global climate crisis are separate matters. But as we saw in the mousetrap story, what threatens one threatens all.

Our planet's rising temperatures cause a chain reaction. Glaciers melt, and the runoff causes the seas to rise, which changes the planet's pressure systems, which affects the weather and wind patterns across the face of the Earth. That's why you hear about more (and more severe) hurricanes, droughts, and floods, as well as higher-than-average temperatures. To give you an idea of the delicacy and complexity of ecosystems, let's consider how a change in one part—the atmosphere's temperature warms by two degrees, say—affects the whole. For example, in certain oak forests, there are birds that eat a particular

The environment and economics are inseparable—from the beginning to the end of consumption, production, and distribution. We have a profound impact on nature, and the natural environment has a profound impact on us. It enables our lives in every way.

type of caterpillar. With warmer temperatures as a result of global climate change, spring comes early, and the caterpillars hatch while those birds are still migrating back to the forest. With no birds to keep their population down, the caterpillars strip the trees bare of leaves. Without the tree canopy, more sunlight filters down to the forest floor, which means fast-growing weeds take over and kill off the moss and ferns that thrive in shade. The insects and rodents that live off the moss and ferns either die or migrate to a new area, where they compete with the insects and rodents

there and consequently affect that ecosystem. The leafless oak trees are now more flammable, which means a random lightning strike or an unmindful hiker can start a fire and burn down the forest. Every forest fire releases more carbon into the atmosphere, which further warms the planet. (If I were to send you a text message about this, I would end this example with *sigh*.)

To address greenhouse gas emissions, policymakers around the world focus on reducing **carbon emissions**, which have been the biggest human cause of global climate change since the nineteenth century. Carbon emissions are the byproduct of burning fossil fuels—petroleum, natural gas, coal—and wood. To give you a few examples, 63 percent of electricity in the United States in 2019 was generated from burning fossil fuels. Carbon pollution also comes from driving gasoline-powered cars, operating factories, and using

controlled burns to manage forests. In 2017, even though the population of the United States was only 4.3 percent of the world's population, it was responsible for close to 30 percent of the world's greenhouse gas emissions.

The past few decades have seen more investment and development by industries and governments in alternative energies such as solar (photovoltaic), hydroelectric, and wind power. But carbon emissions stay in the atmosphere for a long time and continue to be a grave danger to the environment for generations to come. On top of that, we have a serious problem with water vapor in the atmosphere, which is the direct result of carbon emissions. The warmer the planet becomes, the more water is evaporated. By 2020, water vapor made up more than half of greenhouse gases in the atmosphere. The shocker is that water vapor amplifies heat at twice the rate as carbon dioxide, which means the planet heats up even more and causes more evaporation, and so on. This problem builds on itself—called a *feed-back loop*—and makes the situation exponentially more difficult.

People from every economic perspective are largely in agreement that climate change poses a profound threat to our collective well-being. In fact, a 2015 study by the Institute for Policy Integrity at the New York University School of Law found that the vast majority of expert economists believed

that climate change presented a clear danger to the United States and global economies. Even though they might not agree on what to do about it, they agree that it is a dangerous problem.

Copy Paper Example

The intersection of economics and the environment is a huge and growing field of study. I did an online search for information about environmental economics and came up with 648 million results in 2022. Even if nine-tenths of those sites are irrelevant to my search, there is still a massive amount of material on this topic. Since we can't capture all the nuances of this fascinating subspecialty of economics in one chapter, let's narrow it down and make it easier to analyze. We'll talk about the byproduct of production of something that everyone needs from time to time, which is copy paper.

Humans have been making paper since ancient times. The Egyptians wrote on papyrus, which they produced from the stems of water plants.

Yes, papyrus was a leap for humankind back in its day, but it was a bumpy ride for a quill. Today, our pens glide over the impeccably smooth surface of a sheet of paper. We use a more sophisticated version of the same basic technique developed by the Egyptians. First, vegetable fibers from trees, cotton, linen, and other materials are



cooked up in vats of various chemicals until they dissolve into a pulp. The pulp is then pounded to break down the fibers even more. Then more additives and fillers are mixed in to give the paper the desired texture, thickness, and sturdiness. Protective fillers—called *sizings*—are added to make sure the final product has the desired ink absorbency. You don't want the ink to seep through the paper and turn your poem into a messy ink-blot, and likewise you don't want the ink to sit on top of the page and dribble off when you lift the page up (if you've ever been frustrated trying to scribble a holiday note on shiny wrapping paper, blame the sizings). Different types of paper use different additives, fillers, and sizings. After the beating process, the pulp is pressed onto a fine-mesh screen to push out the liquid. It undergoes a few more drying processes and is finished with a smoothing process. It may also be coated and given more color.

I recently bought a ream of copy paper, and as I paid \$10 for it, I considered all the inputs that went into producing those perfectly crisp, perfectly flat, perfectly even, and perfectly white sheets. Wait a minute—white? How does brown wood pulp transform into white paper? It happens through a bleaching process. In decades past, paper mills used elemental chlorine—a type of chlorine gas—to bleach the pulp. The chemical was found to have cancer-causing dioxins, so paper makers stopped using it. Today, many paper manufacturers use chlorine dioxide because it has fewer dioxins (called *elemental chlorine free*). Others opt for a totally chlorine-free bleaching process. It uses oxygen and hydrogen peroxide instead, which is even less toxic than chlorine dioxide. I checked the label on my ream of copy paper, but there was no information about the process the firm used to make it white. So I went online and read the company's website, where I learned that my copy paper was made with the elemental chlorine-free process.

Typical Chemicals Used in Copy Paper Production

Pulping Chemicals

- Caustic soda
- Lime
- Sulfuric acid
- Soda ash
- Sulfur dioxide
- Sodium sulfites
- Sulfur
- Sodium sulfate
- Other pulping chemicals

Bleaching and De-Inking Chemicals

- Sodium chlorate
- Oxygen and ozone
- Hydrogen peroxide
- Sodium silicates
- Surfactants
- Other bleaching and de-inking chemicals

Fillers and Coating Pigments

- Calcium carbonate
- Precipitated calcium carbonate
- Ground calcium carbonate
- Clays
- Titanium dioxide
- Talc
- Other fillers and coating pigments

Paper mills require around seventeen thousand gallons of water to produce one ton of paper. For that reason, factories are typically built next to a water source, such as a river or lake. If you drive by a paper mill, you'll see tall smokestacks, and if you're downwind, you will definitely smell the rotten-egg odor of ammonia and other chemicals. But you probably won't see the pipes that pump the chlorine and other liquid waste—called **effluent**—into the river or lake. Measures that prevent or clean up the byproducts of production are called **pollution**.

abatement. As you make your way through this chapter, please keep in mind this dual meaning—cleaning up the environment *and* preventing pollution from occurring in the first place. For example, some particles are filtered out before the effluent reaches the water. Other forms of

pollution abatement include more refined filtering, scrubbing, incinerating, composting, recycling, and more. We'll circle back to the byproducts of producing copy paper throughout this chapter to illustrate the intersection of economics and the environment.



Thinking about the environment so far, from the mousetrap story to floating garbage patches, global climate change, and the copy paper example, you can see how complicated this issue is. Some people mistakenly believe the issue of the environment is only about science, but you can see that economics is at the heart of it. We have to come back to those three questions economists ask and the choices we make about what, how, and for whom we produce. The answers reflect our priorities as individuals, communities, nations, and the world. The reality is that our environment is impacted any time we produce a

good or a service, whether it be a spear, a dance class, or a microchip. While there is no question that all of us want to be able to take a breath and drink water without getting sick, live on land that doesn't make us ill, and eat food that doesn't harm us, we also want goods and services. This issue will only become more critical over your lifetime. All three perspectives agree that polluted air, water, and land can be dangerous. And they all share the same goal of breathable air, drinkable water, and habitable land. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for the Environment

You might be wondering why pollution is even a problem in the first place, since no one wants it. Yes, production causes byproducts, but if everyone prefers to have a clean environment, then why don't firms automatically produce in ways that create the lowest levels of pollution? The answer has to do with the **commons**—natural resources that are accessible to all and affect the whole community. Commons exist on the local, regional, national, and even global scale. They include the atmosphere, oceans, groundwater, outer space, and some unregulated public land, natural springs, lakes, rivers, beaches, and more. The reason we need to think about the commons in our discussion of the environment is because there are different ideas for how to prevent the commons from becoming polluted. Conventional (conservative and liberal) and radical theory use different tools to analyze this issue. Before we explore each one, let's talk about a tool that all three perspectives use to think about the commons.

Shared Tools

When I was a young adult, I heard a really interesting story about a natural spring. It was reported to have the tastiest water in the world. The spring was located on county land, and a neighbor installed a spigot to make it easy to access. People used to come from all around to fill their empty jugs. The spring gained some notoriety when a travel writer published a piece about it in a major newspaper. A local company

decided to bottle the water and even designed a label for the bottles, but when word got out, a fight ensued between the firm and some in the community who worried that the firm would drain it dry. Then another firm, which was already in the bottled drinks business, started planning to sell the spring water as well, which caused even more bitter fights between the firms and with individuals who had their own ideas about how the natural spring should be used. In the meantime, a



new housing development was built on the hill above the spring—it was actually named for the spring, and the spring water was mentioned in the marketing materials. Around a month after the homeowners moved in, people started to get sick from the spring water. The Health Department came out and tested it and found contamination—possibly from the septic systems of the new homes. Officials removed the spigot and erected a fence around the spring, along with a warning sign so people would stop drinking the water. Now, decades have passed, and the water is still unpotable.

Because a commons is **open access**, meaning it's a natural resource that can be used by all without restrictions, it is vulnerable to being overused or polluted. Conservatives, radicals, and liberals all agree that the commons can become a free-for-all, with everyone grabbing up as much of it as they can because they know others are also trying to get the most of that resource. Eventually, it will be spoiled for everyone. This is known as the **tragedy of the commons**. Imagine if the bottled water firm set up round-the-clock production to bottle the free water and sell it, while an entrepreneur built a luxury spa and pumped the spring water directly into the guest room hot tubs, and a local farmer piped the free spring water into her fields to irrigate her crops. At some point, the spring would run dry. The bottled water firm would go under, the luxury spa would shut down, and the farmer's crops would wither in the field. This scenario has happened to the commons over and over again throughout history. In the 1970s,

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for example, overfishing in New England led to the collapse of the cod industry. All the people who made their living fishing cod and selling cod were financially destroyed, and cod lovers couldn't find their favorite fish in the supermarkets.

For decades, the debate about the tragedy of the commons revolved around whether natural resources were best managed by government or through private ownership. In the 1990s, the discussion widened to include communities col-

lectively managing their own natural resources. That idea was the focus of Nobel Prize-winning economist Elinor Ostrom. Her 1990 book, *Governing the Commons*, gave examples of communities that successfully managed their commons. All three perspectives recognize the tragedy of the commons as the key reason we have polluted air, land, and water. But they have very different ways of analyzing and addressing the problem. We'll start by taking a look at the tools used by conventional theorists, and then we'll switch over to the tools used by radical theorists.

Conventional Theory Tools

The primary tool needed to understand the issue of the environment from the liberal and conservative perspectives begins with standard market analysis. Let's consider the copy paper market. Conventional theorists say demanders, seeking to maximize their happiness, are willing to buy more at lower prices and less at higher prices, so the demand curve on a market graph has a downward slope. They also say suppliers, seeking to maximize their profit, are less willing

to supply when the price is low and more willing to supply at higher prices, so the supply curve has an upward slope. Where the supply curve meets the demand curve is the equilibrium point, which determines the price and quantity of copy paper. In past chapters we’ve discussed how changes in a market, no matter what the product, affect price and quantity. For instance, in the market for copy paper, when more people start using tablets and therefore need less paper, the demand curve shifts to the left, resulting in lower prices and lower quantities of copy paper. Another example is when next-generation pulping machines produce paper more efficiently—the supply curve shifts to the right, resulting in lower prices and higher quantities. You’ve practiced these types of shifts in the Market Change Guide.

While conventional theorists find this analysis incredibly helpful for answering all sorts of economic questions, they say that when considering the issue of the environment, this picture of supply and demand doesn’t capture everything that’s going on in the market. In particular, it fails to consider the external, negative effects of produc-

tion on land, air, and water. For example, paper production requires trees to be cut down, which leads to habitat loss, erosion, and loss of species. It requires toxic chemicals, which disperse into the air and pollute the water. In addition, chemical waste and paper waste are some of the byproducts of production that end up in landfills. Because none of these negative effects of production on the environment was factored into the original market change analysis, conventional theorists say the market outcomes—the prices and quantities—are actually wrong.

Negative Externalities

To keep it simple, we’ll talk about the market supply as if it’s a single firm and the market demand as if it’s just one buyer, but please keep in mind that we’re talking about markets, so we mean *all* copy paper firms and *all* copy paper buyers. Assume the copy paper firm in this example is built on the shore of a lake and releases high levels of chlorine into the water. And let’s say there are three other firms that use the lake water. They are neither suppliers nor demanders

Exercise 14.1: Is It a Commons?

Consider the list below and decide whether each one is a commons (Y for yes, N for no) and identify the ownership (unowned or managed, privately owned, publicly owned, or cooperatively owned). You may need to do an internet search to determine the answers. The Answer Key is at the end of the chapter.

RESOURCE	COMMONS (Y/N)	EXPLAIN
Example: Air	Y	No one owns or manages the air
Yankee Stadium in New York		
The Atlantic Ocean		
Acorn Community Farm in Virginia		
Rooster Cay Island, Bahamas		
The ozone layer of the atmosphere		

of copy paper. One is a chocolate bar factory. Because of the chlorine pollution from the copy paper factory, the chocolate bar firm has to install special filters to clean the polluted lake water to make it usable for chocolate bar production. Also on the lake is a flower firm, which loses income because its flowers grow pale and droopy as a result of the chlorine in the lake water. Finally, there's a professional laundry firm that uses the lake water, and its workers develop skin rashes from the high levels of chlorine in the water. The firm must provide them with heavy-duty gloves and respirators so that they can do their jobs without injury.

Clearly, something is very wrong with this picture, say conventional theorists. In any market relationship, there are two parties involved: suppliers and demanders. But in addition, there are **third parties**, which in this case are the chocolate bar firm, the flower firm, and the laundry service. They neither supply nor demand copy paper, yet costs are imposed on them as a result of the pollution created from the production of copy paper. Costs imposed on third parties are

called **negative externalities**. In other words, those firms are innocent bystanders that have nothing to do with copy paper, but they end up paying the price of the pollution generated by copy paper production. The chocolate bar firm foots the bill for the filters. The flower producer loses business. The laundry service shells out money for protective equipment for its workers. Both conservatives and liberals agree that negative externalities are completely unfair. As someone once said, "The right to swing my fist ends where the other person's nose begins."

Conventional theorists say negative externalities have damaging effects on markets because they give society the wrong price signals. Resources are then misallocated, resulting in the wrong quantities of goods and services. This is called a **market failure**. The firm passes its costs on to others rather than internalizing them (paying the costs themselves), which means too many resources are allocated to the polluting product (copy paper), while too few are allocated to the affected products (chocolate bars, flowers, and laundry service). To fix the market failure, the copy paper firm must



pay for pollution abatement—either preventing the lake from becoming polluted or cleaning up the pollution—so that the other firms won’t get stuck with those negative externalities, and the price signals will be corrected.

We can see what went wrong on the market graph in figure 14.2, as well as how conventional theorists correct the market failure. The problem occurred with supply. The supply curve represents the firm’s willingness to supply copy paper at different price levels. To determine its willingness, a firm considers the cost of producing each additional unit of copy paper. Because costs per unit go up as firms produce more, firms are only willing to supply additional units at higher prices. That’s why the supply curve is also called the **marginal cost curve**. So here’s the problem: the costs the firm initially considered were only its *private* costs of production—its land, labor, and capital—and not the costs it imposed on others. Because the supply curve in this case reflects only the firm’s private costs, conventional theorists call it the **marginal private cost (MPC)** curve. In this incomplete picture of the actual costs of production, the resulting equilibrium prices and quantities of copy paper (and every other product that creates pollution when it’s produced) were wrong.

By not factoring in the negative externalities, the copy paper market ended up with too much paper at too low a price. That’s why we had a market failure. Conventional theorists correct it by adding the costs otherwise imposed on third parties to the copy paper firm’s marginal private costs. In other words, the copy paper firm internalizes the costs that had been imposed on other firms, and the new, corrected supply curve is called the **marginal social cost (MSC)** curve. As you can see in figure 14.2, the MSC curve shifts to the left because the polluting firm bears the costs of pollution abatement, so its willingness to supply at every price level decreases.

Do you notice something strange in figure 14.2? The MSC curve shift is not parallel but curls up at the top. That is because the negative externalities (the vertical gray lines) change as the levels of production change. They grow bigger as more of the product is made. Why? Because when pollutants from production are first released into the environment, the ecosystem adapts by absorbing some of them. But as production expands and more pollutants accumulate, the ecosystem becomes more distressed and has a harder time absorbing them.

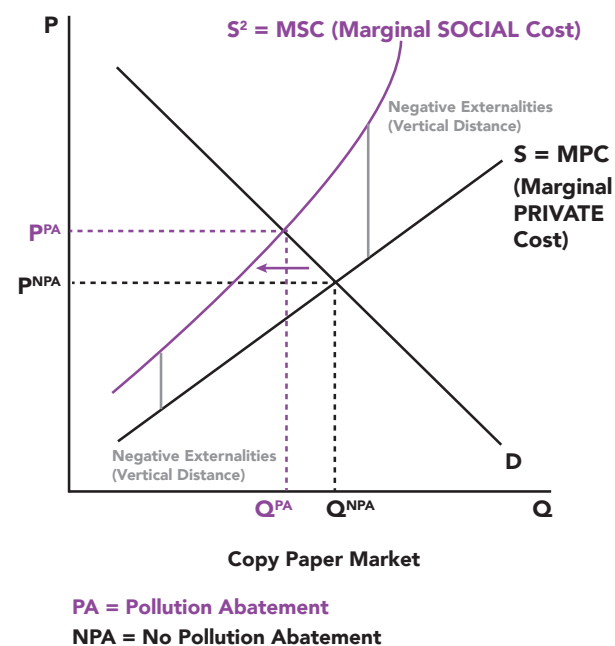


Figure 14.2
Copy Paper Market
Before and After Pollution Abatement

Where the MSC curve and demand curve intersect is the new equilibrium point after pollution abatement occurs. The price of copy paper is higher, and the quantity of copy paper is lower, which corrects the market failure. If you’re thinking that higher prices and lower quantities aren’t the best news for the copy paper firm or its customers, you’re right. But from the point of view of society, there’s been a major improvement, say conventional theorists, because not only do we now get the right amount

of copy paper at the right price, but the prices and quantities of chocolate bars, flowers, and professional laundry services also reflect the correct allocation of resources. You can see it in the chocolate bar market in figure 14.3. Once the copy paper firm takes responsibility for its pollution, chocolate bar producers no longer need to buy those expensive filters to clean the water. This lowers their costs of production at every level, leading to a parallel shift of the supply curve (S^2). This is excellent news for chocolate lovers and society as a whole because the price was never supposed to be that high, and the quantity was never supposed to be that low. The graphs for the flower market and the professional laundry service market would similarly show this parallel shift after pollution abatement in the copy paper market.

Conservatives and liberals say we end up with market failures when firms don't factor in the impact of production on the environment. This is a problem because market failures violate one of the promises of capitalism, which is that price signals ensure that firms will make the profit-maximizing amount of

goods and services without wasting resources, and that firms will make us what we want. Instead, we get too many of the polluting products at too low a price and not enough of the other products we want and need—and those are at too high a price. When producers internalize the negative externalities of production, and the costs of pollution abatement are appropriately assigned to the polluter, market failures are corrected, and the promise of capitalism is restored.

Cost-Benefit Analysis

It would be great news if correcting the market failure was the end of the story—pollution problem solved. But unfortunately, a big question still hangs in the air: how much pollution should the firm either prevent or clean up? Should it abate pollution 100 percent? 50 percent? 10 percent? This might seem like a trick question. I mean, who wouldn't want to have 100 percent pollution abatement in every possible scenario? We'd all like to have the option of snorkeling in unspoiled coral reefs, hiking through majestic old-growth forests, fishing in pristine lakes, and drinking from crystal-clear rivers. But we also want paper, hospitals, airplane travel, medications, and smartphones. When it comes to making the things we want and need, and our desire to have a pristine environment, there will always be trade-offs. We should never lose sight of the fact that there will always be an impact on the environment, no matter what we produce. Conventional theorists say human progress is a balancing act between preserving and respecting nature while striving to create an ever-more-vibrant and thriving society. And therein lies the challenge: how to find the right balance between the natural world and the built world.

Liberals and conservatives say that this daunting task becomes quite doable through the use of one of their tools: **cost-benefit analysis**. They say it is a method of making objective, rigorous,

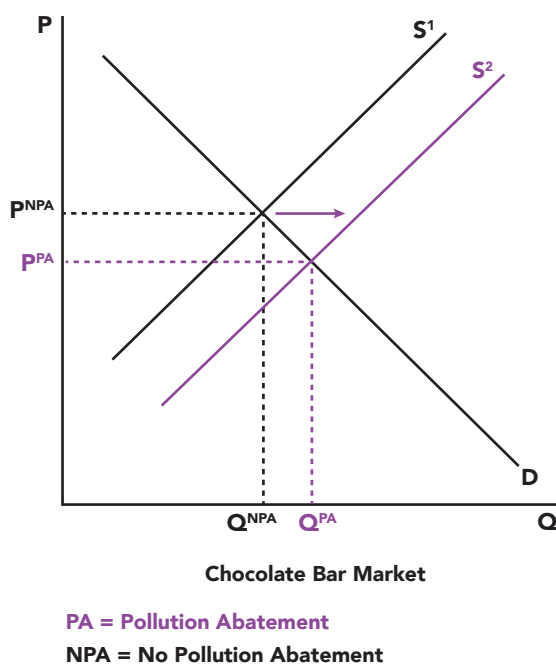


Figure 14.3
Chocolate Bar Market
After Pollution Abatement

and thoughtful decisions that guide us to produce the things we want and need while we wisely shepherd our scarce resources. A cost-benefit analysis applied to the environment makes a direct comparison between the costs and benefits of pollution abatement and reveals the optimal level for society. It might seem obvious, but we can only compare costs and benefits if we have a shared unit of measurement. That shared unit of measurement is money, which means a monetary value is assigned to both the costs and the benefits of cleaning up or preventing pollution. Liberals use government to conduct cost-benefit analyses, while conservatives use private firms hired by the owners of the natural resources.

To begin, the total costs of pollution abatement are considered. These are relatively straightforward to calculate. In our example of the copy paper firm, total costs of pollution abatement include installing filters and scrubbers, buying hazmat suits, hiring cleanup workers, applying chemical treatments, and more. Total benefits of pollution abatement are trickier to calculate and much more controversial. In our example, they include how much money the chocolate bar producer saves by no longer needing to install its own water filters, and how much additional money the flower farm generates when its flowers bloom more colorfully and robustly with the cleaner water, and how much the costs drop for the professional laundry service when its workers no longer need special gloves and respirators to do their jobs.

According to conventional theorists, cost-benefit analysis can tell us the appropriate percentage of pollutants to clean up or prevent in the lake. For simplicity, imagine we can reduce total pollutants in increments of 10 percent (10 percent, 20 percent, and so forth) all the way up to 100 percent. They are shown in the first column of table 14.1. In the second column, you can see the total costs (in billions of dollars) the firm incurs at each level of pollution abatement. We'll

use these made-up numbers throughout this conventional tools section. If you look closely, you'll notice that the total cost at each level of abatement increases at an increasing rate. That means the first 10 percent of pollution is the easiest to deal with. Think of it as skimming off the obvious pollution that rises to the surface, or adding a filter that keeps the largest particles of pollution from flowing into the lake. But as the firm continues its cleanup and prevention efforts, they become more complicated. The firm must use more sophisticated labor, raw materials, and high-tech equipment to remove the smaller particles or prevent them from entering the lake in the first place. That is why it costs relatively more to achieve each higher level of pollution abatement.

The third column shows the total benefit (in billions) of pollution abatement at each level. It measures how much benefit pollution abatement brings to those affected by it. Total benefit continues to increase the more pollution is cleaned up and prevented, but it increases at a decreasing rate. The biggest increase in benefit occurs with the first 10 percent of pollution abatement. In our example, now the chocolate bar firm no longer

Pollution Abatement	Total Cost	Total Benefit	Maximum Net Benefit
10%	0.10 B	2.00 B	1.9 B
20%	0.22 B	3.60 B	3.38 B
30%	0.37 B	4.80 B	4.43 B
40%	0.55 B	5.60 B	5.05 B
50%	0.75 B	5.75 B	5.00 B
60%	0.97 B	5.88 B	4.91 B
70%	1.22 B	6.00 B	4.78 B
80%	1.50 B	6.10 B	4.60 B
90%	1.80 B	6.18 B	4.38 B
100%	2.12 B	6.22 B	4.1 B

Table 14.1
Cost-Benefit Analysis: Part I

needs the most expensive, sophisticated, heavy-duty water filters to make its chocolate bars. When pollution abatement goes up, the benefits continually increase, but less dramatically at each level. So when it goes from 10 percent to 20 percent, the chocolate bar firm no longer needs to maintain its special ventilation systems to protect workers from chlorine exposure, and when it goes from 20 percent to 30 percent, the firm can switch to a less expensive cleaning solution for its vats. The benefits continue beyond 30 percent, but at each level, the additional benefit to the firm decreases.

Remember, the whole point of cost-benefit analysis is to find the optimal level of pollution abatement that will bring the maximum benefit to society. Conventional theorists find the answer in the fourth column of table 14.1, which is the maximum net benefit. It is calculated by subtracting the total costs from the total benefits. If you scan down the column, you'll see that the highest number in the maximum net benefit column is \$5.05 billion, which occurs at 40 percent pollution abatement. This means that at least as a first step, 40 percent of the pollution should be cleaned up or prevented, while 60 percent can remain in the lake. In other words, society maximizes its use of

resources at 40 percent pollution abatement, so 40 percent is the optimum level of cleanup and prevention in this example.

It is easy to see the maximum net benefit in this example, but in real life, knowing the exact point at which we achieve the maximum net benefit as a society can be complicated. Conventional theorists simplify the process of finding the optimal level of pollution abatement by comparing the marginal (additional) cost to the marginal (additional) benefit of cleaning up or preventing one more unit of pollution. The marginal is the change in the total cost or the total benefit at each level of pollution abatement. We'll start with marginal cost. In table 14.2, the marginal cost of 20 percent pollution abatement is calculated by subtracting the total cost at 10 percent (\$0.10 billion, which is 10 percent of a billion—or another way to say \$100 million) from the total cost at 20 percent (\$0.22 billion). This is simple subtraction. The marginal cost at 20 percent is \$0.12 billion. Let's practice. Without peeking at the marginal cost column, calculate the marginal cost at 70 percent. If you came up with \$0.25 billion, you are correct (\$1.22 billion minus \$0.97 billion). Calculating the marginal benefit column is done exactly the same way.

Pollution Abatement	Total Cost	Marginal Cost		Pollution Abatement	Total Benefit	Marginal Benefit
10%	0.10 B	0.10 B		10%	2.00 B	2.00 B
20%	0.22 B	0.12 B		20%	3.60 B	1.60 B
30%	0.37 B	0.15 B		30%	4.80 B	1.20 B
40%	0.55 B	0.18 B		40%	5.60 B	0.80 B
50%	0.75 B	0.20 B		50%	5.75 B	0.15 B
60%	0.97 B	0.22 B		60%	5.88 B	0.13 B
70%	1.22 B	0.25 B		70%	6.00 B	0.12 B
80%	1.50 B	0.28 B		80%	6.10 B	0.10 B
90%	1.80 B	0.30 B		90%	6.18 B	0.08 B
100%	2.12 B	0.32 B		100%	6.22 B	0.04 B

Table 14.2
Cost-Benefit Analysis: Part II

I'm about to reveal the easy rule to identify the optimal level of pollution abatement from the conventional perspective, so please take note. Simply compare the marginal benefit to the marginal cost at each level, and as long as the marginal benefit is *greater* than the marginal cost, keep going with pollution abatement. Take a look at table 14.3. At 10 percent, does it make sense to clean up or prevent pollution? The marginal benefit is greater than the marginal cost, so—yes! What about at 20 percent? The marginal benefit is still greater than marginal cost, so again—yes! At 40 percent, the marginal benefit is greater than marginal cost, so you would keep cleaning up. But at 50 percent, the marginal cost is greater than the marginal benefit. Conventional theorists say you should put the brakes on here. Cleaning up or preventing more than 40 percent of pollution in the lake would not be an efficient use of resources. (This example assumes that fractions aren't an option, so we're not talking about 47 percent or 49 percent, but in the real world, that is an option.)

For conservatives and liberals, the key to allocating society's scarce resources is to determine what

is best for society's overall well-being. Of course we want pollution abatement, but we also want roads, T-shirts, movies, coffee shops, and everything else. The bottom line, they say, is to clean up or prevent pollution until marginal cost (MC)—the cost of producing the next additional unit of pollution abatement—is greater than marginal benefit (MB)—the benefit from cleaning up that next additional unit of pollution. In other words, pollution abatement makes sense until $MC > MB$.

Both liberals and conservatives care deeply about the environment, and they are in complete agreement that cost-benefit analysis is the best way to determine the appropriate level of pollution abatement. But they disagree vehemently about what should be included in the "benefits" column.

Let's take a look at how each approaches this question of the appropriate use of cost-benefit analysis, as well as their policy solutions. Please keep in mind that both perspectives use cost-benefit analysis to address pollution abatement in the short-term. Ultimately, they may end up at the same level in the long-term. It depends on their different ways of determining society's wants and needs.

Pollution Abatement	Total Cost	Marginal Cost	Total Benefit	Marginal Benefit	Comparison
10%	0.10 B	0.10 B	2.00 B	2.00 B	MC < MB
20%	0.22 B	0.12 B	3.60 B	1.60 B	MC < MB
30%	0.37 B	0.15 B	4.80 B	1.20 B	MC < MB
40%	0.55 B	0.18 B	5.60 B	0.80 B	MC < MB
50%	0.75 B	0.20 B	5.75 B	0.15 B	MC > MB
60%	0.97 B	0.22 B	5.88 B	0.13 B	MC > MB
70%	1.22 B	0.25 B	6.00 B	0.12 B	MC > MB
80%	1.50 B	0.28 B	6.10 B	0.10 B	MC > MB
90%	1.80 B	0.30 B	6.18 B	0.08 B	MC > MB
100%	2.12 B	0.32 B	6.22 B	0.04 B	MC > MB

Table 14.3
Cost-Benefit Analysis: Part III

Liberal View of Cost-Benefit Analysis

When liberals do a cost-benefit analysis of pollution abatement, they include direct and indirect benefits, which are sometimes described as the **downstream effects**. They say it's not just the chocolate bar firm, the flower firm, and the professional laundry service that directly benefit when the lake is less polluted. Others indirectly benefit, including people who use the lake for recreational purposes—grandparents who take their grandchildren fishing, swimmers who train for competitions in the lake, kayakers, and so on. Pollution abatement means firms that sell fishing gear and rent kayaks indirectly benefit because they don't lose income. It also means swimmers avoid hefty medical bills and missed paychecks because they don't get sick from swimming in the lake. When the swimmer doesn't die from an illness caused by the pollution because the copy paper firm cleaned or prevented it, then the value of that person's life—determined by

estimating their future earnings potential—should also be included in the benefits column. This change in the calculation of benefits is incredibly important, say liberals, because it more accurately determines the correct pollution abatement level from society's perspective. As table 14.4 shows, the costs of pollution abatement don't change when indirect benefits are added, yet the total benefits are not only bigger at every level, they increase at an even steeper rate. Applying the rule to continue cleanup and prevention until the marginal cost is greater than the marginal benefit, the optimal level of pollution abatement from the liberal perspective is 60 percent in this example.

In relation to the market graph, liberals say pollution abatement results in not one but two shifts to the left of the MSC curve. The first shift shows the firm internalizing the direct costs imposed on third parties. The second shift shows the firm internalizing the indirect costs imposed on the other third parties who are downstream (the

Pollution Abatement	Total Cost	Marginal Cost	Total Benefit	Marginal Benefit	Comparison
10%	0.10 B	0.10 B	3.00 B	3.00 B	MC < MB
20%	0.22 B	0.12 B	5.20 B	2.20 B	MC < MB
30%	0.37 B	0.15 B	6.90 B	1.70 B	MC < MB
40%	0.55 B	0.18 B	8.10 B	1.20 B	MC < MB
50%	0.75 B	0.20 B	8.55 B	0.45 B	MC < MB
60%	0.97 B	0.22 B	8.88 B	0.33 B	MC < MB
70%	1.22 B	0.25 B	9.12 B	0.24 B	MC > MB
80%	1.50 B	0.28 B	9.27 B	0.15 B	MC > MB
90%	1.80 B	0.30 B	9.37 B	0.10 B	MC > MB
100%	2.12 B	0.32 B	9.42 B	0.05 B	MC > MB

Table 14.4
Cost-Benefit Analysis: Liberal View

kayak rental firm, the swimmer, and so forth). This double shift to the left corrects the market failure by adjusting prices and quantities of copy paper to their appropriate levels. You can see these shifts in figure 14.4.

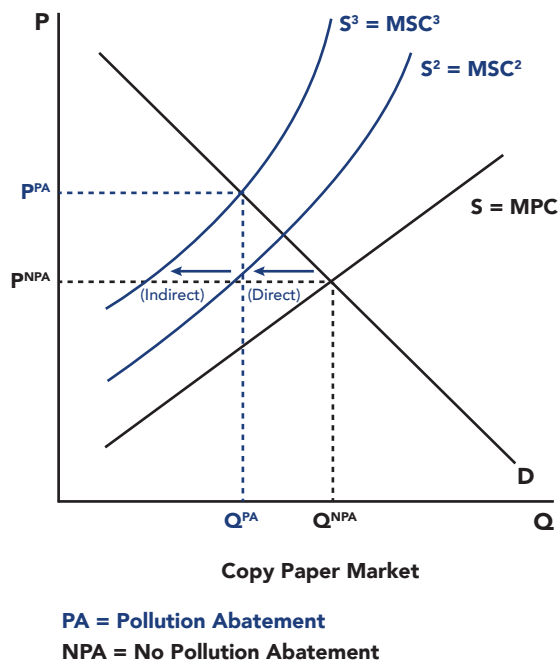


Figure 14.4
Copy Paper Market: Liberal Perspective

Liberal policies: Command and control regulation and supplemental carbon pricing. Liberals solve the tragedy of the commons and bring about the appropriate level of pollution abatement through **command and control regulation**, which sets standards for pollution abatement and empowers government to regulate firms and enforce those standards. Liberals say the government is in the best position to protect natural resources and society's best interests, whether it's addressing local pollution or global climate change. It has the authority to enforce compliance and impose sanctions on violators. It can impose fines or even shut down firms that pollute beyond the established limits. Liberals believe fair-market

capitalism gives us the best of both worlds: firms motivated to innovate and prevent pollution, and impartial government experts—scientists, ethicists, public health specialists, and others—to invent new ways to achieve pollution abatement, establish the right standards, and ensure that those standards are followed. With an entire arm of the government dedicated to finding better methods and new technologies for pollution abatement, firms save money, and marginal costs for pollution abatement go down. Once the marginal costs are lower than the marginal benefits, the cost-benefit analysis is recalculated. The government sets new standards for even higher levels of pollution abatement, bringing about ecological resilience. Liberals say that because we have a democratic government that is of the people, by the people, and for the people, command and control regulation ensures that our natural resources are protected and used in the most efficient ways.

According to liberals, the climate crisis is time sensitive and requires fast action. They believe command and control regulation should be supplemented with **carbon pricing**. This is a policy with two distinct components. The first is a tax on fossil fuels—oil, coal, and natural gas—because they release carbon into the atmosphere when burned. It's known as a **carbon tax**. The tax revenue is invested in clean energy and programs that give assistance to people in poverty, since the poor are disproportionately affected by the economic hardships created by climate change. The second component of carbon pricing is **cap and trade** (also called a *pollution permits market*). First, government uses cost-benefit analysis to determine the acceptable level of carbon emissions from industry in a particular area (local, regional, state, or national), which is called a *bubble*. Then the government auctions a limited number of permits to each firm, which allows them to pollute a certain amount in a specific bubble. The revenues generated from the auction of permits are used to mitigate the effects of climate change on the most

vulnerable populations and are also invested in clean energy initiatives. A firm that pollutes less can make a profit by selling its permit to a firm whose production process is more polluting. With cap and trade, it doesn't matter who makes the reductions as long as total carbon emissions are reduced in that bubble. Liberals believe carbon pricing—cap and trade as well as carbon taxes—not only helps control the level of pollution but also makes it profitable for firms to invest in pollution abatement. And both methods, used as a supplement to command and control regulation, generate revenue that government uses to address the climate problem. Liberals say that command and control regulation supplemented by carbon pricing achieves the level of pollution abatement established by the original cost-benefit analysis, which protects the environment now and into the future. Society wins in every way when we can all enjoy a clean environment while having the products we want and need. According to liberals, the beauty of the public-private partnership is that our government works for us and with us to bring about the highest levels of pollution abatement, the lowest levels of carbon emissions, and ecological resilience for all our natural resources.

Conservative View of Cost-Benefit Analysis

Conservatives say cost-benefit analysis is important because it allows us to make rational decisions about how to use our scarce resources. This is how we balance all our needs and wants as a society. For example, it tells us if recycling will use up more resources than it's worth. While people may have an emotional reaction when they hear that climate change is causing the seas to rise, cost-benefit analysis tells us if it is better to build seawalls or to cut carbon emissions to keep low-lying areas from flooding. It's all about society's priorities, which are made clear through price signals in a free-market environment, say conservatives. But when you start to guess at all the possible downstream benefits, there's no logical end to it. That is why they only consider the direct benefits of pollution abatement—in our example, the benefit to the chocolate bar firm, the flower producer, and the professional laundry service. They say it is the only way to make sure we don't funnel the wrong amount of resources into cleaning up and preventing pollution instead of using those resources to build the hospitals, bridges, and fire stations we want and need. In other words, by including only direct benefits, we

Pollution Abatement	Total Cost	Marginal Cost	Total Benefit	Marginal Benefit	Comparison
10%	0.10 B	0.10 B	2.00 B	2.00 B	MC < MB
20%	0.22 B	0.12 B	3.60 B	1.60 B	MC < MB
30%	0.37 B	0.15 B	4.80 B	1.20 B	MC < MB
40%	0.55 B	0.18 B	5.60 B	0.80 B	MC < MB
50%	0.75 B	0.20 B	5.75 B	0.15 B	MC > MB
60%	0.97 B	0.22 B	5.88 B	0.13 B	MC > MB
70%	1.22 B	0.25 B	6.00 B	0.12 B	MC > MB
80%	1.50 B	0.28 B	6.10 B	0.10 B	MC > MB
90%	1.80 B	0.30 B	6.18 B	0.08 B	MC > MB
100%	2.12 B	0.32 B	6.22 B	0.04 B	MC > MB

Table 14.5
Cost-Benefit Analysis: Conservative View

won't abate pollution past the point of efficiency. Applying the rule to continue to clean up or prevent pollution until the marginal cost is greater than the marginal benefit, the initial optimal level of pollution abatement from the conservative perspective is 40 percent in this example, which you can see in table 14.5.

In relation to the market graph, conservatives say pollution abatement results in a single shift to the left of the MSC curve, which you can see in figure 14.5. This corrects the market failure by adjusting prices and quantities of copy paper to their appropriate levels.

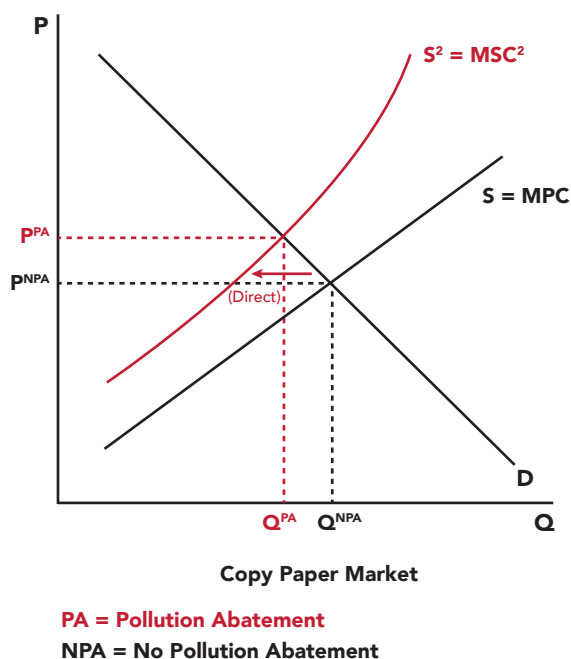


Figure 14.5

Copy Paper Market: Conservative Perspective

Conservative policies: Expanded private property rights, revenue-neutral carbon taxes, and free-market cap and trade. Conservatives solve the tragedy of the commons and bring about the appropriate level of local pollution abate-

ment by expanding private property rights. They say that when private owners lease the use of their natural resources to firms, resources are best allocated to meet our wants and needs, including our desire for pollution abatement. Since it is in owners' best interests to protect their private property, they commission cost-benefit analyses from private companies that have the right expertise to determine the appropriate level of pollution abatement. Then, firms that want to use the resource agree to that level of pollution abatement and sign contracts with the private owner of the resource. A firm that violates the contract is sued by the owner, and the courts determine the dollar amount that polluters must pay to the owners in damages. So there is a profit incentive to refrain from polluting, because it costs more to be sued and pay damages than to clean up or prevent pollution in the first place. Conservatives say the private property rights of owners protect natural resources and at the same time enable these resources to be used for production. When government is out of the way, the costs of pollution abatement go down, say conservatives, because firms have a profit incentive to come up with the least expensive and most efficient ways to abate pollution. When the costs of pollution abatement are lower, more firms are attracted to use the resource. And firms that require even higher levels of pollution abatement (a resort, for example, or bottled water firm) become willing to pay the owner to clean it to those levels. Conservatives say the invisible hand of price signals creates the correct balance between protecting the environment and using natural resources, including achieving ecological resilience if that's what society wants and needs.

Private ownership is the conservative fix for local pollution, but global pollution is a different matter because no one can own the atmosphere or the

ocean. They harness market forces and the profit motive to address the climate crisis. Their primary strategy is **carbon pricing**—similar to the liberal idea, but with significant twists. First, they use a **revenue-neutral carbon tax** to give the right price signal to individuals and firms to burn less fossil fuel by making it profitable to do so. While these surcharges nudge us away from burning fossil fuels, there is no revenue gain for the government through these taxes. For example, firms pay a carbon tax, but their corporate taxes go down, so in the end they don't pay more in taxes overall. In fact, by cutting their carbon emissions, they pay less. Conservatives say this is how we avoid creating new pots of money for government to spend on programs that interfere with free-market price signals. They also use carbon pricing by creating a **free-market cap and trade** system in which the government *issues* (rather than *auctions*) the permits. Since climate change is a matter of national security, the government has a role here to set up these systems, but after this occurs, government gets out of the way. It's then left to firms in a free market to compete by polluting less so they can save money and become more profitable than their competitors. Motivated to make a profit, firms race to find cheaper and more effective ways to cut carbon emissions. Conservatives believe the private sector is better able than government to come up with new technologies because the profit motive ignites human ingenuity. Conservatives say the beauty of free-market capitalism is that it can harness the self-interest of firms and individuals to bring us the highest levels of pollution abatement,

Liberals and conservatives agree that cost-benefit analysis is the best way to determine the appropriate level of pollution abatement. But they disagree about what should be included in the "benefits" column.

the lowest levels of carbon emissions, and ecological resilience for all our natural resources.

Radical Theory Tools

Now let's take a look at the radical tools you'll need to understand this issue. Remember, radical tools have two parts: describe capitalism and describe democratic socialism. Radicals model economic systems using the Six-Core Cube, which is anchored by six core points around

which everything in the economic system is constantly shifting. The core points reflect the commitments to and structures of ownership, production, governance, sustainability, communities, and meeting people's basic material needs. The commitments of each economic system lead to very different outcomes.

The Environment in Capitalism

Each one of the six core points could be used to analyze every issue because these are the commitments of the economic system. To analyze the issue of the environment in capitalism, radicals drill down into the core point of **unsustainable growth**. Society makes decisions about resource use without taking into account the long-term impact on the environment and humanity, putting the well-being of future generations in jeopardy.

Radicals say it's the definition of madness to foul one's own nest, but that's exactly what capitalism requires. Instead of putting a premium on being able to take a deep breath, drink a glass of water without getting sick from it, and live in a place that isn't a toxic swamp, capitalism sacrifices people

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
- 5. Unsustainable Growth**
6. Unhealthy Communities

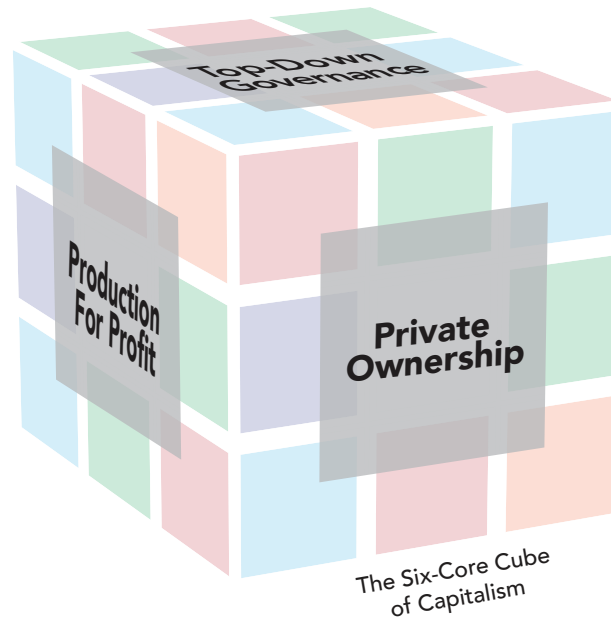


Figure 14.6
The Six Core Points of Capitalism

and the planet on the altar of profits. Radicals say capitalism is directly responsible for the destruction of the environment because it is an economic system that forces private owners to prioritize short-term profit over the long-term well-being of people and the planet. Our rivers, lakes, and oceans have turned into cesspools. Our forests are decimated, and grazing lands are turning into deserts, while the farmland we have left is drenched with toxic chemicals. In some places on the planet, a drink of clean water is an impossible luxury. The planet is dying, but it's not a natural death, say radicals. It's dying at the hands of capitalism. The problem isn't a few greedy owners. To stay in business, they have no choice but to maintain a relentless focus on making a profit. They must ignore the price we pay for their pollution—numerous species extinct, countless people dead from diseases caused and exacerbated by pollution, communities displaced and homeless because of climate change. When communities are no longer able to support themselves, their cultures are annihilated. We experience widespread social upheaval, forced migra-

tion, and economic devastation. All of this is the predictable outcome of capitalism's commitment to *unsustainable growth*, yet owners have to put blinders on to the ways they devastate the land, air, and water and destroy vital ecosystems. Capitalism requires us to trade the health and well-being of the planet for shoddy products that end up in the landfill, say radicals.

We are on the brink of compromising the ecological resilience of the planet because of climate change, yet private owners continue to make the wrong choice to sacrifice the environment for the sake of profit, according to radicals. Humanity has known for decades that carbon emissions are inexorably warming the Earth, yet in the face of this global crisis, firms in capitalism expand production, burn more coal, make more transportation that spews out carbon pollution, and cut down more forests for meat production. They have no choice. They must do it to survive. If they don't do it, they will be driven out of business. "Growth at any cost" is the motto of capitalism, even if the cost is our very survival. That is why capitalism is

destined to crash and burn and take all of us down with it, radicals say. And this commitment to *unsustainable growth* is not only killing us right now, it's stealing the future prosperity of generations to come because we're sucking dry the resources they will need to survive and thrive. Radicals say that as firms race around the globe, competing to drain the last penny of profit from natural resources, they treat the Earth like a big buffet for private owners to gorge themselves on, leaving a few moldy crumbs for tomorrow. People from the future will look back at this time and wonder why we ever allowed capitalism to drive us to the brink of catastrophe. They will wonder why we compromised their security by draining the Earth's resources with no thought to the needs of people and ecosystems tomorrow, next year, or generations from now. They will look at the junk made by capitalism that we tossed into our landfills, and as they struggle to take a breath

of polluted air made by capitalism, to find water to drink that hasn't been poisoned by capitalism, and struggle to grow food on land sickened by capitalism, they will wonder, "Was it worth it?" And the answer will clearly be no, say radicals.

Here is how the core point of *unsustainable growth* and the pressure for bad work in capitalism:

Scenario 1. You're having coffee with an old friend from grad school who owns a competing copy paper factory, and she tells you, "I'm investing some of my firm's profit in new machines. Our productivity will skyrocket. In a month, we'll make double the profit. You should think about doing it, too."

You say, "I don't want to be part of that. The world doesn't need that much copy paper. I mean, if everyone on the planet consumed as much as we do in this country, we'd need something like the resources of four Earths! The environment can't sustain this level of productivity. We'll end up polluting more lakes and rivers and decimating more forests. I don't want to do it."

"Then don't do it," she says.

But you will do it, and so will all the other owners. If you don't, your firm won't survive. Radicals say *unsustainable growth* ensures that when it comes to choosing between expanding to make a profit or doing what's in the best interests of people and the planet, owners will expand to make more profit. They have to if they want to please their shareholders and pay their mortgages.

Scenario 2. You're hiking with a competitor, who says, "Since we don't live where our factories are located, and it's much cheaper to pollute than it is to produce without polluting, we're pumping our untreated effluent right into the lake. We ran the numbers, and when the lake water gets too contaminated, we'll just set up shop on another lake somewhere else and still come out ahead. By the time the government or the lake owner comes after us to clean up the mess, we'll be long gone. We can pay the fine or declare bankruptcy. Both

Unsustainable Growth

- The focus is solely on short-term gains.
- Production continually expands, regardless of the costs to people and the planet.
- Future generations are burdened with the consequences of today's actions.



options cost less than paying for cleanup now. You should do it, too.”

You say, “That seems wrong to me. Just because we don’t live where we’re producing doesn’t mean we should destroy natural resources. Those communities depend on having clean water, clean air, and unpolluted land. And pollution affects all of us. Air currents carry the toxic vapors from our smokestacks to other cities. The effluent from our factories and the pollutants we bury in the landfill seep into the groundwater. Pollution anywhere is pollution everywhere. I don’t want to do it.”

He says, “So don’t do it.”

But you will do it, and so will all the other owners, even if no one wants to. If you don’t, you’ll be driven out of business. Radicals say *unsustainable growth* forces owners to prioritize short-term gains and ignore the long-term effects of their decisions on people and the planet.

Scenario 3. You’re at a trade show and meet a competitor who says, “We’re running a new ad campaign to hype the durability of our new line of coated paper. It resists tears and holds ink better than regular paper. Also, we made it nonrecyclable so we can undercut firms that sell recycled paper. Now they can’t use our paper to make a competing product. So far, our sales are way up, and we’re raking in the profit. You should think about doing it, too.”

You say, “But chemical-coated paper is terrible for the environment. It emits greenhouse gases when it breaks down. And less recyclable paper on the market means more forests are being cut down, which accelerates climate change. The environmental degradation this creates will affect our grandchildren and their grandchildren. I don’t want to be a part of that.”

They say, “So don’t do it.”

But you will do it, and so will all the other owners. You’ll have to if you don’t want your firm to go under. Radicals say a commitment to *unsustainable growth* leads firms to trash the environment

and then stick future generations with the burden of cleaning up after us and not having the resources they need to thrive, which puts their survival at risk.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- **Pollution and climate crisis**
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

The Environment in Democratic Socialism

To analyze the issue of the environment in democratic socialism, radicals drill down into the core point of **sustainable development**. Society uses resources wisely today to create the best quality of life, while ensuring that future generations have what they need to thrive.

Radicals say in democratic socialism, economic development means the country has effective governance and increasingly sophisticated infrastructure—sanitation facilities, water treatment, internet access, and more. With widespread access to health care and education along with expanding employment opportunities in jobs that minimize the human footprint on the environment, communities and ecosystems thrive. Above



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
- 5. Sustainable Development**
6. Healthy Communities

Figure 14.7
The Six Core Points of Democratic Socialism

all, the well-being of people and the sustainability of the planet come before profit. There is no false division between short-term and long-term planning. It's acknowledged that the choices we make today about how we treat the environment will affect the long-term viability of our resources and the resilience of ecosystems. Using foresight, firms decide what to make, how to make it, and who gets the products by considering not only the material well-being of people today, but also how to ensure a robust and thriving environment for generations to come. The respectful relationship between people and the environment in democratic socialism springs from an awareness that nature's gifts belong to all, and everyone has a right to benefit from them. At the same time, everyone shares responsibility for protecting and preserving natural resources to ensure that they will stay viable into the future. Economic development is essential for a healthy world, but it should benefit society and the environment by enhancing the well-being of individuals, communities, and ecosystems. So worker-owners use the least-polluting processes. They source their

inputs from local suppliers as much as possible to cut down on carbon pollution from transportation. They design products to last longer, work more efficiently, and biodegrade whenever possible to use resources wisely and efficiently. Radicals say when there is a commitment to *sustainable development*, worker-owned firms look for every possible way to reduce their ecological footprint, including taking responsibility for the entire lifecycle of the products they make. They invest in research and development to keep poisonous byproducts from destroying ecosystems, and reduce carbon emissions. They replenish renewable resources by planting trees, revitalizing wild fish populations, letting fields lay fallow to renew the land, and doing whatever else they can to restore and support thriving ecosystems. At the same time, they prevent, reduce, and clean up pollution. Whether worker-owners are good people or care about the environment makes no difference in democratic socialism, say radicals. The economic system itself creates a pressure for good, so firms will put the well-being of people and the planet above turning a quick profit. It is

in their mutual self-interest to do so. After all, say radicals, they also live in the communities where they work, so it's their drinking water, land, and air that is affected by pollution.

In democratic socialism, *sustainable development* is the guiding principle for the whole society. Firms are not left on their own to make decisions. The natural resources they use are publicly owned and managed on the local, state, and federal levels by community councils composed of stakeholders. Radicals say this is how we strike the right balance between economic growth and the needs of the environment today and into the future. The councils act from a fundamental understanding that nature's gifts are precious resources that must be treated with care and respect if we want to continue to sustain the material prosperity of society, the health of individuals, and the ways of life of communities—their treasured

spaces, rituals, customs, and more. This commitment to *sustainable development* ensures a clean and healthy planet that lifts people today and people tomorrow to a better standard of living, say radicals. Instead of the built world devouring and overpowering the natural world, it complements and restores the environment and allows us all to thrive today and for years to come.

Radical policy: Green New Deal. Radicals solve the tragedy of the commons with the **Green New Deal**, which is a comprehensive plan to protect the environment on local and global levels using robust government investment. It not only addresses environmental degradation but also focuses on economic justice, because, radicals say, the poor are the ones who suffer most from the consequences of pollution and climate change. On the local level, the Green New Deal guarantees people clean water, clean air, and healthy food. On the global level, it calls for **net-zero greenhouse gas emissions** (also called *carbon neutrality*), which means eliminating or removing the same amount of carbon from the atmosphere as the amount that is emitted. The Green New Deal also eliminates pollution and greenhouse gases as much as possible in agriculture and manufacturing. It requires higher standards of energy efficiency for all new building and infrastructure projects. And it calls for a significant investment in environmentally friendly transportation, including zero-emission cars, public transportation, and high-speed rail systems.

Radicals reject the notion that cost-benefit analyses are valid ways to achieve a clean environment. They say it's wrong to measure the value of a healthy planet in money terms, and they completely reject the idea that human life should be given a dollar value. The mechanism radicals use instead to ensure sustainable management of natural resources is **commons viability analyses**. These are scientifically rigorous assessments of the effects of human activity on the environment that determine the specific level of pollutants ecosys-

Sustainable Development

- There is equal focus on short-term and long-term gains.
- Economic growth is in service to the well-being of people and the planet.
- Prosperity is assured for generations to come.



tems can handle without becoming compromised. Commons viability analyses are commissioned by participatory **stewardship councils**, which are community councils that comprise scientists, representatives from worker-owned firms (who are also community members), consumers, public health specialists, government officials, advocates for the environment, and other stakeholders. Government officials convene, facilitate, and represent the decisions of the stewardship councils. Committed to sustainable development, the councils use proactive measures to protect natural resources. These councils have teeth—they are empowered to enforce the pollution limits, investigate complaints and concerns related to natural resources, and fine or shut down worker-owned firms that don't comply. Their number-one priority is to make sure the commons are thriving and resilient now and for generations to come. Radicals say that the beauty of democratic socialism is that it harnesses the mutual self-interest of worker-owned firms, communities, and individuals to bring us the highest levels of pollution abatement, the lowest levels of carbon emissions, and ecological resilience for all our natural resources.



Figure 14.8
Sustainable Development: Radical Perspective

Here is how the core point of *sustainable development* and the pressure for good work in democratic socialism:

Scenario 1. You're having coffee with a friend from grad school who is a worker-owner of a competing copy paper firm, and she tells you, "We're investing in new machinery that produces twice as fast, but if we double our production, we'll need twice the amount of wood pulp, and more trees will need to be cut down. We'll also need twice the number of packaging materials and trucks to distribute the paper. This kind of economic growth isn't good for the environment, so we decided that instead of just making more, we'll close the factory for two days a week and take those days off."

You say, "What a great idea! And with your factory running only three days a week, it will be polluting a lot less, so you'll easily meet the pollution abatement standards set by the Green New Deal. You'll still be making the same amount of paper for the community and profit for the firm. It's a three-way win. Our firm should think about doing this, too."

"You should do it," she says.

Both of your firms will do it because in democratic socialism, a commitment to *sustainable development* means firms expand production to benefit society and the environment. Radicals say firms reduce waste, use fewer resources, and improve technology to ensure the well-being of people and the planet.

Scenario 2. You're hiking with a friend who is a worker-owner in a competing firm, who says, "The stewardship council completed the commons viability analysis for our lake and voted on new pollution standards for paper firms. That means we're going to have to change our production. But the council also voted to give firms grants to do more research on less-toxic processes and better pollution abatement. Does your firm want to pool our grant money and collaborate?"

You say, “I think we’ll definitely want to team up with your firm because it will make the research go faster. I’ll bring it up for a vote at our next meeting. A representative from our firm is on the stewardship council and helped push that through. And our chemists have already been talking about a few ideas they have.”

“You should do it,” he says.

Both of your firms will do it because in democratic socialism, a commitment to *sustainable development* means an equal focus on short-term and long-term gains. Radicals say firms and society make it a priority to find the best practices to meet people’s needs and keep ecosystems resilient. Everyone recognizes that without viable natural resources, no one will thrive, and our very survival will be threatened.

Scenario 3. You meet a competitor at a trade show who says, “Our firm is proud to make high-quality products that people want and need. When we first launched, we made it a priority to make biodegradable products and help consumers think about ways to reuse and repurpose our paper products so they stay out of landfills. With growing awareness of global climate change, we’re now looking for new ways to reduce greenhouse gas emissions even more. Do you want to join us in focusing on durability as a way to reach the national target goal of net-zero carbon emissions?”

You say, “Absolutely! I’m inspired by your firm. The other worker-owners at my firm are also motivated to do more to address climate change. We want our grandchildren and their grandchil-

dren to inherit a stable and thriving planet.”

“You should do it,” they say.

Both of your firms will do it because in democratic socialism, a commitment to *sustainable development* means resources are used wisely and firms are held accountable. Radicals say everyone acts with awareness that the Earth is a commons that everyone needs and shares, and the decisions we make today affect the prosperity of society today and for generations to come.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

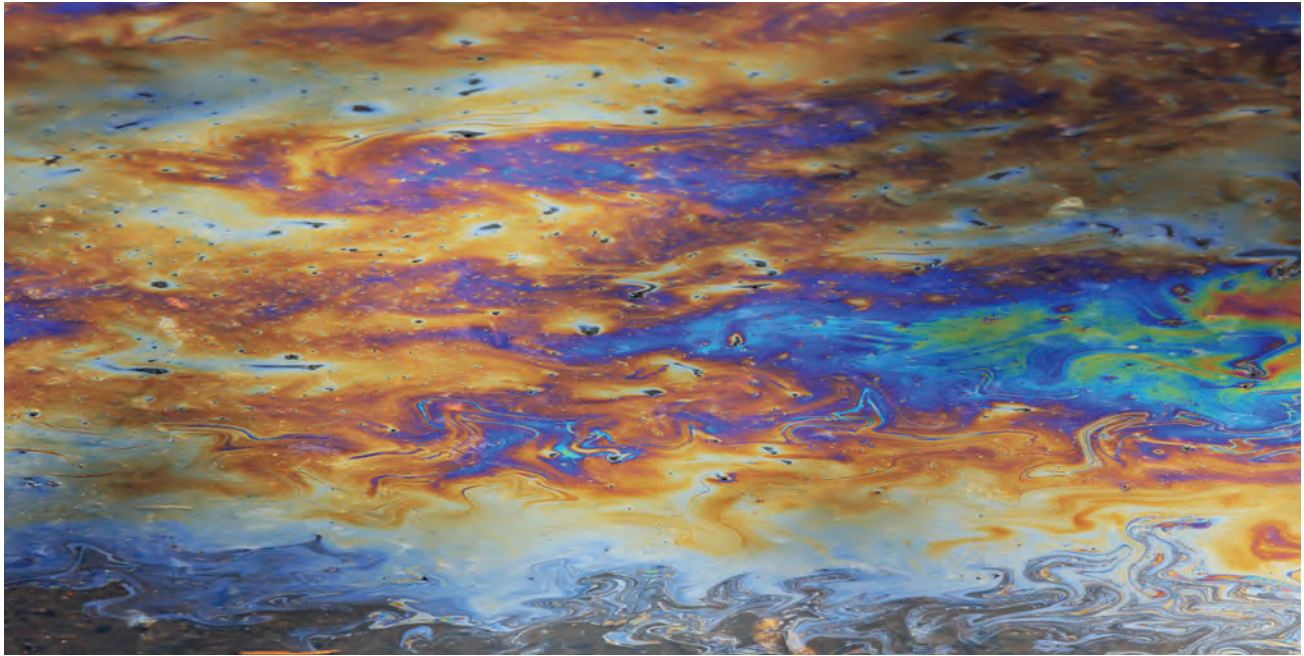
- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- **Clean environment**
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices



You’re Ready to Explore the Issue

We’ve come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of the environment. This is an extremely relevant and personal debate for you and for all of us as a

society. Next, we’ll explore the conversations that are taking place around you about local pollution and global climate change, including some background so that you’ll have a context to understand the different voices that will be presented at the end of the chapter.



The Issue

There's a river that cuts through the city of Hartford, right near my hometown. It's a tributary of the Connecticut River that used to be called Mill River because of all the mills that once operated on its shores. When I was growing up, the river was so foul that my friends and I were never tempted to swim or fish in it. No one would have dared to swallow a mouthful of that contaminated water or eat a fish from those polluted depths. Before Europeans settled in the area, when the Podunk tribe lived along the river, corn, beans, and squash grew near the tree-lined shores. As colonists began clearing the land for farming, erosion occurred. Sediment ran into the river and choked the wetlands. Dams were built, which interfered with migratory fish species. Then came the mills and factories, with their outflow pipes, which flushed all sorts of chemicals into the water. When I drove across the river as a girl, I remember feeling keenly disappointed that pollution had spoiled our river and the land around it. I daydreamed that the rushing water was still pure, and I could splash in the currents, fish for trout, and hunt for sweet raspberries on the banks.

The Connecticut River was polluted, but it was nothing like the Cuyahoga River, which meanders through northeastern Ohio and empties into Lake Erie when it reaches Cleveland. The level of pollution in the Cuyahoga was off the charts in the 1960s. When the Erie people lived there, and later the Iroquois and Seneca, people drank the river water, ate the fish they caught, and swam in the river without worrying about getting sick. But after the Europeans settled in the area, Cleveland became a bustling industrial center. In the

1860s, its factories turned coal and ore into iron, which was in high demand during the Civil War. All the toxic byproducts spewed directly into the Cuyahoga. Also, John D. Rockefeller built oil refineries in Cleveland, and over time, an oil slick coated the surface of the river. Then the Grasse Chemical Company (now part of DuPont) opened a plant in Cleveland to make sulfuric acid, which the oil refineries needed. More toxic chemicals poured into the Cuyahoga. By the turn of the twentieth century, steel foundries set up

shop in Cleveland, and their pollution drained into the river as well. In 1950, Cleveland was the third largest manufacturer of steel in the country, and the fourth largest in processed metals. And the river? Historians described the Cuyahoga as a cesspool of industrial waste.

On June 22, 1969, around noon, a train rolled through Cleveland on tracks that ran right beside the river. Sparks shot up from the wheels and ignited a piece of debris floating in the water. Like most flotsam in the Cuyahoga, it was coated with oil. That is how the river caught on fire. I know it sounds impossible, but it really happened. According to eyewitness reports, billowing clouds of black smoke shot up more than five stories high and burned for half an hour. You would think a fire on a river would make the headlines, right? Wrong. Because this wasn't the first time the Cuyahoga River had burned. It wasn't even the third time or the tenth time. It was the thirteenth time since 1868 that the polluted river had caught on fire. In fact, the 1969 blaze wasn't the worst. The 1912 fire killed five people, and the 1952 fire caused more than \$1 million in damage (the equivalent of \$9.7 million in 2020 dollars). But the 1969 blaze became a national symbol of the problem of industrial pollution in rivers, thanks to a *Time* magazine story that came out on August 1 of that year. The article described the sorry state of our nation's rivers, including the Potomac, which runs through our nation's capital and was filled with raw sewage, and the Missouri River, which runs through Omaha and had balls of grease the size of oranges. Worst of all, wrote the author, was the polluted Cuyahoga.

A few years after the article appeared, Congress expanded the 1948 Federal Water Pollution Control Act and renamed it the Clean Water Act. It mandated that all rivers throughout the United States be clean enough for swimming and fishing by 1983. To comply with the new law, the state of Ohio spent more than \$3.5 billion on pollu-

tion abatement in Cleveland. Today, the Cuyahoga River is no longer flammable. Although few would want to drink directly from it, in 2019 it was home to more than sixty different species of fish.

When Cleveland celebrated the fiftieth anniversary of progress toward cleaning the river, Mike Madar, vice president and general manager of one of the steel companies that produces on the river's shores, wrote: "Clean water is not only our greatest natural resource, it also is the heart of our local economy. The Cuyahoga River is a lifeline to our Cleveland operation, delivering nearly 5 million tons of raw materials to our docks every year. The 1,900 men and women who work at Arcelor-Mittal Cleveland then transform these raw materials into safe, sustainable steel found in products we rely on every day—cars, bridges, buildings, appliances and more." Calling the Cuyahoga a "working river," he posed the question that gets to the heart of the debate about the environment: "How can we ensure it 'works' for everyone—for people and wildlife and industry alike?"

This question of how to address the commons isn't going away. In fact, it's becoming even more complicated as the world population swells and the climate heats up. And the commons are no longer only terrestrial. Our pollution has gone off-planet. Hundreds of millions of human-made pieces of space debris orbit Earth. These are the byproducts of space exploration. Most of them are smaller than half an inch, but thousands are larger than four inches. Space waste doesn't pose much of a threat to people on Earth because it mostly burns up when it enters our atmosphere, but it does pose a hazard to satellites, rockets, and astronauts. There are thousands of decommissioned satellites circling the planet, and sometimes they collide with one another or with operational satellites. Even though space is the newest commons—the first satellite wasn't launched until the 1950s—humans have already left a mess up there. It looks like the Red Planet is next. According to

NASA, since the *Perseverance* rover landed on the surface of Mars in February 2021, its parachute, heat shield, and several other pieces of landing equipment now litter the surface of the planet.

Understanding the Environment

Let's do a quick exercise. Jot down your answer to this (deceptively) simple question: What is your relationship to the environment? Keep the answer handy. We'll come back to it in a moment. But first I want to tell you a joke that was told by writer David Foster Wallace. It goes something like this: two young fish are swimming along when an older fish swims by and calls out to them, "Hey kids! How's the water?" The two young fish look at each other puzzled, and one asks the other, "What's water?"

I love this joke because it's a reminder that sometimes being immersed in something means we aren't even aware of it. So let's consider the environment as if we were fish who had to become aware of water. Think about air: What was the quality of the air you breathed in the last few days, both inside and outdoors? Did it have

an odor—maybe car exhaust, fumes from a factory, smoke from a fire, or the smell of paint in a hallway? When you looked outside, was the sky clear, or was there visible smog? Were airplanes buzzing by overhead? Think about water: Did the water you drank in the last three days come from plastic bottles purchased at the store? Did you drink it directly from the source (a natural spring or a stream)? Did you fill your glass from the tap? What kinds of chemicals or filters were used to treat the water before you drank it, cooked with it, or washed with it? If it rained, would you consider the rainwater clean enough to drink? Think about land: Were the places where you spent time outside in the last three days—walking somewhere, working, exercising, or relaxing—divided by pavement? What kinds of wildlife did you encounter? Were insects buzzing around you or crawling on the ground? Were there wild plants (not cultivated by humans) such as nuts, berries, or ferns? Were cell phone towers jutting up on hilltops? Were there roads, vehicles, buildings, power lines, or streetlights in those spaces?



As you think about your everyday environment, hopefully you have the realization that wherever you are, there it is. The environment is the ground beneath your feet and the sky above your head. It's also every sip of water you have ever taken, every breath you have ever drawn, every bit of food you've ever swallowed. Your physical existence always has been and always will be wholly dependent on nature and part of nature. This would still be the case if you lived on a space station orbiting Jupiter. To stay alive, humans must have breathable air, clean water, and usable land (the food on your space station). But we're not just visitors lumbering across the surface of the Earth and consuming it. Every single one of us is actually made of Earth, and all day long, every day of our lives, we're shedding visible and invisible bits of our physical selves—hair, sweat, skin, and everything we flush away. These churn back into the Earth, or wash away into the sea, or become dust and gases in the atmosphere. So even dressed in our space suits and marching across distant planets in our gravity boots, we're really just bits of Earth on feet. The environment is not an issue that is abstract and remote, but one that is intensely intimate. Now look back at what you answered to the question "What is your relationship to the environment?" Having thought about it more deeply, would you change your answer?

Changing Attitudes about the Environment

Today, we hear about pollution and climate change every day in the news, but some say modern-day environmental awareness in the United States began back in the mid-1950s, when Congress authorized the construction of forty-one thousand miles of highways to crisscross the country. After the new roads were built, people thought it was perfectly acceptable to toss their trash out the windows of their cars as they drove

along. The landscape became littered with cans, bottles, fast-food wrappers, cigarette butts, and other garbage. A nonprofit organization called Keep America Beautiful, created by a group of concerned firms (among them several manufacturers of cans), along with other nonprofits and government agencies, launched antilitterbug advertising campaigns in the early 1960s. When President Lyndon Johnson came into office in 1963, his wife, Lady Bird Johnson, made highway beautification her project.

Some say public awareness about the environment shifted dramatically because of a book published in 1962 by marine biologist and conservationist Rachel Carson, called *Silent Spring*. She described how pesticides and other chemicals used in agriculture were causing devastating problems for living organisms and creating a public health crisis. She famously wrote, "If the Bill of Rights contains no guarantee that a citizen shall be secure against lethal poisons distributed either by private individuals or by public officials, it is surely only because our forefathers, despite their considerable wisdom and foresight, could conceive of no such problem." Her book was a runaway best seller. Another watershed moment that shifted public awareness to the environment occurred on Christmas Eve in 1968, when the crew of *Apollo 8* took the first photograph of Earth from space. Some point to that photograph, known as *Earthrise*, as the moment the world was struck by the dazzling beauty of our planet. The first Earth Day took place on April 22, 1970. I remember it well because it was the day I turned ten years old. These days, Earth Day is typically celebrated as an outdoor festival, but that first one in 1970 was a national day of rallies and demonstrations calling for a healthy, sustainable environment. An estimated 20 million people participated, making it one of the biggest demonstrations in the nation's history. A few months later, President Richard Nixon established the Environ-

"Our planet is a lonely speck in the great enveloping cosmic dark. In our obscurity, in all this vastness, there is no hint that help will come from elsewhere to save us from ourselves.

The Earth is the only world known so far to harbor life. There is nowhere else, at least in the near future, to which our species could migrate....

To me, it underscores our responsibility to deal more kindly with one another, and to preserve and cherish the pale blue dot, the only home we've ever known."

—Carl Sagan, Astronomer
Pale Blue Dot



NASA/JPL-Caltech

mental Protection Agency (EPA). It was charged with protecting human and environmental health by setting environmental standards and enforcing environmental laws.

Around this same time, a television commercial aired that made a deep and lasting impression on viewers for years after. The one-minute-long public service announcement was created by Keep America Beautiful and the Ad Council. It featured an actor dressed as a Native American (the actor was actually Italian) paddling his canoe on a polluted river. As trash floated by his boat, he paddled past huge factories with smokestacks billowing out smoke while dramatic music played. Then he pulled his canoe up onto a muddy shore that was littered with garbage. "Some people have an abiding respect for the natural beauty that was once this country," the narrator said as the "Native American" watched cars speed by on a six-lane

highway, "and some people don't." Then someone in a passing car threw a bag of trash out the window, and it landed at the man's feet. The narrator ended by saying, "People start pollution, and people can stop it." Then the camera pushed in for a close-up, and there was a tear running down the man's cheek. This ad, known as the "crying Indian," ran for years and became the symbol of environmental idealism. Decades later, it's still referenced. You might have seen versions of it in the movie *Wayne's World 2* or on the television show *The Simpsons*. Although the actor in this ad wasn't Native American, the idea that we should respect and care for the environment has long been a deeply held belief among Indigenous peoples. As Chief Seattle, head of the Suquamish and Duwamish tribes, famously said, "We do not inherit the earth from our ancestors; we borrow it from our children."

The Human Footprint

The impact our activities have on nature is called the **human footprint**. Until around twenty thousand years ago, there were about 1 million human beings on Earth. They lived as hunter-gatherers and were at the mercy of nature. Over time, humans found ways to tame the natural world. We stand apart from all other species with whom we share the planet because humans are constantly inventing new things. The robins outside your window are not busy devising new ways to build their nests or coming up with new models for analyzing the distribution of worms among birds. A bird's nest looks basically the same today as it did a millennium ago and uses essentially the same materials. Squirrels haven't built safety deposit boxes for their acorn stashes, and whales haven't come up with new technologies to catch and store krill. Despite cats' intelligence, they haven't designed or manufactured a single gadget to scratch their own backs. But we humans are curious, persistent, and clever. We're continually dreaming up new things to make and new ways to make them, and we're always finding materials in the environment that we can use in innovative ways. But while we experiment and make new discoveries, we aren't prescient. We can't anticipate all the consequences of our inventions. When Eli Whitney received a patent for his new invention, the cotton gin, in 1794, he couldn't possibly have imagined that a machine that pulled seeds

from cotton would transform the physical, social, and economic landscape of the nation. Because of this new technology, huge swathes of land in the South were cleared, plowed, and planted with cotton using slave labor. All that cotton led to a boom in the textile industry, and mill jobs in New England attracted a new wave of immigrants from Europe looking for work.

Like the cotton gin, an invention in one part of the world can have a profound effect on the environment, economy, and history on the other side of the globe. I used to play ball in the street

with my friends in the neighborhood when I was a girl, and we'd frequently have to pause the game to let cars pass. I'm quite sure the German chemist who discovered a compound called tetraethyl lead in 1854 never imagined it would end up as an additive in gasoline in the 1960s, and that kids around the United States—running around, shouting, laughing—would breathe in big gulps of those toxic fumes. Plus, the ball would bounce on the street, and we'd grab it and throw it around, the

lead from the car exhaust coating our hands. Then we'd share a bag of chips, so we ended up ingesting that lead. Leaded gas was banned in the mid-1990s because lead causes a host of physical and mental problems and can lead to death. But although it was banned, lead doesn't simply go away. All these years later, it's still there. We regularly hear about public health crises that result from lead exposure. For example, in 2014, it was among several pol-



lutants discovered in the drinking water supply in Flint, Michigan.

Pollution is one of the biggest causes of premature death in the world, according to the World Health Organization. Nine million people died in 2015 from diseases that resulted from exposure to polluted soil, water, and air, according to a report in the medical journal *The Lancet*. Although we all share this planet, we're not equally affected by pollution. Your zip code is a fairly accurate predictor of your health. If you're wealthy, you don't have to live in a community where the groundwater is contaminated by a nearby landfill, or send your chil-

dren to a school near factory smokestacks that belch out chemical fumes, or live next to a twelve-lane highway that reeks of car exhaust. You're not going to work in a job that exposes you to toxic substances. You're not going to eat food grown on contaminated land. But if you're poor, you often won't have a choice. Black and Latino people are five or six times more likely to live in high-poverty areas than White people, according to 2015 U.S. Census Bureau data, which means they are more affected by pollution. The environmental justice movement started in the 1960s to try to address this problem by demanding more of a voice for the poor to create, implement, and enforce envi-

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or live next to a twelve-
lane highway.

ronmental policies. The term **environmental racism** emerged in the 1970s to describe the situation of pollution disproportionately burdening people of color in the United States and throughout the world.

Indigenous peoples across the planet are hard hit by the effects of climate change because many still practice hunter-gatherer and agricultural lifestyles, which are vulnerable to climate change. They traditionally lived in balance and harmony with nature. Long before there was a modern environmental movement, these societies understood that they were utterly dependent on local ecosystems for their

survival. In 2010, Bolivia hosted the first World People's Conference on Climate Change and the Rights of Mother Earth. More than thirty-two thousand people came together to discuss how humanity could do a better job living in harmony with nature. One of the outcomes of the conference was a declaration that Earth is a dynamic, living system comprising every single living thing, and therefore Earth has inherent legal rights—just as humans and other beings do. Bolivia passed a law in 2011 conferring legal status on the Earth. A push to pass a similar resolution in the United Nations failed several times, although the idea continues to come up for debate periodically.

Local Pollution: Land, Water, and Air

No matter who you are or where you live, your everyday environment is undoubtedly polluted to some degree. You took a bus to the grocery store? You bought a box of cereal? You tossed out the receipt as you left the store? Simply going about your normal life creates pollution, even if you use recycled grocery bags, compost your food waste, and ride a bicycle instead of driving a car. More than 7 billion people exist on the planet right now, living an average of seventy-some years, and each one of us is doing mundane things every day, all day long, that affect the environment—cooking food, washing hair, playing on the computer. It's impossible to conceptualize just how heavy the human footprint is on the Earth.

We talk about the human footprint affecting the planet's ecosystems, but it's vital to remember that humans don't stand outside ecosystems. We are completely dependent on the Earth for our survival, so whatever mess we make here, we have to live with it—or die from it. According to British naturalist Sir David Attenborough, humans have altered the planet so profoundly that scientists now refer to this new phase of Earth's existence as “the Anthropocene—the Age of Humans.” But you might not want to brag about that just yet. He says, “Our species has cleared three trillion trees, cultivated half its fertile land and now fishes across most of the ocean. In the last fifty years, the populations of wild animals have reduced by 60 percent. We've replaced them with ourselves and our domesticated animals and plants. Today, humans and the animals we raise account for 96 percent of the mass of mammals and 70 percent of the birds on earth. There's very little ‘wild’ left. This biodiversity loss is not just a tragedy. It's the single biggest problem we face. Without biodiversity, the world as we know it doesn't work.”

Not only is our increasingly unstable climate a perilous problem, we're also looking at rising

rates of desertification, which is when fertile land degrades into a desert where food can't grow. We're struggling to figure out how to deal with the loss of pollinators—the insects and birds that cause plants to make seeds and fruits, which is how we get our food. These are just a few reasons we so urgently need the best possible solutions. To understand more about the human footprint, let's think about the types of pollution we generate as individuals and as a society.

Hazardous Waste

As you can guess from the name, **hazardous waste** is dangerous. It can be solid, liquid, or gas, so it can pollute land, water, or air. Radioactive waste from nuclear power plants is one kind of hazardous waste. Mines, oil refineries, chemical plants, and power plants routinely produce hazardous waste, as do many dry cleaners and auto mechanic shops. Up until 1976, there was open dumping of hazardous waste in the United States, meaning it could be disposed of without regard to its environmental impact. That became a problem because soil is porous, and contaminants seep into the groundwater. In an attempt to address this, the government passed the Resource Conservation and Recovery Act in 1976 to regulate nonhazardous and hazardous waste.

Land Pollution

The Earth is the firm foundation beneath our feet. It's where we make our homes, go about our daily lives, and grow our food. When you throw something away, it becomes garbage, meaning it's unwanted or abandoned. Even though you don't want it anymore, it has to go somewhere. **Solid waste** (it can actually be solid, part liquid, or part gas) is disposed of either in a landfill, which is a site designated for waste materials, or underground. There are different types of solid waste. For example, industrial solid waste could be sludge from a factory, empty containers, or

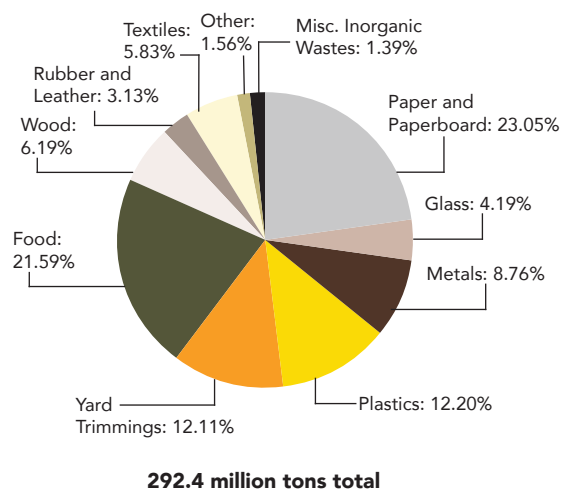


chemicals used to extract mined ore. Construction and demolition waste is debris from tearing down and building things—chunks of concrete, rotted lumber, rusted metal beams, and so forth. Municipal solid waste is nonhazardous garbage—your empty shampoo bottles, rotten lettuce, broken toaster, and old shoelaces, for example. In 2018, Americans generated 292.4 million tons of trash, not counting industrial waste. Just think of all the packaging you throw out in a day. Humans around the globe create ten times more trash today than we did a century ago. Curious about what we throw away? Take a look at figure 14.9.

Plastic. Plastic makes up a sizeable portion of municipal solid waste. *Plastic* is the word we use for long-chain polymers, which are materials that can be heated and reshaped. Originally made from petroleum or natural gas, plastics these days can be made from ethanol or other substances. It's hard to imagine life without plastic, but it hasn't been around that long, relatively speaking. In 1907, chemist Leo Baekeland developed the first synthetic (no natural molecules) mass-produced plastic. He called it Bakelite. Before the 1950s, there were no plastic toys, plastic bags, or plastic garbage cans. Today, plastic is used for just

about everything. You're probably wearing some right now. Polyester, acrylic, nylon, rayon, acetate, spandex, latex, Orlon, and Kevlar are all synthetic fibers made from polymers.

The world produced 359 million tons of plastic in 2018. Much of it was single use, meaning it was used for just one purpose (a take-out container, a bottle of water, a grocery bag) and then dis-

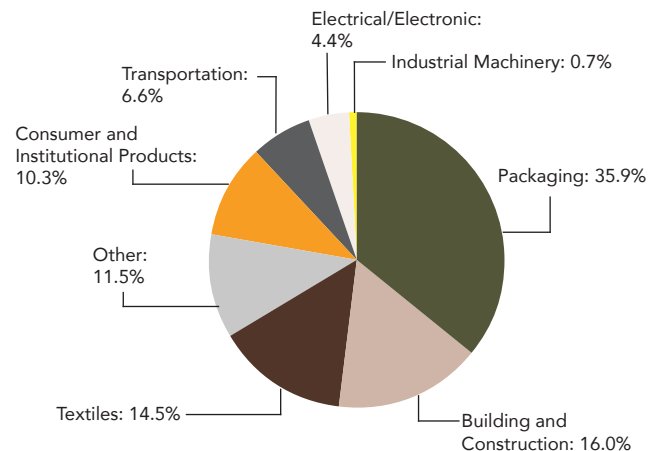


Source: United States Environmental Protection Agency

Figure 14.9
Total Municipal Solid Waste, 2018

carded. The next time you reach for a plastic cup, consider that around 10 percent of plastic garbage ends up in the ocean. Remember those islands of trash I mentioned at the beginning of the chapter? They are mainly made of plastic. They are already gargantuan, and they grow bigger year by year as we throw away more plastic. Since the 1950s, many billions of tons of plastic have been produced, and most of it is still with us today. That's because it can take decades or centuries for long-chain polymers to break down. So the plastic fork you used once and tossed in the trash will still be around for generations. It might float out to sea and become part of the floating trash island. It might get buried in your local landfill. Wherever it ends up, it will slowly break down and in the process release toxic chemicals and greenhouse gases into the land, water, and air. Figure 14.10 shows the percentages of plastic use in 2017.

Reduce, reuse, recycle. To address the problem of waste, many people call for a strategy referred to as **reduce, reuse, and recycle**.



Source: Science Advances (2017)

Figure 14.10
How Plastic Was Used, 2017

Reduce means using less, so rather than buying a new thing, you could borrow it from a friend or a library or rent it. Reducing also refers to cutting down on packaging and reducing food waste by buying less or eating it before it goes bad and



has to be tossed out. Reuse means finding a new purpose for a product rather than buying a new thing. For example, a tin of holiday cookies can be reused to store coffee beans once the cookies are gone. A sock that lost its mate can be turned into a puppet. Or a grocery list can be scribbled on the back of a piece of used paper. Reducing and reusing cut down on solid waste, but when something is ready to be discarded, then advocates say it can be recycled. Modern recycling began in the 1970s. When I was a teenager, we collected our newspapers, bottles, and cans and took them to the county recycling center and sorted them into separate bins. This was later replaced by single-stream recycling, which means you can throw it all together in a blue bin, and it gets sorted elsewhere. You might optimistically believe recycling takes care of the solid waste problem. Unfortunately, it's not that simple. People throw non-recyclable items in the blue bins, or they don't wash them correctly, or the glass smashes and contaminates the recycling. Then the recyclable waste ends up in the landfill. There's a market for certain recycled materials, such as some metals, plastics, and paper. But when the supply of recycled materials is greater than the demand—which is often the case—the leftover is dumped in the landfill as well.

Water Pollution

Liquid waste released into surface water, such as rivers, streams, ponds, lakes, or oceans, is called effluent. It can also seep down through the dirt and make its way into the aquifer, which is the natural underground storehouse of water. This is how groundwater becomes tainted. Contaminated groundwater is a serious problem for communities because nearly half of Americans get their drinking water from groundwater. A report from the EPA in 2016 found that the drinking water of 63 million Americans was tainted with lead and other pollutants. Other studies conducted around



that time found that 44 percent of streams, 64 percent of lakes, and 30 percent of bays were too polluted for fishing or swimming.

Air Pollution

You might be able to live for a few (uncomfortable) days without water, but you can't survive without air for more than a few minutes. Our air is contaminated with a wide variety of pollutants, including chemical vapors, lead, particulate matter, and more. Some air pollution is off-gas. These vapors are byproducts of producing things such as paint, mattresses, new cars, exercise equipment, furniture, carpets, and more. Some products continue to off-gas even after they're produced and you bring them home. For example, plywood will off-gas formaldehyde for two or three months.

Some people think that a good way to deal with the pollution problem is to burn trash at high temperatures, also known as incineration. In smaller countries, where land is at a premium, incineration has been a popular alternative to landfills. There's also the benefit of the energy



it generates in the form of heat, which can be used to power the electric grid. In 2012, Denmark was incinerating around 80 percent of household waste and using that energy for heat and electricity. But despite the benefits of reducing landfills and creating green energy, the incineration program is being phased out. Even with careful filtering, incineration results in high levels of mercury, dioxins (from plastics), and other toxic substances leeching into the environment.

Global Pollution

There's a direct link between local pollution and greenhouse gas emissions. For instance, the rotten lettuce you toss in the garbage can take twenty-five years to break down in the landfill. As it decomposes, it produces landfill gas—roughly half is carbon dioxide, and the other half is methane, which is a greenhouse gas that's twenty-eight times more effective than carbon dioxide at trap-

ping heat in the atmosphere. In other words, methane is twenty-eight times worse for global warming than burning fossil fuels. But that lettuce—and all other organic material—that was dumped in the landfill is not the end of the story. There are also all the toothbrushes you've used and discarded throughout your life. The plastic—and every other plastic thing you've ever discarded—is slowly breaking down and creating more landfill gas. And of course, every time you use a gas-powered vehicle to drive to the store to buy more food and a new toothbrush, you create carbon emissions. Every time you power up your computer or turn on your TV, you use electricity, which is often produced by burning fossil fuels. You can find carbon calculators online that show you your carbon footprint—how much carbon pollution you, personally, are responsible for producing, as well as how much is produced by organizations, firms, products, and events.

Climate change is alarming, but some good news is that there are also carbon sinks, which are natural ways to remove carbon from the atmosphere. Carbon sinks include trees, plants, and soil. Trees and plants draw down carbon dioxide and use it for photosynthesis. Some of the carbon is transferred to the soil when the plant dies and decomposes. So trees and plants are extremely important to the health of the environment. There are about 3 trillion trees on the planet, and they play a major role in producing the oxygen we all breathe. That might sound like a huge number, but humans cut down an estimated 10 billion more trees than we plant each year. On top of that, we tend to cut the more mature trees and replace them with young trees, but the older trees can sink a lot more carbon than the younger ones. Also, forests are lost to fires every year. In 2019, more than 27 million acres of forests were destroyed by fire, and in that same year, 2.24 million acres of the Brazilian rainforest were burned to create more farmland and grazing land for cat-

tle. (This is one reason some environmentalists connect the eating of meat to climate change.) Not only were those carbon sinks lost, but all those burning trees released more carbon dioxide into the atmosphere.

Every year, around a quarter of the carbon dioxide created by human activity either dissolves in the ocean or is absorbed by ocean plants. The oceans also hold most (some reports say 93 percent) of the excess heat produced by global warming. The oceans make up 71 percent of the Earth's surface and contain 97 percent of our planet's water. But scientists are reporting that the oceans can't keep up anymore. Rising temperatures and pollutants are killing the symbiotic algae in coral reefs, causing coral bleaching—the normally colorful coral turns white, which indicates that its ecosystems are stressed. In some cases the reefs can recover, but as the oceans continue to warm, and pollution continues to be pumped into the waters, coral reefs die off. These are ecosystems that support not only fish popula-

tions but also the ocean's plant life. Without those plants absorbing carbon dioxide, climate change will accelerate, say scientists.

Water is part of the climate change conversation because as climate patterns change, so do precipitation and wind patterns. That means the planet experiences more droughts and floods. Since water is essential to life, people living in areas where there is persistent drought or unpotable water because of pollution have no choice but to migrate. We've already seen a number of refugee crises caused by water shortages in parts of Africa and Asia. A 2012 study by the World Health Organization found that 790 million people had no access to clean water. And it's not just people who are affected. A third or more of amphibians face extinction, and certain species of insects are rapidly disappearing. The United Nations warns that lack of water, from both climate change and local pollution, will become an even more serious problem for everyone on the planet in the coming years and predicts that



we will see millions more climate refugees.

International Climate Agreements

Up until the 1970s, the worst effects of the human footprint were considered reversible. The idea was that if we decided we wanted a clean environment, we could make choices to clean up or prevent pollution. I remember when a hole was discovered in the ozone layer above Antarctica in 1985. More ultraviolet radiation reached the Earth's surface and increased the rates of skin cancer and other health problems. It was a wake-up call to many people, who hadn't realized our human footprint could even affect the atmosphere—the protective bubble that surrounds the planet. In 1987, world leaders came together and signed the Montreal Protocol, which banned ozone-depleting gases (called chlorofluorocarbons, or CFCs). Today, the ozone layer is healing, and the hole in the ozone is on track to close by 2060. But climate change is a different story. There is a general agreement among scientists around the world that climate change is not reversible. It's not possible to cool the planet back down. We can't refreeze the melting glaciers. We can't lower sea levels to what they were before. We can't bring back the estimated ten thousand species that die out each year. But we can come up with solutions to slow climate change and keep it from getting even worse so that ecosystems have time to adapt.

Whether and how the United States should

There's a direct link between local pollution and greenhouse gas emissions, which cause global climate change. Even the rotten lettuce you toss in the garbage, which can take twenty-five years to break down in the landfill, releases greenhouse gases that trap heat in the atmosphere.

address its contributions to climate change is a hotly debated issue among economists from different perspectives. China, the United States, India, Russia, and Japan are the biggest producers of carbon emissions, but every country contributes to and is affected by climate change. It's a tragedy of the commons on a global scale. Climate diplomats have been scrambling to find solutions while the clock is ticking. The United Nations Framework Convention on Climate Change (UNFCCC) convened the first international summit on climate change in 1992, and since

then, climate negotiations have brought hope, skepticism, frustration, cooperation, and controversy. Here's the timeline through 2021:

Rio Earth Summit, 1992: The United States and other nations agreed to lower their greenhouse gas emissions and accepted the principal of “common but differentiated responsibilities and respective capabilities.” In other words, countries contribute to climate change in different capacities and therefore have different obligations to address it.

Kyoto Protocol, 1997: To speed up climate efforts, participating nations—but not the United States—agreed to timetables and targets for greenhouse gas reductions. It took effect in 2005 and expired in 2012.

Copenhagen Accord, 2009, and Cancun Agreement, 2010: With the Kyoto Protocol about to expire, most world leaders agreed to work together to limit the global temperature

increase to 3.6 degrees Fahrenheit (2 degrees Celsius) and asked all countries to pledge to reduce a specific amount of carbon emissions and verify that they were complying. They also agreed to raise \$100 billion a year by 2020 to support developing nations. But a few countries objected to these measures, so the Copenhagen Accord wasn't ratified until 2010, when the leaders met in Cancun. It is known as the Cancun Agreement.

Paris Agreement, 2015: With the threat of climate change growing, 195 countries agreed to specific levels of reductions in greenhouse gases that would be determined by each nation independently. They also agreed to track one another's climate change mitigation activities. President Barack Obama signed on to the Paris Agreement, President Donald Trump withdrew the United States from the accord two years later, and President Joseph Biden rejoined in 2021.

As the signers of the 1992 Rio Earth Summit Agreement acknowledged, climate change is disproportionately created by wealthy nations and disproportionately burdens the rest of world. As the planet's average temperatures rise, the countries most affected by the resulting droughts, floods, and other natural disasters are situated at the equator and in southern latitudes—poorer nations in Africa, Central America, and South America. Most of the world's wealth is concentrated in the northern latitudes—Europe, China, and the United States. **Climate justice** is a movement to view the climate crisis as an economic, political, and ethical issue rather than addressing it only as a scientific issue. It advocates for communities to have control over their own natural resources, but there is disagreement within the movement about the role of capitalism as a cause or a solution to the climate crisis.

Government Agencies for the Environment

How much of the United States is commons? An estimated 60 percent of the country is privately owned, and the federal government owned around 28 percent in 2018. Native American lands, which are managed by the U.S. government, make up around 2 percent. The rest of public land is owned by states, counties, and municipalities. These aren't static numbers. Some land is sold while other land is acquired. Most of the federally owned land is in the western states and Alaska, but throughout the country, land is set aside for various purposes by the government. For example, the National Park system includes 84 million acres of land; more than 4.5 million acres of oceans, reservoirs, and lakes; more than forty-three thousand miles of shoreline; and more than eighty-five thousand miles of rivers and streams. Military bases in the United States are on national land. As Americans, we own in common the national monuments, bird sanctuaries, wildlife refuges, and national forests, along with historical monuments and archaeological sites. On the state, county, and municipal levels, we also own in common our public parks, public beaches, and other natural resources.

The main debates in Congress related to the commons revolve around three different approaches: dispose, retain, and acquire. Disposal advocates say that the land should be available for private ownership. Advocates of retaining the commons want government to continue to own and manage them. Advocates for acquiring more commons want more—or all—of the nation's natural resources to be available for all. There are also significant disagreements about how the commons should be used. Should ranchers be allowed to graze their cattle on public lands? Should people be allowed

to use motorized off-road vehicles in national parks? Should mining, drilling, fracking, and logging rights be given to private firms? Many federal agencies have a hand in managing the country's natural resources. Here are a few examples:

Environmental Protection Agency (EPA) is tasked with setting and enforcing environmental standards.

Department of the Interior (DOI) includes the *Bureau of Land Management (BLM)*, which manages one in every ten acres of land in the United States, and 30 percent of the nation's minerals; *Fish and Wildlife Service (FWS)*, which enforces laws related to fish, wildlife, endangered species, and more; and the *National Park Service (NPS)*, which operates the national parks.

Department of Agriculture (USDA) includes the *Forest Service (FS)*, which oversees the nation's forests and grasslands, and a branch focused on preparing farmers for climate change and weather disasters.

Agency for Toxic Substances and Disease Registry (ATSDR), part of the Department of Health and Human Services, was created to prevent harmful exposures and diseases related to toxic substances.

Geological Survey (USGS) conducts and disseminates scientific research on natural disasters, water management, biological diversity, mineral resources, energy, and other issues related to the environment.

National Oceanic and Atmospheric Administration (NOAA) manages coastal and marine ecosystems and provides weather, water, and climate data.

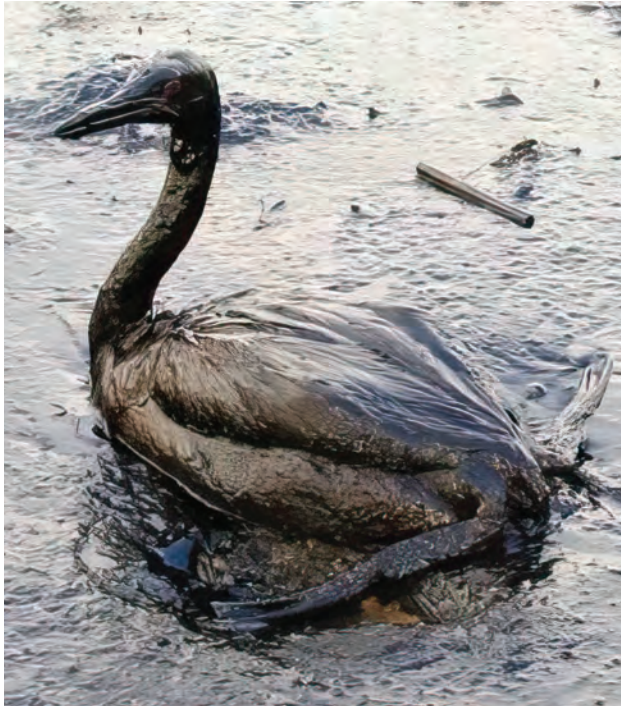
History of Command and Control Regulation

The United States has been using command and control regulations since 1899, when Congress passed the first environmental law. The Rivers and Harbors Appropriation Act required permits

for polluting and for building a dam in navigable waters. Other environmental laws followed. In the 1960s, the Clean Air Act established standards for vehicle emissions and later addressed the problems of acid rain and the hole in the ozone layer. It also allowed individuals to sue polluters. We've already discussed the Clean Water Act of 1972. Other environmental laws from that era include the Endangered Species Act, the Marine Mammal Protection Act (MMPA), the Coastal Zone Management Act, and the Energy Supply and Environmental Coordination Act. Most of these laws remain on the books, but they've been modified over the years.

In the mid-1970s, the Comprehensive Environmental Response Compensation and Liability Act, known as Superfund legislation, made it the responsibility of polluters to clean up hazardous waste sites. The famous case that led to this legislation involved Love Canal. It was a neighborhood in upstate New York built on a site that a chemical company had used as a dumping ground for toxic waste for twenty-five years. Those chemicals percolated up through the soil and leached into residents' yards and basements as well as a school that was built beside the canal. One hundred families were affected. The contamination caused cancers, birth defects, miscarriages, and other medical problems. The residents won a class-action suit against the city and the chemical company. Love Canal was only one of many cases of toxic waste harming people's health. For example, in the 1990s, it emerged that chemical company DuPont had been flushing toxic chemicals into the water in Parkersburg, West Virginia, which led to a health crisis for residents.

Environmental lawsuits raise the question of how to put a dollar value on a life that's lost as a result of pollution. What is a life worth? This is a very controversial question (some don't believe it should even be asked). Under President George W. Bush, there was outrage when the EPA proposed that the life of a person over the age of



seventy should be valued at \$2.3 million, while the life of a person under age seventy was valued higher, at \$3.7 million. The reasoning was that an older person's lifetime earning potential is naturally less than a younger person's. As you might imagine, senior citizens and their advocates loudly protested, so the idea was dropped. This type of valuation is used in cost-benefit analysis, but it remains controversial.

After a flurry of environmental legislation in the 1970s, there was a slowdown in new environmental laws in the 1980s because a disagreement emerged about how to address pollution, conservation, and environmental sustainability. Under President Ronald Reagan, the EPA was downsized, and the administration focused on profit inducements rather than government regulation. Since then, American environmental policy has swung between regulation and deregulation depending on which party is in power. Democrats generally advocate for regulation, and Republicans generally call for deregulation, while Democratic Socialists—a small minority—call for communal ownership and management of resources.

In 1990, Congress passed the Oil Pollution Act following a catastrophic oil spill off the coast of Alaska by the tanker *Exxon Valdez*. The act created guidelines for storing and transporting oil, as well as establishing oil companies' liability for damages and cleanup. An estimated 10.8 million gallons of oil devastated marine life and cost jobs and lives. It was the worst oil spill in U.S. history until 2010, when BP's offshore oil rig Deep Horizon spilled 110 million gallons of oil into the Gulf of Mexico. At least through 2021, the BP spill is considered to be one of the worst human-created environmental disasters in U.S. history.

The Meaning of Green

The term *green* has been used for decades to identify a person, product, firm, policy, and so forth as environmentally friendly (also known as *eco-friendly*) or as having a minimal or beneficial impact on the environment. **Green capitalism** (also called *eco-capitalism*) is the conservative and liberal idea that capitalism not only is compatible with ecological sustainability but promotes it. Of course, liberals mean fair-market green capitalism, with government regulations in place to guide suppliers to cut pollution, and conservatives mean free-market green capitalism, with price signals guiding firms to cut pollution if that's what consumers demand. When firms advertise their products as being eco-friendly—organic cotton T-shirts, recycled copy paper, non-toxic sunscreen—it's called **green marketing**. Radicals say the term *eco-capitalism* is an oxymoron because the profit-driven system of capitalism makes it impossible for a firm to be eco-friendly in any genuine way. They see it as nothing more than a marketing tactic to make firms appear to be environmentally friendly, and they refer to this practice as **greenwashing**.

The Green Party of the United States was recognized as a national political party in 1991, and by 2019 more than one hundred Green Party mem-

bers held elected office throughout the nation. The Green Party stands for ecological sustainability, grassroots democracy, and social justice, and in 2022 green parties were active in close to ninety countries. If their ideas sound familiar, it's because democratic socialism shares these goals. In fact, the Green Party could be the political party that

represents democratic socialism, similar to how the Republican Party generally represents the conservative view and the Democratic Party generally represents the liberal view. But many democratic socialists choose to run as Democrats or Independents rather than Greens because they believe it is easier to get elected in the two-party system.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of the environment. You learned the tools needed to analyze

competing ideas about how to solve the problem of polluted air, water, and land. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on the Environment

Radicals, liberals, and conservatives all agree that polluted air, water, and land are problems. They all share the goal of having breathable air, drinkable water, and habitable land, but their ideas about how to achieve it are starkly different. Should natural resources be owned communally and managed collaboratively to everyone's benefit? Should government have an expanded role to set and enforce pollution standards? Should we let the private sector bring us innovations in pollution abatement by harnessing the profit motive? The policy we currently follow is command and control regulation supplemented with carbon pricing, which is why we described them in detail in the previ-

ous section. These are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and debate this issue from each perspective. As always, please remember that the VOTE Program doesn't take a particular position on this or any other issue. We're just channeling the voices of the perspectives so you can hear the different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the radicals will go first.



Radical

Voice on the Environment



The
Environment

A river is a precious and irreplaceable resource. It's a lifeline for diverse populations of fish, plants, and wildlife. It feeds the fields where our food grows, provides fresh water to sustain communities, and carries goods and people from place to place. The Cuyahoga River should have been cherished and protected, but instead it was turned into a fire hazard. The culprit in this story is capitalism. There is no doubt those factory owners didn't want to destroy the river with their pollution. But in the shark tank of capitalism, they had no other

choice. If they didn't flush their unfiltered effluent into the Cuyahoga, their bottom lines would have suffered, and then competitors would have smelled blood in the water and driven them out of business. In capitalism, firms are forced to make choices that bring them short-term profit gains over the long-term sustainability of our natural resources. Capitalism leaves a trail of toxic waste in its path. It destroys the ecosystems of rivers, lakes, streams, land, the atmosphere, mines, and every other natural resource. So we lurch from ecological catastrophe to ecological disaster and transform this beautiful planet into a trash heap. Just think of the decades we have wasted because of capitalism's shortsightedness. We're on the dangerous edge of mass extinctions, and millions of people are already suffering or dead from pollution-related health problems. Millions more are losing out on opportunities to prosper and thrive because we've ruined our natural resources. But

instead of private owners taking responsibility for pollution abatement, the community gets stuck with the bill to clean up their mess. But don't fool yourself into thinking we can just throw billions of taxpayer dollars at the problem and solve it. No amount of money will restore the old-growth forests or replace the countless species that were driven to extinction by capitalism's insatiable drive for profit.

Let's use the Six-Core Cube of democratic socialism and drill down into the core point of *sustainable development*. Worker-owned firms realize there is nothing more important to the survival of humanity than a healthy environment, so they frame all their decisions around whether the short-term gains justify the long-term consequences of production. That means they don't pollute or over-use resources simply because it's easy and convenient or will boost their bottom lines. While economic growth is important, they recognize that it

must be in service to the whole society and not just beneficial to a few wealthy individuals. Because natural resources are owned by the whole community, worker-owners are pressured for good to curb pollution and only produce what society wants and needs. After all, they live in the communities where they work, which means they have a vested interest in keeping the environment in the best possible condition. So imagine that when you step outside in the morning and take a deep breath, the air is fresh and clean because the factories in your town use the cleanest technologies and all the buses, cars, and trucks run on clean energy. When you go to the store, you can trust that all the products on the shelves were made with careful attention to reducing the human footprint. They use minimal packaging, and items are made to last a long time so that no resources go to waste. At work, where you produce professional wrestling matches, you also do your part to protect the environment. You plan events so that there is zero waste at the concession stands, ticket booths, athletes' locker rooms, and more. The drive for well-being pres-

ures worker-owned firms to adopt the best practices for pollution abatement and develop new innovations to protect the environment. Through a commitment to *sustainable development*, we solve the tragedy of the commons and meet our present-day material needs while making sure future generations will have what they need to flourish.

When my daughter was young, I wanted to teach her how to take care of her things properly. Every night, I helped her put away her toys, fold her shirts, and hang up her dresses. When she turned seven, I taught her how to clean her room. After we tidied up, we dusted, vacuumed, changed the linens, and emptied her garbage pail. I've always appreciated a clean room, but my daughter took no delight in it. Getting her to clean her room every week became a battle that lasted for many years. Finally, when she was a junior in high school, she said, "I've been thinking that since we all live in this apartment and share these spaces, it doesn't make sense to think about 'my' room or 'your' room. This is 'our home.' So why don't we clean the whole apartment together?" I was intrigued. She continued. "I don't mind dusting, wiping down counters, or taking out the garbage. And you don't mind folding clothes and putting them away, changing the bed sheets, and vacuuming. And other family members don't mind cleaning bathrooms and doing laundry. So let's agree on a time every week when we'll put on music, and everyone will do their part, and we'll clean our home together." I absolutely loved this plan. Not only did we cut our cleaning time down by a third, but there were no more frustrating arguments. This taught me an important lesson about the power of mutual ownership. Whether it's an apartment, a lagoon, a berry patch, or the atmosphere, when we all share ownership, we each have an equal stake in keeping the environment viable and thriving. We manage the commons together through stewardship councils that represent all stakeholders, including



Figure 14.11
Radical View: The Environment

environmental advocates. Because everyone is entitled to an equal share of the community's natural resources, we maintain a wise balance between the natural world and the built world, and between our needs today and the needs of those who will come after us. We ensure that the Earth is protected for us and for future generations through investment, planning, and social commitments that preserve and replenish our natural resources.

Years ago, I read an article about the joys of simplifying one's life by owning less stuff. After an enthusiastic introduction about getting rid of clutter, the author then went on to list fifteen "must-have" things to buy to become less materialistic. I thought, "This is the double-speak of capitalism. You can't cure materialism by going shopping." Advertisers spend billions selling us on the notion that happiness can be found by acquiring more and more stuff, even though study after study shows that people are happiest when they feel connected to other people and to nature. Capitalism manipulates us into believing that we can't be happy unless we have the newest, latest, upgraded versions of things. At the same time, products are deliberately designed and engineered not to last and not to be repaired easily. So when the stove breaks after a few years, we have it hauled away to the dump and go into debt to buy a new one. Then it's the vacuum cleaner. Then it's the computer. Then it's a pair of sneakers. On and on it goes in the throwaway societies of capitalism. But where is this "away"? It's the landfills, bursting with our trash. It's the oceans, clogged with our plastic. It's the air, choked with toxic fumes. Capitalism is the blueprint for environmental devastation.

Whether it's an apartment,
a lagoon, a berry patch,
or the atmosphere, when
we all share ownership, we
each have an equal stake in
keeping the environment
viable and thriving.

With ten thousand species winking out of existence because of human activity, with a history of rivers in flames, with millions of people dead from pollution every year, capitalism gives us only bad choices. We're forced to choose the momentary convenience of a bottle of water over healthy oceans. We're forced to choose cheaply made appliances over unpolluted land.

We're forced to choose fossil fuel-powered transportation over clean air and a stable climate. We all know we're making the wrong trade-offs, but capitalism's cost-benefit analysis tries to give us the illusion that we're doing the right thing as we destroy the world. How can anyone put a price tag on the loss of life, the melted glaciers, the bleached coral reefs, the green lands transforming into deserts? Every life is priceless, and no amount of money can compensate us for the future viability of the Earth itself. Over and over again, capitalism's relentless drive for profit casually kills what should be fiercely cherished. Whether it's the fair-market or free-market version makes no difference. Instead of saving our planet from being despoiled, capitalism is the reason we're on the brink of self-destruction.

Liberals, command and control regulation doesn't work because no matter what laws you pass, firms in capitalism are forced to do whatever is necessary to generate more profit, including destroying the environment. Instead of complying with your standards, they spend millions on campaign contributions—all perfectly legal—to influence politicians to change the regulations in their favor. Costs too much to buy filters for a factory's smokestack? A massive campaign donation goes into someone's pocket, and suddenly the pollu-

tion standards are rewritten so the firm or industry is now in compliance without needing those filters. The next day the company greenwashes the whole thing by launching an ad campaign touting its “eco-friendly” products. In the meantime, the workers and their families die of lung cancer and heart disease caused by the pollution. You may genuinely want to save the environment, but it can’t be done in capitalism, where making a profit is always more important than the health of people and the planet. Firms have no choice but to cheat, cut corners, and trash our precious natural resources to improve their bottom lines. And now we find ourselves balanced on the knife’s edge of losing our whole way of life to global climate change. You supplement your big idea of command and control with carbon pricing. That’s just another way to let firms pay more to pollute more, and it barely reduces carbon emissions. Plus, it does nothing to end the domination of the fossil fuel industry. Then you liberals want to use the revenues from the carbon taxes and auctioned pollution permits to fund programs to help those communities that are most harmed by pollution.

Am I missing something here? It seems to me it would make more sense to stop the polluters in the first place. In every way, your policies fail us, and they fail the Earth. Face it, liberals, more than fifty years of doing it your way left us an inch away from ecological disaster. Continuing with your feeble policies will send us over the edge.

Conservatives, your short-term thinking trades our future well-being for a few more dollars in your pocket today. Your idea to privatize natural resources will ruin the environment even faster than command and control regulation because private firms won’t even pretend to use science-based standards. If polluting is profitable, free-market capitalism will support it, even though it puts all our lives at risk. Private firms mine ore and leave behind toxic waste that will last for generations. Their logging decimates old-growth forests, while their fracking and drilling pollute our groundwater. While they walk away with their healthy profits and look for the next place to set up shop, society pays the price with public health crises and higher taxes to clean up the mess they leave behind. In the end, those ecosystems are never restored to



what they were before, and some remain unusable. After generations of this mistreatment of the Earth, we are facing an environmental crisis of epic proportions. Our planet's ability to support life is threatened by climate change. That dystopia isn't coming for our descendants in some far-distant future. It's happening right now. But instead of coming up with real solutions, you conservatives want to double down on capitalism—the very economic system that got us into this mess. Your free-market pollution permit allow firms to continue to ruin the planet as long as they can afford to pay. The fossil fuel industries are still thriving, carbon emissions are barely reduced, and you congratulate yourselves on finding a new way to make a profit while the house is on fire. And revenue-neutral carbon taxes are a joke. They don't give firms any real incentive to stop polluting. But let's say it does, miraculously, inspire a firm to move away from fossil fuels. There's no revenue available to develop alternatives. The only innovation I can see coming from your policies are new spaceports the ultrarich raced to build so they can grab up whatever resources they haven't yet extracted from this planet and fly away to find a new planet to destroy. Conservatives, now is not the time to cling to your happy story about the free market solving all our problems. Your ideas only accelerate the coming of the environmental apocalypse.

We should replace the current policy of command and control regulation in capitalism with the Green New Deal in democratic socialism to ensure breathable air, drinkable water, and habitable land. With democratic socialism, we can have good jobs, a high standard of living, material well-being, prosperous communities, and economic justice without compromising the integrity of the environment. Because we share owner-

ship of natural resources, we manage them collaboratively through stewardship councils on the federal, state, and regional levels. They commission rigorous, data-driven analyses to determine the highest level of pollution abatement for the commons—the level that guarantees ecological resilience. Stewardship council members include scientific experts, environmental advocates, community members, public health specialists, industry representatives, and others. Together, they develop the most innovative and feasible ways to shepherd our resources wisely so we can meet people's material needs and have a healthy environment. With the global climate crisis looming, we can't afford to be in denial or take half measures. The Green New Deal is a comprehensive plan to reduce pollution, support communities that already feel the effects of climate change, and put society on a green path for the future. It sets realistic and attainable goals for net-zero greenhouse gas emissions, makes long-term investments in clean energy and infrastructure, including zero-emission public transportation, green wastewater treatment plants, and green buildings. It also prioritizes the restoration of ecosystems and investment in sustainable farming and manufacturing. We make a social commitment to tread as lightly as possible on the Earth and make every decision with an awareness that past generations left us a clean environment so that we can thrive today, and we are responsible for paying it forward and leaving those who come after us a planet that can sustain them. This profound respect for the connection between past, present, and future brings us the fresh air, diverse wildlife, majestic forests, fertile land, and clear streams we all want and need.

Radical

Democratic Socialism



The
Environment

BIG PICTURE

We ensure that the Earth is protected for us and for future generations through investment, planning, and social commitments that preserve and replenish our natural resources.

POLICY POSITION

Polluted air, water, and land can be dangerous, but . . .

- ▶ Liberal policies are too little, too late, too profit-driven, and too top-down to save the planet.
- ▶ Conservative policies sell off our shared natural resources to the highest bidder and trade the well-being of the future for short-term profits.

SOLUTION

Replace command and control regulation in capitalism with the Green New Deal in democratic socialism to ensure breathable air, drinkable water, and habitable land:

- Stewardship councils determine pollution standards.
- We pay it forward by protecting the Earth for the future.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Environment Talking Points: Radical

1. In democratic socialism, worker-owned firms make decisions not just for short-term gains but also with an eye on long-term consequences. They won't dump pollution into the river or overuse resources simply because it's easy and convenient to do so. When natural resources are owned by the whole community, there is a pressure for good to curb pollution and only produce what society wants and needs. After all, worker-owners also live in the communities where they produce, so it benefits them, too.
2. When we all share ownership, we each have an equal stake in keeping the environment viable and thriving. With participatory governance, environmental advocates, firms, consumers and others have a seat at the table. Because everyone in society is entitled to an equal share of the community's natural resources, we maintain a wise balance between the natural world and the built world and between our needs today and the needs of those in years to come.
3. Liberals, command and control regulation doesn't work because no matter what laws you pass, firms in capitalism are forced to do whatever is necessary to generate more profit. A new regulation requires firms to put filters on smokestacks? A massive campaign donation goes into a politician's pocket, and suddenly the pollution standards are rewritten, and the firm is exempt from the new regulation. In the meantime, the workers and their families die of lung cancer and heart disease caused by the pollution.
4. Liberals supplement their big idea of command and control with carbon pricing. It's nothing more than a program to let firms pay more to pollute more. It's not a real solution. It barely reduces carbon emissions. In every way, liberal policies fail us, and they fail the Earth. After fifty years of doing it their way, we are now standing an inch away from ecological disaster. Continuing with their feeble policies will undoubtedly send us over the edge.
5. Conservatives, your plan of expanding privatization of natural resources trades our future well-being for a few more dollars in your pocket today. Private firms mine ore and leave behind toxic waste that will last for generations. Their logging decimates old-growth forests, while their fracking and drilling pollute our groundwater. While private owners walk away and look for the next place to set up shop, society pays the price with public health crises and higher taxes to clean up the mess they leave behind.
6. Our planet's ability to support life is threatened by global climate change, but conservatives respond with free-market pollution permits and revenue-neutral carbon taxes, both of which give a profit-motive to the firm, but with no real consequences if they don't participate. The result is that the fossil fuel industries are still thriving, carbon emissions are barely reduced, and conservatives congratulate themselves on finding a new way to make a profit while the house is on fire.
7. In democratic socialism, we have good jobs, a high standard of living, material well-being, prosperous communities, and economic justice. And we don't have to compromise the integrity of the environment. We manage the commons through stewardship councils made up of experts and stakeholders that commission rigorous, data-driven analyses to determine the highest level of pollution abatement that guarantees ecological resilience. By shepherding our resources wisely, we have a healthy environment.
8. The Green New Deal establishes realistic and attainable goals for net-zero greenhouse gas emissions, makes long-term investments in clean energy and infrastructure, and supports sustainable farming and manufacturing. We make a social commitment to tread as lightly as possible on the Earth and make every decision with an awareness that past generations left us a clean environment so that we can thrive today, and we are responsible for paying it forward and leaving those who come after us a healthy planet.

Liberal

Voice on the Environment



The
Environment

Rivers are the vital arteries of our nation. As boats ply their waters, they enable the flow of commerce. They irrigate our crops and provide drinking water for cities and towns. No one would ever want to destroy such a precious resource. So how did the Cuyahoga end up so trashed that it became combustible? It happened because there wasn't enough government involvement. If there had been a regulatory arm of the government focused on the environment, then scientists would have established the best environmental standards before the

oil refineries, steel foundries, and chemical companies set up shop and started pumping effluent into the river. The government would have told them, "Here is how much you are allowed to pollute, and here are the fines and other penalties you'll have to pay if you pollute more than that." The allowable amount of pollution would have considered the downstream effects as well as the effects on the people and firms of Cleveland. The government would have given companies the right motivation not only to comply with environmental regulations, but also to invest in new technologies to cut down on pollution and clean it up more efficiently. With the helping hand of government, the Cuyahoga's pollution levels would never have become a problem. Taxpayers would not have been stuck paying billions to clean the river. Generations of individuals, fami-

lies, and businesses would have been able to use the Cuyahoga for their livelihoods and recreation. We all share this planet, and we need to consider the consequences of our actions on others. Pollution and climate change threaten our way of life, but no one person or firm can solve this perilous situation. Luckily, we have a government that can make sure everyone does their fair share to protect the environment. It works for us to protect the commons for all.

Let's consider the graph in figure 14.12. In the copy paper market, without government regulations, there are harmful levels of pollution. This is a market failure because too much paper is produced at too low a price when there is no pollution abatement (NPA). The problem stems from the fact that suppliers consider only their private costs of production—the land, labor, and

capital they need to make copy paper. That's why we call the initial supply curve the marginal *private* cost (MPC) curve. Here's how we correct the market failure: copy paper firms internalize the costs imposed on third parties as a result of their polluting practices. This fix is easily accomplished with strong government regulations. First, the polluters internalize the costs imposed on those firms directly affected by the pollution so that the supply of copy paper shifts to the left—the marginal *social* cost (MSC^2) curve. But that's not all that's happening in this graph. There's a second shift to the left because government regulations also require an even higher level of pollution abatement to address the downstream effects of the pollution (MSC^3). Once both the direct and indirect benefits are factored in, we have a higher price for copy paper (P^{PA}) and lower quantities (Q^{PA}). This corrects the market failure. And when the prices and quantities of the products made by firms that were directly and indirectly affected by negative externalities readjust to their appropriate

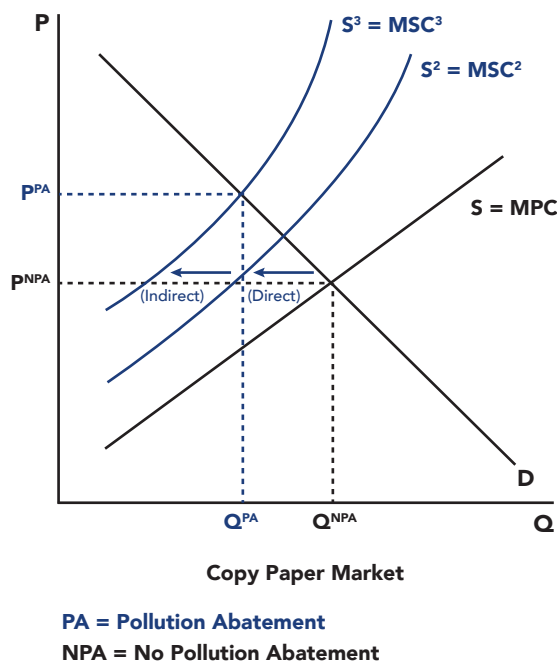


Figure 14.12
 Liberal View: The Environment

levels, market corrections also occur in those markets. For instance, the chocolate bar firm that was forced to pay for filters to use the lake water is now able to produce without the filters, so more chocolate is supplied and demanded at a lower price. With the helpful hand of government, we get a clean environment and correct the tangle of wrong prices and quantities. We each contribute a few tax dollars to support environmental agencies composed of experts, scientists, and policy-makers. This is how guidance and oversight from government solves the tragedy of the commons.

When my daughter was in elementary school, cleaning her room was her least-favorite activity. I'd find clothes shoved under the bed, plates with cupcake crumbs on the floor, and toys haphazardly jammed into the closet. When I expressed my displeasure, she told me that she had a right to keep her room in whatever condition she chose because it was her room—not mine. I pointed out that she wasn't living on a deserted island. Even if she kept her door closed at all times, the dust from her unvacuumed bedroom could circulate through the air ducts and make the rest of the house dustier. The odors from her unwashed laundry could make the whole house smell sour. And the ants that might be attracted by those cupcake crumbs could end up marching into everyone's rooms. It wasn't fair that the rest of us would have to pay the price because she decided not to clean her room. I let her know very specifically how I expected her room to be cleaned and how often she had to do it, and I let her know that everyone in the family had the same responsibility to keep their rooms clean. In case being considerate of others wasn't incentive enough, I told her that if she chose not to clean her room, there would be a consequence: she wouldn't be allowed to go to parties on the weekend. From that moment on, her room was kept clean without any argument, and everyone in our home benefited from her efforts. Similarly, it's our government's role

to hold us accountable to do our fair share to protect our shared environment. Government is the impartial player that makes sure everyone participates equitably to keep our natural resources ecologically resilient. It sets the right standards for pollution abatement and then guides firms to reduce harmful emissions and clean up pollutants. It also enforces those standards and imposes consequences on violators. Using fair-market capitalism, we give firms the right

incentives to pollute less and clean up more. And because all firms must do it, no one company or industry bears an unreasonable burden. They can all remain competitive. Firms will reduce carbon emissions, produce environmentally friendly products, invest in renewable resources, develop alternative packaging that doesn't pollute, and so on. We use the power of our government to establish and enforce environmental standards to ensure that our natural resources are protected today and far into the future.

Conservatives, you are hypocrites. While you trash-talk environmental regulations, you're breathing the clean air brought to you by the Clean Air Act, and you're drinking the clean water brought to you by the Clean Water Act, and your rivers are not catching on fire thanks to the Environmental Protection Agency. Your policies endanger us all. First, you dismiss the downstream effects of pollution, which enables firms to pollute even more. Then you want to extend private property rights, as if that will solve all our problems. What happens when you privatize our national lands? A few rich buyers make a quick buck by plundering

It's in our best interests to have a clean environment, and firms need incentives to make it a priority. Government comes in like the conductor of an orchestra, guiding all the parts to create a harmonious whole.

our nation's precious natural resources, and then they turn around and sell the rights to despoil them further to other firms. We have more harmful drilling for oil, fracking for natural gas, and mining for coal because it's profitable to do so, but in the meantime the atmosphere is blanketed with even more greenhouse gases from burning all those fossil fuels. We need to manage capitalism to prevent mass destruction, but your free-market ideas boil

down to letting firms pay to continue to ruin the environment, whether it's paying a private owner, paying a revenue-neutral carbon tax, or buying pollution permits in the open market. We all want a healthy bottom line, but not at the expense of a healthy environment. Carbon taxes and cap and trade should be supplements to strong environmental policies, not the only fix you bring to the table. And your revenue-neutral carbon tax and auction of pollution permits ensures that we won't have revenue to invest in the next leap forward in green energy. It guarantees that we'll abandon the communities that struggle the most from pollution's harmful effects. Conservatives, you stubbornly cling to your free-market fantasy that profit solves all problems. Yes, profit is important, but it's not more important than rising seas, oceans choked with plastics, and countless species going extinct. Wake up and realize the environment is the goose that lays the golden egg. We can't make anything without our precious natural resources, and global climate change is a real and present threat to our nation and to the continuation of our way of life. Stop complaining about reasonable

regulations and stop blaming government for the problems unfettered corporate greed has caused.

Radicals, you fault capitalism for everything bad that's ever happened and claim we need a socialist revolution or it will be the end of life on Earth. That's categorically wrong. In fact, it's socialism that destroys the environment. It's the same old story every time: socialist societies descend into poverty because there's no profit incentive, and therefore there is no motivation for anyone to produce anything. People who are poor become desperate and end up decimating their natural resources to stay alive. So we definitely do not want socialism—ever. We do want to live in a country that has fresh air, pure water, and fertile land, but your Green New Deal is the wrong map for getting us there. Instead of making strategic adjustments to bring about net-zero greenhouse gases and reduce pollution in manufacturing and agriculture, it's a plan to demolish the whole economic system. We can heal the planet with a scalpel of green capital-

ism, but you want to bludgeon it to death with the sledgehammer of socialism. Let's say you have it your way, and we suddenly have socialism. You'll leave decisions about the care and well-being of our environment to a group of concerned citizens, with a few people who actually know what they're doing sprinkled in. Under the management of your stewardship councils, the commons are vulnerable to the tunnel vision and special interests of the individuals who manage to get appointed. Decisions aren't made objectively, precisely because council members are stakeholders, meaning they are more concerned about their own backyards than about the greater good. So don't be surprised when stewardship council meetings devolve into fights about where pollution goes (no one wants it in their backyards). Without hierarchy, they never develop a feasible plan to effectively manage and reduce it. Without dispassionate cost-benefit analyses, you'll have no objective measure for making clear decisions about the environment. You will spend



years trying to assess every possible impact of the downstream-of-the-downstream-of-the-downstream effects of pollution. It's inevitable that decisions will be held up in committee for ages, and firms won't get a green light to move forward with production. Then people will be deprived of the goods and services they need, including the essential service of pollution abatement.

We should strengthen the current policy of command and control regulation supplemented by carbon pricing to ensure that we have breathable air, drinkable water, and habitable land. We know it's in our best interests to have a clean environment, and we also know that firms need incentives to make it a priority. That's where government comes in. It is like the conductor of an orchestra, guiding all the parts to create a harmonious whole. Regulatory agencies gather the scientific data and come up with best practices for pollution abatement. They set standards we can trust because government is fair and impartial. Because they work for us and not for any individual, firm, or industry, these arms of the government make the best decisions about feasible and efficient methods to address local pollution and global climate change. Also, they are empowered to enforce compliance and impose sanctions on violators. They can even shut down firms that pollute beyond the established limits. This protects all of us and preserves our nation's natural resources. Our democratically elected govern-

ment balances the needs of nature with the needs of a productive society that relies on our natural resources to thrive. The government's investment in new technologies brings down the costs of pollution abatement so we can achieve ecological resilience. This is also vital because global climate change is a threat to our national security and the future well-being of humanity. Our government collaborates with the other nations of the world to forge international agreements on reducing carbon pollution. As a supplement to command and control regulations, we use carbon pricing to give firms a variety of ways to reduce their carbon footprint, making them partners in reducing greenhouse gas emissions. Carbon taxes along with cap and trade programs motivate more private-sector investment in technologies that reduce pollution and move our nation away from fossil fuels. They make it profitable for firms not only to cut carbon emissions, but also to invest in new ways to go green. Then government turns around and invests the revenue generated from those programs in developing more clean energy alternatives. Some of the revenue is also invested in communities that are most acutely affected by pollution. This is the right thing to do. In fair-market capitalism, the helpful hand of government, coupled with the power of the profit motive, will save our planet. This dynamic public-private partnership brings us the fresh air, diverse wildlife, majestic forests, fertile land, and clean water we all want and need.

Liberal

Fair-Market Capitalism



The
Environment

BIG PICTURE

We use the power of our government to establish and enforce environmental standards to ensure that our natural resources are protected today and far into the future.

POLICY POSITION

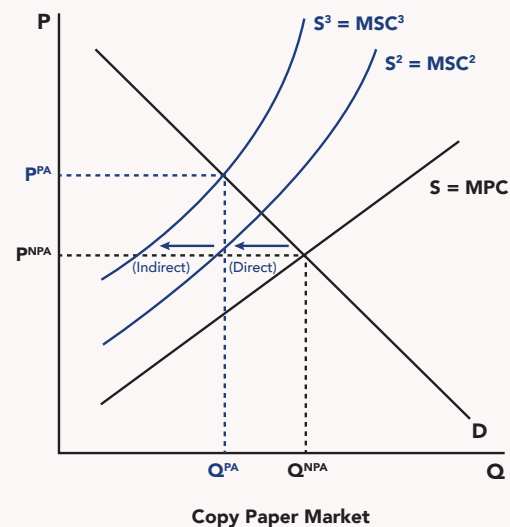
Polluted air, water, and land can be dangerous, but . . .

- ▶ Conservative policies allow firms to buy the rights to pollute from private owners, ignore the downstream effects of their production, and pose a dire threat to our entire planet.
- ▶ Radical policies lead to an impoverished society that destroys its natural resources while nonhierarchical stewardship councils are incapable of making any decisions about pollution abatement.

SOLUTION

Strengthen command and control regulation supplemented with carbon pricing to ensure breathable air, drinkable water, and habitable land:

- Expand environmental protections and back them up with strict penalties.
- Use carbon pricing as an additional deterrent.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Environment Talking Points: Liberal

1. We all share this planet, and we need to consider the consequences of our actions on others. Pollution and climate change threaten our way of life, but no one person or firm can solve this perilous situation. Luckily, we have a government that can make sure everyone does their fair share to protect the environment. We each contribute a few tax dollars to support environmental agencies composed of experts, scientists, and policymakers. They work for us to protect the commons for everyone's benefit.
2. Government is the impartial player that makes sure everyone participates equitably to keep our natural resources ecologically resilient. It guides firms to reduce harmful emissions and clean up pollutants. Using fair-market capitalism, we give firms the right incentives to pollute less and clean up more. Because all the firms have to do it, no one company or industry bears an unreasonable burden. They can all remain competitive.
3. You conservatives think extending private property rights will solve all our environmental problems. What happens when you privatize our national lands? A few rich buyers make a quick buck by plundering our nation's precious natural resources, and then they turn around and sell the rights to other firms to despoil them further. We have more harmful drilling for oil, fracking for natural gas, and mining for coal because it's profitable. In the end, your grand plan equals more destruction of the Earth.
4. Carbon pricing and cap and trade should be supplements to strong environmental policies, not the only fix conservatives bring to the table. Their free-market ideas boil down to letting firms pay to pollute, whether it's paying a private owner, paying a revenue-neutral carbon tax, or buying pollution permits in the open market. Under their plan, we'll have no revenue to invest in the next leap forward in green energy, and we'll abandon communities that struggle the most from pollution's harmful effects.
5. Radicals, your society descends into poverty because there's no profit incentive in democratic socialism, and therefore there is no motivation for anyone to produce anything. People who are poor become desperate and end up decimating their natural resources to stay alive. We all want to live in a country that has fresh air, pure water, and fertile land. We heal the planet with a scalpel of green capitalism, instead of bludgeoning it to death with the sledgehammer of your socialist Green New Deal.
6. Without dispassionate cost-benefit analyses, radicals can't make objective decisions about the environment. You will spend years trying to assess every possible impact of the downstream-of-the-downstream-of-the-downstream effects of pollution. Decisions will be held up in committee, and firms won't get a green light to move forward with production. Then people will be deprived of the goods and services they need, including the essential service of pollution abatement.
7. Command and control regulations use government to enforce compliance and impose sanctions on violators. Regulatory agencies gather the scientific data to determine best practices for pollution abatement. Because they work for us and not for any individual, firm, or industry, they make the best decisions about how to address local pollution and global climate change. The government's investment in new technologies brings down the costs of pollution abatement so we can achieve ecological resilience.
8. As a supplement to command and control regulations, we use carbon taxes and cap and trade to make it profitable for firms to cut carbon emissions. Then government invests the revenue generated from those programs to develop clean energy alternatives and help the communities most affected by pollution. With fair-market capitalism, the helpful hand of government, coupled with the power of the profit motive, saves our planet.

Conservative

Voice on the Environment



The
Environment

Rivers are the cradles of civilization. The earliest evidence of humanity has been found on riverbanks. We have always depended on their fresh waters to sustain us and irrigate our fields. Their fish feed our families, and their powerful currents carry us and our products from place to place. But when no one is looking out for the best interests of the river, it becomes a polluted cesspool. The Cuyahoga River was like an unloved orphan because no one owned it. There was no incentive for the oil refineries, steel foundries, and chemical companies

not to use it to flush away their toxic waste. That's why the river became a fire hazard. The deplorable state of the Cuyahoga could have easily been avoided with private ownership. Firms that wanted to release their effluent would first have needed to secure the owner's permission. And since owners have a strong incentive to keep their property from being ruined, they naturally would not have allowed high levels of pollutants to spoil the river. The private owner of the Cuyahoga would have told firms, "Here is how much you're allowed to pollute my river. If you pollute more than that, I'll sue you, and not only will you have to pay damages to me, but you'll also have to pay to clean it up." The justice system protects private property, and the high costs of overpolluting motivate firms to comply with the owner's standards. With private ownership, our nat-

ural resources are protected because it becomes more profitable to invest in new technologies to cut down on pollution than it is to pollute. The Cuyahoga's pollution levels would never have gotten out of control, and the right balance would have been struck between the needs of society to produce things and the need to protect the ecological resilience of the river.

Let's consider the graph in figure 14.13. In the copy paper market, we know that without private ownership of the lake, there will be harmful levels of pollution. Here's the problem: because no one owns the lake, the firms, which are profit maximizers, only consider their private costs of production—the costs of land, labor, and capital needed to make paper. That's why the initial supply curve is the marginal *private* cost (MPC) curve. But the costs of the copy paper firms'

pollution are imposed on other businesses that use the lake, and this means we have a market failure. Too much paper is produced at too low a price, which distorts price signals in multiple ways. Society ends up using too much paper because the price is too low, while the prices are too high for the products made by the businesses that have costs imposed on them as a result of the copy paper firms' pollution. There's an easy fix for this. When there's a private owner of the lake, firms are accountable to that owner. If firms release pollutants into the lake at a level above what was agreed to by the owner, then those businesses can be sued. This creates the right price signal for firms to reduce pollution. They are in business to make a profit, so they won't overpollute if it becomes unprofitable to do so. The supply of copy paper—the marginal *social* cost (MSC) curve—shifts to the left and corrects for the market failure. Less copy paper is supplied and demanded, and the price of copy paper is higher because it now reflects the additional costs internalized by the firm for pollution abatement.

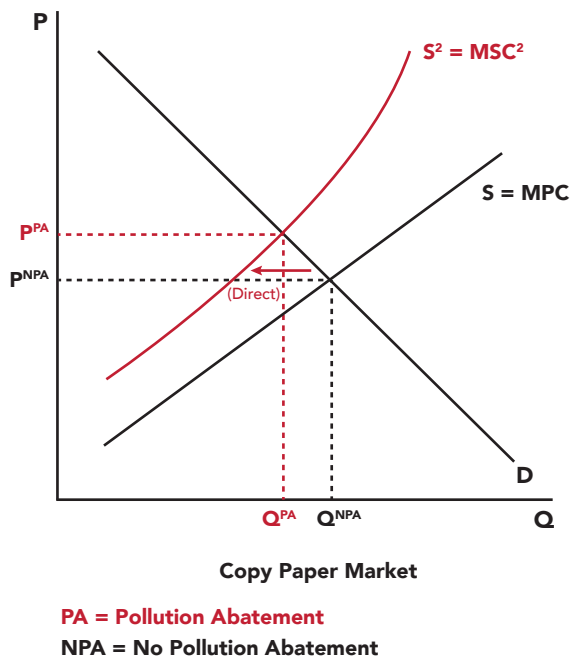


Figure 14.13

Copy Paper Market: Conservative Perspective

The whole society benefits because the firms that were directly affected by those negative externalities also experience market corrections. So chocolate bar prices go down and quantities go up. All this happens as if by an invisible hand, with no government or individual or committee dictating anyone's actions. This is how private ownership solves the tragedy of the commons.

When my daughter was growing up, I wanted her to develop good personal habits, so I taught her how to clean her room. First, fold her shirts and put them away neatly in the drawer. Next, hang up her dresses in the closet. Then collect all the game and puzzle pieces strewn across the floor, sort them into their respective boxes, and put the boxes away in the cupboard. She went along with it willingly at first, but when I made it clear that I expected her to do these things on her own every day, she resisted. She didn't want to clean her room and avoided the whole project. It became very frustrating for both of us. Exasperated, I tried a different approach. I offered her ten cents for every square inch that she cleaned up. A remarkable transformation took place. She eagerly calculated the square inches of floor space in her room. Once she realized how much money she could make, she couldn't wait to get started. She knew she wouldn't get paid if she did a sloppy job, so she came up with her own efficient system to put everything away in its proper place. We were both delighted with the outcome—although it worked a little too well because I overpriced it, and I ended up paying her a tidy sum. But it taught me an important lesson about how to motivate someone who doesn't see the value in doing what I want them to do. I realized it doesn't need to be a power struggle to get someone to change their behavior. You figure out what that person wants and then you offer it in exchange for what you want. This simple yet profound lesson applies to the business world as well. Every firm wants to be profitable, so all we have to do is

make pollution abatement profitable. Not only will they eagerly get on board with the program, but on their own, they will come up with inventive ways to accomplish the goals. They find the best ways to prevent and clean up pollution because it's in their self-interest to do so. Firms will switch to compostable packaging, manufacture lower-emissions cars, invest in renewable energy, develop more sophisticated scrubbers and filters, and more. We don't need government to impose rules and regulations. We just ride the horse in the direction it's already going and get to a healthy planet faster and cheaper, with the eager cooperation of the private sector. We can have the clean environment we all want and need because price signals in a free-market system give firms and individuals the right incentives to innovate and adapt.

If you're training a puppy to come when you call, threatening to punish her if she doesn't obey will only result in a dog with behavior problems. The more you threaten and yell, the more she'll run the other way. But when you give her a treat for running to your side as soon as you whistle, she'll learn that it's in her best interest to respond to the whistle by hurrying to your side of her own volition. She won't run off, and she won't meander across the yard and stop to sniff every tree, because the treat is more rewarding than those other attractions. Carrots are more effective than sticks to motivate puppies, people, and businesses to change their behavior. When we threaten firms with a stick, we get a cheat fest. I remember reading about a firm that saved up its toxic waste in a truck, and when it rained, it would drive around

Every firm wants to be profitable, so all we have to do is make pollution abatement profitable. They find the best ways to prevent and clean up pollution because it's in their self-interest to do so.

and pump the waste out onto the road where no one would notice. Imagine if the firm had applied that kind of creative thinking and planning instead to dispose of pollution in a safe way because it actually helped their bottom line. We live in a complex world with complex wants and needs. As a society, we obviously don't want to stop making things, but we also want a clean environment. What should we do?

We should get the punishing government rules and regulations out of the way and let firms be guided by the rewards that come from following price signals in a free market. Just like the buying and selling of homes or shoes or anything else, suppliers and demanders follow their self-interest, and this perfectly calibrates the use of resources toward a clean environment if that is what is most desirable. This all happens as if by an invisible hand, with no government or person or committee dictating anyone's actions. Instead of regulations that come from on high and are enforced by bureaucrats, firms take initiative to come up with the best methods for pollution abatement. Instead of firms cutting corners and hoping not to get caught cheating, they do an excellent job because it's in their profit interest to do so.

Radicals, you are hypocrites. While you're busy trash-talking the drive for profit, you're doing it on your cell phones. Then you post memes on your social media that blame capitalism for climate change while you jump in your electric car with an "Earth Is Our Mother" bumper sticker and drive to a protest against a new copper mine. Yet you conveniently ignore the fact that your cell phone, your car, and the copper wiring in both are the

result of capitalism, and so is your social media and the fresh air you breathe. Capitalism isn't the villain; it's the solution. Before you radically reject profit, consider that without it, there is no motivation for anyone to dream, invent, or work hard, and no motivation for anyone to clean up the environment. The lack of profit motive is the reason socialist societies don't invent or produce the things that make our lives better. I suppose you're right in saying your Green New Deal will achieve net-zero carbon emissions, but that's only because no factories operate when no one is making anything. By rejecting cost-benefit analysis, you effectively silence the machinery of progress and take us back to the squalid conditions humans suffered through before industrialization brought us the gifts of the modern world. Don't spin lack of productivity as "eco-friendly." Yours is a drab, gray world—not a green one. The Green New Deal is a disaster on every front because you just double down on government. And it's even worse than command and control, because government under socialism is dangerous. When everything becomes

"the commons" because you outlaw private ownership, tragedy ensues. Your commons viability analyses will fall flat because when no one owns it, no one takes care of it. With your policies, we'll all be poor together, and we won't be in any position to clean up the environment or respond to the threat of global climate change.

Liberals, your command and control regulations are to blame for the sad state of our environment today. For decades, you dictated to firms which filters to use on their smokestacks, how to install them, when to use them, and the level of pollution reduction they had to meet. There are three problems with this approach. First, businesses have no buy-in because these regulations are imposed on them. So they cut corners and meet only the bare-minimum requirements, or they simply cheat and hope the government doesn't bust them. Second, your heavy-handed regulations handcuff firms to costly and ineffective practices and often force technology onto them, which stifles innovation. Firms have no incentive or freedom to find better ways to clean up or prevent pollution, and



society loses out on those potential advances in technology. Third, while you love to go on about the so-called public-private partnership as if it's a consensual relationship, it's not. An equal partnership wouldn't threaten fines and shutdowns to force compliance. Your regulations make pollution abatement more expensive, less efficient, and less innovative, and in the end, they don't bring about a clean environment. Command and control gives us stinking landfills, polluted lakes and rivers, and hazes of smog blanketing our cities. Instead of learning from your mistakes, you liberals just want more government control. But doing more of the same to achieve a different outcome is the definition of insanity. Carbon pricing would be a sensible market-based solution except that your version of it uses the auction of pollution permits and revenue-generating carbon taxes as a cash cow to fund even more big government. Yes, we want green energy and help for people affected by pollution, but we won't see any progress on pollution abatement and moving into next-generation clean technologies when you plop a mountain of regulations in our path. Government interference creates a chain reaction of bloated bureaucracies, soaring costs, stifled production, sky-high taxes, and job losses. So in no way is the government ever the hero of this story about the environment. Face the fact that your liberal policies not only brought us to the brink of environmental collapse, they keep us mired in pollution while we watch the world's thermometer inexorably rise.

We should reject the current policy of command and control regulation and replace it with

expanded private property rights, revenue-neutral carbon taxes, and free-market cap and trade to ensure breathable air, drinkable water, and habitable land. Price signals guide behavior—they motivate people and firms to act. It's our human nature to want to maximize the amount of value we get out of anything we produce. We can thank this drive to make profit for bringing us the wonders of the modern world, and we can also use the profit motive to bring about a clean environment. All we have to do is make pollution abatement good for the bottom line. That's why private ownership works. When natural resources are privately owned, the profit motive guides owners to maintain the appropriate level of cleanup and prevention. And when a private party is willing to pay for even higher levels of pollution abatement, the owner of that resource will agree to it because it is profitable to do so. Freely determined price signals give us ecological resilience both locally and globally—if that is what people want. Carbon pricing harnesses the profit motive to motivate firms to reduce greenhouse gas emissions, whether it's a revenue-neutral carbon tax or a market in pollution permits. Free-market capitalism spurs innovation by creating incentives for the private sector to come up with new advances in green energy and new technology. Our beautiful planet needs our protection, and we need its bounties to survive. With free-market capitalism, we inspire human ingenuity to save the Earth. The invisible hand brings us the fresh air, diverse wildlife, majestic forests, fertile land, and clean water we all want and need.

Conservative

Free-Market Capitalism



The
Environment

BIG PICTURE

We can have the clean environment we all want and need because price signals in a free-market system give firms and individuals the right incentives to innovate and adapt.

POLICY POSITION

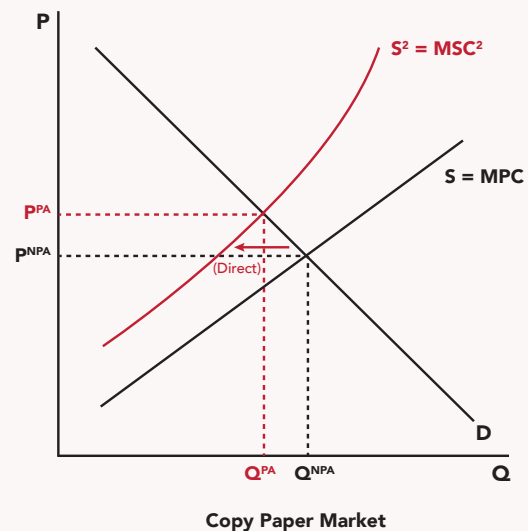
Polluted air, water, and land can be dangerous, but . . .

- ▶ Radical policies lead production to grind to a halt, create a tragedy of the commons on an epic scale, and drain all hope of ever achieving a clean environment.
- ▶ Liberal policies are expensive, inefficient, and stifle innovation, and they don't bring us a clean environment.

SOLUTION

Reject command and control regulation and replace it with expanded private property rights, revenue-neutral carbon taxes, and free-market cap and trade to ensure breathable air, drinkable water, and habitable land:

- The profit motive protects our natural resources.
- We get a clean environment and the products we most desire.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Environment Talking Points: **Conservative**

1. Every business wants to make a profit. When we make pollution abatement profitable, firms develop innovative ways to do it. It's in their self-interest to switch to compostable packaging, manufacture lower-emissions cars, invest in renewable energy, and invent more sophisticated scrubbers and filters. We don't need government to impose rules and regulations. We just ride the horse in the direction it's already going and get to a healthy planet faster and cheaper, with the eager cooperation of the private sector.
2. We live in a complex world with complex wants and needs. Of course, as a society we want to continue to make things, but we also want a clean environment. We can have both when we recognize that carrots are much more effective than sticks to motivate firms to change their behavior. They stop cutting corners and hoping they won't get caught cheating. Instead, they develop the best methods for pollution abatement because the bottom line is rewarded by doing so.
3. Radicals, you are hypocrites. While you're busy trash-talking the drive for profit, you use your cell phone to post memes on your social media that blame capitalism for climate change while you jump in your electric car and drive to a protest against a new copper mine. Yet you conveniently ignore the fact that your cell phone, your car, and the copper wiring and, most important, the fresh air you breathe you is the result of the drive for profit. Capitalism isn't the villain; it's the solution.
4. I suppose radicals are right in saying that their Green New Deal will achieve net-zero carbon emissions, but that's only because no factories will operate when ownership is forced to be cooperative. There is a drab, gray world—not a green one. And when everything becomes "the commons" because they outlaw private ownership, tragedy ensues. With policies of democratic socialism, we forfeit our opportunities to clean up the environment or respond to the threat of global climate change.
5. Liberals, your command and control regulations are to blame for the sad state of our environment today. Because businesses have no buy-in to your ideas, they cut corners or cheat, and you handcuff them to doing it your way, which stifles their innovation. You love to go on about the so-called public-private partnership as if it's a consensual relationship, but it's not. An equal partnership wouldn't need to threaten fines and shutdowns to force compliance.
6. Carbon pricing would be a sensible market-based solution except that liberals turn it into a cash cow to fund even more big government. Yes, we want green energy and help for people affected by pollution, but we won't see any progress on pollution abatement and moving into next-generation clean technologies when liberals plop a mountain of regulations in our path. Liberals take us to the brink of environmental collapse and keep us mired in pollution while we watch the world's thermometer inexorably rise.
7. When we make pollution abatement good for the bottom line, we will have the clean environment we want and need. That's why private ownership works. The profit motive guides owners to maintain the appropriate level of cleanup and prevention. When a private party is willing to pay for even higher levels of pollution abatement, the owner of that resource will do it to make more profit. Freely determined price signals give us ecological resilience both locally and globally—if that is what people want.
8. Global climate change is a real and present threat to all life on the planet. Carbon pricing harnesses the profit motive to reduce greenhouse gas emissions, whether it's a revenue-neutral carbon tax or a free market in pollution permits. Free-market capitalism spurs innovation because it motivates the private sector to come up with new advances in green energy and new technology. Our beautiful planet needs our protection, and we need its bounties to survive. Conservative policy inspires human ingenuity to save the Earth.

The Shared Outcome

All three perspectives share the same goal of having breathable air, drinkable water, and habitable land, and now you know their different ideas for how to achieve it. The issue of the environment will always be of crucial importance to humanity because this is our only home. As one of my student's T-shirts said, "There is no Planet B." We can't know all the challenges local pollution and global climate change will pose in years to come, but it's

clear that we need to find the very best solutions to this imminent threat to our survival. By becoming fluent in the voices of the conservatives, liberals, and radicals, you can understand and articulate each point of view. As a respectful listener, intelligent debater, and passionate advocate, you will be in the best position to help move us forward as a nation. In the process, it's my most fervent hope that you'll land on a whole new way to think about this issue that will spark new solutions. ☒



Three-in-One Activity

The Three-in-One Activity for the Environment offers you a chance to experience how each perspective solves the problem by using their respective policies. We begin with a setup round to establish the scenario in a neutral way. You'll need a group of people (ideally six). If you don't have a group, use your imagination as best you can.



“Tragedy of the Commons”

Imagine there are three copy paper firms on a lake that provides them with usable water for production. The goal is to achieve ecological resilience from each perspective. That means the water in the lake is potable and there is at most one ton of pollutant left in the lake after pollution abatement. Here's the scenario for this activity:

- Each firm is able to produce a crate of paper every day, generating a profit of \$2,000 per day, not including pollution abatement expenses.
- If the firm produces five days a week, it can generate a weekly profit of \$10,000 (this doesn't take into account pollution abatement expenses).
- For every crate of copy paper made, 1 ton of pollution is released into the lake.
- The marginal costs to clean up or prevent each ton of pollution go up as more pollution is abated. As you'll recall, *marginal* means “additional,” so the marginal cost for Ton 1 is \$500, and the marginal cost for Ton 2 is \$1,000, and the total cost for Tons 1 and 2 is \$1,500, as you can see in the table below.

Tons Abated Per Week (out of 5 tons generated)	Marginal Cost for Pollution Abatement	Percentage of Pollution Abatement	Condition of the Lake
0	\$0	0% (5 tons left in lake)	Water unusable
1	\$500	20% (4 tons left in lake)	Water unusable
2	\$1,000	40% (3 tons left in lake)	Usable for production
3	\$2,000	60% (2 tons left in lake)	Usable for recreation
4	\$3,500	80% (1 ton left in lake)	Potable water Ecologically resilient
5	\$6,000	100% (0 tons left in lake)	Pristine—not possible with production

Round I: Neutral

For this round, the lake is open access, meaning no one owns it or controls it, and, importantly, all three copy paper firms *must* maximize their profits. You want to know how many tons your firm should clean up or prevent in this case. Take a few moments to work it out using the numbers in the table on the previous page.

ANSWER THE FOLLOWING QUESTIONS:

- a. What level of pollution abatement will your firm choose?
- b. What is the total profit your firm will make?
- c. In the long term, what will be the condition of the lake?

Round I Answers:

- a. Your firm will choose to do zero pollution abatement.
- b. Your firm will make \$10,000 in profit
- c. The water will become unusable within the first week and will remain that way for the long term.

Explanation:

- a. Any level of pollution abatement will cost your firm money and therefore cut into your profits. And it makes no sense to invest in pollution abatement when the other two firms continue to pollute.
- b. Your firm will keep all the profit from selling five crates of paper at \$2,000 per crate. No pollution abatement expenses need to be factored in because no pollution abatement occurred.
- c. With fifteen tons of pollution pouring into the lake every week from the three firms, the lake's ecosystem will collapse, and the water will become unusable for any purpose. This is called the *tragedy of the commons*.

Round II: Radical Perspective

For this round, assume that all three copy paper firms are worker owned, and the lake is publicly owned and managed by a local stewardship council.

- 1 Each firm produces three crates of paper per week. Although they *could* produce five crates a week, the worker-owners, in consultation with the stewardship council, decide that a high level of paper production is ultimately destructive to the environment. While some paper is necessary for society, producing the maximum amount isn't sustainable. So each firm votes to cut its paper production to three crates a week.
- 2 Each firm pays a \$2,000 stewardship fee per week to the stewardship council to use the lake.
- 3 The council sets pollution standards according to the commons viability analysis and determines that no more than one ton of pollution per firm per week is allowed in order to ensure ecological resilience.
- 4 The stewardship fee is used in part to fund an accountability process whereby the firms' pollution levels are regularly checked by stewardship council scientists. If firms are found to be overpolluting, the council will require different production practices and will monitor the situation closely. If the problem persists, the firm will lose its license to use the lake.

ANSWER THE FOLLOWING QUESTIONS:

- a. How many tons of pollution will your firm abate in the short term?
- b. What is the total profit your firm will make?
- c. In the long term, what will be the condition of the lake?



Round II Answers:

- a. Your firm will abate two tons of pollution.
- b. The total profit your firm will make is \$2,500.
- c. In the long term, the water will be potable (the lake will be ecologically resilient).

Explanation:

- a. Your firm will produce three tons of pollution because it decided, with the other copy paper firms and the stewardship council, to limit production to three crates per week. One ton of pollution is allowed by the stewardship council, so your firm will abate only two tons. It won't overpollute because the local worker-owners don't want their own community to suffer, and the firm doesn't want to lose its license to use the lake.
- b. Producing three crates of copy paper that bring a profit of \$2,000 each results in \$6,000 of profit before pollution abatement costs are factored in. Your costs included \$2,000 for the stewardship fee, and \$1,500 for pollution abatement of the first two tons. So you subtract those costs to get your total profit: $\$6,000 - \$2,000 - \$1,500 = \$2,500$.
- c. In the long term, the lake will be ecologically resilient because your firm is only allowed to emit one ton of pollution in the first place, so the water will always be potable. Two tons were abated and two tons weren't produced as a result of the firms' agreement to limit production to three crates of paper per week. Democratic socialism values ecological resilience, so stewardship councils ensure that the lake thrives today and for generations to come. Although the worker-owners of your firm make less profit than they could, everyone's quality of life remains high because you each have an ownership piece in your firm, and thanks to social safeguards, you are not burdened with high health care costs, student loans, private transportation costs, and so forth. The lake will be ecologically resilient in both the short term and the long term.

Round III: Liberal Perspective

For this round, assume that all three copy paper firms are privately owned and the lake is owned and regulated by the government.

- ❶ Each firm—as a profit maximizer—produces five crates of paper per week and discharges five tons of pollutants into the lake.
- ❷ Firms pay an access tax of \$2,000 per week to the government to use the lake.
- ❸ The government agency in charge of protecting natural resources does a cost-benefit analysis, including direct and indirect benefits, and tells firms that they may not pollute more than two tons per week.
- ❹ If firms pollute above the accepted level, they will be fined \$8,000 per extra ton of pollution. If the problem persists, the agency can shut the firm down.

ANSWER THE FOLLOWING QUESTIONS:

- a. How many tons of pollution will your firm abate in the short term?
- b. What is the total profit your firm will make?
- c. In the long term, what will be the condition of the lake?



Round III Answers:

- a. To comply with the government regulation, your firm will abate three tons of pollution.
- b. Your firm makes \$4,500 in total profit.
- c. In the long term, the water will be potable (the lake will be ecologically resilient).

Explanation:

- a. Because the government includes the direct and indirect benefits of cleanup and prevention in its cost-benefit analysis, it requires three tons of pollution abatement. This means your firm is allowed to pollute two tons. To avoid costly fines and the possibility of shut-downs, your firm won't overpollute.
- b. Your firm produces five crates of copy paper at \$2,000 each, which equals \$10,000. But you pay \$2,000 for the access tax, and \$3,500 for pollution abatement of the first three tons. So the total profit is $\$10,000 - \$2,000 - \$3,500 = \$4,500$.
- c. In the long term, the lake will be ecologically resilient, because an entire arm of the government is dedicated to finding better methods and new technologies for pollution abatement. It hires brilliant scientists and engineers who dedicate their time and talent to coming up with new and less expensive ways to both clean up and prevent pollution. That means marginal costs for pollution abatement go down. Once the marginal costs are lower than the marginal benefits, the cost-benefit analysis adjusts and government sets an even higher level of pollution abatement. In the long run, your firm cleans up the fourth ton, and the lake water is potable (ecologically resilient). With the private-public partnership, government manages our natural resources by setting and enforcing pollution standards, so the lake will be viable for multiple users in the short term and ecologically resilient in the long term.

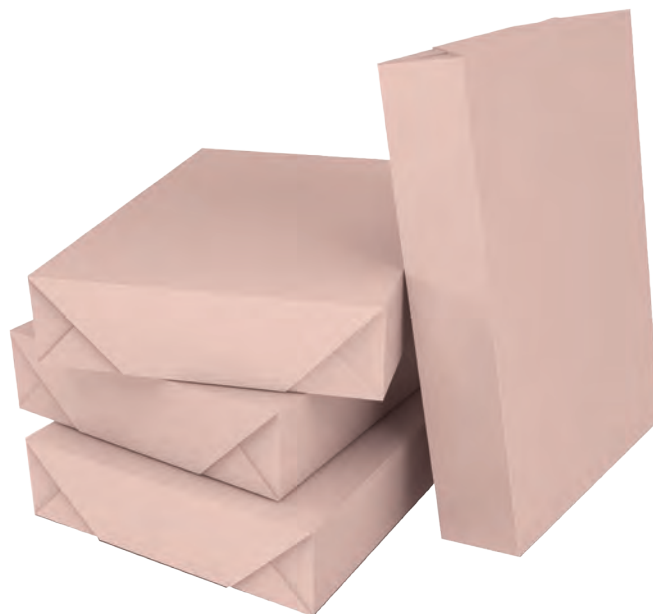
Round IV: Conservative Perspective

For this round, assume that all three copy paper firms are privately owned and the lake is privately owned.

- 1 Each firm—as a profit maximizer—produces five crates of paper per week and discharges five tons of pollutants into the lake.
- 2 Firms pay the owner of the lake an access fee of \$2,000 per week to use the lake.
- 3 The owner hires a private contractor to conduct a cost-benefit analysis that measures direct benefits (the benefits to other firms that use the lake) and determines that users must not pollute more than three tons per week.
- 4 The owner and firms sign a contract stipulating that pollution will not exceed that level, and if it does, then the owner will sue for damage and ask the court to award \$8,000 per extra ton of pollution.

ANSWER THE FOLLOWING QUESTIONS:

- a. How many tons of pollution will your firm abate in the short term?
- b. What is the total profit your firm will make?
- c. In the long term, what will be the condition of the lake?



Round IV Answers:

- a. To fulfill your contractual obligation, your firm will abate two tons of pollution.
- b. Your total profit is \$6,500.
- c. In the long term, the water will be potable (the lake will be ecologically resilient).

Explanation:

- a. Your copy paper firm abides by its contract because it's more profitable to abate pollution than to be sued for damages. That's the price signal that gives your firm the incentive to comply.
- b. Your firm produces five crates at \$2,000 each, which equals \$10,000 before pollution abatement. You pay \$2,000 to the owner for the access fee, and \$1,500 for pollution abatement of the first two tons. So the total profit is $\$10,000 - \$2,000 - \$1,500 = \$6,500$.
- c. In the long term, the lake will be ecologically resilient, because firms develop the least expensive and most efficient ways to abate pollution, which drives the cost of pollution abatement down. This occurs because firms are motivated to be profitable, and they have the freedom to decide how best to get it done. When pollution abatement costs are lower, different types of firms are drawn to using the lake for their businesses. For example, a resort might pay for a higher level of abatement so the lake can be usable for recreation. A bottled water firm might pay for an even higher level of abatement to make the lake water potable—bringing it to the level of ecological resilience. The owner agrees because they make more profit by doing so. In the short term, two tons of pollution are abated, and in the long term, the lake is cleaned to the level of ecological resilience. With private ownership and the profit incentive, the lake is usable in the short term and ecologically resilient in the long term, if that's what society chooses.

Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on the issue of the Environment. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues and have educated and informed opinions.

Chapter 14: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. The point up to which the environment is able to adapt to changing circumstances and support living organisms is called _____.
 - A. an ecosystem
 - B. ecological resilience
 - C. the greenhouse effect
 - D. a nonrenewable resource
2. All three perspectives say the tragedy of the commons is a key environmental problem that needs to be addressed. Which one of the following is an example of it?
 - A. A firm that operates an apple orchard is sued by a private owner of a baseball field after traces of pesticides used in apple production are found in the outfield.
 - B. A firm that makes plastics is fined by the government for failing to use the required grade of filters on its smokestacks.
 - C. A firm that manufactures paint is required to give a report to the stewardship council on the effect their new product will have on wastewater.
 - D. A firm that provides garbage collection service dumps construction waste on an abandoned property that no one owns or controls.
3. What is an example of the conventional theory idea of a negative externality? Choose all that apply.
 - A. A disgruntled basketball fan destroys your mailbox on the way home from a game after their team lost, even though you don't like basketball.
 - B. The price of peaches goes up because of an early freeze, so now it costs more to make your peach cobbler.
 - C. You live next door to a bakery and you open your windows every morning to enjoy the smell of fresh-baked bread.
 - D. Your asthma kicks up whenever your colleague smokes a cigarette near the entrance to the office.

4. Consider the marginal costs and marginal benefits of pollution abatement shown in the table. What is the optimal level from the conventional perspective?

- A. 90 percent
- B. 70 percent
- C. 50 percent
- D. 30 percent

5. Which one of the six core points of democratic socialism reflect all three of the following ideas?

- There is an equal focus on short-term and long-term gains.
 - Economic growth is in service to the well-being of people and the planet.
 - Prosperity is assured for generations to come.
- A. Cooperative Ownership
 - B. Participatory Governance
 - C. Healthy Communities
 - D. Production for Use
 - E. Sustainable Development
 - F. Social Safeguards

6. Please match the environmental events on the left to their corresponding dates on the right.

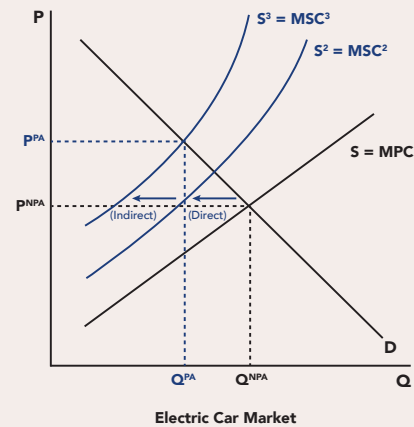
- | | |
|---|-----------|
| A. The EPA was created. | i. 1854 |
| B. Tetraethyl lead compound was discovered. | ii. 2015 |
| C. The Paris Agreement was adopted. | iii. 1970 |
| D. Eli Whitney patented the cotton gin. | iv. 1794 |

7. According to radicals, the optimal level of pollution abatement should be the point of ecological resilience. They say that is how natural resources will be protected now and into the future. What is the name of the method they use to establish that optimal point?

- A. Cost-benefit analysis
- B. Commons viability analysis
- C. Sustainable development analysis
- D. The Green New Deal analysis

Pollution Abatement	Marginal Cost	Marginal Benefit
10%	\$50	\$400
20%	\$70	\$300
30%	\$100	\$250
40%	\$140	\$210
50%	\$190	\$190
60%	\$250	\$175
70%	\$320	\$165
80%	\$400	\$160
90%	\$490	\$157
100%	\$590	\$155

8. Even though electric cars pollute less than gas-powered cars, there are substantial byproducts of production when making them. Carmakers must internalize those costs to ensure that prices and quantities are not distorted. Consider the graph and choose the answer below that explains the double shift of the electric car supply curve from the liberal perspective.



- A. Businesses must internalize the costs imposed on other firms (negative externalities), including those directly and indirectly affected.
 - B. Businesses use new technologies (positive externalities) developed by government to double their productivity.
 - C. Businesses respond to the much higher prices (shown on the y-axis) by changing their willingness to supply and then changing a second time if the first shift isn't adequate.
 - D. Businesses ignore negative externalities (shown as the vertical distance between the two supply curves) until they are forced to reduce their supply now and in the future.
9. From a conservative perspective, which one of the following statements about tradable pollution permits (aka free-market cap and trade) is *not* true?
- A. Pollution permits are an excellent tool for reducing pollution, especially in conjunction with an extension of private ownership of natural resources.
 - B. Pollution permits lower costs of cleanup and result in higher levels of pollution abatement than can be achieved through command and control regulations.
 - C. Pollution permits are immoral because they make polluting at any level acceptable as long as firms pay a certain price.
 - D. Pollution permits create incentives for pollution abatement and motivate firms to innovate and find cheaper and more efficient ways to clean up the environment.
10. Which perspective concedes that their solution won't necessarily bring about a clean environment, but will certainly generate the most products?
- A. Radical
 - B. Liberal
 - C. Conservative
 - D. None of the perspectives
 - E. All of the perspectives

Answers

1. B 2. D 3. A & D 4. C 5. E 6. A – iii; B – i; C – ii; D – iv 7. B 8. A 9. C 10. D

Chapter 14: Key Terms

Built environment

Byproducts of production

Carbon emissions

Carbon pricing, conservative

- Free-market cap and trade
- Revenue-neutral carbon tax

Carbon pricing, liberal

- Cap and trade
- Carbon tax

Climate change

Climate justice

Command and control regulation

Commons

Commons viability analyses

Cost-benefit analysis

Downstream effects

Ecological resilience

Ecology

Ecosystems

Effluent

Environmental racism

Government agencies for the environment

- Agency for Toxic Substances and Disease Registry (ATSDR)
- Department of Agriculture (USDA)
- Department of the Interior (DOI)
- Environmental Protection Agency (EPA)
- Geological Survey (USGS)
- National Oceanic and Atmospheric Administration (NOAA)

Green capitalism

Green marketing

Green New Deal

Greenwashing

Gyres

Hazardous waste

Human footprint

International

climate agreements

- Copenhagen Accord and Cancun Agreement
- Kyoto Protocol
- Paris Agreement

- Rio Earth Summit

Marginal cost curve

Marginal private cost (MPC)

Marginal social cost (MSC)

Market failure

Natural environment

Natural resources

Negative externalities

Net-zero greenhouse gas emissions

Nonrenewable resources

Open access

Pollution

Pollution abatement

Reduce, reuse, and recycle

Renewable resources

Solid waste

Stewardship councils

Sustainable development

Third parties

Tragedy of the commons

Unsustainable growth

Answer Key to Exercise 14.1

RESOURCE	COMMONS (Y/N)	EXPLAIN
Example: Air	Y	No one owns or manages the air
Yankee Stadium in New York	N	Privately owned (a corporation)
The Atlantic Ocean	Y	No one owns or manages the ocean
Acorn Community Farm in Virginia	N	Cooperatively owned (a commune)
Rooster Cay Island, Bahamas	N	Privately owned (an individual)
The ozone layer of the atmosphere	Y	No one owns or manages the atmosphere

*The VOTE Textbook continues in Volume II,
beginning at Chapter 15.*



AMBULANCE

15 Issue: HEALTH CARE

The first time I traveled abroad was on a student exchange program. Landing in a foreign country, I was immediately disoriented by the unfamiliar sounds, unrecognizable foods, and different customs. I fumbled around for the first few days, trying to learn the polite way to enter a home, line up for the bus, and greet people. After a week or so, I stopped noticing how strange and different everything was and instead was struck by all the similarities to home. Even though I was halfway around the world, people still shopped for clothes, played sports, listened to music, and cooked meals. I'd never before considered how much we humans have in common. We're more similar than we are different. We may each have our own unique fingerprints, but we all *have* fingerprints. Before tourism, before television, and before nations were ever formed, people in every pocket of the planet developed their own music, dances, rituals, fashions, cuisines, sports, art, and more. That led me to become curious about cultural anthro-

pology, which is the study of how cultures and societies develop. One of the most well-known cultural anthropologists of the twentieth century was Margaret Mead. It's possible you've seen her famous quotation on a bumper sticker: "Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has." (It reminds me of a wonderful African proverb: "If you think you're too small to make a difference, you haven't spent the night with a mosquito.") I've always loved that Mead quotation, and it echoes the spirit of the VOTE Program, which is that the world needs your thoughtful intelligence to spark solutions to solve our most entrenched economic problems.

But I'm bringing up Margaret Mead here for another reason. It has to do with the issue we're going to be discussing in this chapter.

There's a story about Mead that's recounted in the memoir of a doctor named Paul Brand. He recalls that she stood at the front of a lecture hall and posed this question



to an audience of medical students: “What is the earliest sign of civilization?” Is it pottery shards? Arrowheads? Grinding stones? Mead said that while those would be good guesses, they weren’t the correct answer. Then she held up an ancient femur bone. “This,” she told the students, “is the earliest sign of civilization.”

The femur is your thigh bone. It’s the longest bone in the body, running between hip and knee. Mead explained that the femur she was holding had been fractured and healed. Imagine you’re living fifteen thousand years ago in a hunter-gatherer society and you’ve broken that bone. You can’t walk, run, or hunt with your clan. You can’t even bend down to pick a berry or start a fire. The worse news is that it takes at least six weeks for the femur to heal, and during that time you’ll have to keep still. There is no way you can gather food or get water. You won’t be able to run from predators, nor will you be able to travel with your people when it’s time to migrate. Also, you can’t set the bone yourself so that it heals properly, nor can you make your own clay cast to keep it immobilized. In other words, there is no chance you will survive—not unless someone else takes care of you while you convalesce. Mead explained that the mended femur bone was remarkable because it meant that someone had chosen to make personal sacrifices to care for the owner of that broken bone until the injured person was able to get back on their feet. And while anthropologists had abundant evidence of vio-

lence in early human societies—skulls crushed by clubs and shot through with arrows—the healed femur was evidence that we had reached a higher level of social and cultural development. We were able to be compassionate. And that, she said, is what makes it the earliest sign of civilization.

Our capacity and willingness to care for one another is one of our most admirable qualities as human beings. Any time I go to the doctor’s office or have a lab test or a scan done, I feel deeply grateful to all the technicians, nurses, and physicians who worked hard in school and skipped the parties to study so they could become skilled at taking care of me. You know firsthand how important it is to have health care if you’ve ever injured your back moving furniture, sprained your ankle on a hike, suffered from chronic pain, had an illness that kept you in bed for months, or worried about a lump or a rash. You can appreciate the caring capacity of others if you have a disability,

you’re pregnant, you’ve suffered from depression, or a member of your family or a close friend has dementia. The list is endless. Gratitude for health-care workers was widespread during the COVID-19 pandemic, which began in 2019 and quickly spread to all corners of the world. It was a horrific tragedy. Millions became sick and died from the virus. But millions more were saved because of the compassion and courage of nurses, doctors, and hospital staff. These health-care heroes risked



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their own lives to treat the sick, and many of them ended up dying from the highly contagious virus. While they were on the front lines providing care, scientists, public health experts, researchers, communications experts, equipment manufacturers, and pharmaceutical firms around the globe raced to find the best treatments and a vaccine. Then brave people came forward to be the first to test different versions of the vaccine, risking their own well-being to do so. Others risked their health to keep the food system going—harvesting crops, working in factories, stocking shelves, staffing grocery stores—so people they never met could be nourished. Entrepreneurs launched shopping and delivery services for those who couldn't risk infection by going into a store. Acts of caring helped many make it through that dangerous and emotionally challenging time. All around the world, people found ways to care for one another, whether it was helping an elderly neighbor or sewing masks for workers. That is the definition of civilization.

I was teaching a VOTE class when the pandemic started. To slow the spread of the virus,

classes moved online. I immediately noticed that students had a harder time focusing. I understood why. They were worried and scared about getting the virus, and so was I. But when we got to this issue on health care, everyone sat up and took notice. The debate about how to fix the health-care system was no abstraction; it was a matter of life and death. In the first months of the crisis, a tragic shortage of ventilators meant doctors had to decide who would live and who would die. There were heartbreaking stories about people dying alone at home because there was no room for them at the hospital. We saw photographs of rows upon rows of body bags lined up—victims of the virus waiting to be buried.

Clearly, we rely on one another for our survival and well-being, whether we are talking about a pandemic, the tea someone made us when we were down with a cold, the bandage a school nurse wrapped around our cut finger, the ambulance racing to the scene of a traffic accident, or EMTs performing life-saving CPR. Every single one of us is guaranteed to need some level of health care from our births until our deaths. This



Photo by Laura James from Pexels

chapter looks at the issue of how the **health-care system**—the organized way in which society provides medical care to people—should be funded to ensure that people can get the care they need. This has long been a highly controversial question for conservatives, liberals, and radicals. While they have very different ideas about how to approach this life-or-death issue, they all agree that lack of access to high-quality health care is a problem, and they share the same goal of health and well-being for all. As the Greek poet Virgil wrote, “The greatest wealth is health.”

Your Physical Well-Being

There’s nothing more personal than your body. It literally is your personhood. Even if you were in a coma, you would still be considered a person as long as your heart continued to beat. The primary relationship we have throughout life is to our own body and mind. That’s why health care tends to be the most intimately relevant of all the VOTE Program issues. Your health is a dynamic experience,

meaning it shifts and changes throughout your lifetime—from teething as a baby, to going through the changes of puberty, to experiencing middle-age bone loss, to developing cataracts in old age. Whether we like it or not, aging affects the body because we’re made up of moving parts that wear down and wear out over time. Some people say that the healthy are just temporarily able bodied. Even if we manage to live a hundred years, one day our bodies will no longer be viable, and we’ll die. Reflecting on the fear of death, Shakespeare wrote in *Julius Caesar*, “It seems to me most strange that men should fear; seeing that death, a necessary end, will come when it will come.” True, we know it’s going to happen someday, but it’s the rare person who can contemplate their own mortality and not be afraid.

More than 2,200 years ago, the first emperor of China, Qin Shi Huang, wanted to be the first human to cheat death. He ordered his scholars to find the elixir of everlasting life, which led to a lot of scams. The emperor was so upset that he bur-



ied alive hundreds of scholars who failed to make him immortal. Alchemists, mystics, and sages from many cultures and ages have tried to find a way to overcome death. Even today, research in the field of genetics is making breakthroughs in extending human life and offers the tantalizing possibility that one day it may be extended indefinitely. But until that happens, we have to find the best ways to keep our bodies healthy for as long as possible.

The bodies we ride around in day and night are the products not only of nature—our genetic inheritance—but also of nurture. For example, the health you enjoy today (or suffer with today) was shaped by the quality of prenatal care your birth mother received. Growing up, your physical and mental health were influenced by the nutrition, medicine, vaccinations, safety, and shelter you were given. Your health was, and still is, affected by your life circumstances. You might have had an illness that was present from birth, been in a car accident, or been exposed to toxins, viruses, violence, and other traumas. Your access or lack of access to doctors, diagnostic equipment, and the medicine you needed affect how you feel right now. Where you live can determine the pollution you're exposed to, which can affect your physical and mental health. And the role models you had helped shape your personal choices, from your diet and exercise habits to whether you floss your teeth, drink enough water, and get a good night's sleep. Your health is also affected by the physical risks you take, either by choice or by necessity—if you work in a dangerous job; if you skateboard, bike, or ride a motorcycle without a helmet; if you bungee jump into crocodile pits, engage in unsafe sex, use drugs and alcohol, and so forth.

Whether from nature or nurture, the fact of the matter is that everyone has health issues and eventually dies of something. Curious about my own family history, I once drew my family tree and included any information I could dig up on

the health histories of my family members. All I knew about my great-grandparents' health was how they had died: vascular disease, Parkinson's disease, and tuberculosis. My grandmothers died from Parkinson's disease and ovarian cancer, and I'm guessing they had other health issues, but in my family, that generation didn't talk openly about their health problems. Both my grandfathers died suddenly of heart attacks. I had an uncle who was killed in a car accident and another who died from a brain aneurysm. One aunt died of lung cancer, and another from pancreatic cancer. My cousin had no health problems at all. He cut his finger, got stitches, and died from an infection he picked up in the hospital. My mother was healthy throughout her life and then died at age forty-four, three months after being diagnosed with an inoperable brain tumor. My father suffered from alcoholism and had three open-heart surgeries. He died of blood cancer at age sixty-four. My brother had colon cancer. He died of a heart attack at age fifty-seven. My sister had back surgeries and had her thyroid removed because of hyperthyroidism. Looking at my family tree, I was struck by how few of my family members lived into their eighties. I wondered what more they might have accomplished and how different my life would have been if medical advances had been able to give them more time.

The point of telling you about my family's health history is that mine is like yours. Every family deals with illnesses, diseases, and injuries. Documenting the health histories of your loved ones can be a useful exercise for thinking about your personal relationship to health care. If it's not too emotional for you to think about this, please take a piece of paper or find a blank family tree online and fill it in. Make sure to include yourself on the tree. Please note that this exercise is about the health of the people you love. It isn't about gathering your genetic history to share with your medical provider, so include everyone

you consider to be your family—your biological relatives, adopted family, foster family, chosen family, or any combination of those. (I’ve even had students include their beloved pets in this exercise.) We won’t be coming back to this, but I highly recommend you do it, because as you read about how liberals, radicals, and conservatives propose to make health care accessible, you’ll be able to relate

it to your own experiences and the experiences of those you care about. It may give you insights into your thoughts about the best way for our nation to approach this issue.

A Brief History of Health Care

Since people everywhere on Earth have bodies, it makes sense that every culture developed its own form of health care. Traditional healing practices developed ways to prevent and treat physical and mental illnesses and injuries using herbs, rituals, nutrition, and other techniques. In Africa, the Americas, Asia, Australia, and elsewhere, shamans and practitioners served the community as healers. In modern times, these roles are still valued and respected in Indigenous communities. For example, Native American healers use herbs, tobacco, ritual, story, dance, and other modalities to heal body, mind, and spirit. Traditional Chinese medical practitioners use acupuncture, herbs, nutrition, and physical exercises to balance the body’s energies to alleviate symptoms, treat addictions, and cure diseases. Ayurvedic doctors use a system that has been around for thousands of years in India, combining nutrition, herbs, massage, movement, and meditation. Sangomas in

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South Africa use shamanic practices and dream interpretation to treat mental and physical illnesses.

The health care that is primarily available in the United States is Western medicine. Hippocrates, a Greek physician who lived around 2,400 years ago, is considered the father of Western medicine. He wrote dozens of books documenting his scientific method of systematic observation, experimentation, and measurement to make

diagnoses and treat illnesses. You might recognize his name from the Hippocratic Oath, which is the pledge new doctors traditionally recite to affirm their commitment to the ethics of their profession. During ancient times, the Hippocratic Oath involved swearing to various gods and goddesses of healing that the physician would uphold the ethics of the profession. The modern version is often paraphrased as “First, do no harm,” but the actual words are a promise to “respect the hard-won scientific gains of those physicians in whose steps I walk, and gladly share such knowledge as is mine with those who are to follow.”

The whole endeavor of medicine is meant to help people. Hippocrates himself famously said, “Wherever the art of medicine is loved, there is also a love of humanity.” That quotation can be viewed as somewhat ironic if you know the history of Europe during the Middle Ages. Before Western medicine became widespread, women were the ones who generally served as the midwives, herbalists, and healers in their communities. During the Middle Ages, for around two hundred years, women’s healing abilities were attributed to witchcraft, and tens of thousands were burned at the stake. This was probably not what Hippocrates had in

mind when he talked about “a love of humanity.” Because it was dangerous for women to practice traditional medicine, and because the tradition of passing on their knowledge of healing to their apprentices eroded, Western medicine became a profession dominated by men.

The health care we know today—modern health care—evolved over millennia. The techniques and medicines people in the past used to treat illnesses might shock you. For example, blood-sucking leeches were used for thousands of years to treat all kinds of ailments because it was believed that bloodletting removed an excess of certain substances that made people sick. From prehistoric times onward, a technique called trephining, or trepanning, was used to treat mental and physical illnesses and injuries related to the head. A hole was drilled into the skull to release the bad spirits that were making the patient sick. If you’re shaking your head at the strange ideas humans had back then about medicine, keep in mind that people in the future will likely think the same about us. They may come to view modern-day narcotics to treat pain, chemotherapy to fight cancer, and open-heart surgery to replace valves as crude and even cruel. And interestingly, medical innovations aren’t always a one-way trip from the old to the new. In 2004, leeches made a comeback when the Food and Drug Administration (FDA) approved them as a medical device for treating certain postoperative patients. Today, drilling a hole in the skull is the method neurosurgeons use to begin most surgeries on the brain.

During the Industrial Revolution (in the mid-nineteenth century), Western medicine made a leap with the discovery of the role of bacteria and viruses in spreading diseases. From that point forward, medications and surgeries to prevent, treat, or suppress symptoms of physical and mental illness became the central approach to health care in the West. Today, people in the United States mostly practice Western medicine,

but a significant portion use a combination of traditional healing practices and Western medicine. This movement is called integrative medicine. For example, a friend of mine used acupuncture to alleviate the side effects of chemotherapy, and another uses insulin and Ayurvedic medicine to manage his diabetes.

The Health-Care System

Health care today is extremely complicated. Let’s say you go for a walk and twist your ankle. You might just ice it and wrap it in a bandage. If it aches, you can take an over-the-counter pain medication. If you’re concerned about swelling, maybe you’ll drop by an urgent care center if you have insurance or the Emergency Department of your local hospital if you don’t, so that a doctor, physician’s assistant, or nurse practitioner can give you a diagnosis. First, you’ll have to talk to a receptionist, fill out paperwork, and sit in a waiting room. Then you’ll be taken to a consultation room outfitted with equipment, and a technician will take your vital signs and log into the computer to update your electronic medical record. When the provider finally arrives to examine your ankle, they might order an X-ray, give you a prescription for pain medication, or send you home with crutches and instructions to rest and keep your foot elevated. Or, hearing that you twisted it after having a dizzy spell, they might check your eyes, test your reflexes, order blood work and an MRI, and even keep you overnight for observation. The point of this example is to say that the health-care system is complicated. Whether you’re dealing with a twisted ankle or a chronic illness, your health care involves a dizzying number of moving parts, as you can see in figure 15.1.

If you’ve ever been in a medical crisis—your own or someone else’s—you already know how difficult it can be to navigate the maze. When my brother was diagnosed with stage IV colon cancer, I was the one who coordinated his care. That

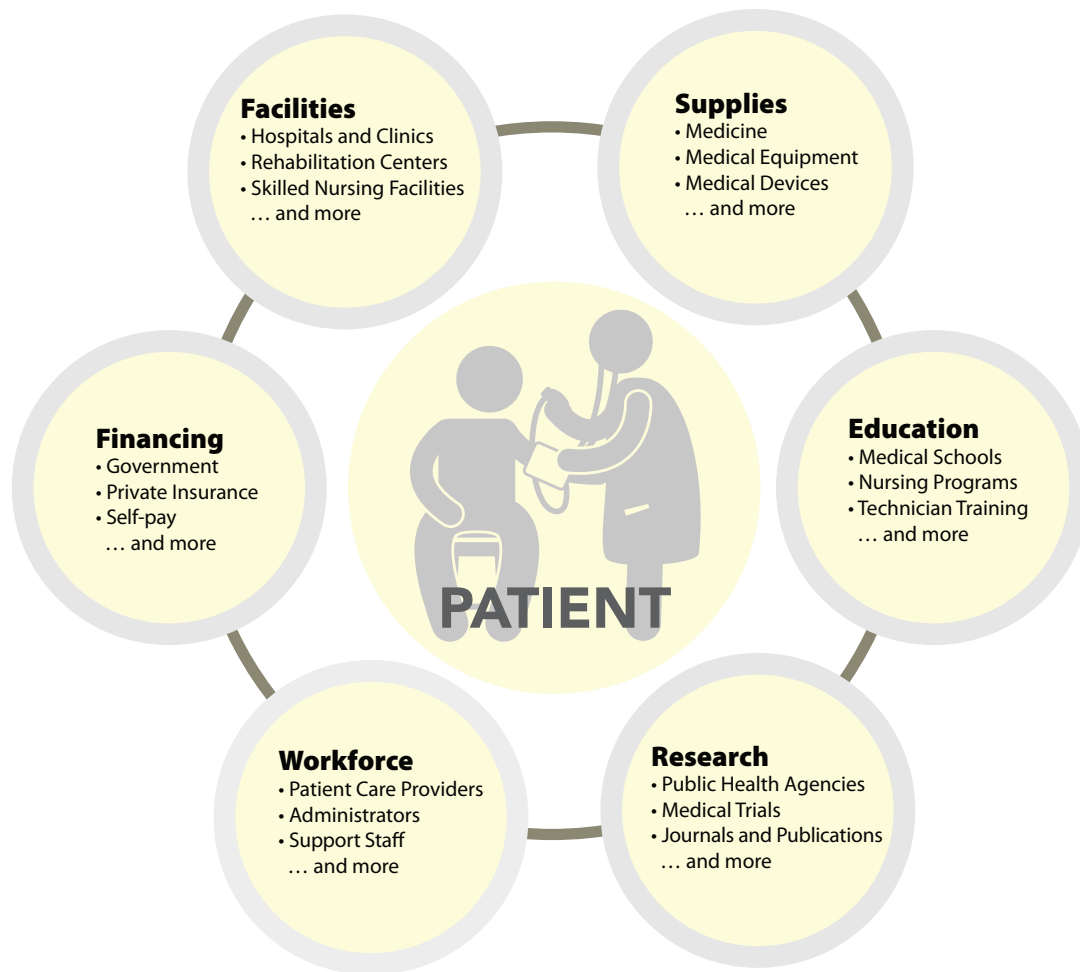


Figure 15.1
The Interconnected Parts of the U.S. Health-Care System

meant being stuck on hold with the insurance company as I attempted to find out what treatments and medical equipment they would and wouldn't cover. Then I was stuck on hold with a variety of government agencies as I tried to determine if he qualified for state benefits. Then it was more time on hold with doctors' offices trying to schedule appointments with specialists to discuss his treatment options. I waited on hold again with billing departments to find out if the providers accepted my brother's insurance. I called a hospital research department every day for weeks to hear if he was eligible to get on a new drug trial, and I spent hours researching skilled nursing facilities that would care for him when he went through the

ordeal of chemotherapy. Once I located a facility, I had to start the whole round of phone calls and waiting on hold again to see how much that would cost, if his insurance would cover it, and whether he qualified for a government assistance plan to help pay for it. Even with my PhD in economics, I could barely make my way through the labyrinth of the health-care system.

Amid all the questions and frustrations I encountered trying to help my brother get what he needed during his health crisis, I also felt powerless because neither he nor I had medical backgrounds, so we couldn't assess the advice and options given by his doctors. Not only did we have to trust that they knew what they were doing,

but we had to trust that they had his best interests in mind. Most consumers of health care face this dilemma. Every time the doctor prescribes a new medication, for example, we are faced with what economists call a **credence good**, which is a good or service whose usefulness can't be assessed by the user. You can't tell on your own if the medication will treat your condition. You can't assess whether the physician's diagnosis is correct. Even if you get a second opinion, you face the same problem with the new doctor's diagnosis. In the end, we have to trust that health-care providers (as well as lawyers, accountants, auto mechanics, and others who provide credence goods) are acting in our best interest and not trying to sell us on something for their own personal gain. This is called the **principal-agent problem**. It acknowledges that there could be a conflict of interest when an expert (the agent) is supposed to be acting in your (the principal's) best interest. Credence goods and the principal-agent problem add more twists and turns to the maze of health care.

Funding Health Care

It's easy to become confused about what's being debated when it comes to health care because there are two interconnected markets. The first is the market for health-care goods and services. Goods are things you can touch, such as wheelchairs, medications, ambulances, aspirin, bandages, and stethoscopes. Services are intangibles (you can't touch them), such as a blood draw, the ambulance ride, the X-ray of your twisted ankle, and a counseling session with your therapist. In the market for health-care goods and services,

there are demanders and suppliers, just as in any market. The demander is called the patient, and the supplier is called the provider. There are public providers of health-care services, including the Veterans Administration, state and county hospitals and clinics, and the Indian Health Service. Private providers of health-care services include



hospitals, Emergency Departments (they used to be known as emergency rooms, so people often say ER), urgent care facilities, doctors' offices, outpatient clinics, surgery centers, and more.

If you need medical care, the costs for a hospital stay, surgery, emergency care, medical equipment, medications, physical therapy, lab work, and scans can mount up quickly. Because medical bills can run into the thousands, hundreds of thousands,

and even millions of dollars, it's not feasible for most people to **self-pay** for health care (pay out of pocket, as we do when we buy a phone). To fund health care, there is a second market called the **health insurance** market. Health insurance may be provided by a private health insurance firm, by a government program for those who qualify, by a government-run universal health-care system, or by some combination of these options. Let's look at the different options in alphabetical order.

Private health insurance Anyone, no matter their employment status, may buy health insurance policies directly from private insurance firms. Different insurance plans offer different levels of coverage at different prices, so the idea is that individuals can choose the level they want and can

afford. The person then pays a monthly fee called a **premium**. People who are full-time workers (and some part-time workers) may receive private insurance as a benefit of employment. In that case, their employers negotiate with private insurance firms to provide health insurance to their workers at a reduced rate. Employers may pay a portion of the premium, or workers may pay the entire amount.

Public health insurance. The federal government offers health insurance programs to those who qualify, including people in poverty, veterans, federal employees, people with disabilities, and the elderly. The **public option** is an idea to allow anyone to pay for public insurance rather than limiting those programs only to people who qualify.

Single-payer health care. The government guarantees health care to all citizens. Rather than using public or private health insurance, the entire health-care system is funded through tax dollars. Everyone pays into the system—it's mandatory—and everyone has guaranteed access to the same health-care benefits. This is also known as *universal health care*, *socialized medicine*, and *Medicare for All*.

Since there are two markets in health care, there are two ongoing debates. The first is about the best way to provide health care, and the second is about the best way to fund it. Interestingly, our peer nations (countries with similarly developed economies) have all decided that health care should be guaranteed to all citizens by the government but they still fight about how it should be provided, and they've come up with different models for funding it. In the United States, we

Since there are two markets in health care, there are two ongoing debates. The first is about the best way to provide health care, and the second is about the best way to fund it.

disagree not only about whether health care should be guaranteed to all by the government but also about how to fund it. Once we resolve the question of funding and guarantees, no doubt there will be plenty of arguments about how to provide it.

The Sky-High Costs of Health Care

Health insurance, like car insurance, travel insurance, homeowners insurance, or any other type of insurance, is intended to give you peace of mind. If something goes wrong, you're covered. The majority of people in the United States shell out a good portion of their incomes every year to have this assurance. Health insurance is one of the biggest line items in the household budgets of low-income and middle-class families. But even when they have health insurance coverage, people still worry. A 2018 Gallup poll found that an expensive medical emergency was the number-one financial fear of Americans. Number three on the list was being unable to pay for normal health-care services, such as an annual checkup, a visit to the optometrist, or a recommended screening for cancer. Ironically, another survey found that the stress of worrying about financial ruin from medical bills was hurting people's health! Then there was the annual Chapman University Survey of American Fears—all fears, not just financial ones. In 2018, two of the top ten included high medical bills and a loved one becoming seriously ill. (In case you're wondering, the number-one fear was corrupt government officials. Fear of zombies came in at eighty-seven, and fear of clowns came in at ninety-one.)

The reason Americans are so worried about the possibility of high medical bills is because health care is shockingly expensive. Of course, the worst-case scenario is that you need health care and don't have insurance. But even with insurance, you could still end up owing hundreds of thousands of dollars for a single hospital stay if it included treatments and doctors not covered by your insurance. This is not a rare occurrence. A quarter of people in the United States carry medical debt, according to a 2014 survey by the Kaiser Family Foundation. Staggeringly high medical bills drive thousands of families into bankruptcy every year. In fact, two-thirds of people who filed for bankruptcy in the United States in 2018 said their personal finances were sunk by medical expenses. And the amount of medical debt has been growing at a very high rate, according to the *Journal of the American Medical Association (JAMA)*, which reported \$140 billion in unpaid medical debt at collection agencies in 2021. Just to compare, in 2016, that number was \$81 billion. Also, keep in mind that this \$140 billion doesn't include the tens of billions in

medical debt being paid back in installments or on credit cards. Given these numbers, you can understand that Americans don't just dread getting sick or injured because it involves physical and mental pain and suffering. They dread being financially wiped out.

Lack of access to high-quality health care is a death sentence for people who are seriously ill or who have a treatable illness but are unable to pay for treatment. Without insurance, a person is unlikely to go to the doctor for preventive care or treatment, and this tragically leads to higher mortality rates. Figure 15.2 shows that in 2018, there were 27.9 million uninsured nonelderly people in this country. But what percentage of the population did that represent? The orange line shows the rate of uninsured—10.4 percent. (If you're wondering why this graph excludes the elderly, it's because the government offers health insurance programs to those over the age of sixty-five.)

While I was helping my brother through his medical crisis, I was aware that our health-care

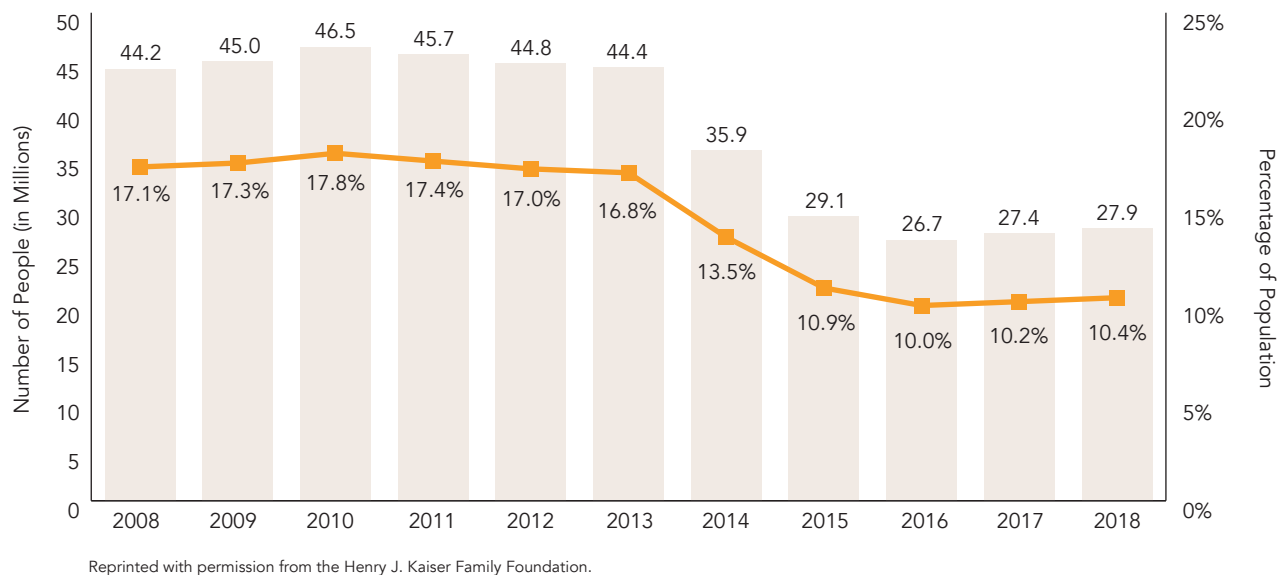
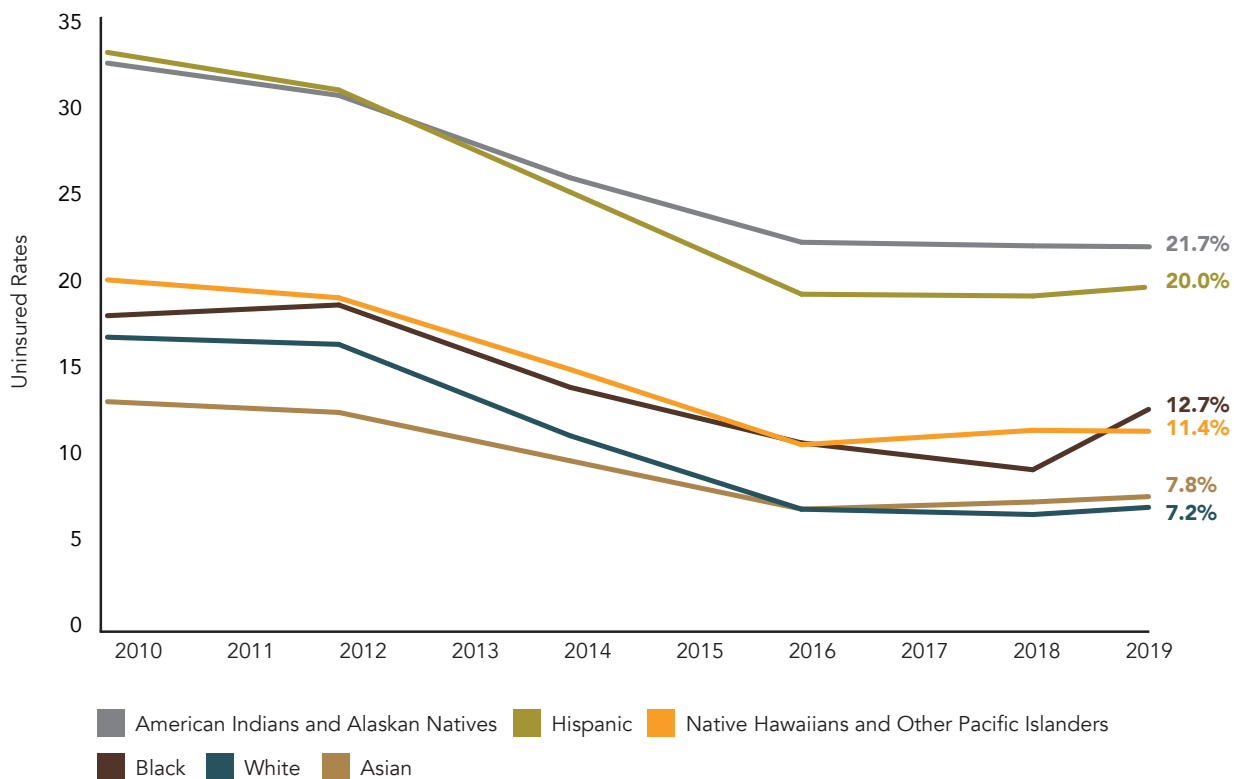


Figure 15.2
Number of Uninsured and Uninsured Rate Among the Nonelderly Population

system has significant problems, but we're not all affected in the same ways or to the same degree. Millions of uninsured people in the United States are low income. They face multiple jeopardies that lead to lower life expectancies. Without insurance, they don't have access to preventive care or treatment. In addition, poverty is associated with higher health risks from environmental factors, including lead poisoning from peeling

paint in old buildings, asthma from air pollution caused by industry and traffic, and obesity and diabetes from poor nutrition. Lack of access to prenatal care in low-income African American communities has been linked to higher infant mortality rates. The stress caused by poverty leads to higher rates of hypertension and heart disease. Figure 15.3 shows the disparities in health insurance coverage by race and ethnicity.



Source: KFF analysis of the 2010–2019 American Community Survey.

Figure 15.3
Uninsured Rates for the Nonelderly Population by Race and Ethnicity, 2010–2019



Thinking about health care so far, from the healed femur bone, traditional medicine, and Hippocrates to today's health-care system and the different ways we fund it, you can see that this issue is vital to you and everyone you know. Our personal health and the physical and mental well-being of our loved ones, neighbors, coworkers, and communities are at stake. When people suffer from illnesses and diseases, they can't make their best contributions to society, which puts the economic well-being of our whole society in

jeopardy. The issue of health care is so important that some politicians have put their whole careers and all their political capital on the line to try to create a health-care funding system that works. All three perspectives agree that lack of access to high-quality health care is unacceptable. And they all share the same goal of health and well-being for all. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for Health Care

The United States is a world leader in medical advancements. While proud of the treatments and techniques we've developed, all three perspectives agree that our health-care system has a fundamental problem: the high price tag that keeps health care out of reach for an unacceptable number of Americans. Before we look at the respective tools of conservatives, liberals, and radicals, let's explore a method they all use to analyze how we ended up with high prices for health care in our current system.

Shared Tools

When economists from every perspective come up with theories, they want to test whether they are correct. Several interesting subfields of economics do this. One is economic history. Economic historians analyze events that occurred in the past to see whether markets actually behaved in the ways a theory predicted—for example, how the labor market changed during the Great Depression, the impact of tax cuts on the automobile market during the Reagan era, and changes in

the real estate market after the financial crisis of 2008. Another subfield, **experimental economics**, analyzes the economic behavior of people. Experimental economists observe them in various real-world situations as well as creating controlled experiments in the lab and classroom. The experiments are designed to test causes and effects on behavior by changing factors in the experimental scenarios—for example, adding a price control, increasing income, or reducing competition. Like any scientific experiment, these are designed to



be replicated, so another researcher can use the same protocols and procedures and see if the results are the same.

Let's run our own economics experiment to test the behavior of people as they buy and sell wellness checkups in capitalism. We're going to model our setup on a famous economic experiment called Trading in a Pit Market, designed by conventional economist Charles Holt. At the end of the experiment, we'll look at the results from each perspective.

Trading in a Pit Market

Imagine a big room with twenty-one people. Ten are buyers, ten are sellers, and one is the referee. The room represents the market for wellness checkups in capitalism, where land, labor, and capital are privately owned. The experiment is run several times to accumulate enough data to draw conclusions. At the beginning of each round, buyers are handed a yellow index card that shows an amount of money—a different amount for each buyer. The job of buyers is to buy a wellness checkup for as little money as possible. They can't spend more than the amount on their card. Each seller is handed an orange index card that shows an amount of money—a different amount for each seller. The job of sellers is to sell a wellness checkup for as much money as possible. They can't sell it for less than the amount on their card. You can see everyone's maximum and minimum amounts in table 15.1. For each round, buyers and sellers stay in their same roles as buyers and sellers, but their index cards are collected, reshuffled, and redistributed by the referee, so a player's dollar amount will likely change.

Buyer	Willingness to Demand (maximum amount)	Seller	Willingness to Supply (minimum amount)
Josue	\$25	Jay	\$15
Sandra	\$40	Nina	\$30
Joseph	\$50	Francisco	\$45
Malik	\$75	Kai	\$65
Katie	\$95	Penny	\$100
Elizabeth	\$115	Keisha	\$125
Laila	\$130	RaShawn	\$130
Ashley	\$150	Paula	\$145
Craig	\$180	Kanchu	\$175
Ram	\$190	Henry	\$195

Table 15.1

Wellness Checkups: Buyer and Seller Amounts

The Rules

Before trading begins, the referee reads aloud the rules of the experiment:

1. Before, during, and after a negotiation, buyers and sellers must not disclose the amount on their index cards.
2. Negotiations take place in the center of the room, so others may overhear the prices that are being offered and counteroffered.
3. When a buyer and a seller successfully negotiate the trade of money for a wellness checkup, they report the agreed-on sale price to the referee, who checks their index cards to make sure no buyer spent more than their maximum and no seller accepted less than their minimum. The referee records the transaction amount on a master list and then announces the trade amount in a loud voice so that everyone in the room can hear.
4. Players who make successful trades are finished with the round and must move to the side of the room.

5. Each round lasts five minutes. All trading must cease when the referee rings the bell.
6. Participants may not talk to one another between rounds. This prevents them from disclosing the amount on their cards, revealing information about how they felt about trades that succeeded or failed, or sharing information about other players' strengths and weaknesses as negotiators.

Trading, Round 1

The first time through is a bit awkward, as buyers and sellers mill around in the middle of the room and try to figure out what they're supposed to do. (Picture an eighth-grade dance.) Eventually, they pair off and start to negotiate. Remember, they have no idea what number is on the others' cards. Buyer Elizabeth (\$115) and seller Kai (\$65) go back and forth with offer and counteroffer, and they come to an agreement of \$75 for a wellness checkup. Across the room, buyer Ram (\$190) fails to come to an agreement with seller Henry (\$195), so he moves on to seller Keisha (\$125), whose negotiation with buyer Katie (\$95) just fell through. Ram and Keisha have a relatively quick negotiation and end up agreeing to a price of \$185 for a wellness checkup. Meanwhile, in a tense standoff, buyer Josue (\$25) and seller Penny (\$100) can't agree on a price that works for both of them, so when the bell rings to end Round 1, they report to the referee that their potential trade failed. The referee collects everyone's cards and announces the number of successful trades (Q) and their prices (P). You can see in figure 15.4 that there is no regular pattern to the prices in Round 1—they are all over the map. When data are irregular or seemingly ran-

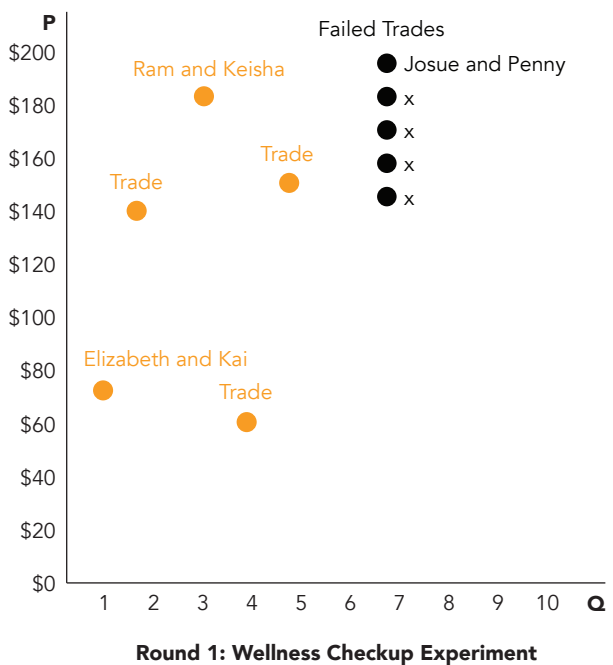


Figure 15.4
Round 1: Wellness Checkup Market
Experiment Outcomes

dom, economists call that *noisy* data. Altogether, there were five failed trades and five successful trades. That means half the participants were able to buy wellness checkups, and half were not.

Trading, Rounds 2 and 3

The index cards are shuffled and then randomly redistributed within the buyer and seller groups. Using the same rules and procedures, the experiment runs again. Since the prices of successful trades in Round 1 were publicly reported by the referee, buyers and sellers go into this second round of negotiations with this information. Therefore, the prices of successful trades reflect this new knowledge. In Round 2, prices fall between \$75 and \$120, and by the time Round 3 is completed, the successful trades converge around \$100. In each of those subsequent rounds, there



Figure 15.5
Parts 2 and 3: Wellness Checkup Market Experiment Outcomes

were still five successful and five failed trades, as you can see in in figure 15.5.

Trading, Round 4

For the last round, a new element is introduced to the experiment. After the index cards are reshuffled and redistributed, the referee announces to everyone that in this round, a third party will pay for half of every wellness checkup. This third party is neither a buyer nor a seller of wellness checkups, so there are no new players in the room. Buyers are instructed to cross out the numbers on their cards and write in an amount that's twice the original. The new amounts are shown in table 15.2. Sellers are not affected, so there are no changes made to their cards.

Buyer	Willingness to Demand (maximum amount)	Seller	Willingness to Supply (minimum amount)
Elizabeth	\$25-\$50	Keisha	\$15
Laila	\$40-\$80	RaShawn	\$30
Ashley	\$50-\$100	Paula	\$45
Craig	\$75-\$150	Kanchu	\$65
Ram	\$95-\$190	Henry	\$100
Josue	\$115-\$230	Jay	\$125
Sandra	\$130-\$260	Nina	\$130
Joseph	\$150-\$300	Francisco	\$145
Malik	\$180-\$360	Kai	\$175
Katie	\$195-\$390	Penny	\$195

Table 15.2
Wellness Checkup: Buyer and Seller Amounts with Third Party

Remember, when Round 4 begins, everyone knows the prices of successful trades from the three previous rounds. They still don't know the amounts on one another's index cards, but they are all well aware that the amounts on buyers' cards have doubled. When the trading begins, buyers and sellers eagerly start to negotiate. Everyone is noticeably more confident now that they've learned the lay of the land and gained more knowledge and negotiating experience. Recall that in Round 1, a buyer offered \$75 for a wellness checkup because they had \$115 to spend, and the seller accepted because the minimum they could sell it for was \$65. Both came out ahead on the deal. Now in Round 4, the buyer with \$115 is Josue, but with the third party involved, he's now willing to spend up to \$230. The seller, Kanchu, can still accept a minimum of \$65. What happens in their negotiation? Since Kanchu knows that Josue has doubled his budget because of the third party, and that prices for a wellness checkup in Round 3 converged around \$100, she opens negotiations at \$200. Josue isn't fazed by the higher starting price because it's not going to cost him, personally, to pay more. They quickly negotiate a price of \$150—twice what the buyer paid in Round 1. This same scenario happens throughout the room. When the bell rings to end Round 4, there are seven successful trades instead of five (in the previous rounds), and every trade is at a higher price than previous rounds. You can see the results in figure 15.6. This is the end of the experiment.

Experiment Summary and Analysis

The data show that in a marketplace where buyers are motivated to buy at the lowest price and sellers are motivated to sell at the highest price, there is a mix of successful trades and failed trades, with prices converging over time. The results also show that when a third party enters the market, prices run higher, and fewer trades

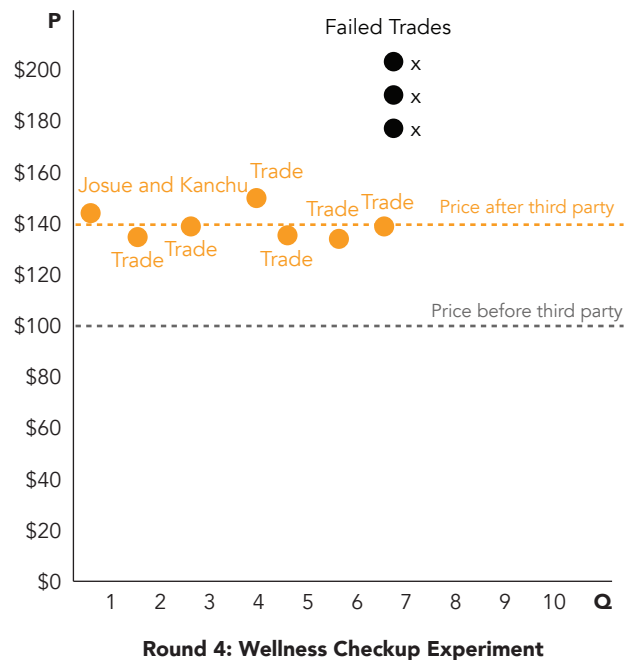


Figure 15.6
Round 4: Wellness Checkup Market
Experiment Outcomes

fail. So what's the takeaway from these results? That depends on your perspective.

Radical perspective. Radicals say that this experiment does an excellent job reflecting the real world of human behavior in an economic system that puts profits before people. They say that when self-interest is planted in the soil of capitalism, it grows into a destructive force that puts people and communities at risk. This was vividly demonstrated in the first three rounds of the experiment, when half of the buyers were left without wellness checkups. The introduction of a third party in Round 4 did not correct the problem. There were still 30 percent of buyers who left without wellness checkups. In addition, prices for everyone's wellness checkups shot up—not because sellers were offering a better product, say radicals, but because of the drive for profit.

From the radical perspective, capitalism creates a zero-sum game, where one person's gain is another person's loss. They say that if this experi-

ment had been set up to reflect the mutual cooperation of democratic socialism, the results would have been dramatically different. Buyers would have been told that their access to a wellness checkup was only assured if all the other buyers also had access to wellness checkups. Sellers would have had that same information. All the players would have coordinated their efforts to find the optimal price for wellness checkups so that everyone's needs were met instead of competing for private profit. The result would have been ten out of ten buyers being able to get wellness checkups. Radicals say self-interest planted in the soil of democratic socialism becomes mutual self-interest. The win-lose competition of capitalism is transformed into a win-win of cooperation and collaboration in democratic socialism.

Conventional perspective. Liberals and conservatives say that this experiment successfully demonstrates the validity of conventional theory's idea that capitalism leads to the best possible outcomes for society. This happens because people are by nature self-interested. They are motivated to behave in ways that put them in the best financial position possible. This aspect of our natures can never be changed, nor would we want it to be, say conventional theorists. It's precisely because we're wired this way that we realize the best outcomes for society: the profit-maximizing number of wellness checkups, resources going to their best uses, and buyers who most want wellness checkups being able to get them. They say that the results from this experiment show how

this unfolds naturally. In the first three rounds, as trades were successfully negotiated, the equilibrium price emerged. Everyone who wanted a wellness checkup at that price was able to get one. When the third party entered the picture in Round 4, there were even more successful trades. Overall, because of the profit incentive, everyone was willing and eager to get in the game and put in the effort to negotiate the best deal.

According to conservatives and liberals, people are not altruistic by nature, so had the experiment been set up using mutual cooperation as the premise, no successful trades would have likely occurred. For one thing, the transaction costs—the time it would have taken to coordinate and come to consensus—would have been prohibitive. No one would have made a successful trade in the allotted five minutes. In addition, people would have behaved with a predictable lack of motivation, which conventional theorists say is inevitable whenever anyone expects to get something for nothing.

Real-world economics experiments are very useful for testing theories. The classic design we've just described is used in economics classes around the world, but the VOTE Program version is unique because we look at the results through different economic lenses. Next, let's take a look at the tools conventional theorists and radical theorists use to analyze the problem of lack of access to high-quality health care and the different policies liberals, radicals, and conservatives propose to address it.

Conventional Theory Tools

Liberals and conservatives agree that health-care prices are too high. The answer to why they think this occurs will be revealed in a moment, but first I want to tell you about an old bit from the comedy show *Saturday Night Live* that I've never forgotten. It featured a character named Father Guido Sarducci giving a sales pitch for his Five-Minute University. Instead of you having to spend thousands of dollars and four years of your time getting a college education, he promises to teach you—in five minutes—everything a person remembers five years after they graduate from college. Spanish: “¿Cómo está usted? Muy bien.” Theology: “Where is God? God is everywhere.” Economics: “Supply and demand.”

People who studied conventional theory laugh at this because it's so true. That's what sticks in the brain for most people who took Econ 101. I hope you never have amnesia about all the fascinating things you learn in school, but if the details start to slip away, please cling to one more crucial notion to conventional economists: equilibrium. Liberals and conservatives disagree about many things, but not about the importance of this key point. Markets determine equilibrium prices, and price signals direct human activity. Individuals act to maximize their happiness, firms act to maximize their profits, and society ends up in the best possible position because it uses its limited resources for their best purposes. They say that through price signals, we are directed to realize



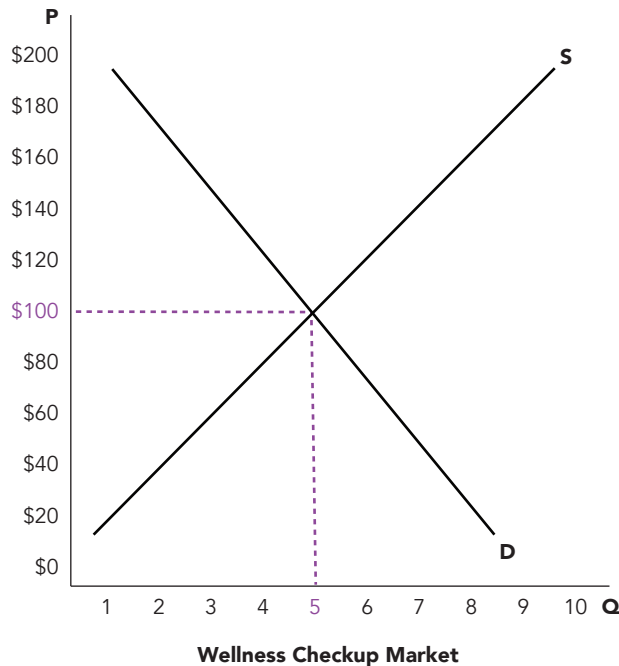


Figure 15.7
Wellness Checkup Market

material well-being as if by an invisible hand. To review how to read this on a market graph, you can see in figure 15.7 that the equilibrium price and equilibrium quantity occur at the intersection of the upward-sloping supply curve (wellness checkup providers are willing to sell more when prices increase) and the downward-sloping demand curve (patients are willing to buy more when prices decrease). The equilibrium price is \$100, and the equilibrium quantity of wellness checkups is five units. But price signals are a dynamic dance of supply and demand, and when things change—and things always change—supply, demand, or both will shift to the left or the right on a market graph.

This may all sound like a bunch of theoretical mumbo jumbo until you are in pain and need to see a doctor but there are no doctors available to treat you. Since equilibrium prices signal people and firms to act, people choose careers in medicine. Entrepreneurs boldly take risks and invent new treatments and medical devices. Workers go

back to school and become qualified for full-time jobs that include health benefits. Insurance companies sell health-care plans that cover treatments that would be out of reach for most individuals if they had to pay out of pocket. In other words, say conventional theorists, price signals are the key to our health and well-being.

We usually show only two players on a market graph: suppliers and demanders. We saw in the experiment that the wellness checkup market is affected by the addition of a third party. That third party is health insurance. Once it becomes a player, the change on a market graph looks a bit different than the standard shifts we are used to seeing. Whether provided by private firms or the government, health insurance pays for some health-care costs in exchange for patients paying premiums and/or taxes. Take a look at the demand curve in figure 15.8. On the original demand curve (D^1), when the price is \$80, the quantity demanded (Q^1) is six units. With insurance, demanders are willing to pay double for the same six units (D^2)

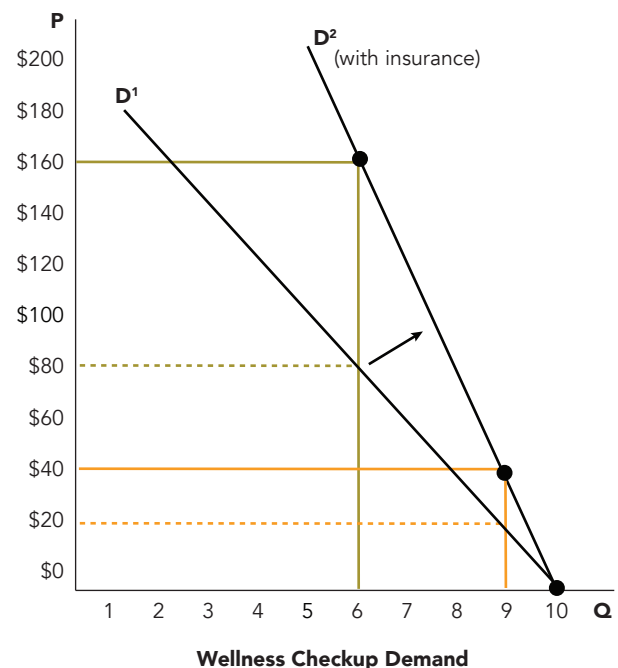


Figure 15.8
Wellness Checkup Demand Curve Rotation

because the insurer will pay half the cost. You can see this on the olive-colored lines. Originally, at \$20, demanders were willing to demand nine units. With insurance, they demand those same nine units at \$40. You can see this on the orange-colored lines. Interestingly, at \$0 they will demand ten units, so that point on the graph doesn't change—if you double \$0, it's still \$0. What that means is that the demand curve with insurance won't shift—it will *rotate* from the horizontal axis up and to the right. It will become steeper, but by how much depends on what percentage the insurers pay.

We started this conventional tools section asking why health-care prices are so high. Conservatives and liberals agree on the answer, at least in part: in a market where a third party is involved, prices are higher. Check out the addition of the supply curve in figure 15.9. The original equilibrium price, as we saw in figure 15.7, was \$100, and the equilibrium quantity was five units. Adding insurance (the third party) in the market, the new equilibrium price is \$140, and the new equi-

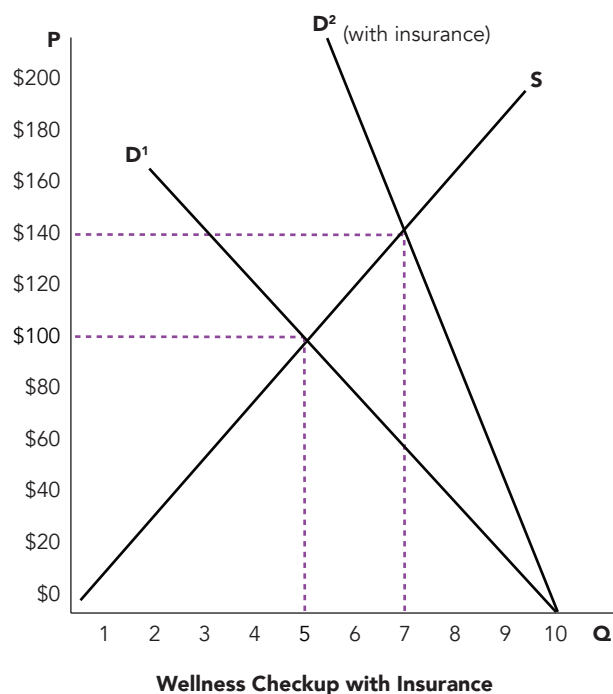


Figure 15.9
The Impact of a Third Party in Markets

librium quantity is seven (figure 15.9). Conventional theorists conclude that when a third party is involved in the market, not only are prices higher, but quantity is also higher.

Liberals and conservatives agree on the mechanics of how markets operate, and they agree on how a third party in the health-care market affects quantity and price. They are deeply divided, however, when it comes to how we should address the problem.

Conservative policy: Deregulated health-care system of private insurance. Conservatives say health care is unaffordable because government interferes in markets. Their solution is to eliminate government regulations on both providers and private health insurance firms. In a deregulated environment, all prices come down. Now providers are able to profitably supply low-cost and high-quality health-care goods and services, and health insurance firms are able to profitably provide affordable insurance. We get better care, more funding options, and lower prices, say conservatives. For example, we replace the inefficient and bloated government health-care system for military personnel and veterans with private insurance. Immediately, the quality goes up, and costs come down. Why? Because that's what happens when there is competition in markets, say conservatives. Likewise, we replace government health insurance programs for the elderly with private insurance. Immediately, costs go down and seniors have more and better options for services. Not only that, they have choice. Rather than government forcing people to pay for inadequate health insurance in their golden years through a lifetime of high taxes taken out of their paychecks and lower pay or lack of jobs due to employers being stuck with the bill, working people are free to save and invest their money. When they retire,

they can purchase a private health insurance plan that fits their needs. Conservatives say free-market solutions to health care are right and fair because no one should be compelled to pay taxes for health insurance or be forced to subsidize the health care of others. Low-income people in a free market have many affordable health insurance options because private firms capitalize on the opportunity to supply to

that sector of the market. They compete to offer the best variety of plans to meet the health-care needs and budgets of people at all income levels. And in the rare event that someone is still unable to afford insurance, philanthropy from family members, religious organizations, nonprofit organizations, and corporations step in to fill the gap.

Conservatives say the beauty of free-market capitalism is that it lets profit incentives guide providers and insurance companies to supply the best options for health care at the lowest prices. Price signals ensure that this occurs, because if providers don't offer high-quality services at affordable prices, patients look elsewhere for their health care. If insurance companies don't offer the insurance plans customers want at affordable prices, buyers simply shop around for a better deal. The consumer is sovereign in free-market capitalism. We don't need the government to regulate the insurance industry or providers, say conservatives, because they are highly motivated to protect their good reputations. They establish best practices for their fields and come up with standards and ways to enforce them. When government gets out of the way, the sky-high prices for health care and insurance come down, and firms

Conservatives say the beauty of free-market capitalism is that it lets profit incentives guide providers and insurance companies to supply the best options for health care at the lowest prices.

are no longer cornered into denying insurance on the basis of **preexisting conditions**—health problems that occurred before a person was covered by an insurance plan.

Conservatives consider the graph of the health insurance market in figure 15.10 and say that the free market brings us the lowest possible premiums while increasing the number of people who have insurance. With gov-

ernment out of the way, costs are dramatically reduced for many reasons. Here are just a few. Right off the bat, health insurance firms no longer have to pay steep corporate taxes to fund government bureaucracies that police the industry, so costs drop. Since health insurance firms are free to compete across state lines, they grow bigger and become more efficient, which brings down costs. Also, insurance companies directly negotiate with providers to lower their prices, so they see even more cost reductions. Plus, doctors have sole discretion about best practices—what tests to order, which medications to prescribe, what kind of follow-up treatment is best—and no government red tape is in the way of getting new cost-saving and life-saving treatments and medications approved. Medical care is no longer prohibitively expensive, so costs for health insurers drop significantly. At the same time, to protect their own profit interests, insurance firms eliminate waste, fraud, and abuse on the part of providers, which cuts costs yet again. Conservatives say these are just a few of the many reasons that costs come down in free-market health care. Lower costs shift supply to the right (S^2), bringing us the lowest possible premiums (P^2) and

a higher quantity of health insurance (Q^2) supplied and demanded. More people are insured and have access to the treatments they need. We get the best health-care system at the best prices, and we are all able to flourish.

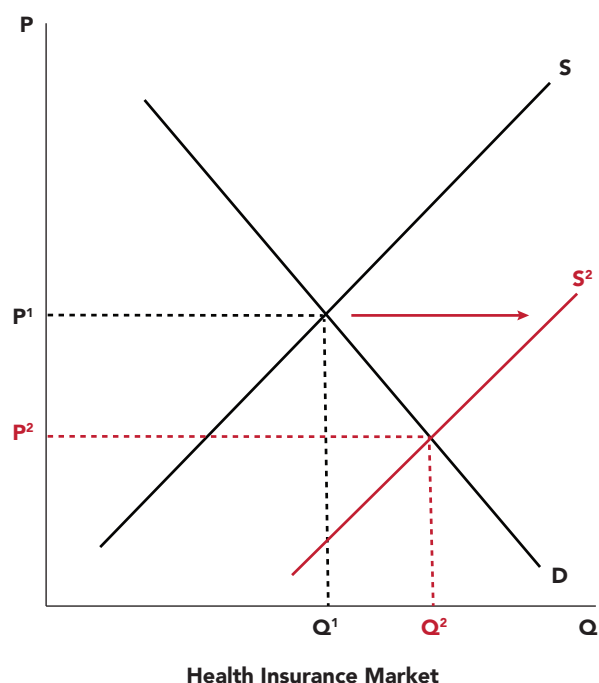


Figure 15.10
Health Insurance Market:
Conservative Perspective

Liberal policy: Regulated, for-profit health-care system and government health-care programs. Liberals say that the reason we have high prices for health care and health insurance is costly fraud, waste, and abuse. They want to strengthen regulations to fix the health-care system and say a strong partnership between government and private industry protects consumers, providers, insurance firms, and our entire nation. To liberals, fair-market capitalism offers the best of all possible worlds because it combines the profit motive and the public good. So we get the most amazing advances in medical research, development, and technology because entrepreneurs and firms have the right incentive to work hard and find cures for illnesses. We benefit

from the government's ability to bring together the top researchers and experts to test new medicines and review standards and procedures, offer unbiased oversight of firms, and create and manage public health programs that keep the population thriving. Liberals say our national security is threatened when we have widespread illness. Productivity goes down, and the standard of living drops for all. For these reasons and more, they use the public-private partnership to ensure that everyone has access to high-quality health care.

Liberals want to expand the role of government to actively help the insurance industry provide the best and most affordable coverage to the largest number of people. For example, the government requires every health insurance plan to cover basic essential services, including preventive care, inpatient and outpatient hospital care, prescription drugs, pregnancy and childbirth services, mental health services, and more. It prevents firms from imposing annual or lifetime limits on health insurance coverage and denying people insurance based on preexisting conditions. It mandates that everyone is required to have health insurance. Liberals say these measures are pro-business because they ensure that health insurance firms can stay viable. When everyone is required to have health insurance, firms naturally have a diverse mix of customers—those who need expensive treatments today, and those who don't need health care at the moment. Liberals also use government-run health insurance marketplaces to help firms grow. These regional “exchanges” are online resources for buyers to explore the different options offered by the health insurance firms operating in their areas. While supporting and standardizing private health insurance is important, say liberals, we also need to make high-quality health care accessible to those who can't afford it. They expand the **Medicaid Program**, the government health-care program for low-income people, and expand health insurance subsidies for those who don't

qualify for Medicaid but can't afford private insurance on their own. Liberals quote the old saying, "An ounce of prevention is worth a pound of cure." When everyone has access to necessary and preventive care, people can get the treatment they need today, so they won't need more expensive treatment tomorrow. To fund the expansion of public programs, liberals increase taxes on corporations and wealthy individuals.

Liberals consider the graph of the health insurance market in figure 15.11 and say that fair-market capitalism lowers premiums for all and increases the number of people who have health insurance. Here's how it works. With a health insurance mandate, every person is required to have coverage. That means at every price level, more people demand more health insurance, so demand shifts to the right (D^2). At the same time, the supply curve (S^2) makes an even greater shift to the right, for several reasons. First, when government is involved, costs for health insurance firms go down because waste, fraud, and abuse on the part of health-care providers are greatly reduced. For example, providers can't take bribes, bonuses, free vacations, tickets to sporting events and concerts, or any other incentives for ordering unnecessary tests, making unnecessary referrals, or prescribing unnecessary or more expensive medications. Second, government oversight of hospitals translates into lower costs for medical procedures and fewer false insurance claims. That brings down costs for insurers even more. Third, insurance firms benefit from lower costs because government requires providers to use standardized electronic records, increasing efficiency and reducing medical errors.

Liberals want to expand the role of government to actively help the insurance industry provide the best and most affordable coverage to the largest number of people.

Fourth, health insurance exchanges bring costs down for private firms, because marketing and sales costs go down when the market for health insurance is standardized and centralized. These cost-saving measures are substantial, say liberals. At the new equilibrium, where the new supply curve (S^2) and the new demand curve (D^2) intersect, a substantial increase in the number of people insured results, and,

simultaneously, everyone pays less for premiums. Liberals say that thanks to government's helpful interventions, we have health care for all at affordable prices, and society is able to flourish.

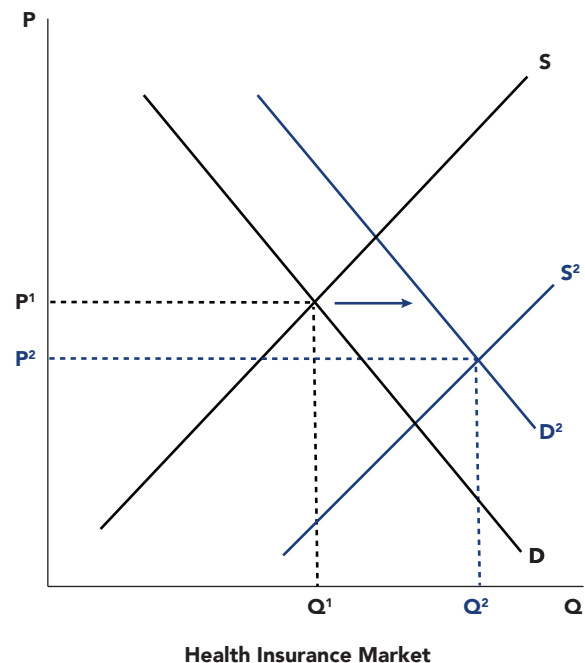


Figure 15.11
Health Insurance Market: Liberal Perspective

Radical Theory Tools

If *Saturday Night Live's* Father Guido Sarducci included radical theory in his Five-Minute University, it would probably go something like this. Economics: “Capitalism bad. Democratic socialism good.” Students of radical theory find this funny because it’s true. I hope your brain cells stay strong for many years to come, but if you start to get hazy about things you once studied, please try to hang on to one more extremely useful idea that is highly prized by radical economists: the Six-Core Cube. It’s their way of modeling economic systems in all their holistic complexity. Imagine a cube that represents the social totality. It is anchored by six core points that are the commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people’s basic material needs. Those commitments and structures result in dramatically different outcomes for people and the planet, say radicals. Their theory consists of two parts. First, they describe capitalism, and then they describe democratic socialism. Let’s take a look.

Health Care in Capitalism

Each of the six core points of capitalism could be used to analyze every issue, but to analyze health care in capitalism, radicals drill down into the core point of **individuals at risk**. Society offers no guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food, education, retirement security, and more), so people live in fear and worry about their well-being and survival.

Radicals say that in capitalism, every one of us is at risk of not having our basic material needs met. No matter how hard we work, or how diligently we save, or how carefully we live, there are no guarantees that we will have the health care, food, housing, retirement security, transportation, or anything else we absolutely must have to survive and thrive. The problem isn’t that we don’t have enough of these things as a society. The problem is that we have an economic system that views material well-being as a privilege for a few rather than a basic human right for all. In capitalism, we’re all walking the high wire of life without

1. Private Ownership
2. Top-Down Governance
- 3. Individuals at Risk**
4. Production for Profit
5. Unsustainable Growth
6. Unhealthy Communities

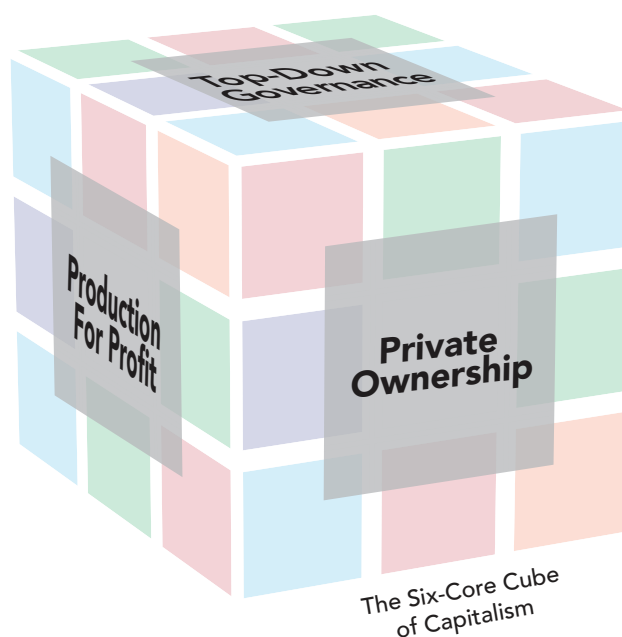


Figure 15.12
The Six Core Points of Capitalism

a safety net. This is not an oversight or something that can be corrected by implementing or rejecting a policy. This is the way capitalism was designed, say radicals. We are nothing more than cogs in the profit-making machine. The hours of our days, the health of our bodies, and the joy of our spirits are sacrificed to endeavors that only make the world a better place when they accidentally coincide with the drive for profit. We are used up and spit out so that a few at the top can make a few more pennies of profit off our backs. But radicals say, please don't think those at the top are bad people. Private owners are just as stuck on this relentless wheel of suffering as the rest of us. They must continuously find more ways to generate profit or their firms will be driven under by the competition.

Radicals say that nowhere is the cruelty of capitalism more apparent than in the health-care system, which trades our well-being for profit. People literally suffer and die from preventable and treatable conditions simply because making money is more important than saving lives. Thanks to for-profit health care, any medical emergency could destroy not only our physical health but also our financial health. There is something fundamentally wrong with an economic system that leaves us to fend for ourselves and worry every day about our survival, say radicals. It's not just the lack of social safety nets in capitalism that create this disaster. It's the fact that there are no guardrails to keep us from falling in the first place. Low-income communities limp along with underfunded public clinics. Hardworking families are priced out of preventive health care. Seniors are forced to choose between buying medication or buying groceries. And middle-class families are bankrupted by medical debt, despite paying a huge portion of their income every month for health insurance. From the radical perspective, we squander the priceless, limited lifetimes of our fellow humans by allowing them to suffer and die from conditions that

could easily be treated, simply because there is no profit to be made in saving them. We're all infected with the lie that capitalism gives us the best quality of life. They say that capitalism's lack of commitment to *individuals at risk* leaves us all broken and bleeding on the side of the road.

This is how the core point of *individuals at risk* and the pressure for bad in capitalism are used to analyze the issue of health care:

Individuals at Risk

- Getting basic material needs met is a privilege, not a right.
- The well-being of individuals is traded for profit.
- Everyone is left to fend for themselves and must constantly worry about survival.



Scenario 1. You own a chain of urgent care clinics, and you are having coffee with an old friend from grad school who owns a competing chain. He tells you, “We’ve cut our full-time employees to part time. Now I don’t have to provide any of them with health-care benefits. I’m saving a bundle. You should do the same.”

You say, “That doesn’t seem right. My workers count on having full-time jobs with benefits. They

need health insurance for themselves and their families. I don't want to do that."

"Then don't do it," he says.

But you will do it, and so will all the other owners, because if you don't, your firm won't survive. Radicals say that *individuals at risk* means everyone is one step away from losing their health-care benefits, and those who can't pay for expensive private health care are left to suffer and die from treatable conditions. In capitalism, getting our medical needs met is a privilege, not a basic human right.

Scenario 2. You're golfing with the owner of a competing urgent care clinic, who says, "I was under pressure from investors to boost profits, so I switched to lower-quality medical supplies, outsourced our lab work and X-rays, and scaled back on the number of doctors and nurses we employ. We spend about half of what we did before these cost-cutting measures. You should think about using this strategy if you want to stay competitive."

You say, "Using lower-quality supplies puts everyone's safety at risk. Cutting back on doctors and nurses and outsourcing to other firms means longer wait times for the people who come to us for help. And when it's finally their turn, the practitioner won't have time to check them out properly. All of this sounds awful. I don't want to do any of it."

She says, "So don't do it."

But you will do it, and so will all the other owners. If you don't, you'll be driven out of business. Radicals say that *individuals at risk* means firms prioritize their bottom lines over the health of people, which leads to more sickness and suffering. In capitalism, the health-care system exists

to make money for owners, not to help people, so the well-being of individuals is callously traded for profit.

Scenario 3. You're at a trade show and meet a competitor, who says, "We're buying up imaging centers and labs across the state. Now every time a patient comes to our urgent care, one of our doctors or nurse practitioners orders an X-ray or blood test. It's not like it does the person any harm, and their insurance will pick up the tab. I'm looking for partners. Do you want to get a slice of the ownership?"

You say, "Unnecessary tests waste patients' time and expose them to more radiation, and on top of that, many will have to pay out of pocket if their insurance won't cover it. And even if insurance does pay a portion, the costs will get passed on to the patients in the form of higher premiums next year. They already struggle to afford basic health services. I don't want to be a part of that."

They say, "So don't do it."

But you will do it, and so will all the other owners. You'll have to if you don't want your firm to fail. Radicals say *individuals at risk* means people go bankrupt because of outrageous medical bills. In capitalism everyone is left to fend for themselves to meet their basic health-care needs, so all are burdened with constant stress and worry about their physical and financial survival.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- **Inaccessible, low-quality health care**
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Health Care in Democratic Socialism

To analyze the issue of health care in democratic socialism, radicals drill down into the core point of **social safeguards**. Guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food,

education, retirement security, and more) is both a right and a responsibility for all.

Radicals say that the whole reason to come together as a society is to make life better for everyone. That is why a fundamental premise of the social contract is to guarantee that everyone's basic material needs are met. People have a right to the things that will allow them to survive and thrive, including high-quality health care, nutritious food, decent housing, tuition-free higher education, convenient public transportation, compassionate elder care, nurturing day care, and other essential goods and services that bring people dignity and well-being. If your firm goes out of business, you don't have to worry about being evicted, or your water and electricity being shut off, because your basic material needs are guaranteed. You can rest assured that if someone in your family gets sick or injured, or cracks a tooth, they can get the high-quality health care they need. Radicals say having solid and dependable guardrails that keep people from falling relieves the mental burden of worry for everyone. This is not



1. Cooperative Ownership
2. Participatory Governance
- 3. Social Safeguards**
4. Production for Use
5. Sustainable Development
6. Healthy Communities

Figure 15.13
The Six Core Points of Democratic Socialism

a program or a policy that can be easily changed or abandoned. It's built into the economic system of democratic socialism. Every decision that gets made reflects and expresses the core value that humans can and should share our resources equally so that we can raise one another up and enjoy a better standard of living for all.

Radicals say that an economic system shouldn't make just a few people well-off while the rest scrape by. When everyone has what they need to flourish, they are able to contribute their talents, gifts, and energy to the world. They invent life-changing devices, develop groundbreaking techniques, improve health-care services, and make life better for everyone. If we focus on the well-being of the masses rather than the big bank accounts of a few, we can easily afford to take care of everyone, say radicals. Everyone wins when we all pay in to fund universal benefits. Not only is it the most humane structure for a society, they say, but it makes the best economic sense. No individual, on their own, could possibly build an education system, a transportation system, a retirement system, or a health-care system. It would be prohibitively expensive and wildly inefficient—if it were even possible. It takes not only the effort of many minds and many hands to bring these things into being, say radicals, but it also takes our collective investment as a society. Through taxes, we fund the things that promote well-being for all of us. Everyone shares the responsibility to fund *social safeguards*, and everyone enjoys the benefits. Radicals say that this is how we invest in ourselves and in our communities. We recognize our mutual interest to care for one another, and in that way we ensure that society thrives.

Social Safeguards

- Individuals have a right to get their basic material needs met.
- Society provides universal benefits that are funded by all.
- People contribute their best to society when they have a guaranteed safety net.



Radical policy: Single-payer health-care system. Radicals believe health care is a basic human right that society is obligated to provide to all people at every stage of life. To fund universal health care, they use a single-payer system, paid for through taxes. In the end, it costs far less than if individuals had to pay on their own. With the single-payer system, no one has to worry about financial ruin from high medical bills if they or a loved one is in an accident, has an illness, or needs treatment of any kind. There are no health insurance payments or other out-of-pocket expenses. When a person needs health care, they get health care. When they need medication, they get medication.

Because everyone funds it together, the single-payer health-care system has the resources to meet the needs of the whole society, say radi-

icals. The success of this *for-people* (as opposed to *for-profit*) health-care system is measured by how well it delivers the best health outcomes for society, so there is significant investment in new research and development for better treatments and cures. Communities have state-of-the-art care facilities, research institutes, and medical equipment. Outstanding medical education is available at no cost to all those who want to become doctors, nurses, researchers, engineers, counselors, public health experts, and more.

Universal health care in democratic socialism is delivered through a government-managed network of worker-owned hospitals, urgent care facilities, pharmacies, provider networks, and so forth. Rather than have a bulky bureaucracy of government-run facilities, worker-owners bring local expertise, connections, and a personal commitment to creating a healing experience for patients. Every provider in the single-payer system is overseen by local, state, and federal health-care councils. These community councils are made up of medical professionals, patient advocates, government officials, and other stakeholders who work together to establish health-care policies and best practices. They come up with clear guidelines for patients and providers, determine policies for prioritizing care based on the urgency of conditions, and require electronic records so that providers can track patient use and identify those who overuse the system. Those people are assigned case workers to help them address mental and physical needs. Health-care councils are empowered to conduct audits to make sure tax dollars are being spent appropriately. Radicals say that the system works because firms are transparent and accountable. Since the whole purpose of the health-care system is to care for people, and since everyone funds it together, worker-owners and patients cooperate and collaborate to eliminate waste, fraud, and abuse. This makes a single-payer system more economical for society as a



Figure 15.14
Social Safeguards: Radical Perspective

whole. Radicals say that because it is managed by a participatory government and provided by worker-owned firms, the single-payer system gives us the best possible health care with the highest integrity and at the lowest cost, freeing up resources to devote to society's other needs.

This is how the core point of *social safeguards* and the pressure for good in democratic socialism are used to analyze the issue of health care:

Scenario 1. You're having coffee with an old friend from grad school who is a co-owner of a competing urgent care facility, and she tells you, "The single-payer health-care system is a significant investment of our tax dollars, but it's worth it because no one worries about not being able to get care or going bankrupt from medical bills. Our firm plans to ask other urgent care firms to sign a letter that will be published in the local paper urging people to support the continuation of this universal benefit. Will your firm consider signing?"

You say, "I think that's a great idea. In our field, we can see firsthand how patients thrive because we have the resources we need to deliver the

best-quality care. We all sleep well at night knowing that we've been able to serve every person who walks through our door with dignity and respect. I'll talk to my colleagues about our firm signing the letter, too. That idea has my personal vote."

"You should do it," he says.

Both of your firms will support it, say radicals, because a commitment to *social safeguards* means that everyone has a right to get the health care they need, starting before birth and continuing until the end of life. In democratic socialism, getting one's basic need for health care met is guaranteed to all, regardless of income level, race, gender, or life circumstances, which means no one in society is in danger of falling through the cracks.

Scenario 2. You're golfing with a competitor from another worker-owned firm, who says, "The government is auditing our lab tests and prescriptions to make sure we're ordering only what's necessary and helpful to patients. We used the health-care council's guidelines and discovered a few areas where we weren't maximizing efficiency, so we put new procedures in place and upgraded our software. Our second-quarter costs are down, and our facility is running more smoothly than ever. We're thinking of more ways we can make the best use of the health-care funds that are allocated to our firm."

You say, "That's wonderful to hear. Our firm is being audited next year. Would your firm be willing to share the workplace analysis that you used to make improvements? We also want to be good stewards of those health-care dollars, and

In democratic socialism,
getting one's basic need
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the cracks.

it's in our long-term mutual interest to do so. We want to improve our service to the community, too."

"You should do it," she says.

Both of your firms will do it, say radicals, because a commitment to *social safeguards* means each individual pays in to fund health care for all, so worker-owned firms have a vested interest in eliminating fraud, waste, and

abuse through transparency and accountability. In democratic socialism, the single-payer system lowers costs and improves health outcomes.

Scenario 3. You meet a competitor at a trade show, who says, "Our firm is committed to delivering the highest-quality health care, so we decided to expand our in-house testing capabilities. Now our patients have less waiting time for results. We've also switched to better-quality medical supplies and brought on new worker-owners so that providers can spend more time with patients. We're guided by the mission of offering the kind of care we'd like our own family members to receive. Your firm might want to consider implementing some of these ideas, too."

You say, "Improving care at all levels is also our firm's mission. Every time we buy better medical equipment, upgrade our administrative software, and support our providers to get the latest training, we see the payoff right away. Our patients are healthier and happier, and everyone at our firm feels a sense of satisfaction that we're making people's lives better. I'll definitely bring your ideas to our next worker-owner meeting."

"You should do it," they say.

Both of your firms will do it, say radicals,

because a commitment to *social safeguards* means the whole society invests in the well-being of all. In democratic socialism, the economic system is set up to help everyone flourish, and when people's basic needs are met, the standard of living rises for everyone because more people are able to participate in the economy and pay back into the system.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- **Universal, first-rate health care**
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of health care. This is an extremely relevant and personal debate for you and for all of us

as a society. Next, we'll explore the conversations that are taking place around you about inaccessible, low-quality health care, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.





The Issue

The playwright George Bernard Shaw famously said that optimists and pessimists both contribute to society. The optimist invents the airplane, and the pessimist invents the parachute. This reminds me of an old joke about pessimism and optimism that relates to the issue of health care. Here's how we tell it in the VOTE Program: A pessimist and an optimist in their seventies go out to lunch and start discussing their health. After complaining about new aches and pains that seem to sprout up every day, the pessimist says gloomily, "It can't possibly get any worse than this." The optimist cheerily responds, "Sure it can!"

I think about optimism and pessimism in the context of our attitudes toward health care. Here we are, all of us living in our bodies and moving through our days, but we have different approaches to our knee twinges, headaches, and fevers. Pessimists feel alarmed and jump to the worst-case scenario. It's arthritis. It's a brain tumor. It's a deadly infection. Optimists downplay bad news. High cholesterol? Not to worry. Knee twinge? Shake it out. Cough? Just a cold—no big deal. You would think I'd be a pessimist, now that you know I have many close family members who died young, but it turns out I'm more of an optimist. I learned this about myself when

I was forty-eight years old. I was just getting over strep throat. On my way to teach at the university, I experienced sudden and intense jaw pain and an odd feeling of pressure in my chest. I figured maybe it had something to do with the strep or the antibiotics I was taking, but I called my dentist just in case. He told me there was nothing to worry about, so I decided to ignore it. About thirty minutes later, the pain and pressure went away on their own, and I felt completely fine. I taught for several hours, worked with students after class, and didn't give it any more thought.

At four in the morning, I woke up feeling as if there were a heavy weight on my chest. I lay in

bed wondering what it was. “Maybe I’m having a panic attack,” I thought. I’d never had one before, but I’d read descriptions of them, so I knew that chest pressure was a symptom. I decided I should go for a run, because an hour-long run always clears my head and makes me feel right with the world. But just in case that wasn’t a good idea in this situation, I phoned my sister, who is a nurse practitioner.

“Are you having any chest pain?” she asked

“No chest pain,” I said.

“Okay, well, then maybe it is a panic attack,” she said. “Drink some warm milk, do some relaxing breathing exercises, and then go back to sleep. Call me in a few hours when you wake up.”

We said goodbye, and just before we hung up, she said, “Wait! Amy, are you feeling any pressure in your chest?”

“Yes!” I said. “It feels like an elephant is sitting on my chest.”

“On a scale of one to ten, how bad is it?”

“It’s definitely a ten,” I said confidently.

“How do you not know that chest pressure is what we mean when we ask if you’re having chest pain?!” she exclaimed.

I started to argue with her. “I think you’re wrong. Pressure and pain are totally different feelings. Pain is someone stabbing you with a knife. I don’t feel anything like that. This pressure is uncomfortable, but it’s not painful.”

“Well, whatever you want to call it, I think you might be having a heart attack.” She sounded exas-

If you ever hear a medical professional tell you that your symptoms indicate that you may be having a heart attack, please don’t say what I said to my sister:

“I’m not going to pay hundreds of dollars just to have a doctor tell me that I’m having a reaction to something I ate.”

perated with me. “Go to the hospital right now!”

If you ever hear a medical professional tell you that your symptoms indicate that you may be having a heart attack, please don’t say what I said to my sister, which was, “No, no, no. I’m not going to pay hundreds of dollars just to have a doctor tell me that I’m having a panic attack or a reaction to something I ate.” You see, I had health insurance, but my plan required me to spend \$5,000 out of my own pocket before insurance benefits kicked in—it’s called a **deductible**. I figured that just stepping foot in the ER, without having

any tests, would cost at least \$500.

“But this is your life we’re talking about!” My sister was shouting into the phone. “Please call an ambulance now!”

“An ambulance? Are you kidding me?” I would have laughed if I could have. “Do you know how expensive those are? I’m staying right here. I’m sure I’ll be fine.”

After we hung up, I lay in bed, still feeling that level-ten pressure on my chest, and all I could think about was how expensive it would be if I were to go to the hospital. But then I mentally totaled up the medical bills we’d already paid that year for various family members’ procedures, and I suddenly realized we’d already met our deductible. Insurance would cover whatever else we spent that year on health care. That was the moment my whole attitude about going to the hospital changed. Not only was I willing to go, but I was ready to call the ambulance. Why not? Insurance would pay the tab.

It turned out that I was, in fact, having a heart attack. Luckily, it was caught early enough that it was considered only a minor heart attack. They kept me overnight at the hospital. When I was discharged the next day, I was presented with a nine-page bill. It was neatly itemized. I noted on page one that they'd charged me \$3.43 for a single tablet of aspirin. That seemed like quite a markup. I flipped to the last page and had to blink a few times to make sure I was reading it correctly. The grand total for my overnight stay came to \$25,938.30. That is what it cost in Tucson, Arizona, in 2008 to treat one minor heart attack. Suffice it to say that if I'd had to pay that out of my own pocket, I'm quite sure it would have triggered a second heart attack.

I became fascinated with my hospital bill, which you can see in figure 15.15. I learned that it was created based on the hospital's chargemaster. Every billing department of every hospital has its own chargemaster. It is a list of every charge for every billable product and service offered to a hospital patient. My hospital bill included every-

thing from the hospital gown I was required to wear to every needle, IV, and aspirin used. I have read and reread my heart attack bill many times. It's comprehensive—and somewhat incomprehensible. What, exactly, is the “ED Complicated” for which I was charged \$1,475? Or the “IMC CC6127,” which was priced at \$2,500?

The chargemaster price isn't necessarily what a patient is charged, though. Insurance firms typically negotiate better prices with hospitals. I couldn't tell from my bill how much the hospital slashed its chargemaster prices based on the deal my health insurance company negotiated with it. Medical bills are often very complicated. Legislation has been proposed to make prices for medical care transparent to consumers. There is also a growing field of medical-billing advocacy. You can pay someone to decipher your invoice and help you dispute charges you believe are unfair or wrong.

I survived my heart attack and my hospital bill, but every time I teach this issue, I think about the tragedy that would have befallen me and my family if I hadn't already reached my deductible. I likely

03/12/08	450	914059	ED COMPLICATED	1	1475.00
03/12/08	460	974969	ED/UC PULSE OXIMETRY	1	45.00
03/12/08	481	439109	RT/LT HRT CATH W LT VENTOG	1	292.00
03/12/08	481	439129	INJECT CORONARY	1	292.00
03/12/08	481	439439	I & R INJ PROC FOR AORTO/CO	1	219.00
03/12/08	481	439449	I & R FOR INJ PROC FOR VENT	1	219.00
03/12/08	481	936499	LT HRT CATH INCL LT VENT SV	1	4160.00
03/12/08	483	933099	M-MODE/2D ECHO	1	590.00
03/12/08	483	933209	DOPPLER ECHOCARDIOGRAPHY	1	510.00
03/12/08	483	933259	DOPPLER COLOR FLOW MAPPING	1	227.00
03/12/08	622	401519	PACK: LEFT HEAR	1	218.40
03/12/08	622	57069	KIT: LEFT HEART	1	88.40
03/12/08	622	936439	SINGLE LUMEN HEMOSTATIC VAL	1	140.40
03/12/08	622	983329	PERCUTANEOUS NEEDLE	1	115.00
03/12/08	636	2499	IV SOL SOD CHL 0.9% 1000ML	3	90.75
03/12/08	636	29189	MORPHINE SULFATE: SYR 4MG	2	50.82
03/12/08	636	3339	IV SOL:SOD CHL 0.9 IN 500ML	1	30.03
03/12/08	636	716319	MIDAZOLAM INJ.PER 1MG	5	60.35
03/12/08	636	717369	HEPARIN PORCINE INJ, PER 10	15	67.20
03/12/08	730	402939	EKG TRACING ONLY W/O I&R	1	100.00
03/12/08	730	498749	EKG TRACING ONLY W/O I&R SA	2	200.00
03/12/08	730	930009	ECG, ROUTINE W/12 LDS, TRAC	2	196.00
03/13/08	214	613549	IMC CC6127	1	2500.00
03/13/08	250	20519	PENICILLIN VK 250MG TAB	6	22.20

Figure 15.15
Charges on a Hospital Bill

would have chosen to be an optimist and continued to minimize the risks of my symptoms. I probably would have been dead by the end of the day. My experience is not unique. Every day, people decide not to access the care they need because they worry about whether they can afford it. It's a terrible gamble. They could run to the Emergency Department of their local hospital with chest pressure and find out it's just a panic attack. After paying for the visit, plus the battery of diagnostic tests, they could end up losing their homes, their retirement savings, and their children's college savings funds to pay for that false alarm. But if they don't go to the hospital, they could end up losing their lives if it's not a false alarm. From every economic perspective, no one believes that we should have to take these kinds of potentially deadly risks.

Understanding Health Care

Let's do a quick exercise to help you think about your own interactions with the health-care system. Print the table below or draw your own on a piece of paper. Then write down your last three experiences seeking or receiving some kind of health care for yourself. Perhaps it was a vaccination, a trip to the pharmacy to pick up medication, a dental checkup or eye exam, a visit to the campus clinic or school nurse, an X-ray, a consultation with a nurse practitioner at urgent care, a hospital stay, and so forth. Next, write down the reason you needed it and how it was funded. Finally, if you can remember, write down approximately how much it cost you or your family. We'll talk more about this later.

Your Recent Health Care

What was the health care?	Reason	How was it funded?	What did it cost you out of pocket??
Example: Doctor visit	Headaches	Health Insurance	\$35 Copay
Example: Pharmacy	Cough syrup	Self-pay	\$9
1.			
2.			
3.			

Private Health Insurance

Most Americans have private health insurance, which helps pay a portion of the costs of their health care. The self-employed choose their own health insurance plans and pay their own premiums. Workers in firms that have more than fifty full-time employees typically get insurance through plans their employers offer. The firms negotiate with insurance firms to get coverage for employees at a reduced cost. Employees typically pay some or all of the premiums. Employer-based insurance covered 159 million Americans in 2018. Workers often have the option to pay more and add their spouse and children to their policies as well. Some states require employers to pay half the premium for their employees. In states without that requirement, some employers voluntarily kick in a percentage. In 2018, more than half of workers—60 percent—paid the total amount out of their paychecks. Even so, because the firms negotiate a better deal with insurance companies, getting health insurance as a benefit of employment gives many people a strong incentive to stay in a job. Some call employment-based health insurance a “golden handcuff” because it keeps employees in jobs longer than they might otherwise stay when they can’t afford to lose their insurance. For years, there have been debates about whether health insurance should even be a benefit of employment.

Private health insurance is big business. The top seven U.S. health insurance firms had a combined total revenue of \$913 billion in 2019. The largest was UnitedHealthcare, which insured 49.5 million people. Anthem was second, with 40 million. Aetna covered 22 million, while Cigna had 15.9 million, and Humana covered 14 million. In addition to those industry giants, more than nine hundred smaller health insurance firms were operating in the United States. Just as with car insurance, health insurance has to be bought in the state where you reside. If you move, you have

to cancel that plan and buy a different one in your new state. But if you have insurance and get sick or injured while you’re out of state, your health insurance policy might cover a provider visit or emergency visit to a hospital in another state. Every plan is different, so it is essential to read the fine print before you sign up.

The health insurance premium is not the only health-care expense for those who have private insurance. Any time you access health care, whether it’s a lab test, a consultation with your doctor, new eyeglasses, or medication, most insurance plans require a **copayment** (also known as **copay**), which is a set amount you have to pay out of pocket. For a visit to a primary care doctor in 2020, the copay averaged \$35. A visit to a specialist averaged \$65 for the copay. That amount can change from year to year. It’s also possible that you’ll have a deductible. Deductibles ran as high as \$6,750 in 2019. Some private insurance plans have both copayments and deductibles. If you have an **annual limit**, it means there’s a cap on the total amount of medical expenses the insurance will cover in a given year.

Take another look at the table you drew a moment ago of your last three health-care experiences. Were any of them funded through private insurance? Do you think you paid too much, too little, or the right amount in each case? If you have insurance, do you think you pay too much, too little, or the right amount for the monthly premium? If you qualify for a government program, does it cover all the care you need? If you have no insurance and aren’t on a government program, can you access the health care you need? The point of this exercise is to consider that no matter what level of health care you receive, someone always has to pay for it. Who that is—the government, the individual, or the health insurance firm—and how much is paid (whether the prices are affordable) are the big questions we’re looking to answer in this chapter.

Moral Hazard

I once went on a trip with a friend, and we rented a car. We were convinced by the rental agent to buy the most expensive insurance package. “You can total the car and walk away without paying a penny,” she told us cheerfully. While my friend was normally a very careful driver, in that rental car, he bounced into potholes, dinged the bumper, and scraped the tires against the curb. Humans are interesting creatures. When we know we won’t be the ones to pay the price if something goes wrong, we’re more likely to take risks or overuse something. This is called **moral hazard**, and it complicates the picture for health insurance. When a third party (government or private insurance) is footing the bill, you may not be as careful with your health—for instance, if you have diabetes, you may not eat as carefully. Since you’re not paying for it, you may run to the doctor with every little ache and pain, or make appointments with expensive specialists for complaints that don’t need that level of care—see a neurologist for a slight headache rather than consulting with your primary care physician, for example. Maybe you’ll pressure the doctor to order more tests to allay your worries, and the doctor may feel pressure to do it because they don’t want a negative patient review. The potential overuse or misallocation of health-care resources is a problem from every perspective.

Conservatives and liberals use copays and deductibles as economic incentives to address moral hazard. Copays are essentially a price signal that discourages people from overusing health-care services. If it costs patients a \$65 copay to see the specialist and only \$35 to see the primary care physician, they are more likely to start with the primary care physician because it will be easier on their wallets. Likewise, deductibles are designed to be disincentives to overusing the health-care system. Having to pay the first few hundred or thousands of dollars out of pocket

motivates people to think twice about whether they actually need the second opinion, additional MRI, or name-brand medication. Both liberals and conservatives say the right price signal ensures that resources aren’t wasted.

Radicals say that moral hazard is not a problem in democratic socialism. They reject the actuarial model of private health insurance and embrace the social insurance model. With single-payer health care, everyone pays in together to fund the system, so it is in everyone’s mutual interest to use resources wisely. From the radical point of view, health care is different from other products because people don’t want to spend their time going to see a doctor. They say it’s just not true that people will abuse the system with frivolous complaints. Going to the doctor isn’t fun or entertaining, even when it’s free. However, when there is a real concern—a persistent cough, say—people in a single-payer system will get it checked out right away because they don’t have to worry about paying for the visit. Their problem is diagnosed and addressed sooner, before it develops into a more serious condition that would cause them to suffer and also be a drain on the health-care system.

Adverse Selection

I’m guessing you haven’t given a lot of deep thought to how the private insurance industry works. I didn’t think much about it, either, until I sat next to someone at a party who works as an actuary, which is someone who compiles data and statistics on past events to predict the likelihood of that same thing occurring. He modestly told me that he could also predict with high accuracy the likelihood of a thirty-year-old single woman having a stroke, an overweight smoker in his fifties getting lung cancer, and a divorced man in his sixties having a heart attack. Insurance firms employ actuaries to help them determine whom to insure and how to price their policies. Forecasting future

disasters and misfortunes by analyzing statistical probabilities can be a grim job, but actuaries love to tell jokes about themselves. Here's one that will definitely make you groan. An actuary is walking down the street when she suddenly feels a sharp pain in her chest. Realizing she might be having a heart attack, she promptly jumps in front of an oncoming bus. A friend visits her in the hospital and asks, "Why did you jump in front of a bus?" The actuary says, "Because I didn't want it to be a heart attack, and since the chance of having a heart attack is statistically higher than the chance of having a heart attack and getting hit by a bus at the same time, I jumped in front of the bus." (If you're saying, "Huh?" right now, don't worry about it. Actuarial humor has a reputation for being that way. All you need to know is that they think this is hilarious.)

The reason I'm telling you about actuaries is because you need to know that the insurance industry relies on having a balanced mix of buyers who are high risk for needing expensive health care and buyers who are low risk for needing expen-

sive health care. Just imagine if the 44 million or more people covered by UnitedHealthcare (UHC) insurance all needed costly treatments in the same month. Even a firm as big as UHC couldn't pay all those claims all at once. It would go bankrupt. But if a handful need expensive treatments, it's not a problem because the majority of other customers are healthy or need only inexpensive treatments, yet they continue to pay for health insurance. But how can any firm know if it's offering insurance to the right mix of people who need health care today and people who don't? The private health insurance industry faces a unique problem of **adverse selection**, which is the tendency of people who are sick to be the most likely to buy health insurance, and the tendency of healthy people to not want to shell out money for health insurance. Unlike with other insurance, where the firm can do research and find out if a home is in a tornado-stricken area or a flood zone, or if a driver has a bad driving record, or if a renter lives in a high-crime area, information about a potential customer's health history, current state of health, or



personal habits is not easy to find. The buyer has that information about themselves, but the seller doesn't. This is called **asymmetrical information**. Firms are constantly worried about adverse selection because as their rolls fill up with people suffering from illnesses and diseases, their costs go up. That causes the price for health insurance to rise, which is a further disincentive for healthy people to buy it. Even those who want the peace of mind of having health insurance coverage are priced out of the market by high premiums. This vicious circle leads to more unaffordable health insurance, more uninsured people, and more insurance firms going under. This is a process with a very dramatic name: the adverse selection death spiral.

Adverse selection is a nonissue for radicals in democratic socialism because there are no health insurance firms. With universal health-care coverage, everyone in society automatically has access to the health-care system, and everyone automatically pays in through taxes. Therefore, the system always has the right balance of people who need to use the system today, and people who don't. Radicals say eliminating the profit motive in the health-care system solves the problem of adverse selection.

Conservatives and liberals solve the problem of adverse selection in capitalism by using economic incentives. Firms require buyers to disclose health information on their applications, and they say that if buyers misrepresent their health histories, conditions, and personal habits, the company can deny claims and take legal action to sue wrongdoers and recover money from claims that were wrongfully paid out. These actions discourage people from misleading insurers. Liberals and conservatives also say that in some cases, it makes sense for firms to use the information from customers' applications to identify health risks (for example, tobacco use) and then adjust the premiums so that those who are at higher risk pay more, and those who are at lower risk pay less. Other adjustments

may also be made based on certain characteristics such as age and geographic location.

Although liberals and conservatives agree on these broad outlines for dealing with the problem of adverse selection, they also have stark differences in their approaches. From the conservative point of view, insurance companies should be free to define the coverage they offer, because they are in business to be profitable. Conservatives strongly believe that firms should be able to use actuarial projections to assess any number of factors, from preexisting health conditions, gender, race, and level of education to anything else they decide is relevant. They also say that insurance firms should be free to impose annual or lifetime caps, which are ceilings on how much they will pay in total benefits for a customer's health care. These could be insurance caps per event, per disease, or per period (for instance, within a year).

From the liberal point of view, adverse selection is solved by having a health insurance mandate. When everyone in society is required to have health insurance, firms automatically have a balanced mix of people who need expensive treatments now and healthy people who don't use any or much health care today. Liberals believe insurance companies should be regulated so that they are profitable and offer the coverage that society needs. They firmly believe that companies should not be allowed to discriminate against any potential customers on the basis of gender, race, or preexisting condition. Liberals also oppose annual and lifetime caps on coverage.

Types of Private Health Insurance

If your employer offers health insurance benefits, then you'll want to know about the different choices so that you can figure out which plan is best for your health and your wallet. The basic difference is whether you want to pay higher premiums and lower copays and deductibles, or lower

premiums and higher copays and deductibles. To give you an idea of the kinds of options there are, here's a breakdown of the different types of health insurance plans that were offered in 2021.

Conventional indemnity plan. Also known as fee-for-service (FFS) plans, these are typically the most expensive plans, but many people choose them because they cover visits to any provider. If choice is important to you, and money is no object, this may be the best fit.

Health maintenance organization (HMO). These plans cover health care only from providers who are part of the insurer's **provider network**. The company contracts with certain practitioners, hospitals, labs, pharmacies, urgent care clinics, and so forth to get a lower rate. If you go outside the network—see a specialist, for example, who is not in your provider network—you often end up paying most, if not all, of the bill for their services unless it was an emergency. Also, before you see a specialist in an HMO, you may have to first visit your primary care physician (PCP) and get a referral—and the specialist will also be in the HMO network. It will then cost you whatever your copay is for the PCP and the specialist. There may also be a deductible. If you want a plan that is in the mid-range of expensive, an HMO might be the right fit.

Preferred provider organization (PPO). These are similar to HMOs but slightly more flexible because you're allowed to see a specialist without first getting a referral from your PCP, and if you use a provider outside the network, a portion of the bill is covered by insurance. In general, you pay less if your PCP and specialist are in the provider network and more when you see a provider outside the network. PPO plans are usually slightly more expensive than HMOs, but if you want the freedom to go directly to a specialist or other additional choices, a PPO might work for you. Generally, there are both copays and deductibles for PPOs.

High-deductible health plan (HDHP). This is the lowest-cost insurance you can buy.

There are no copays, but you pay 100 percent of your health care (except some preventive care, which may be covered) until you reach a certain amount—the very high deductible. This is the policy I had when I had my heart attack. As soon as the deductible is reached, the insurance benefit kicks in and pays the rest of your health-care bills for that year. If you're very healthy and want to save money, and if you're willing to gamble that you won't need much insurance, then an HDHP might be the way to go.

Wouldn't it be useful to have the powers of a seer when choosing a private health insurance plan? Since most of us don't have predictive powers, we generally just make our choices based on our household budgets. That means a lot of people go with the lower premiums and higher deductibles, and if they get sick or injured, they end up with a pile of medical bills that the insurance plan won't cover. Some employers offer a benefit that allows you to designate a portion of your pretax income to go into a **health savings account (HSA)**. Every time you have an out-of-pocket health-care expense, you can pay yourself back from this account. A **flexible savings account (FSA)** is a similar idea. You can set aside pretax dollars to pay for approved out-of-pocket medical expenses. HSAs and FSAs make high-deductible health plans more palatable to those who are risk-averse because they allow people to save up for a medical emergency.

By the way, when you leave a job, you'll lose your employee health insurance benefit. But a law passed in 1985 called **COBRA** (short for Consolidated Omnibus Budget Reconciliation Act) allows you to continue paying the premiums for it on your own, typically for up to eighteen months after you leave your job. COBRA can be very expensive, especially if you lost your job and have no income, but it's typically cheaper than an individual health insurance plan. You're still

benefiting from the lower price for health care negotiated by your employer.

Types of Public Health Insurance

Millions of Americans qualify for health insurance through government programs. You may be surprised to learn how many different federal agencies manage government health insurance programs.

Medicare. Signed into law in 1965, Medicare is run by the U.S. Department of Health and Human Services. This insurance is available only to citizens ages sixty-five and older who paid a certain amount into Medicare during their working years. The money is automatically deducted from their paychecks through payroll taxes. In 2021, employers and workers each paid 1.45 percent of the employees' earned income. The important thing to understand about Medicare is that it's not free health care for the elderly. People have to pay in to receive the benefit, and they continue to fund part of their health care during their senior years. Medicare has four parts. Part A, which is free to those who paid the required amount into Medicare during their working years, covers hospital costs, hospice (end-of-life) care, and home health care. Those who didn't pay enough into Medicare during their working years are charged a monthly premium for Part A. Everyone on Medicare is required to pay a monthly premium for Part B, which reimburses 80 percent of outpatient care, including doctor's visits, lab tests, and so forth. If you're still working at age sixty-five and have health insurance through an employer, then you probably wouldn't sign up for Part B until you retire. Think of Part B as a replacement for workplace or individual health insurance plans. It tends to be a lot cheaper since the Part A care is already covered. Nine out of ten seniors in 2020 had other health insurance plans in addition to Medicare—either private plans they bought themselves or health care from other government programs for which they qualified. Part C is an optional package seniors can buy that offers

more coverage than Parts A and B. Part D is the medication benefit. Various Part D plans have different copayments and deductibles and different levels of reimbursement for brand-name and generic medications. Once you've paid a certain amount for medications in a year, then the rest is covered (mostly) by Medicare—this is called **catastrophic coverage**. Some government assistance is available for those who can't afford the premiums for Medicare or who didn't pay in enough during their working years to qualify for Part A benefits.

Medicaid. Created in 1965, Medicaid is administered by the U.S. Department of Health and Human Services. It's a needs-based health insurance program for low-income people. If you get confused, you can use this little rhyme a colleague of mine recited for me: "Gray hair is Medicare. Low paid is Medicaid." It's structured as a federal-state partnership, so states manage their own programs using federal guidelines and matching federal dollars. Federal rules prohibit states from charging a premium to recipients on the lowest end of the income scale. Medicaid pays for visits to the doctor, hospital expenses, home health care, and nursing care at home. Depending on the state you live in, Medicaid might also cover prescription drugs, dental care, eyeglasses, and physical therapy. States can also choose to require copayments and deductibles. By the way, the names of the Medicaid programs differ by state. In Arizona, for example, it is called Arizona Health Care Cost Containment System. In California, it's called Medi-Cal. In Iowa, it's called Iowa Total Care.

Children's Health Insurance Program (CHIP). Established in 1997, CHIP is managed by the U.S. Department of Health and Human Services. It is government health insurance intended for children of families who can't afford private insurance but earn too much to qualify for Medicaid. Each state runs its own CHIP using matching federal dollars. Some have copays and deductibles.

TRICARE. TRICARE is administered by the Military Health System, which is under the U.S. Department of Defense. It's the health insurance benefit for qualified active military, reserve, and National Guard personnel and their families. People with TRICARE pay premiums, deductibles, and copayments.

Veterans Health Administration (VHA). Founded in 1865, the VHA is managed by the Department of Veterans Affairs to provide health-care coverage to qualified veterans. Veterans generally pay no premiums or deductibles, but they may be responsible for some copays.

Federal Employees Health Benefits Program (FEHBP). Established in 1959, FEHBP is run by the U.S. Office of Personnel Management. It offers health insurance to government employees and their spouses and dependents, including members of Congress and their staff. FEHBP includes premiums, deductibles, and copayments.

Indian Health Service (IHS). Founded in 1955 and administered by the U.S. Department of Health and Human Services, the IHS covers members of 573 federally recognized Native American tribes in thirty-seven states. There are no premiums, copayments, or deductibles for IHS health care.

Are you wondering if the government provides only the insurance, or does it also provide medical care? Good question. In some cases, government provides only the insurance (Medicare, Medicaid, CHIP, TRICARE), and in other cases (the VA, military bases, and the IHS), it also directly provides health care through government-run hospitals and clinics.

A Side Note about Public Health

Government plays an active role in the health-care system through **public health institutions**. There are hundreds of federal, state, and local agen-

cies whose stated missions are to protect, study, and enhance public health. The three most famous ones that you've probably heard of are managed by the U.S. Department of Health and Human Services.

Centers for Disease Control and Prevention (CDC) opened in 1946 to prevent the spread of malaria. Today, it researches potential and actual health threats and educates the country about how to respond to threats to our health and well-being—from flu shots to pandemics.

U.S. Public Health Service (USPHS), launched in 1798, is headed up by the Surgeon General, who is the official federal spokesperson on matters of public health. Physicians, nurses, dentists, and others in USPHS uniform serve in different federal agencies, including the Coast Guard, the Department of Agriculture, and the Department of Homeland Security.

National Institutes of Health (NIH), established in 1887, is the world's largest biomedical research organization. Its scientists undertake research to find causes and cures for disease, and the NIH also gives research grants to scientists around the country to pursue medical research.

In addition to these, the other well-known agency is the Food and Drug Administration (FDA), which (among other things) approves new medications before they go to market. Other federal health agencies include the National Institute of Allergy and Infectious Diseases, the Agency for Toxic Substances and Disease Registry, the Substance Abuse and Mental Health Services Administration, the National Vaccine Program Office, the Office of Adolescent Health, the Office of HIV/AIDS and Infectious Disease Policy, the Office for Human Research Protections, the Office of Minority Health, the Office of Research Integrity, the Office on Women's Health, the President's Council on Sports, Fitness, and Nutrition, and more.

Exercise 15.1: What's Your Health Care?

Which health care would you have in these different scenarios? Fill in the blanks below. The Answer Key can be found at the end of this chapter.

- 1. I just turned sixty-six years old and retired after thirty**

years on the job. The program I qualify for is called: _____

- 2. We earn too much to qualify for Medicaid, but we can't afford health insurance for our kids.**

The program we qualify for is called: _____

- 3. I just left my job, and I'm looking for a new one. In the meantime, I want to stay on my former workplace's health insurance plan for another eighteen months.** The program I qualify for is called:

- 4. I just got a new full-time job, and I signed up for the health insurance offered by my employer. The plan I chose requires a referral from a primary care physician before I can see a specialist.** My plan is called: _____

- 5. I serve in the army. My family and I get our health insurance through the military.** Our benefit is called: _____

- 6. My plan has the lowest monthly premium, but I have to pay a high amount out of pocket before the insurance kicks in.** My plan is called: _____



The Price Tag for Health Care

In 2018, the United States spent \$3.6 trillion on health care. That was nearly 18 percent of our nation’s total income (gross domestic product, or GDP). Just to put that number in per-

spective, we spent 6.2 percent on education in that same year, and 3.4 percent on defense. You can see the breakdown of health-care spending in the United States in figure 15.16. A third went to hospital care, 20 percent went to physician

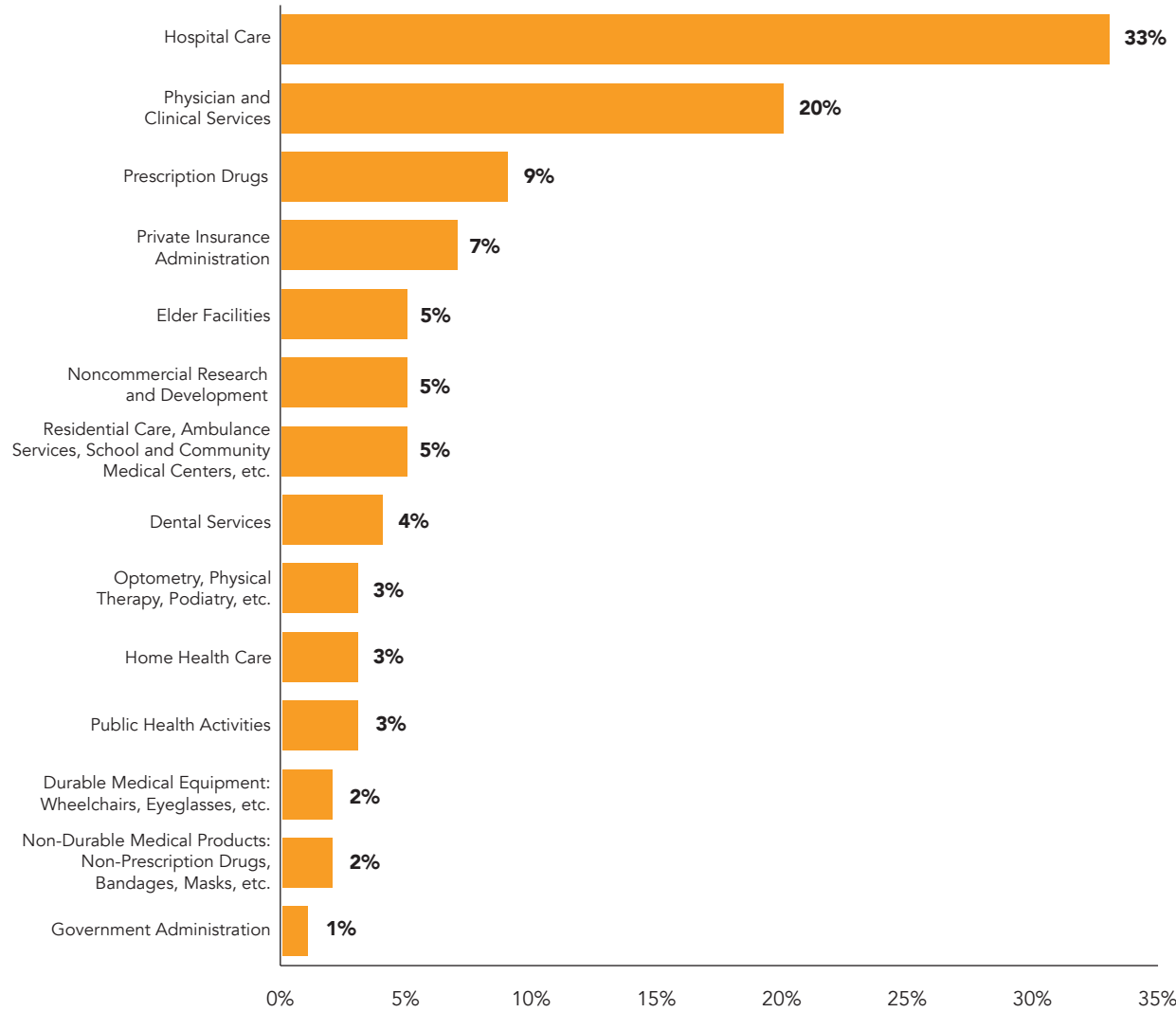
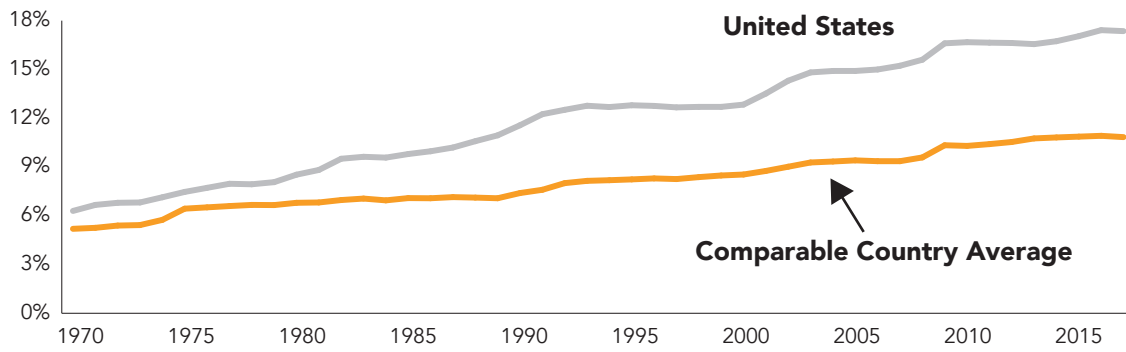


Figure 15.16
How the United States Spent \$3.6 Trillion on Health Care in 2018



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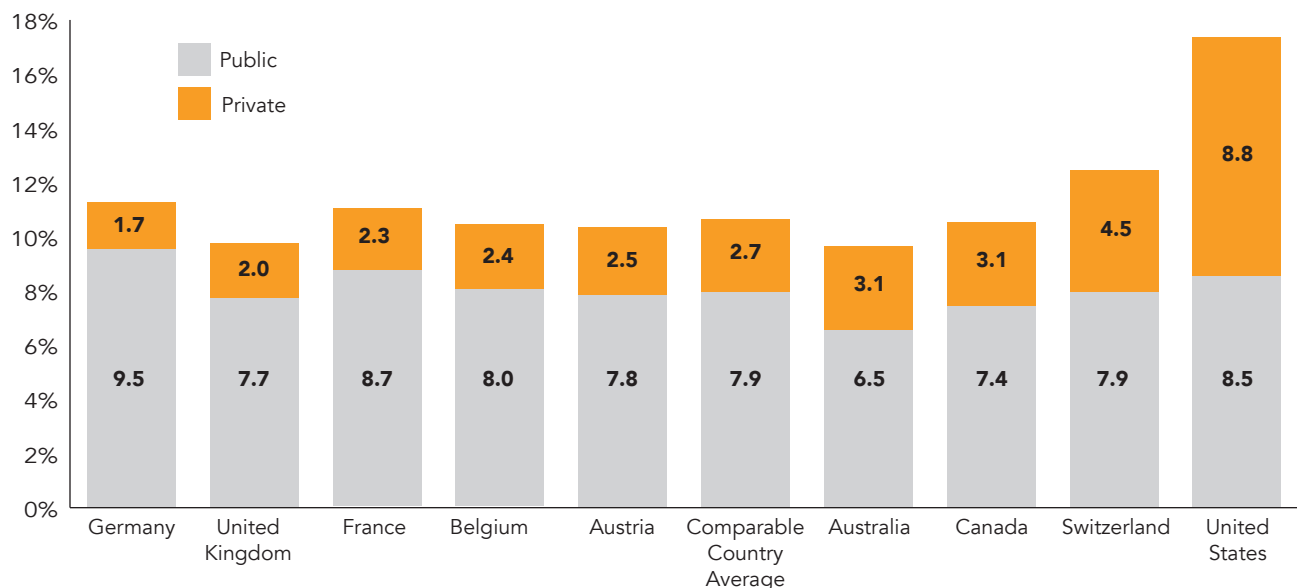
Figure 15.17
Health Care Costs as a Percentage of GDP, 1970–2017

and clinical services. Private insurance administration accounted for 7 percent, and government administration accounted for 1 percent.

Between 1970 and 2017, the amount we spent on health care nearly tripled (you can see it on the gray line in figure 15.17). Although my mother used to say, “Don’t compare yourself to others,” it’s human nature to be curious about what others are up to. Check out the orange line to see how our spending compared with other wealthy countries.

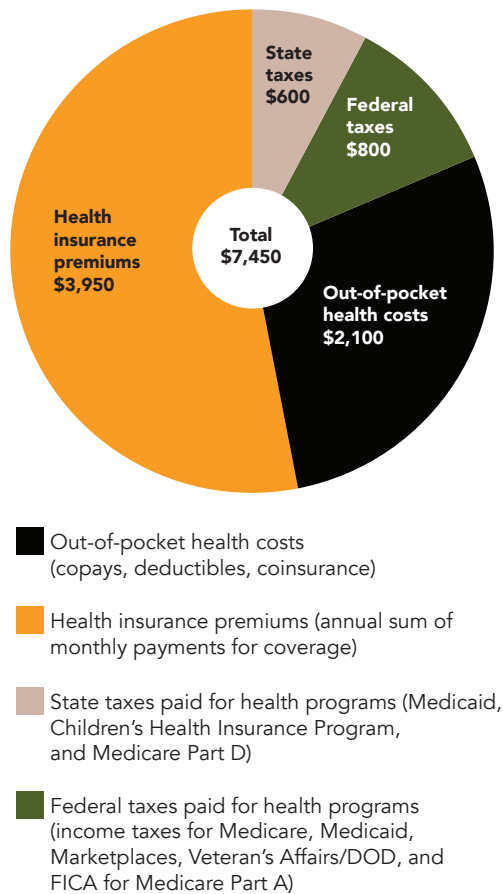
Interestingly, while we spent substantially more on health care than our peer nations, our public spending (Medicare, Medicaid, CHIP, and so on) is quite similar. It’s our private spending that is significantly higher—health insurance premiums, deductibles, copays, and other out-of-pocket expenses. You can see this in figure 15.18.

Health-care numbers are so big and so abstract that you might be feeling a little lightheaded and dizzy. Or maybe you’re just thinking, “Okay, enough already. Just tell me what I am going to



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Figure 15.18
Public versus Private Spending on Health Care, 2016



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Figure 15.19

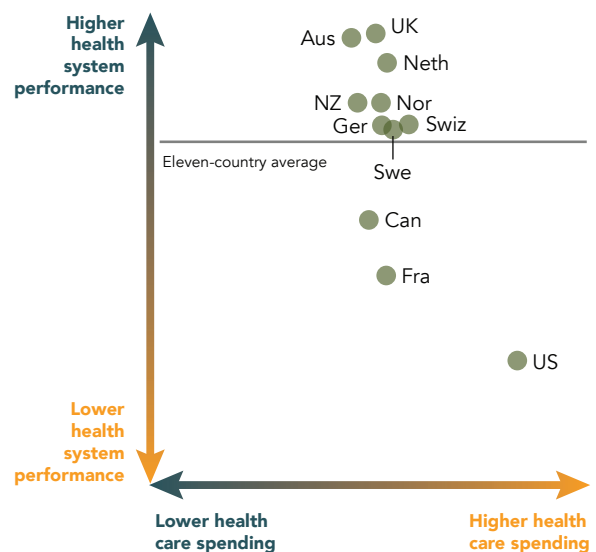
Estimate of What a Middle-Class Family of Four Spent on Health Care in 2017

pay for my health care.” There is an excellent calculator on the Kaiser Family Foundation website that breaks it down for you. Figure 15.19 shows what the insurance bill looked like for a family of four with a household income of \$50,000 in 2017. It’s assumed that their insurance came from an employer and that everyone in the family had average health. In this scenario, the family paid \$7,450, or 15 percent of their household income a year, on health care. When I used the calculator to see what a single person with an income of \$50,000 who had average health would pay, the cost was \$5,250, which was 11 percent of their income.

Now that you know what our country pays

in total for health care and what you and your family could end up paying, it would be natural to wonder if we’re getting our money’s worth. A study from the Commonwealth Fund concluded that while we have some of the best hospitals, most advanced biomedical research, and most exciting breakthroughs in medical technology in the world, we’re behind other nations when it comes to health-care outcomes, access to health care, administrative efficiency, equity, and more. You can see this in figure 15.20. According to this study, our health-care system not only costs the most, but it also underperforms. Ouch! Just to give you some examples, compared to our peer nations in 2017, we had the highest rate of suicide, the highest rates of multiple chronic conditions, the highest rate of obesity, and—shockingly—the lowest life expectancy.

The lower performance and higher prices of our health-care system have fueled the explosion of **medical tourism** over the past few decades. This is the idea that you can save money by going to other countries to have medical procedures



Reprinted with permission from The Commonwealth Fund.

Figure 15.20

Health Care Spending and Performance Comparison, 2017

done. While it's true that those who can pay for it come to the United States from around the world to have complicated surgeries and treatments at our most famous hospitals—the Mayo Clinic, Dana-Farber Cancer Institute, Johns Hopkins, and others—it's also true that Americans routinely travel abroad for health care because it's so much more affordable. Places like Thailand, Spain, Costa Rica, India, Mexico, and Argentina offer procedures for a lot less. For example, let's say you need coronary artery bypass surgery. In 2017, you could expect to pay around \$75,345 to have it done in the United States. Or you could fly to Spain and have the surgery, which would have cost you only \$16,247. You would have saved a bundle even if you chartered a private plane and recuperated in a palace. Of course, you'd have to pay for treatment in Spain out of pocket. It's highly unlikely that your insurance company would reimburse you for a medical tourism trip, and the palace is probably a no-go even if they did.

Health-care prices don't just vary around the world. Here in the United States, the same treatment, medication, and medical equipment can come with dramatically different price tags depending on your location. My favorite example of this is the price for a routine procedure called a colonoscopy, which is recommended for everyone every ten years beginning at age fifty. It is a screening test for colon cancer, which is otherwise undetectable, and if a problem is found, then it is recommended that you have a colonoscopy every three to five years. (If you're thinking about going into medicine, this is one specialty with a very high demand.) The test takes only an hour or so, but it requires anesthesiologists, nurses, and specialists,

along with imaging equipment, treatment rooms, and so forth. So how much did a colonoscopy cost in 2013? In Billings, Montana, it ran \$5,978, but in Nashville, Tennessee, it cost only \$2,116. You would have paid \$8,577 in New York, so the smart thing to do would have been to jump on the train and ride it 190 miles south to Baltimore, where the exact same procedure would have set you back only \$1,908. In fact, you would have saved so much money you could have skipped the train and traveled by stretch limo.

Of course, if you do take that train to Baltimore, you will likely run into another problem, which is that the provider in Baltimore is out of your New York provider network. This means that you might not get reimbursed for your colonoscopy. And there is yet another wrinkle in this pricing puzzle. Even when you stay in New York and go to a hospital in your network, you might end up with a surprise medical bill. This occurs when you get surprised by an out-of-network charge, even though you thought you were using an in-network provider. How do surprise medical bills occur? Let's say you needed a colonoscopy, and you checked beforehand to make sure the surgery center was in your insurance network. You went in feeling confident that your copayment for the procedure would be affordable, but you didn't know that the anesthesiologist was not in your insurance network. Or the doctor ordered a test from an out-of-network lab, and the medical transport that brought you home was not in the network. In every case, what happens? You get stuck with the bill. From the consumer's perspective, this is where health-care costs hurt the most. You can try to budget for your health insurance premiums and deduct-

ibles, but surprise medical bills can bury you after one medical procedure.

A Brief Look at the History of Funding Health Care

Health insurance wasn't widespread in the United States until the twentieth century. Previously, when people needed to see a doctor, they had to find a way to pay for it on their own. Even treatments for workplace injuries were covered by the employee. When labor unions formed in the early 1900s, they pushed to get more benefits for workers who were injured or fell sick on the job. In 1929, a group of teachers in Texas came up with the idea to prepay for health care before a person needed it. They arranged with Baylor University Hospital to pay a certain amount every month, and in exchange they could receive whatever health care they needed. This became the firm Blue Cross. Ten years later, doctors formed their own insurance group and called it Blue Shield. The two merged in 1982, and became Blue Cross Blue Shield.

The story of how health insurance became tied to employment has to do with World War II. With so many people off fighting the war, there was a major shortage of workers in every industry. The government passed wage controls so that employers wouldn't compete for scarce workers and drive wages up. So firms found another way to attract workers. They offered health insurance as a benefit. To this day, it's still a benefit for most full-time workers in the United States.

After World War II ended, in 1945, President Harry Truman, a Democrat, proposed a single-payer health-care system that would cover everyone and be paid for through a payroll tax. The Truman Plan never even made it to a vote in

You can try to budget
for your health insurance
premiums and deductibles,
but surprise medical bills
can bury you after one
medical procedure.

Congress. He didn't have the support of the American Medical Association, which viewed it as a form of socialized medicine that would curtail the autonomy of physicians. This era of American history was marked by anti-Soviet Union sentiment, and anything that smacked of socialism was rejected outright. So it was surprising

when, in 1974, President Richard Nixon, a Republican, proposed a single-payer national insurance program. Many of his fellow Republicans were appalled at the idea of turning health care into a large government-run bureaucracy. Even the Democrats were against it, albeit for different reasons. They said it would cost too much and not go far enough.

In 1965, President Lyndon Johnson, a Democrat, signed into law Medicare—the government insurance program for people ages sixty-five and older. Before Medicare, some seniors went without health care or paid for it out of pocket, and relatives often ended up footing the bill. By 2020, more than 60 million Americans were enrolled in the program. The Johnson administration also launched Medicaid in 1965. Before Medicaid, some low-income individuals and families accessed health care from charity clinics, public hospitals, hospitals funded by religious organizations, and private philanthropy. In 2020, 58 million Americans were enrolled in Medicaid and CHIP. Both Medicare and Medicaid have had their share of supporters and detractors, and battles are still fought in Congress about whether the programs should be expanded, ended, or replaced.

After Nixon's single-payer plan was opposed by both conservatives and liberals, he decided to throw his support behind the **managed care**

model. Providers and suppliers contract with insurance firms to be in their networks, and they prenegotiate prices for everything from office visits and lab tests to generic and name-brand medications. HMOs and PPOs, TRICARE, and others use the managed care model to try to contain costs for health care.

Fast-forward to 1986, when President Ronald Reagan, a Republican, passed the Emergency Medical Treatment and Labor Act (EMTALA), requiring hospitals to treat anyone who shows up at an Emergency Department with a sudden or acute health problem. Patients are entitled to be evaluated and stabilized (including admission to the hospital if necessary), whether or not they can pay for services. This is uncompensated care, meaning the hospital isn't paid. To make up the shortfall in their budgets, hospitals routinely charged more to patients who had insurance and could pay for services.

By the 1990s, the number of companies that chose managed care plans skyrocketed. Employers eagerly embraced it as a cost-saving measure. Even the government used managed care for some of its benefits programs. When President Bill Clinton, a Democrat, took office in the mid-1990s, there was widespread disgruntlement with the health-care system. There were a lot of arguments about whether managed care was helping or hindering the nation. He promised reform and appointed his wife, Hillary Rodham Clinton, to head up the Task Force on National Health Care Reform. Hearings were held, and hundreds of government officials, health policy experts, and other stakeholders were consulted to gather ideas and concerns. The result was the Health Security Act of 1993, which ultimately failed to get support from Congress.

President George W. Bush, a Republican, followed Clinton into the Oval Office. In 2003, a lot of national attention was being paid to the high prices for prescription drugs and seniors' inability to afford them. Bush surprised his party by

expanding Medicare to include a Part D to cover prescription drugs. Many conservatives were furious with him for adding another health-care role for the government.

This is the world that President Barack Obama, a Democrat, faced when he took office in 2009. Like so many presidents before him, he used his political capital to address the stalemate in Congress around health-care reform. In 2010, he signed the Patient Protection and Affordable Health Care Act, commonly known as the **Affordable Care Act (ACA)** or *Obamacare*, which we will talk about at length in a moment.

In 2016, Vermont Senator Bernie Sanders, a Democratic Socialist, ran for the presidential nomination as a Democrat and championed the idea of a single-payer health-care system. Although he lost his quest for the nomination (and lost again in 2020), he revived the idea of single-payer health care as an option for the United States.

The Affordable Care Act

The ACA was intended to make health insurance affordable and available for more people. It expanded Medicaid to cover more low-income people and supported types of medical care that advocates believed would lower the overall costs of health care, including prevention. It also created more government regulation of the private health-care industry—both providers and health insurers. As you can imagine, liberals were elated when it passed, radicals felt it was the wrong direction to take, and conservatives were vehemently opposed to it. In its original form, the ACA included the following components:

Health insurance mandate. For the first time, health insurance was required for all, and those who didn't have health insurance paid an annual fine.

Young adult coverage. People under the age of twenty-six could be covered under a parent or guardian's plan.

Ban on exclusions. People with preexisting conditions, such as cancer, diabetes, or asthma, could not be denied coverage. Insurance companies were not allowed to cancel their insurance, refuse to renew their policy if they became sick, or raise their rates based on their health status.

Workplace insurance requirement. Any employer with fifty or more *full-time* employees was required to offer health insurance to workers.

Standardized policies. Insurers had to offer four tiers of coverage (referred to as *bronze*, *silver*, *gold*, and *platinum*). Some had lower premiums and higher out-of-pocket costs, and others had higher premiums and lower out-of-pocket costs. Regardless of tier, every health insurance policy was required to include the same set of basic essential health benefits, including maternity and newborn care, doctor's visits, health and mental health treatment, substance abuse treatment, hospitalizations, preventive care, and more.

Limits and caps. Insurance firms were not permitted to set annual or lifetime limits on health-care coverage. At the same time, the ACA established a cap on out-of-pocket expenditures. If a person paid a certain amount in health-care costs, then the insurance company automatically paid or reimbursed all their remaining health-care bills for that year.

Rebates to consumers. If 80 to 85 percent of a person's premiums was not used for health costs in a year, insurance firms had to send the customer a rebate. In 2019, \$1.37 billion was paid to nine million consumers.

Needs-based coverage. The government program for the poor (Medicaid) was expanded to cover more people. Those who earned too much to qualify for Medicaid but couldn't afford to pay for health insurance on their own were eligible for subsidies from the government. Funding for subsidies and Medicaid expansion came from taxes on the wealthy and corporations.

Health insurance exchanges. Government established and ran regional online marketplaces, where insurance firms could compete for new customers.

Affordable health care defined. The ACA established a baseline for what was officially considered affordable health insurance. In 2020, affordable health care was defined as 9.78 percent of a person's annual household income.

No one from any economic perspective was completely happy with the ACA, and everyone acknowledged that the version that passed was the product of a lot of wrangling, bargaining, and compromise. Democratic Socialists continued to criticize it as a system with a fatal flaw, because it was still steeped in capitalism's drive for profits. Democrats said it was movement in the right direction, but it needed to be improved and strengthened. Republicans complained bitterly that government interference now made health care more expensive and less accessible.

An Ever-Changing Landscape

As you can see from this brief summary of health-care policies in the past century, this issue has been a political hot potato. The ACA was passed in 2010 under President Obama and defended during his two terms in office, then vigorously challenged by President Donald Trump during his four years in office. When he took office in 2017, his first order of business was to repeal Obamacare. With a Republican majority in both the House and the Senate, it seemed like an easy win. To his surprise, there was resistance. He tried three times but couldn't get the votes. Even the fourth and fifth attempts, which only proposed to cut parts of the ACA, were unsuccessful. Trump gave up on Congress and instead attacked the ACA with what some called a **synthetic repeal**—tactics to undermine the bill so that it became ineffectual. To that end, he cut the

budget for Medicaid, decreased the advertising budget for health-care exchanges by 90 percent, refused billions of dollars of payments to insurers, and allowed insurers to offer *skinny* packages that didn't include the ACA's essential health benefits. He also got rid of the individual mandate to carry health insurance, so people were no longer fined if they didn't have coverage. Then he argued in court that the absence of the individual mandate rendered the ACA unconstitutional. He also directed the Department of Justice not to defend the rights of people with preexisting conditions to have health insurance. Challenges to the ACA were heard several times by the Supreme Court. In every case, it decided in favor of the law's constitutionality and upheld it. After Trump left office in 2021, the ACA was reaffirmed by President Joe



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of health care. You learned the tools needed to analyze compet-

Biden. We'll have to see what happens next, but one thing is certain: the issue will continue to be hotly contested for the foreseeable future.

When it comes to the issue of health care, there's actually a considerable amount of agreement among radicals, conservatives, and liberals. All three perspectives agree that we're paying too much as a nation for health care. They agree that it's wrong that our health outcomes are worse compared to our peer nations. They agree that patients should be able to know prices before they decide to have a procedure, and that surprise medical bills are unacceptable. And they agree that we should be sick to our stomachs over the high prices individuals and families pay for health care. They all agree that our current health-care system has significant problems.

ing ideas about how to solve the problem of lack of access to high-quality health care. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on Health Care

Conservatives, liberals, and radicals agree that lack of access to high-quality health care is a problem. They share the same goal of health and well-being for all, but they don't see eye to eye on the best way to achieve it. Should it be left to private insurance firms in a free market? Should the government regulate health-care providers and the health insurance industry while also offering public options? Should health care be a universal benefit managed by the government and supported by the whole society? The policy we currently follow is a regulated for-profit health-care system and government health-care programs in capital-

ism, which is why we described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and debate this policy from each of the perspectives. As always, please remember that the VOTE Program doesn't take a particular position on this or any other issue. We're just channeling the voices of the perspectives so that you can hear the different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the conservatives will go first.



Conservative

Voice on Health Care



Health
Care

At four in the morning, hearing that I might be having a heart attack, I should have done the smart thing and immediately called an ambulance. Why did I hesitate? Because I was worried about how much it would cost. Even though I had insurance, I wasn't sure if I could afford the deductible for the ambulance, the Emergency Department visit, and the heart tests. The fact that I was in this situation wasn't the fault of the ambulance company or the hospital. Emergency

medical technicians, doctors, and staff were ready and willing to take care of me. It wasn't the fault of my insurance company, either. That firm obviously has a stake in my good health. The fault was with the government. Because it mucks around with unnecessary rules and regulations for insurers and providers, the costs for health care in this country give us all high blood pressure. The ambulance ride, ER consultation, and heart test should not have been prohibitively expensive, but government interference sickens our health-care system with burdensome regulations that drive up prices and lower the quality of care. It's outrageous that health-care professionals—people who went to medical school and nursing school and other experts—are prevented from using their hard-won knowledge to the patient's benefit in the most efficient ways. Instead, the government buries them in paperwork. Thousands of billable hours get eaten up in a snarl of administrative forms and endless com-

pliance reviews. The high costs of bureaucracy are passed along to patients. That's why people with treatable conditions don't go to the doctor, and people who are having heart attacks, strokes, or diabetic seizures hesitate to call an ambulance. That's also why those who do seek treatment end up with heart-attack-inducing medical bills and mountains of medical debt they can never pay back. There's a simple and effective cure to all the problems in our health-care system. We say *no* to the bad medicine of government regulations. We can count on the profit motive to deliver the most advanced medicine, biotech, and medical research on the planet. Free-market competition means only the best and the brightest doctors and nurses rise to the top, so we have the most skilled surgeons, the most talented diagnosticians, and the best caregivers. Then we'll have the health care we want and need.

Let's consider the graph in figure 15.21. We get lower prices for private health insurance and

more people covered in free-market capitalism, and we achieve this happy result simply by ending government interference. Doing so immediately creates a cascade effect of lowered costs for health insurance firms. This occurs in a dizzying number of ways, thanks to a deregulated environment. Here are a few examples. When government moves aside, insurance firms are now free to compete across state lines. Bigger firms serve customers more efficiently, so what happens? Costs come down. When firms no longer have to pay steep corporate taxes to fund government bureaucracies that police the industry, what happens? Costs come down. Since insurance companies can now directly negotiate with providers to lower their prices, you guessed it—costs come down. And since there is no more bureaucratic red tape, doctors have sole discretion to decide the best treatments for patients, and new cost-saving and life-saving therapies and medications are quickly and efficiently approved. The happy result? Costs for health care plummet. On top of that, insurance firms are now free to pro-

tect their profits by pressuring providers to cut waste and eliminate fraud—since those activities bruise their bottom lines. Once again, costs come down. Thanks to deregulation of the health insurance market, all this and more leads to a dramatic shift of the supply curve to the right (S^2). We end up with significantly lower premiums (P^2) and higher quantities (Q^2) of health insurance. By eliminating government interference and harnessing the profit interest of firms in free-market capitalism, our health-care system is cured. We get the lowest prices for health insurance. This throws open the door for millions more people who want and need it. Now they, too, can benefit from our world-class medicine and state-of-the-art health care.

It's human nature to push back when we think something that belongs to us is being taken away. For example, my daughter has never been a fan of chips. She can walk right past a bowl of potato chips or corn chips and feel completely indifferent. When she was six years old, we were out to dinner at our favorite Mexican restaurant, and the server put a bowl of tortilla chips on the table, which my daughter promptly ignored. She was in a particularly bad mood that day, and as we waited for our food, we could see a tantrum brewing. If we'd been at home, we would have advised her that if the whining continued, she would lose her opportunity to play outside, but as we were in a restaurant, we improvised. "If you continue to act this way, we'll take away the tortilla chips," we told her. She was outraged. "You can't take them away! They're mine! I want them!" This story about my daughter defending her right to the chips that she didn't even like is a perfect analogy to what happens when we debate the issue of health care. People protest when their Medicare is threatened, but no one actually likes the expensive and overly complicated government-run health-care system. No one wants bureaucrats in Washington to tell your doctor, your ambulance driver,

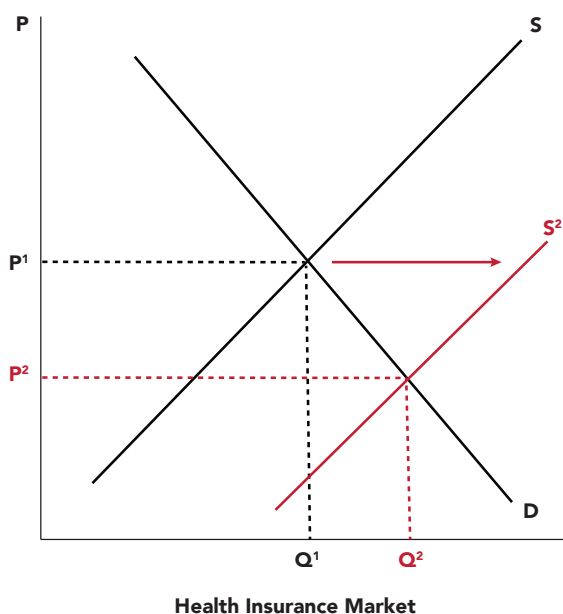


Figure 15.21
Conservative View: Health Care

and the custodian at the urgent care clinic how to do their jobs. We get lulled into thinking that this is the way the health-care system has to be, and there's nothing we can do to change it. That is wrong. The minute we tell government to stop interfering, the health-care system heals itself. We still have transparency and accountability, because the industry has a vested interest in protecting its reputation. Firms want to make a profit, so they act responsibly to earn and keep their customers' loyalty. If people are unhappy with a firm's policies or practices, they can vote with their wallets and move to another insurance firm. This is how free markets self-regulate. Ultimately, that's what delivers the best possible health care for all of us. We get the best choices, the highest efficiency, the most cutting-edge innovations, and the lowest prices for health care when we let the market be guided by the invisible hand of price signals.

It is insulting to be told by the government what to buy. I shopped for a bicycle a few years ago. I picked out a lower-priced hybrid that was light enough for road riding but had bigger tires for desert terrain. I didn't want to pay extra for a bike with shock absorbers, and since I don't ride at night, I didn't buy the light accessory, but I did buy the odometer because I like to know how far I've gone. Now imagine you don't want a bicycle, but you're told you must buy one anyway—it's the law. You risk being fined 10 percent of your annual income the first year you don't have a bicycle, more the following year, and so on. You would say, "I thought I lived in a free country where I could make my own decisions about how

We get lulled into thinking that this is the way the health-care system has to be, and there's nothing we can do to change it. That is wrong. The minute we tell government to stop interfering, the health-care system heals itself.

to spend my money!" Now imagine you own a bicycle firm, and you're told by the government that every bicycle you produce must include shock absorbers, a light, and an odometer as basic essential features. You would have to raise the price of your bicycles, and customers would be stuck paying for accessories they don't even want. This is what's wrong with government meddling in our business. Firms should be able to supply products

with features people actually want. They can get this information simply by reading the market and following price signals. People should have the freedom to make their own purchasing decisions. Would you rather have a government that respects your intelligence and protects your liberty, or a government that treats you like a child and acts as if it knows better than you what you want and need? Yeah—I thought so. "First, do no harm" is a doctor's credo, and it should also be the government's mission statement.

Going to the doctor, having a test done, taking a medication, being fed in a nursing home, giving birth to a child—these are deeply private experiences that should be between you and your health-care provider. But you liberals invite the government into the treatment room and give it power over our most personal decisions. Imagine your doctor says that you have only six months to live and then tells you that there's an experimental treatment that might save your life. Before you can even feel a glimmer of hope, the government butts in and says, "Sorry, no. We haven't approved it yet. There could be harmful side effects, so you're not allowed to try

this potentially life-saving measure.” But you’re already dying! As the philosopher Baruch Spinoza wrote, “Whatever is contrary to reason is absurd.” Liberals, you make absurdity the norm in our health-care system. Government intrusion doesn’t solve the problems in health care—it makes them worse. Every day, working people stagnate in jobs they hate because they can’t afford to lose their employer-subsidized health insurance benefit. Firms are forced to pay for workers’ health insurance, and what happens? Small business owners go bankrupt trying to comply, or they turn around and cut hours or cut positions. Now workers have no jobs and no health insurance. With your policies, even the most minor treatments are unaffordable. People who receive treatment for a medical emergency go bankrupt trying to pay their inflated bills. It should go without saying that the government should not be in the business of providing health care. You liberals created a system that bleeds us dry in high taxes to pay for clunky government health programs that offer—at best—mediocre health care. In the meantime, firms can’t operate profitably, families struggle to get out from under a mountain of medical debt,

providers can’t deliver the best care, and insurance companies are forced to keep raising premiums and forced to deny treatments that could help people. It’s no wonder our nation has the lowest wellness outcomes compared to our peer nations. Your ideas haven’t made us healthier or lifted the financial burdens of health care—and they won’t.

Radicals, your whole concept of *social safeguards* is completely misguided. The minute you guarantee that the government will meet everyone’s basic material needs, society collapses. When everything is handed out for free, there is no motivation to work. Your democratic socialist economy will come crashing down around our heads, but there won’t be a health-care system to patch us up. When people don’t work, they don’t generate any revenue, so there is nothing to tax. Your single-payer health-care system is a nonstarter. But even if it could get off the ground, without a reward incentive there won’t be any new advances in medicine. It takes years of study and dedication to learn how to do liver transplants, heart bypass surgeries, and colonoscopies. No one will pursue medicine as a career without



a profit incentive, so get ready for shortages and public health crises. If this isn't enough to make you break out in hives, consider the dangers of putting the government in charge of health care. Remember last time you had to renew your driver's license, and the hours you waited in an uncomfortable plastic chair for your number to be called? Picture that misery while you're waiting for approval to have a broken arm set, or to get medicine for your child's asthma. In a single-payer system, there is nowhere else to go for help. And when you're finally seen, it's not your doctor who has the final say about your treatment. Those decisions are in the hands of health-care councils. But since there are no copays or deductibles, everyone with the sniffles demands to see a top specialist. Obviously, that's not going to work, so health-care councils end up rationing health care. As the gatekeepers, they decide who gets the knee-replacement surgery and who gets the wheelchair. Stop and consider how dangerous this situation is. Even your leftist philosopher Albert Camus rightly noted, "The welfare of the people has always been the alibi of tyrants." Your radical plan of democratic socialism and a government takeover of health care is a deadly prescription. Let's bury the single-payer policy before it buries us.

We should reject the current policies of a regulated health-care system and government programs and replace them with private health insurance to ensure health and well-being for all. The promise of profit motivates providers and insurance companies to supply the best health care at the lowest prices when government leaves them alone. They are no longer cornered through government-induced high costs into raising premiums and denying coverage for experimental treatments that might possibly save

lives. Firms offer a wide assortment of options to appeal to every budget and need, including plans for young, healthy people who only want to pay for the basics, such as an annual wellness checkup, a flu shot, and an ER visit in case there's an emergency. Middle-aged people with complicated health histories can buy plans that offer more coverage, such as visits to specialists, medications, and physical therapy. The private sector designs the insurance policies people want. If people choose a high-deductible plan with lower premiums, expanded health savings accounts (HSAs) help mitigate the risks of a costly medical emergency. Their pretax dollars can even grow over time to cover future out-of-pocket expenses for treatment and prevention, including gym memberships and nutrition consultations. When we get rid of Medicare, working people are able to save and invest their hard-earned dollars and buy the health insurance they choose in their golden years. We get rid of Medicaid, too, because it's unnecessary. The free market makes insurance affordable for every income level. In the rare case when someone can't afford the rock-bottom premiums, then families, religious institutions, charity organizations, and other private and corporate philanthropy step in to help. No one falls through the cracks. On top of all this good news, we have the most advanced innovations in medicine because private firms are constantly motivated to maximize their profit. The quality of health care also improves because providers are free to make the best medical decisions based on their knowledge, training, and experience. When we let the market be guided by the invisible hand of price signals, we get the best treatment options, the most skilled providers, and the most compassionate care from our first breath to our last.

Conservative

Free-Market Capitalism



Health
Care

BIG PICTURE

We get the best choices, the highest efficiency, the most cutting-edge innovations, and the lowest prices for health care when we let the market be guided by the invisible hand of price signals.

POLICY POSITION

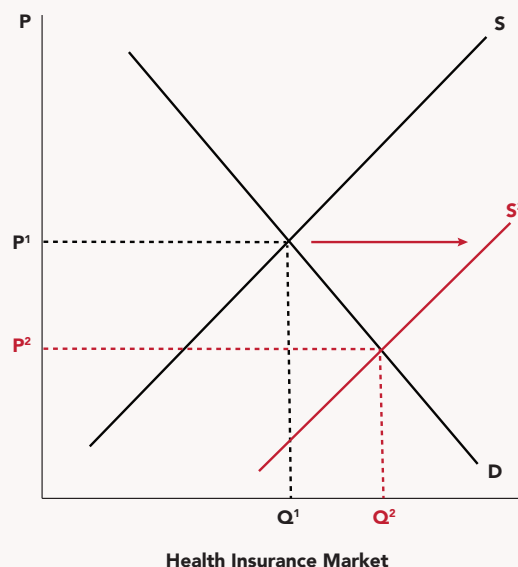
There is lack of access to high-quality health care, but . . .

- ▶ Liberal policies narrow choices, raise prices and taxes, lower quality, and interfere with our most personal decisions about our health care.
- ▶ Radical policies stifle innovation, kill competition, and clear a path for tyranny by giving government control over who will and won't get medical care.

SOLUTION

Reject a regulated health-care system and government programs and replace them with private health insurance to ensure health and well-being for all:

- We get more choices, lower prices, and better outcomes.
- Private philanthropy steps in as a safety net.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Health Care Talking Points: **Conservative**

1. There's an easy-to-swallow prescription for fixing health care: we tell government to stop interfering, and the system self-heals. We can count on the profit motive to deliver the most advanced medicine, biotech, and medical research on the planet. Free-market competition means only the best and the brightest doctors and nurses rise to the top, so we have the most skilled surgeons, the most talented diagnosticians, and the best caregivers. Ultimately, that's what delivers the best possible health outcomes for all of us.
2. Self-regulation works to deliver the best possible health care because if people are unhappy with a company's policies, prices, or practices, they vote with their wallets and move to another firm. By eliminating government interference and harnessing the profit interest of firms in free-market capitalism, our health-care system is cured. We get the lowest prices for health insurance. This throws open the door for millions more people who want and need it. Now they, too, can benefit from our world-class medicine and state-of-the-art health care.
3. Going to the doctor, having a test done, taking a medication, being fed in a nursing home—these are deeply private experiences that should be between you and your health-care provider. But you liberals invite the government into the treatment room. You give it power over our most personal decisions, including whether a dying person can try a life-saving drug. That's absurd, but you make absurdity the norm in our health-care system.
4. The government should not be in the business of providing health care. Liberals created a system that bleeds us dry with high taxes and delivers clunky government programs that provide mediocre health care. In the meantime, firms can't operate profitably, families are buried in medical debt, providers can't deliver the best care, and insurance companies are forced to keep raising premiums and deny treatments that could help people. Liberal policies condemn us to death by a thousand cuts.
5. Radicals, when everything, including health care, is handed out for free, there is no motivation to work. When people don't work, they don't generate any revenue, so there is nothing to tax. Therefore, your universal health-care system is a nonstarter. But even if it could get off the ground, without a reward incentive there won't be any new advances in medicine. No one will pursue medicine as a career without a profit incentive, so get ready for substandard health care and public health crises.
6. Picture the misery of waiting for hours or even days to get approval to have a broken arm set. In a single-payer system, radicals, waiting is your only option. When you're finally seen, it's the health-care council, not your doctor, who has the final say about your treatment. Plus, everyone demands to see a top specialist because why wouldn't they—there are no copays or deductibles. That causes shortages, so health-care councils have to ration health care. Let's bury the single-payer policy before it buries us.
7. A deregulated health-care system of private health insurance in a free market makes us all better off. Firms offer a wide assortment of policies to appeal to every budget and need. Healthy people can pay less to get basic coverage, while those with complicated health histories can buy more coverage. If people choose a high-deductible plan with lower premiums, expanded health savings accounts help mitigate the risks of a costly medical emergency. Their pretax dollars grow over time and cover future out-of-pocket expenses.
8. To heal our broken health-care system, all we need to do is dismantle government health programs. We get rid of Medicare and let working people save and invest their own hard-earned dollars to afford the health care they choose when they retire. We don't need Medicaid, because the free market makes insurance affordable at every income level. And in the rare case when someone can't afford the rock-bottom premiums, then private and corporate philanthropy step in to help.

Liberal

Voice on Health Care



Health
Care

At four in the morning, hearing that I might be having a heart attack, I found myself in a dangerous quandary. If I took a gamble that the pressure in my chest was just a bad reaction to something I ate or a panic attack, I could be wrong and die. On the other hand, if I called an ambulance and went to the ER and had tests done, it could take a painful bite out of our savings account. If the ambulance that showed up at my door, or the doctor who happened to be

working when they brought me in, was outside my provider network, I could end up with a surprise medical bill that would bury me in debt. It's a bitter pill to swallow when you pay a fortune for insurance, yet you can't feel confident that you can afford the care you need whenever and wherever you need it. And while I was being treated, how could I be sure the doctor wouldn't order unnecessary tests—either through incompetence, fear of being sued, or a desire to make a little extra off my heart attack? Each one of us absolutely needs health care, but we're vulnerable to fraud and abuse by insurance firms and providers. That's why we need government to watch our backs. By working with industry to establish best practices and oversight, it keeps us physically and financially healthy. With fair-market capitalism, we get the highest-quality, most affordable, and most accessible health-care system in the world. Our firms innovate and bring to market amazing life-saving devices, smarter models for compre-

hensive care, and highly accurate medical tests. These are the gifts of the profit motive. But it's not just for the wealthy. Everyone has access to these marvels because we have both public and private options. With government insurance programs, we protect our most vulnerable and give them equitable opportunities to thrive and succeed. The helpful hand of government sets us all up to be healthy and productive. The best medicine for society is a strong public-private partnership.

Let's consider the graph in figure 15.22. When the government and the health insurance industry work together, the whole picture of health-care affordability changes dramatically. For starters, the government mandates that everyone must have health insurance, and no one can be excluded based on a preexisting condition. This creates a win-win situation for insurers and society. For example, firms are relieved because now they are guaranteed to have the right mix of customers—those who need health care today and those who

don't. Individuals can sleep well at night knowing they and their loved ones have health-care coverage. Those who can't afford private insurance on their own may get government subsidies or qualify for the expanded Medicaid program. Funding for both of these social safety nets comes from taxes on the wealthy. With government's health-care mandate, demand for health insurance shifts to the right (D^2). Government involvement also shifts supply to the right. Using its expertise and reach, it strengthens regulations on providers that require transparency and accountability. This cuts costs for insurance firms because government eliminates fraud—no more providers filing false claims. It cuts waste—no more unnecessary tests ordered by doctors. It prevents abuse—no more overcharging by hospitals. And it improves efficiency and safety—no more medical error because providers are required to use electronic medical records. In addition, health care exchanges enable insurance firms to spend less on marketing because the government helps them find new customers. All of this taken together shifts the supply curve even further

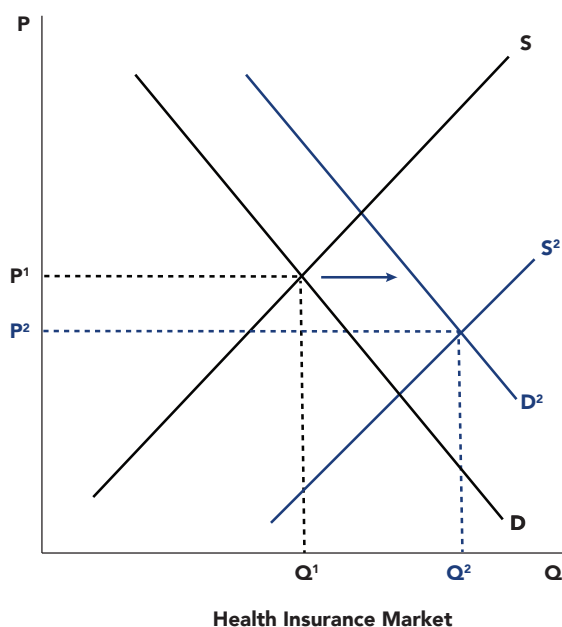


Figure 15.22
Liberal View: Health Care

to the right (S^2), enough to overshadow the effects of the rightward shift in demand. At the new equilibrium, we end up with lower prices (P^2) for insurance and a dramatic increase in the number of people who are insured (Q^2). With the helpful hand of government, we're protected by gold-star standards and best practices so we can live the healthiest possible lives.

I love to stroll through the downtown area of my city and check out the public art. One of my friends is a talented sculptor. It's hard to make a steady living as an artist—public art is not in demand every day—so he often scrambles at the end of the month to make ends meet. The year he turned fifty, I called to congratulate him on reaching his half-century milestone. “I’m lucky I’ve been healthy so far,” he said, adding, “I haven’t had health insurance for fifteen years.” He had a pre-existing condition, he explained, and every time he applied for insurance, he was either rejected or quoted a prohibitively expensive premium. After we hung up, I thought about how wrong it was that so many hardworking people like my friend couldn’t get health insurance. What kind of inhumane system turned this necessary product for everyone into an unaffordable luxury for some? This wrong was made right a few months later, when Congress passed the Affordable Care Act. Insurance companies were no longer allowed to exclude people for preexisting conditions. Before his next birthday, my friend signed up for health insurance for the first time in his adult life. “With a subsidy, I can afford it!” he told me, elated. Not only that, but his policy included all the basic essential coverage he needed to stay well. Two years later, I heard that his wife was diagnosed with cancer. She’d served honorably in Afghanistan and was treated at the local VA. That same year, an older friend signed up for Medicare. She’d worked all her life and was ready to start enjoying retirement without worrying about the high costs of health insurance. A cousin who’d been lan-

guishing at a dead-end job just to keep his insurance was finally able to buy an affordable individual plan through a government health insurance exchange and then realize his dream of starting his own business. Government exists to solve our problems, and when we have a strong public-private partnership, we can achieve anything. Public health institutions work with the private sector to anticipate problems and develop the smartest systems to protect our health and well-being and respond to public health crises. Working together, government and the profit-motivated private sector create an affordable health-care system with the best-quality treatments and providers, groundbreaking innovations, and access for all.

Radicals, we have the most advanced medicine the world has ever known because government partners with private industry to invest in technological innovations, and individuals and firms are motivated in fair-market capitalism to work hard and reap the rewards of their labor. The promise of profit is the reason our country attracts the best doctors, medical engineers, and researchers from around the world. We mapped the human genome, thanks to the private-public partnership in capitalism. We found ways to reverse blindness, thanks to the government and industry. Doctors today can perform life-saving surgeries and regenerate damaged nerves because our regulated health-care system offers fair rewards for talent and hard work. Say farewell to all this when your democratic socialism delivers the death blow to innovation and motivation by making the drive

Government exists to solve our problems, and when we have a strong public-private partnership, we can achieve anything. We mapped the human genome and found ways to reverse blindness, thanks to the private-public partnership in capitalism.

for profit something to be ashamed of instead of celebrated as the reason for our well-being. We'll lose our best and our brightest, and that brain drain will set us back decades—a nasty side effect of democratic socialism. What you don't seem to get is that we can have the best of both worlds: state-of-the-art health care in a managed, for-profit system. You radicals say a single-payer health-care system is the panacea. Sure, a public option for health care is important, but imposing it

on everyone as the only option? Call a *code blue* right now, because we're all going into cardiac arrest when the government becomes the sole funder and provider of health care. It will be left in the hands of health-care councils to set prices, policies, and coverage. No competition on top of no profit on top of non-experts at the helm will leave us limping along with a mediocre system run on apathy. Our health will suffer—more chronic diseases, higher mortality rates, and more public health crises. But luckily, we won't have to endure this for long because your single-payer system won't get off the ground. Why not? Just listen for a minute—no, that's not a ringing in your ears. It's the echoing sound of the empty coffers of a democratic socialist society. The simple math is that without the drive for profit, you can't generate enough wealth to pay for your health-care system. As Winston Churchill famously said, "The inherent virtue of socialism is the equal sharing of miseries." When democratic socialism sends us back to the dark ages, we'll be living in a nightmare of sickness, suffering, and death.

Conservatives, your plan to throw regulations out the window and trust health insurance firms and providers to self-regulate is a deadly prescription. The rolls of uninsured will go up by the millions. Without government oversight, people are denied health insurance, their policies are abruptly canceled, or their premiums shoot up. Why? Because they actually need to use their health insurance. But firms aren't the problem. Of course they need to make a profit. The problem is free-market capitalism. When you get rid of regulations on providers, costs go up from waste, fraud, and abuse. You make it impossible for us to have affordable health insurance. And when you get rid of regulations on insurers, the public has no protection. We end up with a lopsided system in which the mega rich get the cutting-edge heart transplants and gene therapies, the middle class get chemotherapy and go bankrupt from medical debt, and the poor can't even pay for high blood pressure medicine and end up having strokes. As

Winston Churchill said, "The inherent vice of capitalism is the unequal sharing of blessings." We need a middle way, with fair and impartial rules to guide capitalism so that everyone has equal access to health care. And please stop saying we can all have health insurance if we just work hard. People can't pull themselves up by their bootstraps when they're too sick to get out of bed or when they can't take a breath because they couldn't afford asthma medicine, or when they're in constant pain from arthritis. The free market leaves us vulnerable to firms charging sky-high prices, giving us fewer choices, and offering only scary, low-quality care. Premiums soar, and working people are forced to settle for policies that cover next to nothing and still cost an arm and a leg. Inadequate coverage, if they get any coverage at all, leaves people without the prevention and treatment that could save their lives and keep our society productive. When everyone calls in sick from the free-market solution, GDP will tank. The



first thing to be cut will be philanthropy, so there goes your solution for the legions of poor people who couldn't afford health insurance in the first place. So where will those sick and suffering people end up? On the streets, where diseases are bound to fester. We can look forward to raging epidemics—oops, you got rid of our public health institutions. Thanks to your free markets, we're all doomed.

We should strengthen the current policy of a regulated, for-profit health-care system and government health-care programs to ensure health and well-being for all. Government partners with providers and insurers to develop and enforce rules, standards, and regulations for best practices. The Affordable Care Act ensures that we all have access to high-quality, affordable care, and that insurance covers the basics. With a health-care mandate, we can all be as healthy as possible. People who want private insurance don't have to worry about rates going up or being dropped from their plans if they get sick. Thanks to regulated health care, no one is denied health insurance on the basis of preexisting conditions. And if a person loses their job, they can buy insurance on the government-run health insurance exchanges. These policies are affordable for every budget. For those who need extra help, health insurance subsidies are available or they may qualify for an expanded Medicaid program. Both subsidies and

expanded Medicaid are funded by taxes on the wealthy. That's only fair, because their businesses benefit from a society that has healthy workers. The health-care mandate reduces absenteeism in the workplace and raises productivity across society. It also helps health insurance firms because it means that they can stay viable and profitable. Government involvement in our health-care system provides impartial experts to test medications and medical equipment to make sure they don't cause harm. Our public health system protects us during epidemics and helps us avert medical catastrophes by providing prevention measures and widespread access to appropriate care. Government is always watching out for our interests by curtailing fraud, waste, and abuse. It keeps hospitals accountable and transparent in their billing practices and requires providers to use cost-saving and life-saving electronic medical records. In every case, it makes financial sense to invest in public options while supporting and regulating private industry. Public insurance gives the elderly, veterans, and federal employees the care they need, and we expand it so that anyone who wants a public option can choose it. When we let the market be guided by the helpful hand of government, we get the best treatment options, the most skilled providers, and the most compassionate care from our first breath to our last.

Liberal

Fair-Market Capitalism



Health
Care

BIG PICTURE

Working together, government and the profit-motivated private sector create an affordable health-care system with the best-quality treatments and providers, groundbreaking innovations, and access for all.

POLICY POSITION

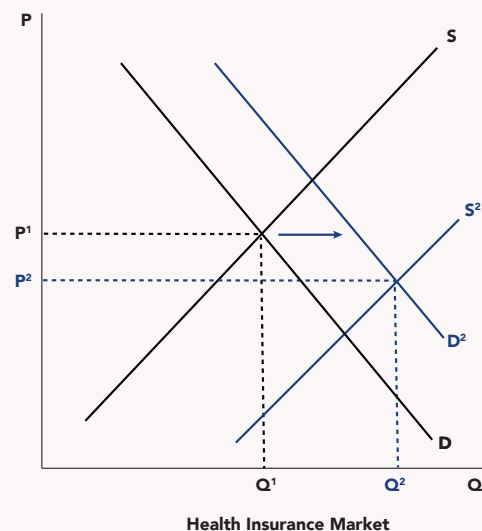
There is lack of access to high-quality health care, but . . .

- ▶ Radical policies lead to deadly results by killing motivation, destroying healthy competition, and leaving us with zero choice, inefficiency, and apathy.
- ▶ Conservative policies lead to skyrocketing premiums, outrageous profits, dangerous medicine, public health crises, and masses of uninsured people.

SOLUTION

Strengthen our regulated, for-profit health-care system and government health-care programs to ensure health and well-being for all:

- Effective oversight and accountability protect us.
- Expand subsidies and Medicaid by taxing the wealthy.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Health Care Talking Points: Liberal

1. Each one of us absolutely needs health care, but we're vulnerable to fraud and abuse by insurance firms and providers. That's why we need government to watch our backs. It partners with industry to establish best practices and oversight to keep us physically—and financially—healthy. Fair-market capitalism brings us the highest-quality, most affordable, and most accessible health-care system in the world. The best medicine for society is a strong public-private partnership.
2. The liberal approach gives us the best of all possible worlds because we enjoy the gifts of the profit motive and the security of a government that has our best interests at heart. Because of the profit reward system, firms innovate and bring to market amazing, life-saving devices, smarter models for comprehensive care, and highly accurate medical tests. And because of the government, everyone in society—including low-income and elderly people—have access to the care they need.
3. Doctors today can perform life-saving surgeries and regenerate damaged nerves because our regulated health-care system in fair-market capitalism offers the appropriate rewards and incentives for talent and hard work. Say farewell to all this when your democratic socialism delivers the death blow to innovation and motivation by making the drive for profit something to be ashamed of instead of celebrated. We'll lose our best and our brightest, and that brain drain will set us back decades.
4. Call a *code blue* right now, because we're all going into cardiac arrest when the government becomes the sole funder and provider of health care. Sure, a public option for health care is important, but imposing it on everyone is a terrible idea. Radicals, no competition on top of no profit on top of non-experts at the helm will leave us limping along with a mediocre system run on apathy. Democratic socialism sends us back to the dark ages of sickness, suffering, and death.
5. Conservatives, your plan to throw all regulations out the window and leave it to health insurance firms and providers to self-regulate is foolhardy, naïve, and deadly. Because health care is something we all need, we end up with sky-high prices, masses of uninsured people, and scary, low-quality care. While insurance firms rake in billions of dollars in profit, people suffer. Their claims are denied, their premiums shoot up, and their policies get canceled when they get sick.
6. The poor can't pull themselves up by their bootstraps when they're too sick to get out of bed, but conservatives want to get rid of Medicaid and subsidies. With so many workers out sick, our whole economy tanks. What's the first thing that gets cut? Private philanthropy. There goes the conservative fix for the legions of low-income people who can't afford health insurance. Untreated illnesses create epidemics. Oops—conservatives got rid of our public health institutions. Thanks to the free market, we're all doomed.
7. The Affordable Care Act gives us all access to high-quality, affordable care with insurance that covers the basics. Because health care is both regulated and mandated, no one is denied coverage for a preexisting condition. The unemployed buy insurance on government-run health insurance exchanges. Those who need extra help use health insurance subsidies and expanded Medicaid. We fund it by taxing the wealthy. Since their businesses benefit from a society of healthy workers, it's only fair that they contribute more.
8. Government is always watching out for our interests by curtailng fraud, waste, and abuse. It keeps hospitals accountable and transparent in their billing practices and requires providers to use cost-saving and life-saving electronic medical records. Public programs for the elderly, veterans, and federal employees are expanded so that anyone can choose the public option. In every case, it makes financial sense to invest in public options while supporting and regulating private industry.

Radical

Voice on Health Care



Health
Care

At four in the morning, when my sister told me I could be having a heart attack and urged me to go to the hospital, did I think, “I’d better see a doctor, just in case”? No. What ran through my head was typical of what most Americans think in this situation: “Will I be able to afford medical care?” It is completely unacceptable that we have to choose between getting the health care we need or facing financial ruin from outrageous medical bills. The story of health care in the United States is a tragedy, and the villain in this tale is capitalism. The mission of the for-profit health-care system isn’t to preserve our precious, irreplaceable lives.

It’s not to alleviate our suffering and set us up to thrive. No, the mission of the capitalist health-care industry is to enrich the private owners of hospitals, nursing homes, rehab centers, pharmaceutical companies, home health-care companies, and, of course, insurance firms—not to mention the lobbyists, lawyers, and everyone else who makes a tidy sum off our illnesses, injuries, mental disorders, and infirmities. My heart attack story had a happy ending because it just happened to work out that I’d met my health insurance deductible earlier that year. Otherwise, I probably wouldn’t have gone to the ER, and I probably wouldn’t be here today. The nearly \$26,000 I was charged for one night in a private hospital was half the average annual household income in my city that year. I didn’t have surgery or an experimen-

tal procedure. I wasn’t given any rare medications or even a private room. My doctors weren’t world-renowned experts. Later, I learned that a person could call the billing department and bargain the invoice down a few thousand dollars, which tells you just how inflated the prices are to begin with. But we don’t have to accept an economic system that values our bank accounts over our well-being. We can cure society of the chronic pain created by capitalism by making a switch to democratic socialism.

Let’s consider the Six-Core Cube of democratic socialism and drill down through the core point of *social safeguards*. From womb to tomb, society guarantees health care as a basic human right, which means no one has to worry about paying for medical treatments for illnesses, injuries, dis-

abilities, or anything else. We all have access to preventive care and necessary treatments, which keeps medical conditions from developing or worsening. So imagine you're in a skiing accident and badly twist your knee. The worker-owned health-care clinic checks your medical history and takes X-rays. The doctor does an examination and refers you to an orthopedic specialist, who orders an MRI and then determines that you need knee-replacement surgery. She explains the procedure to you and then schedules you for surgery and follow-up appointments. Once the procedure is done, the clinic sends you home with a list of postop instructions, pain medication, and a number to call day or night if you have questions or concerns. What isn't handed to you? A bill for services. Everything is covered, including the ride home in the medical transport van. It's the same story if you or anyone else in society needs brain surgery, a root canal, or penicillin. How does it get paid for? We all pay a special tax that is an affordable percentage of our annual income. Let's say it's determined that affordable health care is 10 percent of an individual's net income, and you

make \$50,000 a year. Your tax bill for health care is \$5,000. That's all you will pay in a year for everything health care. There are no add-ons—no premiums, no deductibles, no copayments, no medication payments, no charge for the crutches you may need during your recovery. If you earn \$0, your tax is \$0, but you still have access to the same health care as everyone else. We invest in one another's health to lift the well-being of our whole society because it enables every person to contribute their talents and skills to the world.

If my daughter, now an adult, had to go to a hospital for emergency care, I would hope that the doctors and nurses there would do everything in their power to help her. I'm sure Amy Vilela felt the same way. In 2015, her twenty-two-year-old daughter, Shalynne, showed up at the ER in excruciating pain from a swollen leg. The hospital staff asked Shalynne if she had insurance. She didn't. By law, the hospital couldn't turn her away, but according to Shalynne's mother, the medical staff did the bare minimum for her child. Shalynne called her mother in tears and said she had begged the doctor to do an MRI but was told to go get insurance and then see a specialist. A few days later, this young woman died from a massive blood clot to the brain. The doctors in the hospital where she passed away said her death could have been prevented had she been given the MRI. Like Shalynne, countless Americans die from preventable or treatable conditions because rather than caring first and foremost about the well-being of patients, the for-profit health-care system prioritizes money over people. Instead of being guided by the principle of "First, do no harm," medical care in capitalism is guided by the drive for profit: "First, check insurance status." Amy Vilela ended up running for Congress in Nevada and used her daughter's story to draw attention to this deadly problem. Her message was that our health-care system doesn't have to be this way. All it takes is the will of the people to



Figure 15.23
Radical View: Health Care

decide that we want health care to be a human right for everyone in society. Then we invest together in a system that provides outstanding care to all, with state-of-the-art medical facilities and equipment; top-notch medical education, research, and development; and robust public health initiatives. Because we fund it together, we can afford to get the highest-quality care, which we all want and need. As a

society, we guarantee health care for all and fund it together to deliver gold-standard medicine that brings us optimal well-being from cradle to grave.

A few years back, I watched a truly awful show about a creature who could shape shift. It took the form of a human and then charmed its way into people's homes and devoured them messily. I don't recommend watching it, but this plot line is a perfect analogy to capitalism. With a warm smile and a firm handshake, capitalism promises untold wealth. It assures us that our wants and needs will be met. But these are lies. The true form of capitalism is a parasite that feeds off us, leaving us sick and dying. Our suffering is a flashing dollar sign that signals profit seekers to come running and enrich themselves off our pain. Patients are subjected to unnecessary surgeries and are prescribed the most expensive medicines when the less expensive, and often less invasive options work equally well. But sickness is more lucrative than health, so we shouldn't be surprised. Providers are pressured into shortchanging examinations and rushing diagnoses so that they can meet their daily patient quotas and boost their billable procedures. The incentives are all wrong in a production-for-profit health-care system. Profit is

The true form of capitalism is a parasite that feeds off us, leaving us sick and dying. Our suffering is a flashing dollar sign that signals profit seekers to come running and enrich themselves off our pain.

the purpose of the whole enterprise, and if there happens to be a positive outcome in the process of making a buck—the insurance firm covers a hospital bill or the pharmaceutical firm invents a new medication for high cholesterol—that's secondary. In fact, since the goal of curing diseases is to make a profit, firms have an incentive to focus only on treatments that will deliver a hefty return on investment rather

than easing the suffering of the most desperate. So they invest in a cure for baldness for a few people who have money and are bothered by it, instead of searching for a cure for malaria, which leaves billions of people at risk. Health care in capitalism is just another commodity with a “for sale” sign on it. It's not surprising that capitalists want to be allowed to sell human organs to the highest bidder. That's just the logical conclusion of a profit-driven system that sees our health, our bodies, and our lives as goods to be bought and sold for private gain. So it doesn't matter how we rewrite a law or change a regulation. Capitalism is a cancer in the health-care system. It can never bring us well-being.

Conservatives, your idea to leave it up to individuals to sink or swim on their own when it comes to their health care is barbaric. The promised rock-bottom rates you say private insurers will offer for people with low budgets won't actually buy any meaningful health-care coverage, so the poor and middle class will continue to be bankrupted by medical emergencies, and routine care will be out of their price range. Private philanthropy can't possibly take care of the tens of millions of people who won't be able to afford

health care under your plan, so let's just bypass that idea altogether. You need to stop worshipping the almighty dollar for a minute and realize that the most important resource we have is one another. Every person in this country has something valuable to offer society, but in capitalism the poor are abused, disregarded, and discarded. While the rich rake in the profits from exploiting workers, they turn around and pay off politicians to guarantee their hefty tax breaks. Your big plan to have expansions of tax-free health savings accounts will mainly benefit the wealthy. The VIP treatment the rich receive at pricy medical centers that suck up hundreds of millions of dollars in public funds for research are a further free-market rip-off for the 99 percent. The poor get sicker and are stepped on, and then you conservatives blame them for being on the ground in the first place. As Dr. Martin Luther King Jr. said, "This country has socialism for the rich and rugged individualism for the poor." Hypocrisy is what we've come to expect from you. Just listen to Republicans in Congress complain about having to fund social safety nets while they viciously fend off cuts to their own taxpayer-sponsored government health-care plan. Free-market capitalism is a threat to human life, and leaving it

alone will only raise the body count. For-profit pharmaceutical firms will rush new medications to market, and more people will suffer and die from harmful side effects. Insurance firms will write policies with hidden clauses that get them out of actually paying claims when people get sick. Hospitals will inflate prices, and people will avoid getting care. Letting the free-market profit motive guide our health-care system is a deadly prescription that will ultimately hurt us all.

Liberals, propping up the for-profit insurance industry to fix the health-care system is like handing out cigarettes to cure lung cancer. The health insurance industry spends billions of dollars a year on advertising and pointless paperwork. Every hospital must employ multitudes of people who don't actually provide any health care, keep the facility clean and safe, or prepare meals for patients. These workers are engaged only in billing. In every doctor's office, every lab, every imaging center, every clinic—they're just moving paper around. It's a colossal waste of energy, time, and resources. Countries with single-payer systems shake their heads in amazement and wonder why we put up with it. Despite your legislation, tens of millions of people remain uninsured. People in poverty are forced to go through the humiliat-



ing process of proving eligibility because it's not a universal benefit that everyone automatically receives. Some lack the skills and resources to use your health-care exchanges. Those who manage to get on Medicaid are only given the bare-minimum benefits. Medicare covers only some health-care costs, so those who can afford it end up having to supplement coverage with private insurance. The VA is perennially under-resourced (and often under investigation for neglecting patients). Your public programs are confusing, and they aren't reliable when their funding is always on the chopping block. Fair-market capitalism leaves our most vulnerable populations living in an anxious limbo, wondering if they'll have health care tomorrow. A health-care system that includes private insurance institutionalizes stratification, so the rich buy their way up to better health care, while everyone else is left scraping the bottom of the barrel. Dr. Martin Luther King Jr. famously said, "Of all the forms of inequality, injustice in health care is the most shocking and inhumane." As long as the rich can continue to have their elite private options, you liberals will never be able to adequately fund your so-called social safety net. And sorry to break it to you, but tacking on a public option won't fix this broken system. Your fair-market plan will fail because it doesn't pull the plug on capitalism, so there can never be anything "fair" or healthy about it.

We should replace the current policies of a regulated for-profit health-care system and government programs in capitalism with a single-payer health-care system in democratic socialism to ensure health and well-being for all. It's the most humane and compassionate—and affordable—way to provide health care to the whole society. Because it's a universal right, everyone sleeps

well at night knowing they have the medicine, surgeries, therapies, and everything else they need when they need them. Single-payer health care is a right we enjoy, and it's also our collective responsibility. We all fund it through taxes, spending far less than we would if we had to pay for it individually in a for-profit system. That's because all the money we pay actually goes toward health care. None of it is siphoned away to pad the bank accounts of shareholders and private owners of health insurance firms and health-care facilities. Our tax dollars are not wasted in needless administrative costs and bloated prices. When health care is a basic human right, we get the most innovative, accessible, top-rate, and convenient health-care goods and services. We all receive the same high-quality care because it's not a stratified system where the rich jump to the front of the line. No one is burdened with premiums, deductibles, or copayments. Single-payer health care uses resources and public funds wisely. Health-care councils made up of stakeholders, experts, and government representatives design the best mechanisms for oversight, accountability, and transparency. They contract with worker-owned health-care providers in every area of the country. Because the system is funded with their own tax dollars, they are highly motivated to prevent fraud, waste, and abuse. In addition, because they serve their own communities—their friends, family, and neighbors—they offer the best possible care. World-class health care results from this confluence of pressures to do the right thing. By rejecting capitalism's deadly for-profit system and embracing democratic socialism's sensible *for-people* system, we get the best treatment options, the most skilled providers, and the most compassionate care from our first breath to our last.

Radical

Democratic Socialism



Health
Care

BIG PICTURE

As a society, we guarantee health care for all and fund it together to deliver gold-standard medicine that brings us optimal well-being from cradle to grave.

POLICY POSITION

There is lack of access to high-quality health care, but . . .

- ▶ Conservative policies throw us to the wolves of profit-driven health-care providers and insurers, which leads to more illness, more suffering, and more financial ruin.
- ▶ Liberal policies prop up the for-profit health insurance industry, mire us in administrative quicksand, and still leave tens of millions of people without health care.

SOLUTION

Replace a regulated for-profit health-care system and government programs in capitalism with a single-payer health-care system in democratic socialism to ensure health and well-being for all:

- We get the highest quality health care at the lowest cost to society.
- Universal access to health care is guaranteed.



The Six-Core Cube
of Democratic Socialism

- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Health Care Talking Points: Radical

1. In democratic socialism, we have a social contract to take care of one another by making sure everyone's basic material needs are met. That way, everyone is able to contribute their talents and skills to the world, to the best of their abilities. This means no one has to worry about how to pay for medical care if they fall ill, or are injured in an accident, or have a child with a disability. Society guarantees health care to all of us from womb to tomb.
2. All it takes is the will of the people to decide that we want health care to be a human right for everyone in society. Then we invest together in a system that provides outstanding care to all, with state-of-the-art medical facilities and equipment; top-notch medical education, research, and development; and robust public health initiatives. Because we fund it together, we can afford to get the highest-quality care, which we all want and need.
3. Conservatives, your idea to leave it up to individuals to sink or swim on their own when it comes to their health care is barbaric. The elderly, the disabled, the sick, and the poor will suffer and die from preventable illnesses because they won't be able to afford health care in your free-market system. The so-called rock-bottom rates you say private insurers will offer for low budgets won't actually cover anything, so the poor and middle class will continue to be bankrupted by medical emergencies.
4. Free-market capitalism is a threat to human life. For-profit pharmaceutical firms will rush new medications to market, and more people will suffer and die from harmful side effects. Insurance firms will write policies with hidden clauses that get them out of actually paying claims when people get sick. Hospitals will inflate prices, and people will avoid getting care. Letting the free-market profit motive guide our health-care system is a deadly prescription that will ultimately hurt us all.
5. Liberals, propping up the for-profit insurance industry to fix the health-care system is like handing out cigarettes to cure lung cancer. It's a business that spends billions of dollars a year on needless administration. Every hospital has to employ multitudes of people who don't actually provide any health care, keep the facility clean, or prepare the meals for patients. In every doctor's office, lab, imaging center, and clinic, they are just moving around paper. What a colossal waste of energy, time, and resources.
6. With liberal policies, millions remain uninsured, while the people in poverty who manage to get on Medicaid are given the bare-minimum benefits, and the elderly still have to pay for part of their Medicare coverage out of their pockets. Private insurance institutionalizes stratification, so the rich buy their way up to better health care, and everyone else is left scraping the bottom of the barrel. The fair-market plan fails because it doesn't pull the plug on capitalism. There's nothing "fair" about it.
7. In democratic socialism, no one lies awake at night worrying about how they will pay for treatments, because a single-payer system is a guarantee that people get the medicine, surgeries, therapies, and everything else they need. And it's not just a right we enjoy; it's our collective responsibility. We fund it through taxes, and it ends up costing far less than paying for health care individually in a *for-profit* system. That's because all the money we pay as a society actually goes toward health care. It's a *for-people* system.
8. Single-payer health care uses resources and public funds wisely. Health-care councils made up of stakeholders, experts, and government representatives design the best mechanisms for oversight, accountability, and transparency. Because the system is funded with their own tax dollars, the worker-owned firms that manage the centers, hospitals, and clinics are highly motivated to prevent fraud, waste, and abuse. In addition, because they serve friends, family, and neighbors, they offer the best possible care.

The Shared Outcome

Despite their deep disagreements, all three perspectives share the same goal of health and well-being for all. The issue of health care will always be vital to each of us throughout our lives. We can't know what our health or the health of our loved ones will be tomorrow, but we do know that if we need a doctor, a hospital, a counselor, physical therapy, medicine, or anything else, we want to have access to the very best, and we want to be able to afford our health care. Now that you

have heard the voices of the liberals, conservatives, and radicals, you can understand and articulate their different points of view and assess their ideas as a respectful listener, intelligent debater, and passionate advocate. Inspired by their analyses and solutions, you are now in a position to decide what you believe is the best way to make high-quality health care accessible to all. And maybe—hopefully!—you will be the one to come up with a brilliant new idea to solve this urgent economic issue. ☒



Three-in-One Activity

The Three-in-One Activity for Health Care is your chance to experience the different ways in which conservatives, liberals, and radicals solve the problem of lack of access to high-quality health care and create health and well-being for all. It starts with two neutral setup rounds and then revisits the scenario from each of the perspectives. You'll need a group of people (ideally six or multiples of six)—four of whom will be the patients, one who will be the doctor, and one who will be the insurance agent. If you don't have a group, use your imagination as best you can. Also, people may double up on roles if there are too few people, or share roles if there are too many people. The two tables on the next page have information that the patients and doctors will need for the first round.



“First, Do No Harm”

For each round of this activity, four players are patients, one is the doctor, and one is the health insurance agent. The goal of this activity is to determine how many among the four patients are able to afford the treatments for their given health conditions.

Patients: Symptoms and Annual Income

Patient 1 Annual Income \$100	Patient 2 Annual Income \$60	Patient 3 Annual Income \$40	Patient 4 Annual Income \$10
Symptoms: <ul style="list-style-type: none">• Shortness of breath• Dizziness• Palpitations	Symptoms: <ul style="list-style-type: none">• Indigestion and stomach discomfort• A bloated feeling after eating• Loss of appetite	Symptoms: <ul style="list-style-type: none">• A tingling sensation or numbness in the hands and feet• Blurred vision• Excessive thirst	Symptoms: <ul style="list-style-type: none">• Coughing, especially at night, with exercise, or when laughing• Trouble breathing• Wheezing—a squeaky or whistling sound

Doctor: Diagnoses and Treatment Costs

Symptoms: <ul style="list-style-type: none">• Coughing, especially at night, with exercise, or when laughing• Trouble breathing• Wheezing—a squeaky or whistling sound	Symptoms: <ul style="list-style-type: none">• A tingling sensation or numbness in the hands and feet• Blurred vision• Excessive thirst	Symptoms: <ul style="list-style-type: none">• Shortness of breath• Dizziness• Palpitations	Symptoms: <ul style="list-style-type: none">• Indigestion and stomach discomfort• A bloated feeling after eating• Loss of appetite
Diagnosis: Asthma	Diagnosis: Diabetes	Diagnosis: Blocked Coronary Arteries	Diagnosis: Stomach Cancer
Cost of Treatment: \$20	Cost of Treatment: \$20	Cost of Treatment: \$30	Cost of Treatment: \$40

Round I: Neutral—Self-Pay

For this round, the patients have no health insurance. If they want treatment for the conditions, they have to pay all the costs out of pocket.

- ❶ Patients describe their symptoms to the doctor.
- ❷ Doctor checks the symptoms against their list and finds the correct diagnosis.
- ❸ Doctor tells patient the cost of treatment.
- ❹ Patients calculate affordability (cost of treatment ÷ income). The whole group may help with the math. Fill your answers in the table below.
- ❺ Health care is considered affordable if it is 10 percent of income. But because treatment is necessary, patients will purchase health care if the cost is up to an unaffordable 30 percent of their income.
- ❻ How many patients are treated in this self-pay scenario? Add your answer to the table below under "Number of Patients Treated."

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round I Self-Pay	Affordability Treatment Cost ÷ Income					

Answer:

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round I Self-Pay	Affordability Treatment Cost ÷ Income	30% \$30 ÷ \$100	67% \$40 ÷ \$60	50% \$20 ÷ \$40	200% \$20 ÷ \$10	1 out of 4 (25%)

Explanation: One out of four patients are treated. Patient 1 gets treatment because it costs 30 percent of their income, but it is not affordable. Patients 2, 3, and 4 don't get treatment because their costs are significantly higher than 30 percent of their income.

Conclusion: Self-pay health care is unaffordable for all four patients. Even though Patient 1 gets treatment, they pay more than what is affordable. Health care is unaffordable for everyone, including the 25 percent that receive treatment. This scenario is unacceptable from all the perspectives.

Round II: Neutral—Insurance

For this round, the patients have an opportunity to apply for health insurance. If they are approved, the premium will be \$10. To keep it simple, the insurance company will pay 100 percent of the cost of treatment (there are no copayments or deductibles). There is an insurance cap of \$30.

- 1 The insurance agent denies insurance to patients whose cost of treatment is more than \$30, telling each patient if they are accepted or denied.
- 2 Patients who are accepted for insurance calculate affordability (cost of insurance ÷ income). The whole group may help with the math. Remember, *affordable* is 10 percent of income. If the treatment costs more, it's *unaffordable*. Fill your answers in the table below.
- 3 Because health care is vital, patients will purchase *health insurance* for up to 30 percent of their income, even though it's unaffordable.
- 4 How many patients are treated in this insurance scenario? Add your answer to the table below under "Number of Patients Treated."

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round II Insurance	Affordability Insurance Cost ÷ Income					

Answer:

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round II Insurance	Affordability Insurance Cost ÷ Income	10% \$10 ÷ \$100	Insurance Denied	25% \$10 ÷ \$40	100% \$10 ÷ \$10	2 out of 4 (50%)

Explanation: Two out of four patients are treated. Patient 1 is treated because health insurance costs 10 percent of their income. Patient 2 is not treated because their insurance application is denied—treatment for stomach cancer is \$40, and the insurance cap is \$30. Patient 3 is treated because health insurance costs 25 percent of their income. So even though it's not affordable, Patient 3 buys it anyway. Patient 4 is approved for health insurance but doesn't buy it because it costs more than 30 percent of their income.

Conclusion: Health insurance increases the number of patients who get health care from 25 percent to 50 percent. But health insurance was only affordable for one patient, and in the end, 50 percent of the population is left without health care. This is completely unacceptable from all the perspectives.

Round III: Conservative Perspective

For this round, there is no government regulation of the health insurance industry, so insurance firms compete across state lines and offer any type of insurance package to anyone they choose. Consequently, their costs go down. Also, there is no government regulation of health providers, which means doctors have sole discretion about best practices and no red tape to get new treatments and medications to patients. Medical care prices go down, which further lowers costs for insurance companies. These two factors lower health insurance premiums.

- 1 All treatment costs are reduced by \$10. (This means Patient 2 is now eligible for health insurance.)
- 2 There is still an insurance cap of \$30 for treatments.
- 3 Health insurance premiums drop from \$10 to \$5.
- 4 Patients calculate affordability (insurance cost ÷ income). The whole group may help with the math. Fill your answers in the table below.
- 5 Patients whose cost of treatment is above 10 percent of their income are subsidized through philanthropy from family members, religious institutions, charitable foundations, crowdfunding, and other private sources of funding. The appropriate amount of charity should be added so that the patient pays only 10 percent of their income. For example, if insurance costs \$5 and income is \$20, the insurance costs 25 percent of their income ($5 \div 20 = 0.25$). They need \$3 of charity to reduce the out-of-pocket cost to \$2, which is 10 percent of their \$20 income.
- 6 How many patients are treated in this conservative scenario? Add your answer to the table below under "Number of Patients Treated."

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round III Conservative	Affordability Insurance Cost ÷ Income (+ Charity)					

Answer:

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round III	Affordability	5%	8%	10%	10%	4 out of 4
Conservative	Insurance Cost ÷ Income (+ Charity)	\$5 ÷ \$100	\$5 ÷ \$60	\$5 ÷ \$40 (\$1 Charity)	\$5 ÷ \$10 (\$4 Charity)	(100%) Solved!

Explanation: All four patients are treated. Patients 1 and 2 can easily afford health care because the costs are less than 10 percent of their income. The picture is more complicated for Patient 3. Their insurance costs \$5 and their income is \$40, so to bring their cost of insurance to 10 percent of their income (\$4), they receive \$1 from private philanthropy. This allows them to afford health insurance (\$4 ÷ \$40 = 10%). Likewise, Patient 4's health insurance is unaffordable. Their insurance costs \$5, and their income is \$10. They receive \$4 from private philanthropy and are able to afford health care (\$1 ÷ \$10 = 10%).

Conclusion: Conservatives solve the problem of lack of access to high-quality health care through government deregulation and free-market price signals. Treatment becomes affordable for all because their policies bring down the costs of health care and health insurance. Private philanthropy serves as a social safety net for those who fall through the cracks.



Round IV: Liberal Perspective

For this round, patients have a combination of private and public insurance. With government regulating both providers and insurers, fraud, waste, and abuse are eliminated. With mandatory electronic medical records and transparency and accountability, there is higher efficiency across all levels of the health-care system. The cost of treatment goes down, which brings down costs for both private and public insurance. Those savings get passed down to patients in the form of lower premiums.

- 1 All treatment costs are reduced by \$10.
- 2 There is no insurance cap, so everyone automatically qualifies for insurance.
- 3 Health insurance premiums go down from \$10 to \$5.
- 4 Patients calculate affordability (insurance cost ÷ income). The whole group may help with the math. Fill your answers in the table below.
- 5 Patients whose treatments cost less than 10 percent of their income are taxed up to 10 percent of their annual income. The tax revenue is used to fund Medicaid and government health-care subsidies. The appropriate amount of tax should be added so the patient pays exactly 10 percent of their income. For example, if insurance costs \$5 and income is \$80, the insurance costs only 6 percent of their income ($5 \div 80 = 0.06$). They need to pay \$3 in taxes to increase the out-of-pocket cost to \$8, which is 10 percent of their \$80 income.
- 6 Patients whose income falls below the poverty level (\$15 in this scenario) qualify for Medicaid and pay \$0 for treatments.
- 7 Patients whose income is greater than \$15 but whose treatments are still unaffordable receive a government subsidy to bring their health-care spending to 10 percent of their income. The appropriate amount of subsidies should be added so that the patient pays only 10 percent of their income. For example, if insurance costs \$5 and income is \$20, the insurance costs 25 percent of their income ($5 \div 20 = 0.25$). They need \$3 in subsidies to reduce the out-of-pocket cost to \$2, which is 10 percent of their \$20 income.
- 8 How many patients are treated in this liberal scenario? Add your answer to the table below under "Number of Patients Treated."

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round IV Liberal	Affordability Insurance Cost ÷ Income (+)- Tax /Subsidy/Medicare)					

Answer:

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round IV	Affordability	10%	10%	10%	Income < \$15	4 out of 4
Liberal	Insurance Cost ÷ Income (+\– Tax /Subsidy/Medicare)	\$5 ÷ \$100 (\$5 Tax)	\$5 ÷ \$60 (\$1 Tax)	\$5 ÷ \$40 (\$1 Subsidy)	Medicaid	(100%) Solved!

Explanation: All four patients are treated. Patients 1 and 2 can afford health care because their costs fall well below 10 percent of their income. They are each taxed to make the cost of health care 10 percent of their income (\$5 for Patient 1 and \$1 for Patient 2). That brings their health-care costs up to 10 percent. Those taxes are used to fund Medicaid and subsidize health insurance for low-income patients. Patient 3 can’t afford treatment on their own. Their insurance costs \$5 and their income is \$40. They receive a \$1 government subsidy to afford health insurance ($\$4 \div \$40 = 10\%$). Patient 4 also can’t afford treatment without assistance. Since they earn less than \$15, they qualify for Medicaid, so they receive treatment.

Conclusion: Liberals solve the problem of lack of access to high-quality health care through government regulation and public programs. Treatment becomes affordable through fair-market solutions. Expanded Medicaid and subsidies serve as social safety nets.



Round V: Radical Perspective

For this round, all four patients have access to a single-payer health-care system. Government funds everyone’s health care, which is paid for by a 10 percent across-the-board tax on income. In democratic socialism, people—not profit—are the priority of the health-care system, so unnecessary tests and treatments are eliminated and resources are used efficiently. This not only brings the costs of funding health care down, but patients don’t have to worry or wonder about whether they will be able to afford treatment.

- 1 Treatment costs go down \$10.
- 2 There are no insurance caps.
- 3 There are no insurance premiums.
- 4 Everyone pays a 10 percent income tax for health care. For example, if their income is \$20, they pay \$2, which is 10 percent of their \$20 income.
- 5 Patients calculate affordability (income tax ÷ income). The whole group may help with the math. Fill your answers in the table below.
- 6 How many patients are treated in this radical scenario? Add your answer to the table below under “Number of Patients Treated.”

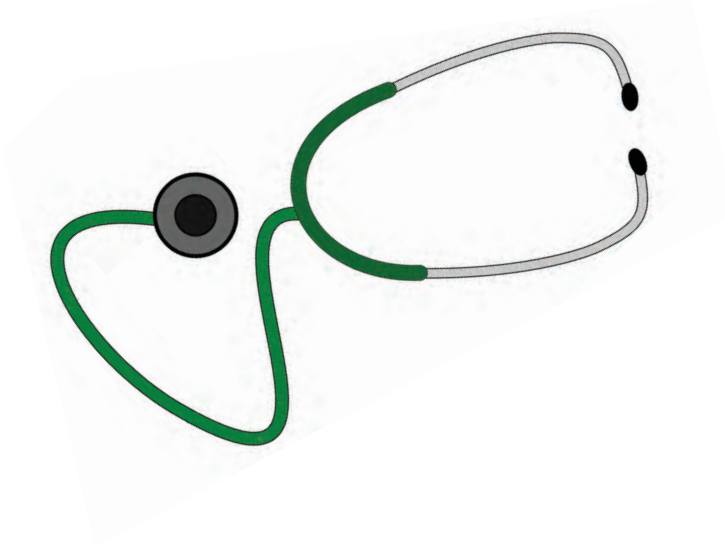
	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round V Radical	Affordability Health-Care Tax ÷ Income					

Answer:

	Calculation	Patient 1	Patient 2	Patient 3	Patient 4	Number of Patients Treated
Round V Radical	Affordability Health-Care Tax ÷ Income	10% \$10 ÷ \$100	10% \$6 ÷ \$60	10% \$4 ÷ \$40	10% \$1 ÷ \$10	4 out of 4 (100%) Solved!

Explanation: All four patients are treated. In democratic socialism, it doesn't matter what the patient's annual income is—health care is affordable to all. Patient 1's income is \$100, so they pay \$10 in income tax for affordable health care. Patient 2 has an income of \$60, so they pay \$6 for affordable health care. Patient 3's income is \$60, so they pay \$6 for affordable health care. Patient 4 has an income of \$10, so they pay \$1 for affordable health care.

Conclusion: Radicals solve the problem of lack of access to high-quality health care by having social safeguards in democratic socialism. Guaranteed universal health care is both a right and a responsibility. Everyone in society funds it, and everyone benefits from it.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Health Care. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position you have chosen. The VOTE Program is all about helping you think critically about the issues and have educated and informed opinions.

Chapter 15: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



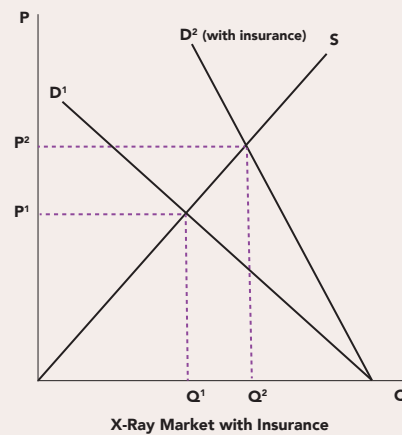
1. Match the component of health care (left column) with an example of it (right column).

A. Facilities	i. Social worker at Tucson Medical Center
B. Education	ii. Personal protective equipment (PPE)
C. Financing	iii. Trenton University Medical School
D. Workforce	iv. Houston Rehabilitation Center
E. Research	v. Medicaid
D. Supplies	vi. <i>Journal of Pediatric Care</i>

2. To test economic theories, experimental economists study how humans behave in real-world situations. In the Trading in a Pit Market experiment by economist Charles Holt, what effect did the third party—insurance—have on buyers and sellers negotiating prices for wellness checkups? Choose all that apply.
 - A.** More successful trades occurred.
 - B.** The prices for wellness checkups increased.
 - C.** Fewer people had access to health-care services.
 - D.** Several trades failed.

3. Choose the best conventional theory description of the graph of the X-ray market with insurance.

- A. When there is a third party willing to pay half the cost in exchange for a premium, the demand curve rotates to the right and both the price and quantity of X-rays increase.
- B. Insurance companies increase the prices for demanders of X-rays, resulting in a shift to the left of the demand curve and lower prices and lower quantities of X-ray services.
- C. Suppliers of X-rays become more willing to supply because insurers are more reliable, resulting in a growing market with higher quantities of X-rays and higher prices.
- D. Because there are higher prices and higher quantities (as shown on the graph as P^2 and Q^2), the demand curve rotates to the right, and supply increases to meet the new demand.



4. According to radical theory, capitalism is an economic system built on a commitment to *individuals at risk*. Choose the answer that most accurately describes this core point.

- A. Individuals act recklessly, so it is up to the government to protect them.
- B. Individuals are not guaranteed any of the material things they need to survive.
- C. Individuals are at risk of not having what they need because they make bad choices.
- D. Individuals are guaranteed social safeguards so that they can make unique contributions.

5. Match the following health insurance term (left column) with the patient's payment and reimbursement experiences (right column).

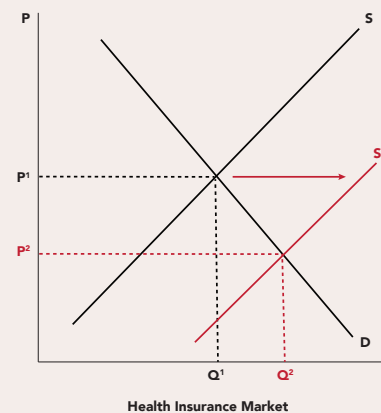
- | | |
|-----------------|---|
| A. Deductible | i. Each year, Rosa pays out of pocket to cover her doctor's bills. After she spends a total of \$5,000, her health insurance company pays any remaining health-care bills until the new year begins. |
| B. Annual limit | ii. Lawrence injured his back playing basketball and needed surgery, a wheelchair, and physical therapy. When his bills exceeded a certain amount, his insurance company informed him that it would not cover any new expenses. |
| C. Premium | iii. Every year, Joe pays several thousand dollars for his health insurance policy. |
| D. Copayment | iv. When Anna goes to the doctor, she pays only \$25 of the entire bill. |

6. When Alice suspected that she might be developing diabetes, she stopped eating sugary foods and rushed out to sign up for health insurance. Once she had insurance, she relaxed her dietary restrictions and treated herself to more cake and ice cream. Choose the two terms that best describe this scenario in the order in which they occurred.

- A. Moral hazard; optimism
- B. Adverse selection; moral hazard
- C. Asymmetry; moral price signals
- D. Moral hazard; adverse selection

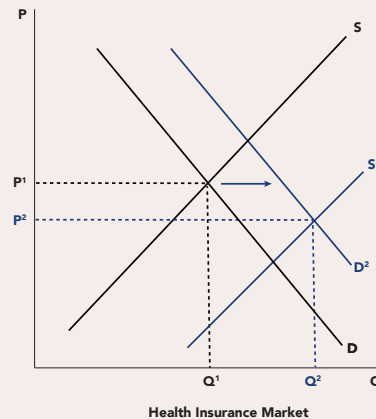
7. According to this graph, what causes the price of health insurance to decrease according to the conservative perspective? Choose one answer.

- A. Government regulation requires health insurance firms to cover preexisting conditions and extend coverage to young adults under the age of twenty-six on their parents' plans. Supply therefore shifts to the right and brings down the cost of health insurance.
- B. A single-payer system funded by across-the-board taxes makes health insurance irrelevant and delivers higher quality care at a much lower price to individuals and society, so demand shifts to the right.
- C. Deregulation of health insurance firms and health-care providers leads to lower costs for insurers, so the supply curve shifts outward.
- D. Competition in the market through government-sponsored health insurance exchanges and a health insurance mandate shifts supply to the right.



8. According to this graph, what best explains the lower premiums for health insurance from the liberal perspective? Choose one answer.

- A. Government regulations of the health insurance industry shift supply to the right because firms must cover preexisting conditions, and demand shifts to the left because a law mandates that everyone must have health insurance. As a result, the price for health insurance decreases.
- B. Medicare for All, funded by employers, delivers higher quality care at a much lower price to individuals and society. Both demand and supply shift to the right, and prices plummet.
- C. Deregulation of health insurance firms and health-care providers cleans up fraud, waste, and abuse. More people demand health insurance, and more health insurers supply health insurance, and this ultimately brings down the price.
- D. The health insurance mandate shifts demand to the right, but with health insurance exchanges and regulations on health-care providers, the supply of health insurance shifts to the right due to lower costs, and the price of health insurance decreases.



9. Radicals say health-care providers in democratic socialism _____.

- A. measure success in profits and collaborate to become wealthier than competing worker-owned firms by the widest possible margin
- B. are dedicated to caring for people and believe profit is the root of all evil
- C. are constrained by a good system to put people before profit and provide gold-standard health care to all
- D. are compassionate, good people who are pressured to do the right thing

10. Which of the following group of theorists claim that under their proposed health-care system, everyone will have access to the highest-quality health care?

- A. Conservative
- B. Liberal
- C. Radical
- D. All of the perspectives
- E. None of the perspectives

Answers

1. A – iv, B – iii, C – v, D – i, E – vi, F – ii 2. A, B, & D 3. A 4. B 5. A – i, B – ii, C – iii, D – iv 6. B 7. C 8. D 9. C 10. D

Chapter 15: Key Terms

Adverse selection

Affordable Care Act (ACA)

- Affordable health care defined
- Ban on exclusions
- Health insurance exchanges
- Health insurance mandate
- Limits and caps
- Needs-based coverage
- Rebates to consumers
- Standardized policies
- Workplace insurance requirement
- Young adult coverage

Annual limit

Asymmetrical information

Catastrophic coverage

COBRA

Copayment (copay)

Credence good

Deductible

Experimental economics

Flexible savings account (FSA)

Health-care system

Health insurance

Health savings account (HSA)

Individuals at risk

Managed care

Medicaid program

Medical tourism

Moral hazard

Preexisting conditions

Premium

Principal-agent problem

Private health insurance

Provider network

Public health institutions

- Centers for Disease Control and Prevention (CDC)
- National Institutes of Health (NIH)
- U.S. Public Health Service (USPHS)

Public health insurance

Public option

Self-pay

Single-payer health care

Social safeguards

Synthetic repeal

Types of private health insurance

- Conventional indemnity plan
- Health maintenance organization (HMO)
- High-deductible health plan (HDHP)
- Preferred provider organization (PPO)

Types of public health insurance

- Children's Health Insurance Program (CHIP)
- Federal Employees Health Benefits Program (FEHBP)
- Indian Health Service (IHS)
- Medicaid
- Medicare
- TRICARE
- Veterans Health Administration (VA)

Answer Key to Exercise 15.1

- 1.** Medicare **2.** Children's Health Insurance Program (CHIP) **3.** COBRA
4. Health maintenance organization (HMO) **5.** TRICARE **6.** High-deductible health plan (HDHP)



16 Issue: MARKET POWER

There's a story about risk taking that's been told and retold over the years, even inspiring a song by 1960s folk group The Kingston Trio. Here's how we tell it in the VOTE Program. A man is lost in the desert. He's been wandering for two days without water, and he's in a desperate situation. Dehydrated and exhausted, his body is shaking and he can barely walk another step. Just as he's ready to lie down and give up, he glimpses something out of the corner of his eye. It looks like a shimmer in the distance. "It's probably just a mirage," he tells himself. But curiosity makes his heart beat a little faster, and he realizes he's not ready to die yet. So he drags himself slowly in that direction, doing his best to ignore the hot sun that pounds down on him. As he gets closer to the mysterious gleam, he can tell there is definitely something there. Hope supplies him with a last burst of adrenaline and he stumbles on. When at last he arrives, he discovers, to his astonishment, a rusty old water pump poking out of the sand. Attached to the water

pump is a note. With trembling hands, the man picks it up and reads it.

Dear Thirsty Traveler, This water pump will work, I promise you. If you fill your canteen and walk due south, in a day's time you'll reach a town. But this old pump needs to be primed with water to get it going. I'm guessing you've run out of water, so next to this pump I buried a jar with exactly the amount of water needed to get it working. Just pour the entire jar of water on the pump and start pumping. Then you'll have all the water you need. But be warned: if you use even a drop less than what I've left you, it won't work at all. All I ask is that before you leave, fill the jar back up to the top and bury it for the next person. Leave them this note so they'll know what to do. Good luck! Sincerely, Desert Pete.



The man looks under the rock and sighs with relief when he finds the jar of water, exactly as Desert Pete promised. He licks his dry lips. All he wants to do is open the jar and drink that water. His body is begging him to do it, but he pauses. What should he do?

What would *you* do if you were in this situation? Would you slake your thirst rather than risk the precious water on a pump that looks corroded? After all, you don't know how long ago Desert Pete wrote that note. Or would you take the risk and prime the pump? If it works, you'll not only be able to drink as much as you want now and have enough to make it across the desert, but you'll also be able to leave a full jar under the rock for the next thirsty traveler.

Even though I am the most risk-averse person I know, I'm honestly not sure what I would do in that situation. Maybe you are equally unsure, or maybe you know exactly what you would do. This story drives home the point that we all have our own relationships to risk. I think about this every time I get in a ride share and the driver makes a daring lane change on the highway. Some of us are risk takers, some of us are risk avoiders, and some go back and forth between the two depending on the situation. The important thing to keep in mind is that whatever decisions we make about taking risks—whether to prime the pump, cut in front of a truck, enroll in nursing school, or get married—our choices have consequences to ourselves and others.

Whenever I go to a restaurant, shop in a store, or use an app on my phone, I am aware that those businesses exist only because people were willing to risk their time, money, and reputation. It's risky to launch a clothing brand, or build a

potato chip factory, or start a software firm. It is risky to launch any start-up. One in five new businesses fails in the first two years, according to the Bureau of Labor Statistics. Nearly half don't make it past year five. By year ten, the majority shut their doors. And by year fifteen? Three-quarters of those firms are gone. Firms fail for many reasons. For example, those who start the business might

misread market demand and make things no one wants. They might not have enough money to invest in the capital (machines) to produce efficiently, or not have the right management experts or workers with technical know-how. Firms also go bust when they can't compete in the market. This occurs when their rivals produce at a lower cost, make better-quality products, make new products that customers want, have more effective marketing strategies, or for other reasons.

Marketplace competition is not only relevant to firms, it's also crucial for consumers. Because firms compete, we have choices, lower prices, and better-quality

products. For example, if you suddenly crave an iced tea, you can go to a convenience store and find five different brands in the refrigerator case. You can choose sweetened, unsweetened, green tea, black tea, fruit flavors. Why are there so many options? Because iced tea firms are competing for your business. You choose a lemon-flavored black tea and pay \$2.50 for it. It doesn't cost you \$20 to purchase a twelve-ounce bottle because if the producer overcharged, you would just buy a



different brand. Now imagine what would happen to you at the store if there were no market competition. What do you think the price would look like if only one firm in all the world produced iced tea? Do you think the firm would have an incentive to improve its product or come out with new flavors if it had no competition in the market?

The definition of **market power** is the ability of a business to set prices above the level that would exist if the firm had competitors. This chapter is about what happens not only to the prices but also to the quantities and quality of products when there is no competition in a market. Liberals, radicals, and conservatives all agree that large firms can abuse their market power, and they all share the same goal of having the best products at reasonable prices. It will of course come as no surprise to you that they have very different ideas about how to make that happen. Of all the issues we cover in the VOTE Program, market power is the one you interact with the most every time you buy anything—from housing and health care to a pack of gum. Did you use toothpaste this

morning? Are you wearing shoes right now? Did you ride in a car today or listen to music on your phone? Products are so integral to our existence that we actually chart human history by them. We talk about the Stone Age, the Bronze Age, and the Iron Age because those were the materials early humans used to make products. Archaeologists study artifacts to understand the human achievements of the past, and anthropologists study how products reflect our cultural values. Think of all the ingredients for Thanksgiving dinner, or the school supplies in a second-grader's backpack. Market power may seem abstract at first, but products are very personal. You have relationships to your devices, your appliances, your underwear—that's as personal as you can get.

I feel a deep appreciation for the products that make my life better. My new kitchen appliance is amazing. Picture a large toaster oven, but instead of just toasting, baking, and broiling, it is also an air fryer, food dehydrator, and convection oven. It even folds up, so it doesn't take up too much space on the counter. My family is eating more vegetables because it takes only six or



seven minutes to cook them to perfection. I have friends who rave about wrist devices that track their steps and heart rate, and online payment services that free them from having to carry cash or credit cards. You don't have to be materialistic to appreciate the products in your life. Even Buddhist monks, who are well known for not being attached to material things, are grateful to have sandals that keep rocks from hurting their feet when they mindfully walk through the forest. I'm sure they are glad to have razor blades that hold a sharp edge so they can keep their heads shaved without getting nicks, and they can appreciate a well-made broom to sweep out their temples.

It is frustrating, infuriating, and even life-threatening when we can't get the things we want and need at a reasonable price. The apartment building where I live is wired for one cable company, so we have no choice in our service provider. I have to pay for the cable package that offers five hundred channels just to get the three channels I actually want. When I tried to explain to

customer service that I don't want all those other channels, the agent kept insisting that I ought to watch something else. I imagine she has these conversations with unsatisfied customers all day long. When demanders can't ditch one company and buy the product from a competing firm, we have no choice. So I pay for 497 channels I don't watch. Every month when I see the bill, this fact aggravates me all over again. And to drive up my blood pressure even further, last year the company raised my rate by \$80 a month! Can you feel my pain here? I think you can relate, because no matter what economic perspective you're coming from, it's infuriating to be at the mercy of a firm because you don't have the option to take your business elsewhere. Imagine being in this situation and not being able to afford the medication your father takes to prevent a stroke, the transportation you need to get to work, or the food your family needs to stay alive. You can see why the issue of market power is relevant to all of us.



Inventors and Entrepreneurs

When you ride in an elevator, open a refrigerator, or watch an online video about how to fix a leaky faucet, consider that humans who came before you invented elevators, refrigerators, video cameras, computers, the internet, and faucets. People you've never heard of—and some you have—created the products that allow you to talk to your friends, take vacations, wash your hair, and pretty much do everything else in your life. Thomas Edison, known as the inventor of the lightbulb, moving pictures, and the phonograph, once said, “Genius is 1 percent inspiration, 99 percent perspiration.” He was a great tinkerer who was inspired by the ideas of others (some say he stole their ideas). When he became successful, he tasked his many employees with experimenting and developing prototypes for new products. That led a few historians to say that his greatest invention was the invention factory. Today, it's called the **research and development (R&D)** division, the department in a company where new products are designed and tested.

Whether for a large pharmaceutical firm, a local Indian restaurant, or the gym, R&D activities result in new goods and services—vaccines, curry dishes, and workout routines. But the people who get the credit and reward for an invention are not always the ones who come up with the idea first. Instead, it can be a matter of who is first to get the patent. A **patent** is a license issued by the government that protects intellectual property by giving the holder the exclusive right, for a set period, to be the only one to make, use, or sell that product. The U.S. Patent and Trademark Office in the Department of Commerce issued its 10 millionth patent in June 2018. It granted the first patent in 1790 to Samuel Hopkins for improvements in making potash and pearl ash, which are industrial chemicals used in glass, soap, and fertilizer production, as well as baking soda. Figure 16.1 shows the number of patents issued

over the centuries. That slim line summarizes lifetimes devoted to inspiration, sweat, and trial and error—all to make our lives better. (Of course, people invented things for millennia before 1790. That date is only significant because that was when the first patent was issued in the United States.) Similar to patents, **copyrights** give the holder the exclusive legal right to publish, print, film, perform, or record original literary, artistic, or musical work for a certain number of years.

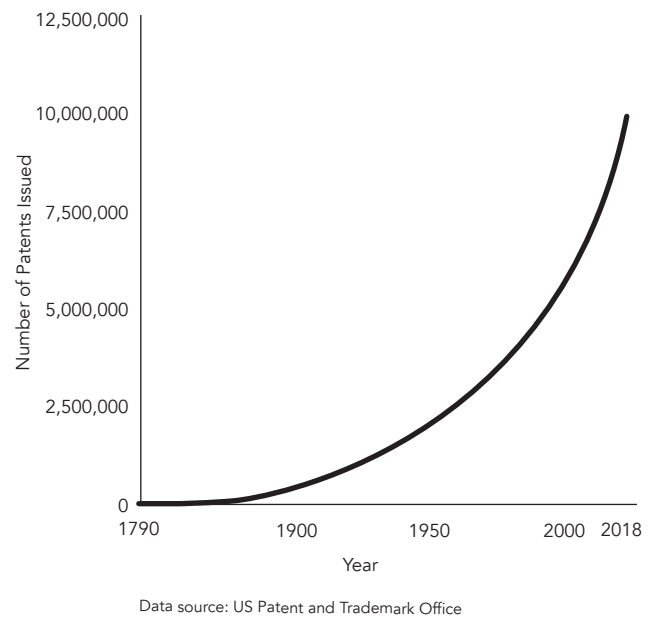


Figure 16.1
U.S. Patents from 1790–2018

When Thomas Edison died in 1931, at the age of eighty-four, he held more than one thousand patents. His rival and former assistant Nikola Tesla held only three hundred patents when he died in 1943, at age eighty-six, even though Tesla is considered to be the true genius of the two. He's the one who came up with the idea of transmitting signals wirelessly, which paved the way for radio, television, and the cell phone in your pocket. Another inventor who didn't get the credit (or the patent) for many of his inventions was Elijah McCoy. The son of fugitive slaves, he earned a degree in mechanical engineering, but he couldn't

get a job in his chosen profession because of racist attitudes. He eventually found employment as a train engine oiler. Trains had to stop frequently so the engines could be lubricated. McCoy was inspired to invent an automatic lubricating device, which transformed the railroad industry. By the end of his life, he had patented fifty-seven inventions, including the folding ironing board and the lawn sprinkler, but many of his inventions were patented in his employers' names.

Inventors are the ones who come up with new products and processes, but just because something amazing is invented doesn't mean it will ever come to market. Entrepreneurs are the people (or groups of people) who take greater-than-normal risks to start, organize, grow, or operate a firm. Some entrepreneurs are also inventors, but not always. They may start off with a great idea and some may also have money, experience, or a good reputation to turn it into a successful business. Some may take a partner's great idea and turn into a successful business through their own hard work, creativity, and unflagging energy. However they do it, entrepreneurs make things that society values. You've probably heard of Jeff Bezos, Oprah Winfrey, Steve Jobs, Jessica Alba, Mark Zuckerberg, Vera Wang, Sean Combs, and Elon Musk, just to name a few. Along with being risk takers, entrepreneurs are typically visionaries, opportunity seekers, competitive strategists, financial wizards, publicists, marketers, managers, and more. The risks of launching a start-up are great, but so are the rewards. Entrepreneurs can potentially make a lot of money, be the first to achieve something, earn the respect of others, become powerful in their fields, and influence society. Interestingly, many say that the real rewards of success go beyond fortune and fame. Jobs, who created Apple using the inventions of his less-well-known business partner, Steve Wozniak, famously said, "Being the richest man in the cemetery doesn't matter to me. Going to

bed at night saying we've done something wonderful . . . that's what matters to me." Winfrey, the successful actress and television talk show host who went on to build a media empire, was driven by her desire to make the world a better place, saying, "The reason I've been able to be so financially successful is my focus has never, ever for one minute been money."

Of course, not all entrepreneurs are looked up to as heroes and role models. John D. Rockefeller, who founded Standard Oil in the late nineteenth century and became the richest American in history by controlling 90 percent of the oil in the United States, had a reputation for unscrupulous business practices, including lowering oil prices for the sole purpose of driving out his competitors. Also controversial was Henry Ford, founder of Ford Motor Company, who developed the modern assembly line. The nineteenth-century entrepreneur forced the people who sold his cars to display anti-Semitic, racist writings in their dealerships. Some entrepreneurs who fail, are caught breaking the law, or engage in disreputable behavior still manage to make a comeback and salvage their reputations by becoming motivational speakers, authors, and philanthropists.

Most of the entrepreneurs you hear about are the richest and most famous, but it might surprise you to know that you encounter entrepreneurs all the time. In the United States, 99 percent of firms are small businesses. The official definition of a **small business** is a company with fewer than five hundred employees. In 2020, there were 31.7 million small businesses in the United States, according to the U.S. Small Business Administration. So the owner of the nail salon you visit, the builder whose company renovated your child's school, the chefs who started a gluten-free bakery in your town, and the brothers who started a moving company to pay their way through college—they are all entrepreneurs.

Markets, Industries, and Sectors

There are a few terms you should know in case you ever find yourself sitting next to an economist, financial adviser, or investor on a bus and strike up a conversation. You already know what *firms* are—they make products and then sell them in markets. And you know what *markets* are—the physical or virtual places where suppliers meet demanders. Markets are specific to a product, so if ten firms make dog beds, all those dog beds are offered in the same dog bed market. Groups of firms that make the same general type of product are called an **industry**. For example, makers of dog beds are part of the pet product industry, along with companies that make dog leashes, cat toys, hamster foods, and so on. Industries often create their own trade associations, which are membership organizations that support and promote their industry. For example, the American

Pet Products Association does market research, has an annual Global Pet Expo to help members promote their products to buyers around the world, monitors and responds to regulations that affect pet product firms, and engages in other efforts to help firms produce better pet products and sell more of them.

Industries are grouped together into categories called **sectors**. If you look up the term online, you'll notice that there is no agreement on exactly how many sectors there are or what they are called. But the idea is that looking at sectors—groups of industries in the same general categories—allows governments and economists to analyze specific areas of activity and form a picture of how that part of the economy is performing. Check out figure 16.2 and try to identify the sector for the pet product industry. (By the way, ICT stands for information and communication technology, and

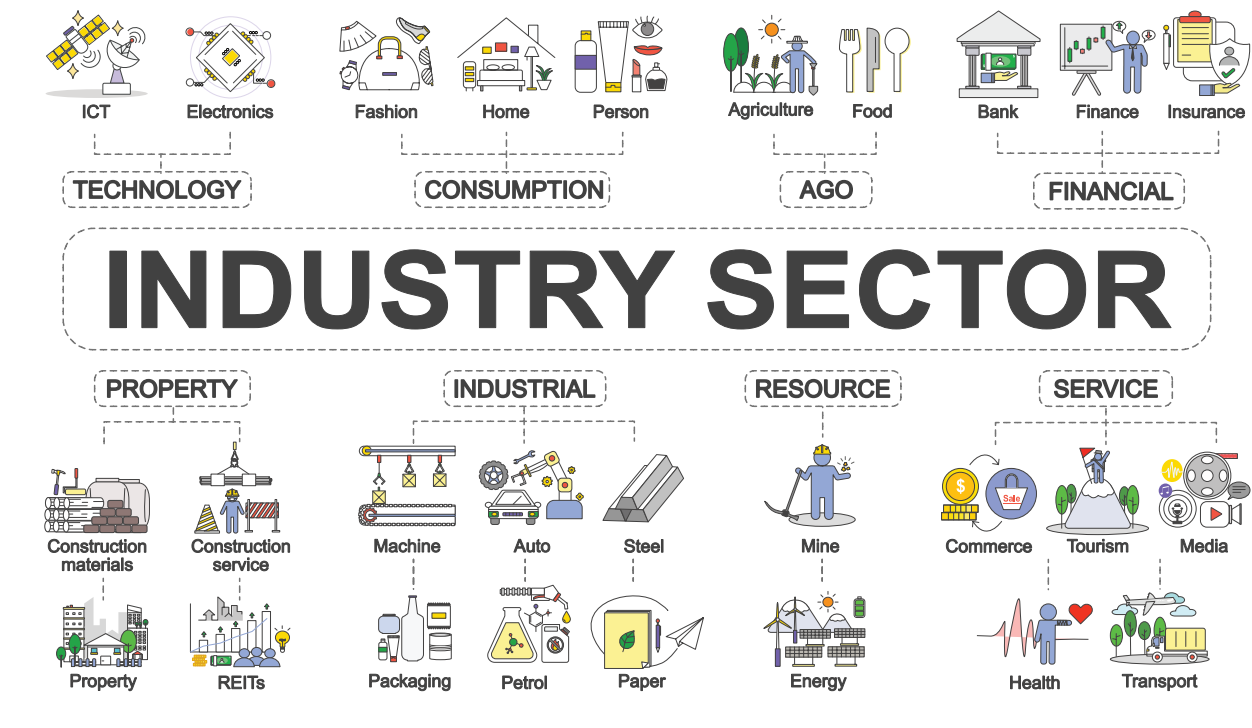


Figure 16.2
Industry Sectors of the Economy

REITs are real estate investment trusts). The pet product industry falls under the *home* category in the *consumption* sector. In what sector is an electricity firm? It's part of the electricity industry, so it falls under the *energy* category, in the *resource* sector. Other industries in the *energy* category include the petroleum industry, the natural gas industry, and the solar energy industry. I hope the illustration in figure 16.2 helps you start to realize the scope of what we're talking about in this chapter. There are countless products, and in every single market, the prices, quantities, and quality of goods and services we use every day are extremely relevant to our standard of living.

Four Types of Market Structures

Have you noticed that every time you buy something, you're having a little conversation with yourself about the product? When you're at the store to pick up a gallon of milk, or when you make a doctor's appointment, or when you order cable service, you wonder if it is your only or best option. Let's say you want to buy a new hoodie. You go to a brick-and-mortar store and try on the ones they have in stock. Perhaps they only carry their own brand, in which case you might check your phone to view more options online and wonder how many firms make hoodies. "Is the color going to fade on this one?" you wonder. "Will the elastic ribbing be too tight on that one? And are the differences among all these hoodies real, or just a marketing ploy to get me to choose one brand over another?" If none of the hoodies has the features you're looking for, you consider waiting to make the purchase later. A new firm could enter the market with a better product. Or maybe you found the perfect hoodie right away, but it cost hundreds of dollars, and you wondered if it was so expensive because only that firm makes hoodies.

What's actually happening here is that you're thinking about market structures. In every economic system, there are relationships among

firms in a market. **Market structures** describe those relationships. There are different types, distinguished by four characteristics: the number of firms competing in the market, how much power firms have over the price of their products, the uniqueness of their products, and the existence of barriers to firms entering the market. Each market structure creates a different ability for firms to influence the prices, quantities, and quality of the products we buy. You probably didn't consciously realize you cared about market structure until this moment, but now that you know it hits you in your wallet and affects your quality of life, I hope you feel motivated to learn more.

The first type of market structure is **perfect competition**. In that scenario, a huge number of firms all make the same **homogeneous** product, meaning their products have no real or perceived differences. One firm's bottle of distilled water is the same as another's, for example. And there are no significant **barriers to entry**—obstacles that prevent firms from starting businesses in that market. Let's say you need distilled water for your tropical fish tank. Lots of firms produce it, and therefore you wouldn't pay a penny more for one brand over another because it's all the same. If you want to start a distilled water business, there is no regulation, scarce resource, or any other barrier that keeps you out of the market. There are also no **barriers to exit**—obstacles that prevent firms from closing their businesses. You don't have highly specialized assets that are difficult to sell off, or contractual obligations, or regulations that prevent you from leaving the market. Most important for our conversation, in markets with perfect competition, so many firms are competing that no single firm has the power to control the price, so firms in perfect competition are **price takers**.

The second type of market structure is **monopolistic competition** (please don't confuse this with monopolies, which we'll describe soon). In

this scenario, a large number of firms in the market make products that are similar enough to be close substitutes, but they are **differentiated**—distinguished from competitors' products in some way. Firms have some pricing power when people believe there are differences between the products. They become willing to pay different amounts based on brand reputation, performance, and so on, even if differences are merely perceived rather than real. For example, in the running shoe market, the New Balance brand and the Adidas brand are viewed differently by consumers, which affects their willingness to pay more for one than the other. Differentiating one brand from another—and promoting a brand as being the most desirable—is one of the major objectives of marketing and advertising. In monopolistic competition, there are some barriers to entering the market. For instance, consumers' brand loyalty can make it difficult for a new firm to get a foot in the door.

The third type of market structure is an **oligopoly**. In this scenario, a small number of firms make the product, and there are no close substitutes for it. Airlines are an example of an oli-

gopoly. When you have to cross the continent in a day, there's no substitute for an airplane ride. (This will change once we invent the transporter beam.) Therefore, firms in an oligopoly have substantial pricing power. Also, there are significant barriers to entering the market. Consider the massive amount of capital, expertise, and access you would need to get a new airline off the ground.

The fourth type of market structure is a **monopoly**. Only one firm makes the product, there are no substitutes, and there is no possibility for other firms to enter the market. Since it is the only game in town, a monopoly firm has extreme pricing power—it is a **price maker**. Even with a monopoly, however, firms are still constrained by demand. In other words, if demanders aren't willing to pay for it at that price, then the firm won't be able to sell the product. You might hear a firm referred to as having a **near-monopoly**. This means it has nearly all market shares. For example, an electric company has 95 percent of market share in a city, making it a near-monopoly. Technically, it's not a monopoly, since 5 percent of people buy their power from a small wind farm. In figure 16.3, you can see a few examples

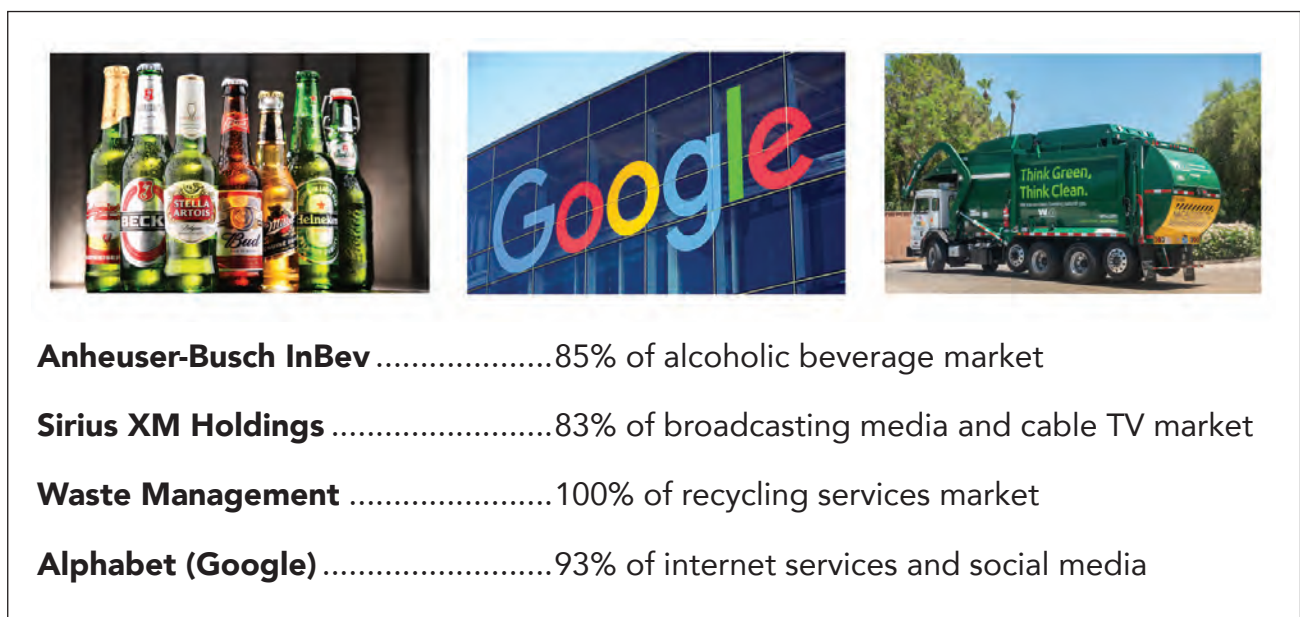


Figure 16.3
Firms that Dominated Their Markets in 2020

of well-known firms that were near-monopolies in 2020. Google controlled a gigantic share of the internet search market. Anheuser-Busch owned nearly every best-selling brand of American beer. Sirius XM had a monopoly on satellite radio service (although they argued that there were plenty of substitutes, including Pandora, Amazon Music, and Spotify). Waste Management had a near-monopoly on trash pick-up service.

Some firms are also said to have a **natural monopoly**. In this scenario, one firm dominates the market because it makes a substantial initial investment to create the infrastructure. Once it starts producing and grows bigger, it gains a market advantage over would-be competitors, because with growth, it costs the firm less to supply each additional unit of the product. This creates a “natural” barrier that pushes smaller firms out of the market and prevents new firms from gaining a foothold. A few examples of industries with natural monopolies include electric companies, water companies, gas companies, and railroad firms. There is one more market structure that you might hear about in the news, although we won’t be discussing it in this chapter. It is

called a **monopsony**, which is a market with one buyer and many sellers of a product. This turns a monopoly on its head because in this case, the buyer has the power to dictate the price—constrained by the willingness of suppliers, of course. This is most commonly seen in a labor market. The classic example is a mining town, where the only buyer of labor is the mine, so the firm has tremendous power over the wage.

Competition

Competition is a fact of life and is central to the issue of market power. We all have personal experiences with it. If you have siblings, you compete for attention and approval from your family. At school, you compete for grades, for a leading part in the play, in spelling bees, sports, and science fairs. You know how stressful, exciting, rewarding, and frustrating it can be. While competition is no joke, I must tell you this joke I heard about a costume store owner. She arrived at her shop one morning to discover that a major competitor had opened up right next door. A huge sign in the window read “Award-Winning Designs!” A few days later, another major competitor moved

Exercise 16.1: Match the Firm to Its Market Structure

For this exercise, match each firm to its industry market structure. Toyota is a car maker, the Grapefruit Company grows and sells grapefruit, Microsoft produces computer office software, and Pepperidge Farm makes bread. The Answer Key is at the end of this chapter.

FIRM AND PRODUCT	MARKET STRUCTURE
Toyota automobiles	Perfect Competition
Microsoft word processing software	Monopolistic Competition
Pepperidge Farm bread	(Near) Monopoly
The Grapefruit Company fresh grapefruit	Oligopoly

in on the other side of her shop. A huge sign in its window read “Our Prices Can’t Be Beat!” What did she do? She hung a sign over her door that read “Main Entrance.”

Economists talk about different types of competitors. In the broadest sense, all firms in the marketplace are budget competitors, meaning each one wants you to spend your budget on its goods and services. When firms make the same kind of products, the products are close substitutes, and firms are direct competitors in a market. Cartier, Tiffany, and Bulgari all make high-end jewelry, for example. When a firm’s products are a more distant substitute—one produces olive oil and the other produces canola oil, for example—they are substitute competitors.

Regardless of the type of competition a business faces, there are two sides to the coin of competition. **Negative competition** occurs when the focus of the rivalry is to obliterate the opponent, not to do one’s best. Cheating, bullying, and other underhanded tactics can turn healthy rivalry into destructive, antisocial competition. From no perspective is negative competition a good thing, which is why there are rules in sports about good sportsmanship and rules on the playground, in politics, and in the boardroom to keep competition constructive and fair. In contrast to negative competition, **positive competition** means opponents focus on bringing their A game to everything they do because they challenge themselves to continually improve and perform at the peak of their abilities. Winning is desirable, but foremost in their minds is to do their best. When I was a teenager, I competed in a tennis tournament. I made it to the finals, and the last opponent I had to play before I could claim the title was clearly not as good as I was. All my friends assured me it would be an easy win. But guess what happened? I assumed she was no competition, so I was overconfident and ended up playing my worst game. Knowing I was the better player, she came to the court with focus,

concentration, and determination to play her best game. The moral of this story is that when we challenge ourselves to do our best, we end up making our most valuable contributions to society. This is true not only at the individual level, but also for firms, communities, and nations.

Positive competition (please don’t confuse it with perfect competition!) in the business world means firms focus on making the best products rather than driving all their competitors under so they can dominate the market. People from every economic perspective agree that competition works best when it gives companies an incentive to bring their A game to market. It’s how we make progress as a society. Progress occurs when a product or process is replaced by something more useful, more efficient, more sustainable, or better in other ways. When I was a girl, if I missed seeing a movie in the theaters, I missed it forever. Then VHS was invented. I could drive to a nearby video store and rent a copy, watch it from the comfort of my own living room, and then—after rewinding it, of course—deliver it back to the store. (I will just say that I paid a lot of late fees back in the 1980s.) Movie theaters suffered from this new competition and had to lay off staff or close down. Then streaming services got into the competition and made video stores virtually obsolete. An Austrian economist named Joseph Schumpeter called this cycle of invent-and-replace **creative destruction**. He said we destroy the old by creating the new in our quest to make society better off.

Many companies treat business like a battlefield and view competition as a **zero-sum game**—a win-lose situation that can have only one winner. Be careful before dismissing this as negative competition. As long as there is no cheating, bullying, or other underhanded tactic, it’s not necessarily negative. It may just be a strategy to bring one’s A game. The battlefield analogy uses as its inspiration a famous book on military strategy, *The Art of War*, written by a fifth-century

BCE general named Sun Tzu. It offers advice on how to attack an opponent's weaknesses, move fast to overwhelm the enemy, forge alliances to control strategic positions, and other tactics that many CEOs and managers apply to competition in the marketplace. There's a famous reference to it in the 1987 film *Wall Street*, when character Gordon Gekko, a successful Wall Street investor, advises another character to "read Sun Tzu, *The Art of War*. Every battle is won before it's fought." This is also the film in which that same character argued about the potential for advancement of society in his famous "Greed is good" speech.

Some business leaders challenge the idea that

market competition has to be a zero-sum game, whether it is in the form of negative or positive competition. *Inc.* magazine contributing editor Geoffrey James writes: "If you want the long-term success that comes from being flexible and adaptable, I highly recommend mothballing any tendency you have to think of business as a battlefield. . . . When you think of business in general, and competition in particular, try to think in terms of an ecosystem, with strategic evolution, profitable market niches, and other concepts borrowed from the world of biology. Ultimately, this way of thinking will make you, and your firm, more successful."





Thinking about the thirsty traveler and risk takers, the different types of market structures, and negative and positive competition, it is clear that the issue of market power is extremely relevant to your life and to the whole society. Now that you have started to see the connection between competition in markets and the price, quantity, and quality of products, you can imagine the dire con-

sequences we could face if the goods and services that we count on to survive and thrive became unaffordable, unavailable, or poorly made. All three perspectives agree that large firms can abuse their power. And they all share the same goal of the best products at reasonable prices. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for Market Power

Before we look at the different tools used by the various perspectives to analyze the issue of market power, there are a few basic things to know about business. These concepts are relevant to all firms, whether worker owned in democratic socialism or privately owned in capitalism.

Shared Tools

The primary activity of a firm is to take resources (land, labor, and capital), combine them with technology (the best procedures for production), and produce something that is more valuable than the individual factors of production (another way to say *resources*). Resources that are used to make specific products are the inputs, and the end results of production are the outputs. What do we mean by “more valuable”? Value may be measured as more useful, more beautiful, or more profitable. In capitalism, *value* is generally discussed in terms of profit. In democratic socialism, *value* is generally measured in terms of usefulness. In every economic system, however, usefulness and profit are both relevant, as are beauty, knowledge, health, and other values of society. So please don’t think that radicals are against profit or that liberals and conservatives are against usefulness. Everyone wants firms to produce useful things *and* be profitable so that they can continue to produce.

Inputs, Outputs, and Profit

Since the business of business is to create a product that’s more valuable than the resources that were used to produce it, let’s have a chat about inputs. There are three types of inputs: land (anything that naturally comes from the earth), labor (human exertion), and capital (equipment used to make final products). These inputs may be either fixed or variable in the process of production. Fixed inputs are those that *can’t* be

easily changed today, while variable inputs are those that *can* be easily changed today. Let’s say a firm makes fish tacos (that’s the output). Inputs include fish, avocados, tortillas, and lettuce. Those resources are *land*. Fish taco production also requires chefs, kitchen assistants, and ingredients purchasers. Those resources are *labor*. The firm also needs refrigerators, knives, and grills. Those resources are *capital*. If there’s a huge demand for tacos today, the firm can’t install two new grills right now, because the kitchen has limited square footage. Two more grills won’t fit. Therefore, in this context, grills (capital) are fixed inputs. On the other hand, the firm could change the number of ingredients in today’s tacos. Ingredients (land) are variable inputs in this example. Finally, the chefs (labor) have long-term contracts, so they are fixed inputs. On the other hand, the kitchen assistants (labor) can be changed at any time, so they are variable inputs. It is a mistake to think capital is always a fixed input, land is always a variable input, and labor is always a combination of the two. Whether an input is fixed or variable depends on what is being produced and the production process.

When production occurs with at least one fixed input, conventional economists call it the **short run**. Here’s what you need to remember: *all production happens in the short run*. Whether it’s tacos, sofas, or financial services, there are *always* fixed inputs. Seriously—try to think of producing something that doesn’t have a fixed input. It’s impossible. On the flip side, all factors of pro-

duction are variable in the **long run**. That means tomorrow, or next year, or a decade from now, the taco company could move to a space with a bigger kitchen and add more grills or remove some grills. But the moment it does so, grills and kitchen space once again become fixed inputs. That's why production is said always to happen in the short run.

Inputs cost money, and every business faces expenses for production. **Fixed costs** are what firms spend on fixed inputs—rent for the kitchen space, cost of grills, and interest payments on last year's plumbing upgrades. **Variable costs** are what they spend on variable inputs—fish, avocados, kitchen assistants, electricity, and so forth. Keep in mind that fixed costs stay the same whether or not the restaurant is open for business. In other words, the owners will have to pay the rent or interest on the loan for plumbing upgrades even when everyone takes a day off or no customers show up. Adding up their fixed costs and variable costs, firms calculate their **total costs**. Then they look at their **total revenue**—the money they made from the sale of their product. To calculate total revenue, the firm multiplies the price of the product by the quantity sold. A firm's

profit is total revenue minus total cost. Here is the equation:

$$\text{Profit} = (\text{Price} \times \text{Quantity Sold}) - \text{Total Cost}$$

No matter what the economic system, a firm must consider costs, because if it costs more to make something than the revenue it generates, the company won't be able to stay in business. I'm always amazed at how often people blithely ignore costs. Seriously, this concerns me as an economics educator, and it used to worry me a lot as a mother. When my daughter decided to open a lemonade stand at age six, I congratulated her on her entrepreneurial spirit and then informed her that I was going to charge her for the lemonade mix and the paper cups she used and a small fee for electricity (ice cubes were made in our freezer) and water. She thought this was ridiculous. We ended up agreeing that I would ask my university economics class of 550 students what they thought. If they agreed with her, then I would waive all the costs for her business venture (against my better judgment). After I finished the lecture on business expenses and revenues, I explained the situation to my students and asked, "How many of you think I should not charge my



daughter for the costs associated with her lemonade stand?” I was privately confident that my position would prevail. But I was wrong. Hundreds of hands flew up, and my daughter, who joined me on stage, beamed. I stopped charging her for inputs, but I still maintain that I was right to teach her this important lesson about factoring in the costs of inputs. I’d bet good money that she’ll do the same if she has children of her own one day.

Accounting Profit versus Economic Profit

Most people think of profit as simply the total revenue minus the total costs—and that’s the end of the story. But that is just the **accounting profit**. It leaves out extremely important information. To explain, let me tell you about my aunt Barbara. She had a long and successful career as a famous artist in New York City designing rugs, fabrics, and interior spaces. When other people her age were retiring, my aunt launched her own jewelry design business. As she got going in her business, she excitedly called me every year around tax time after calculating her accounting profit.

Aunt Barbara: “Amy! Guess what! I made \$50,000 this year!” (I’ve changed the numbers here, but you get the idea.)

Me (speaking as an economics educator): “Yeah, but not really. Because after you subtract your total costs from your total revenue, you then have to subtract how much you *could* have made if you’d worked for someone else’s firm and earned a salary.”

Aunt Barbara: “Huh?”

Me: “Look, you’re a famous designer. You could be pulling in \$250,000 a year easily if you worked for one of your competitors instead of running your own business.”

Aunt Barbara: “What are you talking about? I’m giving you good news. I made \$50,000!”

Me: *sigh*

It’s natural that my aunt doesn’t think like an economist. Most people don’t. But it concerns

me that decisions are being made every day without realizing that making a choice to do one thing always comes at an invisible cost, called **opportunity cost**. It is the potential gain that *could* have been realized by making the alternative choice. A simple example is reading this book right now. The opportunity cost is the benefit you’re not gaining from doing something else with your time—sleeping, working, visiting with friends, inventing a transporter beam, and so on.

Let’s look at my aunt Barbara’s opportunity cost. Suppose her total revenue

for the year was \$200,000, and her total costs—the explicit, or visible, ones—were \$150,000. That included \$60,000 paid to her workers and \$90,000 for materials, rent, and equipment. Yes, it appears that she came out ahead by \$50,000. But now let’s take into account the implicit—invisible—costs of her lost opportunity. Subtract the \$250,000 that she could have earned by working for another firm. Looking at it this way, my aunt actually made *negative* \$200,000 a year. **Economic profit**



is the total revenue minus explicit and implicit costs. When I tell this story in class, many students point out that my aunt enjoyed being in business for herself. I hear what they are saying. But even if my aunt prefers to be in business for herself and is willing to trade a higher income for more independence, she (and all of us) should at least be aware of not only the explicit costs associated with her decisions but also her implicit costs. Opportunity cost should be part of the profit equation. Are you considering investing your money in a car wash business? Great, but make sure to factor in the opportunity cost. What are you giving up by not investing that money in a mutual fund instead? Now that you know my aunt's story, I hope you will keep in mind opportunity costs for all your future personal and business decisions.

Conventional Theory Tools

Let's say a firm did the market research and determined that it is making a product that people want, and it calculated its potential economic profit and determined that it is worth the effort to make the product because it will be profitable. This firm should have a shot at success, correct? Theoretically, that's true, say conventional theo-

rists. But if there's no way to enter the market in the first place, or if competitors are lying, stealing, and cheating, then the company won't have a chance to compete. When firms are shut out of a market, then we have a problem as a society.

Conventional theory is rooted in the idea that capitalism enables society to realize its highest potential for economic well-being by ensuring that resources are put to their best uses to meet our wants and needs. But conventional theory's conclusions—that firms make us what we want (allocative efficiency), they make the profit-maximizing amount using the fewest resources (productive efficiency), and products go to those who most want them (distributive efficiency)—all presuppose that there is perfect competition in markets. What happens when a market is dominated by a firm that has a monopoly or near-monopoly? Liberals and conservatives say that when a firm has a monopoly, then it has the power to manipulate the price, control the quantity, and compromise on quality. Now you'll see how they arrived at this answer by learning a few new conventional tools. This section is more complex than usual, so before we get this tour bus on the road, let's go over the map so you know why we're taking you on this particular route to understand how



conservatives and liberals analyze the issue of market power.

The first stop on the tour of conventional tools for market power is a look at short-run prices and quantities when there's perfect competition. The scenery will look familiar at first because you have already seen market graphs in past chapters. Then get your camera ready, because we'll be visiting one firm, Galactic Soap Company, to see how it maximizes its profits. Then we'll enter a forest of graphs, which may become quite dense at times. No worries—it's friendly terrain. We'll look at the interaction between perfectly competitive markets and individual firms in the short and long run. This stretch of the road explains the conventional view of how equilibrium prices and quantities in perfect competition are exactly correct and benefit society. Just when you're wondering if we'll ever get out of that forest of graphs, the thrill-ride part of the tour starts. Buckle up, because you'll be getting a close-up look at all the things that go wrong when a firm has a monopoly or near-monopoly and purposely restricts quantity to get higher prices. You'll be able to see the devastating effect this market distortion has on price signals, resource allocation, and our standard of living. The tour bus will stop there, and you can stretch your legs before you

read the liberal and conservative policy sections on what to do about it. Feel free to bring snacks and water. Rest stops are fine, but we advise you not to wander off or you'll miss the bus!

Stop #1: Prices and Quantity in Perfect Competition in the Short Run

Welcome to the soap market. There are a huge number of soap firms, no real or perceived differences among the soaps they produce, no barriers to entry or exit, and all the firms are price takers. In other words, there is perfect competition in the soap market.

In figure 16.4, you'll see market graphs that should look familiar. On the left is the output market graph for soap. Fun fact about output market graphs: all the ones you've seen so far in the VOTE book have assumed perfect competition in the market. Please notice that the supply curve has a positive slope. As profit maximizers, all the soap firms are willing to supply more soap when price goes up. The demand curve has a negative slope. As happiness maximizers, demanders are willing to demand more soap when the price goes down. The equilibrium price and quantity emerge where supply meets demand. The market price (P^1) of soap is \$2. You'll remember that six



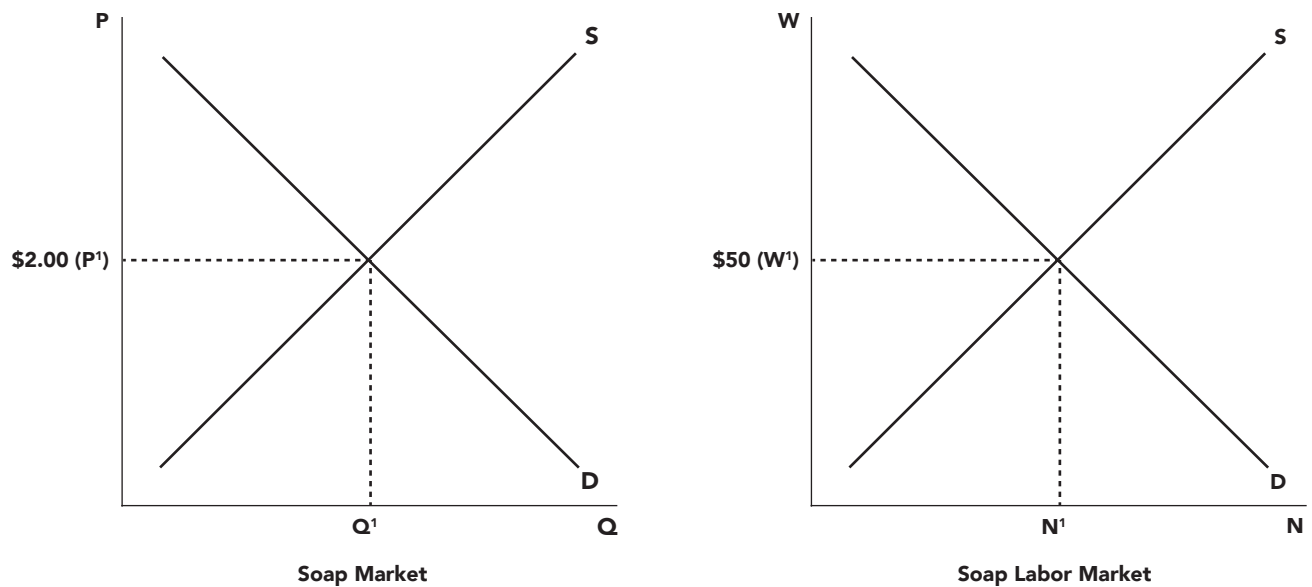


Figure 16.4
Output and Input Markets for Soap

factors shift supply and six shift demand in an output market. Three of those factors are crucial for this issue: an increase in the number of firms, a decrease in the cost of inputs, and an increase in technology. Each shifts supply to the right, but for different reasons. The righthand graph in figure 16.4 is the input market graph for soap labor. Firms are willing to demand more labor when the wage goes down, and soap workers are willing to supply more labor when the wage goes up. The equilibrium wage (W^1) in this example is \$50 per day.

Let's pull into the Galactic Soap Company's parking lot and look at how an individual firm maxi-

mizes its profit in a market with perfect competition. In table 16.1, you'll see some facts about Galactic Soap input and output markets, including the market price of a bar of soap (\$2) and the market wage for a soap worker (\$50 per day). If you're thinking, "Labor is probably the variable input in this example," you are correct. Galactic's total fixed costs (TFC)—its costs for land and capital—are \$200 per day, and its total variable cost (TVC) is the cost of the laborers at \$50 per day. Adding these together, the total cost (TC) includes the \$200 plus however many workers Galactic hires in a day at \$50 per day. Just to keep it simple, assume the total costs include opportunity costs.

Price of output (soap)	\$2/bar
Variable input (labor)	0–7 workers
Fixed input (land)	2 acres
Fixed input (capital)	2 machines, 1 factory
Total variable costs (TVC)	\$50/day per worker (soap labor market wage)
Total fixed costs (TFC)	\$200/day
Total costs (TC)	\$200 + number of workers at \$50/day (opportunity cost included)

Table 16.1
Galactic Soap Company

Galactic needs to know both its costs and revenue to determine whether it is maximizing its profit. There are three different ways of looking at costs and revenues: the *total*, the *average*, and the *marginal*. Please don't be intimidated by these terms. They are not that complicated. Easy example: you post a picture of your adorable golden retriever puppy on social media. The number of "Likes" it gets is the *total*. To figure out the *average* number of "Likes" it got per day for the last week, take the total number of "Likes" for seven days and divide it by seven. Snap! There's your average. Every "Like" that comes next is the *marginal*. It's just one additional unit of whatever you're measuring.

Total and marginal revenue curves. Galactic figures out its total revenue (TR) by counting all the money it takes in from selling soap. Total revenue is simply the price of the soap multiplied by the quantity sold. In equation form:

$$TR = P \times Q$$

Since Galactic Soap is in a perfectly competitive market, the firm is a price taker. Every time

the company sells a bar of soap, its total revenue goes up by the price (\$2). The total revenue curve has a positive, constant slope of two. Every time Galactic sells another unit, it gets another \$2. It's that simple. You can see the total revenue (TR) curve on the lefthand graph in figure 16.5.

Galactic also needs to know its marginal revenue (MR), which is the amount of money it makes from selling each additional bar of soap. **Marginal revenue** is the change in the total revenue (ΔTR) divided by the change in the quantity (Δq). In equation form:

$$MR = \Delta TR \div \Delta q$$

The good news is that it's equally easy to draw the marginal revenue curve, because it's the price, as you can see on the righthand graph in figure 16.5. The marginal revenue curve (MR^1) is a horizontal line at \$2. In a market with perfect competition, there are a huge number of firms, and none has power over price. Therefore, no matter how much soap Galactic sells, it can't affect the market price for soap. As our tour bus cruises past, keep in mind that all the firms could theoretically sell as much soap as they want at that market price.

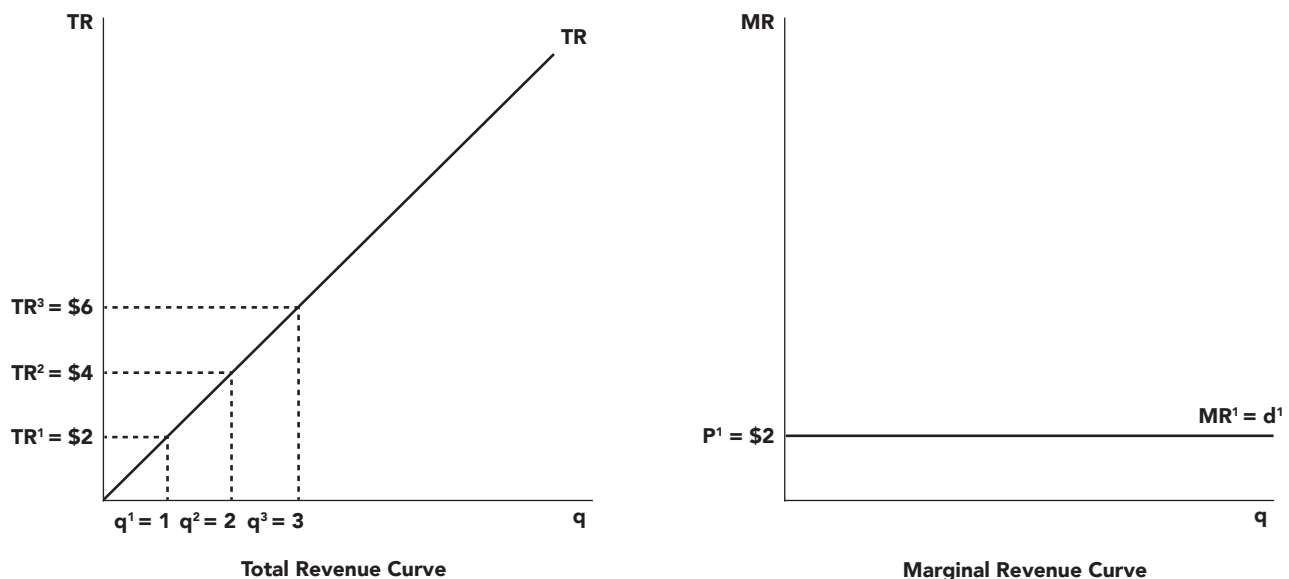


Figure 16.5
Revenue Curves

That's why the marginal revenue curve is not only the price of soap in a perfectly competitive soap market; it's also an *individual firm's demand curve* (d^1).

The law of diminishing marginal returns.

There are more curves coming up, so hang on. They are Galactic's cost curves—the second part of the profit equation. This is a very important subject of analysis for conventional theorists, but on our way there, let me give you some background so you can better understand what you're seeing when we arrive.

At Galactic Soap, fixed costs including interest payments on two machines and rent on one factory, plus opportunity costs, total \$200 per day. Variable costs include \$50 per day per worker. Let's assume the company will hire between zero and seven workers. Common sense tells you that if the firm hires more and more workers when there are only two machines, at a certain point they won't be able to continue to make increasing amounts of soap. The factory floor around those machines will become way too crowded, and workers will bump into each other and spill ingredients. They'll have to slow down and wait their turn to do their jobs, so production will become less efficient. This is called the **law of diminishing marginal returns**. Many of my students have called it “the law of it gets too crowded.” It means that as you add more and more of a variable input to a set of fixed inputs, the output marginally decreases.

As Galactic hires more workers to produce soap on its two machines, the amount of soap each additional worker produces goes down. In table 16.2, you can see some made-up numbers that illustrate this. (We'll be using these numbers throughout this section.) Galactic hires the first worker, who produces 50 bars of soap using the machines. Galactic hires a second worker, and together they produce 150 bars. The sec-

Workers	1	2	3	4	5	6	7
Total Output	50	150	220	270	300	325	330
Marginal Output	50	100	70	50	30	25	5

Table 16.2
Galactic Soap: Law of
Diminishing Marginal Returns

ond worker contributes an additional 100 bars of soap. Then a third worker is hired, and it starts to get crowded around the machines. With the third worker, only an additional 70 bars of soap are made, bringing total output to 220. At the third worker, Galactic experiences diminishing marginal returns. In other words, adding a third worker produces marginally fewer units than when it added the second worker. What does this all mean for Galactic's costs? Since the amount Galactic pays for workers doesn't change—it's always \$50 per day per worker—but each additional worker after the second worker produces fewer and fewer bars of soap, the costs per bar of soap go up.

Cost curves. Let's take the average variable cost (AVC), average total cost (ATC), and marginal cost (MC) curves in turn. By the way, all you really need to remember from this tour are the different shapes of the cost curves. We begin with the average variable cost (AVC) curve. It's the total variable cost (TVC) divided by the quantity of soap (q). In equation form:

$$AVC = TVC \div q$$

Galactic Soap pays the first worker \$50, and that worker produces 50 bars of soap, so the variable cost per bar of soap on average for the first worker is \$1. With the second worker, Galactic's costs for labor are \$100, and the two workers together produce 150 bars of soap. Because \$100 divided by 150 bars is \$0.67, that is Galactic's

average variable cost for two workers. Notice that the average variable cost went *down* with the second worker. It's with the third worker that the average variable cost starts to go *up*. The three workers together are paid \$150 and produce a total of 220 bars of soap. Dividing \$150 by 220, the average variable cost for each bar of soap is now \$0.68 for three workers. Because of the law of diminishing marginal returns, from that point forward, the average variable cost per bar of soap will continue to go *up* with each additional worker. Down and then up, up, up. On a graph, that curve looks like a smirk (a half-smile), which you can see in figure 16.6.

Next, Galactic Soap needs to know its average total costs, which is its average fixed costs plus its average variable costs. We know the average variable costs, so now we need to figure out Galactic's average fixed costs. You might be thinking,

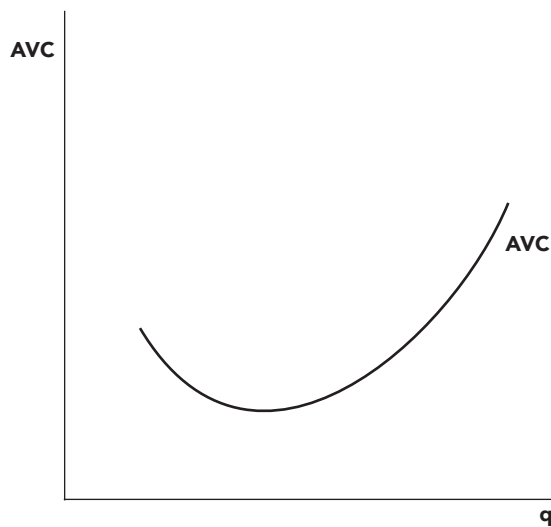


Figure 16.6
The Smirk: Average Variable Cost Curve

“Easy! We know that total fixed costs at Galactic are always \$200.” That is correct. But we need the average fixed costs, so we need to divide it by the number of units produced. Here it is in equation form (if you’re a fan of equations):

$$AFC = TFC \div q$$

Galactic has to pay \$200 per day even when the firm produces no soap. But as more bars of soap are produced, the fixed costs on average get spread out over the number of units produced. When 50 units of soap are made, the average fixed cost per unit is \$4 (\$200 ÷ 50). When 270 units of soap are made, the average fixed cost per unit is \$0.74 (\$200 ÷ 270). So the average fixed costs (AFC), which are shown as vertical lines in figure 16.7, start high and continually fall.

By adding together the average fixed costs and average variable costs, we get the average total cost (ATC) curve. Please note that it has the same basic shape as the average variable cost (AVC) curve, but they move closer together as production increases. This happens because the fixed costs, on average, go down as more soap is produced. To determine the average total cost curve using numbers, divide the total cost of production by the number of bars of soap. Here is the equation:

$$ATC = TC \div q$$

In our quest to find the average total cost, we start with Galactic hiring the first worker. The total cost is the total fixed costs of \$200 plus \$50 (labor cost for one worker). Then we divided \$250 by the 50 bars of soap produced by that worker. That equals \$5. In other words, the firm’s average total cost to produce a bar of soap with one worker is

\$5. For the second worker the average total cost comes *down* to \$2 (\$300 in total costs divided by 150 bars of soap), and they continue to come *down* for the third and fourth workers, as the fixed costs on average are spread out. With the fifth worker, its average total costs start to go *up*—to \$1.50 (\$450 divided by 300 bars of soap). They continue to go *up* for each subsequent worker Galactic hires, leaving us with a curve shaped like a smile. You can see it in figure 16.7.

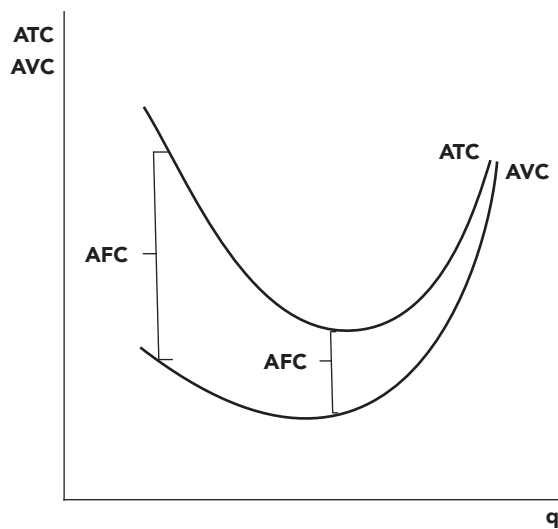


Figure 16.7
The Smile: Average Total Costs Curve

We still have one last crucial piece of the cost puzzle before we can proceed to the next stop on the tour, and that is the **marginal cost** (MC) curve. It tells Galactic the cost of each additional unit of soap it produces, which—as you might imagine—is important information. The marginal cost is the change in total cost divided by the change in the number of units made. The equation is:

$$MC = \Delta TC \div \Delta q$$

Galactic starts with zero workers making zero bars of soap, and with total fixed costs of \$200.

Then the firm adds one worker, who is paid \$50, bringing Galactic's total costs to \$250. The change in total costs (\$250 minus \$200) is \$50, and we divide that by 50, which is the change in the number of units made by that worker (50 minus 0). So with one worker, Galactic's marginal cost is \$1 per bar of soap. When Galactic hires a second worker at \$50, total costs go up to \$300. The change in total costs (\$300 minus \$250) is \$50, and we divide that by 100, which is the change in the number of units of soap because a second worker was added (150 minus 50). The marginal cost per bar of soap produced goes *down* to \$0.50 (\$50 divided by 100 bars of soap). Of course, the marginal cost goes *up* with the third worker, because that is where the firm hits the law of diminishing marginal returns. At this point, you should be able to apply the formula: \$50 (\$300 minus \$250) divided by 70 (220 minus 150) to see that the marginal costs start to go *up* after the second worker. Each additional unit (bar of soap) after the second worker costs more to produce, so the curve keeps climbing *up*. On the graph in figure 16.8, the curve looks like a Nike running shoe “swoosh.”

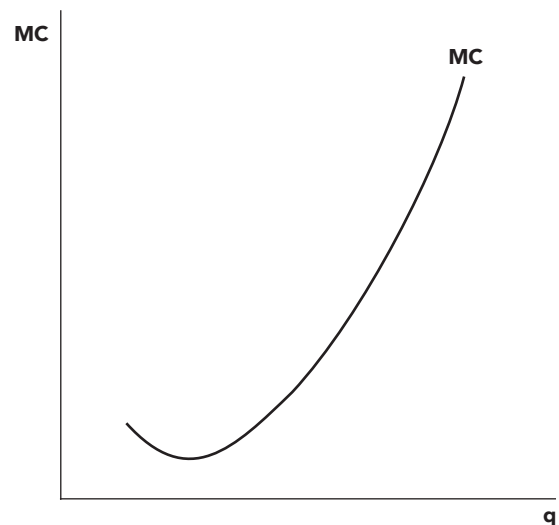


Figure 16.8
The Swoosh: Marginal Cost Curve

When we put the smirk, the smile, and the swoosh together (see figure 16.9), there’s something worth noting in the relationship between the marginal cost curve and the average cost curves. When the marginal is below the average, it brings the average down. It’s no different from your grade in a class. When you take a test and get a lower score, it brings your average grade down. When the marginal is above the average, it brings the average up—again, just like your grade. That is called the **marginal average rule**. Because of this, the marginal cost curve intersects the average fixed and average variable cost curves at their minimum points. This may seem like a random thing to care about, but it’s not. When we get to the next stop on the tour, you’ll be glad the bus paused here so you can get a look at this very important landmark.

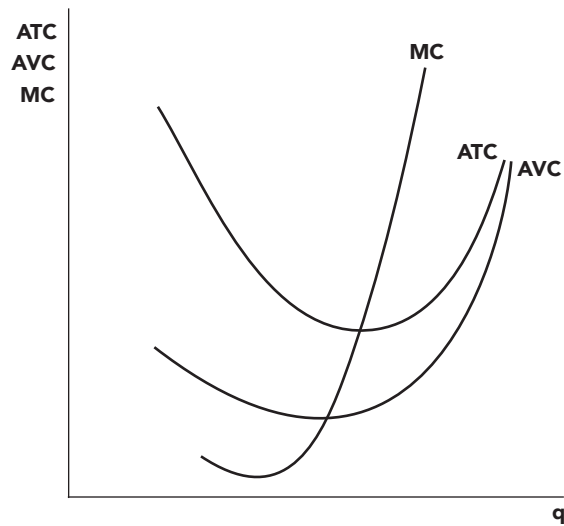


Figure 16.9
Cost Curves and the Marginal Average Rule

The smirk, the smile, and the swoosh are metaphors created by my colleague Steve Reff. For our purposes, these curves are the only really necessary piece of information on this tour. Please notice that they each ultimately have positive slopes because of the law of diminishing marginal returns. In case

you are interested in making sure that you can plot all the points on these curves, you can check your math using this Galactic example in table 16.3.

Workers	1	2	3	4	5	6	7
Total Output	50	150	220	270	300	325	330
ATC ($TC \div q$)	5.00	2.00	1.60	1.48	1.50	1.54	1.67
AVC ($TVC \div q$)	1.00	0.67	0.68	0.74	0.83	0.92	1.06
MC ($\Delta TC \div \Delta q$)	1.00	0.50	0.71	1.00	1.67	2.00	10.0

Table 16.3
Calculating Points on Cost Curves

Profit maximization. Now you understand how conventional theorists calculate cost curves and revenue curves. But we still need to answer the question of how a firm maximizes its profit in perfect competition. You might think the answer is that Galactic Soap ought to sell as many bars of soap as possible. That would certainly generate the most revenue, but don’t forget about the constantly increasing costs of production. It doesn’t make sense to produce more soap if it’s not profitable. That’s why a firm needs to know the point of profit maximization. The entire purpose of making anything is to put inputs together to produce an output that is more valuable than the sum of those parts, and conventional theorists say value is best measured as profit. That’s why it’s crucial for a firm to be sure that when it does anything—hires another worker, produces more soap, adds a new machine—it’s worth the extra time and effort.

Imagine you are CEO of Galactic Soap. If the total revenue outweighs the total cost, you would produce soap because it’s profitable. That’s a yes-or-no decision. But analyzing the totals doesn’t pinpoint the moment at which your firm maximizes its profit. For that, conventional theorists use marginal analysis. Your job as CEO is to maximize the firm’s profit and make sure it produces up until the point

that no more profit can be made from production. You don't want to stop making soap too soon and miss a profit opportunity, and you don't want to keep producing when it isn't profitable. That will incur a loss. The game here is to stop producing the instant before it becomes unprofitable. To figure this out, all you need to do is compare the additional benefit (marginal revenue) of producing one more unit to the additional cost (marginal cost) of producing that additional unit.

Check out table 16.4. The market price of soap is \$2. When Galactic produces 220 units, the marginal cost is \$0.71, and the marginal revenue is \$2. Would you continue to produce the next bar of soap? Yes, because there is more profit to be made. We know that because marginal cost is less than marginal revenue. At 270 units, the marginal cost is \$1, and the marginal revenue is still \$2, so once again, yes, you definitely want to make the next bar of soap. What happens when the marginal cost is \$1.99 and the marginal revenue is \$2? Should you make the next bar of soap? Yes, because you're still making a profit. In fact, you should continue to produce and wring out the last fraction of a penny of profit until marginal revenue and marginal cost are equal to each other. This is the most valuable thing a CEO can know, say conservatives and liberals. You continue production until marginal rev-

Quantity	Marginal Cost (MC)	Marginal Revenue (MR)	Produce? Y/N
220	\$0.71	\$2	Yes! MC < MR
270	\$1.00	\$2	Yes! MC < MR
325	\$2.00	\$2	Yes! MC = MR
> 325	> \$2.00	\$2	No! MC > MR

Table 16.4
Profit Maximization

enue equals marginal cost. At 325 units, the marginal cost is \$2 and the marginal revenue is \$2. They say you should sit up and take note of this moment, because it's the point of profit maximization. The tour bus driver is honking the horn to make sure you don't miss this crucial information. It is what entrepreneurs need to know to be successful. At any quantity above 325, you should stop production, because marginal cost is greater than marginal revenue.

Now that you know that profit maximization is where $MR = MC$, as CEO, you can make the best decisions about production. But are you happy at that profit-maximizing level? Are you making an economic profit? Are you breaking even? Are you experiencing a loss? The answers

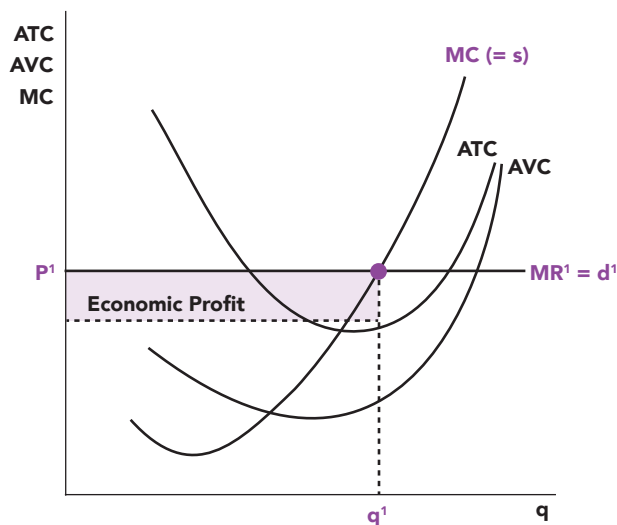


to these extremely relevant questions depend on where the point of profit maximization is relative to Galactic's ATC curve and AVC curve. Check out figure 16.10. As always, the point of profit maximization is where marginal revenue equals marginal cost ($MR = MC$). In graph A, looking at the vertical line where they meet, you see that q^1 is the profit-maximizing level of output at price P^1 . Are you happy? Conventional theorists say you should be very happy, because your average total cost is less than your price. That differ-

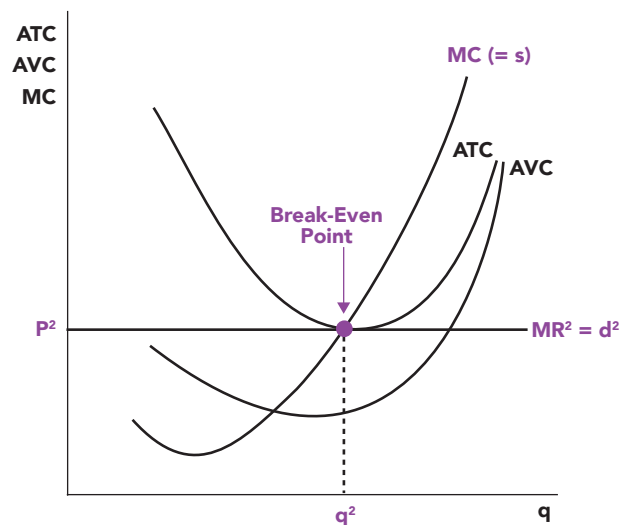
ence is your economic profit, as shown in the shaded area.

But remember, with perfect competition, prices can change for any number of reasons. So what happens if one of the twelve factors that shift supply and demand changes, and the price of soap falls to P^2 ? Check out graph B. Draw a vertical line where marginal revenue equals marginal cost ($MR = MC$) and you see that q^2 is the profit-maximizing level of output at price P^2 . As CEO, are you happy? Yes, say liberals and conservatives. You're

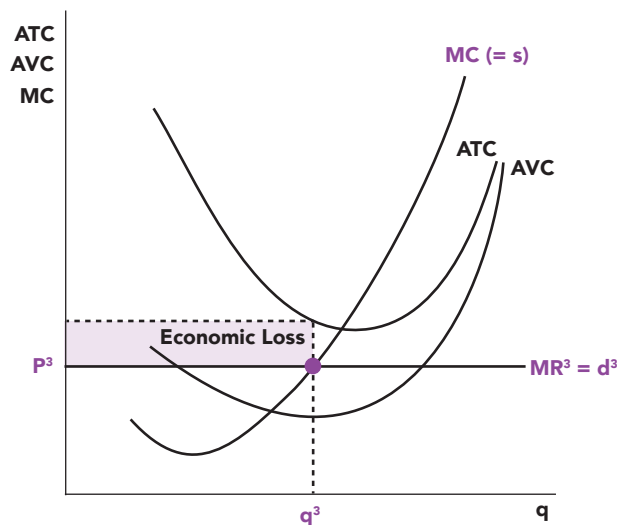
A Economic Profit



B Break Even



C Economic Loss



D Shut Down

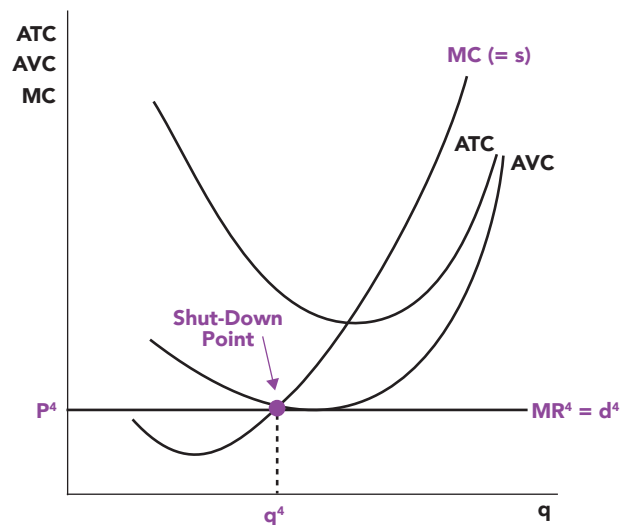


Figure 16.10
Galactic Soap Firm

at **break even**, where the price is exactly equal to the minimum of Galactic's average total cost. Break even might sound like a lukewarm place to be, but you have to remember that includes opportunity cost. So break even is a very strong position for Galactic Soap. Break even would also have been a sweet situation for my aunt Barbara. Although we can't know the exact numbers, we can still appreciate the logic of this. For example, if she had made \$400,000 a year instead of \$200,000 in revenue, she would have been at break even, covering not only her fixed and variable costs (\$150,000), but also her opportunity cost (\$250,000).

Look at graph C in figure 16.10. Something else happened in the market for soap, and the price falls again, this time to P^3 . The profit-maximizing quantity at that price is q^3 . As CEO, are you happy? No. At profit maximization, you're not covering all your costs. You're covering your variable costs, but you're only covering half of your fixed costs. You are looking at an **economic loss**—the shaded area in the graph. But think about this: would you rather lose \$100 a day or \$200 a day? Isn't it better to be covering half of your fixed costs, since you have to pay them anyway, even if you're not producing any soap? It's better to lose \$100 a day instead of \$200 a day. So conservatives and liberals say that you would stay in business, at least in the short run.

Conventional theorists say firms should continue to produce until marginal revenue and marginal cost are equal to each other.

This is the point of profit maximization. They say this is what entrepreneurs need to know to be successful.

Let's say the price drops again because of yet another change in the market—this time, to P^4 . Now the profit-maximizing quantity at that price is q^4 . You can see it on graph D. The point of profit maximization now covers none of your fixed costs but all of your variable costs. Is this good? As CEO, are you happy? No, not at all say conventional theorists. They call this the **shut-down point**. Galactic loses \$200 per day in fixed costs whether it stays in business or closes up

shop. Anything below this point means the firm loses more than \$200, and you wouldn't bother to stay in business in that scenario.

There is one more thing to note about the graphs in figure 16.10. We've already seen that in perfect competition, an individual firm can sell as much as it wants at the given market price. Therefore, the individual firm's demand curve (d) is the same as its marginal revenue curve. But where is the individual firm's supply curve? It is the marginal cost curve. Whenever there is a change in the price in a market, the marginal revenue curve changes and crosses the marginal cost curve at a new point. Since profit maximization occurs where $MR = MC$, that means the marginal cost determines the quantity supplied by an individual firm. That's why the marginal cost curve is the individual firm's supply curve.

Stop #2: Price and Quantity in Perfect Competition in the Long Run

This stop on the conventional theory tools tour shows why, in the long run, firms in perfect competition don't waste any resources. (Spoiler alert: conventional theorists want to show you this part of the tour because later, liberals and conservatives will show how monopolies *do* waste resources.) Check out the graph on the right in figure 16.11. The only thing that changes between the short run and the long run is that there are no fixed costs in the long run. All inputs are variable. Therefore, there is no smirk. We're left with an ATC curve with the same shape as the smile, but for different reasons (which this tour doesn't cover). On the left is the market graph for soap. Conventional theorists say at P^1 , where the firm makes economic profit, the price signal attracts entrepreneurs. They launch new soap firms to get into this lucrative market. With no barriers to entry in perfect competition, more firms enter the market, which shifts the market supply curve to the right (S^2) and brings

down the price (P^2). Now firms are no longer making economic profit. It was whittled away because more firms got into the soap business. In fact, at P^2 , firms are experiencing economic loss. Given these new circumstances, and with no barriers to exit, firms leave the market, shifting supply to the left (S^3) and bringing prices up (P^3). This process continues until firms no longer have an incentive to leave or enter the market, and equilibrium settles at the break-even point. So while firms in perfect competition *could* make economic profit in the short run, they *can't* make economic profit in the long run.

Let's pull the bus over, open the windows, and take a closer look at why, from the conventional perspective, the break-even point is so remarkable. They say society always has a scarcity of land, labor, and capital. Since we use those resources to make the things that people want and need, we shouldn't be wasting them. But how do firms know how to allocate resources to their best uses? They follow price signals. Because MC equals MR

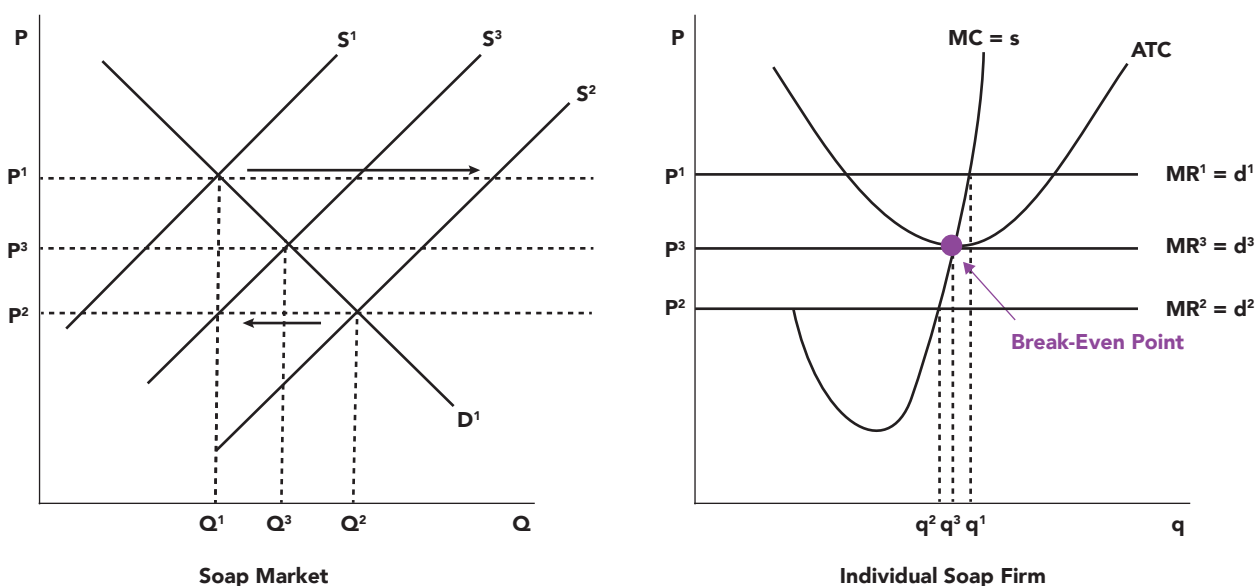


Figure 16.11
Perfect Competition in the Long Run

at the lowest point of the ATC curve (remember the marginal average rule), break-even signifies that firms are using the fewest resources to make the profit-maximizing level of output. In other words, at break even, none of our scarce resources are being wasted. This is what conventional theorists call *productive efficiency*. By following price signals, perfectly competitive firms make the profit-maximizing level of output without wasting any resources. For conventional theorists, this is the whole point.

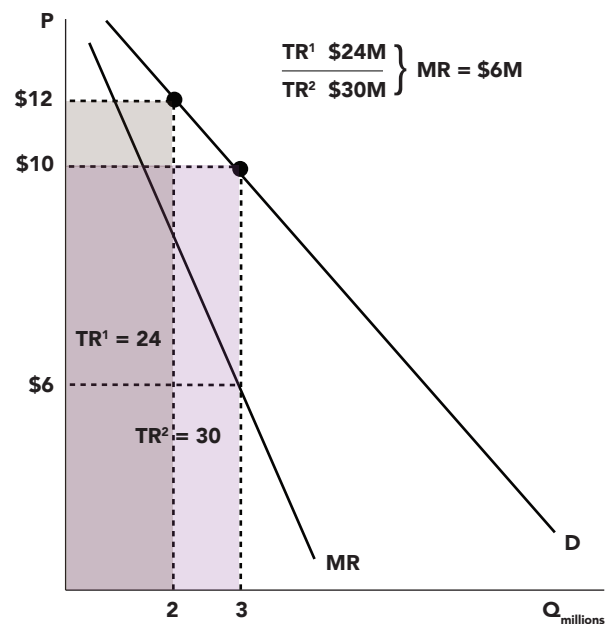
Stop #3: How Firms with Monopoly Power Manipulate Price and Quantity

Productive efficiency is an optimal condition for any society, according to conventional theorists, but there is a problem. When a firm has monopoly power, it doesn't happen. In a market where only one firm makes the product or dominates the market so thoroughly that it has a near-monopoly, and when there are no close substitutes for that product, and when there are major barriers to entry and exit, then resources aren't allocated to their best uses. Why? Because prices aren't determined by supply and demand in that market. Instead, they are set by the monopoly firm—to its own advantage. Liberals and conservatives agree that society has a real problem when prices and quantities are controlled by a single firm.

At the previous stop, we saw that profit maximization occurs at the point where marginal revenue equals marginal costs. We were in the land of perfect competition back there, but even though we crossed the border into the land of monopoly power, that fact still holds true. Therefore, the supply curve—which is the MC curve—looks exactly the same when there's a monopoly as when there's perfect competition. What about marginal revenue? As you'll recall, in perfect competition, the MR curve is equal to the price and equal to the individual demand (d) curve. That is because firms

are price takers, and they are so small relative to the number of firms in the market that they can sell as much as they want at the given market price. When the firm has monopoly power, however, its marginal revenue is no longer the same as the demand curve. Let's take a scenic detour to see how the MR curve looks when companies have a monopoly and why conventional theorists say they end up wasting resources.

Because a monopoly firm is the one and only supplier in a market, it faces the market demand (D) curve. As the only game in town, it has some ability to set the price, but ultimately it is still constrained by that market demand curve. This means people won't buy a Frisbee for \$10 million, no matter how much they love a game of Ultimate. Simply put, if there's no demand, there's no sale. Let's say Galactic turns into Goliath Soap, which has a monopoly in the market. In figure 16.12 you can see the market demand. At \$12, the firm can sell 2 million units of soap and earn a total revenue



Goliath Soap Company Demand and Marginal Revenue

Figure 16.12
Monopoly Demand Curve and
Marginal Revenue Curve

nue of \$24 million. If it wants to sell an additional 1 million bars of soap, it must drop the price to \$10 a bar. Goliath's total revenue increases to \$30 million. This is the interesting turn for a monopoly. Even though the third unit (a million bars of soap) sold for \$10 each, Goliath's marginal revenue isn't \$10 million. It's only \$6 million. This is because the price didn't just drop for that third unit. It dropped for the first 2 million bars of soap as well. Doing the math, Goliath lost \$2 each for the first million bars of soap, and it lost \$2 each for the second million bars of soap, and it gained \$10 each for the third million bars of soap. Therefore, its marginal revenue is \$10 million *minus* \$4 million, or \$6 million. Because marginal revenue is less than demand in a monopoly, the marginal revenue curve lies below the demand curve. Hold that thought. We'll be coming back to this important point in a moment.

Now that we have the MR curve for a firm with a monopoly, we're back on the road. There are two more graphs to visit before the grand finale of our tour. It's been a long ride, but we're almost there. Please give your attention to figure 16.13. Goliath knows its point of profit maximization is where MR equals MC. The intersection of those curves happens at Q^M (quantity for the monopoly firm). But since it is a price maker, Goliath can charge a whole range of prices at Q^M . For example, it could charge price A, price B, price C, or price D. Which price will it charge? Since all firms are profit maximizers, it will charge the absolute highest price that demanders are willing to pay at the profit-maximizing level of output. That is price C (P^M). When conventional theorists say that monop-

olies are *price makers*, they mean in the range of price A to price C. The company won't charge price D, because not enough people will buy it at that price. In perfect competition, the market pushed Galactic back to the break-even price in the long run, but now that it is Goliath and has a monopoly, there's no pressure from competition and no market pressure to charge less. Therefore, say conservatives and liberals, monopoly firms—as price makers—are able to make economic profit in the short run and keep it going as long as they like in the long run.

Take a last look at figure 16.13. It isn't immediately obvious why the monopoly price and quantity are problematic for society. That can only be seen in comparison to the perfectly competitive market, where supply (S)—the sum of all the indi-

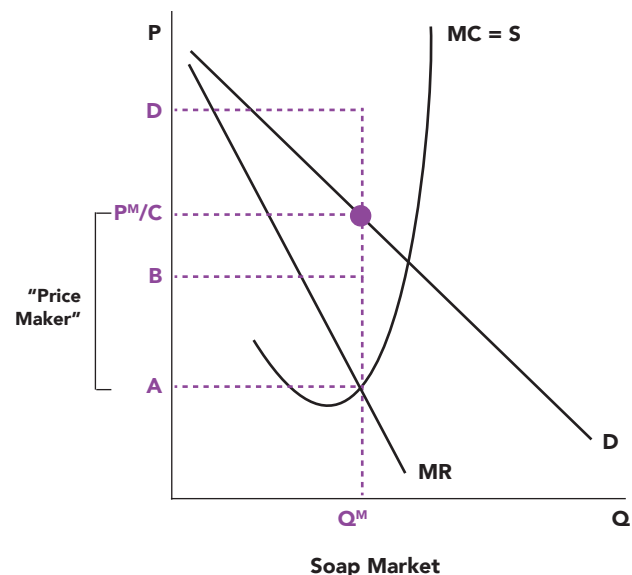


Figure 16.13
Goliath Soap Monopoly

vidual firms' MC curves—meets demand (D)—the sum of all the individual firms' MR curves.

“Are we there yet?” you may be asking. Yes! We have finally arrived at our ultimate destination. Figure 16.14 shows this comparison, and it's clear that in a monopoly, price (P^M) is higher and quantity (Q^M) is lower than in perfect competition (P^{PC} and Q^{PC}). Why does this happen? Because firms with monopoly power purposely limit output to command higher prices. This is the crux of the problem from both the liberal and conservative perspectives. Instead of making the most output using the fewest resources (where $S = D$), monopolies waste resources. In a world of limited land, labor, and capital, that's bad for society.

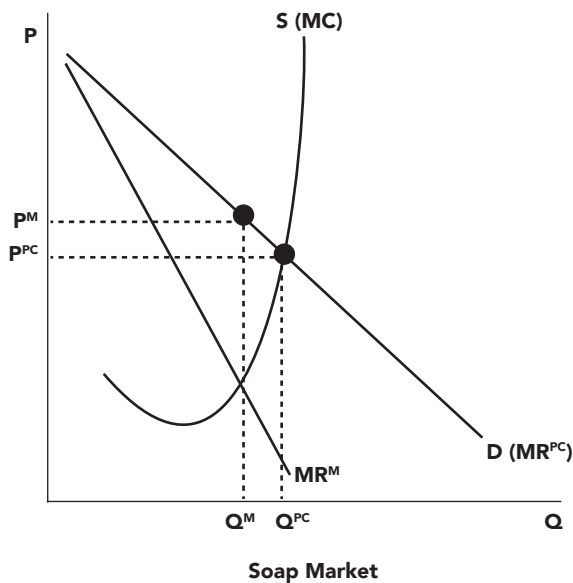


Figure 16.14
Goliath Soap Monopoly
versus Perfect Competition

The tour has ended. I hope you leave with many good memories of the smirk, the swoosh, and the smile. After you stretch and get a drink of water, read on to find out how liberals and conservatives propose to address the potential for firms to gain so much market power that they can

manipulate prices, quantities, and quality.

Conservatives and liberals agree that large firms may take advantage of their market power. But there are sharp disagreements about what should be done to address the problem.

Liberal policy: Market power regulations.

Liberals believe capitalism is the best economic system to create wealth, and if a firm grows so big that it has power over price, government steps in and protects competition, which is good for consumers, industries, and society as a whole. It does this by strategically breaking up companies when they get too big or preventing firms from buying each other out or merging when those actions would give the firm monopoly or near-monopoly power. Market power regulations also give government the authority to establish the rules for natural monopolies. With government managing and reining in the excesses of capitalism, consumers have better-quality products, more of them, and at reasonable prices, and firms have no barriers to entering markets and competing on a level playing field.

Liberals recognize that policies aren't “one size fits all” when it comes to market power. So along with preventing monopolies that are harmful to society, in certain circumstances government also takes a role in assigning and allowing regulated monopoly power. For instance, a natural monopoly such as a utility company requires huge start-up costs, and it wouldn't be feasible to have a large number of electric companies, or gas companies, or water companies competing in the same local markets. In addition, firms with natural monopolies have the advantage of lower average costs the bigger they grow. This is called **economies of scale**. Liberals say that it makes no sense to break them up. It would burden society to assign more resources to producing those things that could have been produced more efficiently by a single large firm. Instead government gives them license

to be the exclusive provider—think of the electric company in your town—but government regulates them to ensure that the interests of consumers are protected. Regulations include setting prices to a level that reflect costs plus a reasonable rate of return—a price and quantity in line with what it would have been in a market structure of perfect competition. They say that when government partners with firms, we get the fairest competition, and firms have the most incentives to improve our lives and bring us the highest standard of living.

Liberals consider the graph in figure 16.15 comparing monopoly power to perfect competition and say that monopolies (excluding natural monopolies) should not be allowed because they are harmful to consumers and bad for society. Using legislation that blocks and breaks up large firms—a key market power regulation—liberals make sure that firms can't grow so big that they wield pricing power. They say that when there is no competition in the market, then consumers are at the mercy of monopoly firms and end up with higher prices and lower quantities. Monopoly power also causes firms to stagnate, say liberals. Without competitors to spur them on to innovate, those firms lose their incentive to make improvements, resulting in second-rate products. Market power regulations break up monopolies and create a perfectly competitive environment. Now there are more competitors in the market, and everyone is highly motivated to innovate and become more efficient. That leads to an increase in technology, which shifts the supply curve to the right (S^2). The new equilibrium price (P^L —which stands for *liberal price*) with government regulations is even lower than in a market with the initial perfect competition position, and the new equilibrium quantity (Q^L —which stands for *liberal quantity*) with government regulations is even higher than the initial perfectly competitive case. Liberals say that thanks to gov-

ernment policies, agencies, and regulations, fair competition drives the market and improves life for everyone.

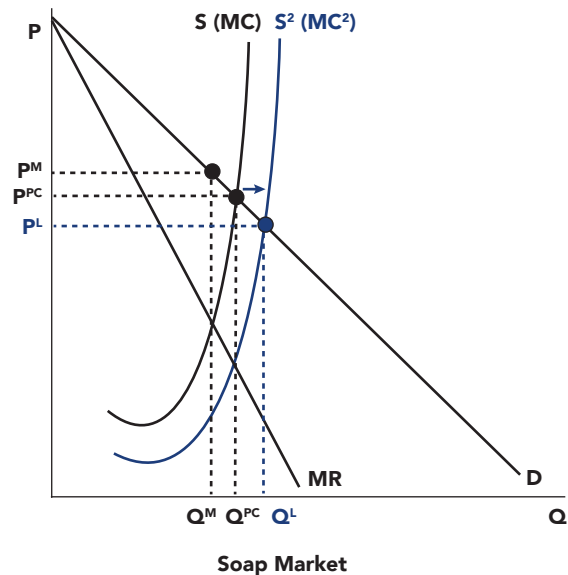


Figure 16.15
Monopoly versus Perfect Competition:
Liberal Perspective

Conservative policy: Free-market competition. Conservatives say that markets in capitalism, when left alone, self-correct, and therefore there is no need for government to regulate market power. They believe that in a free market, monopoly power is a nonissue because there are always other ways to produce what people want and need. Therefore, there are no natural barriers to entering any market. Barriers are erected by government when they favor one firm over another by issuing licenses, permits, and other rights to be the exclusive supplier. When price guides firms in a market that is unfettered by government interference, a competitive environment naturally emerges. Why? Because entrepreneurs want to make profit. The price signal serves as a beacon, attracting them to launch firms in those profitable industries. Conservatives say that when

the market remains open to competition, there will always be an entrepreneur working hard to find an edge and compete, and that's what ultimately makes us all better off.

Conservatives say that market power is “one size fits all,” meaning the playing field is open to all, and firms are able to compete equally. When a firm gains an advantage, it is only temporary. Eventually, it will be competed away. They say that there is no justification for government to give a firm special privileges, such as exclusive licenses to produce a product, even if that company has a natural cost advantage. Economies of scale is not a reason, and neither is any other special circumstance. They warn that the health of capitalism and democracy are undermined when firms lobby the government for subsidies, special regulations on competitors, and exclusive licensing in order to increase their share of the market. These activities, known as **rent seeking**, are strategies for increasing profit, but they don't add value to society. For example, instead of making a better car, an automaker lobbies Congress to pass a regulation that limits its competitors. Then it doesn't have to redesign its old models. Government opens the door to rent seeking, and since it is often more profitable for firms than actually making things of value or improving their products, the well-being of society is undermined, say conservatives.

Conservatives consider the graph in figure 16.16 comparing monopoly power to perfect competition and say that when one large firm is the only supplier of a product, it restricts output to get a higher price. We know that will occur, they say, because the firm is a profit maximizer and is a price maker, but that is a temporary situation. They say that there is no such thing as ultimate monopoly power because another firm can always compete—and that higher price is the magnet attracting entrepreneurs to get into the market. And unless the government is propping up a firm's monopoly power, in the real world there are no

actual barriers to entry in any market. Entrepreneurs come up with new technologies to gain a cost advantage and/or develop substitute products. In other words, they do whatever is necessary to get a piece of that lucrative market. The increased productivity that comes from technological innovations shifts supply to the right (S^2). In addition, larger firms have cost advantages that they leverage in this competitive environment. Because of their large size, they are the most efficient in purchasing, producing, and distributing products, and this decrease in the cost of inputs shifts the supply curve to the right even further (S^3). The two shifts in marginal cost are so substantial that ultimately the new equilibrium price (P^C —which stands for *conservative price*) is even lower, and the quantity (Q^C —which stands for *conservative quantity*) is even higher than in perfect competition. Conservatives say that thanks to the free market unleashing our natural instinct to make profit, we are all better off as individuals and as a society.

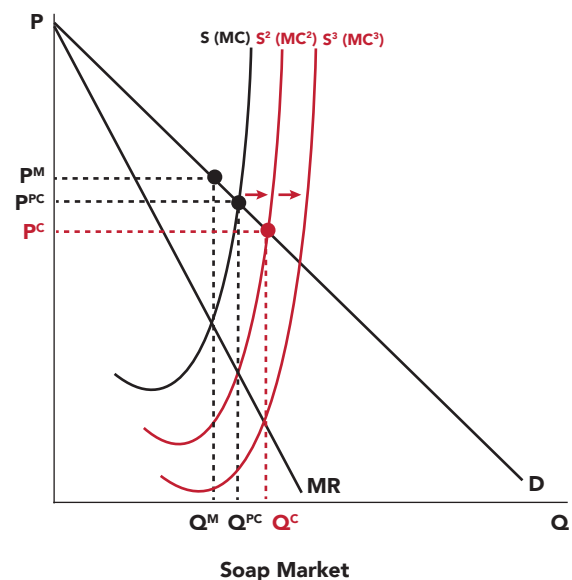


Figure 16.16
Monopoly versus Perfect Competition:
Conservative Perspective

Radical Theory Tools

Now let's take a look at the radical tools you'll need to understand how radicals address the problem of firms abusing their market power. Remember, radical tools have two parts: describe capitalism and describe democratic socialism. They model economic systems using the Six-Core Cube, which is anchored by six core points around which everything else constantly shifts. Every part affects every other part of the system. The core points reflect the commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people's basic material needs. Radicals say those commitments and structures lead to very different outcomes depending on the economic system.

Market Power in Capitalism

Each of the six core points of capitalism could be used to analyze every issue, but to analyze the issue of market power in capitalism, radicals

drill down into the core point of **production for profit**. Firms make things that bring them the most profit, regardless of whether those products are necessary, useful, or beneficial.

Radicals say that in capitalism, the question of whether something should be made has nothing to do with whether people actually need it, or if it will make our lives better. Instead, the main reason firms produce anything is to maximize their profit. This single-minded focus on their bottom lines leads firms to embrace antisocial competitive behaviors—actions that hurt society. For example, firms produce goods and services that are harmful to people and the planet. Then they invest billions to engineer and market those products to be more appealing so we'll consume more and they'll make more profit. Corporations spend billions more masking the harm their products can cause and even underwrite research studies to “prove” that their products are good for us so we will be convinced to buy more—more tobacco, vape,

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
- 4. Production for Profit**
5. Unsustainable Growth
6. Unhealthy Communities

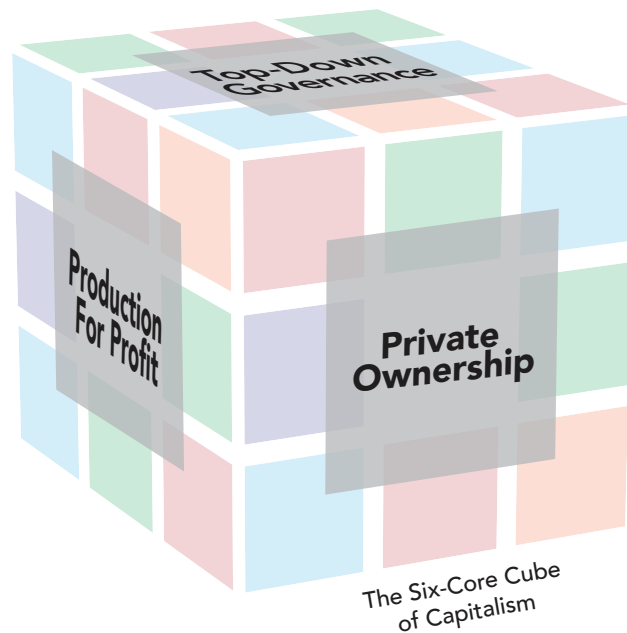


Figure 16.17
The Six Core Points of Capitalism

junk food, gambling apps, painkillers, junk bonds, and other dangerous products. Radicals say that this is because “success” for firms in capitalism is measured only in profit, not in how their products help society; they take no responsibility for the personal debt and bankruptcies their products cause, or the increased disease, suffering, and death they cause. The point was never to produce beneficial goods and services, say radicals. When firms hire the best and brightest minds, they waste all that talent by tasking them

with finding new ways to manipulate consumers so that the firm can grow its market share and amass more profit. So when graphic designers buy expensive new software, they squander hours every week downloading fixes and figuring out workarounds because the product was cheaply made and rushed to market. A year later, when they buy faster computers, the software firm charges them four times more for the version that is compatible with their new system, and it has exactly the same features. Then the company requires a monthly subscription fee, which the designers must pay or their software will be disabled. To make matters worse, say radicals, with every download, the software firm installs cookies and other spyware on their computers, and then uses the data it collects to try to sell them more half-baked, overpriced products. This is business as usual in capitalism, radicals say. We already know firms don’t have our best interests at heart, yet everyone is hypnotized by the lie of capitalism—that it is the only and best system for

Radicals say that in capitalism, whether something should be made has nothing to do with whether people actually need it or if it will make our lives better. Instead, the main reason firms produce anything is to maximize their profit.

bringing us the best quality of life.

According to radicals, the other big lie of capitalism is that market competition is, by its very nature, a win-lose competition and that this is a good thing. They say that is completely wrong. No one is a winner in this economic system because capitalism is an extraction economy. We all lose because firms are forced to increasingly exploit their workers and continuously consume more and more of the Earth’s resources, which are then squandered to make things

that aren’t useful, beneficial, or long lasting. Instead of directing land, labor, and capital to their best uses for the common good, capitalism diverts them to produce things that make profit. Workers suffer in two directions. First, capitalist owners steal more and more of the surplus value they create. Second, workers are stuck paying high prices for the shoddy products, plus they have few choices. Finally, owners never win because they can never rest easy. There is always a competitor circling in the water, waiting for a moment of weakness to strike. Radicals say that in capitalism, no entrepreneur can afford to put the well-being of people and the planet above their profits or they will go out of business. So dairy farmers who want to produce wholesome milk have to continually grow bigger. To do that, they must cut costs by using hormones, antibiotics, and factory-farming methods, even though they don’t want to. And even if they find a market for organic milk, they lose market share to competitors who buy off government officials to change

the rules on what can be called “organic.” In capitalism, firms have to maximize their profit, so they look for an edge wherever they can find it. They have to, because if they don’t, they’ll be gobbled up by another firm. With a commitment to *production for profit*, we end up with more anticompetitive behavior and corruption. This threatens our democracy and the future well-being of generations to come. Radicals say that until we switch to democratic socialism, we’ll stay trapped in the lie that venerating profit is the path to well-being.

Production for Profit

- The primary goal of production is to make money.
- The success of every endeavor is measured in profit, not well-being.
- Win-lose competition is normalized and celebrated.



This is how the core point of *production for profit* and the pressure for bad in capitalism are used to analyze the issue of market power:

Scenario 1. You’re having coffee with an old friend from grad school who owns a competing soap firm, and he tells you, “We changed our soap recipe so that it dissolves more quickly. Now consumers use up bars of soap faster. We’ve sold

five times more as a result. With that profit, we bought up smaller competitors, and now we control more market share. Eventually, when we’re the only game in town, we’ll jack up the price.”

You say, “I don’t want to be a part of making a product that washes people’s money down the drain and drives other firms out of business. I don’t want to dirty my hands doing that.”

“Then don’t do it,” he says.

But you will do it, and so will the other owners. If you don’t, your business will fail. Radicals say that *production for profit* means firms are only in business to make money—not to make products that benefit society. This leaves consumers worse off, with fewer choices, lower-quality products, and higher prices.

Scenario 2. You’re playing cards with a competitor, who says, “Now that we’ve bought out most of our competitors, our firm is so big that we’ve started requiring our packaging suppliers to sell to us exclusively. We also require them to give us significant cost concessions. We told them that if they don’t agree, we’ll take our business elsewhere.”

You say, “I don’t want to be a part of bullying suppliers into dropping their prices and then forcing them to have a single buyer. That limits their autonomy and hurts their business. Yes, it will cut costs—but at their expense. That just doesn’t seem like fair play. And then won’t it come back to bite us when our competitors try to limit our access to other suppliers? We’ll all be out for each other’s blood. I don’t want to live in that kind of world.”

“Then don’t do it,” she says.

But you will do it, and so will all the other owners. If you don’t stay competitive, your firm won’t survive. Radicals say that *production for profit* means firms fixate on their profits because that is the only way to stay afloat in capitalism. They do whatever it takes to increase their market share so that they can increase their profit, even when it hurts society.

Scenario 3. You're at a trade show and meet a competitor who says, "We funded studies to 'prove' our soap is more effective than other brands at killing germs even though it isn't. These types of studies are very convincing. Then we targeted people with health conditions, because they are the most anxious about getting sick. Our annual sales soared, and we were able to force out two of our competitors and grab up their market share."

You say, "That's just wrong. We shouldn't be supporting bad science and duping the public just so we can bury our competitors. I don't want to do that."

"Then don't do it," he says.

But you will do it, and so will all the other soap firms. Radicals say that capitalism's commitment to *production for profit* means firms have to see competition as a zero-sum game. They do whatever it takes to win, including manipulating consumers and driving competitors out of the market.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- **Destructive market domination**
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Market Power in Democratic Socialism

To analyze the issue of market power in democratic socialism, radicals drill down into the core point of **production for use**. Firms produce things that improve the lives of people rather than producing for the sole purpose of making a profit.

Radicals say that in democratic socialism, the only reason to be in business is to help lift the standard of living for all. That is why the focus of production is on making things that are necessary, useful, and beneficial to society. Democratic socialists are not against profit, say radicals. Every firm strives to maximize its profits so that the business can be viable and thrive. But the big difference between this economic system and capitalism is that maximizing profit is not the main driving force that motivates a firm's activities. Instead, worker-owners are motivated to improve people's lives and make the world a better place. It's not just altruism, say radicals. Worker-owners are also members of the communities where they live and work, and they are consumers. Therefore, they have a stake not only in their own firm's success but also in the success of the whole society. The goods and services they produce serve a need and help us accomplish whatever it is we want to do. The measure of success of every endeavor is the increased well-being of society. So a worker-owned graphic design firm uses the most innovative software to create websites, apps, brochures, and reports for its clients. Because the software firm's whole purpose in creating the product in the first place was to give people better tools to get their jobs done, it includes innovative features, works across platforms, and makes it fast and easy for users to back up their work. As technology improves over time, software upgrades are available at reasonable prices, because the worker-owners of the software firm take pride in providing the best possible products. They also benefit from those upgrades when their firm

needs to hire a graphic designer for a new website or label.

According to radicals, when firms are in business to make things that lift everyone's well-being rather than just to boost their own bottom lines, then all competition is positive competition. Firms want to do well and constantly strive to improve their products and processes and innovate, but they recognize that by coordinating their efforts, they can make the pie bigger for all. Win-win competition is the norm because worker-owners don't need to undermine or dominate their competitors. Instead, they coordinate to make it easier for both firms to succeed. Radicals say this is not some idealistic notion that relies on people in democratic socialism being more altruistic. It's a very practical way to approach market competition, because it is in everyone's mutual interest to support one another's success. When a firm succeeds, it creates more openings for new worker-owners to join; has more money available to do philanthropy in the community; generates more tax revenue to

support social safeguards such as the health-care system, tuition-free higher education, and universal day care; and puts more money into the pockets of its worker-owners. All of this raises the standard of living for society. It also benefits the world when firms minimize their impact on the environment and when they create better and more useful products. For all these reasons, worker-owned firms have a strong incentive to coordinate with competitors and share technologies. So firms in the same industry combine their research and development efforts to create innovations faster and more efficiently, which brings useful products to society more quickly and helps both firms' bottom lines. Competitors conserve resources by sharing referral networks, office space, and administrative services, and they coordinate research and development to come up with innovations that cut down on pollution and waste. Radicals say GDP is one important measure of economic success, and so is gross national happiness. They say that with a commitment to *production for use*, the products



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
- 4. *Production for Use***
5. Sustainable Development
6. Healthy Communities

Figure 16.18
The Six Core Points of Democratic Socialism

society creates prioritize production of goods and services that bring society psychological and physical well-being, a clean environment, cultural diversity, community vitality, and more.

Production for Use

- The primary goal of production is to make products that are necessary, useful, and beneficial.
- The measure of success of every endeavor is the increased well-being of society, not profit.
- Win-win solutions are normalized and celebrated.



Radical policy: Prosocial competition laws. Radicals prevent and address market power abuses with strategic laws and regulations in democratic socialism that guide firms to engage in **prosocial competition**, which are activities and behaviors that benefit society as a whole. These laws remove the pressure from firms to compete in ways that hurt society. They prevent corporate misconduct and keep competition from becoming destructive to society. They ensure that firms compete only in ways that promote the social good. Market oversight councils are tasked with developing, reviewing, and enforcing these regulations. Composed of representatives from industry, firms,

consumer groups, communities, government, and other stakeholders, these councils represent society's best interests and help keep markets fair for worker-owned firms. Whether a firm is big or small makes no difference. If worker-owners vote to merge with another firm, it will only be approved by the market oversight council if the merger leads to a better, more useful product, if it makes society better off, and if it is a win-win for the firms and their local communities. While the six core points of democratic socialism naturally exert a pressure for good on firms, prosocial competition laws add another layer of protection in case rogue firms, individual worker-owners, or market oversight council members act with bad intentions. For example, radicals use a law that stipulates that in every worker-owned firm, each worker-owner may have only a single vote. Called **Democracy in the Workplace**, it ensures that the decision-making power is always shared equally. It reduces the likelihood that a few individuals will be able to manipulate the larger group and cause the firm to abuse its power in the market. No matter what management structure worker-owners choose for their firms, this protection is built into the system. Radicals say the reason this prosocial policy works is because worker-owners are also community members and consumers, so their votes reflect not just their interests in their firms, but also their interests as parents, neighbors, park visitors, shoppers, drivers, and concerned members of society. Democracy in the Workplace ensures that their votes, which reflect the needs and well-being of the whole society, will always have power.

Democracy in the Workplace is necessary for prosocial competition, say radicals, but on its own it is not sufficient. Other market regulations are necessary to protect the common good. For example, to prevent firms from **price gouging**, which occurs when companies seize an opportunity to overcharge for their products

because they have sole access to a market, radicals use anti-price-gouging laws. With these laws, a firm in Vermont that makes salt to spread on icy surfaces in the winter to keep cars and people from sliding can't triple the price for a bag of salt during a particularly stormy winter, when people across the state are desperate to get road salt for their driveways and sidewalks. While Democracy in the Workplace is a safeguard against the firm taking advantage of the situation—because the worker-owners' neighbors and friends also need the salt—it's not a guarantee that the worker-owners won't vote to triple the price. Anti-price-gouging laws are in place to rein in firms' pricing power. It's the role of market oversight councils to enforce the laws and bring prices back to a fair and appropriate level. Other examples of prosocial competition laws include requiring truth in advertising, blocking the import of inputs that were made using child labor, granting firms access to key resources so there are no barriers to entry into markets, and imposing limits to patents for life-saving products.

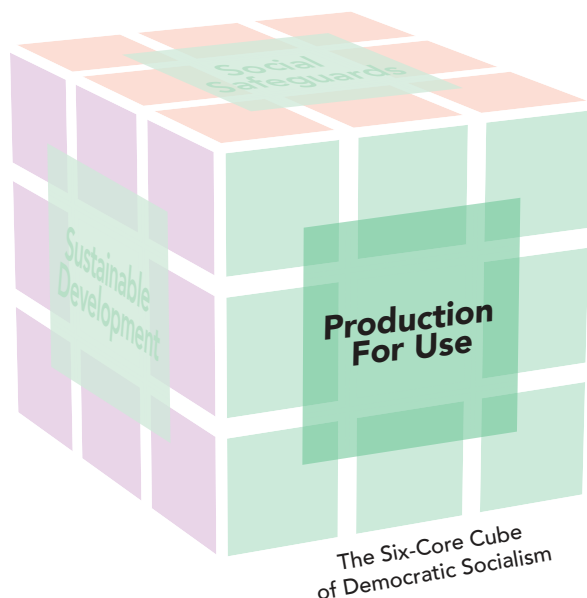


Figure 16.19
Production for Use: Radical Perspective

Here is how radicals use the core point of *production for use* and the pressure for good in democratic socialism to analyze the issue of market power:

Scenario 1. You're having coffee with an old friend from grad school who is a co-owner in a competing soap firm, who tells you, "We're coming out with a whole new line of soap that is gentle on skin and prevents dryness and rashes. This is especially important during flu season, when people wash their hands more often to stay healthy and stop the transmission of germs. Also, we made our bars of soap firmer, so they'll last longer. Customers can get the skin care they need and not waste their money. You should think about developing a similar product."

You say, "Wonderful plan! I can even see creating a 'flu prevention pack.' We can market it in the winter. We can bundle multiple bars of soap and color-code them so consumers know which bar is best for each family member's skin type. I'm going to bring up your idea at our next worker-owner meeting."

"You should do it," she says.

Both of your firms will do it, say radicals, because in democratic socialism, a commitment to *production for use* means the products firms make are helpful to people and beneficial to society. But if a firm suddenly triples its prices to take advantage of flu season or a pandemic, prosocial competition regulations such as anti-price-gouging laws enforced by the market oversight council will restore reasonable prices.

Scenario 2. You're playing cards with a competitor from another worker-owned soap firm, who says, "I had this idea that our firms could join forces and tell suppliers we want them to offer more organic scents and oils, because it's better for our customers and better for the environment. With our combined buying power, the supplier will have a big incentive to make the switch."

You say, "That's a fine plan. I've been worried about the ingredients in our soap, and I think it

would make all of us at my firm feel better if we could encourage our suppliers to go green. After all, we aren't just workers; we're also consumers. The prosocial competition law of one worker, one vote will help ensure its passage. I'll put it on the agenda for a vote at our next worker-owner meeting."

"You should do it," he says.

Both of your firms will do it, say radicals, because a commitment to *production for use* means the products firms make are helpful to people and beneficial to society. With prosocial market regulations in democratic socialism such as Democracy in the Workplace, firms are freed from the threats of destructive competition and can focus on promoting the social good through the products they make, the way they produce them, and the way they market them. Each worker-owner has an equal vote, so they naturally protect their interests as consumers, workers, and community members.

Scenario 3. You're at a trade show and you meet a worker-owner from a competing soap firm, who says, "Our coconut curry-scented bath soaps were a flop, and now our company is struggling. Would you be interested in merging our two companies? We have newer equipment and you have stronger product development and market research departments. If we become one firm, we can make even better products that society wants and needs, and we'll all prosper."

You say, "That's an intriguing idea. Your firm also has a stronger distribution system, and we were just talking about taking out a loan to invest in building up our distribution. I'll put it on the agenda for our next worker-owner meeting and see if it gets the votes to initiate a study to look into

the effects of a merger on our firms and society."

"You should do it," she says.

Both of your firms will participate in the study, say radicals, because a commitment to *production for use* means companies only merge if it means they can make goods and services that are more useful and beneficial to society, create a higher standard of living for worker-owners, and serve the best interests of the community. When these requirements are met, mergers will be approved by market oversight councils.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- **Fair and positive competition**
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of market power. This is an extremely relevant and personal debate for you and for all of us as a society.

Next, we'll explore the conversations that are taking place around you about large firms abusing their market power, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.





The Issue

I'm curious to know how long it's been since you last checked your smartphone. A minute? Ten minutes? An hour? Maybe it's in your pocket right now, or maybe you're even reading this chapter on a phone. Can you imagine how inconvenient your life would be if there were no smartphones? The ancestor of this device you use every day to video chat, web surf, shop, pay bills, text, email, listen to music, watch movies, and talk to your friends was the telephone. When it was first invented, and for decades after, the only thing people used it for was voice calls. Even so, that was no small thing. By making it possible for people to communicate instantly across vast distances, the telephone changed the world. I remember when fax machines were invented, and suddenly you could send documents across the world in minutes. If you grew up with email, that's no biggie, but back in the dark ages of my twenties, this innovation was huge.

Alexander Graham Bell is credited with inventing the telephone, but some say rival inventor Elisha Gray came up with the design first. Bell denied this, claiming Gray spied on him. Both men raced to file patent applications, and when the patent for the telephone was given to Bell in 1876, an investigation was launched. Gray claimed that he had filed for the patent first and that Bell had paid off the patent examiner to move his

application forward. By all accounts, telecommunications was a cutthroat business from the start. Bell came out the winner. He launched the Bell Company, which became American Telegraph & Telephone in 1885. You know it as AT&T. For the next few decades, Bell's firm bought out competitors and patented other telephone equipment. Then it bought a controlling interest in Western Telegraph (telegraph was the email of that era).

By the early 1900s, AT&T dominated the telecommunications market so thoroughly that it had near-monopoly power.

In 1919, the government decided it was more efficient and cost-effective for society to have a single provider of national telecommunications service, and AT&T was granted the license. It became a regulated natural monopoly. The idea was that government would monitor its pricing and services to protect consumers by ensuring that the firm wouldn't overcharge, underproduce, or make low-quality telecommunications services. Competing firms still operated in local markets (there used to be a difference between a local call and a long-distance call—*local* meant within your city or town, and *long distance* meant a call anywhere outside your city or town). AT&T bought out most of those local firms. By 1932, it controlled 79 percent of the telecommunications market in the United States. In 1934, the Federal Communications Commission (FCC) was created by President Franklin D. Roosevelt to be responsible for regulating communications by radio and wire (its mission later expanding to include television, satellite, and cable) across the country.

There were no telecommunications satellites until 1962, or cell towers until 1979. Phone calls came through wires that crisscrossed the country, held up by armies of telephone poles. AT&T—nicknamed Ma Bell—not only owned nearly all those “sticks and wires,” as they're called, but for decades it owned all the phones, including pay-phones, home phones, and office phones. Furthermore, it owned the switchboards, which were the



devices used by operators to manually connect calls. For most of the twentieth century, AT&T was the sole provider of phone service to the nation. The firm employed more than a million people, including some of the brightest scientists of the day, who worked in their research division—the renowned AT&T Bell

Laboratories. Bell Lab scientists won nine Nobel Prizes for inventing transistors, discovering cosmic microwave background radiation, discovering the characteristics of electrons, and more. Bell Labs also came up with the fax machine, television transmissions, sonar, radio telescopes, lasers, fiber optics, solar cells, satellite communications systems, the Unix operating system, and many other innovations and new technologies.

As a monopoly, AT&T could set rates at whatever price it wanted, as long as it could justify its fees to government regulators. In addition to paying to have a phone line, telephone users had to pay AT&T a fee for equipment (remember, it owned all the phones), and they paid extra for long-distance calls. In 1974, a domestic long-distance call to another state could cost up to \$4 a minute (\$21 in 2020 dollars). It took years for my aunts to get used to the fact that cell phone companies don't charge long-distance rates, so they would cut our calls short. “Amy, I have to hang up now,” they would say. “This is a long-distance call. It's going to cost a fortune!”

Over AT&T's long history, it has been sued multiple times for anticompetitive behavior by the federal government, various states, and private firms. One of those private firms was a scrappy start-up

called Microwave Communications of America. It was launched in the 1960s by a radio repairman named John (Jack) Goeken, a high-school-educated entrepreneur who invented a new way for truckers to talk to one another on two-way radios. It involved bouncing microwave signals off towers. He applied to the FCC for a license to build the towers and connect them to existing phone lines. But AT&T blocked his

application, claiming it was entitled to exclusive rights to all local and long-distance phone lines. The FCC ruled in AT&T's favor. Goeken hired lawyers and appealed, but AT&T fought back, using its massive legal department. In 1968, Goeken ran out of money and gave up.

We'll never know how telecommunications would look today if Goeken hadn't met a Harvard Business School graduate named Bill McGowan. Realizing that Goeken had a brilliant idea, McGowan bought half the company for \$50,000. They changed the name of the firm to MCI, and McGowan scraped up the money to continue the lawsuit against the behemoth AT&T corporation. McGowan said, "I'm going to slay that AT&T dragon." He devoted his every waking hour to the fight, and even suffered a heart attack along the way. But he stubbornly kept chipping away at AT&T's argument that it should continue to be allowed to have monopoly power. McGowan argued that it was wrong for one firm to wield so much power over a product that was essential to society.

While MCI awaited judgment from the courts, in 1975 the firm developed yet another innovation. It created new digital technology that allowed

As a monopoly,
telecommunications giant
AT&T could set rates at
whatever price it wanted,
as long as it could justify
its fees to government
regulators.

users to bypass AT&T's long-distance charges for voice, computer, and data communication. Subscribers to MCI's new service could call a local number. They were then connected to an MCI computer that routed the long-distance call through a local number. Even though it was an inconvenient way to place a call, users were delighted at their lower phone bills. Needless to say, AT&T wasn't pleased. It took MCI

to court and tried to block this new technology.

MCI's lawsuit against AT&T was finally decided in MCI's favor on June 13, 1980. The jury awarded \$1.8 billion in damages (on appeal, it was reduced to \$113 million). In the meantime, the Justice Department brought an antitrust case against AT&T, using evidence that emerged during the MCI lawsuit showing that AT&T had engaged in anticompetitive practices and broken laws to hold on to its monopoly power. In the end, the Justice Department and AT&T signed an agreement to break up Ma Bell into seven independent Baby Bells. This landmark decision on January 8, 1982, opened the telecommunications market to competition. Entrepreneurs raced to get in the game. For nearly a century, the telephone had barely changed, but once the market opened up, new technologies abounded, and the price of phone calls plummeted.

You might be wondering what happened to Jack Goeken. He used his settlement money to start many companies. One of them, Airfone, used a new technology to enable airplane passengers to make calls from phones in their seats. He sold Airfone to GTE and started a competing firm, In-Flight Phone Corporation, and then sold

that company in 1996. Who did Goeken sell it to? MCI.

Before Bill McGowan’s death in 1992, he saw MCI grow to become the second-largest phone service in the nation. Two years later, the firm was acquired by WorldCom. By 2002, WorldCom was bankrupt, and its CEO, Bernie Ebbers, was sent to prison for fraud (he served thirteen years of a twenty-five-year sentence). A small company named Verizon (formerly Bell Atlantic—one of the Baby Bells) bought out WorldCom, so MCI lives on under the name Verizon. In 2021, it was the second largest wireless communication service in the nation. Which firm was number one in the market? AT&T.

I’ve always loved the story of MCI and AT&T for personal reasons. My father was Bill McGowan’s roommate in business school in the 1950s, and Uncle Bill, as we kids called him, used to come for visits a few times a year. I remember when I was seven years old, he brought me a toy roulette wheel. We sat on the floor and gambled for pennies. I was losing badly when my aunt said to him, “Bill, let her win. She’s just a little kid!” And

he said, “It’s better if she knows exactly what the real world is like. You have to be a fighter. You can’t give up.”

Now that you’ve finished reading this story, go ahead and check your phone. Maybe your mom just texted, or you want to check the score of today’s baseball game. As you gaze at the screen, I hope you have a new appreciation for it, and for the myriad products that improve your life every day.

Understanding Market Power

Here is a quick exercise to help you think about the ways market power is relevant to your everyday life. Choose three random items in your home. Print out or draw the table below. In the left column, write the market (type of item) for that product. Then check the label for the brand name and write that in the second column. For the third column, do research online to determine the firm that makes the item. And finally, write the date you checked the information, because branding and ownership can change quickly. There are two examples to get you started.

MARKET	BRAND NAME	FIRM NAME	DATE
Example: Facial Tissues	Kleenex	Kimberly-Clark	December 2021
Example: Denim Jeans	Levi’s	Levi Strauss	December 2021

Ideally, you could go online and easily find out the market share each company controls. But that information is not readily available. In the example given of Kleenex, Kimberly-Clark controlled 31.5% of the facial tissues market in 2019. It's interesting information, right? A firm's industry market share tells you whether it is a price maker or a price taker. That matters to you, because the more competition there is in a market, the more likely the product will be widely available and affordable, and that you will have choices because there are close substitutes. The more that market share is controlled by one firm (the closer it is to having a monopoly), the less likely it is that the product is widely available and affordable, and the fewer choices you'll have. Also, the quality will probably be worse, because the firm won't have to try so hard to get your business, since you have fewer or no other choices. If this is all you remember from this chapter, at least you will understand the gist of the problem.

The struggle for control over markets is a theme that runs through history. Whether in imperial China, ancient Rome, or medieval Europe, rulers would grant their favorite subjects monopoly power in certain industries such as the salt trade, grain, tea, shipping, and iron. Competition was also squelched by guilds, which were associations of people in the same industry or profession who got together and created strict barriers to entry that were backed by the law. For example, even if you were a talented weaver, it would have been illegal for you to sell your work in a French cloth market if you didn't belong to the guild. But not just anyone could join. Typically, only the sons of guild members, those who completed long apprenticeships under a guild member, or those who paid a steep fee were allowed to join. The

people typically barred from joining included women, foreigners, and those whose family members were not guild members.

Before the Revolutionary War, monopolies existed in the thirteen colonies. King George granted certain firms exclusive contracts to build public works. After the United States was formed, monopolies dominated many U.S. industries. During the 1870s and 1880s, they included iron, sugar, railroads, copper, steel, coal, oil, tobacco, and paper bags. The owners of those firms were alternately known as captains of industry—which implies that they gained their wealth through hard work and ingenuity—or, more derogatorily, robber barons, which implies that they gained their wealth through ruthless and corrupt methods.

Today, the firms that dominate their markets are household names. For example, in 2020, social media giant Facebook also owned the wildly popular Instagram and WhatsApp. Online sales giant Amazon owned Whole Foods, Audible, Goodreads, Zappos, Shopbop, Diapers.com, and dozens of other **subsidiaries**, which are firms that are owned or controlled by a *parent* firm. A total of ten firms controlled nearly all the main food and beverage brands in the world. You've probably heard of Nestlé, PepsiCo, Coca-Cola, General Mills, Mars, and Kellogg's, but you may not have heard of Unilever, Danone, Mondelēz, and Associated British Foods. Take a look at your list of companies and see if it includes any of those firms.

When corporations grow big, they can become astonishingly wealthy. Just to put it in perspective, in 2018, the one hundred richest entities in the world included twenty-nine countries and seventy-one corporations. Some economists don't like this comparison, saying it's like comparing

apples to oranges, but you still might find it surprising to see which firms had total revenue greater than the GDP of nations. Check out a few examples in table 16.5.

The Differences between Public, Private, and Worker-Owned Firms

After teaching the VOTE Program to thousands of students, I’ve come to realize that the structure of firms can be confusing at first, so let me break it down for you. A company may be privately owned, publicly owned, or cooperatively owned. Many firms have a board of directors, but their decision-making power depends on the type of corporation it is, the bylaws of the firm, and other factors. The person who leads the firm is usually called the chief executive officer (CEO), and the head of the board is called the president or chairperson. Sometimes the same person is CEO and president.

In capitalism, corporations are privately owned, publicly owned, or nonprofit organizations. Non-profit corporations are not owned by anyone. Managed by a board of directors, they can’t issue

stock or be sold. They are formed to fill a social need, such as a civic organization, environmental rights group, or community volleyball league. Private corporations are wholly owned by individuals or families. In 2019, the largest privately owned firms included Cargill, Albertsons, Koch Industries, Mars, and Ernst & Young. Many entrepreneurs launch private companies and then decide to raise money to expand their firms by going public. They sell shares of their company on a public stock exchange. The day their stock goes on sale is called the **initial public offering (IPO)**. The investors who buy shares are actually buying a percentage of the firm. The more shares they own, the higher their percentage of ownership, and the more voting power they have. Founders often keep a controlling share of stock in their firms so they can retain decision-making power. What do shareholders vote on? That depends on the bylaws of the corporation, but all shareholders vote on the members of the board of directors. Usually, the board presents shareholders with a slate of candidates and asks them to vote *yes* or *no* to each one. Please note






FIRM	ANNUAL TOTAL REVENUE	NATION	GDP
 Walmart	\$500 billion	Austria	\$455 billion
 TOYOTA	\$272 billion	Egypt	\$250 billion
 Apple	\$265 billion	Czech Republic	\$249 billion
 amazon	\$142 billion	Kuwait	\$141 billion
 Alphabet	\$110 billion	Ecuador	\$108 billion

Table 16.5
Firms that Were Richer than Nations in 2018

that even though we use the term *public company*, it is still privately owned by shareholders.

It matters a lot who owns the majority of shares in a publicly owned firm. Hostile takeovers occur when an investor or firm buys up a majority of the stock of the targeted firm and then takes over the firm. The purpose of a hostile takeover is to make money off the target, and often the firm is sold or shut down. In the latter case, the assets are sold off, the workers' retirement fund is dissolved, and staff are fired. Corporate raiders are people who finance hostile takeovers. (It takes a lot of money to buy up a majority share of stock.) **Leveraged buyouts** are done with money borrowed by the corporate raider to finance the takeover. The collateral for the loan (what they pledge as the security if they don't pay the loan back) are the assets of the target company.

In democratic socialism, corporations are worker owned. Although workers in capitalist privately owned firms might be shareholders and have some voting power, it is not the same as a worker-owned firm in democratic socialism. While voting power in a public company is linked to the number of shares owned, firms in democratic socialism are owned and managed by the worker-owners, and each individual is entitled to only one vote—no matter if they have seniority or serve as the CEO. Worker-owners may leave their firms by selling back their ownership share to the company, and new people may join a firm by buying into or earning an ownership share. Using a democratic process, each firm decides for itself how to structure cooperative ownership and decision-making. By the way, if an individual starts a company and runs it themselves, it is worker owned. If more people join the firm, they join as worker-owners with an equal vote. In democratic socialism, there is no wage labor because—according to radicals—that leads to workplace exploitation.

Whether a firm is privately owned, publicly owned, or worker owned, it may have substantial market power. Various terms you hear in the news and in economics classes describe companies that dominate their markets. These tend to be used interchangeably, even though they mean different things. As you know, a monopoly occurs when there's only one firm in a market. That's the extreme end of the spectrum. A **cartel** is a group of companies that produce the same thing and then act together to set the price and quantity. This is usually an illegal activity done in secret, called **collusion**. A famous example involved the owners of Major League Baseball teams, who got together in secret in the 1980s and decided to restrict players' salaries. A **corporate trust** is a group of firms controlled by the same board of directors. (This term can be confusing because *trust* is also used in finance and family law to mean something different.) Finally, **big business** is an umbrella term for large corporations.

Mergers and Acquisitions

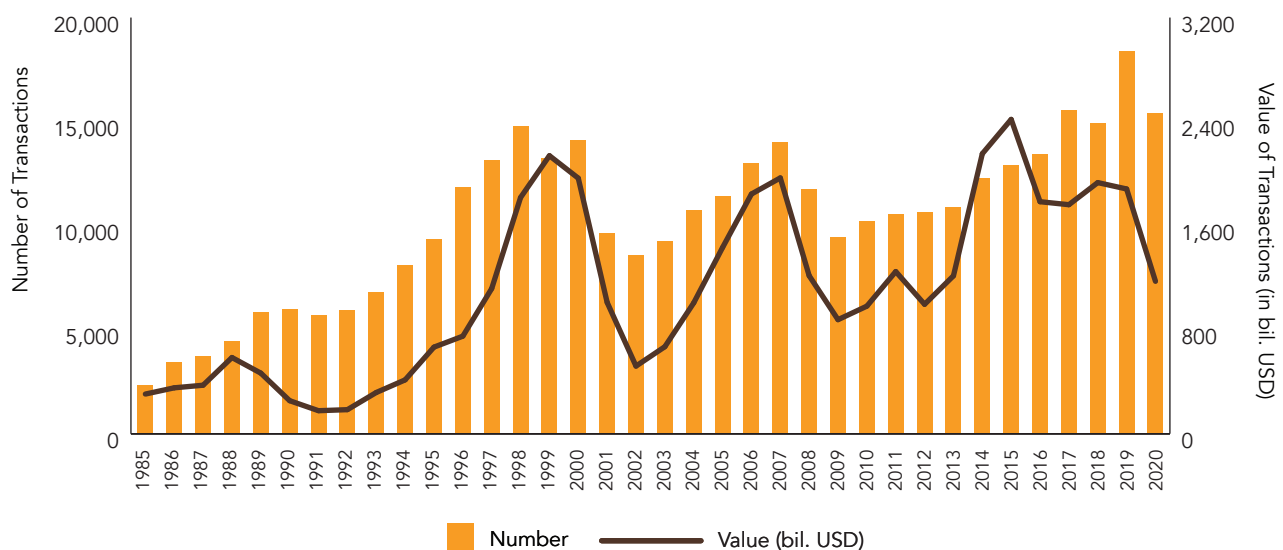
As a general rule, the bigger the firm, the more market power it can control. How do firms get bigger? There are many ways, including investing in more capital and producing more, developing new products that become popular, inventing new technologies, and so on. But there are two common ways firms get big that merit their own discussions. **Mergers** occur when two or more firms join together. By combining their resources, they can gain market power. **Acquisitions** are slightly different. One company buys another firm and becomes the parent company. **Conglomerate mergers** are between big groups of companies that are not in the same market (although they might be in associated or related industries). For example, in 1995, the Walt Disney Company, which owned a movie studio and theme parks, merged with the American Broadcasting Company, which owned ABC and ESPN.

Mergers fall into two more categories. **Vertical mergers** occur along the supply chain. Imagine a seed company merges with a farming company that owns the wheat fields, and then merges with a cereal company, which also owns the grocery stores. **Horizontal mergers** occur when companies in the same market join together. In 2013, US Airways merged with American Airlines. From the late nineteenth century until early in the twenty-first century, the United States saw six or seven waves of mergers and acquisitions (M&As). The first, from 1893 to 1904, was characterized by horizontal mergers. Standard Oil, U.S. Steel, and the International Harvester Company ended up with near-monopolies in their industries. The second wave, from 1919 to 1929, was marked by vertical mergers. For example, Standard Oil bought up oil refineries and gas stations. M&As continued in waves throughout the twentieth century, leading to the creation of even more conglomerates. In the 1980s, appliance firm General Electric acquired electronics firm RCA, television

network NBC, medical systems firms, and more. The end of the twentieth century saw a frenzy of mergers, as you can see in figure 16.20, and the waves continue. Please note that there is a difference between the number of M&As and the dollar value of M&A transactions. I point this out because sometimes the news focuses on one aspect but not the other. You can see both the dollar value (the black line) and the number of M&As (the orange bars). Check out 2015, which shows a high of \$2.2 trillion in *value*, while 2019 had the highest *number* of M&As.

Measuring Market Concentration

Let's say a text message pops up on your phone right now letting you know that your phone company is merging with another large phone company. Is this good news or bad news for you? You have to wonder how that merger will affect your cell service and your monthly bill. What share of the telecommunications market will the merged firm now control? What competitors will remain



Source: The Institute for Mergers, Acquisitions, and Alliances (IMAA).

Figure 16.20
U.S. Mergers and Acquisitions, 1985–2020

in the market? If you don't like your service or your new rate, will you have any other options?

These questions all relate to something called **market concentration**. It is the measure of competition within a market. Market concentration is determined by looking at the number of firms who sell that product or service and the market share of each.

If there is high concentration in a market, it means a few firms control most of the market share. Low concentration in a market means market share is spread out among more firms. One highly concentrated market is the domestic airline industry. In 2019, four firms—American, Delta, Southwest, and United—controlled around 65 percent of market share. An example of a market with low concentration is distilled water. Lots of firms each have a small percentage of market share.

Economists typically measure market concentration using the **Herfindahl-Hirschman Index (HHI)**. To find the HHI, you square the market shares of each of the firms in the market and then add up those numbers. The score goes from close to 0 (a huge number of firms each have a tiny market share) to 10,000 (one firm has 100 percent of the market share— $100 \times 100 = 10,000$). Economists say that a market with an HHI of less than 1,500 is competitive. If the HHI is between 1,500 and 2,500, it's a moderately concentrated marketplace. An HHI of 2,500 or greater means a highly concentrated marketplace. The HHI is a starting point used for analyzing the impact of mergers and acquisitions in a market.

Let's take a moment to play with the HHI. If five firms produce backpacks, and each firm

High concentration in a market means a few firms control most of the market share. Low concentration means market share is spread out among more firms.

commands 20 percent of market share, is the HHI competitive, moderately concentrated, or highly concentrated in the backpack market? To answer this, first you square 20 percent, which equals 400. Then you add $400 + 400 + 400 + 400 + 400$ (there are five firms in the market), which equals 2,000. So that's the HHI of the backpack market. So now we know the

backpack industry is moderately concentrated. But let's say backpack firm A and backpack firm B want to merge. How will that change the market concentration? The merged firm's combined market share would be 20 percent plus 20 percent, and 40 squared equals 1,600. With only four firms in the industry now, the HHI equation looks like this:

$$1,600 + 400 + 400 + 400 = 2,800 \text{ HHI}$$

The new HHI of 2,800 tells us that the industry will be highly concentrated as a result of the merger. The newly merged firm will control the most market share for backpacks. Please remember why this is important: the firm that controls the most market share may end up having power over price, quantity, and quality of the products we all want and need.

Lawful and Unlawful Ways Firms Gain Market Power

Whether it's a market in capitalism or democratic socialism, barriers to entry can exist, and firms can dominate their industries. We just discussed mergers and acquisitions, but this happens by many other means as well. Let's look at a few of the more common ones.

No close substitutes.

The most obvious reason a firm gains market power is when it makes a product that everyone wants, and no other company has figured out a way to make an acceptable substitute. When Apple first created the iPad, the firm dominated the market. Eventually, other firms developed competitive products, but until they did so, Apple had a near-monopoly on tablets.

Cost advantage. Cost advantages can keep out competing firms. When certain types of firms get big, they can produce at a lower cost, which means they can charge lower prices and push competitors out. This is especially true of natural monopolies. Other cost advantages can be gained through technical superiority. For example, if a printing company develops a less-expensive way of producing four-color books, it can underprice competitors and control a higher percentage of the market.

Control over key resources. When all firms in an industry need the same key resource to produce, the firm that controls the resource can dominate the market. Imagine if a tire firm owned all the world's natural and synthetic rubber. It could become the sole producer of tires. Its competitors would have to invent a whole new way to make tires using a different material. Until that happened, the firm in control of the key resource would have a monopoly on tires.

Advertising. When a firm with a huge advertising budget buys up all or most of the advertising space on television, print, online, billboards, and radio, it creates barriers for competitors to gain or hold on to their market share.

**Network effects.**

Some products become more valuable when more people use them. The best example is social media. The greater the number of people who use Facebook, Twitter, or other social media, the more valuable that product becomes to users. That draws more people to sign up, which makes the product even more

valuable. Network effects create barriers to entry into markets by making it hard for start-ups to jump in the game and compete.

All of the above methods for gaining market power are perfectly legal, but firms can lie, cheat, and steal to gain the upper hand in many ways. There is a long list of unlawful activities firms use, and probably more are being invented even as you read this. Let's take a look at some of the more common ones.

Price fixing. This occurs when firms in the same industry secretly collude to charge the same prices for their product in order to keep prices high, or to lower prices so that other competitors are driven out of the market.

Predatory pricing. Firms sell their products at less than what it cost them to produce, which doesn't seem to make sense if they want to maximize their profit. But their goal is to underprice competitors and force them out of the market. Once they control the market, they raise prices. John D. Rockefeller of Standard Oil was famous for using predatory pricing to drive out competitors. It was effective—Standard Oil ended up controlling 90 percent of the petroleum industry in the early 1900s.

Fraudulent advertising. It is unlawful for firms to lie to the public about the benefits of their

products. For example, the Wrigley Company had to pay millions of dollars to gum chewers to settle a lawsuit after falsely claiming that its Eclipse gum killed germs that cause bad breath. Cigarette company Philip Morris was sued many times for making false claims about the harmful effects of smoking. But don't confuse fraudulent advertising with **puffery**, which is when a firm makes an exaggerated claim that no one would actually believe is a fact. For instance, Anheuser-Busch calling its popular brand Budweiser "The King of Beers" is puffery, but it's perfectly legal.

Frivolous lawsuits. A firm can try to sink the competition by tying them up in expensive and time-consuming litigation that has no legal merit. One example that captured public attention in 2014 was when Unilever, maker of Hellmann's mayonnaise, sued a small San Francisco firm called Hampton Creek, which sold a vegan spread called Just Mayo. The small firm was cutting into Unilever's share in the mayonnaise market, so Unilever sued, claiming Just Mayo shouldn't be allowed to use *mayo* in its name because the product didn't contain eggs. The lawsuit backfired when consumers grew angry with Unilever for trying to bully the smaller firm with a frivolous lawsuit, so Unilever dropped it.

Corporate espionage and sabotage. In many industries, firms spy on competitors to gain valuable information about their new products in development, their product research, their marketing plans, and more. In some cases workers are bribed by competing firms, or computers are hacked to get the information. If you're a *Willy Wonka and the Chocolate Factory* fan, think of the attempt to get Charlie to steal an Everlasting Gobstopper for a supposed competitor, Slugworth. Sometimes, firms sabotage one another with computer viruses and malware, or costly ransomware attacks.

There is complete agreement from every perspective that unlawful activities such as price fix-

ing, predatory pricing, fraudulent advertising, and frivolous lawsuits are wrong, and that the firms and individuals involved should be held accountable through the justice system. Companies can face fines, and individuals can face fines and prison time. If you drive a car, have a motorcycle, or ride in a bus, you may be interested to hear that Bridgestone Tire Company was convicted of price fixing and fined \$425 million in 2011. If you're a fan of tuna salad sandwiches, then you may have paid close attention to the news in 2018, when price fixing in the canned tuna industry was exposed. StarKist, Bumble Bee, and Chicken of the Sea, which together control 80 percent of the tuna market, had been colluding for years to keep prices high. The fines varied, but StarKist alone was fined \$100 million. If you have diabetes or know someone who does, you might have heard that Heritage Pharmaceuticals admitted to price fixing one of its diabetes medications in 2019. It was fined \$7 million. In every case and from every perspective, when firms break laws to reduce competition in markets, it inevitably hurts consumers and society. By the way, there are also international laws that make some anti-competitive activities legally actionable. In addition to fines, in some cases violating those laws can result in the firm being banned from doing business in that country.

Copyrights, Patents, Trademarks, and Licenses

The role of government is more controversial when it comes to copyrights, patents, trademarks, and licenses. Whatever new thing you invent or create, whether it's a phone app, a new kind of glue, or a documentary film, it is your intellectual property. Conservatives, liberals, and radicals all agree that government should protect intellectual property rights, but they have different views about how extensive that protection should be and for how long a person or firm should retain



the exclusive right to produce that new invention or own their creative work. Likewise, all three perspectives agree that there is a role for professional licensing to protect consumers, but they disagree strongly on the questions of who should regulate that process. (Licensing means, for example, that surgeons have to complete residencies and pass qualifying exams before they can remove your appendix, and tattoo artists have to be trained in safety and hygiene before they can practice their art.) Liberals, conservatives, and radicals also agree that there should be a fair process to decide how to use limited shared resources, such as broadcast frequencies for radio and television stations and concessions at national parks, but they disagree about what that process should look like. In addition, all perspectives agree that the production of vaccines and other medications for dangerous illnesses are essential to society, but they disagree on how the ownership and control of the formulas and production should unfold. Let's take a quick look at these questions from each point of view.

Liberals want strong government oversight. Liberals believe we need strong govern-

ment involvement in the protection of intellectual property and licensing, as well as a balance between motivating entrepreneurs and protecting society. Patents, trademarks, and copyrights give firms and individuals a profit incentive to work hard and invent the things society needs, and the justice system enforces private property protections. At the same time, government uses its fair and impartial expertise to determine the time frame and scope for exclusive use so that the common good is also protected. Liberals also believe it's best for society to have rigorous accreditation standards and licensing so that consumers are protected. Although these create some barriers to competition, that loss is offset by the overall gains in well-being, because society benefits from having qualified providers. Liberals also use government to fairly distribute our limited shared resources such as broadcast frequencies and national park concessions. They say we need government to step into this role because its mandate is to be *of the people, by the people, and for the people*, while firms and individuals serve their own interests first. According to liberals, because government works for all, it makes decisions for

the good of the many rather than privileging the interests of the most powerful.

In the case of a firm patenting the formula for a vaccine against a dangerous illness, liberals say that of course the company should be able to profit from its product. Profit is what motivates firms to invest in research and development, and we want to have a society where firms make that investment, since it raises the standard of living for all. But there is an important consideration that shouldn't be lost, say liberals. The drug companies didn't come to those innovations on their own. They benefited from a partnership with government—the taxpayer-funded research from the Centers for Disease Control and Prevention (CDC), the National Institutes of Health (NIH), and the Federal Drug Administration (FDA), which establishes criteria to help firms determine whether drugs are safe for consumers. Therefore, it is fair and right that the firm is subject to government regulation and oversight so that it can't take advantage of its exclusive rights by charging consumers excessive prices. Liberals use the government to work with firms to make sure everyone who needs the vaccine can afford it.

Radicals want participatory governance.

In democratic socialism, firms are motivated to make products that are useful and beneficial to society, and when a product doesn't have a wide enough market to justify a big investment in R&D, government rewards them financially so that they can profitably make it. Market oversight councils develop, implement, and enforce policies related to licensing, patents, trademarks, and copyrights. Made up of inventors, consumers, worker-owned firms, ethicists, and government representatives, they collaborate to determine the reasonable scope and time frame for exclusive use so that society benefits from a balance between innovation and protection. For example, to establish the qualifications for a licensed surgeon, a health-care council made up of surgeons, consumers, pub-

lic health officials, hospital staff, scientists, and other experts and stakeholders create the criteria and set up a process of review and accountability. Similarly, when it comes to allocating shared resources such as concessions at national parks, radicals use parklands councils, made up of environmentalists, community members, recreation experts, local leaders, and firms that offer concession services. They come together to decide what fair allocation will look like and how to manage the process fairly.

In the case of a firm patenting the formula for a vaccine against a dangerous illness, radicals say that everyone is a stakeholder in preventing a dangerous illness from spreading. Therefore, it is in society's best interest not to give an individual firm exclusive rights to the vaccine. It could abuse its market power by restricting output in order to overcharge, putting society at risk. Instead, radicals use participatory governance to make sure socially beneficial innovations are universalized rather than monopolized. Because democratic socialism is built on a commitment to healthy communities at home and across the world, the formula for the vaccine is freely shared. At the same time, radicals reward the firm that developed the vaccine, since the worker-owners put in the hard work to research and develop the new drug. The costs they incurred (including opportunity costs) to produce a useful and beneficial product for society are paid back by society, and the firm is able to profit and prosper. Radicals use community councils to determine the level of compensation the firm receives for its valuable contributions to society.

Conservatives want free-market solutions with limited government. Conservatives say that since the firm invested its resources in research and development, it's only fair that the firm is able to profit from that investment. They look to price signals, the justice system, and private industry in a free market to protect intellectual

property. When it comes to allocating limited shared resources, conservatives say that the highest bidder should win the opportunity for the national park concession or the broadcast frequency because firms willing to pay the most are the ones supplying the products that are most in demand. A firm's willingness to pay more is a direct reflection of what society wants. When it comes to copyrights, patents, and trademarks, they say that intellectual property is private property, so it's already protected through the justice system. This protection is key because it motivates entrepreneurs to invent new things, knowing that the fruits of their labor are protected. In the case of licensing, conservatives leave it to consumer demand. If an industry is improved because it has licensing requirements (surgeons, yes; house painters, no), those requirements emerge from professional associations, which have the expertise required to make the best decisions. Conservatives say that they also have the biggest stake in protecting the reputation and quality of their field, so they do the best job.

In the case of a firm patenting the formula for a vaccine against a dangerous illness, conservatives say that the market determines the price as long as government leaves it alone. Some people in the immediate moment might be priced out of the vaccine, but that risk is offset because private philanthropy steps in to fill the gap. In the long term, say conservatives, we're better off as a society without market power regulations because other firms enter the profitable vaccine market and

The heart of the debate about market power revolves around antitrust legislation, which are laws intended to protect and promote competition by breaking up monopoly and near-monopoly firms and blocking firms from getting too big in the first place.

invest in more research and development, which bring us more and better cures in the future.

Antitrust Legislation

The heart of the debate about market power among radicals, conservatives, and liberals revolves around **antitrust legislation**, which are laws intended to protect and promote competition by breaking up monopoly and near-monopoly firms and blocking firms from getting too big in the first place. The central antitrust law in effect today was passed in 1890. The **Sher-**

man Antitrust Act makes it unlawful for firms to engage in anticompetitive behavior. Although it was popular when it passed, the Sherman Act was later criticized for being vaguely worded. That was corrected in the Clayton Antitrust Act in 1914, which clearly defined *price fixing*, *predatory pricing*, and other unethical behaviors that firms use to suppress competition and take advantage of consumers. Those clear definitions made it easier to prosecute wrongdoers. The Clayton Act also allowed firms to sue one another for anticompetitive behavior. And it allowed the government to prevent mergers and acquisitions if they threaten market competition. The Celler-Kefauver Act of 1950 created more barriers for mergers and acquisitions, as did the Hart-Scott-Rodino Antitrust Improvements Act of 1976.

In 1936, the Clayton Act was amended by the Robinson-Patman Act, which strengthened price protections for consumers. The Lanham Act of 1946 opened the door to lawsuits against firms whose advertising misleads consumers. In a famous case

from the 1980s, the pet food company Alpo was awarded more than \$12 million in damages in a suit against competitor Ralston Purina Company. Alpo claimed Ralston Purina misled consumers by claiming its Puppy Chow could help prevent canine hip disease. Alpo was able to prove that this false advertising kept its own puppy food product from entering the national market.

This handful of antitrust laws guided and refined the scope of the government's role in regulating market power for more than 130 years. But it's worth noting that the country briefly tried a different approach to tackle the problem. In 1933, the National Industrial Recovery Act (NIRA) suspended the Sherman Act and the Clayton Act. Instead of using antitrust laws to address the problem of market power, it was left to industries to write their own codes of fair competition and come up with processes for self-regulation to protect consumers. Industries set prices, wages, production quotas, and more. NIRA also gave employees the right to organize and bargain collectively. It was an experiment that then-president Franklin Delano Roosevelt hoped would bring the country out of the Great Depression. Firms displayed a blue-eagle logo to indicate that they were participants in this patriotic effort to bring prosperity back to the United States. NIRA was short-lived—in 1935, the Supreme Court invalidated the law—but the idea that industries, and not the government, should be the ones to regulate market power continues to be debated today.

A few different arms of government keep track of antitrust regulations. The Antitrust Division of the Department of Justice and the Federal Trade Commission (FTC) in the Department of Commerce implement those laws and take legal action against firms that violate the statutes. Both agencies investigate potential fraud, scams, unfair business practices, and false advertising claims. The FTC also has the authority to

approve or reject firms' plans to merge or acquire other firms.

A Few Notable Antitrust Cases

In case you think antitrust laws are just a dusty relic of the past, think again. The government used the Sherman Act to win a case against Microsoft in 2001 for keeping competitors out of the PC market by forcing PC makers to preload its browser, Internet Explorer, and exclude rival browsers from their machines. (If you've never heard of Netscape, that's why.) After the case was decided against Microsoft, the software giant had to allow PC makers to include competitors' software. In 2019, Facebook came under scrutiny for possible Sherman Act violations. The government alleged that the social media firm manipulated advertising prices, limited consumer choice, and put consumer data at risk. Google and Amazon were accused by competitors of predatory pricing—specifically, driving out competing firms that made voice-controlled speakers. Amazon was sued for corporate bullying by punishing independent merchants who do business on Amazon and also list their products for less on their own or other websites. Google was accused of charging “monopoly rent” for its ad space, meaning a search for a certain firm would show that firm's competitor first unless the advertiser was willing to pay a fee. Apple was accused by app firms of making it deliberately harder for iPhone owners to use apps that were not made by Apple—in other words, being a *gatekeeper* that keeps out competitors. Amazon was also accused of gatekeeping by book-publishing firms and other companies that claimed it unfairly competed against its own merchants by selling Amazon brands of the same products or buying competitors' brands wholesale and reselling them at retail.

Here's one last noteworthy controversy to mention before we move on to hearing the voices on this issue. You might have heard the term **net**

neutrality. It's the idea that firms that provide internet service should treat all content the same and not block or slow down access to some products or websites or speed up or prioritize access to others. Those in favor of net neutrality say that it keeps competition fair because small firms have a shot at competing against large firms. They say it shouldn't be the role of private firms to make judgments about content. Those against net neutrality say internet providers should be allowed to innovate and offer whatever services they want because it will ultimately improve the quality of

the internet for everyone, not to mention growing the economy. That's good for society. In 2014, net neutrality was so hotly debated that 21.9 million comments from the public crashed the website of the FCC. Those questions resolved on their own when internet service providers agreed to abide by certain rules against blocking content. But the battle continued as opponents debated whether there should be price regulations on internet service. No doubt, after this issue is resolved, there will be yet another storm on the horizon.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of market power. You learned the tools needed to analyze compet-

ing ideas about how to solve the problem of large firms abusing market power. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on Market Power

Liberals, radicals, and conservatives all agree that large firms can abuse their power in the market. They share the same goal of having the best products at reasonable prices, but they don't agree on how to bring this about. Should government take an active role in regulating industries to create fair competition in capitalism? Should participatory governance be used to keep firms accountable to society? Should price signals in the free market guide firms to bring us the right number of products at the right prices? The policy we currently follow is market power regulations in capitalism, which is why we described them in detail in the previous section. These are liberal ideas,

so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and debate this policy from each of the perspectives. As always, please remember that the VOTE Program doesn't take a position on this or any other issue. We're just channeling the voices of the perspectives so you can hear the different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the liberals will go first.



Liberal

Voice on Market Power



Market
Power

Back in the day when telephone service was delivered through sticks and wires, it made total sense for the government to give AT&T regulated monopoly power. Just think of the massive effort it took to plant telephone poles and string lines across the country. It would have been a tangled mess and a colossal waste of resources if every competing firm put up its own telephone poles and wires. When it makes sense, the government gives exclusive licenses to firms to provide certain goods and services, and then the government watches out for the public

interest by regulating those firms. But by the time Jack Goeken and Bill McGowan sued the firm, MCI had developed new technology that threatened AT&T's exclusive right to deliver phone service. The behemoth corporation tried to block it because AT&T could see the writing on the wall. Their days of having monopoly power were numbered. They weren't going to be the only game in town for making a phone call for much longer. We can thank MCI's steadfast commitment to fair markets for breaking up AT&T. It paved the way to the cell phone in your pocket. But let's not forget the other hero in this story: the government. When it was no longer appropriate for Ma Bell to be a licensed natural monopoly because new technology made it possible for firms to compete without needing to build a massive new physical infrastructure, government made the right move

to open the market back up to competition. It said, "Hold the phone, AT&T, you're blocking innovation. That's bad for society." Then government regulators investigated AT&T's anticompetitive behavior, took them to court, and held them accountable for their illegal activities. In the end, Ma Bell agreed to be broken up. Then new firms flooded into the telecommunications market, and technology advanced by leaps and bounds. This outcome is a beautiful example of the public-private partnership.

Let's consider the market for soap in figure 16.21. When there is perfect competition (PC) in the soap market, we maximize our social welfare because we know firms make the profit-maximizing amount without wasting any resources. Of course they do—they are in business to make the most profit possible. In perfect competition, the equi-

librium price (P^{PC}) and quantity (Q^{PC}) are that special moment when market supply meets market demand. But when a firm has unregulated monopoly power, what happens? It produces less soap (Q^M —M stands for *monopoly*) in order to command a higher price (P^M). That's no surprise. The firm is still a profit maximizer, so of course it does. But that leaves society with a big problem. The monopoly firm prevents us from getting what would otherwise have been possible—products that we need and want. It does this by intentionally lowering quantity in order to raise prices. By the way, when it has no competition, it also lowers the quality of its soap to save money. You'll buy it anyway, because you have no other choices for soap, and there are no close substitutions. This is how unregulated monopolies lower our standard of living. But we correct the problem in the market with market power regulations. Government steps in and blocks firms from becoming monopolies or breaks up firms when they get monopoly power or become near-monopolies. Market power regulations restore a competitive environment. How? Entrepreneurs recognize a

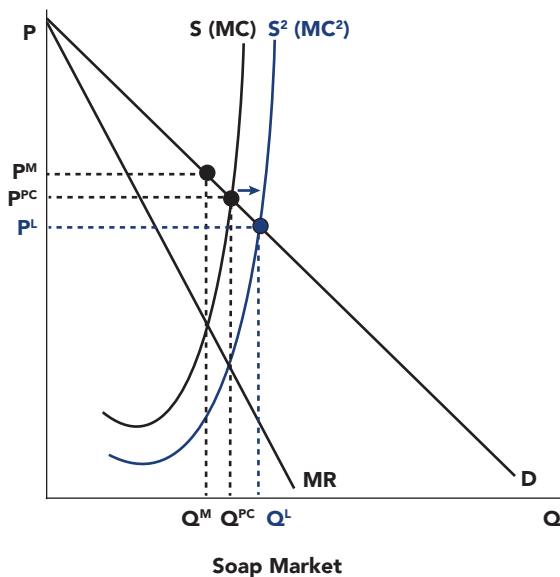


Figure 16.21
Liberal View: Market Power

lucrative market and rally to the call. To compete successfully, they develop new and better ways to make soap. An increase in technology shifts the supply curve to the right (S^2). At the new equilibrium point, the price for soap is even lower (P^L —L stands for *liberal*), and the liberal quantity (Q^L) is even higher than it was in perfect competition. Restoring a highly competitive environment through market power regulations brings us better products, shelves overflowing with choices, and rock-bottom prices.

When my daughter was six years old, she had a carpool buddy named Danny (not his real name). One day, I heard them talking in the back seat. Danny said, “I have a lot of basketballs, and you don’t have any. Do you want to buy one of mine?” My daughter was excited. “Yes! I’ll check my piggy bank tonight, and we can talk about it tomorrow.” That night, she counted her change and discovered that she had saved \$5 between her allowance and her lemonade stand. The next day, back in the car, Danny asked, “Do you still want to buy a basketball?” She said, “How much do you want for it?” He said, “How much do you have?” You can guess what happened. When she said she had \$5, he told her the basketball cost \$5. No surprise, right? This is one of humanity’s oldest stories. The person who controls the supply gets to name the price. We are, by nature, self-interested. Firms are created by and run by humans, and self-interest is expressed as a commitment to maximizing profit. In fair-market capitalism, this is excellent news for all of us. Motivated to improve their bottom lines, firms invent new products, improve the products we already love, and find less expensive ways to make them. But the drive to work hard, innovate, and create wealth for all is only possible when we can all count on a level playing field. We need a strong, impartial, democratically elected government to make sure everyone plays by the rules so everyone can thrive. The drive to work hard, innovate, and create wealth turns negative

when firms dominate the market with monopoly or near-monopoly power. No one wants to live in a world where a firm is the price maker. We end up paying too much, getting lousy products, and not having enough of what we want and need. Competition is the key to bringing us the lowest prices, highest quality, tons of choices, and the most goods and services. Thanks to strategic government intervention in fair-market capitalism, we have many different brands of shoes, hair products, airlines, restaurants, and everything else. The more that firms compete with one another for our business, the better off we are. The helpful hand of government prevents market power abuses and restores a competitive environment so that every firm can bring its A game and society as a whole benefits.

Radicals, on the surface it seems like we both want government to make sure firms can't cheat, price gouge, squelch competition, or take advantage of their market power. But your prosocial competition laws just prove that your notions about democratic socialism are off the mark. On the one hand, you radicals confidently assert that worker-owned firms are naturally pressured for good and won't try to muscle out the competition in a market. But in the next breath, you contradict yourselves and say, "Here are a lot of regulations to make sure worker-owned firms don't cheat, lie, steal, and commit fraud." The only reason you need a Democracy in the Workplace law and antigouging laws is because you know worker-owners will vote according to their self-interest

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so everyone can thrive.

to gain a market advantage so that they can make a profit. Of course they will. No one shows up for work out of a sense of communitarian spirit. They work to make money so that they can feed their families and keep their firm afloat. You invoke the word *community* as if it's a hive mind of agreement, altruism, and harmony, but human self-interest is the reality no matter what the economic system. In socialism, human self-interest leads to cronyism and petty dictatorships in the form of market oversight councils.

Instead of impartial government experts, you put a mishmash of amateurs with their own special interests in charge. Decision-making crawls along at a ridiculously inefficient pace because there is no adult in the room. And because all the essential utilities—water, electricity, the rail system—are owned by the public in democratic socialism, market oversight councils have a truly frightening amount of power over our lives. On top of that, worker-owned firms make the worst products known to humankind because there's no profit motive. Society gets no new medical advances, artificial intelligence, or any other innovations that make life better. And prices for their inferior products are through the roof—if any products are even available. Why? Because you don't mind if firms dominate a market and drive out their competitors. As long as a firm is worker owned, anything goes. On the bright side, at least people get to know their neighbors while they wait in long lines to buy the one brand of soap that's produced in your democratic socialist society.

Conservatives, you want to get rid of market power regulations and pretend monopolies are a nonissue. You say it will magically self-correct when a company has a corner on the coffee market, and another has a corner on cable service, and another has a corner on social media. We should just wait in our overpriced, badly made chairs and do nothing while a few big firms control us, manipulate us, suck up all the resources, and prevent us from achieving our potential as a nation. Meanwhile, corporations unfettered by sensible regulations overcharge us, strangle our product choices, and limit quantity. The invisible hand will not beckon new entrepreneurs into the market to save us from marketplaces dominated by profit-hungry firms. Okay, you throw us a bone by allowing government to operate a justice system, but how effective is it when armies of corporate lawyers bury competitors and consumers in decades-long litigation? You claim large firms produce more efficiently, which will naturally bring us lower prices, but that's

not true without competition. If Walmart has low prices today, it's because Target is across the street competing for its business. Even if they have lower costs, they have no incentive to pass those savings along to consumers unless they are in competition for our business. No competition also means no incentive to innovate and bring us new and better products. Instead of progress, we have stagnation. Sure, entrepreneurs would love to get a toe in the water, but it's naïve to think a firm with monopoly power will let competitors in. While you conservatives stubbornly cling to your fantasy that the free market will fix the problem, you throw out the necessary measures that prevent monopolies from forming in the first place. Big business buys off the politicians who write the policies, so those market power regulations disappear. Monopoly power corrupts capitalism and turns what should be a glorious economic system into a game of mutual back-scratching that benefits a few fat cats while leaving the rest of us clawed and bloodied. We're



manipulated into thinking we have choices and that prices are fair, but it's all a smokescreen to mask the great rip-off of the American consumer.

We should strengthen the current policy of market power regulations to ensure that we get the best products at reasonable prices. Antitrust laws protect fair competition, prevent firms from acting anticompetitively, and strategically break up firms when they get too big and wield too much market power. Instead of markets being a free-for-all where smaller firms can't get in the game and consumers end up hurt, government is the impartial referee that we can count on to make sure the game of commerce is played fairly. It's fair to existing competitors, to new entrepreneurs, and to consumers. We should expand anti-trust legislation so we don't end up paying outrageous prices and having low-quality products and few choices. Market power regulations do a beautiful job harnessing our profit-motivated economy to encourage fair competition so that firms can stay nimble and pivot when necessary to bring us the best new inventions, innovations, and tech-

nology. Because they are profit maximizers in a competitive market, they find the most efficient ways to produce. This is good for society because it means firms use our scarce resources to their utmost efficiency to create the abundant material life we all want. And when there are huge start-up costs, a single firm can produce at a lower cost and use fewer of society's resources. That's why it makes sense for government to grant an exclusive license to firms in certain industries that have a natural monopoly. But we recognize that the firm can abuse its monopoly power, so government regulates prices, quantity, and quality to make sure they are at the level we would have in perfect competition. Thanks to government oversight, it's a win for consumers and fair to the firm as well. In a world of scarcity, government keeps one eye on fair play, and the other eye on efficiency. With market power regulations in fair-market capitalism, we get the entrepreneurs we need, the inventions we're waiting for, and the freedom we all want and need in our material lives.

Liberal

Fair-Market Capitalism



Market Power

BIG PICTURE

The helpful hand of government prevents market power abuses and restores a competitive environment so that every firm can bring its A game and society as a whole benefits.

POLICY POSITION

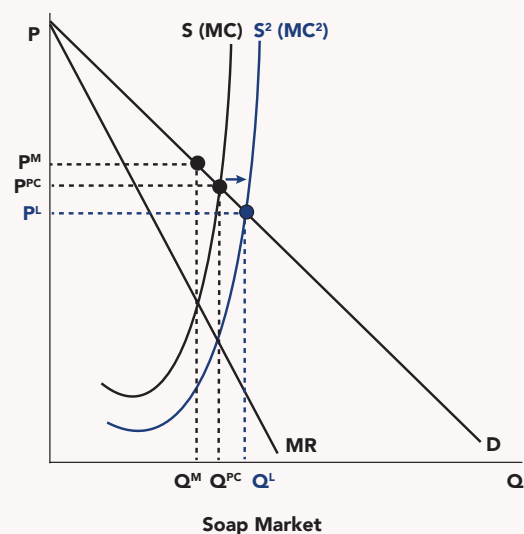
Large firms can abuse their power, but . . .

- ▶ Radical policies create waste and inefficiency, resulting in zero innovations, high prices for the few inferior products made, and an unacceptably low standard of living.
- ▶ Conservative policies fling the doors wide open to big firms taking advantage of their market power, leaving consumers with high prices, low quality, and no choices.

SOLUTION

Strengthen market power regulations to ensure that we get the best products at reasonable prices:

- Strategically expand antitrust laws to promote fair competition.
- Regulate natural monopolies to use resources most efficiently.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Market Power Talking Points: Liberal

1. Firms are self-interested profit maximizers, which is excellent news for all of us. Because they want to improve their bottom lines, they are highly motivated to invent new products, improve the products we already love, and find less expensive ways to provide them. But their drive to work hard, innovate, and create wealth for all is only possible when a strong, impartial, democratically elected government creates a level playing field for competition. Everyone plays by the rules, and everyone can thrive.
2. No one wants to live in a world where a firm is the price maker. We end up paying too much, getting lousy products, and not having enough of what we want and need. Competition is the key to bringing us the lowest prices, highest quality, and right quantities of goods and services. It's also the reason that we have so many good choices at the store. Thanks to strategic government intervention in fair-market capitalism, we have robust competition, which makes us all better off as a society.
3. Human self-interest is the reality no matter what the economic system. In your radical economic system, human self-interest leads to cronyism and petty dictatorships. You put a mishmash of amateurs with their own special interests in charge. Decision-making crawls along at a ridiculously inefficient pace. And because all the essential utilities—water, electricity, the rail system—are owned by the public, market oversight councils have a truly frightening amount of power over our lives.
4. Without a profit motive, radicals have no new medical advances, artificial intelligence, or any other innovations that make life better. And prices are through the roof—if any products are even available. Why? Because they don't mind if firms dominate a market and drive out their competitors. As long as the firms are worker owned, anything goes. On the bright side, at least people get to know their neighbors while they wait in long lines to buy the one brand of soap that's produced in their democratic socialist society.
5. Conservatives, you want to get rid of market power regulations and pretend monopolies are a nonissue. You say it will magically self-correct when a company has a corner on the market. According to you, we should just wait and do nothing while a few big firms control us, manipulate us, suck up all the resources, and prevent us from achieving our potential as a nation. The invisible hand will not beckon new entrepreneurs into the market to save us from marketplaces dominated by profit-hungry firms.
6. Conservatives claim large firms produce more efficiently, which will naturally bring us lower prices, but that's only true if there's competition. If Walmart has low prices today, it's because Target is across the street competing for its business. Even if they have lower costs, they have no incentive to pass those savings along to consumers unless they are in competition for our business. No competition also means no incentive to innovate. Instead of fostering progress, conservative policies leave us with stagnation.
7. Antitrust laws protect fair competition, prevent firms from acting anticompetitively, and break up firms when they get too big and wield too much market power. Instead of markets being a free-for-all where smaller firms can't get in the game and consumers end up hurt, government is the impartial referee that we can count on to make sure the game of commerce is played fairly. It's fair to existing competitors, to new entrepreneurs, and to consumers.
8. When there are huge start-up costs, a single firm can produce at a lower cost and do so using fewer resources. Government grants exclusive licenses to firms that have a natural monopoly in certain industries and then regulates prices, quantity, and quality to make sure they are at the level we would have in perfect competition. It's a win for consumers and fair to firms. In a world of scarcity, government keeps one eye on fair play, and the other eye on efficiency.

Radical

Voice on Market Power



Market
Power

We should all be grateful to Bill McGowan and Jack Goeken for dedicating their time and energy to changing the world for the better. It took decades, and they had to take personal financial risks while running into the brick wall of AT&T's team of lawyers. Somehow, they kept mustering the stamina to get back up and fight another day. No one expected MCI to win this David and Goliath story. In capitalism, the winners are usually those who have the most money, the biggest teams of lawyers, and the most politicians in their pockets. Goeken and

McGowan made it possible for all of us to afford to connect with our loved ones without going broke. On a much bigger level, they proved that even the mightiest company can be taken down when people have a steadfast focus on the greater good of society. MCI fought the war on two fronts. First, they battled AT&T's unfettered drive for profit, and second they attacked the government's sanction of monopoly power, which prevented new technology from improving everyone's quality of life. The story of MCI and AT&T isn't about a few bad apples at Ma Bell doing the wrong thing. It's not about a few corrupt politicians blocking progress. It is about an economic system that measures success only by the amount of profit a firm amasses. Capitalism's pressure for bad caused AT&T to suppress amazing new technologies that could have made us better off. As a result, people had no choice in phone service and had to put up

with outdated technology and outrageously high prices. But don't make the mistake of thinking the problem was AT&T's monopoly power. The size of a firm makes no difference when the economic system is built on a commitment to making things that are useful and beneficial to society. The real problem is capitalism, which forces all firms to make profit their sole priority. We can blame capitalism for making us wait for decades to get cell phones, video calls, and other world-changing new technologies.

Let's use the Six-Core Cube of democratic socialism and drill down through the core point of *production for use*. The primary goal of production is to make products that are useful and beneficial to society, and the measure of success is how well those products lift the standard of living for all and improve the well-being of people and the planet. Imagine that no matter what you buy, you

can trust on the deepest level that the firm that produced it has your best interests at heart. It isn't manipulating you, overcharging you, or selling you a low-quality product. It wants its products to increase your well-being. Now imagine this is how you feel when you use all the products in your life. When you buy a chair that has good lumbar support, you hope the worker-owners who made it are well rewarded for their effort. You want their firm to be a profitable endeavor so that they and their families can enjoy their lives. It's like when someone who loves you makes you a bowl of soup when you're sick. You feel grateful for their care, and in turn you want them to be well. In democratic socialism, a commitment to making things that are useful and beneficial lifts the interactions of supplier and demander to a new level of mutual goodwill. There is a sense of connection and gratitude for the many people you'll never meet who make your material life possible. This way of thinking also underlies market competition in democratic socialism. Firms coordinate with their competitors not out of some

altruistic notion, but because there are practical rewards—more openings for new worker-owners to join, more money available for philanthropy in the community, more tax revenue to support social safeguards and infrastructure, and more money in the pockets of worker-owners. All of this raises the standard of living for society. Instead of trying to obliterate competitors, firms in democratic socialism recognize that we all win when everyone succeeds.

Years ago, I needed to get a filling in one of my molars replaced. I found a dentist who seemed qualified, but when he finished the work, I heard him mutter under his breath, "Well, it's not perfect, but I guess it's good enough." I'm sure you'll agree that this is the last thing you want to hear from your dentist or from anyone providing any goods or services that are essential for your life. You don't want a brake manufacturer to say its brakes are "good enough." Later, when that dentist suggested dental work I clearly didn't need, I had to wonder if he was in business just to make money off his patients or to actually help us. You don't want a firm making you something if its only goal is to separate you from your money. The intention of producers shows up in the quality and the integrity of their products. Recently, I went to a new dentist in a worker-owned firm. "I just have a few questions for you," I said before he got started. "What do you like about being a dentist? Do you consider it an art?" He lowered the drill and said, "I love what I do. Every time I make a filling, a bridge, or a crown for a patient, I think about how this little sculpture will live in their mouths. Every time they chew without pain or smile without feeling embarrassed, my work has meaning." I could relax while he worked on my teeth, knowing that he had my best interests at heart. Later, he referred me to a competitor who specialized in making crowns. And that practitioner referred me to her competitor, who specialized in root canals. In democratic socialism, the



Figure 16.22
Radical View: Market Power

whole reason for producing anything is to benefit society in some way. This is true whether there is a single worker-owner or thousands of worker-owners in a firm. So when firms vote to merge, the market oversight council will always ask three key questions: will the merger lead to a better, more useful product? Will society be better

off? Will it be a win-win for the firms and their local communities? Only if the answers are “yes” to all three will a merger be approved. When the primary reason for production is to make things that are necessary, useful, and beneficial for people, worker-owned firms—whether big or small—contribute to the betterment of society.

One of the tragedies of the first half of the twentieth century was dubbed the Great American Streetcar Scandal. A company called National City Lines and its subsidiaries systematically bought up the public transit systems in twenty-five cities. Was its aim to improve transportation for people? No! It yanked out the streetcar tracks and rail lines to pave the way for more cars, buses, and trucks. Why? Because the company’s investors were Standard Oil of California, Phillips Petroleum, General Motors, the Firestone Tire and Rubber Company, Mack Trucks, and other firms that profited from a transportation system based on automobiles. This coordination among firms was used for bad, not to benefit society. If you’ve ever tried to get anywhere by car in Los Angeles during rush hour and experienced its daily epic traffic jams and unhealthy smog, then it will be very clear to you who loses in capitalism when the primary reason for production is to make profit. Those firms produced air pollution, suburban sprawl, and inner-city blight, among the many other negative con-

Instead of trying to
obliterate competitors,
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socialism recognize that we
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everyone succeeds.

sequences that we still live with today. In capitalism, firms take advantage of their market power so that they can stay in business. They manipulate consumers, muscle out the competition, gobble up weaker firms, and do whatever it takes to expand their market share. They will sell anything, including hatred, if it will turn a

profit. When companies are owned by shareholders, this doesn’t fix the problem. Shareholders are not necessarily the workers, so the focus remains on the bottom line and not on doing the right thing for workers, consumers, or the communities where they produce. And shareholders have a very limited scope of decision-making—typically doing nothing more than ratifying decisions made by the board of directors and CEO. Their vote is just a rubber stamp. Since those who own the most shares have the most voting power, the rich and powerful have the most say. If a majority of shareholders vote to do the right thing, it’s only because it was the profitable choice. If it’s not profitable, the firm won’t do it. It can’t, because if it does, competitors will smell blood in the water and charge in for a hostile takeover. Here’s the real bottom line: the problem of market power can’t be solved in capitalism, because capitalism is the problem.

Conservatives, corporate power in a profit-driven system leaves the bully in charge of the playground. What happens? Bullying! Your policy of unfettered markets in capitalism enables firms to act with unbridled greed, destroying each other over market share with hostile takeovers, collusion, and raids on one another’s assets. Consumers are the civilian casualties caught in the crossfire. Firms jack up prices to pad their bottom

lines and produce whatever turns a profit, even if it's dangerous or damaging to people, the planet, and communities. And what do you conservatives say? "Nothing personal; it's just business." That's code in capitalism for "You're about to get hurt." You conservatives are always ready to sacrifice the consumer and the environment to boost your bottom line. Profit is more important to you than anything else. In your free-market brand of capitalism, you don't even pretend that customers, workers, and competitors matter. It's profit you worship, and everything else is meaningless. It's a soulless way to live. Think about that the next time you say, "Nothing personal; it's just business." In fact, it's deeply personal when a worker is exploited. It's deeply personal to those whose firms are driven out of business. It's deeply personal to people who are manipulated into buying something they don't need. It's deeply personal to those whose only choice is to be overcharged for an inferior product. The Wild West of free-market capitalism is a harsh and brutal place, but you stubbornly insist that the winner-take-all mentality is what we need to motivate us to make progress. You insult us every time you say humans are motivated only by greed and selfishness. The only

reason any of us survived to adulthood is because others selflessly cared for us when we were young and helpless. None of us would be here today if humans weren't even more strongly motivated by compassion, cooperation, and empathy. When we act with those qualities as our driving force, we end up better off materially, socially, intellectually, and emotionally. But we'll never be able to maximize our mutual interest as long as you keep shoving capitalism down our throats.

Liberals, you say that government has our backs by getting bullies off the playground. But then you back the biggest bullies and give them control of our precious shared resources. We are dependent on water, electricity, and all the other utilities to survive, yet you hand them monopoly power. You prevent us from having choices. Instead of protecting us, you're in their pockets, working for them. There's no escape from bullying in your fair-market system. The consumer gets a raw deal when the government grants monopoly licenses to privately owned firms in the name of efficiency. To add insult to injury, those firms amass huge amounts of profit off the resources that were stolen from us. Those private owners have no real incentive to respond



to the needs of the consumer, and no amount of regulation from top-down government will ever make them prioritize society's well-being over their own bottom lines. Your fair-market policies literally empower them to squelch competition, and we are stuck on the phone with beleaguered customer service representatives who are badly exploited, and who can only give a few platitudes. The public-private partnership you liberals love to tout amounts to special interest lobbyists quietly tucking big corporate campaign contributions into the pockets of politicians and government regulators. They simply pay to eliminate regulations that hurt their profit, or pressure politicians to impose or maintain regulations that keep upstarts out so they can maintain their monopoly power. Liberals, on top of your bad idea of licensing natural monopolies in capitalism, your antitrust laws that block or break up firms when they get too big don't fix the problem of market power because whether a firm is big or small isn't the issue. Whether it's one big king producing for profit or lots of small barons producing for profit, the consumer is the one being ripped off when profit drives the economic system. Please stop twisting into a pretzel to try to fix the fatal flaws of capitalism. It's futile, and your attempts to do so only worsen the situation by creating a veneer over capitalism that makes it seem like a reasonable and manageable economic system. The truth is that capitalism is an utter disaster for humanity and the planet.

We should replace the current policy of market power regulations in capitalism with prosocial competition laws in democratic socialism to ensure that we get the best products at reasonable prices. To support the pressure for good in worker-owned firms, we use a variety of laws that promote positive competition and prevent and eliminate destructive competition. This frees all firms to serve the com-

mon good and thrive. Prosocial policies affect society on two levels. First, they strengthen firms' own internal system of checks and balances. Second, firms are monitored and guided by market oversight councils, which make sure no company can take advantage of its position in the market to hurt consumers or competitors. Whether a firm is small or big, it is held accountable to society. For example, Democracy in the Workplace ensures that no matter what workers decide, the firm always operates democratically, with each worker-owner having a single vote. This is a built-in prevention measure against the possibility that some individuals will manipulate firms into taking advantage of consumers. The one-person-one-vote policy works because the worker-owners are producing for themselves, their loved ones, and their communities. The idea is that the majority will vote to do the right thing because they, themselves, are consumers, parents, and community members. Therefore, they are highly motivated to produce things that are necessary, useful, and beneficial to others, and to keep their firms agile and responsive to society's needs as innovations and new technologies emerge. At the same time, anti-price-gouging laws restore reasonable prices in the market in the event a firm takes advantage of a situation and overcharges. Market oversight councils make sure firms don't block competitors' access to resources and they limit patents for lifesaving products. They protect the public by making sure firms advertise truthfully and take other measures to prevent corporate misconduct. These laws help ensure that competition is always beneficial for society and brings out the best in worker-owners. We all win because firms make us the wide range of affordable, innovative products that enhance our lives. With prosocial competition laws, we get the entrepreneurs we need, the inventions we're waiting for, and the freedom we all want and need in our material lives.

Radical

Democratic Socialism



Market
Power

BIG PICTURE

When the primary reason for production is to make things that are necessary, useful, and beneficial for people, worker-owned firms—whether big or small—contribute to the betterment of society.

POLICY POSITION

Large firms can abuse their power, but . . .

- ▶ Conservative policies lead to unrestrained corporate power, market domination, and extreme harm to people and the planet.
- ▶ Liberal policies turn government into an accomplice to corporate greed, impede progress, and make society worse off while a few grow bloated on profit.

SOLUTION

Replace market power regulations in capitalism with prosocial competition laws in democratic socialism to get the best products at reasonable prices:

- Market oversight councils hold firms accountable.
- Democracy in the Workplace protects society.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Market Power Talking Points: Radical

1. All of us thrive in an economic system that puts the well-being of people before profit. You can trust that firms aren't manipulating you, overcharging you, or selling you a low-quality product. They want their products to make you better off. Because democratic socialism is based on a commitment to making things that are necessary, useful, and beneficial, you can feel grateful for the many people you'll never meet who make your material life possible.
2. In democratic socialism, the whole reason for producing anything is to benefit society in some way. This is true whether there is a single worker-owner or thousands of worker-owners in a firm. So when firms vote to merge, the market oversight council will always ask three key questions: will the merger lead to a better, more useful product? Will society be better off? Will it be a win-win for the firms and their local communities? Only if the answers are "yes" to all three will a merger be approved.
3. Conservatives, you leave the bully in charge of the playground. Your policy of unfettered markets enables firms to act with unbridled greed and destroy one another over market share. Firms get big and jack up prices, lower the quality of products, and make the wrong amounts. And what do you conservatives say? "Nothing personal; it's just business." That's code in capitalism for "You're about to get hurt." Conservatives, you're always ready to sacrifice the consumer and the environment to boost your bottom line.
4. The Wild West of free-market capitalism is a harsh and brutal place, but conservatives stubbornly insist that the winner-take-all mentality is what we need to motivate us to make progress. It's profit you worship, and everything else is meaningless. It's a soulless way to live. None of us would be here today if humans weren't even more strongly motivated by compassion, cooperation, and empathy. But we'll never be able to maximize our mutual interest as long as you keep shoving capitalism down our throats.
5. The public-private partnership you liberals love to tout amounts to special interest lobbyists quietly tucking big corporate campaign contributions into the pockets of politicians and government regulators. They pay to eliminate regulations that hurt their profit and impose regulations that keep upstarts out so they can maintain their monopoly power. Even if the system weren't corrupt, no amount of regulation from top-down government will ever make those firms care more about society's well-being than their bottom lines.
6. Liberal antitrust laws don't fix the problem of market power because whether there is one big king producing for profit or lots of small barons producing for profit, the consumer is the one being ripped off when profit drives the economic system. Liberals only worsen the situation by creating a veneer over capitalism to make this economic system appear to be reasonable and manageable. The truth is that capitalism is an utter disaster for humanity and the planet.
7. Prosocial competition laws in democratic socialism promote positive competition and prevent and eliminate destructive competition. They set all firms free to serve the common good and help us all to thrive. They strengthen firms' own internal system of checks and balances. And firms are monitored and guided by market oversight councils, which make sure no company can take advantage of its position in the market to hurt consumers or competitors. Whether a firm is small or big, it is held accountable to society.
8. Market oversight policies help firms by requiring Democracy in the Workplace. This one-person-one-vote policy is a built-in prevention measure against the possibility that some individuals will manipulate firms into taking advantage of consumers. The idea is that the majority will vote to do the right thing because they, themselves, are consumers, parents, and community members. Market oversight policies also protect consumers by preventing firms from price gouging and limiting patents for lifesaving products.

Conservative

Voice on Market Power



Market
Power

When I hear the story of visionaries Bill McGowan and Jack Goeken, I think what a shame it was that MCI had to waste all that time and energy fighting the FCC and AT&T just to be able to deliver better phone service to us at a cheaper price. I blame the government. If AT&T hadn't been given an exclusive license to produce telecommunications services, MCI wouldn't have run into a brick wall the minute it tried to innovate. Think of all the amazing things Goeken could have invented with the time he wasted trying to dismantle that wall, and all

the businesses McGowan could have launched with the time he wasted trying to raise money to cover lawsuit expenses. Government gave AT&T the crown, and we the people paid the price with no choices, outrageous long-distance rates, and service and equipment upgrades that dragged along at a snail's pace. The justification for giving AT&T exclusive license to produce telecommunications services was that it was most efficient and therefore better for society. But was it really? With no competitors in the industry, AT&T had zero motivation to make a better or cheaper product. So it grew complacent, lazy, and entitled. We were held hostage, and progress stagnated despite its million employees—including some of the country's brightest engineers. What a waste. Thankfully, MCI was stubborn. I shudder to think what the world would be like if it had given up. We'd still be waiting in line to use the payphone on

the corner. Once the justice system broke up the monopoly and opened the market to competition, we saw an explosion of innovation and new technology. That's how capitalism is supposed to work. When markets are left alone, inventors everywhere work day and night to come up with the next new marvel. That's why today we have computers, cell phones, robots that clean our floors, and self-driving cars. The lure of profit in a wide-open field of opportunities lifts society to the next level of prosperity.

Let's consider the market for soap in figure 16.23. When a firm gets big, that indicates it's producing goods and services that people want, and it's charging a price (P^M —M stands for *monopoly*) that people are willing to pay. Obviously, big firms control more market share. On the surface, that could seem like a problem, but look at what happens when we leave it alone. The big firm's

success attracts entrepreneurs like a beacon in the night. The idea that there are barriers to entry just isn't true. There is nothing stopping a potential competitor from innovating and coming up with a better way to make soap or anything else, or from inventing a substitute product. Therefore, a big firm only *temporarily* dominates a market. The lucrative market inspires entrepreneurs worldwide to develop new technology so they can compete. With this increase in technology, the supply curve shifts to the right (S^2), resulting in a new equilibrium price (P^{PC} —PC stands for *perfect competition*) that is lower, and a new equilibrium quantity (Q^{PC}) that is higher. But that's just the first good news. Now consider that since the threat of competition is always a factor, large firms always have a strong incentive to leverage their cost advantages. Since they profit from economies of scale—their size allows them to be the most efficient in buying, producing, and distributing products—a bigger firm makes more products using the same number of resources while paying less for those resources. That decrease in the cost of inputs, which is substantial, shifts the supply curve to the right once more (S^3) and ultimately

brings the soap market to a new equilibrium where the price (P^C —C stands for *conservative*) is even lower, and the conservative quantity (Q^C) is even higher than it was in perfect competition. The problem not only solves itself, but we end up with even better prices, quantities, and quality than we had in perfect competition. This is how the free market, guided by the invisible hand, brings about the best use of resources, resulting in the optimal balance of products at the lowest prices and in the highest quantities.

When my daughter was young, we loved to visit Old Tucson. It's a theme park that's also a movie studio in the desert on the outskirts of Tucson, Arizona. We panned for gold in a little trough, and when we heard the *clop clop clop* of horses, we ran to catch the stagecoach. Sitting in that bouncy contraption, I imagined what it must have been like to travel across the country for three months in that uncomfortable seat, braving bad weather, fording rivers, and encountering wild animals and bandits. Today, we board a plane and fly across the continent in a few hours. When flight was a new industry, it was a luxury that only the rich could afford. Now it's just another form of mass transportation. Dozens of airlines of different sizes compete for our business. The firms that offer the best service in combination with the best prices succeed and grow to be the biggest airlines. That's a win for consumers because we get the flights we want at the prices we can afford. And it is a further win for consumers because as those large companies get bigger, they produce more efficiently, which means they offer more flights to even more places at lower prices. The big firms also offer juicier reward programs for loyal customers. A few years ago, when two big airlines merged and they combined my frequent flier miles, I flew for free to visit my family across the country. But my absolute favorite thing as a consumer is a price war. When airlines slash airfares to compete, you'll find me picking

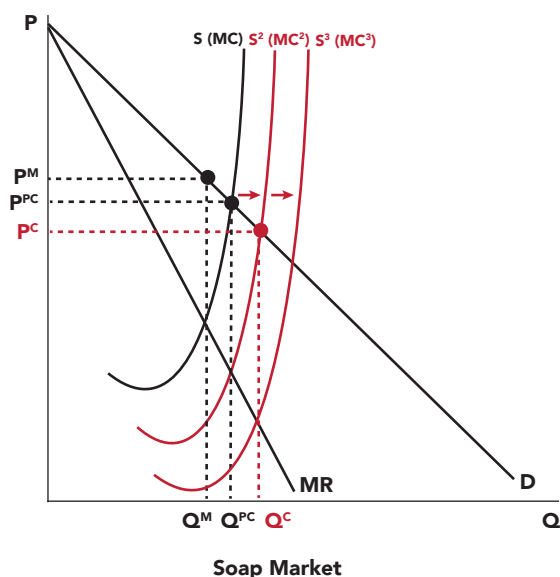


Figure 16.23
Conservative View: Market Power

up cross-country flights for \$99. Even when there isn't a price war, competition in the industry keeps prices affordable and guarantees that the quality of the planes and service continuously improve. Competition doesn't just happen among the big players. Smaller airlines sprout up all the time with low-cost alternatives, and they give the big firms a run for their money. Competition is great for society when

we leave it alone and let it run its course. We end up with more choices, lower prices, better products, and highly motivated firms that come up with creative ways to earn our business. We're talking about airlines here, but this is also true for hotels, rental cars, cell phones, computers, ice cream, and every other market when we leave it alone and let competition run its course. Big firms that gain market power on their own are good for society because in a free market, the profit motive spurs innovation and invention, and that's what leads to progress—and low prices.

When you're on a road trip and you're ready to stop for a meal, you pull off the highway and cruise through town. There are four local restaurants, and each one looks sketchier than the next. You're not sure which one is going to give you food poisoning and which one has a rat problem. Your heart sinks. But then, out of the corner of your eye, you glimpse a familiar logo, and a sense of relief washes over you. That restaurant operates in every corner of the country, and you know you can get a reliable meal at a known price there. Even if it's not your favorite food, you will still make a U-turn and head into their parking lot because it's a matter of trust. It's the same

The firms that offer
the best service plus the
best prices succeed and
grow to be the biggest.
That's a win for consumers
because we get the
products we want at the
prices we can afford.

when you stop for the night and look for a hotel. You choose the one that you're familiar with, because you trust that its rooms will be clean and that customer service will be decent, and you might also earn reward points. Those big chains mean it's home everywhere you go. So when firms aren't allowed to get big in their markets because government policies say that's not fair, you're the one who suffers. There

are always the explorers among us who embrace the unknown, but for those of us who want a sure thing, we should be able to have it. It's not like big firms are doing anything wrong—in fact, they were doing everything right and making us happy. That's why they got big. So let's not punish firms for doing something well, and let's not punish consumers. Whether you're on a road trip, or in your hometown, or you're using an online firm, this issue of whether or not firms should be allowed to get big has one answer: yes. Let's not make this more complicated than it needs to be.

Liberals, of course a firm can cheat, lie, and steal to grow its market power, but that's easily remedied through the justice system. We don't need antitrust laws to prevent firms from getting "too big" just because there are a few bad apples that act unscrupulously. Price signals enforce the natural laws of selection in business. Some firms will compete successfully and grow big, others will stay small because that's more profitable for them, and others will fail and go into another line of work. This is what's supposed to happen in a healthy economic system, but you punish firms that succeed and grow big. When government breaks up large firms, prices go up, qual-

ity declines, the quantity of goods and services goes down, and we can't compete in the global marketplace. We also lose valuable investment in research and development when firms are broken up. Do you really think a small-fry pharmaceutical company will ever find the cure for cancer? To make matters worse, your meddling encourages big firms to pay off politicians to pass even more costly and unnecessary regulations that keep out competitors. But let's talk about the real elephant in the room. While you say you're opposed to big firms dominating their markets, you contradict yourselves by granting exclusive licenses to select firms that you deem a "natural monopoly." Here is the irony: monopolies only exist because fair-market capitalism creates them. There is no such thing as a natural monopoly or any other monopoly. In any market, there is always an opening for competition, regardless of the advantages one firm has initially. And the idea that government regulates these monopolies is a farce. Because of cronyism, regulators get captured by the industry. They are in the pockets of the firms, so no one is representing the public interest. Not only do consumers get stuck with high prices,

they also get stuck with high taxes to pay for this charade. Liberal market power regulations hold us back from real progress. If it weren't for government interference, we would no doubt be powering our nation with clean solar energy by now, enjoying same-day package delivery to anywhere in the country, and using universal translators to speak any foreign language like a native.

Radicals, a firm that isn't focused on profit won't stay in business, no matter how useful the product it makes. It's great news that you're not against firms getting big, but it seems like you're against firms being successful. Without the impartial, apolitical, unemotional information of price signals, and without the drive for profit, society simply can't get the useful and beneficial products it needs. Prosocial competition laws are even worse than the antitrust laws we already have, which don't work. It's naïve to think giving worker-owners an equal vote in the workplace will do anything other than get nothing done. That's the best-case scenario. The more likely way it plays out is that firms end up making disastrous business decisions. There are sensible reasons why every worker's vote should not count



the same. People with more expertise are more qualified to lead and make decisions. Empowering a bunch of self-interested workers guarantees that the firm goes belly-up. Even if a firm designates managers to keep an eye on the bottom line, they are outvoted. If a department needs to be cut, those workers appeal to their friends in the firm to sway the vote. Anti-price-gouging legislation is unnecessary because price gouging doesn't actually exist. If there's a hurricane that wipes out all the stores, and your child needs diapers, the free-market price for diapers is naturally going to be high. So an entrepreneurial person drives a truck full of diapers through the night to get them to your town, and you not only pay whatever price the market will bear, you thank them for bringing you exactly what you need. In democratic socialism, no one races through the night with a truck full of diapers, because there's no incentive—and therefore no diapers, no water, and no food. Instead of healthy competition that reins in market power, you have government deciding who gets what and how much it costs. You'd better hope you have a cousin on the market oversight council or a friend at the government distribution center. If not, you'll have no choice but to hunt for diapers on the black market, and then you'll be breaking the law. Your participatory government turns into a police state, and you're busted for buying your kid diapers. That's when socialism takes a turn down the road of totalitarianism.

We should reject the current policy of market power regulations and replace it with free-market competition to get the best products at reasonable prices. Capitalism works perfectly when we eliminate government interference. It's a self-correcting system, so all we have to do is leave markets alone, and the profit incentive fuels healthy competition. Our nation gallops ahead with new technologies, inventions, and innova-

tions. Let's protect our democracy by throwing out crony capitalism, where "friends" of the government get the permits, licenses, grants, and tax breaks. When we get rid of government regulators, industries are free to police themselves and come up with the best standards and practices. They are highly motivated to protect the integrity of their profession, and they can also come up with the best solutions to cheating, fraud, and other anticompetitive behaviors because they are the main stakeholders. Consumers are protected because they can hold firms accountable by voting with their wallets. When there are a few bad actors, we have a justice system to punish unlawful behavior. In a free-market environment, we celebrate the countless reasons a firm gains an efficiency advantage—it has cost advantages, access to the best resources, the best location, the top leaders, and so forth. But none of these reasons becomes an excuse to block competition by creating and then propping up a firm's monopoly power. We restore fair and free competition and not only do prices drop, but the taxpayer no longer has to fund a burdensome government bureaucracy to police and regulate firms. Firms scramble to win consumers' loyalty, so we get high-quality and exciting new products, and we have the right amounts. Monopolies are not an issue because they are always temporary and actually spur creativity as competitors increase their efforts to invent close substitutions or find new technologies and innovations to break into the market. This is how the economy grows, society progresses, and more people thrive. The free market makes our material lives continually better as a result of positive, unobstructed competition. We get the entrepreneurs we need, the inventions we're waiting for, and the freedom we all want and need in our material lives.

Conservative

Free-Market Capitalism



Market Power

BIG PICTURE

Big firms that gain market power on their own are good for society because in a free market, the profit motive spurs innovation and invention, and that's what leads to progress—and low prices.

POLICY POSITION

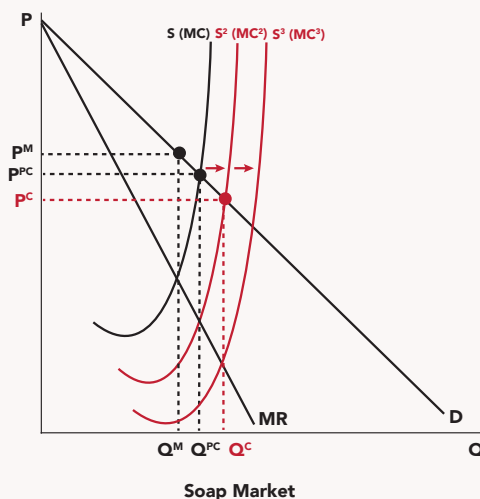
Large firms can abuse their power, but . . .

- ▶ Liberal policies impede our progress as a society by stifling natural competition, leaving us with higher prices and a shamefully and unnecessarily low standard of living.
- ▶ Radical policies sink firms by giving unqualified, self-interested worker-owners a vote, put councils in charge of distribution, and ultimately lead to a totalitarian state.

SOLUTION

Reject market power regulations and replace them with free-market competition to get the best products at reasonable prices:

- Allow industries to flourish organically.
- Successful firms are the engines of progress.




- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Market Power Talking Points: Conservative

1. In free-market capitalism, inventors everywhere work day and night to come up with the next new marvel. That's why today we have computers, cell phones, robots that clean our floors, and self-driving cars. The lure of profit in a wide-open field of opportunities lifts society to the next level of prosperity. Competition is great for society when we let it run its course. We end up with more choices, better products, lower prices, and highly motivated firms that come up with creative ways to earn our business.
2. There is no need to be afraid of firms that gain market power. When a firm gets big, that means it's producing the goods and services that people want, and it's charging a price that people are willing to pay. It's not a problem because the big firm's success automatically attracts entrepreneurs like a beacon in the night. This is how the free market, guided by the invisible hand, motivates firms to work hard to earn our business and make our lives better.
3. Liberals, you want to punish firms that succeed and grow big. That is counterproductive to everyone's prosperity. When government breaks up large firms, prices go up, quality declines, the quantity of goods and services goes down, and we can't compete in the global marketplace. We also lose valuable investment in research and development when firms are broken up. Do you really think a small pharmaceutical company will ever find the cure for cancer? That's never going to happen.
4. Liberal meddling encourages big firms to pay off politicians to pass costly and unnecessary regulations that keep out competitors. On top of that, fair-market capitalist policies actually create monopolies by granting exclusive licenses to select firms to dominate a market. The idea that government regulates these monopolies is a farce. Because of cronyism, regulators get captured by the industry. Not only are consumers then stuck with high prices, they also are stuck with high taxes to pay for this charade.
5. Radicals, great news that you're not against firms getting big, but it seems like you're against firms being successful. Prosocial competition laws are even worse than the antitrust laws we already have. Take your Democracy in the Workplace as an example. It's naive to think giving worker-owners an equal vote in the workplace will do anything other than get nothing done. That's the best-case scenario. The more likely way it plays out is that firms make disastrous business decisions and go belly up.
6. Instead of healthy competition that reins in market power, you radicals have government deciding who gets what and how much it costs. You'd better hope you have a cousin on the market oversight council or a friend at the government distribution center. If not, you'll have no choice but to hunt for products on the black market, and then you'll be breaking the law and busted for buying your basic necessities. That's when socialism takes a turn down the road of totalitarianism.
7. All we have to do is leave markets alone and let the profit incentive fuel healthy competition. Our nation gallops ahead with new technologies, inventions, and innovations. We throw out crony capitalism, where "friends" of the government get the permits, licenses, grants, and tax breaks. We throw out government regulators and leave it to industries to police themselves and to consumers to hold them accountable. We use the justice system to punish unlawful behavior.
8. In free-market capitalism, we celebrate the countless reasons a firm gains an efficiency advantage—it has cost advantages, access to the best resources, the best location, the top leaders, and so forth. But none of these reasons is an excuse to block competition by creating and then propping up a firm's monopoly power. Instead, we restore fair and free competition. We get the best standard of living with low prices and high-quality products. The economy grows, society progresses, and more people thrive.

The Shared Outcome

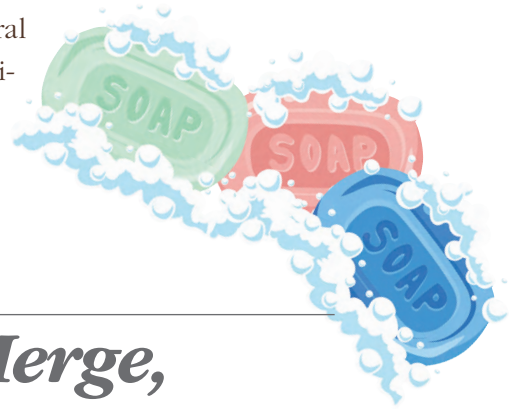
All three perspectives share the same goal of having the best products at reasonable prices. Since humans first began trading products in markets, every culture on every continent has faced the question of how to ensure that competition benefits society. For the rest of your life, you'll be purchasing the things you want and need to survive and thrive, so the policy our country chooses to follow will have a direct effect on your wallet, your choices, and your material well-being.

Now that you've heard the voices of liberals, radicals, and conservatives, you're ready to join the conversation as a respectful listener, intelligent debater, and passionate advocate for the position that you think will best move us forward as a nation. Along the way, perhaps you will be the one to come up with a whole new way to think about market power that sparks brand-new solutions. You could be the one who changes the way the world engages in commerce. That's an exciting thought! 



Three-in-One Activity

The Three-in-One Activity for Market Power gives you the chance to experience how each perspective solves the problem of firms abusing market power. It starts with a setup round to establish the scenario in a neutral way. This activity works best with three groups of two or more participants. If you don't have a group, please use your imagination as best you can.



“To Merge or Not to Merge, That Is the Question”

Here is the set-up for this activity. You and your group members decide to start a company, and so do the other groups. There are three ideas on the table for what your firm could produce: toys, running shoes, or soap.

Toy Firm



Running Shoe Firm



Soap Firm

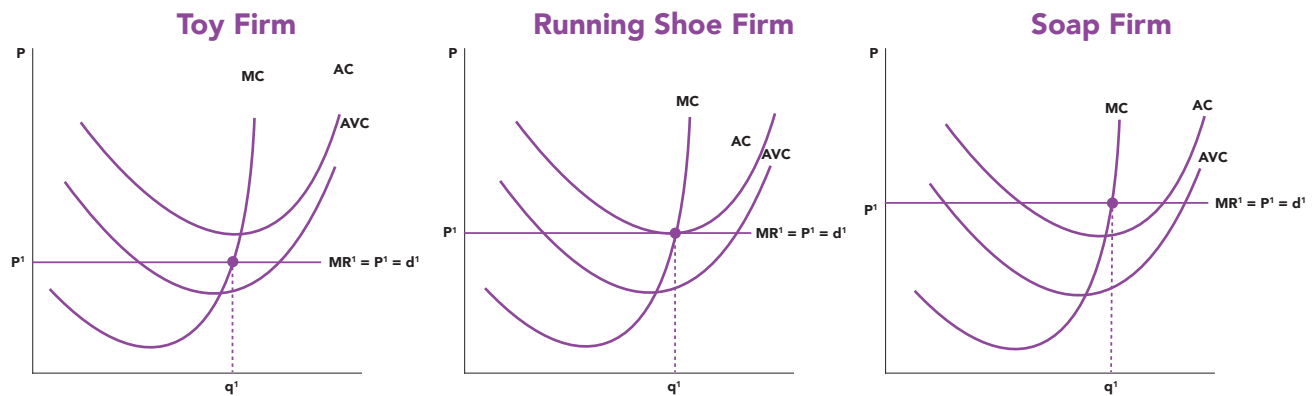


Round I: Neutral

This round should be played by all three teams simultaneously. Please don't discuss your answers to the following questions with the other teams—only with your own business partners.

- 1 Discuss these three options with your business partners and choose one product that your new firm will produce.
- 2 Next, confirm your decision using conventional tools. From the conventional perspective, firms produce in order to maximize profit. Consider the cost and revenue curves in the graphs below and evaluate your choice using this information. As conventional theorists, does your team want to change direction and produce something else, or stick with the original choice?

Pick Again: Conventional Theory



Answer: Soap is the most profitable of the three products (economic profit for soap; break even for running shoes; economic loss for toys). Therefore, if either toys or running shoes were your team's initial choice, you now decide to produce soap instead.

- 3 Now confirm your decision using radical tools. From the radical perspective, firms produce in order to maximize usefulness and benefit the greater society. Consider the six core points of democratic socialism and evaluate your choice using this information. As radical theorists, does your team want to change direction and produce something else, or stick with the original choice?

Pick Again: Radical Theory

Toy Firm

Six Core Points of Democratic Socialism

- ☐ Worker Ownership
- ☒ Participatory Governance
- ☐ Social Safeguards
- ☒ Production for Use
- ☒ Sustainable Growth
- ☐ Healthy Communities

Running Shoe Firm

Six Core Points of Democratic Socialism

- ☒ Worker Ownership
- ☐ Participatory Governance
- ☒ Social Safeguards
- ☒ Production for Use
- ☒ Sustainable Growth
- ☐ Healthy Communities

Soap Firm

Six Core Points of Democratic Socialism

- ☒ Worker Ownership
- ☒ Participatory Governance
- ☒ Social Safeguards
- ☒ Production for Use
- ☒ Sustainable Growth
- ☒ Healthy Communities

Answer: Soap is the most beneficial to society of the three products because it reflects the commitments of all six core points of democratic socialism. Therefore, if either toys or running shoes were your team's initial choice, you now decide to produce soap instead.

Since all three firms have decided to make soap, the question now becomes whether a merger of the three soap firms is good for society. Before we look at that question from each of the perspectives, complete the following three start-up tasks:

- 1 Name your soap company.
- 2 Create a logo.
- 3 Write a one-sentence mission statement for your company.

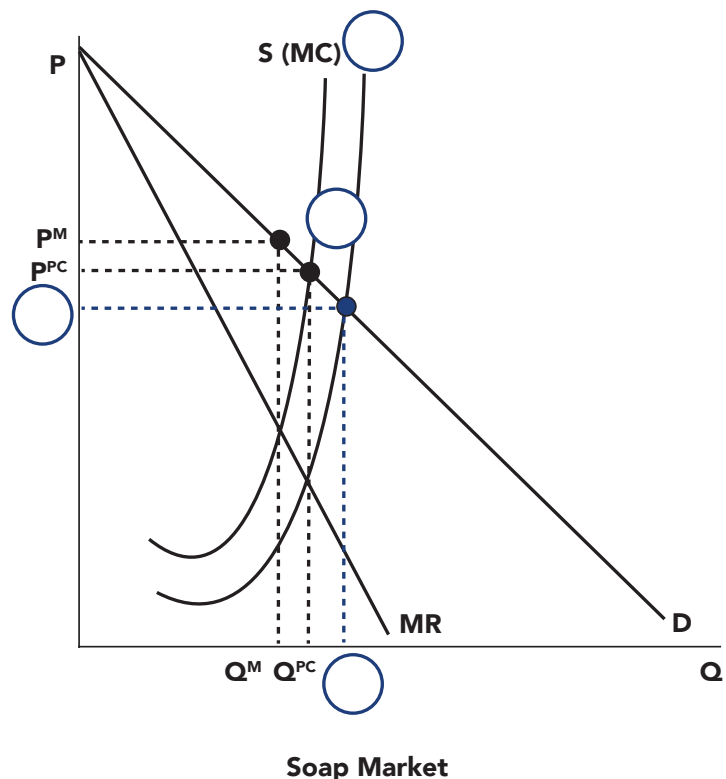


Round II: Liberal Perspective

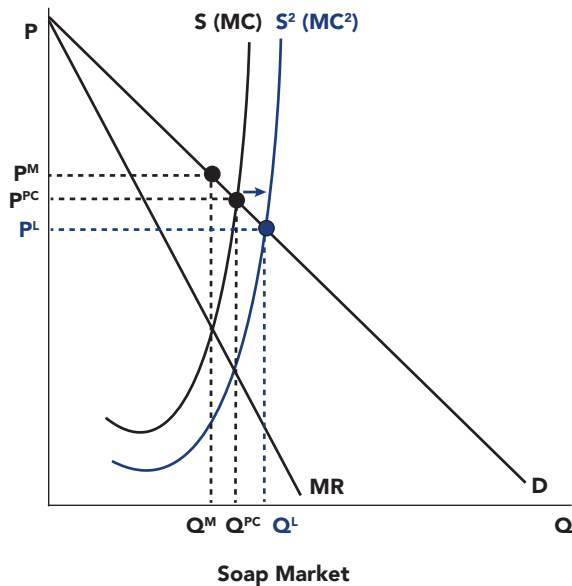
Your firm and the other two firms in the soap market conduct a study and determine that it will be much more profitable if all three firms merge. You become a monopoly called Soap Giant Company. Soap Giant purposely restricts output to command a higher price, which maximizes its profit.

- 1 Now the government intervenes and breaks up the monopoly. Once again, there are three individual soap firms competing in the market. Because it's a highly competitive environment, your firm is motivated to innovate and develop ways to produce the same quantity of soap using fewer resources than before (in other words, new technologies). Looking at the graph, determine the ultimate result of a highly competitive environment brought about by government intervention in fair-market capitalism. Fill in the four blank circles on the graph with the letter below that corresponds to the correct answer:

- a. $S^2 (MC^2)$
- b. Right arrow
- c. P^L
- d. Q^L



- 2 While the mergers benefitted the firms (that's why they chose to do it), did the mergers benefit society, from the liberal perspective? Explain your answer.

Answers:**1**

- 2** No! In this scenario, it was not good for society when the three soap firms merged because it gave Soap Giant the power to restrict output in order to get a higher price. Government intervention was needed to break up the monopoly firm. This resulted in new inventions, better technologies, and even lower prices, and higher quantities than in perfect competition. Liberals believe that mergers are bad for society when they give the merged firm market power.



Round III: Radical Perspective

Your firm and the other two firms in the soap market conduct a merger study and determine that it would be advantageous to all three firms if they merged. They plan to become a monopoly called Soap Giant Company. But first, the market oversight council evaluates the mergers to make sure they are not only advantageous to the firms, but also to society. It asks:

- i. Will the merged firm produce a better and more useful product?
- ii Will society be better off because of this merger?
- iii. Will the merger be a win-win for the firms and their local communities?

1 Below are two possible results of the market oversight council’s evaluation. Circle the recommendation the council would make based on the evaluation results below.

MERGER STUDY A		MERGER STUDY B	
i. Better, more useful product?	↑	i. Better, more useful product?	↑
ii. Nation is better off?	↑	ii. Nation is better off?	↓
iii. Win-win for firms and their local communities?	↑	iii. Win-win for firms and their local communities?	↑
Approve Deny		Approve Deny	

2 While the mergers benefitted the firms (that's why they chose to do it), would the mergers benefit society, from the radical perspective? Explain your answer.

Answers:**1**

MERGER STUDY A		MERGER STUDY B	
i. Better, more useful product?	↑	i. Better, more useful product?	↑
ii. Nation is better off?	↑	ii. Nation is better off?	↑
iii. Win-win for firms and their local communities?	↑	iii. Win-win for firms and their local communities?	↓
Approve Deny		Approve Deny	

- 2** Maybe! It depends on the results of the market oversight council's evaluation. Merger Study A shows that the mergers would result in a better and more useful product, the nation would be better off, and merging would be a win-win for the firms and their local communities. In this case, the mergers definitely would benefit society. Merger Study B shows that, while the mergers would result in a better and more useful product and be a win-win for the firms and their local communities, the nation would not be better off. For example, Soap Giant Company's new product might require a production process that leads to higher greenhouse gas emissions. In this case, the mergers would not benefit society. Radicals believe mergers are advantageous to society only when the answers to all three questions are positive.

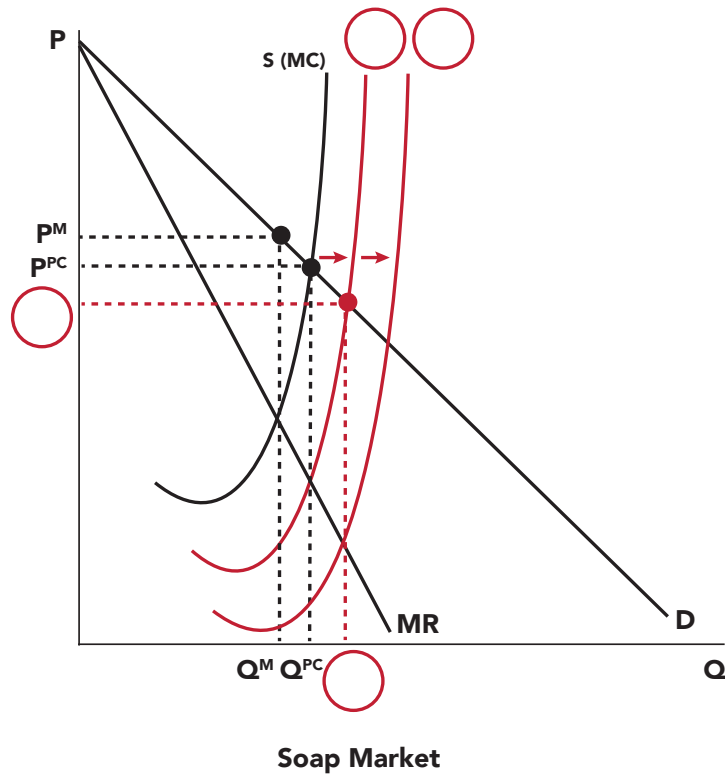


Round IV: Conservative Perspective

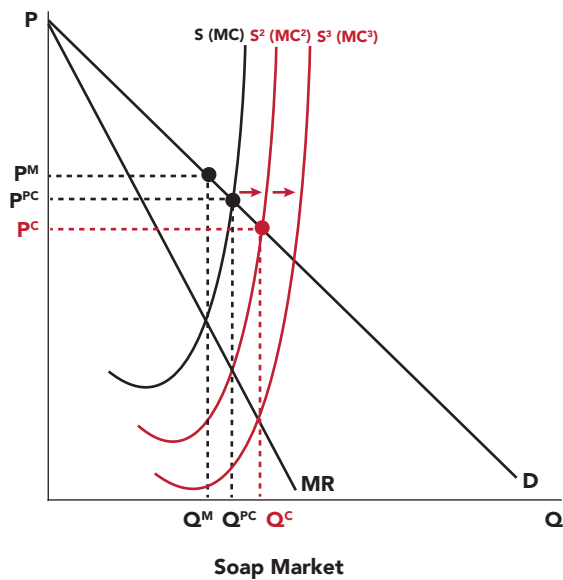
Your firm and the other two firms in the soap market conduct a study and determine that it will be much more profitable if all three firms merge. You become a monopoly called Soap Giant Company. Soap Giant purposely restricts output in order to command a higher price, which maximizes its profit.

- 1 Now other entrepreneurs see that economic profit is being made by Soap Giant, so they are motivated to get in the game. They invent new technologies and find less expensive ways to produce soap. At the same time, by virtue of its size, Soap Giant has purchase, production, and distribution efficiencies. Responding to increased competition, it optimizes those efficiencies and is able to produce at a lower cost. Looking at the graph, determine the ultimate result of unfettered competition in a free-market environment. Fill in the four blank circles on the graph with the letter below that corresponds to the correct answer:

- a. S^2 (MC^2)
- b. S^3 (MC^3)
- c. P^C
- d. Q^C



- 2 While the mergers benefitted the firms (that's why they chose to do it), did the mergers benefit society, from the conservative perspective? Explain your answer.

Answers:**1**

- 2** Yes! In this scenario it was good for society when the three soap firms merged because the resulting higher price motivated entrepreneurs to compete. In addition, as a large firm, Soap Giant could produce more efficiently. By keeping the government from interfering, the mergers resulted in new technologies, lower costs, and even lower prices and higher quantities than in perfect competition. Conservatives believe mergers are good for society when there is no government interference keeping competitors out of the market.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Market Power. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column. The VOTE Program is all about helping you think critically about the issues so that you can develop educated and informed opinions and find your voice on the economy.

Chapter 16: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Match the market structure (left column) to its most likely example (right column).

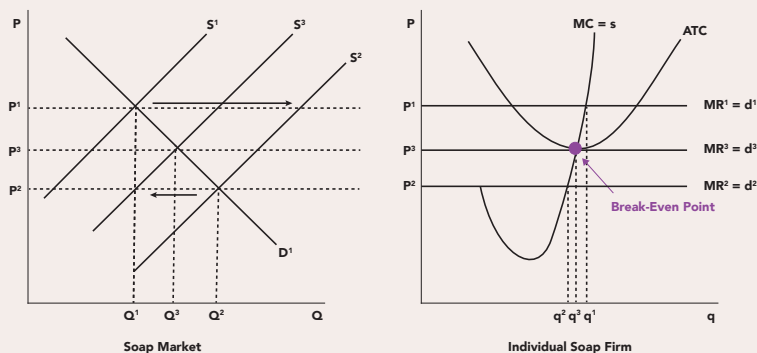
- | | |
|------------------------------------|--------------------------|
| A. Perfect competition | i. Pens |
| B. Monopolistic competition | ii. Electricity |
| C. Oligopoly | iii. String beans |
| D. Near-monopoly | iv. Computers |

2. Shivani is a master yoga instructor. She could have earned \$100,000 per year working at the top yoga studio in San Francisco. Instead, she decided to open her own studio. In her first year, she earned an annual total revenue of \$200,000. Her expenses included a receptionist (\$50,000), rent (\$40,000), and utilities (\$20,000). Shivani's accounting profit was _____ and her economic profit was _____.

- A.** – \$100,000; + \$190,000
- B.** + \$200,000; – \$100,000
- C.** + \$90,000; – \$10,000
- D.** + \$90,000; + \$100,000

3. According to conventional theorists, firms in perfect competition—in the long run—make the profit-maximizing level of output by using the fewest resources. Given our unlimited wants as a society, this is the best possible outcome, as can be seen in the graph. Choose all the answers that best explain this outcome.

- A. When firms experience short-run profit (at P^1), more firms enter the market, which shifts the supply curve to the right.
- B. Profit maximization is always the point at which $ATC = MR = MC$.
- C. Ultimately, all firms will end up at the break-even point where $MR = MC$ at the minimum of the ATC curve. This means that resources are not wasted.
- D. When firms experience short-run economic loss (at P^2), some firms leave the market, which shifts the supply curve to the left.



4. *Production for use* is one of the six core points of democratic socialism in radical theory. Choose all descriptions that accurately explain this core commitment of the economic system.

- A. Profit isn't important in production.
- B. The priority of all production is to make necessary, useful, and beneficial products.
- C. Profit is important, but not the most important factor in the firm's decision-making.
- D. All production design should be standardized so that parts are interchangeable and therefore less wasteful and more user-friendly.

5. In the market for microwaves, there are four firms, each with a market share of 25 percent. Using the Herfindahl-Hirschman Index, what is the market concentration?

- A. 5,000
- B. 2,500
- C. 625
- D. 7,500

6. Using the table below, sort the following list of ways that firms gain market power into two categories: *lawful* or *unlawful*.

- No close substitutes
- Advertising
- Price fixing
- Predatory pricing
- Frivolous lawsuits
- Control over key resources
- Corporate espionage
- Network effects

LAWFUL	UNLAWFUL

7. According to liberals, it is a better use of society’s resources to give licenses to natural monopolies, as long as _____.

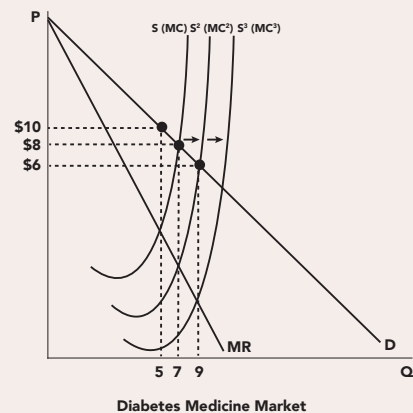
- A. resulting prices and quantities are regulated to be a close approximation of perfectly competitive outcomes
- B. resulting prices and quantities are left alone
- C. resulting prices and quantities are able to provide for all social safeguards, including access to universal day care, health care, and public transportation
- D. they can be controlled with antitrust laws

8. From the radical point of view, corporations in capitalism are forced to strive to grow bigger and bigger. Choose the answer below that explains their reasoning.

- A. It is the only way privately owned firms can control prices.
- B. Growth is essential to survive price wars with competitors.
- C. Firms must amass the financial resources to buy out their rivals.
- D. All of the above are correct.

9. A large pharmaceutical firm develops a new diabetes medicine, and no other firm is able to produce it. From the conservative perspective, what price and quantity will ultimately result? Use the graph to determine the appropriate numbers.

- A. $P = \$10$; $Q = 5$
- B. $P = \$8$; $Q = 7$
- C. $P = \$6$; $Q = 9$
- D. $P = \$4$; $Q = 11$



10. Match the perspective (left column) with the best method of checking the tendency of businesses to take advantage of consumers and workers (right column).

- | | |
|--|----------------------|
| A. Unfettered competition | i. Liberal |
| B. One person, one vote in companies | ii. Radical |
| C. Antitrust laws | iii. Conservative |
| D. Fines and imprisonment for illegal activities | iv. All perspectives |

Answers

1. A – iii, B – i, C – iv, D – ii 2. C 3. A, C, & D 4. B & C 5. B 6. See table below 7. A 8. D 9. C
10. A – iii, B – ii, C – i, D – iv

LAWFUL	UNLAWFUL
No close substitutes	Price fixing
Advertising	Predatory pricing
Control over key resources	Frivolous lawsuits
Network effects	Corporate espionage

Chapter 16: Key Terms

<u>Accounting profit</u>	▪ <u>Advertising</u>	<u>Negative competition</u>
<u>Acquisitions</u>	▪ <u>Control over key resources</u>	<u>Net neutrality</u>
<u>Antitrust legislation</u>	▪ <u>Corporate espionage and sabotage</u>	<u>Opportunity cost</u>
<u>Barriers to entry</u>	▪ <u>Cost advantage</u>	<u>Patent</u>
<u>Barriers to exit</u>	▪ <u>Fraudulent advertising</u>	<u>Positive competition</u>
<u>Big business</u>	▪ <u>Frivolous lawsuits</u>	<u>Price gouging</u>
<u>Break even</u>	▪ <u>Network effects,</u>	<u>Price maker</u>
<u>Cartel</u>	▪ <u>No close substitutes</u>	<u>Price taker</u>
<u>Collusion</u>	▪ <u>Predatory pricing</u>	<u>Production for profit</u>
<u>Conglomerate mergers</u>	▪ <u>Price fixing</u>	<u>Production for use</u>
<u>Copyright</u>	<u>Leveraged buyouts</u>	<u>Profit</u>
<u>Corporate trust</u>	<u>Long run</u>	<u>Prosocial competition</u>
<u>Creative destruction</u>	<u>Marginal average rule</u>	<u>Puffery</u>
<u>Democracy in the Workplace</u>	<u>Marginal cost</u>	<u>Rent seeking</u>
<u>Differentiated product</u>	<u>Marginal revenue</u>	<u>Research and development (R&D)</u>
<u>Economic loss</u>	<u>Market concentration</u>	<u>Sectors</u>
<u>Economic profit</u>	<u>Market power</u>	<u>Sherman Antitrust Act</u>
<u>Economies of scale</u>	<u>Market structures</u>	<u>Short run</u>
<u>Fixed costs</u>	▪ <u>Monopolistic competition</u>	<u>Shut-down point</u>
<u>Herfindahl-Hirschman Index (HHI)</u>	▪ <u>Monopoly</u>	<u>Small business</u>
<u>Homogeneous product</u>	▪ <u>Monopsony</u>	<u>Subsidiaries</u>
<u>Horizontal mergers</u>	▪ <u>Natural monopoly</u>	<u>Total cost</u>
<u>Industry</u>	▪ <u>Near-monopoly</u>	<u>Total revenue</u>
<u>Initial public offering (IPO)</u>	▪ <u>Oligopoly</u>	<u>Variable costs</u>
<u>Law of diminishing marginal returns</u>	▪ <u>Perfect competition</u>	<u>Vertical mergers</u>
<u>Lawful and unlawful ways firms gain market power</u>	<u>Mergers</u>	<u>Zero-sum game</u>

Answer Key to Exercise 16.1

FIRM AND PRODUCT	MARKET STRUCTURE
Toyota automobiles	Oligopoly
Microsoft word processing software	(Near) Monopoly
Pepperidge Farm bread	Monopolistic Competition
The Grapefruit Company fresh grapefruit	Perfect Competition



17 Issue:

RETIREMENT SECURITY

An older friend once told me, “People aren’t nice, or good, or wise just because they’re old. But if you’ve lived six, seven, eight, or nine decades, you do know a thing or two that younger people haven’t figured out yet.” I’ve always liked talking to older people for that very reason. As a girl, I adored my grandmother. I would listen with rapt attention to her stories about our family and her life. Grandma Miriam lived in Virginia, and I lived in Connecticut, so unfortunately our visits were few and far between. I often wonder who I would be today if I’d had more time to benefit from the wisdom of my grandparents. That’s probably why I love this story about Hazel.

On Hazel’s ninetieth birthday, her family and friends threw her a big party. After she blew out the candles on her cake, someone called out, “Hazel, what is your secret to living such a wonderful life?”

Hazel didn’t hesitate. “Something I learned when I was young has made all the difference,” she said. Of course, every-

one wanted to know what it was. “I learned to look at my life through the lens of time,” she said.

She was five years old when her father lost his job at the start of the Great Depression, so they moved to her grandparents’ farm in Ohio. Young Hazel loved growing up there. She was especially close with her grandmother and followed her around all day long. But she was always curious about her grandmother’s strange morning ritual. Every morning, the old woman would take a long minute to gaze in the mirror. Hazel finally asked her, “Gran, what are you thinking about when you stare in the mirror every day?”

“I’m saying *thank you* to the one person who has done more for me than anyone else in the world,” her grandmother explained.

“Who is this person you’re thanking?” asked Hazel, intrigued.

“Think it over and try to guess,” her grandmother suggested.

Hazel thought about it all day, and by dinnertime she was sure she’d solved the mystery. “You’re thanking your mother,” she said confi-



dently. “You wouldn’t even be alive if she hadn’t given birth to you and kept you safe as a baby.”

Her grandmother shook her head. “Mothers are very important, and I’m grateful to mine, but that’s not who I’m thanking when I look in the mirror.”

Hazel thought about it some more, and a few days later she said, “It must be Grandpa you’re thanking. He loves you, and he built this house and raised children with you.”

Once again, her grandmother shook her head. “He’s a wonderful person, but no, it’s not Grandpa I’m thanking when I look in the mirror.”

Hazel ventured many more guesses over the years, but each time, her grandmother just shook her head. Eventually, Hazel went off to college. A few months later, her father called to say her grandmother was dying. Hazel drove through the night to get home in time to say good-bye.

The old woman had become very frail, but she was still alert. Hazel took her hand and held it gently, trying not to cry.

“Aren’t you going to take one more guess?” her grandmother asked softly.

“I’m out of guesses, Gran. Won’t you tell me who it is you were thanking all those mornings when you looked in the mirror?”

Her grandmother smiled and said, “It was me. I was thanking my younger self. If not for all the good choices she made, I wouldn’t have had such a wonderful life. I owe everything to my younger self.” She squeezed her granddaughter’s hand. “Hazel, try to remember that everything you do

today will affect you tomorrow. Live your life in such a way that your future self will look back and be thankful for the choices you’re making right now.”

Hazel took that advice to heart. When she landed her first job, she opened up a savings account for her **retirement**—the time of life when she would no longer work to earn an income.

Every year, she added a little more money to the account. Her coworkers teased her, because she was decades away from retirement, but Hazel just said, “I’m sure my future self will thank me.” She waited to marry because she didn’t want to settle for someone who wasn’t wholeheartedly supportive of her career as an architect. Her brothers teased her, but she just said, “I’m sure my future self will thank me.” She started walking and lifting weights every day when her doctor told her she was at risk for osteoporosis. On the days when it was hard to feel motivated, she reminded herself, “I’m sure my future self will thank me.” Throughout her life, Hazel had her fair share of problems and made plenty

of mistakes, but she always kept in mind that at every moment, there was an opportunity to reset and make a different decision for her future self.

“So that’s my secret,” ninety-year-old Hazel told the gathering at her birthday party. “Many things about the future are not in our control. I couldn’t prevent the arthritis in my hands or the loss of family and friends over the years. But every morning, when I look in the mirror and see the old lady I’ve become, I’m thanking my younger self—



sometimes the Hazel of five minutes ago!—for making decisions that set me up for success and gave me this beautiful life.”

Hazel’s story is inspiring because it reminds us that our actions today shape the life we’ll live tomorrow. I know it can be challenging to live for the future. It’s much easier to do what we want today and let our future selves deal with the consequences. Social scientists who study the relationship between the present self and future self say it’s not that young people don’t care about what happens to them in the future; it’s that they can’t imagine being old. In fact, one brain study from 2011 revealed that when test subjects were asked to think about their future selves, for some it was as if they were thinking about a total stranger. Saving money for retirement can be a challenge if you’re thinking of it as giving your money away to someone you don’t even know.

Whether you have an easy or hard time imagining yourself in the future, one day (if you’re lucky), you’ll wake up and realize that you have reached your senior years. Your future self will

definitely want and need **retirement security**, which is the assurance of material well-being through the last stages of life. What will you want and need in your old age? Even if you are many decades away from retiring, you may have elderly family members, neighbors, mentors, and friends. Your ideas and expectations about aging are being shaped right now as you witness how their sunset years are unfolding. Can they afford to retire? Are they retired but lie awake all night worrying about paying the bills? Are they in a nursing home, out on the tennis courts every morning, or touring the national parks in an RV? This chapter is about how to ensure that people in their senior years can afford the basic necessities of life, including the food, housing, health care, transportation, and other goods and services they need. Radicals, conservatives, and liberals all agree that seniors are economically vulnerable, and they all share the same goal of ensuring care and peace of mind for the elderly. But they have dramatically different ideas for how to make that a reality.



If I had to choose one issue in the VOTE Program that everyone should read, it is this one because it's the most bittersweet. It's about the circle of life. We come into the world needing others to take care of us. As adults, we take care of others—children, parents, spouses, grandchildren, friends, nieces, nephews, and neighbors. In the last stage of life, we become vulnerable again and need the care of others. Aging is part of the human experience we all share, so this issue is personally relevant to you and will only become more so as you grow older. To get you warmed

up for this issue, fill in the Dream Retirement Vision board below.

Your Picture of Retirement

The poet Mary Oliver asked, “Tell me, what is it you plan to do / With your one wild and precious life?” When I was young, I imagined the stages of life as a playground slide. We climbed the ladder rung by rung through childhood and school years, graduation, career, and family. Then we reached the platform at the top—middle age—where something mysterious called a *midlife*

Dream Retirement Vision Board

Here's an exercise to help you envision your life when you're finished with your career. A vision board is a visual way to represent your hopes, dreams, and goals.

1. Think of four activities you want to pursue in your retirement.
2. Write a word for each in the vision board boxes below. For instance, if you want to learn African drumming, write “Drum.” If you want to surf all the best beaches in California, write “Surf.” If you want to play with your grandchildren every day, write “Family.” If you want to bake pies, write “Pies.”
3. In the boxes below, draw illustrations (they can be simple stick figures) of yourself doing those activities.

crisis happened (it sounded unpleasant). From there, it was a scary slide down to old age, infirmity, and death. When I reached adulthood, I had to revise my picture of the lifecycle. I realized that my golden years were probably going to be quite different from what my grandparents' generation experienced. I'm likely to live decades longer than they did, and my daughter's generation may live even longer, thanks to advances in medicine. Old age no longer seems like a precipitous slide to death. I look forward to retirement being a time to explore new interests, have adventures with my family, give back to society, and relax. I hope my health and retirement income will allow me to have a good quality of life in my sunset years. What do you have in mind for your retirement? If you haven't given it any thought before, now is your chance.

We all have interests and lifelong passions. I've seen some very creative retirement vision board ideas from my students over the years. They want to kayak all the lakes in Minnesota, build musical instruments from recycled materials, plant pollinator gardens in inner-city neighborhoods, and train guide dogs for the blind. Those are all what I call phase 1 retirement activities. Phase 1 is when you still have the physical and mental capacity to do things such as cycle around the world and learn the tango. Retirees often say they regret not doing more during phase 1. When you're in phase 2, you can't do as much. You may not have the energy, balance, or mental sharpness you once had, so you play less basketball and do more Sudoku and jigsaw puzzles. Everyone loves to dream about phase 1, but it's a little more challenging to imagine yourself in phase 2. And no one I've ever met likes to think about being in phase 3, which is when seniors are unable to take care of themselves. By the way, here is how to remember the three different stages of retirement. Phase 1 is *go, go, go!* Phase 2 is *slow go*. And phase 3 is *no go*.

Care for the Elderly through History

We all want to age with dignity, but there are so many uncertainties. Will we be able to take care of ourselves physically, emotionally, and financially to the end of our lives? Will we need help from others? Expectations about who cares for the old are shaped by culture. For example, Chinese society has a long tradition of respecting and even venerating their elders. They elevate the idea of *filial piety*, which means a child is obedient and devoted to elders in the family and behaves in ways that bring honor to the family name. The Chinese character for filial piety is the character *old* above the character *son*, symbolizing that the child carries the parent. The Chinese sage Confucius popularized the idea that filial piety is the foundation of social harmony. He wrote many classic texts in which he expounded on the idea that the young are obligated to repay their elders for the care they received as children. This idea spread throughout East Asia and is still common today. What does filial piety look like? Younger people show respect by using a formal way of addressing their elders. They may greet elders by bowing, seek their permission and blessing before marrying or traveling, serve them first at meals, defer to them in conversation, and more. Adult children are often expected to support their parents financially once they start earning a paycheck. Modern life can be a challenge to maintaining some of these customs because children often move far away from home for work. China even passed a law in 2013 requiring adult children to visit their aging parents more often, although many questioned whether such a regulation could actually be enforced.

The notion that care for elders is the responsibility of families has been around since humans have existed, but the ancient Greeks also believed that government and charity organizations should provide food, clothing, and shelter to elders in



need. In feudal societies, lords were expected to take care of elderly serfs when they could no longer work. During the Renaissance, guilds—groups of people who did the same sort of work—cared for their elderly members. Later, many European countries operated almshouses, which were charity homes where indigent seniors could live. The accommodations were meager, but it was a better alternative than homelessness. This idea was imported to the United States. Up until the early 1900s, when a senior had no relations who would take them in, charity-run poorhouses provided minimal food and shelter. These were generally dismal places. *Going over the hill to the poorhouse* was viewed as a desperate move of last resort. It's where the phrase *over the hill* comes from. When I turned thirty, younger friends gleefully assured me that now I was over the hill.

Throughout the history of the United States, race, gender, class, and culture have had a significant influence on different groups' experiences of old age. Native Americans' ability to care for their elders was compromised by relocation, wars, dis-

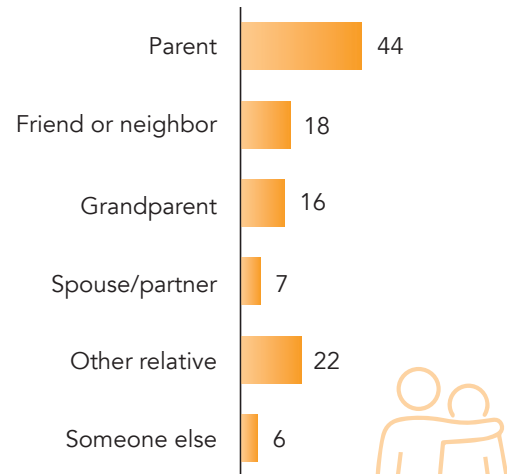
eases, economic hardship, forced assimilation, and other effects of colonization by European settlers. Africans who were brought to this country involuntarily—and their descendants—were forced to work as slaves. Separated from their families, when they became too old to work, they were dependent on their owners, who were legally required to support elderly slaves. Many owners freed them instead so they wouldn't have to pay for their care. After the Civil War, abolitionist Harriet Tubman created the Tubman Home for Aged and Indigent Negroes, which is where she eventually spent her final days. American society is also made up of voluntary immigrants from all over the world. Historically, they worked the hardest, most dangerous, and lowest-paid jobs. Many couldn't afford to retire. They worked until they died. In every community, women faced barriers to education and employment. With fewer opportunities to earn money, their old-age security was wholly dependent on the men in their families. For these reasons and more, retirement wasn't—and still often isn't—an affordable option for many.

Elder Care Today

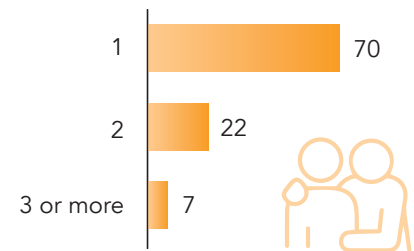
My experience of living five states away from my grandma Miriam isn't unusual. More than half of grandparents in the United States today live at least two hundred miles away from their grandchildren. Others live with their adult children. It is most common in lower-income families, especially when working parents need help with childcare. When elders are in phase 1 and phase 2 of retirement, they can help out in the household. But when they reach phase 3, they are the ones who need care. You may have heard the term *sandwich generation*. It refers to middle-aged people who are simultaneously raising children and caring for aging parents. It can be a round-the-clock job, especially when they are caring for someone with dementia or other serious health issues. The stress often compromises the physical, emotional, and financial health of caregivers. In 2020, roughly 55 million people in the United States were unpaid caregivers to a person over the age of fifty. You can see in figure 17.1 whom they are caring for, how many people they are caring for, and the number of years the caregiving lasts.

While some seniors enjoy living by themselves, others do so because they lack options. In the United States, 27 percent of seniors live on their own, which is high compared with the rest of the world, which averages 16 percent. Loneliness and isolation put elders at risk for physical and mental health problems, comparable to smoking fifteen cigarettes per day. Many communities offer free or low-cost senior day care programs to seniors who live on their own, but as people get older, they often have physical challenges that keep them from attending. A different living arrangement—for those who can afford it—are active senior communities. These private communities can be like resorts, with social activities, outings, classes, and sometimes transportation, cleaning, and laundry services. The costs vary widely

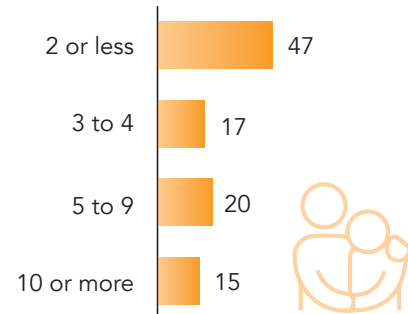
Percentage of caregivers providing help to an aging...



Percentage of caregivers providing help to older adults



Percentage of caregivers providing help to an older adult for ___ years



Note: The sum of who caregivers are providing care for is greater than 100% since some caregivers are providing care to more than one person.

Source: U.S. Bureau of Labor Statistics
Courtesy of the Pew Research Center

Figure 17.1
Unpaid Caregivers for Older Adults

depending on the type of housing, the location, and the number and type of programs offered, but even at the lowest price, active senior communities are out of reach for many low-income elders.

Serious mental and physical challenges—Alzheimer’s disease, strokes, Parkinson’s disease, vision loss, and more—make it unfeasible and even dangerous for many older people to live alone or in active senior communities.

I was shocked to read a Centers for Disease Control and Prevention (CDC) study explaining that every second of every day, a person over the age of sixty-five falls and injures themselves in the United States. Tens of thousands of elders die from falls each year, and more end up incapacitated by broken bones. Malnutrition is another alarming problem for seniors living on their own. Either because they don’t have access to food or their health problems affect their appetite, elders waste away when they don’t get the right nutrition. This is more likely to occur when they are alone, with no one to notice that they have stopped eating.

As physical and mental health decline, elders may move in with family or into retirement communities. Depending on need and budget, different options include independent living, assisted living, skilled nursing facilities, memory care residences, nursing facilities, and adult care homes. Some places offer stepped care to accommodate different needs at the same facility as people gradually need a higher level of care. Depending on the level of assistance needed, seniors are helped with the activities of daily life—bathing,

A retirement adviser once told me, “No matter who you are, what you do, where you came from, or what you believe, you want the same thing everyone wants in retirement. I call it the SWAN—the Sleep Well at Night—experience.”

dressing, eating, going to the bathroom, walking, and so on. Unfortunately, the quality of care in these facilities varies widely. Even families who want to care for their beloved elders at home may find themselves unable to handle the new level of physical care needed. It can be one of the hardest decisions family members face to move Mom out of the family home and put her in an adult care home or a nursing home. Many see it as the last move before

death, so it can be very emotional for everyone. It can also be financially devastating for families. If Mom doesn’t have **long-term care insurance**, which pays for caregiving services at home or in a care facility (only 7 percent of Americans over the age of fifty were covered in 2020), if she doesn’t qualify for Medicaid, or if she doesn’t have personal savings, then the family has to pay the bill. Costs vary by state, but for example, in 2020, the average price tag for nursing facility care was \$105,850 per year. To complicate matters, no one knows how long it will be needed. Mom might be there for a few weeks, months, or years.

Vulnerability in Our Twilight Years

A retirement adviser once told me, “No matter who you are, what you do, where you came from, or what you believe, you want the same thing everyone wants in retirement. I call it the SWAN—the Sleep Well at Night—experience.” We all dread the possibility of being old and having to worry about whether we can pay the bills, afford the care we need, have enough to eat, and keep a roof over our heads. More than 25 million

Americans ages sixty and older were living at or well below the federal poverty level in 2019. But as you can see in figure 17.2, poverty among the elderly is not evenly spread among all groups. People of color are more likely to live in poverty. Women in every category are more likely than men to live in poverty. Stories about seniors eating pet food because they can't afford human food, or having to choose between buying medicine or paying rent, have become so common that they're rarely even reported in the news anymore. It isn't just those in poverty who need to worry. Even seniors above the poverty level have to worry about making ends meet. Tens of millions of seniors either have no money left after paying for their basic expenses or are in debt. That means one health crisis, one leaking roof, one car accident, or a slight increase in property taxes can lead to financial ruin.

In addition to being able to afford the basic necessities of life when you are old, no doubt you will also want to be treated with kindness, social-

ize with friends and family, and have pursuits that give your life meaning. It's a fact that seniors become more financially, physically, emotionally, and socially vulnerable as they grow older. One in ten are victims of elder abuse, according to a 2021 study by the National Council on Aging. They experience physical and emotional harm by family members, caregivers, staff in residential facilities, or in the community at large. Seniors are also frequent victims of financial scams. They lose billions a year from fraud, according to the FBI—from fake lotteries, government impersonators gaining access to their bank accounts and credit cards, home repair swindles, tech support rip-offs, and more. Fraudsters target older people because they tend to be more trusting, more confused, and more easily manipulated.

Even seniors who aren't victims of elder abuse still experience **ageism**, a word coined in 1969 to describe discrimination based on age. It can affect the young and the old, but it's most often used to talk about discrimination against older people.

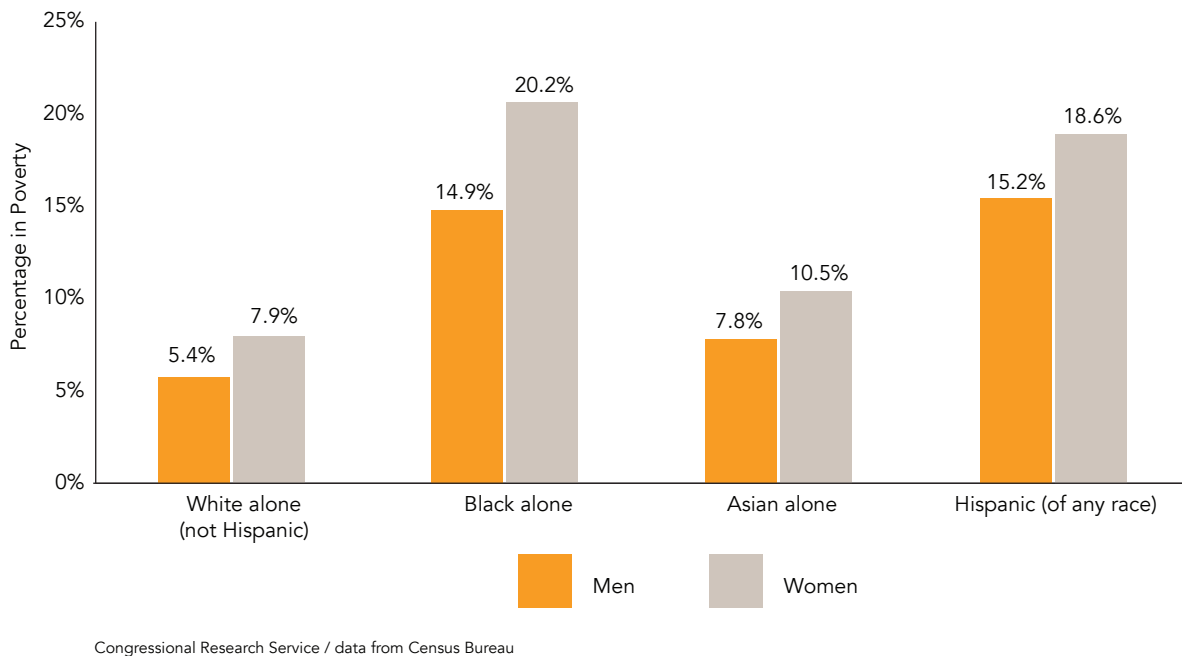


Figure 17.2
Poverty Status of Individuals in the United States Ages 65 and Older, 2019

When I was a teenager, a futuristic movie called *Logan's Run* came out in theaters. It was (in my humble opinion) terrible but a great example of extreme ageism. The premise is that in the year 2274, everyone lives a life of luxury. There's a catch, though. No one is permitted to live past the age of thirty. That's how society deals with limited resources—it gets rid of the “elderly.” We would laugh today that thirty is considered old age, but when it came out in 1976, the movie was very popular.

Everyday ageism occurs when younger people casually dismiss the mental abilities, knowledge, or relevance of older people. It feels demeaning and frustrating to seniors when they are stereotyped as being less capable, uncreative, inflexible, and unable to learn new things. The United States is often characterized as a *youth-oriented culture* by sociologists. That means youth is glorified in movies, television shows, and advertisements, while the middle-aged and elderly are ignored,

insulted, or ridiculed. Because mainstream culture associates youth with vigor, beauty, and intelligence, television show hosts, politicians, movie stars, and other public figures go to great lengths to appear more youthful. It's no wonder there is a boom in cosmetic surgeries, skin care products, hormone replacement therapies, herbal supplements, and other products and services that promise to restore or preserve youthfulness.

Although you just sketched out your dream retirement, I suspect you have low-level dread about growing old. It's in your best interest to challenge stereotypes and systemic discrimination, because one day you will be elderly. If you consciously or unconsciously reject old people because you have an aversion to facing your own mortality, consider what Ashton Applewhite writes in *This Chair Rocks: A Manifesto Against Ageism*. “Fear of dying is human. Fear of aging is cultural.” While remaining realistic about the challenges of aging, we can change our assump-



tions that old age means dementia, incontinence, and depression. We can challenge ourselves to recognize the opportunities for emotional and spiritual growth that arise during the last chapter of life. As poet Robert Frost wrote, “The afternoon knows what the morning never suspected.” In other words, don’t underestimate your elders or your future self’s potential to achieve greatness. Remember always to recognize the elderly as a valuable resource, ready to share wisdom and help our larger human community find its best path forward.

Saving for Retirement

You’re going to need money for all three phases of your retirement, but it’s impossible to know exactly how much will be enough. Financial planners often give an oversimplified formula: add your annual living expenses (your monthly bills) and the amount you want to spend on your retirement activities, and then multiply that by the number of years you’re likely to live. Let’s say you want to retire at age sixty-five, and you calculate that you’ll need \$50,000 of income per year to cover your expenses, plus fees for art classes and a beach vacation. Next, you guess that you will live to age ninety (this part is always a guess, since no one actually knows how long their life span will be). An income of \$50,000 for twenty-five years? You’ll need to have access to the equivalent of \$1,250,000 for retirement. That might sound like an out-of-reach number, but it’s quite doable from every perspective.

You’ve likely heard the term *nest egg* associated with retirement savings. The other day, I started wondering about the origin of the term. It turns out that in the fourteenth century, farmers put real or clay eggs in hens’ nests because it inspired those chickens to lay more eggs. This parallels the idea of retirement savings, where you set money aside today so it will be there and grow for you when you stop working for a paycheck. Conser-

vatives, liberals, and radicals each use different strategies for funding retirement. Later in the chapter there will be more detail about each one, but for now you just need a general sense of the terrain so you don’t get lost in the conversation.

Public Retirement Funds

One strategy to fund retirement is to tax people during their working years. The money goes into a general fund that is managed by the government. It is used to provide current retirees with an income. This is a pay-it-forward approach, so that when today’s workers retire, their income will come from the taxes paid by tomorrow’s workers. Think of it as society’s retirement nest egg. This approach uses **government-managed funds (GMFs)**. One is a **social pension plan**. A social pension is funded by taxes and provides regular payments to retirees. The plan we will be discussing is a **universal basic pensions (UBPs)**. UBPs give citizens or residents over a certain age a set amount of retirement income so they can more than cover their basic necessities, such as food, shelter, and transportation. Proponents of the UBP believe every senior should have a decent standard of living regardless of whether they worked or how much they earned during their working years. It’s *universal* because every senior is entitled to it.

The second type of GMF is a **social insurance program**. Social insurance is a single fund that all workers pay into and then may draw from in their retirement years. The plan we will be discussing is **Social Security**. To be eligible to receive the Social Security benefit, a worker has to pay a minimum amount into the fund for a certain number of years. With a few exceptions, contributing to Social Security is mandatory, not optional, for every working American, including the president of the United States, Supreme Court justices, and members of Congress. It’s automatically deducted from paychecks as a payroll tax.

The laws have changed over time, but as of 2021, those who earned more than \$142,800 had to pay Social Security taxes only on that amount. A person's Social Security benefit is calculated based on how much they earned and how many years they paid into the program. We'll look at that in more depth later in this chapter. For now, just know that the Social Security benefit is not meant to fully fund anyone's retirement. It was only ever intended to fund 40 percent of the income seniors need so that they can afford the basic necessities. The idea is that individuals should be prepared to finance the other 60 percent to maintain the same standard of living they had while they were earning an income.

Employer Pension Programs

People who are employed may have the option of saving for retirement in a **defined benefit plan**. The idea is that workers pay in a certain amount of their income with every paycheck—for most, this is on top of the automatic payroll tax deductions taken for Social Security. When they retire, they are promised a **pension**, which is a regular payment of a set amount of money for as long as they live. The employer is in charge of managing the pension fund. In some cases, employers also contribute to their workers' pension fund. There are different rules about when people are eligible to start collecting their pensions. It could be after a certain age, after working a certain number of years, after paying in a certain amount, or some combination of these factors. The reason it's called a *defined* benefit plan is that workers know beforehand what their pension benefit will be in retirement based on how much they contribute during their working years. If you have a government job, these plans are called **government pension programs**. If you work in the private sector, they are called **private pensions**. These days, private firms for the most part no longer offer pension plans. By

2019, only 12 percent of workers in the private sector participated in company pension plans. In contrast, 83 percent of full-time state and government workers participated in a pension program.

Before we go on, there's one more thing to tell you about defined benefit plans. The money that workers contribute are **pretax dollars**. This is significant. Let me explain. If you earned \$10,000 per year and have to pay 10 percent in income taxes (\$1,000), you get to keep only \$9,000. Now let's say you make a \$1,000 *pretax* contribution to your defined benefit plan. Since it is deducted from your paycheck *before* taxes, your taxable income is only \$9,000, so your income tax is only \$900, and—bonus!—you have \$1,000 saved for retirement. Being able to contribute pretax dollars to a retirement plan is meant to give people an incentive to save for their golden years. When people start receiving their pension benefits, then they pay income tax on the annual amount they receive.

Private Retirement Accounts

In contrast to the government or an employer managing people's retirement savings, **private retirement accounts (PRAs)** are managed by individuals. The distinction can be a little confusing, because certain accounts are set up by an employer. **Defined contribution plans** allow employees to decide how much of their pretax income to contribute (in 2020, it was capped at \$19,500). Employers may also offer matching contributions up to a certain amount. The big difference between a defined *contribution* plan and a defined *benefit* plan is that with a defined contribution plan, the money doesn't go into a general pension fund to be managed by others. It goes into the employee's individual retirement savings account, and a person can choose where to invest the money—there are a limited number of funds—and how much risk to take. When people reach retirement age, they are eligible to start spending

the money in their accounts. At that point, they pay income taxes on the portion they withdraw every year. Defined contribution plans are basically all the same, but they go by different names depending on the type of employer. Private firms use **401(k) plans**. State and local governments use **457 plans**, and nonprofit organizations and some government workers (including teachers) use **403(b) plans**. Federal laws determine how much people are allowed to save in these plans every year and establish penalties for withdrawing funds before a certain age. In 2019, 47 percent of workers participated in defined contribution plans.

On top of all these workplace options, everyone who earns an income (including people who are self-employed) can save for retirement in an **individual retirement account (IRA)**. Most can be opened at your local bank or investment company.

There are several types of IRAs. The **traditional IRA** allows people to contribute pretax dollars to their accounts. When they reach a certain age and are eligible to withdraw it, they pay income tax on what they use annually. In 2021, people ages 59½ and older were eligible to start withdrawing money from their traditional IRAs without any penalty. Seniors were *required* to withdraw a certain percentage of their IRA account by age 70. The idea is to encourage seniors to spend their savings rather than leave it to their heirs.

The **Roth IRA** is similar to the traditional IRA, but you save after-tax money rather than pretax money. That is significant because it means when people reach the eligible age and start withdrawing money, they don't pay income taxes on it. A person may contribute to both a traditional and a Roth IRA in the same year, but there is a cap on



how much they can save in total in IRAs. In 2021, it was \$6,000 per year, or \$7,000 for those over the age of fifty.

A **Savings Incentive Match Plan for Employees (SIMPLE) IRA** is set up by small business owners for themselves and their employees. It is like a traditional IRA except the contribution limit is higher.

A **Simplified Employee Pension (SEP) IRA** allows small business owners to make direct

contributions to their own and their employees' retirement accounts. In 2021, up to \$58,000 per year was allowed or 25 percent of the employee's income—whichever was less.

Now you have the general picture of the main options for saving for retirement in the United States. Figure 17.3 provides a handy overview of some of the different plans, funds, and programs. We will discuss these options in greater detail later in the chapter.

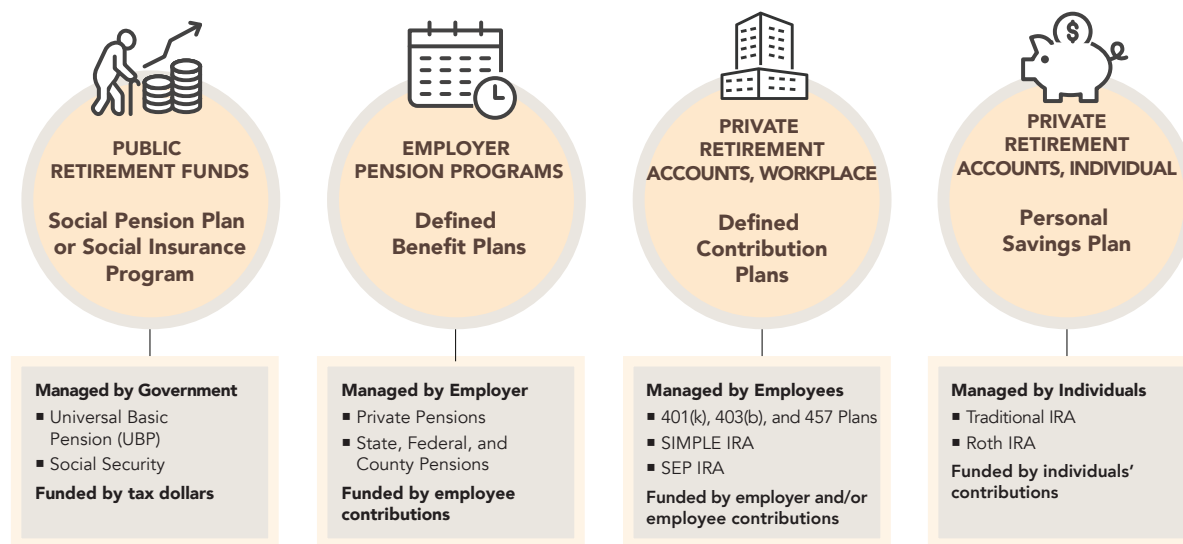


Figure 17.3
Retirement Savings Options



Thinking about how Hazel looked at her life through the lens of time, your dream retirement, the different options for saving for retirement, and the vulnerability of seniors, you can see that we can choose from many paths as a society to fund our golden years. No one wants to be economically vulnerable at any time of life, and especially not in old age, when we are likely to face a host of new physical, mental, and social

challenges. Liberals, radicals, and conservatives all want to live in a society where the last chapter of life is dignified and comfortable. All three perspectives agree that seniors are economically vulnerable. And they all share the same goal of care and peace of mind for the elderly. But as with all our other issues, they disagree about how to get there—as you’ll discover in the following section.



Expanding the Models for Retirement Security

Every choice we make represents both a gain and a loss. Do you remember the day you were old enough to realize that you couldn't be an astronaut *and* a firefighter *and* a dinosaur expert *and* the president *and* a Broadway star—you had to choose one? If you chose dinosaur expert, you'd never know the exhilaration of blasting off into space. If you chose astronaut, you'd give up the thrill of opening night at the theater. If you chose firefighter, you'd lose the chance to analyze *T. rex* DNA. In other words, the moment we choose to go in one direction, we close the door on the possibilities of the path we didn't choose. This is perfectly expressed in the famous poem by Robert Frost "The Road Not Taken." He describes walking in the woods and coming to a fork in the road. He realizes he can't take them both—he has to choose. While he consoles himself with the thought that someday he could come back and see where the other road leads, he also acknowledges that this is unlikely to happen. He ends the poem with, "I shall be telling this with a sigh / Somewhere ages and ages hence: / Two roads diverged in a wood, and I— / I took the one less traveled by / And that has made all the difference." I used to wonder whether he was glad he took the road less traveled or regretted it. Was it a positive difference or a negative difference? After pondering it for a long time, I have decided that the poem is really about the act of choosing itself, not the choice.

Shared Tools

Robert Frost probably didn't realize that he was writing about the economic concept of **opportunity cost**—the loss of the potential gain of doing one thing because you chose to do another thing. Whether on a deserted island or anywhere else, we always need and want so much, yet the resources available—the land, labor, and capi-

tal—are always limited. That's just a fact of life. So we make choices. On a deserted island, you build a raft using driftwood, vines, and tree sap. But that means you didn't use those resources to build a shelter, which would have kept you dry when it rained. You also didn't use them to construct a lookout tower, which would have let you signal rescuers as they sailed by or flew over. And



you didn't use them to make a fire to cook food, which would have helped you stay nourished.

Your dilemma on the deserted island represents the dilemma every nation faces because of limited resources. Every choice we make as a society to invest our resources—build more schools, produce more fighter jets, repair more bridges, fund more retirement security, and so forth—means those resources aren't used for other purposes. Each economic perspective focuses on the best ways to use resources to produce the things society most wants and needs. Conventional (conservative and liberal) and radical theorists use different tools to make this determination, but each applies the concept of opportunity cost as a foundation. Opportunity cost means a tax dollar spent on one thing isn't available to spend on other things. That's why there's so much partisan fighting, and that's a big reason to vote. For example—without making a judgment about these options—here are actual numbers from 2019 for how we could have spent \$730 billion of tax revenue: one year of national defense, 21 million scholarships for four years of college, one year's worth of salaries for 13 million workers to build infrastructure across the country, or 9 million elementary school teachers' salaries for one year. As a nation, we chose national defense. Which would you choose? Opportunity cost is at the heart of the debate about retirement security because we're talking about whether and how to invest our limited resources in the financial well-being of seniors, and what priority we give this as a society.

Conventional Theory Tools

One building block of conventional theory's basic assumptions is that there is a scarcity of land, labor, and capital. Liberals and conservatives believe that this limits us as a society. We can't meet all our wants and needs. It necessitates choices and trade-offs. Conventional theorists model this

big picture of the whole economy, which is macroeconomics. The tool they use is called the **production possibilities curve (PPC)**.

Production Possibilities Curve

There are lots of jokes about economists, and some poke fun at conventional theorists. Here's a classic. A physicist, a chemist, and a conventional economist are stranded on a deserted island. A can of soup washes ashore, but they have no way to open it. The chemist says, "Let's heat up the can and burst it open!" The physicist says, "Let's use gravity and drop it from a tree to bust it open." The economist says, "Let's assume we have a can opener." Groan! Jokes aside, conventional theorists believe economic problems need to be modeled in ways that simplify the complex and ever-changing world so that we can find the best solutions.

The PPC is a tool that conservatives and liberals use to show the different combinations of goods and services that a society can produce given its available resources and existing technology (the best procedures used for production). Since it is impossible to compare the varying amounts of all products that could possibly be made with our given resources and technology, the PPC simplifies things by comparing only two. They can be any two goods or services—computers and horseback riding lessons, or fashion shows and surfboards, for example. Typically, conventional economists use guns and butter. These are overarching categories that represent the many products society makes. *Guns* stands for all the things we produce for national security (tanks, guns, fighter planes, uniforms, military academies, and so forth). *Butter* stands for everything else (consumer goods, theme parks, health care, preschools, and so on). As a country, we decide how we want to allocate our limited resources. Do we want guns or butter, and how much of each do we want? Different societies devote different amounts to each.

Ancient Sparta was a highly militarized society, so most of its resources went to guns (actually, it was spears, but you get the general idea). Costa Rica and Iceland have no standing army and a limited military, so they devote most of their resources to butter.

There is always a trade-off between guns and butter, meaning when you use resources to make more of one, you make less of the other. In figure 17.4 you can see that at point 1, society is making only guns (300 units) and no butter. If we decide we're sick of eating meals ready to eat, driving around in jeeps, and sleeping on cots, we reallocate some of those resources to produce more butter. As we release resources from gun making to put into butter making, it makes the most sense to choose those that are least suitable for making guns and most suitable for making butter. So fertile land, which is not that useful for gun making and is highly desirable for butter making, is switched over to butter production. The same thing happens with labor allocations. Farmers are better at making butter than guns, so they—not machinists—start making butter. Butter production explodes because those resources are better suited (meaning more adaptable) for butter than guns. At point 2, we have 400 units of butter, yet we lost only 100 units of guns in this trade-off.

Let's say we really enjoy having more butter—gourmet pizzas, minivans, and pillow-top mattresses—so we decide to release more resources from guns to make butter. This time around, the land, labor, and capital that are switched over from guns to butter are useful for both butter production and gun production. Society loses another 100 units of guns and gains 175 units of butter, which you can see at point 3 on the PPC in figure 17.4.

Now imagine people start to say, “Why do we need to fight? Let's get rid of the military altogether.” We release all the remaining resources that were used to make guns and redirect them to

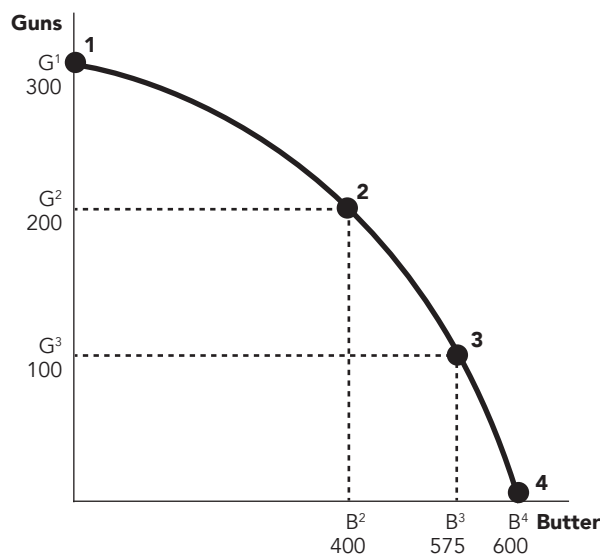


Figure 17.4
Production Possibilities Curve

butter production. But those final resources were extremely suitable for making guns, and they're not that useful for making butter. For example, a factory space in the middle of the city has machines custom-made for gun production but no room for dairy cows to graze, and no butter-churning equipment. Workers who dedicated their whole careers to making excellent guns have never even met a cow. This explains why society loses 100 units of guns but produces only another 25 units of butter (point 4 in figure 17.4).

Any point along the PPC (*on the curve itself*, not just points 1, 2, 3, or 4) is *efficient*, meaning we're using all our resources and technology to produce whatever combination we decide is best. So the curve itself represents the potential goods and services we could produce as a nation.

We don't want to end up at a point inside the PPC, which is to the left of the curve. When we're inside the PPC, it means we could have produced more with our resources and been better off. It indicates that we are being *inefficient* with our resources. Either we're wasting them by not using them at all, or we're misallocating them by, for

example, not using land for its most productive purpose because someone lobbied against it, or not hiring the more qualified person because of discrimination. Of course, we'd love to get to a point outside the PPC, which is to the right of the curve. That would indicate that we have more goods and services than our current resources and technology allow. This is considered *unattainable* (although there are a few exceptions, but they are not relevant in this chapter).

A PPC has two characteristics. First, it has a *negative slope*, meaning when one variable goes up, the other goes down. In other words, it signifies that there's a trade-off. To get more butter, society must give up guns, and vice versa. It's easy to recognize opportunity cost on the PPC. It's the butter you have to give up to gain guns, or the guns you have to give up to gain butter. If you look at figure 17.4, when there is movement from point 3 to point 2, society gives up 175 units of butter to gain 100 units of guns. To go from point 3 to point 4, society gives up 100 guns to gain 25 units of butter. If there weren't scarce resources, there wouldn't be any opportunity cost, nor would

there be a negative slope for the PPC. Instead, there would be a positive slope. Why? Because guns and butter could be produced indefinitely with unlimited resources. You wouldn't have to give up one to get more of the other.

The second characteristic of the PPC is that it has a *bowed-out shape*. The reason for this is that the PPC represents two different types of goods that society makes, and these invariably use different proportions of resources. For example, guns require more capital—machines to melt down metal and molds to shape it into barrels, handles, and triggers. Butter requires more land—grazing areas for dairy cows and lumber to build barns and fences. In other words, resources are not perfectly substitutable between two different products. At point 4 on the PPC in figure 17.4, society is making all butter. When we decide to make some guns, we reallocate the resources that are least suitable for butter and more suitable for guns. Going from point 4 to point 3, society gives up 25 units of butter and gains 100 units of guns because we reallocate those resources that are best for gun production. But by the time we're



at point 2, society has used up the resources that are best suited for gun production. To go to point 1 and make all guns, we have to give up 400 units of butter. The imperfect substitutability of resources leads to the bowed shape of the PPC.

If resources were perfectly substitutable, the PPC would have a constant slope (a straight line) and not a bowed-out shape. It's easy to see why. Imagine if we make only two versions of the same thing—red bicycles and white bicycles. The paint color doesn't make any difference in terms of the resources used to produce bicycles. Since those resources are perfectly substitutable, when we give up 1 unit of white bicycles, we'll consistently get 1 unit of red bicycles, no matter where we are on the PPC. That's why it would have a constant slope in that scenario.

In the end, only one of the guns-and-butter combinations represents society's allocation of resources and technology. No society can have all the combinations of guns and butter (points 1, 2, 3, and 4) on their PPC simultaneously. But what combination will we end up choosing? The answer depends on what people want, say conventional theorists. When demanders demand more of something, they vote with their wallets, and producers supply it. They are all guided by the invisible hand of price signals. Demanders are motivated to maximize their happiness, and firms are motivated to maximize their profit. We end up with the combination of guns and butter that society most wants.

The goal of capitalism is to have economic well-being, according to liberals and conservatives. That is the promise of capitalism. Let's take a look at how it is represented on a PPC. First, profit-maximizing firms produce the profit-maximizing level of output using the fewest resources. This productive efficiency is represented by any point on the PPC. Second, price signals ensure that the decisions of profit-maximizing suppliers and happiness-maximizing demanders always converge. You can see this

convergence at point 5 in figure 17.5. Please note that this point could fall anywhere on the curve. We just randomly placed it at the midpoint of the PPC in this illustration. At point 5, society is making the profit-maximizing amount of goods and services without wasting resources (productive efficiency), people are getting the products they want (allocative efficiency), and those who want them the most are able to get them (distributive efficiency). Guided by the invisible hand of price signals, conventional theorists say, society ends up with the most efficient use of our limited land, labor, capital, and technology. This is such a momentous achievement for society that this point has a special name: the **Pareto optimal point**. It's also sometimes called the Pareto efficiency point. What it signifies is that we have created the maximum well-being for society. A different allocation would improve the well-being of some, but only by reducing the well-being of others, so it would not be a Pareto optimal point. However, if there is a new way to use land, labor, capital, and technology so that everyone would be better off, it would be an improvement.

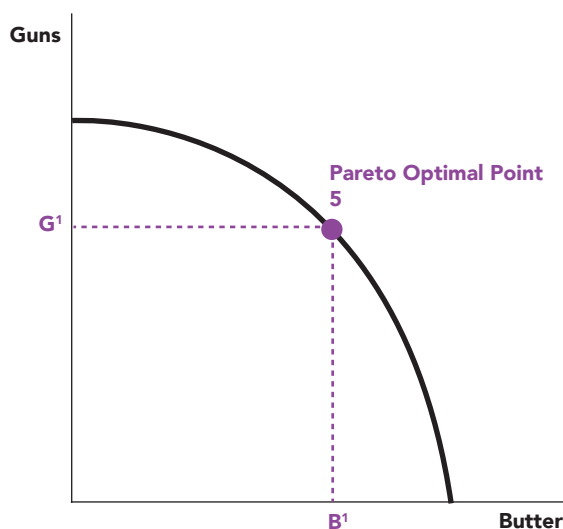


Figure 17.5
PPC and Pareto Optimal Point

Economic Growth

As mentioned above, a point outside the PPC is unattainable, but society can increase the amount of goods and services available over time in other ways. This is the definition of **economic growth**, which just means society produces more now compared to what it was producing before. From the conventional perspective, this is key to economic well-being. In this model, there are four ways to grow the economy:

Increase the quantity of resources. At first glance, you might think that's impossible, since we just said resources are limited. They are. But we could increase labor by growing the population through immigration, more births, and new medical discoveries that preserve life. We could increase land through new discoveries (finding new mineral deposits, for example, or claiming new planets). We could be gifted resources from other nations through humanitarian aid or as conditions of peace treaties and alliances. And although it is morally controversial, we could increase capital (as well as land and labor) by taking it from other nations through colonization or war.

Improve the quality of resources. Even if we can't get our hands on additional resources, we could improve the resources that we do have. For example, labor can be improved through education and training. Land can be improved by adding compost to a farmer's field or cleaning up pollution. In these cases, the value of each resource is increased because it can be used to produce more output than before.

Increase technology. When we improve the ways we go about making things (the best procedures for production), we can produce more goods and services. Inventing a new machine could make the production process more efficient

with less waste. For example, when fax machines replaced snail mail, businesses were able to receive more orders and sign more contracts in a day. When email replaced fax machines, the new technology increased production exponentially. An increase in technology can also be a new process that streamlines production. When I pack the boxes, someone else tapes them up, and someone else slaps on the address label, our company could ship more boxes than if each of us does all those tasks on our own. The new process makes us faster. With new technology, we could become more efficient at putting together the resources we have, enabling us to produce more.

Invest in more capital. Capital is the machines, tools, and equipment used to make goods and services. In addition to the trade-offs we make between guns and butter, there are trade-offs between allocating resources to produce more capital goods to make tomorrow's products (industrial sewing machines, cell towers, and pizza ovens), and allocating resources to make more consumer goods that we can enjoy today (shirts, cell phones, and pizza). If we use all our resources to make cars today instead of investing some of those resources to make new machines that produce cars, then we won't have the capital to make more cars in the future. An investment in more capital today means we produce fewer consumer goods today. But our production of goods and services tomorrow improves dramatically, and this outcome more than makes up for today's sacrifice.

According to conservatives and liberals, when the economy grows, the PPC curve shifts to the right. Just as you've seen on a market graph, *left is Less, right is moRe*. Have you ever seen a rainbow arcing across the sky, and suddenly it doubled? That's what the PPC looks like when the entire

curve shifts to the right, as you can see in figure 17.6. The new curve shows new possible combinations of guns and butter that we can produce with our resources. Compared to the combination we had before the economy grew (the combination at point 1), we could have more of that same combination (point 2), or more guns (point 3), or more butter (point 4). No matter how you slice it, say conventional theorists, economic growth is a win for the whole society because it improves our standard of living.

When the economy shrinks, the PPC shifts to the left. Left is less. This is not desirable from the liberal or conservative perspective. It means our economy shrinks, and we have a lower standard of living because we have less of what we want and need. What leads to a shrinking economy? The opposite of the four things that grow the economy. We decrease the quantity of resources—we lose a war, have a lower birth rate, fewer immigrants, and so forth. We decrease the quality of resources—by polluting the land, having lower graduation rates, and so on. We decrease tech-

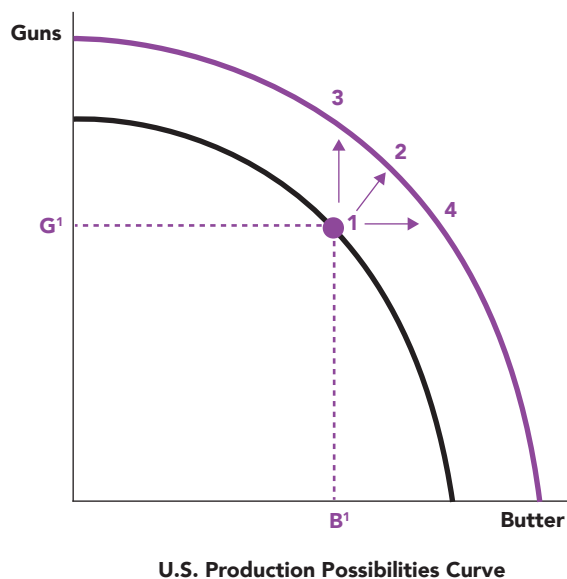


Figure 17.6
Economic Growth on the PPC

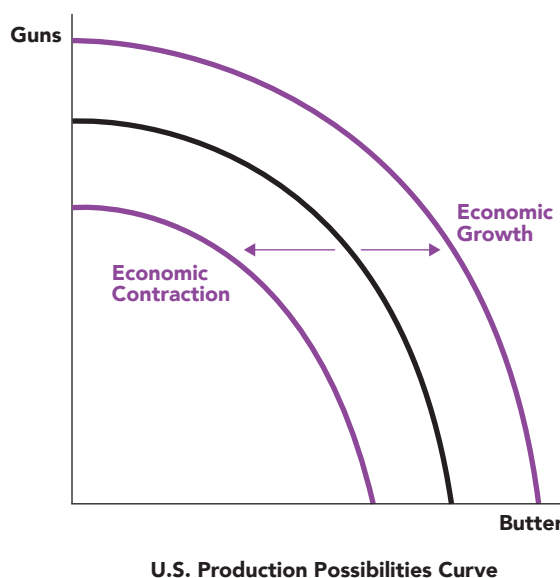


Figure 17.7
PPC: Economic Growth and Contraction

nology—for instance, there’s a natural disaster and the electric grid goes down so no one can use their computers. Finally, we prioritize the production of consumer goods over the production of capital goods, so we don’t have the machines we’ll need to be productive in the future. Figure 17.7 shows both economic contraction and economic growth on the PPC. A shrinking economy indicates that we have a lower standard of living, and no society wants to face that situation.

The conventional goal is to grow the economy. Liberals and conservatives say that the policies we adopt to secure the financial future of the elderly population are important because they play a role in growing or shrinking the economy. Of course, they don’t agree on which policy will lead to fewer trade-offs, ensuring the well-being of seniors.

Conservative policy: Total privatization of retirement accounts. The best way to be sure seniors have financial security in retirement is to allow them to save for it adequately during

their working years, say conservatives. With private retirement accounts (PRAs), people have complete autonomy over how to spend, save, and invest their incomes. They have individual choice about what level of retirement savings they want. The first step toward the conservative plan is to dismantle Social Security. Workers

benefit in multiple ways. First, they keep more of their income because they no longer have to pay a portion of every paycheck into a mandatory government retirement savings plan. Also, they have higher wages, because now their employers don't have to pay into Social Security on their behalf. They can give that money directly to their employees, who can then save and invest it as they wish for their retirement. And finally, their hard-earned money isn't being frittered away on an expensive government bureaucracy. Conservatives say that the government should have never played "nanny" in the first place and forced people to pay into a public pension system. Since individuals have the biggest stake in their own future security, they have the greatest incentive to shepherd their hard-earned dollars carefully. They don't need government to interfere. Conservatives use tax incentive programs to motivate people of all income levels to save for retirement. People are allowed to set aside pretax dollars in a PRA and watch it grow in their accounts tax-free so that they have what they need when they reach retirement age. History shows that long-term investors in the stock market come out ahead, say conservatives. With a wide range of investment options, people select the level of risk that is comfortable

Conservatives say that with private retirement accounts, people have complete autonomy over how to spend, save, and invest their incomes.

for them. With a government that respects individual liberty and leaves people alone to control their own finances, everyone is free to invest their money according to their personal values and preferences. On top of that, say conservatives, people can leave whatever is left of their retirement savings to their chosen heirs.

Conservatives look at the PPC in figure 17.8 and say that the economy grows when individuals are in control of their own retirement savings in a free-market environment. The PPC shifts to the right for four reasons. First, the quantity of resources increases, because being able to keep more of their income motivates more people to enter the labor force and work longer. They are also attracted by higher salaries, which come about because employers are no longer strong-armed by government into contributing to workers' Social Security. Firms can now give that money directly to their employees to invest as they see fit. Second, the quality of resources improves, because with the additional wealth generated from a lifetime of PRA contributions, retirees have increased mental and physical well-being. They are able to be better volunteers, mentors, and pillars of the community. Third, technology increases because society has more entrepreneurs. When people are allowed to keep the money they earn through their effort, determination, and creativity, they launch companies that bring us life-changing new goods and services and better ways to make existing products. Fourth, capital investment increases. Again, with everyone investing in the market, the value of firms goes up, so companies are able to take out

loans to purchase capital goods today that will grow the economy tomorrow. All these factors shift the PPC to the right. Instead of being at point 1 and having to make painful trade-offs along the PPC, we can have more of everything when we all invest exclusively in PRAs, say conservatives. This is how we end up with secure financial futures for retirement and a thriving economy.

Liberals say that with Social Security, working people can rest assured that they will be able to afford the necessities of life once they reach the age of retirement.

to afford the necessities of life once they reach the age of retirement, and the funds will continue to be there for them until they die. Liberals say that when all of today's workers pay in, there is enough to take care of today's retirees, and when tomorrow's workers pay in, there is enough to fund tomorrow's retirees. Liberals want to strengthen Social

Security by, among other things, removing the cap on income so that everyone, including the wealthy, pay their fair share. They say this is the right and fair thing to do, and it will sustain the program for generations to come. Through this public-private partnership, tens of millions of Americans are kept out of poverty and assured a dignified old age, say liberals. When people are left to save on their own, they prioritize their immediate needs over their future retirement security. The beauty of Social Security is that government does the work of making sure we save for the future. Employers pitch in, which is absolutely fair, say liberals. Social Security benefits are meant to fund only 40 percent of the retirement income a person will need, which covers the basic necessities. To get the best of both worlds, they also use PRAs and pension plans to fund the remaining 60 percent, and they strengthen tax incentives to motivate people to save more of their pretax dollars for their golden years. With freedom to manage their retirement nest eggs, and financial incentives to leave the money alone until they reach retirement age, people are able to plan for the retirements they want. And if they make a bad investment, get scammed, or have unfortunate timing in the market that wipes out their PRAs, they still have Social Security. They can also leave their PRAs to their heirs when they die. A combination of retire-

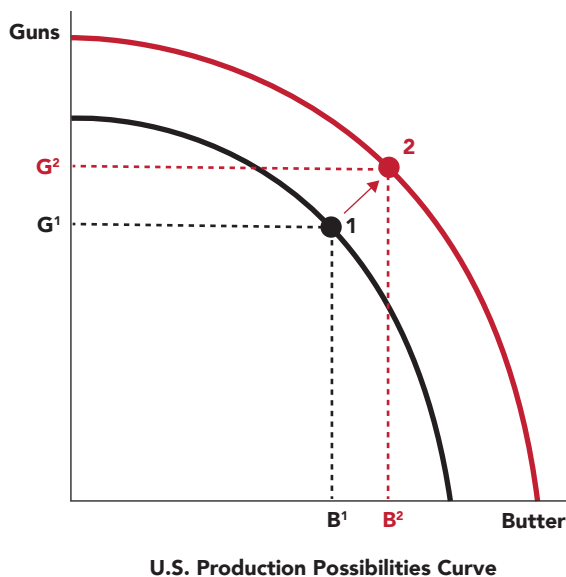


Figure 17.8
PPC: Conservative Perspective

Liberal policy: Strengthen Social Security and improve incentives for supplemental private retirement accounts. The best way to be sure seniors have financial security in retirement is with a combination of Social Security and PRAs, say liberals. Social Security provides a necessary and beneficial social safety net for working people. They can rest assured that they will be able

ment savings options brings the most peace of mind and the best standard of living in retirement, say liberals.

Liberals consider the PPC graph in figure 17.9 and say that the economy grows when we have a combination of Social Security and PRAs in a fair-market environment. The PPC shifts to the right for four reasons. First, the quantity of resources increases because Social Security benefits are tied to the number of years a person works and how much they earn. This motivates people to stay productive for longer and to work hard to rise in their professions and grow their incomes. Second, the quality of resources improves, because when seniors can afford basic necessities in old age, they are healthier and more active in their communities. They participate in the economy as volunteers, mentors, and part-time workers. Third, there is an increase in technology because the Social Security Trust Fund is invested in U.S. Treasury securities. The government uses those loans to finance the development of life-changing and world-changing innovations, including the internet, GPS, and the bar code. Plus, more people are willing to take risks and launch new businesses, knowing they have Social Security as a safety net. These entrepreneurs bring us exciting new goods and services and better ways to make existing products. Finally, capital investment increases because people are motivated to save in PRAs so that they can fund the 60 percent of their retirement not covered by Social Security. The influx of money into the market raises the value of firms, and they are able to get loans to buy more capital goods that will grow tomorrow's economy. Liberals say that seniors are ensured a secure retirement through a combination of Social Security and PRAs. Because we are deftly guided by government, society doesn't have to make painful trade-offs. We can move from point 1 to point 2 and have more of everything, including retirement security.

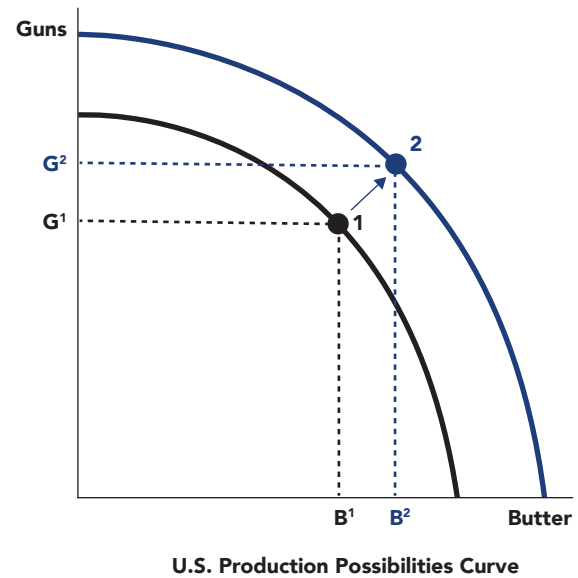


Figure 17.9
PPC: Liberal Perspective

Radical Theory Tools

Now let's take a look at the tools you'll need to understand how radicals address the problem of retirement security. Remember, radical tools have two parts: describe capitalism and describe democratic socialism. They model economic systems using the Six-Core Cube, which is anchored by six core points around which everything else constantly shifts. Every part affects every other part of the system. The core points reflect the commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people's basic material needs. Radicals say that those commitments and structures lead to very different outcomes depending on the economic system.

Retirement Security in Capitalism

Each of the six core points on the Six-Core Cube of capitalism could be used to analyze every issue, because these are the commitments around which everything in the economy is organized. To analyze the issue of retirement security, radicals drill down into the core point of **individuals at risk**.

Society offers no guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food, education, retirement security, and more), so people live in fear and worry about their well-being and survival.

Radicals say that in capitalism, all people are at risk of not having their basic material needs met. From birth to death, no one is guaranteed to have financially secure retirements, health care, housing, food, transportation, or any of the other fundamental material necessities they need to survive and thrive. Meeting these fundamental human needs is treated not as a basic right for all but as a privilege for the few in capitalism. Radicals say that it's a mistake to think this economic system could ever be fixed by a few policy changes because it was designed to function this way. Everyone is left on their own, with no real social safety nets, so workers are terrified of losing income and becoming homeless. Therefore, they are willing to work long hours in grueling jobs with unsafe conditions for rock-bottom wages. They have to if they want to survive. During their working years,

people are treated as interchangeable cogs in the profit-making machine. When they age and start to slow down, capitalism carelessly tosses them aside. They are replaced by machines or by workers here and abroad who are willing to accept a lower wage. After they finally reach the age of retirement, they have little or nothing saved after all those years of hard work. Then they are blamed for not planning ahead and claim it was their “choice,” but radicals find that argument outrageous. They say that the system is rigged against workers to keep them from getting ahead. Those who are able to save in private retirement accounts have no choice but to invest their nest eggs in the capitalist system, which is no better than betting on the horses. They lose their shirts overnight on a bad investment, scam, or market crash. The few who do grow their investments have to do so off the backs of other workers who are being exploited and at the expense of the environment. This is because firms in capitalism are pressured to put profits above all else. Social Security is just as much of a problem as PRAs,

1. Private Ownership

2. Top-Down Governance

3. Individuals at Risk

4. Production for Profit

5. Unsustainable Growth

6. Unhealthy Communities

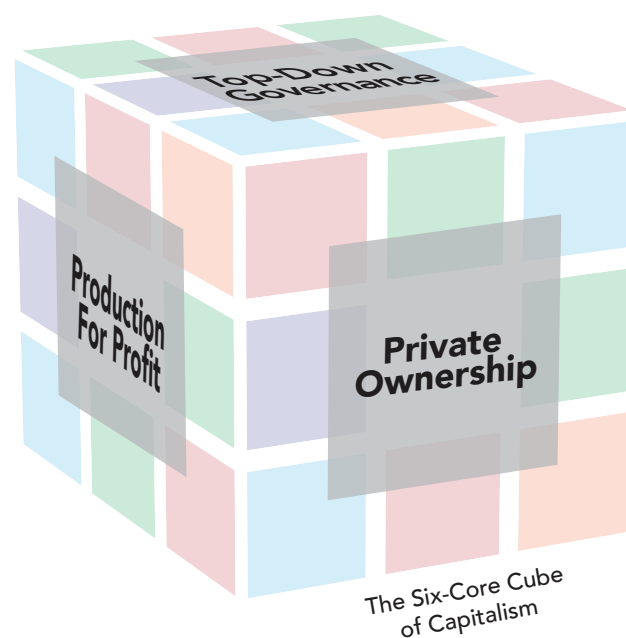


Figure 17.10
The Six Core Points of Capitalism

say radicals. It's based on the income of exploited workers, and the meager retirement benefit could disappear tomorrow because of mismanagement, cronyism, and corruption. In capitalism, even the wealthy have to worry about their retirement benefits. They know their competitors are working day and night to drive them out of business, so they lie awake at night scared that they could lose everything in the blink of an eye.

No one can count on the flimsy social safety nets in capitalism, say radicals. It's an economic system that force-marches us across the tightrope of life without a guarantee that society will be there to catch us if we need help. People imagine that retirement means finally reaching the platform and being able to rest, but for most, that never happens. The struggle to survive continues until death. The vulnerability of elders is starkly revealed in the heartbreaking poverty suffered by tens of millions of seniors in this country. After a lifetime of toil, they spend their twilight years sick with anxiety that they won't be able to pay their bills, afford their medications, or have enough left at the end of the month for groceries. Many are exhausted and dream of being able to rest and relax and finally enjoy life, yet to afford the rent they have to drag themselves back into the labor force—and now that they are seniors, they are even more vulnerable to exploitation because they have fewer choices. Elders at every socioeconomic level worry constantly about not having what they need to be safe and well. Will they be able to pay for a caregiver who makes sure they get regular meals and drives them to doctor appointments? Will they be able to pay their property taxes? Will their savings run out before the end of their lives? Will they be bankrupted by debt from caring for a sick or dying spouse? Will they have a decent place to go if they can no longer live on their own? Radicals say that capitalism's commitment to *individuals at risk* prevents all of us from making the most of our precious lifetimes.

Individuals at Risk

- Getting basic material needs met is a privilege, not a right.
- The well-being of individuals is traded for profit.
- Everyone is left to fend for themselves and must constantly worry about survival.



This is how the core point of *individuals at risk* and the pressure for bad in capitalism are used to analyze the issue of retirement security:

Scenario 1. You're having coffee with an old friend from grad school who owns a competing shoe firm. She tells you, "We're supporting political candidates who want to change the law so that firms won't have to contribute to employees' retirement security. We're also looking into legal loopholes to get out of paying the pension benefits that we're currently obligated to pay our retirees. If all goes well, this will save us billions of dollars in the next five years. Our shareholders love this plan. You should support it, too."

You say, "But you and I both know that most of our workers barely earn enough to make ends meet. There's nothing left over to save on their own for retirement. And our current retirees earned those benefits. It's not right to worm our

way out of our obligation to them. I don't want to do it."

She says, "So don't do it."

But you will do it, and so will all the other owners. If you don't, you'll be driven out of business. Radicals say *individuals at risk* means that getting our basic needs met in our senior years is a privilege for the few and not a universal right for all. As a result, hardworking people who played by the rules in capitalism end up impoverished in their old age, and masses of elders suffer and die from stress and deprivation.

Scenario 2. You're playing basketball with a competitor, who says, "Our older workers are costing us too much. Their health insurance is more expensive, they work too slowly and have lower productivity, and their skills are behind the times. On top of that, they've been here a long time and gotten raises, so we're paying them more than younger workers. We've decided to push them out and hire replacements at half the salary. You should look into doing it, too."

You say, "That's harsh. Those long-time employees were loyal to the company and gave us their best years. I don't want to abandon them now just because they're getting older."

"Then don't do it," they say.

But you will do it, and so will all the other owners, because if you don't, your firm won't survive. Radicals say *individuals at risk* means that workers are treated like replaceable cogs in the machine. When their productivity goes down, they are swiftly kicked to the curb and replaced by younger workers or machines, because the well-being of people is always traded for profit in capitalism. The wisdom and experience of elders can't be calculated on a firm's bottom line so capitalist societies waste this precious resource and ruin lives in the process.

Scenario 3. You're at a trade show and meet a competitor, who says, "We discovered that scaring seniors is a highly effective sales tactic. It's easy

to convince them they can hurt themselves if they don't use our shoe inserts, not to mention buy our alarm systems, supplemental insurance plans, and more. You should get in on this."

You say, "It's wrong to take advantage of people when they become older and more vulnerable. They have enough to worry about already without making them more afraid just so you can make a buck. I don't want to do that."

He says, "So don't do it."

But you will do it, and so will all the other owners. You'll have to if you don't want your firm to fail. Radicals say *individuals at risk* means that elders are one scam, accident, medical emergency, and stock market plunge away from ruin. They are defenseless against the manipulation of profit-maximizing firms and burdened with the constant strain of worry about their survival.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- **Impoverished elders**
- Exploding public and private debt
- Damaging trade relationships
- High prices and no jobs

Retirement Security in Democratic Socialism

To analyze the issue of retirement security in democratic socialism, radicals drill down into the core point of **social safeguards**. Guaranteed universal access to the goods and services necessary to meet basic material needs (health care, food, education, retirement security, and more) is both a right and a responsibility for all.

Radicals say that in democratic socialism, getting our basic material needs met is a right for all, not a privilege for some. This is what a society *should* do for its members, say radicals. It should bring us together to achieve ambitious goals that we could never accomplish on our own—health care for all, retirement security, decent housing, food, transportation, child care, higher education, and more. Everyone in society benefits when we make a comprehensive investment in well-being. The standard of living rises because when their basic material needs are met, people from all walks of life are able to thrive and contribute their best to society. Radi-

cals say that economic growth is inevitable when we are all set up to succeed from the start. How is all of this funded? Radicals say that when we prioritize the well-being of people above profit, society easily has sufficient resources to fund all the *social safeguards*. People pay higher taxes, but they come out ahead because they don't have to pay individually for college tuition, medical care, day care, elder care, retirement income, and all other big-ticket items. Freed from worry about meeting their basic material needs, they turn all their energy to contributing their best to society. An artist creates things of meaning and beauty without worrying that they'll end up poor in their twilight years. Entrepreneurs take risks and launch new worker-owned companies that grow the economy because they don't have to be afraid of ending up homeless if they fail. Income is distributed more equitably when there is co-ownership. As we walk the path between birth and death, it's as if a sturdy umbrella is always shielding us from the unpredictable storms of life.



1. Cooperative Ownership
2. Participatory Governance
- 3. Social Safeguards**
4. Production for Use
5. Sustainable Development
6. Healthy Communities

Figure 17.11
The Six Core Points of Democratic Socialism

Democratic socialism is an economic system built on the premise that workers should profit from the fruits of their own labor. It is premised on the notion that each person has a right to material well-being, and that all of us have a civic responsibility to take care of one another. It fosters a deep respect for individuals and the contributions they make throughout their lifetimes, say radicals. No one is thrown away or abandoned at any age. Elders are valued for their experience and wisdom. After they retire, they serve as honored mentors and advisers in their former workplaces and in their communities. Some relish the opportunity to serve on community councils. Others participate in child care or do other kinds of volunteer work. Some choose to relax, or focus on health, family, and other loved ones. It doesn't matter what income they earned during their working years—they all sleep well at night knowing they have everything they need to see them through all the phases of older age with care and dignity. If they need someone to bring meals, give them a ride to the health clinic, or provide respite care to look after a sick relative, they can get it. Everyone shares the responsibility to create a retirement system that everyone can enjoy equally, and all benefit from living in a humane society where elders can thrive. In the end, say radicals, democratic socialism's greatest gifts are the peace of mind and flourishing society that result from a commitment to *social safeguards*.

Radical policy: Universal basic pension (UBP) and optional worker-owned pension funds. The best way to be sure seniors have financial security in retirement is through a universal basic pension (UBP), say radicals. It is a monthly payment on top of all the other social safeguards they enjoy. It guarantees that every senior can afford a decent standard of living, including the basic necessities of life. The UBP is different from Social Security because it's not based on what career people had, how

Social Safeguards

- Individuals have a right to get their basic material needs met.
- Society provides universal benefits that are funded by all.
- People contribute their best to society when they have a guaranteed safety net.



much they earned, or what they achieved. This is a humane and fair way to treat human beings because every person's contribution to society is valuable and important, whether they pushed a mop or advanced the field of quantum physics. This is a central value of democratic socialism. Everyone's contributions—whether paid or volunteer—deserve to be recognized and valued by society, and every person deserves a dignified old age. Radicals say the UBP is the most compassionate and feasible way to meet the needs of elders. It replaces the universal basic income (UBI) when people reach their senior years. While the UBI helps people during their working years, the UBP takes into account the unique needs of retirees. In addition to food, clothing, and shelter, seniors may also need to modify their homes to make them safe and wheelchair accessible; hire workers to help with everyday

tasks such as shopping, paying bills, preparing meals, and driving to medical appointments; and travel to be with family. To fund the UBP, everyone pays a percentage of their income during their working years into a government-managed fund. Using participatory governance, the fund is invested in infrastructure, education, health care, transportation, and more, as well as being used for UBPs. This grows the economy and delivers a steady, low-risk return on investment, ensuring that the UBP fund is sustainable far into the future. It brings the most peace of mind and a decent standard of living in retirement, say radicals.

Worker-owned firms may choose to establish their own workplace pension programs in addition to the UBP. Since firms are owned by the workers in democratic socialism, they have a natural commitment to invest some of the firm's profits to support retired worker-owners because one day they, too, will retire and benefit from this extra income. This extra income is *fun money* to realize their dream retirements. Radicals say worker-owners have a pay-it-forward, pay-it-back attitude. They know their firms were built on the hard work, effort, and dreams of the worker-owners who came before them, and one day their hard work will also be paid back by younger worker-owners. Each firm uses a democratic process to decide what percentage of the profit to invest in the pension fund.

Of course, people may also have private savings accounts. This isn't necessary to meet their expenses in their senior years, but they save and invest so they can have even more fun money when they retire. To grow their savings, they loan worker-owned firms and the government funds for special projects and general operating costs. These loans earn interest, but the lenders have no ownership stake or vote in the company. Radicals say that with UBPs, seniors can look forward to their golden years without having to worry about



Figure 17.12
Social Safeguards: Radical Perspective

their employment history or how much they saved in their retirement nest eggs.

This is how the core point of *social safeguards* and the pressure for good in democratic socialism are used to analyze the issue of retirement security:

Scenario 1. You're having coffee with an old friend from grad school who is a worker-owner of a competing shoe firm. She tells you, "Our firm is part of a group that is developing a proposal to expand the UBP by creating different tiers of support for elders during the different stages of older age. As they become more infirm, they often need more specialized products, including the custom-fit shoe inserts we make for seniors with diabetes. It might cost more in taxes, but we think it will be worth it to ensure the well-being of our aging loved ones and neighbors. Would your firm give us input on the proposal?"

You say, "Expanding the UBP is a wonderful idea. My dad is getting older. He's starting to need more physical therapy and home care assistance to keep him comfortable, safe, and healthy. Many

worker-owners at our firm are caring for elders. I'm sure our firm will want to weigh in. I'll bring it up at our next worker-owner meeting."

"You should do it," she says.

Both of your firms will do it because in democratic socialism, a commitment to *social safeguards* means retirement security is treated as a basic human right for all instead of a privilege for a few. Everyone can count on getting their material needs met when they are no longer working. The whole society funds the UBP because all people's contributions to society are valued, regardless of their salary or position during their working years.

Scenario 2. You're playing basketball with a competitor, who says, "Our retirees draw pensions from the program we set up when our company was founded. It supplements their UBPs. We want to make sure younger workers appreciate how wonderful this benefit will be for them when they retire. We want them to feel good about supporting our elders this way. We also set up a mentoring program so retirees can support and guide our youngest worker-owners. It's a win-win. The elders love being connected to the firm in this way, and the workers who participate say they are gaining a valuable perspective. Your firm should think about trying a mentoring program, too."

You say, "Great idea! There's a lot of history and knowledge we'd be foolish to lose. We would all benefit from the institutional memory of our retired worker-owners. They transmit the values and culture of the organization to younger worker-owners. I'll definitely propose a mentoring program at our next meeting."

"You should do it," they say.

Both of your firms will do it because in democratic socialism, a commitment to *social safeguards* means no one is thrown away just because they are old. Worker-owned firms reinforce this

commitment with workplace pension programs and mentoring programs. This pay-it-forward, pay-it-back plan ensures a higher standard of living for elders in their golden years while younger worker-owners sleep well at night knowing they will receive the same respectful, dignified support when they reach their sunset years.

Scenario 3. You meet a competitor at a trade show who says, "A group of worker-owners at my firm are all fired up about a new initiative to reimagine footwear for the next generation. They have some bold ideas, and they're so enthusiastic about it that they're working day and night to launch a new product line. It's a financial risk, but our firm voted to support their efforts. We have to take risks to advance as a society, and because there is a UBP and other social safeguards, we have a safety net."

You say, "It sounds like a smart move. Our firm is celebrating its thirtieth anniversary, and we wouldn't have become so successful if our founders hadn't taken risks to make their vision a reality. We don't want to become stale as a firm or as a society. We're also looking at starting a new venture that could make life better for everyone."

"You should do it," he says.

Both of your firms will do it because in democratic socialism, a commitment to *social safeguards* means we invest in people and free them to take the entrepreneurial risks that lift the whole society. Knowing we have an income in retirement that guarantees our material well-being, we can dream big and work hard to achieve those dreams.

Radicals represent democratic socialism as a Six-Core Cube that *can* be solved. They say that when the economy is built around the six core points, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- **Secure and dignified retirement**
- A thriving, debt-free society
- Mutually beneficial trade relationships
- Jobs and stable prices

Bonus Tool: Game Theory

You've now heard the different policy ideas from each perspective to fund the basic necessities in retirement: government-managed funds (GMFs) and private retirement accounts (PRAs). What might not have been obvious, though, is that the success of each of these strategies depends on everyone participating. If only a few people pay into the UBP or Social Security, it won't have sufficient funding. If only a few people invest in the market, the value of stocks, bonds, and mutual funds won't grow, and people won't be able to build their retirement nest eggs. Can you begin to see why this is such a heated debate among radicals, liberals, and conservatives? The strategy you choose to fund *your* retirement affects the outcome of the strategy I choose to fund *my* retirement, and vice versa. Our outcomes are interdependent. This is the challenge we face as a society when we try to solve the problem of not only economic vulnerability for seniors but countless other economic

issues. That's why I'm excited to tell you about this bonus tool that all three perspectives share.

Game theory is a way to analyze the best strategy when outcomes are interdependent. It was popularized by mathematician John Nash in the 1950s. He won a Nobel Prize in economics in the 1990s for advancing this unique way to think about decision-making. When he was a student at Princeton, he learned about economics, and it started him thinking about self-interest. Was it really true that we get the best outcome when everyone acts out of their own self-interest, as Adam Smith said? I imagine Nash might have thought, "That's not how board games, sports competitions, or military battles work. You can't ever know what your best self-interested move will be unless you first know what the other person is going to do. Their choice affects your outcome." Think about chess, for example. The great players anticipate their moves and their opponent's probable countermoves, mentally calculating the different combinations and possible outcomes for each scenario. As soon as the opponent makes a move, they recalibrate their strategy. Some say a chess master thinks twenty moves ahead, but we can't all be chess masters. Luckily for us mere mortals, game theory can help. Nash's mathematical model shows how we can determine the best course of action when other people's choices affect our outcomes. This is very useful for making sound decisions about funding retirement.

To dip your toe into game theory—at least enough to see how it can be used to illuminate the issue of retirement security—let's look at the classic example called the prisoner's dilemma. Here's how we tell it in the VOTE Program. Thief Gray and Thief Orange break into a jewelry store and steal a diamond. As they crawl through the air duct to make their escape, they trip the silent



alarm. The store owner calls 911. The police arrive and catch the two thieves as they are trying to break into a car. They are taken into custody for attempted car theft, and they become the prime suspects in the jewelry heist. But the problem for the police is that they can't find the stolen diamond. Neither thief has it in their possession. Without that evidence, the police won't be able to make their case. They need at least one of the thieves to confess to stealing the diamond and testify against the other.

At the police station, Thief Orange and Thief Gray are put in separate rooms so they can't confer with each other or know what the other says. The detective goes into the room where Thief Gray is waiting and says, "We both know that you stole the diamond. The way I see it, you now have two choices. You can either confess to the crime and testify against your partner, or you can remain silent. I'd like to wrap this up

quickly so I can go home and have dinner with my kids, so I'll make you a deal. If you confess to stealing the diamond and testify against your partner, and if your partner stays silent, I'll send her to prison for twenty years, and you'll walk out of here a free man. But you should know that another detective is in the other room with her right now offering her the exact same deal. If you stay silent and she confesses and testifies against you, you'll get twenty years in prison, and she'll go free."

"What happens if we both confess and testify or if we both stay silent?" asks Thief Gray, who is starting to sweat.

"If you both confess and testify, you'll each be looking at seven years in prison," says the detective. "And if you both stay silent, we still have you on attempted car theft, so you'll each do one year of prison time. It is a tough choice, but you need to make it now."

What should Thief Gray do? There are two possible actions he can take: stay silent or confess and testify against Thief Orange (these are his potential **strategies**). Game theory uses something called a **payoff matrix**, which is a diagram of the potential strategies and their possible outcomes (**payoffs**) for each thief. The one in figure 17.13 has four cells (A, B, C, and D) representing the four different combinations of payoffs depending on which strategy each thief chooses. Thief Gray's potential payoffs are the gray numbers in each cell. As you can see, he can serve either twenty years, seven years, one year, or zero years in prison. The same is true for Thief Orange, whose payoffs are shown in the color orange in each cell. The payoff matrix organizes this information for the thieves so that they can each make the decision that brings the most benefit. In this case, that is represented by the lowest number of years in prison.

Each thief must consider what the other will do to make the best decision for themselves. Their payoffs depend on what the other chooses. But

they aren't mind readers, so how can they possibly know which strategy the other thief will choose? Looking at the payoff matrix, it's clear that if Thief Orange chooses to stay silent, then Thief Gray should testify against her and serve zero years in jail (cell C) instead of one year in jail by staying silent (cell A). But if Thief Orange chooses to testify, then Thief Gray should also testify, because the payoff for that strategy is only seven years in prison (cell D) instead of twenty years if he stays silent (cell B). Since Thief Gray is better off testifying regardless of what Thief Orange does, that is Thief Gray's **dominant strategy**—the best move an individual can make regardless of what the other decides to do.

What about Thief Orange? She has the same two choices: stay silent or testify. But the payoffs depend on what Thief Gray chooses to do. If Thief Gray stays silent, Thief Orange is better off testifying, because she will serve zero years in prison (cell B) instead of one year (cell A). If Thief Gray testifies, then Thief Orange is still better off testifying and serving seven years (cell D)

		Thief Orange	
		Silent	Testify
Thief Gray	Silent	A 1 , 1	B 20 , 0
	Testify	C 0 , 20	D 7 , 7

Figure 17.13
Prisoner's Dilemma Payoff Matrix

instead of winding up with a twenty-year prison sentence for staying silent in that situation (cell C). So Thief Orange should testify regardless of what Thief Gray does. Testifying is Thief Orange's dominant strategy. Both thieves happen to have the same dominant strategy to confess (cell D) and serve seven years in prison.

When neither player can have a better payoff by changing their strategy while the other player's strategy remains the same, it's called a **Nash equilibrium**. It means neither thief has any incentive to change strategies, because they won't get a better payoff doing so—not unless they know beforehand what the other is going to do. You can see in figure 17.14 that the Nash equilibrium in this example is cell D. But take a closer look at that payoff matrix. Compared to the Nash equilibrium (cell D), is there a cell where at least one of

the thieves would have a better outcome *without* the other thief having a worse outcome? Yes, in cell A, both thieves would have better outcomes by staying silent. When the thieves change strategies (from cell D to cell A) because at least one player is better off without the other being worse off, it is a **Pareto improvement**. In figure 17.14, cell A is the **Pareto optimal cell** (or Pareto efficient—the other name for it). At this point, no player can be better off without the other player being worse off. It represents the best solution to the prisoners' dilemma. By the way, it's named for Vilfredo Pareto, an Italian scholar who was a contemporary of Adam Smith's. He was not only an economist, he was also a civil engineer, sociologist, political scientist, and philosopher.

So now you know that the best strategy is for Thief Gray and Thief Orange both to remain silent.

		Thief Orange	
		Silent	Testify
Thief Gray	Silent	A 1 , 1 Pareto optimal	B 20 , 0
	Testify	C 0 , 20	D 7 , 7 Nash equilibrium

"Dominant Strategy" (pointing to Testify for Thief Orange)

"Dominant Strategy" (pointing to Testify for Thief Gray)

Figure 17.14
Prisoner's Dilemma:
Nash Equilibrium and Pareto Optimal

Exercise 17.1: Cooperate or Compete?

Let's practice using game theory. Firm Gray and Firm Orange both operate pizza delivery companies in the same town. It's Super Bowl Sunday, the busiest day of the year for pizza orders. Should the two firms compete or cooperate? They consider a deal where Firm Gray will supply all the pizza to the east side of town and Firm Orange will supply all the pizza to the west side of town. The goal of both firms is to sell more pizza pies, which is represented on the payoff matrix by the *higher* numbers. Please note that this is *not* a zero-sum game (a win-lose situation, where the gain of one firm is a loss for another firm). A possible outcome is that both firms gain from cooperating. Consider the payoff matrix and answer the following questions. The Answer Key can be found at the end of this chapter.

1. If both firms cooperate, what is the payoff for Firm Gray?
2. If both firms compete, what is the payoff for Firm Orange?
3. If Firm Gray competes and Firm Orange cooperates, what is the payoff for Firm Gray?
4. What is the dominant strategy for Firm Orange? Why?
5. Is there a Nash equilibrium? Explain.
6. Is there a possible Pareto improvement? If so, what is it?
7. Which cell is Pareto optimal?

		Firm Orange	
		Cooperate	Compete
Firm Gray	Cooperate	A 9 , 9	B 6 , 7
	Compete	C 7 , 6	D 4 , 5

You might think cell B or C would have been even better, because one of the thieves would not have to serve any prison time at all. But in both of those cases, one thief would be worse off even though the other would be better off. Remember, game theory analyzes the interdependent outcomes.

With game theory, you don't have to be a chess master to see twenty steps ahead. Using a payoff matrix, we have a way to assess the payoffs of each potential strategy in relation to what the other players might choose as their strategy. If the cell that is the Pareto optimal happens to be the same as the cell that is the Nash equilibrium, it simply confirms that you should go ahead and follow your dominant strategy. But if it's different, then the Pareto optimal cell lets you know that there's a better choice to be made. The usefulness of game theory is that it can help you and the other players in the game of life make decisions that bring about the best possible outcomes for all.

Game theorists claim that using this method can help you find the best outcome—not only if you face the prisoner's dilemma (and I hope you never do) but also in athletic competitions, peace talks, trade talks, salary negotiations, and when haggling over the price of a new car. Some even say it helps in military engagements, because the best strategy usually depends on what the other side chooses to do. I've heard some game theorists say that it can help if you study animal

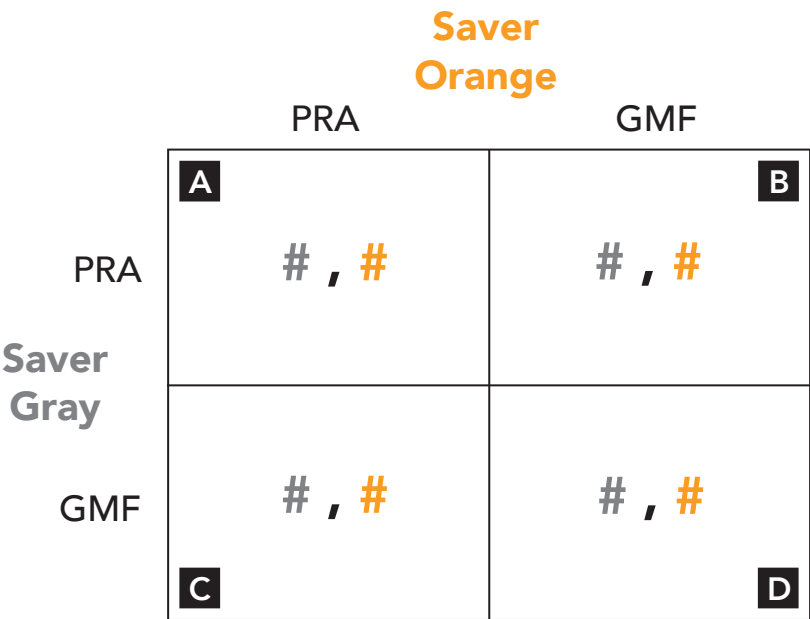
Life is filled with
choices, and more
often than not, the
outcome is affected by
what others choose to do.
This is certainly true
when it comes to our
retirement security.

behavior, because predators make decisions based on what their prey chooses to do, and vice versa. It is also said to help in business, where corporations choose to either cooperate or compete. One of my students who studied robotics said it helps when writing code.

Using Game Theory to Analyze Retirement Security

Life is filled with choices, and more often than not, the outcome is affected by what others choose to do. This is certainly true when it comes to our retirement security. Now that you understand game theory, you can use it to analyze the different policies proposed by conservatives, radicals, and liberals. To simplify the conversation, we'll evaluate only the two options to fund *basic necessities* in retirement. The first strategy is for a portion of everyone's income to be invested in PRAs (a conservative idea). The second strategy for funding the basic necessities of retirees is for a portion of everyone's income to be set aside during their working years and invested and grown in GMFs. There are two options for GMFs. The radical idea of a UBP and the liberal idea of reformed Social Security (RSS). Liberals also use PRAs as a supplement to RSS, but since we're comparing only strategies for funding the basic necessities, we'll consider the two options as either/or in our game-theory exercise.

Unfortunately, we can't actually do the exercise yet. To determine the best strategy, we need to



PRA: Private Retirement Account
GMF: Government-Managed Fund

Figure 17.15
Game Theory: Basic Necessities
in Retirement

know the payoffs. We can't fill in those numbers from a neutral perspective, however, because *how* we estimate the payoffs depends on our economic perspective. That's why the payoff matrix in figure 17.15 has no numbers. But don't worry. In the Three-In-One Activity at the end of this chapter, we will show the payoffs from each perspective.

You'll have a chance to analyze how they arrive at those numbers and the logic they use to conclude that their strategy results in the best outcomes for retirement security. As my mother used to say, "Patience is a virtue," and luckily you won't have to wait too much longer for the Three-in-One Activity.



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of retirement security. This is an extremely relevant and personal debate for you and for all of us as a soci-

ety. Next, we'll explore the conversations that are taking place around you about the economic vulnerability of seniors, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.





The Issue

About ten years ago, I was hiking with a friend who was in his sixties and looking forward to retiring. After a long and successful career teaching at a public university, he was ready to buy a cabin on the lakeshore and go fishing every day.

“That sounds amazing,” I told him. “So, which box did you check?”

I was referring to a familiar rite of passage that you might one day experience. On the first day of a new job, someone in Human Resources (HR) sits you down, hands you a bundle of forms, and explains your benefits—health-care plans, flex time, paid leave, and more. If it’s a government job, when they get to retirement plans, there is sometimes a form with two boxes on it.

“If you check this box,” the HR person explains, “then 10 percent of your pay will automatically be taken out before taxes and saved for you in a government pension fund that is managed by the state. If you leave this job before you’ve worked a certain number of years, you lose the money that went into your pension. If you work for a certain number of years and leave, either you will get a

reduced pension benefit when you retire, or you can cash out. If you stay for the required number of years, when you retire you’ll receive a full pension benefit every month for the rest of your life. The amount will depend on how much you earned, the number of years you worked here, and whether you want any of the monthly benefit to go to your spouse after you die. But just to be clear, when you die, you can’t leave the bundle of cash you saved over the years and the growth of that investment to your heirs.”

Your pen hovers over the box for the government pension, but the HR person continues: “Your other option is to have 10 percent of your pretax income automatically taken out of every paycheck and saved for you in a 403(b) plan. This is a private retirement account, so you can manage the money yourself. There are more than a dozen mutual funds

to choose from, and you can move your money from fund to fund at any time, or park it in a fund and forget about it until you retire. It's up to you. All the money in your 403(b) account belongs to you, so if you take another job elsewhere, you won't lose it, and if you die, it will transfer to your heirs. You can also withdraw it before you reach retirement age, but you'll pay a heavy penalty if you do."

Your pen wavers over the second box, then over the first. Which option should you choose? Retirement seems like a thousand years away, and you're eager to get this over with and go meet your new coworkers. As you start to check a box, the HR person asks, "Are you sure? Because once you decide, you can never switch."

This is what happened to my friend when he was thirty years old and just starting his career at the university. "And now I can't remember which box I checked," he admitted, chagrined.

We were on a steep part of the trail, so we stopped to catch our breath and enjoy the beautiful view of the city spread out below us. "Maybe I checked the box for the government pension," he mused, "because knowing me at age thirty, I'm sure I liked the idea of someone else managing the money so I wouldn't have to think about it. But then again, I might have gone with the 403(b) because I had no idea if I'd stay in this job. And I'm sure I liked the idea of being able to hold on to my retirement savings even if I moved on."

I was thinking that his financial picture for retirement could look very different than what he was imagining, depending on which box he'd checked. But I didn't want him to worry, so I kept that thought to myself.

"Amy, maybe you'll know the answer to this," he said. "My Social Security benefit will cover 40 percent of my retirement needs. But what would have been my best choice to fund the other 60 percent—the state pension or the 403(b)?"

I'll bet you can guess how I answered. I said, "Well, friend, that depends on your perspective."

Every time I tell this story, students laugh at the fact that my friend completely forgot which box he checked for his retirement plan, but I suspect this happens all the time. When we're young, it's hard to imagine what we'll want or need in retirement. "The future will work itself out," my students tell me. I'm sorry to be the bearer of bad news, but the future won't magically work itself out. It's crucial that we make good decisions today that will set us up for a secure retirement. We must do this individually and as a society, even though it might seem like we have all the time in the world to think about it later.

Understanding Retirement Security

Thinking about your retirement plan (or lack of one) may be stressful, so let's do a quick exercise that will help you look at your feelings about saving money for the future. Please consider the following questions and then fill in the table below. This information may be private, so please don't feel that you have to show your answers to anyone else. This is just to help you think about your own attitudes and practices.

- 1. Piggy bank.** As a child, did you ever save pocket change in a piggy bank or jar? What did you do with that money? Did someone teach you to save? Who was it?
- 2. Savings account.** Do you have a regular savings account at a bank or a credit union? If so, do you regularly deposit money into the account? Do you have a savings goal? Do you want to save more or less in this way? Why?
- 3. Individual retirement savings.** Do you have an IRA at a bank, credit union, or investment firm? If so, which type do you have? How much, on average, do you add to it each year? Where is it invested (stocks,

mutual funds, CDs, bonds, or other)? Has the account grown or shrunk since you opened it? Do you want to save more or less in this way? Why?

4. Workplace retirement savings. Does your employer offer a workplace savings plan? If so, is it a pension, a 401(k), a 403(b), a 457 plan, or a combination of a pension with one of these plans? If yes, and if you opted in, how many years have you participated? How

much does your employer contribute on your behalf? Has your account grown or shrunk since you opened it? Do you want to save more or less in this way? Why?

5. Federal government savings. Have you ever had a job where your Social Security contribution was automatically deducted from your paycheck? If so, you have already saved money for retirement. Do you want to save more or less in this way? Why?

Your Retirement Savings

As we talk about different retirement savings options, think about your own retirement strategy. You may be doing exactly what you want to prepare for your golden years, or you may decide that you want to change your strategy.

Type of Savings	Yes or No	Voluntary or Mandatory	How do you feel about it? <i>Do you want to save more or less in this way? Why?</i>
Piggy Bank			
Savings Account			
Individual Retirement Savings <i>Traditional and Roth IRAs</i>			
Workplace Retirement Savings <i>Pensions, SIMPLE and SEP IRAs, 401(k), 403(b), and 457 plans</i>			
Federal Government Savings <i>Social Security</i>			



Will You Have Enough Saved for Your Retirement?

Right now, you might find yourself wondering, “How can I know if I’m putting enough money aside to reach my retirement savings goal?” That’s an excellent question. We don’t know what the future will bring or what the world will look like years from now, so it’s hard to know exactly how much money we’ll need in retirement. A number of free online tools will do the calculation for you. Let’s play with the Retirement Nest Egg Calculator offered by the American Association of Retired Persons (AARP). It has default settings for **return on investment (ROI)**, which is the amount your private retirement account changes when you invest it, plus life expectancy, and more. Before you start, check out those settings and confirm that you agree with them, given your unique circumstances.

In addition to default settings, you’ll need to decide one more thing, and that is the lifestyle you most desire in retirement. I have heard financial planners say we’ll need 85 percent of

our current income to continue to have the same lifestyle in retirement. They say retirees generally have fewer financial demands because many are no longer financially responsible for children, elderly parents, or other family members. They might be living in rent-controlled apartments or have already paid off their home mortgages. Also, retirees don’t need to spend money commuting to work or buying special clothes and tools for their jobs, so expenses go down. If you want to maintain your current lifestyle, choose 85 percent. On the other hand, if you’d rather live more extravagantly than your current lifestyle, choose 95 percent of your current income. If you want a less extravagant lifestyle, choose 75 percent of your current income. Let’s try the AARP retirement calculator on a few examples, using 2020 numbers.

Ed is twenty-five years old and single. He works as a call center representative and earns \$20,000 per year. He has no 401(k) plan and no IRA account. He figures he’ll retire at age sixty-seven,

which means he'll be eligible to receive 100 percent of his Social Security benefit—\$1,006 per month. Ed definitely wants a more extravagant lifestyle, and he expects to live to age ninety. Running his numbers through the AARP Retirement Nest Egg Calculator reveals that Ed will fall short of his savings goal by \$336,582.26. Ed either needs to save more for retirement through his employer or in an IRA, or he needs to find a higher-paying job so that he can make a bigger contribution to Social Security.

Here's another example. Kim is a thirty-five-year-old single woman. She is the vice president of a clothing retailer, where she earns \$110,000 per year. Kim saves \$8,250 each year—some in a traditional IRA, and some in a 401(k) plan. Kim has a total of \$150,000 saved in private retirement accounts. She chooses a modest lifestyle in retirement (75 percent of her current income). Kim wants to retire at sixty-two and start collecting her Social Security benefit then. According to the AARP Retirement Nest Egg Calculator, she will be short \$620,063.59. The problem is that she wants to collect Social Security before she reaches the age when she is eligible for her full benefit, at age sixty-seven. Retiring five years earlier means Kim will be eligible to collect only 70 percent of

her benefit. She will lose that additional 30 percent *for the rest of her life*. For Kim to be able to afford her chosen lifestyle, she should wait until age sixty-seven to start drawing on her Social Security. She will not only have enough to fund her retirement, but she'll end up with a surplus of \$28,641.13.

Let's see what the AARP Retirement Nest Egg Calculator predicts for a married couple. Shauna, a librarian at a state medical school, is forty-five years old and earns \$50,000 per year. She pays into the state pension plan. When she retires, she'll receive \$2,865 per month, with an annual cost-of-living adjustment of 2 percent. Her husband, Treyvon, age forty-eight, is chief financial officer at a nonprofit credit union, where he earns \$250,000 per year. Every year, he saves \$6,000 in a Roth IRA and another \$24,000 in a 403(b) plan. He has \$1,200,000 total in private retirement accounts. The couple want to retire when Treyvon turns sixty-seven. Shauna will be only sixty-four. Since she won't be old enough to qualify for her full Social Security benefit of \$1,445, she will receive only 80 percent of it. Treyvon will be eligible for 100 percent of his Social Security benefit, which is \$2,642. They want to have the same lifestyle they currently have, so they need



85 percent of their current income. Will they have enough to fund it? Yes, they will, according to the AARP Retirement Nest Egg Calculator. Not only that, but they will have a surplus of \$295,210.78. It might be obvious seeing these numbers that one of the best financial arrangements you can make in our current economic system is to marry someone who also earns a living and is financially responsible (but not a good reason to stay married if you aren't happy). When people pool their money, they're generally able to afford a better retirement.

The Power of Compound Interest

If you're young, your greatest asset right now is time. If you start saving early, your retirement nest egg will have time to grow—even if it's only a few dollars a week. This is vividly shown in figure 17.16,

which compares the retirement savings of three people who started saving at different ages. Each saved \$1,000 per month for ten years, and their savings grew by 7 percent each year. But when they retired at age sixty-five, they each had dramatically different amounts. The person who started earliest saved from age twenty-five to age thirty-five (the orange line), ending up with close to \$1.4 million. The one who saved between ages thirty-five and age forty-five (the yellow line) ended up with approximately \$730,000. And the person who didn't start saving until age forty-five and stopped at age fifty-five (the gray line) had retirement savings of \$370,000 by age sixty-five.

You might be wondering why it makes such a big difference to start saving early. Great question. I'm excited to answer it because this information can potentially change your financial future. Let's



Figure 17.16
Saving for Retirement at Different Ages

say you invest \$100 in a mutual fund that earns 10 percent interest a year. At the end of one year, you've earned \$10 in interest. Year two starts, and now you're earning 10 percent interest on \$110—your initial investment of \$100 plus the \$10 interest you earned in year one. At the end of year two, you earned \$11 in interest. When year three starts you're earning 10 percent interest on \$122, and so on. **Compound interest** means you earn interest on your interest. That is why time is a crucial factor. As you can see in figure 17.16, the value of investments grows exponentially over time. The person who started investing at age forty-five didn't have as much time to let compound interest work its magic and grow their retirement savings. The person who started investing at age twenty-five had more years to earn interest on their interest. This is how they could set aside only \$120,000 of their income in ten years and turn it into \$1.4 million over time.

Here's another way to understand compound interest that you will never forget. If I offered to give you either \$1 million or the sum of a penny doubled every day for 31 days, which would you

choose? Most people would choose \$1 million. After all, a penny is a ridiculously small amount of money, and a penny doubled tomorrow is only two pennies, and the next day it's four pennies. You're thinking, "This is a joke, right?" Wrong. If that doubling continues for thirty days, you'll end up with \$10,737,418.24. Yes, you really will end up more than ten times richer than the person who chose to take \$1 million. That is the power (and the math!) of compounding interest.

How Much Do Americans Save for Retirement in PRAs?

The stark reality is that the typical American doesn't save enough for their sunset years. You can see the numbers in figure 17.17. The median savings in 2016 for people ages fifty-six to sixty-one was \$21,000, while the median amount for those between ages thirty-two and thirty-seven was nearly zero. It's no mystery why this is the case. Saving money for the future is a challenge when there are so many pressing financial needs today. The mantra "start early and save regularly" sounds good, but it's not possible or realistic for

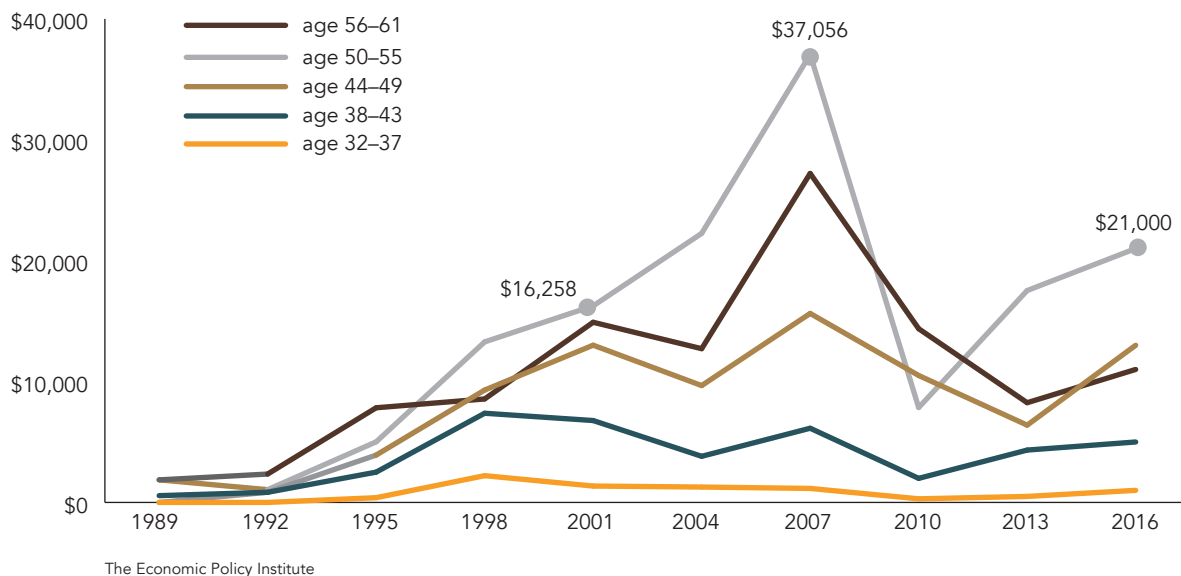


Figure 17.17
Median Retirement Account Savings, 2016

people in poverty or whose wages barely make ends meet. It can be a challenge for middle-class people, single parents, those with school loans to pay back, people buried in medical debt and credit card debt, and others.

How to get people to save more is a subject of interest to behavioral economists. They study factors that influence our economic decision-making. Some say the best way to get people to save is to make it simple. Instead of asking people to check the *opt in* box for a workplace retirement savings plan, they have to check the *opt out* box or money will be put into a plan for them automatically. A 2018 study found that nearly half of all private retirement savings plans are now automatic. Some even have an automatic increase built in, so workers' contributions to their retirement savings accounts rise over time. And in some states, employers who don't offer retirement plans automatically deduct 3 percent to 5 percent from paychecks and deposit them in employees' IRA accounts. It's up to workers to opt out if they don't want to participate.

Investment Instruments

If you want to grow your retirement savings so there will be enough in your account to support you when you're old, it won't work to stuff a few dollars under the mattress every week. The idea is to invest it so it will grow. Investment instruments are a service—in other words, they are products. There is a wide variety to choose from, and there is also a wide variety of investment strategies that you'll hear from experts. Investing is a mix of both instruments and strategies. There are a dizzying number of choices, with new innovations being created all the time. Here is a very quick tour of the main ways retirement nest eggs are currently invested by individuals, employers, and the government.

U.S. Treasury securities. These investments include Treasury bonds, bills, and notes. Think of

them all as government IOUs. When you buy one, you're lending money to the government with the promise that it will be paid back in a set period of time with **interest**, which is a sum of money you receive for making the loan. For example, you buy a \$100 Treasury bond, which the government promises to pay back in ten years along with 5 percent interest every year (\$5 per year). After ten years, the bond matures, and the government pays you back \$100. Now you have \$150 because you earned ten years' worth of interest on the bond, and this doesn't include the compound interest, which some U.S. Treasury securities pay. The Social Security Trust Fund is mostly invested in U.S. Treasury securities.

Corporate and municipal bonds. Just like a Treasury bond, when you buy a corporate or municipal bond (often called a *muni*), you're lending money to the firm, city, or county with the promise of being paid back with interest (but not compound interest).

Stocks. When you purchase stock in a privately owned firm, it means you own a share of the company (you are a **shareholder**). If the company's value goes up or down, so does the value of your stock. You grow your money by investing in stocks when you sell your shares for more money than you spent to buy them. Also, certain firms pay **dividends**, which are periodic payments to shareholders of a percentage of the profits. Dividends are another way to grow your money.

By the way, being a shareholder in capitalism is not the same as worker-ownership in democratic socialism. In a cooperatively owned firm, each co-owner has a vote and a voice in the firm's decisions. It is one worker, one vote. As a shareholder in capitalism, you are allowed to vote on a limited number of decisions, and the more shares you have, the more voting power you have.

Mutual funds, ETFs, and index funds. If you don't want to do the research and figure out which individual stocks and bonds to buy,

you can purchase bundles of stocks, bonds, and other securities. There are a variety of investment instruments that you can use. For example, you can buy shares of a mutual fund. These bundle together stocks, bonds, and other securities. Investors' money is pooled together and a professional fund manager oversees it for a fee. Or you can buy shares of an index fund. These bundles includes some stock from every company in a market index. You may have heard of the Dow Jones Industrial Average (known as the Dow), or the Standard & Poor's (S&P) 500. They use methodologies to track market performance. But since there are so many firms in the market, they focus on the biggest ones (500 of them for the S&P 500, for example). When you buy shares in an index fund, you're buying a small number of shares of *every* company in that market index. The idea is that if the value of one stock goes up or down dramatically, it has less overall effect on the value of the fund because that stock is only a small fraction of the fund. Exchange-traded funds (ETFs) are bundles that are similar to mutual funds and index funds, but offer more flexibility. You can trade them all day long, and generally the fees are lower. Whatever investment product you choose, you grow your money by selling shares for more than you paid to buy them.

Annuities. An annuity is a type of insurance that individuals purchase from an insurance firm. After making an initial investment and sometimes also paying an annual premium, the company invests the money and then pays out a set amount to you after a certain period of time. The time frame and amount vary depending on the annuity contract. Unlike a pension, you don't have to be retired to start receiving annuity benefits.

Certificates of deposit (CDs). Some banks, credit unions, and other financial institutions offer CDs specifically for retirement savings. They earn a fixed interest rate, usually compounded for a specific period of time. When that time is up, if

you'd rather not use the **principal**—the original sum of money put into the investment—you can roll it over into another CD and continue to earn interest.

People make many other types of investments to grow their nest eggs. A few of those include owning and renting real estate, owning or being a part owner of a business, buying cryptocurrencies and other currencies, and investing in art, gold, and other objects that gain in value.

One last note about investing. Analysts say that humans exhibit herd mentality when it comes to the stock market. We follow what other investors are doing, even if it's not rational. You might have heard the terms **bull market** and **bear market**. When the general prices of stocks rise over a period of time, it creates momentum in the market, meaning more people want to invest. When more people invest, that pushes values up even more. That's a bull market. Think of bulls aggressively charging forward. On the flip side, when the general prices of stocks go down over a period of time, investors lose confidence in the market and start selling their shares, which creates downward momentum in the market. That's a bear market. Think of bears retreating for a season to lie down and hibernate.

No one would argue that investing is risk-free. Even the most enthusiastic and seasoned investors say you will win some, and you will lose some. You could have bad timing or put your money in a business that fails. Also, sometimes herd mentality leads people to make risky investments, which is called **speculation**. People enthusiastically grab up shares in firms that show strong growth or potential, in the hopes of realizing a quick profit. That creates a buying frenzy, which gathers momentum. Now we have a **speculative bubble**, where the prices of shares exceed the intrinsic value of the company. Eventually, reality catches up, and the bubble bursts. Values for shares suddenly drop, and those who bought at a high price end up losing their shirts.

Not everyone has the stomach for risk, especially when their retirement security is on the line. Some people believe it helps to have a **diverse portfolio**, meaning a mix of different types of investments. They say, “Don’t put all your retirement nest eggs in one basket.” That way, if one of your investments takes a dive, you won’t lose everything. Others point out that the historical average annual return on investment in the stock market from 1957 through 2018 was around 8 percent.

The Backstory on Pensions

Who came up with the idea to pay people a monthly benefit when they reached a certain age and retired? The modern story of retirement pensions started with the Civil War. The federal government gave military pensions to Union soldiers who were injured—including women and African Americans who served—as well as the dependents of those who perished. The former Confederate states funded their own pension programs for their veterans. By 1893, more than a million Americans were collecting a military pension. In 1907, the rules changed to allow elderly veterans to receive a military pension. Many historians say this opened the door to the idea of a national government program for the elderly. Private pensions also became popular after the Civil War, especially in the banking and railroad industries. Offered as a benefit of employment, firms used pensions to recruit talented workers and to give older employees an incentive to retire and make way for younger replacements. They could be hired for less, since senior workers presumably had been earning raises for years.

By the mid-1900s, with prodding from labor unions, pensions were offered by corporations, educational institutions, and at all levels of government. The idea was that workers could look forward to reaching a certain age and retiring because they would have an income from their

Different Perspectives on Private Retirement Accounts

Radicals: 0% necessary. UBPs fully fund retirement, but PRAs might be desirable for fun money.

Conservatives: 100% necessary. PRAs fully fund retirement.

Liberals: 60% necessary. Social Security provides the other 40% to fully fund retirement.



pension. Some say this is where the notion of a retirement age originated. Before then, people worked until they were physically or mentally unable to do the job, but now—in theory—the end of their working years was the beginning of their golden years.

By 1950, a quarter of Americans working in the private sector participated in workplace pension plans—around 10 million people. By 1960, that number had doubled. But there were problems with pensions. To understand what was going on, you have to know that pensions are intended to give workers an incentive to stay with the company. They include provisions for how many years someone has to work in the firm to be **vested**, which means eligible to receive benefits. For example, after five years, a worker might be vested at 20 percent (own 20 percent of their pension contributions), and at thirty years, they would be vested at 100 percent. Different plans have different terms regarding vesting. Back to the 1960s, some employees complained that they were purposely laid off months or weeks before they were vested. Others lost their pensions when their firms went out of business. A famous example was the

carmaker Studebaker, which shut down in 1963. Nearly six thousand workers lost their jobs and pensions. It was devastating, especially for those who had been with the firm for decades.

There are many other examples of workers who lost their pensions when their employers went bankrupt or were bought out. This led Congress to pass the Employee Retirement Income Security Act (ERISA) in 1974. It required businesses to create **pension trust funds**—neutral third parties who manage the assets—to protect the money so it would be available when workers retired. The law also established the Pension Benefit Guaranty Corporation (PBGC), which insures pension funds in the United States. When an employer can't meet their monthly pension obligations, the PBGC steps in and pays the benefit up to a certain amount that is established by law. By the 2000s, most private pension programs had been eliminated, but government (local, state, regional, and federal) pensions were prevalent. In fact, 94 percent of government employees in 2018 were given the option to participate in a pension program.

A Brief History of Social Security

Many people think Social Security is a benefit everyone automatically collects once they turn a certain age. That is absolutely wrong. Only those who paid into the system for a certain amount of time during their working years are entitled to receive a benefit. Some people confuse this with welfare programs, which provide government assistance to low-income people. Social Security is a contributory **entitlement program**, meaning you are entitled to receive benefits only if you contribute a certain amount during your working years.

In 1935, President Franklin Roosevelt created Social Security. The official name is Old-Age, Survivors, and Disability Insurance (OASDI). The program is administered by an independent federal agency called the Social Security Administration.

OASDI is a tax that is automatically taken out of people's paychecks. Employers pay a matching amount, and the money is put in a trust fund. When people who have paid into the program reach the age of retirement (it was sixty-five when the program started), they are entitled to receive a monthly benefit. Ida May Fuller, a former legal secretary, was the first to receive a Social Security check, back in 1940. Her benefit was \$22.54 per month. In 2020 dollars, that's around \$420.

Social Security wasn't designed to fully replace the income that people earned when they were still working. It was meant to keep them out of poverty during their senior years by ensuring that they could meet their basic material needs—food, housing, utilities, clothing, and so forth. But for millions of seniors, it has been the main or only source of retirement income. In 2022, half of those receiving Social Security relied on their benefit for the majority of their income. And one in four relied on it for 90 percent of their income.

From the start, Social Security was a hard sell. Some called it *socialism* and said it was a threat to capitalism and democracy. Others criticized it for not going far enough to guarantee the financial security of all seniors. Roosevelt defended it, saying, "We have tried to frame a law which will give some measure of protection to the average citizen and to his family against . . . poverty-ridden old age." Social Security remains controversial, and you can still hear echoes of those same arguments for and against it.

Another criticism of the program was that it initially excluded many people. For example, those who were self-employed—including domestic workers—as well as nurses, farm workers, librarians, social workers, railroad employees, and government workers were not allowed to participate. That led critics to say it discriminated against women and people of color, who were over-represented in those professions. In 1950, most workers became eligible for Social Secu-

rity. Also in the 1950s, a cost-of-living adjustment (COLA) was added to the benefit, and in 1960, disabled people of all ages were added to the program. President Lyndon B. Johnson created Medicare and Medicaid in the 1960s, both of which are part of the Social Security Administration.

You might be wondering what happens to those seniors who don't qualify for Social Security benefits because they never worked, or didn't work for enough years, or didn't earn enough to qualify. In the 1970s, President Richard M. Nixon added a needs-based program called **Supplemental Security Income (SSI)** to provide financial support to the blind, disabled, and elderly who didn't qualify for Social Security benefits. It doesn't use money from the Social Security Trust Fund but is funded through other taxes.

In the 1980s, President Ronald Reagan changed the **full retirement age (FRA)** to sixty-seven for those born in 1960 and later, because the program was in danger of becoming insolvent. He also made Social Security benefits subject to income taxes for the first time. In 2000, President

George W. Bush proposed partially privatizing Social Security, turning it from a social insurance program into a PRA. He wasn't able to get support from Congress for this idea, but it continues to be floated as an option by some Republicans.

Social Security Benefits

If you receive a paycheck, then you probably noticed something called **FICA** on your pay stub. It stands for **Federal Insurance Contributions Act**. Money is automatically deducted for various payroll taxes, including your contribution to Social Security, and employers are required to pay a matching amount on their employees' behalf. Self-employed people pay the whole amount. But not all income is subject to FICA Social Security. The shaded area in figure 17.18 shows the maximum taxable earnings. In 1940, it was \$3,000, so anyone who earned more than that amount paid FICA Social Security only on \$3,000. In 2020, the maximum was \$137,700. The orange line in figure 17.18 shows the percentage of FICA Social Security

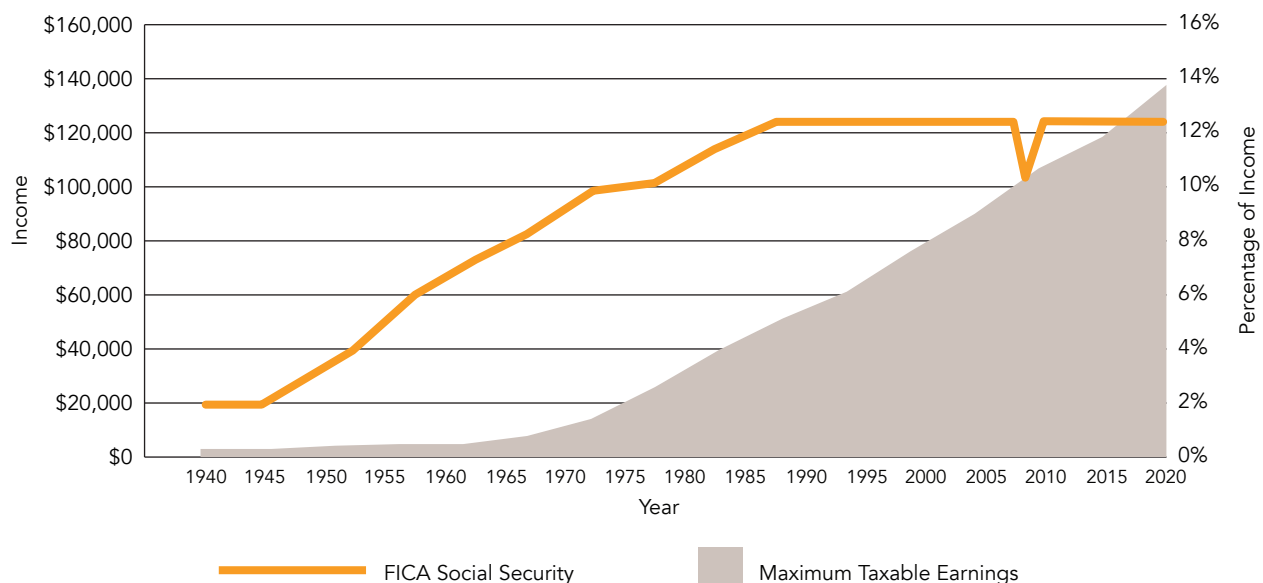


Figure 17.18
Social Security Tax Rate and Maximum Taxable Earnings

that workers and employers had to pay. In 1940, it was 2 percent. (In case you're confused reading the graph, the orange line relates to the label on the right, *percentage of income*.) In 2020, it was 12.4 percent—6.2 percent paid by the worker, and 6.2 percent paid by the employer. You can see that FICA Social Security has stayed steady since the mid-1980s up to 2020, with a curious dip. The government lowered it by 2 percent during and after the financial crisis of 2008.

If you don't like the idea of a portion of your income being deducted automatically to pay for Social Security and Medicare, you might be tempted to get paid *under the table* or *off the books*, meaning you don't report that income to the Internal Revenue Service (IRS), which collects our taxes. Beware! Not only is this illegal, but you won't be eligible to receive Social Security benefits when you're older.

The maximum benefit amount a person could collect from Social Security at full retirement age in 2020 was \$3,011 per month. Of the 64 million people receiving Social Security that year, the average benefit was \$1,500. You might be wondering how the benefits are calculated. Great question. I'll explain, but before I do—full disclosure: you can just look it up online if you have a Social Security number. Even so, it's interesting to know how it is calculated because it tells you how the choices you make during your working years could affect your income in retirement.

Qualifying for Social Security benefits.

First of all, you won't receive a penny if you haven't worked for a minimum of 40 quarters (three-

You won't be eligible for any Social Security until age sixty-two (early retirement), so if you want to get the retirement party started before then, you'll have to find another way to afford it.

month blocks), which is a total of ten years. But those quarters don't have to be consecutive. Good to know, right? If you take off a few years to raise children, go back to school, or write a novel, you won't have forfeited your opportunity to collect Social Security. You also have to earn a minimum amount of money each quarter for it to count toward qualifying you for Social Security. In 2020, it was \$1,410

per quarter. Please keep in mind that you won't be eligible for Social Security until age sixty-two (**early retirement**), so if you want to get the retirement party started before then, you'll have to find another way to afford it.

Average indexed monthly earnings (AIME). Here is how your benefit will be calculated when you decide to retire at some point after age sixty-two. First, take the amount of income you earned for all your working years and pick the top thirty-five years. If you worked for fewer than thirty-five years, count the years you didn't work as \$0 income. Then, convert the income for each of those years into today's dollars. You can look it up on an inflation calculator. This is called your indexed earnings. For example, if you earned \$12,000 in 1955, that money in 2022 terms (taking inflation into account) is \$131,820.90. Next, add all indexed earnings for 35 years and divide the total by the number of months in thirty-five years (420). The result is your **average indexed monthly earnings (AIME)**.

You can probably see right away why it's helpful to keep this calculation in mind when you make choices about your career. Let's say you have a late start to your work life. When you reach

the age of retirement, and you haven't worked for thirty-five years, all those years that count as \$0 drop your average. Also, if you work abroad for a foreign firm that isn't part of the Social Security system, then those years of earnings don't count toward your AIME. My friend's son played professional basketball overseas in Germany. He earned good money, but none of those years count toward his Social Security. This same friend's husband earned money for years but didn't report it to the government (which is illegal), so that didn't count for him, either.

Primary insurance amount. Your AIME is not the end of the story. Your monthly Social Security benefit check is a percentage of the AIME called the **primary insurance amount (PIA)**. How the PIA is calculated is a bit roundabout. Each year, the Social Security Administration identifies two average monthly income thresholds (called

bend points). Once your AIME reaches one of these thresholds, the percentage you receive as a benefit goes down. Let's say the first bend point was \$960 and the second is \$5,785 (these were the actual numbers in 2020). Your benefit is 90 percent of the first \$960 of your AIME, and if your AIME was higher than \$960, you also receive 32 percent of the amount between \$960 and \$5,785. Plus, if you earned more than \$5,785, you receive 15 percent of the remaining amount above \$5,785. Add all those together and you get your Social Security benefit. But please remember that there is a maximum allowed amount—\$3,011 in 2020. Check out figure 17.19 to see what the PIA calculation looks like. To keep the math simple, we use \$1,000 for the first bend point and \$4,000 for the second.

Let's talk through what's happening in figure 17.19. Wayne has an AIME of \$1,000. Since \$1,000

Case	AIME (Average Indexed Monthly Earnings)	1st Bend Point Ex: \$1,000	2nd Bend Point Ex: \$4,000	PIA (Primary Insurance Amount) .9 (Bend Pt 1) + .32 (Bend Pt 2 – Bend Pt 1) + .15 (Additional Income)
Wayne	\$1,000	\$1,000	\$4,000	.90 x \$1,000 + .32 x 0 + .15 x 0 = \$900 (90% of AIME)
Casey	\$4,000	\$1,000	\$4,000	.90 x \$1,000 + .32 x \$3,000 (\$4,000 – \$1,000) + .15 x 0 = \$1,860 (46.5% of AIME)
Maria	\$6,000	\$1,000	\$4,000	.90 x \$1,000 + .32 x \$3,000 (\$4,000 – \$1,000) + .15 x \$2,000 (\$6,000 – \$4,000) = \$2,160 (36% of AIME)

Figure 17.19
Calculating the Primary Insurance Amount (PIA)

is also the first bend point, his PIA is 90 percent of \$1,000, which is \$900. Easy, right? Wayne's PIA is 90 percent of his AIME.

Casey has an AIME of \$4,000, so she gets 90 percent of the first \$1,000, plus 32 percent of the next \$3,000. Her PIA comes to \$1,860. The second bend point was relevant because she earned more than \$1,000. Her PIA is 46.5 percent of her AIME.

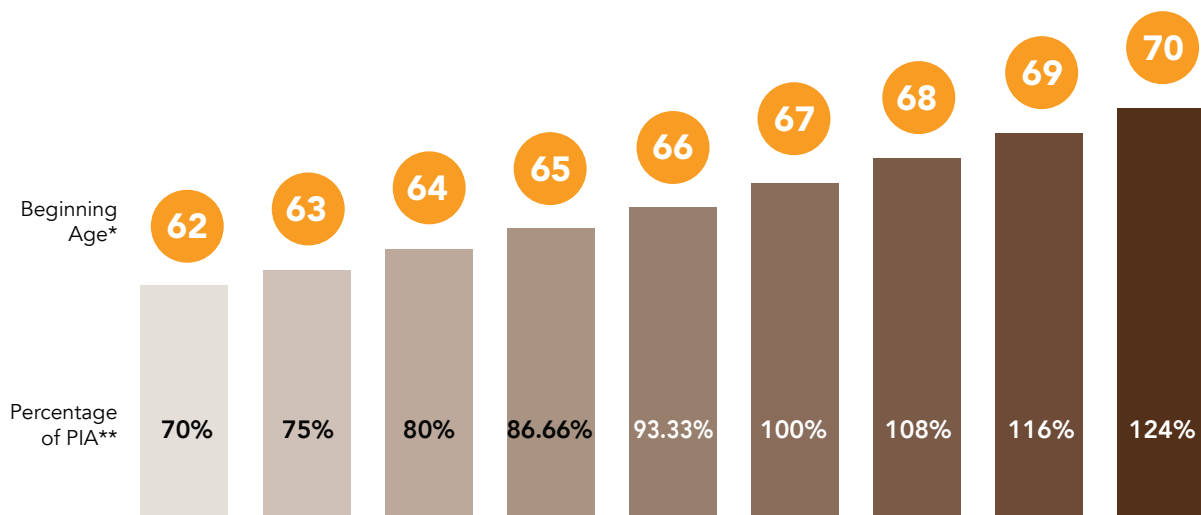
Maria has an AIME of \$6,000, so she gets 90 percent of her first \$1,000, plus 32 percent of her next \$3,000, plus 15 percent of the remaining \$2,000. Her PIA comes to \$2,160, which is 36 percent of her AIME.

Let's see if you can calculate Derek's PIA. He has an AIME of \$2,000. Can you tell him how much his Social Security benefit will be? (If you calculated \$1,220, you are correct. The equation is $.90 \times \$1,000 + .32 \times \$1,000 + .15 \times 0 = \$1,220$. Derek receives 61 percent of his AIME.)

Progressive benefits, regressive funding. Social Security *benefits* are **progressive**, meaning low-income earners receive a higher percentage of their AIME than high-income earners do.

You can see that in figure 17.19, where Wayne, the lowest earner, had a higher percentage of his AIME than Casey and Maria. Casey, who earned less than Maria, had a higher percentage of her AIME than Maria. But while Social Security benefits are progressive, Social Security *funding* is **regressive**, meaning lower earners make proportionally higher contributions to Social Security. High-income earners pay in for only a certain amount of their income—in 2021, it was \$142,800. If you earn \$10 million, you won't pay even 1 percent of your income into Social Security. Just to let you know, people on every side of this debate have strong feelings about the funding of Social Security being regressive and the benefits being progressive.

Full retirement age (FRA). The age at which you retire affects your benefit, as you can see in figure 17.20. The longer you work (up to a point), the bigger your benefit. Be forewarned that most of the decisions you make about your Social Security benefits are irreversible, including the age at which you start to draw on your Social Security. In 2020, the earliest is age sixty-two for



* Represents Full Retirement Age based on date of birth 1960 and later

** PIA = The Primary Insurance Amount is the basis for benefits that are paid to an individual

Figure 17.20
Effects of Early and Late Retirement on Benefit, 2020

those who were born after 1960, but if you start claiming your benefit then, you'll receive only 70 percent of it for the rest of your life. For each additional year you wait to claim your benefit you'll receive a slightly higher percentage. At age sixty-seven, you are entitled to 100 percent, and if you wait until age seventy, it's 124 percent. The percentage stops going up after age seventy. Please be aware that these ages could change when you're ready to retire. And please keep in mind that whichever percentage you initially receive of your Social Security benefit will be the one you continue to receive for the rest of your life. However, you can change

your mind once within the first twelve months of receiving your benefit. After that, the percentage you receive is locked in.

One more important thing to consider when you think about claiming your Social Security is that you don't actually have to stop working and earning an income if you claim your benefit at full retirement age (FRA) or older. But if you claim your benefit before FRA, there is a limit to how much you are allowed to earn from a job. In 2020, it was \$18,240. People who earned more than that lost some of their Social Security benefit—\$1 was withheld for every \$2 earned above the limit.

Cost-of-living adjustments (COLAs). Social Security is tied to the cost of living. When prices on average go up (inflation), the benefit is adjusted up. For example, in 2020, Social Security benefits went

One more important thing to consider when you think about claiming your Social Security is that you don't actually have to stop working and earning an income if you claim your benefit at full retirement age or older. But if you claim your benefit before then, there is a limit to how much you are allowed to earn from a job.

up by 1.6 percent. How was that number decided? The COLA is determined by the Consumer Price Index (CPI), which looks at the changes in prices of a basket of goods and services that an average person living in an urban area would buy. Some say this is unfair because the basket of goods doesn't include the things that seniors need, such as walkers, home health-care workers, hearing aids, and medications. That has led some to say that there should be a CPI-E (E for *elder*) to measure the true cost of living for seniors.

Marriage. If you're married, you can choose to receive 50 percent of your partner's benefit or

the full amount of your own benefit when you retire. Your spouse continues to receive 100 percent of their benefit as well. What happens to your Social Security if you lose a spouse? When a spouse dies, the survivor is entitled to 100 percent of the spouse's benefit or they can keep their own—whichever is higher. This is void, however, if one spouse kills the other. (I find it alarming that this was a big enough problem that it had to be written into the rules!) By the way, people only have to be married for one day to be entitled to 100 percent of a spouse's benefit in the event that they die. This was an often-cited point in the fight for marriage equality.

Divorce. Those who were married for a minimum of ten years before divorcing have the option of collecting 50 percent of a living

ex-spouse's benefit or 100 percent of their own. They may also opt to receive 100 percent of a deceased ex-spouse's benefit instead of their own. What happens when a person was married several times? These options are available to each ex-spouse as long as the marriage lasted for a minimum of ten years.

The Social Security Trust Fund

Today's Social Security benefits are paid from the Social Security Trust Fund, officially known as the **Old-Age and Survivors Insurance (OASI) Trust Fund**. This is where payroll taxes from current workers are kept, plus the principal that's already been collected and the interest earned on investments over the years. By law, the trust fund can be invested only in nonmarketable securities, which are investments that aren't traded in a market. Unlike stocks, for example, whose value can change, these investment tools have a set value that won't change. They are mostly Treasury bonds, Treasury bills, and other government securities. The rate of return is typically low, and so is the risk. As of 2019, the OASI Trust Fund totaled \$2.9 trillion.

The idea from the start was to manage the trust fund so that it would never run out, but demographic changes put the fund in peril. Since today's workers fund today's retirees, and tomorrow's workers fund tomorrow's retirees, birth and death rates must be considered. In 2020, the United States experienced the confluence of lower birth rates, higher life expectancy, and the "silver tsunami" of 76 million Baby Boomers who started to retire in 2010. When I was born, in 1960, there were five workers for each retiree in the United States. By 2005, the ratio was around three workers to one retiree. By 2040, it will be close to two workers for every one retiree. The future of Social Security as it is currently designed is uncertain. Beginning in the 2010s, Social Security benefits exceeded Social Security funding for the first time ever.

In figure 17.21, on the y -axis, the trust fund ratio relates to the combination of money already in the fund, money paid out in benefits, and money coming in from FICA Social Security. At 100 percent, there is enough to pay benefits to all who are eligible. At 200 percent, the fund has twice the amount needed to pay Social Security benefits to all who are eligible, and so forth. The alarm-

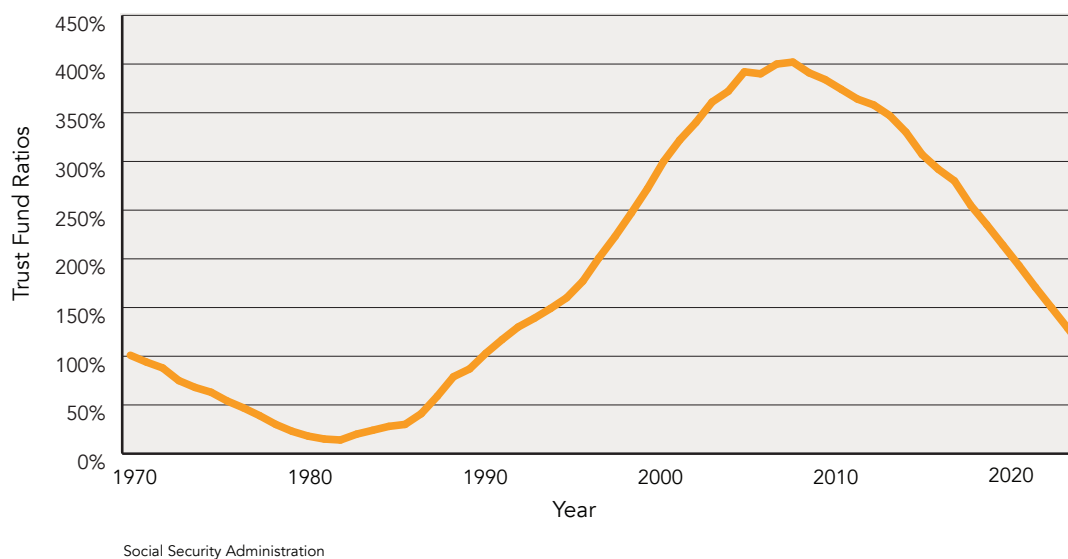


Figure 17.21
OASI Trust Fund Ratios

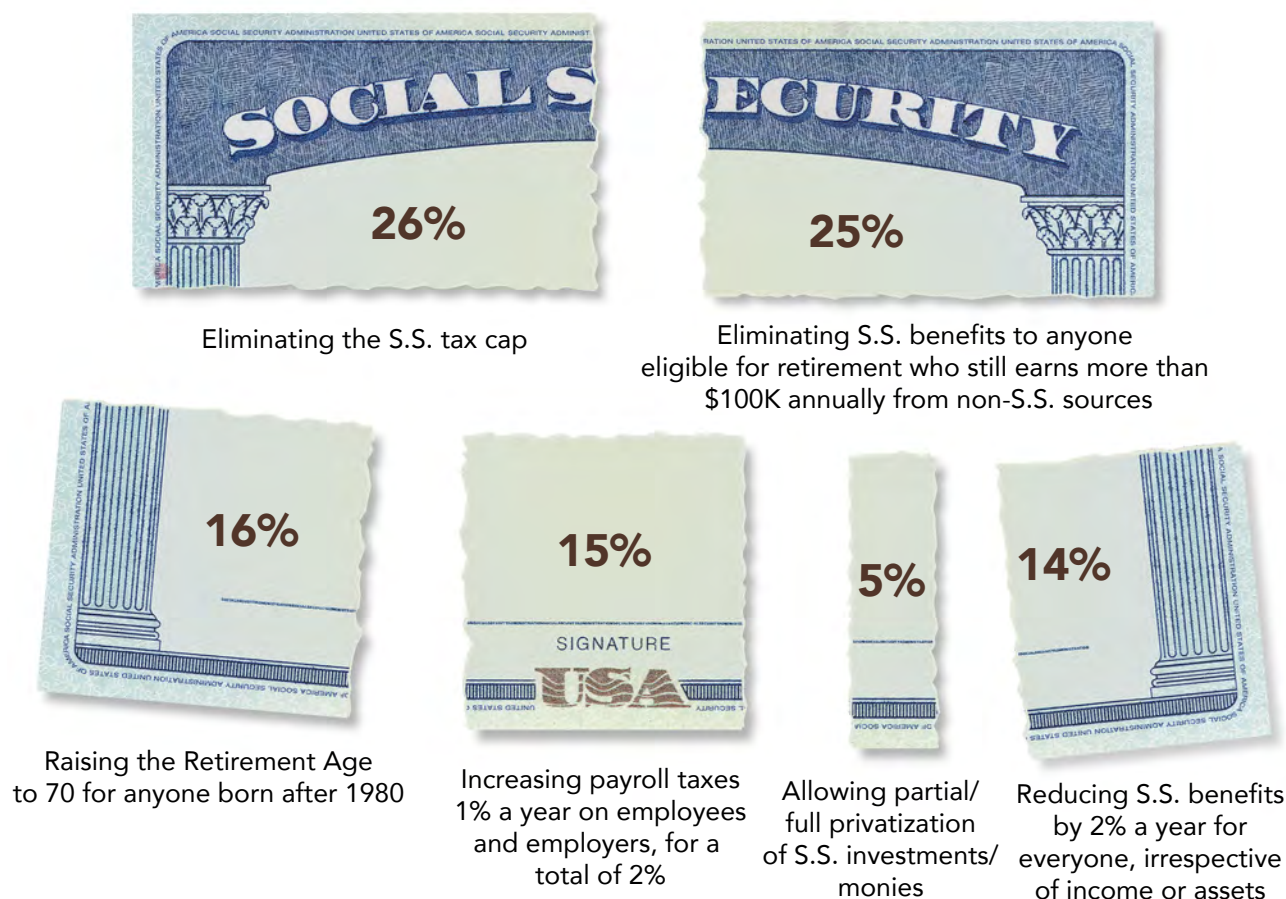
ing news is that, as estimated in 2020, by 2034, if nothing is done, the trust fund ratio will be \$0. All people who are eligible to receive it will be out of luck. The projections change slightly from year to year, but overall they have been dire for decades, leading people from every perspective to demand a solution.

There have been many proposals to fix the Social Security system. Some want to end the income cap so that people pay Social Security taxes on their full income (in other words, end regressive funding). Others call for a reduction in Social Security bene-

fits to stretch the fund so it will last longer. Another proposal is to bump up the FRA to seventy. Some want to eliminate Social Security benefits for those who have more than \$100,000 in other annual retirement income. There are also calls to increase payroll taxes on workers and employers by 1 percent each, or to eliminate it altogether and privatize Social Security. Figure 17.22 shows the results of a 2013 survey about how to fix Social Security. The percentages indicate the popularity of each proposed solution. As you can see, none of them was supported by a majority.

Fixing Social Security

No consensus among U.S. adults on best remedy



Courtesy of VeraQuest

Figure 17.22
Public Opinion on How to Fix Social Security, 2013

I love to walk along train tracks, but when I grew up, my parents always warned me never to touch the third rail because I could be electrocuted (even though only subways have third rails that carry electricity). Social Security is often called the *third rail of politics* because people don't want politicians to touch it. A 2019 poll by the Pew Research Center found that 74 percent of Americans are against any reduction in Social Security benefits. It is a very popular program among people from all walks of life. In that same poll, non-retirees were asked about their confidence in the future of Social

Security, and only 16 percent said they believed Social Security would offer the same level of benefit when they retired, while 42 percent expected the benefit to be reduced from its current level, and another 42 percent believed there would be no benefit when they are eligible to retire. While 84 percent of people in this study were concerned about the future of Social Security, 100 percent of economists from every perspective agree that it can't possibly ensure retirement security in its current configuration. They either want to replace it, reject it, or reform it.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of retirement security. You learned the tools needed to analyze

competing ideas about the economic vulnerability of seniors. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on Retirement Security

Radicals, conservatives, and liberals all agree that seniors' economic vulnerability is a problem, and they share the same goal of ensuring care and peace of mind for the elderly. But they have very different approaches to achieving it. Should financial assistance be guaranteed as a social safeguard to everyone in society? Should we rely on private retirement accounts to fund the sunset years? Should we use a combination of Social Security benefits and private retirement accounts? The policy we currently follow is Social Security supplemented with private retirement accounts in capitalism, which is why we described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the

radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and discuss this issue from each point of view. As always, please remember that the VOTE Program doesn't take a particular position on this or any other issue. We're just channeling the voices of the perspectives so you can draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced.

For this issue, the radicals will go first.



Radical

Voice on Retirement Security



Retirement
Security

My friend who couldn't remember which box he'd checked for his retirement savings had a bigger problem than he realized. Either way, he was not guaranteed a secure financial future. In capitalism, one bad investment, market crash, or scam can wipe out our life savings. You save diligently in private retirement accounts, and suddenly you have nothing. If you're retired, you don't have time to wait for the market to recover. Workplace pensions are no better. They are bankrupted by mismanagement, raided by profiteers, and threatened

by changes in the regulations by lawmakers, who don't represent the will of their communities but are in the pockets of private owners. None of us can count on Social Security, either. With the stroke of a pen, benefits are reduced, the age of retirement moves up, the number of years we have to work increases, cost-of-living adjustments are cut, while government mismanages the fund and drains it dry. There is no policy or program in capitalism that can ever create true retirement security because this economic system is rigged against the worker. From the first day on the job to the last, we are paid only a small fraction of the value that we contribute. Just think of the tens of thousands of students my friend taught. Did his income ever reflect the value of his labor? No! The university stole it from him through workplace exploitation. All employers in capitalism do this. They have to if they want to

survive. Because we're ripped off in every job we have, our retirement savings are drastically lower than they should be. Capitalist owners squeeze every last penny of profit from us, but the minute we slow down, they push us out the door. They swiftly replace us with machines or with younger workers who will work for less. It's heartbreaking. We dedicate our lives to making our contributions to society, but when we're no longer productive, society has no use for us. There will be no retirement security until we decide we've had enough of being treated this way and finally demand democratic socialism.

Let's consider the Six-Core Cube of democratic socialism and drill down into the core point of *social safeguards*. As a society, we recognize that we are mutually dependent on one another, so we allocate resources to ensure that everyone's basic material needs are met. From birth to death, each

one of us is guaranteed a decent place to live, nutritious food, first-rate health care, convenient public transportation, elder care, and retirement security. These guarantees are not tied to income. They're tied to our humanity. So imagine you retire. You don't have to worry about affording a decent retirement even if you have no personal savings or pension from your worker-owned firm. You and every other retiree can count on having a guaranteed retirement income that ensures your material well-being. You and every other senior have a right to be cared for by society in this way. If you were able to work, you funded others' retirement security as well as your own. But it's not just about being paid back. It's about valuing and appreciating the paid and unpaid contributions each of us makes to society throughout our lifetimes. Whether you drove a bus, wrote plays, or pioneered a new area of medical research, in democratic socialism, your efforts are respected and rewarded. Instead of being thrown away by society in your old age, your hard-earned wisdom and knowledge are a cherished resource. During

phase 1 *go, go, go* retirement years, you mentor younger people and serve as a volunteer on community councils, where your years of experience are a valuable asset. As you move into the *slow go* of phase 2, and it's no longer as easy to walk, cook for yourself, or figure out the new gadgets, your income benefit increases to help you cover new expenses such as putting in a wheelchair ramp, having prepared meals delivered, and other care you might need. When you reach phase 3, your guaranteed retirement pension increases again so that you can pay for equipment and assistance to end your days peacefully and comfortably. In democratic socialism, this picture of retirement isn't just for the wealthy; it's for everyone.

When I taught sixth grade, I started an elective called *Los Amigos*. Every week, my class read the newspaper and identified a story about a controversial issue. Then we walked over to the neighborhood senior center, where students and elders paired off to have a conversation about it. "There's been a 10 percent increase in animal abuse in the county," a student would tell a retiree. "What do you think about this situation?" A lively discussion would ensue. It turned out to be an eye-opening experience for me, but not in the way I expected. I knew the senior center was the hub of the low-income neighborhood, but I didn't realize how vital it was to the survival of so many. In the broiling hot months, seniors came for the air conditioning, which most didn't have or couldn't afford. In winter, it was a place to keep warm when they couldn't afford to turn the heat on at home—if they had a home. A shocking number were homeless. For too many, their only meal of the day was the free lunch the senior center served Mondays through Fridays. In capitalism, poverty is a heartbreaking reality for millions of vulnerable seniors. But it doesn't have to be this way. When retirement security is treated as both a right for all and a responsibility that we share as a society, we make a commitment to pro-



Figure 17.23
Radical View: Retirement Security

vide the care that we're all bound to need one day—if we're lucky enough to live to old age. More than just money is returned from this investment. We invest in one another and improve everyone's quality of life. When our loved ones have what they need, we can spend more time with them rather than being forced to take on an

extra shift to pay for their housing and medical expenses. Guaranteeing every senior a dignified and financially secure old age lifts the burden of worry from people of all ages and creates a thriving society.

If you've ever been inside a casino for any reason, then you've experienced what architects call "hostile design." The space draws you in and then promptly gets you lost. You're in a maze of rooms leading into more rooms that all look the same—the flashing lights of slot machines, the clusters of green card tables crowded with players. The urgent sounds of ringing bells, the shouts of players—the whole effect is meant to excite and mesmerize you, while the glitzy opulence is meant to provoke your status anxiety. You start to wish you were a high roller. You want to feel what it's like to be a big winner. Everything that's happened to you since you walked into this trap was designed with one thing in mind: to get you to lay down a bet or swipe your credit card at the slots. After all, the casino owners don't make any profit if you don't play. Hostile design is intended to lure you into shutting off that part of your brain that knows the game is rigged against you so you'll gamble away your money. Even though you know the odds are against winning, you do it anyway. This is also the hostile design of capitalism. We're tricked into believing we can be winners if we

When retirement security
is treated as both a right
for all and a responsibility
that we share as a society,
we can all sleep well
at night.

just play the game. Manipulated and disoriented by the glitter and glitz of all the stuff we can buy and all the things we're supposed to want, we lose sense of what's important and what has meaning. Even when we know it's rigged against the 99 percent, we keep feeding our money, our time, and our hopes into the capitalist machine.

Once we're broke or age out of being useful as profit-generating resources, we're kicked to the curb. We know this, yet we stay in the game of capitalism anyway. Just like at the casino, we're tricked into believing everyone is winning all around us, so we should double down and try harder—put more money in the stock market, try a riskier investment—and then blame bad luck when we lose. But it's not bad luck that leaves us desperate and poor in our old age. It makes no difference whether we have private retirement accounts or Social Security. In this rigged system of capitalism, we're all set up to lose in the end.

Conservatives, leaving our financial security to private markets in capitalism is basically a scheme to pick our pockets today after you mugged us yesterday. In capitalism, workers are exploited across the board, and the working poor don't even have a penny to save—in fact, they are forced into debt just to cover their basic needs. People who somehow manage to accumulate a nest egg in a PRA despite private owners stealing the value of their labor are then robbed again by stock market profiteers in your private-ownership stock market. Herd mentality causes dips, dives, and crashes as people recklessly pursue profit. Seniors lose out, and they don't have years to wait for the market to recover. That's the money they need to live on today. Meanwhile, you stubbornly

insist that this is the best option for securing our financial futures in old age. Even when the market is up, free-market capitalism is shark-infested water for vulnerable older people. They fall prey to bad investments, scams, and risky ventures. Even in your best-case scenario, no one wins in capitalism because your so-called healthy returns come from exploiting workers, profiting from child labor, capitalizing on civil wars in oil-rich nations, despoiling traditional lands of Indigenous people through mining, poisoning waterways, and dragging us closer to extinction from global climate change. No one will be able to enjoy their retirement in a beachfront condo when the oceans rise. Cancel that around-the-world cruise and get ready for twelve months of hurricanes. And forget about playing golf every day because triple-digit heat and drought are the new normal. Throughout our working lives, the drive for profit runs us over, and when we're old and no longer productive, we're dumped by the side of the road. Then you pull over, roll down your window, and deliver a sanctimonious lecture. "You bought those expensive lattes? You took a trip to Disneyland? Then you have no one but yourself

to blame." You drive off and leave us struggling to survive on our own. Since there is nothing more to steal from us, we are no longer relevant in your system of free-market capitalism.

Liberals, here's a joke for you: "I was going to tell you a joke about Social Security, but then I realized . . . you won't get it!" This is not so funny for the tens of millions of people who paid into Social Security and won't get it. They'll have nothing to show for their years of mandatory contributions when they're ready to retire. But even if you plug a few leaks in the trust fund, Social Security can't be fixed because it's built on a warped foundation. Workers already don't receive the value of their labor from private owners—they are exploited. Then you base their retirement benefit on those unfairly low wages. In the richest nation on Earth, our elders are eating cat food—and that's *after* they collect their Social Security benefits. This situation should make us all sick to our stomachs. It's designed for 40 percent of a retiree's needs, but half of older adults depend on Social Security to cover the majority of their expenses. And for one in four elders, it is 90 percent of their income. People who do the proud, necessary, and



honorable work that raises the standard of living for everyone can look forward to being discarded when they can no longer do their jobs, being forced out because younger workers are cheaper, or being replaced by machines. And how does your top-down government respond? It partners with industry to enable and even strengthen this system of exploitation. Social Security funding in fair-market capitalism unfairly burdens the poor, invests the revenues badly, and then returns a miserly portion—if we're lucky. By design, Social Security doesn't guarantee that seniors will be able to fully meet their material needs in retirement. You liberals use pensions and PRAs to close the gap, but PRAs are no better than gambling at the craps table, while pensions are used as piggy banks for corporate executives and government bureaucrats, who raid them regularly and then turn around and cut retirees' benefits. All this is perfectly legal in capitalism. In the meantime, Social Security—the centerpiece of your liberal plan—isn't guaranteed. Not only could the trust fund run dry, but the program could be dissolved tomorrow by an act of Congress. The evidence of the 360-degree failure of your policies are the millions of seniors suffering in poverty because there is no real social safety net. We're all out of luck in fair-market capitalism.

We should replace the current policy of Social Security in capitalism with a universal basic pension (UBP) supplemented by optional worker-owned pension plans in democratic socialism to ensure care and peace of mind for the elderly. Easily funded through progressive taxes, the UBP is sufficient to ensure everyone's material well-being in old age, so the burden of stress and worry about survival is lifted from this vulnerable population. It benefits all of us to live our lives knowing that our financial futures are secure. We can leave a job that is unsatisfying to start

something new, bringing exciting ideas and innovations to the world because we don't have to worry about taking a risk and ending up poor in our old age. The UBP recognizes that everyone's contributions to society are valuable, no matter if they spent a career baking bread, unloading trucks, finding cures for diseases, or raising children. Regardless of what they earned when they were working, every person receives the same UBP benefit. And the program is flexible, because those who worked in jobs that were hard on their bodies—construction, domestic service, and so forth—and those who worked at desks in climate-controlled offices may need to retire at different ages. The retirement security community council factors these and other considerations into the UBP program so that different circumstances are addressed fairly. In combination with other guarantees such as health care, transportation, and community elder care services, the UBP enables seniors to make the most of their retirement years. With guaranteed financial security, they can relax, pursue their hobbies, spend time with family, and more. They can also volunteer as workplace mentors, tutors, community council members, and in other areas. This creates opportunities for them to feel connected and valued by society and for younger people to benefit from their unique wisdom and experience. And if retirees also happen to have supplementary pensions from their worker-owned firms, then they'll have even more discretionary income (fun money) to play with in their golden years. But it isn't necessary, because the UBP and other social safeguards give every senior the means to enjoy their golden years with dignity. With UBPs in democratic socialism, we can all have the comfort we need, the care we need, and the peace of mind we need to enjoy the last stage of life to its fullest.

Radical

Democratic Socialism



Retirement
Security

BIG PICTURE

Guaranteeing every senior a dignified and financially secure old age lifts the burden of worry from people of all ages and creates a thriving society.

POLICY POSITION

Seniors are economically vulnerable, but . . .

- ▶ Conservative policies force us to gamble with our retirement nest eggs in a high-risk system of profiteering, and then blame seniors for being poor.
- ▶ Liberal policies are not guaranteed and are based on a flawed design of exploitation and miserly returns, which puts our future well-being at risk.

SOLUTION

Replace Social Security in capitalism with a universal basic pension (UBP) supplemented by optional worker-owned pension plans in democratic socialism to ensure care and peace of mind for the elderly:

- We are free to make unique contributions during our working years.
- Retirees are a treasured resource in society.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Retirement Security Talking Points: Radical

1. In democratic socialism we recognize that we are mutually dependent on one another. That's why we allocate resources to ensure that everyone's basic material needs are met by society from the beginning of life to the end. In our golden years, we don't have to worry about being poor. Social safeguards work because they're not tied to income; they're tied to our humanity. We all have a right to care and security in old age because we're human beings.
2. Even without personal savings or a pension from your worker-owned firm, you and every other retiree can count on having a guaranteed retirement income that ensures your material well-being. Everyone has a right to be cared for by society in this way. If you were able to work, you funded others' retirement security as well as your own. But it's not just about being paid back. It's about being valued and appreciated for your unique paid and unpaid contributions during your younger years and as a senior citizen.
3. Conservatives, leaving our financial security in the hands of private markets is a scheme to pick our pockets today after mugging us yesterday. The poor don't have a penny to spare and the wealthy are one stock market crash away from destitution. No one wins in capitalism because your so-called healthy returns come from exploiting workers, profiting from child labor, despoiling traditional lands of Indigenous people, and dragging us closer to extinction from global climate change.
4. Throughout our working lives, the drive for profit runs us over, and when we're old and no longer productive, we're dumped by the side of the road. Then conservatives pull over and deliver a sanctimonious lecture. "You bought those expensive lattes and went to Disneyland? Then you have no one but yourself to blame." They leave us struggling to survive on our own. Since there is nothing more to steal from us, we are no longer relevant in their system of free-market capitalism.
5. Tens of millions of people who paid into Social Security may not get it, so the centerpiece of the liberal plan is clearly not a guarantee. Even if liberals keep the system limping along, Social Security can never be fixed because it's built on a warped foundation—the exploited wages of workers and taxes that burden the poor. By design it returns a meager benefit. That's why our elders are eating cat food even though we're the richest nation on Earth. This should make us all sick to our stomachs.
6. Liberals, it doesn't work to use pensions and PRAs to close the shamefully large Social Security gap. Investing in the stock market is no different than gambling our life savings away at the craps table. And pensions are piggy banks for corporate executives and government bureaucrats, who then turn around and slash retirees' benefits. The evidence of the 360-degree failure of your policies are the millions of seniors suffering in poverty right now because there is no real social safety net in fair-market capitalism.
7. The UBP recognizes that everyone's contributions to society are valuable, whether they spent their working years baking bread, unloading trucks, finding cures for diseases, or raising children. It benefits all of us to live our lives knowing that our financial futures are secure. We can leave a job that is unsatisfying to start something new, bringing exciting ideas and innovations to the world because we don't have to worry about taking a risk and ending up poor in our old age.
8. Seniors can make the most of their retirement years in democratic socialism. With guaranteed financial security, funded by progressive taxes, they can relax, pursue their hobbies, spend time with family, volunteer, and more. And if they also happen to have supplementary pensions from their worker-owned firms, then they'll have even more "fun money" to play with in their golden years. But it isn't necessary, because the UBP and other guarantees give every senior the means to enjoy their golden years with dignity.

Conservative

Voice on Retirement Security



Retirement
Security

I sincerely hoped that my friend checked the box for private retirement savings. It's the only way he'd be able to have real financial security. Just look at the historical rate of return in the stock market and compare it to the rate of return when government is in charge. Which should he choose? That decision is a no-brainer. Invested in stocks, bonds, and mutual funds, his money would have doubled on average every seven years. The benefit from a state pension fund would be a fraction of that. And the money isn't really his. Pensions are doled out in dribs and drabs, and he would always have to worry about bureaucrats changing the rules on a whim. The carpet could be pulled out from under him just as he is ready to retire. Suddenly, they require more pre-retirement contributions, or are telling

him he has to work longer to qualify, or they come up with another regulation that keeps him stuck. Let's say my friend socked away money in a pension. Paycheck after paycheck, he let the state take a bite out of his earnings. What good would that do him at the end of life, when he can't leave a penny of it to his children and grandchildren because pensions can't be inherited by the next generation? Some people say it's worth trading their freedom and some of their wealth to have the peace of mind of a government-managed retirement fund. But that's wrong thinking. Relying on any government-managed retirement plan is a big risk. Just read the news about all the state pen-

sion funds that are teetering on the edge of bankruptcy because of mismanagement. Don't even get me started on the Social Security program, which siphons off our income without even giving us the option of checking the box and which is on the verge of collapse. The safest choice for all of us is to save and invest our retirement nest eggs as we see fit. No one needs a degree from business school to grow their accounts because there is plenty of guidance and advice available. Even with the ups and downs of the market, history shows that long-term investors come out way ahead.

Let's consider the production possibilities curve (PPC) in figure 17.24. In free-market capitalism,

we invest our private retirement accounts in stocks, bonds, and mutual funds. As our money grows, so does the economy. Economic growth is the Holy Grail. It means we have more of what we want and need as a society, including care for elders. We're going to take care of them—that's a given—and now we can do it without having to make painful trade-offs. We don't have to sacrifice new assisted living facilities for new roads or better national security. Here's how it works. First, the PPC shifts to the right because there is an increase in the quantity of resources—namely, labor. When income is no longer siphoned off in payroll taxes, more people are motivated to enter the labor force during their working years because now they can keep all their income. All the money that was previously taken out of workers' paychecks is now available to invest in PRAs. Next, the quality of resources improves, which shifts the PPC to the right. When people have more money saved for their retirement, their well-being improves because they aren't burdened with worry about an uncertain financial future and they are better

able to take care of their health. When they're healthy, seniors are more willing and able to serve as volunteers, mentors, and part-time workers in jobs they enjoy, if they choose. The PPC also shifts to the right because more PRAs lead to an increase in technology. People are allowed to keep all the money, so more are motivated to become entrepreneurs. They launch companies that bring us life-changing new goods and services and better ways to make existing products. Finally, the PPC shifts to the right because when more people participate in the market, the value of firms goes up. Companies are able to borrow money to increase their capital investment today, which sets up society for a prosperous tomorrow. Instead of being at point 1 and having to make trade-offs along the PPC, we have more of everything at point 2, including retirement security for the seniors who choose it.

My grandparents owned and operated several small businesses, but the one I remember best was a converted theater in Portsmouth, Virginia. There was a diner in the front that served breakfast, lunch, and dinner. At night, the back of the building turned into a club, with a long bar, a jukebox, and a pool table. The enlisted men from the nearby naval base were regulars. After my grandfather died, Grandma Miriam ran it on her own. When the time came to retire, she sold the building. Property values had gone down in the neighborhood over the years, so she didn't get much for it. But she didn't worry because she knew she was going to receive Social Security. During her working years, she had diligently deducted money every quarter to pay in. So it was a rude awakening when she learned that her benefit was not even half the amount she needed to maintain her modest lifestyle. Instead of relaxing and enjoying the last chapter of her life, she spent her days struggling to figure out how to make ends meet. My mother and aunt were happy to send her money every month, but my

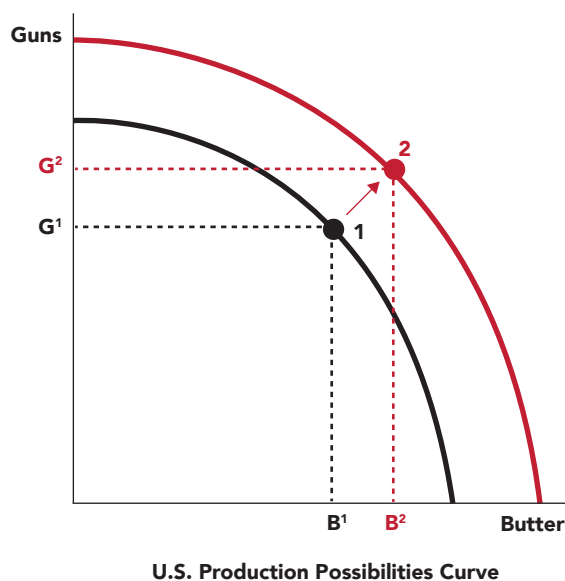


Figure 17.24
Conservative View: Retirement Security

grandmother hated to feel like a burden. It robbed her of her dignity to be supported financially by her children, and I'm sure she felt some bitterness that despite working hard and playing by the rules, she ended up poor in her old age. Millions of hardworking Americans believe the government will be there for them

when they retire, but then they end up living in poverty. It's a heartbreaking travesty. If the government hadn't siphoned off their income to fund mandatory Social Security through payroll taxes, they could have saved their hard-earned money, invested, and watched it grow. Government interferes in our private financial decisions and puts us at risk. When we are free to save and invest all our money in the ways that we choose, we can ensure our own financial security. We all deserve to have the liberty to pursue our dreams in our golden years. Complete privatization of retirement savings puts more money in the hands of elders and gives them autonomy, choice, security, and prosperity.

Risk is an inescapable reality of life. Just think about it. Getting a higher education is a risk, but if you don't do it, you will miss out on exciting and lucrative career options. Love is a risk, but if you don't put yourself out there, you will miss out on the close connections that make life rich and meaningful. Taking up running is a risk, but if you don't train, you'll never experience the deep satisfaction of crossing the finish line. There's an ancient Roman saying, "Fortune favors the bold." Another way to put it is, "No risk, no reward." Are there possible unintended consequences and unforeseen circumstances? Certainly. Are there downturns and moments of bad luck

When we are free to
save and invest all our
money in the ways that
we choose, we can
ensure our own
financial security.

or bad timing? Of course. But the wise take calculated risks after doing the research and weighing potential costs and benefits. Taoists describe life as a river. If you cling to the shore because you're afraid of being carried away by the currents, you'll never get anywhere. That's stagnation. You'll eventually shrivel up and die. On the

other hand, if you let someone shove you into the water, you risk slamming your head on a rock and going under. That's what happens when we let government make decisions for us. The best choice is to step into the river when you're prepared—after you've gotten solid advice about the river from experts. That's how you become a successful navigator of your own journey. Similarly, when it comes to your retirement savings, you want to be the captain of your own ship. You prepare by researching past performance of investments and future projections, and you map out your own savings goals and plan your strategy. No one cares more about your future financial well-being than you. You choose the level of risk that is comfortable for you and appropriate for your stage of life. Because you're highly motivated to take wise risks and embrace opportunities, you end up creating your own bright financial future.

Liberals, Social Security is a system of theft that you peddle under the guise of a social safety net we can all count on. That's ironic, since we all know it will inevitably fail. It kills me that all the money we are forced to hand over to the government during our working years is not waiting for us in accounts under our names and growing a few percent each year so that when we reach retirement age, we'll be financially all set. No, our money is being irresponsibly spent, loaned out,

and invested badly. Under government oversight, the OASI Trust Fund has been grossly mismanaged, but even if it had been managed well, the Social Security system would still collapse. It was built on a cracked foundation. From the start, it was designed to take money from today's workers and hand it over to today's retirees. Social Security doesn't create value. It just relies on future taxation. It's nothing but a Ponzi scheme that pits one generation against the next. With demographic changes, this ill-considered liberal program is on the verge of collapse. We're stuck on this sinking ship, but no one can jump into a lifeboat because we're not allowed to opt out of Social Security. And even though we're (unwilling) investors, we have no power and no say over what happens to our money. We're at the mercy of politicians. The rules and regulations of the Social Security program compound the problem. They create a disincentive to work hard because you liberals whittle away our paychecks, promise unrealistic payouts, and give us incentives to retire early. You also give firms a disincentive to create more jobs because government hits them with a 6.2 percent

payroll tax for every worker. Firms are cornered into shifting the burden onto the workers they do hire by cutting their pay by that amount. In effect, we each lose 12.4 percent of our income. The result is that Social Security shrinks the whole economy without actually giving us retirement security. And it gets even worse: government can change the terms of the program at any time. Bureaucrats decide when, where, how—and whether—we'll be paid back. To rub salt on the wound, we can't even bequeath our savings to our heirs. No wonder people don't like or trust the government.

Radicals, your universal basic pension is just a different name for what we already have: a forced, government-managed retirement savings plan that doesn't give anyone a secure retirement. But the UBP is even worse than Social Security because everyone gets the same amount, no matter what (if anything) they contributed to society. In what universe would a person bother putting in the extra hours and going the extra mile when the rewards are going to be exactly the same for sitting around and wasting time all day? You've



come up with a surefire setup for failure by guaranteeing retirement checks to all. And while you style yourselves as defenders of workers, you continually steal their hard-earned money without their consent and then redistribute it to those who don't work hard. You deny people their basic human right to be rewarded fairly for their contributions. Free handouts are economic sinkholes that encourage people to expect something for nothing and give them every reason not to work hard because there's no profit incentive to grease the wheels of effort and innovation. You love to talk about democratic socialism creating well-being, but what it actually creates is a totalitarian state where the masses have no power and no say over their own financial lives. To make it worse, your ideas can never generate the means to fund those social safeguards, because everyone is sitting around waiting for their freebies instead of going to work and being productive. The UBP is actually twice as bad as Social Security because you rip off working people twice. First, we pay outrageously high taxes to try to fund all those social safeguards. Then you make it even worse with supplemental pensions from worker-owned firms. Instead of people getting more in their paychecks that they can save as they wish, their retirement savings are once again taken out of their individual control. No matter which way you turn in democratic socialism, no one has the freedom to ensure their own solid financial future for retirement. That guarantees worry and sleepless nights for all.

We should reject the current policy of Social Security and replace it with total privatization of retirement accounts to ensure care and peace of mind for the elderly. Instead of paying a big chunk of our income to the government, we keep it and save on our own in PRAs. And instead of firms paying all that FICA Social Security for their

workers, they give the money directly to their employees, who take that money and invest it for their retirement. With investments flowing into the stock, mutual fund, and bond markets, the economy grows, and the whole society is lifted to a new level of prosperity. Corporations and municipalities have money to invest in future production with more machines, infrastructure upgrades, and technology improvements. This feeds the whole economy today and for years to come, and as a result, everyone's retirement accounts grow. When everyone's retirement savings are invested in PRAs, market returns grow. Even the value of private investments at the bottom of a downturn will still be higher than the highest point of returns on dead-end government-managed funds. Since we're in charge of our own accounts, we make sure we're investing in firms that align with our values. No one needs a degree in finance because there are a wide variety of investment instruments for PRAs and advisers ready to guide us. No one has to worry that their retirement nest eggs will be wiped out, because they choose a diverse portfolio and a level of risk that is appropriate for their age, savings goals, and personal preference. If people want even more investment options, entrepreneurs in the free market recognize an opportunity to make a profit and provide what people want and need. And in the rare cases when seniors need more help, philanthropy from religious organizations, corporations, private individuals, families, and nonprofit organizations serve as a social safety net to afford them a dignified old age. With PRAs in a free-market environment, we have the best of all possible worlds: the freedom to control our own money, grow it for our retirement, spend it as we want, and pass it on to our heirs. We can all have the comfort we need, the care we need, and the peace of mind we need to enjoy the last stage of life to its fullest.

Conservative

Free-Market Capitalism



Retirement
Security

BIG PICTURE

Complete privatization of retirement savings puts more money in the hands of elders and gives them autonomy, choice, security, and prosperity.

POLICY POSITION

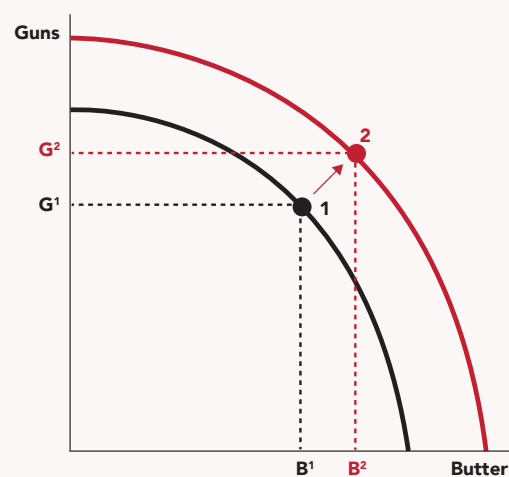
Seniors are economically vulnerable, but . . .

- ▶ Liberal policies steal from workers, pit one generation against another, deliver an abysmal return on investment, and offer no reliable safety net.
- ▶ Radical policies demotivate workers, drive up taxes, violate our basic human right to be in charge of our own future well-being, and can't deliver on their promises.

SOLUTION

Reject Social Security and replace it with total privatization of retirement accounts to ensure care and peace of mind for the elderly:

- Diverse investment options meet diverse needs.
- Freedom to pass down our wealth as we choose.



U.S. Production Possibilities Curve

- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Retirement Security Talking Points: Conservative

1. In free-market capitalism, we invest our retirement nest eggs in stocks, bonds, and mutual funds. As our accounts grow, so does the economy. Economic growth is the Holy Grail. It means we have more of what we want and need as a society, including care for elders. We're going to take care of them—that's a given—and now we can do it without having to make painful trade-offs. We don't have to sacrifice new assisted living facilities for new roads or better national security.
2. When it comes to your retirement savings, no one cares more about your future financial well-being than you, so you should be the captain of your own ship. The safest choice for all of us is to save and invest our own retirement nest eggs as we see fit. No one needs a degree from business school because there is plenty of guidance and advice available. Even with the ups and downs of the market, history shows that long-term investors come out way ahead.
3. Liberals, Social Security takes money from today's workers and hands it over to today's retirees. Instead of creating value, it just relies on future taxation. It's a Ponzi scheme. That's why, with demographic changes, this ill-considered program is on the verge of collapse. We're stuck on this sinking ship, but no one can jump into a lifeboat because we're not allowed to opt out of Social Security. Even though we're (unwilling) investors, we have no power and no say over what happens to our money.
4. Social Security is bad for society. It creates a disincentive to work hard because liberals whittle away our paychecks, promise unrealistic payouts, and give us incentives to retire early. Social Security also gives firms a disincentive to create more jobs. Government hits them with payroll taxes for every worker. Firms are cornered into shifting the burden onto the workers they do hire by cutting their pay by that amount. Social Security shrinks the whole economy without actually giving us retirement security.
5. Radicals, your UBP creates a totalitarian state where the masses have no say over their own financial lives. On top of that, your democratic socialist system can never generate the means to fund the UBP or the other social safeguards, because everyone waits around for their freebies instead of being productive. There is no universe in which a person would put in the extra hours and go the extra mile when the rewards are going to be exactly the same for sitting around and wasting time all day.
6. The UBP is twice as bad as Social Security because radicals rip off working people twice. First, workers pay outrageously high taxes to fund it along with the other social safeguards. Second, supplemental pensions from worker-owned firms once again take retirement savings out of workers' individual control. No matter which way you turn in democratic socialism, no one has the freedom to ensure their own solid financial future for retirement. That guarantees worry and sleepless nights for all.
7. When we replace Social Security with PRAs, we keep more of our income because we don't pay a big chunk to the government. We also get the big chunk of money our employers were forced to pay into Social Security. Now we all have more to invest in PRAs. Picture all that money flowing into the stock market and bond market. It grows the whole economy, including everyone's retirement accounts. In the rare case of seniors needing more help, philanthropy provides a reliable safety net.
8. When we're free to manage our own retirement funding, no one has to worry that their investments will be wiped out. There is plenty of choice so we can easily diversify our portfolios and choose the level of risk that is appropriate for our age, savings goals, and personal preferences. With PRAs in a free-market environment, we have the best of all possible worlds: the freedom to control our own money, grow it for our retirement, spend it as we want, and pass it on to our heirs.

Liberal

Voice on Retirement Security



Retirement
Security

The good news for my friend who couldn't remember which box he'd checked for his retirement plan was that either one would have been just fine because he can also count on his Social Security benefit. If something happens to his pension or private retirement account, he won't be impoverished during his sunset years. As for whether it would have been better to supplement his Social Security with a pension plan or a PRA, it really just depends on his personality. If he doesn't like risk, the pension would have been his best choice. With appropriate government oversight, they are rock solid and reliable. Unless the United States disappears in an asteroid strike, states are not going to stop hiring teachers, administrators, and public works experts, and the federal government will not stop hiring

national defense experts, public safety personnel, and so forth. Therefore, there will always be workers paying into the system, which means my friend would have guaranteed supplemental retirement security if he'd checked that box. On the other hand, some people prefer to be in charge of their own investments. If my friend enjoys taking a chance at earning much bigger rewards, the PRA would have been his best choice. The stock market historically has shown a solid return on investment over time—a return that's significantly higher than a government pension, even with ups and downs in the market. With PRAs, timing is important. In the long term, investors come out

ahead, but what if a senior runs into bad timing and their accounts dip? It's not a problem because they always have their Social Security benefit. With it, they can afford the basic necessities while they wait for the market to bounce back. With Social Security waiting for us at the end of our working years, we have the freedom to pick the option that makes us feel most secure. Thanks to fair-market capitalism, we can all sleep peacefully at night because the government has us covered.

Let's consider the production possibilities curve (PPC) in figure 17.25. Fair-market capitalism ensures that working people can afford their lives with dignity in their final years. We all pay in to

Social Security throughout our productive years—it's automatically deducted, making it simple and convenient for everyone to save for retirement. We also save on our own in PRAs and pension plans. Using a creative variety of tax and benefit programs, the helpful hand of government gives everyone the right incentives to work hard and save. All of this combines to spur economic growth. Here's how it happens. First, the PPC shifts to the right because there is an increase in the quantity of resources. Social Security benefits are tied to the number of years a person works and how much they earn, so people are motivated to stay productive for longer and rise in their professions so they can grow their incomes. Next, the quality of resources improves, which also shifts the PPC to the right because even low-income seniors are able to afford the basic necessities of life. As they enjoy better health and more vigor, they are more willing and able to participate in society as volunteers, mentors, and pillars of the community. Third, there is an increase in technology that shifts the PPC to the right because

government strategically borrows from Social Security to invest in new developments—GPS, the internet, bar codes, the microchip, vaccines, and more. Entrepreneurs build on those inventions, innovate, and bring life-changing products to market (creating good jobs in the process). Finally, an increase in capital investment shifts the PPC to the right. This happens because Social Security benefits are meant to fund only a portion of retirees' needs, so individuals are highly motivated to save privately and through pension programs. More robust investment in the market drives up the value of firms, which enables them to qualify for loans to buy more capital and expand their operations for tomorrow's production. The combination of Social Security with PRAs and pensions—all carefully regulated by government—gives seniors everything they need in their old age. Instead of having to make trade-offs, we can move from point 1 to point 2 and have more of everything, including financial security for seniors.

When I was in my thirties and working on my PhD dissertation, I volunteered at a retirement community outside Boston. Along with hosting a weekly discussion about current events, I would often accompany a busload of seniors on an adventure. On one of these bus rides, I was seated beside Ross, a smiling, gray-haired widower in his late eighties. As we passed a modest white house, he pointed to it and said, "That was my home." He told me he'd grown up on the poor side of town, and after serving in World War II, he married. He and his wife decided to take a risk and open their own toy store. They worked hard for thirty-five years, paying into Social Security regularly for all those years. Even though money was tight with two kids to raise, they also managed to tuck away a small amount every year in a PRA. "Just a few dollars here and there, but it grew over time," he told me. "I read somewhere that you should invest in companies that make products you use,

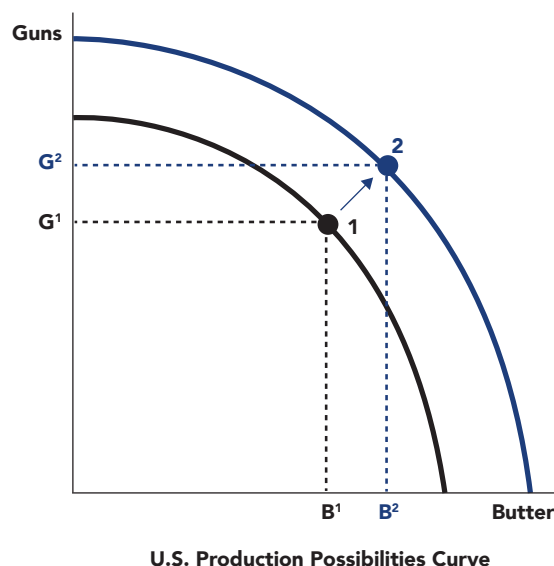


Figure 17.25
Liberal View: Retirement Security

so that's what I did." When Ross and his wife reached the age of full retirement, they collected their Social Security benefit and retired. Social Security supplemented by their PRA, which had steadily grown over the years, gave them a comfortable income. They spent a decade traveling and did volunteer work in the community. After his

wife died, Ross started to slow down. He moved into assisted living. "I feel so blessed," he told me. "I worked hard and now I can have the time to enjoy the fruits of my labor." We're incredibly lucky to live in a democracy where our government—of the people, by the people, and for the people—works on our behalf to ensure that we'll be secure in our golden years. We should still save on our own, of course. But knowing Social Security will be there for us one day, we are willing to take more risks for greater rewards. Peace of mind comes from knowing we'll be able to afford the basic necessities when we stop bringing home a paycheck. Workers pay into Social Security and earn a safety net that is supplemented with other retirement savings so that they have what they need to flourish in their golden years.

Radicals, you're on the right track by proposing a government-managed fund, but it's astonishing how you can take a good idea and totally ruin it. The universal basic pension jumps the tracks before you're even out of the station. The problem is that in democratic socialism, it's given to everyone, whether they worked hard or not. So in effect, instead of guaranteeing retirement security for all, you guarantee that everyone becomes unmotivated to get up in the morning and go to work and contribute their best during their productive years. The lazy don't bother working hard

The combination of Social Security with PRAs and pensions—all carefully regulated by government—gives seniors everything they need in their old age.

because there is no reason to—not when they know they are entitled to the exact same UBP amount as the most productive people in society. And those hard workers—the rare few who actually managed to stoke the fires of ambition in themselves in a profit-phobic society—quickly find that flame snuffed out because no one wants to

feel like a chump. Democratic socialism demotivates the hardworking and the lazy alike. Here's the next problem. Since the UBP and all other social safeguards are funded through taxes, no tax revenue is generated. Without tax revenue, there is no funding for the UBP or any other of your social safeguards. That's why they are pie-in-the-sky ideas. They never materialize in a society of freeloaders. On top of that, because the UBP promises full financial security in retirement, no one bothers to save on their own, and firms have no real stake in creating supplemental workplace pensions. So the general disinterest in working combined with the lack of personal savings is a recipe for widespread poverty at every stage of life. Even though you radicals want to use a government-managed fund to create secure retirements for seniors, UBPs are a train without an engine. Seniors and everyone else in democratic socialism go nowhere because they have no financial security at all.

Conservatives, let's just get one thing clear: Social Security is not and never has been a program of handouts to freeloaders. Stop trying to twist the meaning of an *entitlement* program. All workers pay in, and all workers are entitled to get it paid back in retirement. Stop trying to get rid of a program that's built on the American tradition of hard work and reward. You're like the bun-

gling magician who walks up to a table set with a Thanksgiving feast and yanks the tablecloth out from under. Ta da! It's turkey, cranberry sauce, and smashed plates all over the floor. That's the disastrous mess you would create by yanking our retirement safety net out from under us. Social Security keeps seniors out of poverty. It's irresponsible and destructive to rely completely on private retirement accounts for our financial security in old age. You leave us one market crash away from destitution. Just look at the history of the stock market. Every decade or so, a crisis wipes out people's retirement savings. There will be even more losers if everyone is forced to invest in the market. Herd mentality leads prices to rocket beyond the intrinsic value of companies as everyone races to buy up the latest hot stocks. Inevitably, the speculative bubble bursts, and people lose their shirts. It's bad enough when it happens to the young and middle-aged, but you're proposing to force seniors to play this game of musical chairs with their retirement security. If the music stops when they're counting on that investment income, they get hurt. Seniors without Social Security don't have time to play the long

game, which is the way people succeed in the stock market. By getting rid of Social Security, you conservatives destroy everyone's assurance of a reliable future. Your leave-it-alone plan to privatize retirement savings and keep the government out of it is bound to backfire. It guarantees more financial insecurity, more hardship, and more poverty for seniors. When you get rid of Social Security, no one will ever sleep well again.

We should strengthen the current system of Social Security and improve incentives for supplemental private retirement savings programs to ensure care and peace of mind for the elderly. Social Security is a vital safety net for all working people. We don't want to return to a time when seniors who worked hard ended up poor and desperate or were a financial burden on their families. This is one of our country's most successful programs. Social Security keeps tens of millions of seniors out of poverty every year. We make needed changes to keep the program viable for generations to come, including reforming it by ending the regressive funding structure. We get rid of the income cap, and every worker is required to pay their fair share. With



the wealthy paying FICA Social Security on their entire income, the Social Security Trust Fund is solvent for decades to come, and changing demographics are no longer a problem. The beauty of fair-market capitalism is that we use government to help us prepare for a secure retirement. We all know that life is complicated. Immediate needs often take precedence over saving for the future. With the helpful hand of government, saving for retirement is automatic for working people. The program provides an incentive to work longer and retire later so we can qualify for a higher benefit amount. It motivates us to work hard and rise in our professions because a higher lifetime income increases our monthly retirement benefit. Not only does Social Security support today's retirees, but it's borrowed (and paid back) by the

government to seed research and development of innovations that improve everyone's lives. Thanks to Social Security we have the internet, the microchip, touch screens, vaccines, wind power, fire-resistant clothing, the accelerometer, the aerodynamic truck, and more. Social Security is meant to be supplemented by pensions and PRAs. It's the ultimate diversification strategy. If you lose your savings on a bad investment, or there's a recession, or if you lose your job before your pension vests, or if your pension fund goes bankrupt, Social Security is there for you. It's the cornerstone of our retirement security. With a reformed and expanded Social Security program, we can all have the comfort we need, the care we need, and the peace of mind we need to enjoy the last stage of life to its fullest.

Liberal

Fair-Market Capitalism



Retirement
Security

BIG PICTURE

Workers pay into Social Security and earn a safety net that is supplemented with other retirement savings so that they have what they need to flourish in their golden years.

POLICY POSITION

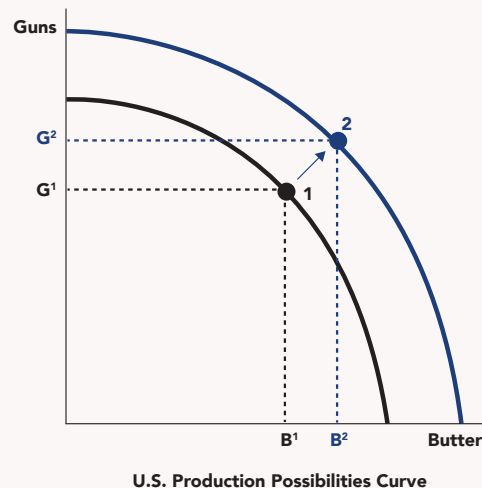
Seniors are economically vulnerable, but . . .

- ▶ Radical policies equally reward the lazy and the industrious, driving a stake in the heart of motivation so that no wealth is created, leaving seniors to take the fall.
- ▶ Conservative policies destroy our safety net and then force us to risk our entire retirement nest eggs, leaving us all vulnerable to poverty in our old age.

SOLUTION

Strengthen Social Security and improve incentives for supplemental private retirement savings programs to ensure care and peace of mind for the elderly:

- Working people are motivated to work harder and longer.
- Strategic and responsible reforms make it sustainable.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Retirement Security Talking Points: Liberal

1. We're incredibly lucky to live in a democracy where our government works on our behalf to ensure that we'll be secure in our golden years. Of course, we should still save on our own. But because we have a social safety net, we are willing to take more risks for greater rewards. Peace of mind comes from knowing that we'll be able to afford the basic necessities when we stop bringing home a paycheck. We'll have what we need to flourish in old age.
2. Fair-market capitalism ensures that working people can support themselves without worry in their retirement years because they pay into the system during their productive years, as well as saving on their own in private retirement accounts and pension plans. Using a creative variety of tax and benefit programs, the helpful hand of government gives everyone the right incentives to work hard and save. All of this combines to spur economic growth while enabling elders to enjoy a dignified old age.
3. Radicals, the UBP fails because you give it to everyone, whether they worked hard or not. Instead of guaranteeing retirement security for all, you guarantee that everyone in your democratic socialist society is unmotivated to contribute during their productive years. The lazy don't bother working hard. And the rare few who actually managed to stoke the fires of ambition in themselves in a profit-phobic society quickly find that flame snuffed out because no one wants to feel like a chump.
4. The UBP and all the other radical social safeguards are funded through taxes. In a society of freeloaders, nothing is produced, and no tax revenue is generated. That means there is no funding for the UBP—or any radical social safeguards. Therefore, they never materialize. On top of that, because the UBP promises full financial security in retirement, no one bothers to save on their own, and firms have no real stake in creating supplemental workplace pensions. This leaves people impoverished at every stage of life.
5. Conservatives, let's just get one thing clear: Social Security is not and never has been a program of hand-outs to freeloaders. Stop trying to twist the meaning of an entitlement. All workers pay in, and all workers are entitled to get it paid back in retirement. Stop trying to get rid of a program that's built on the American tradition of hard work and reward. Putting our retirement nest eggs in your one basket of PRAs is both irresponsible and destructive.
6. The conservative plan to completely privatize retirement savings is a disaster in the making. Just look at the history of the stock market. Every decade or so, a speculative bubble burst or other crisis wipes out people's accounts. Don't ask seniors to play a game of musical chairs with their financial futures. If the music stops when they're counting on that investment income, they're out of luck. Without Social Security, seniors don't have time to play the long game, which is how people succeed in the stock market.
7. Social Security is a vital safety net for all working people. We don't want to return to a time when seniors who worked hard ended up poor and desperate or were financial burdens on their families. This is one of our country's most successful programs. It keeps tens of millions of seniors out of poverty. We make needed changes to keep the program viable for generations to come, including reforming it by ending the regressive funding structure so that all pay their fair share.
8. Social Security in combination with pensions and private retirement accounts gives us the utmost freedom to choose the retirement security we want, and the peace of mind knowing that our retirement nest eggs are not all in one basket. It's the ultimate diversification strategy. If you lose your savings on a bad investment, or if there's a recession, or if you lose your job before your pension vests, or if your pension fund goes bankrupt, Social Security won't go away. It's the cornerstone of everyone's retirement security.

The Shared Outcome

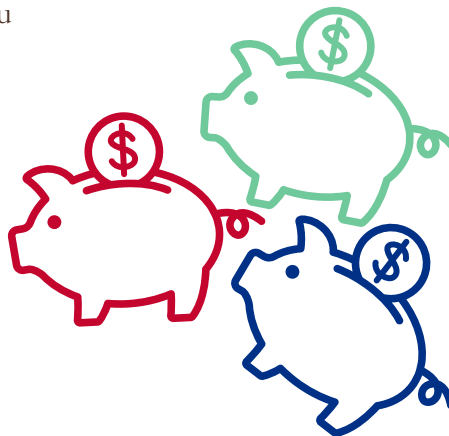
All three perspectives share the same goal of ensuring care and peace of mind for elders. This issue is deeply personal because it's about you and your loved ones. If we can find the right solution, imagine the comfort of knowing we can all enjoy our sunset years without worrying about how we'll afford the basic necessities of life. Now that you've heard the voices of conservatives,

liberals, and radicals, you're ready to join the conversation as a respectful listener, intelligent debater, and passionate advocate for the position that you think will best move us forward as a nation. As you think about your future and realize how important it is to solve this problem, I hope you will be the one to come up with a genius new way to think about retirement security. Imagine what a gift that will be to the world! ▣



Three-in-One Activity

The Three-in-One Activity for Retirement Security is a way for you to understand this issue from the inside and start to feel how policies can directly affect your life. It begins with a neutral round using game theory, and then we'll revisit the game-theory scenario from each of the three perspectives to see how each ensures that seniors can fund the basic necessities in their golden years. This activity works best with a group of six people (you'll want to have lots of brains focused on finding the answers from different perspectives). If you don't have a group, you can still do it on your own.



“The Golden Years”

Here is the setup for this activity. Imagine that your team was just hired to create the best retirement system for the country—one that brings care and peace of mind to the elderly so that people can afford at least the basic necessities in their sunset years. It's an amazing opportunity, and you're all very excited to get to work. You arrive at your new offices, and before you get around to organizing the space and decorating your desks with photos of your families, you have a group brainstorming session. Afterward, everyone agrees there are four main takeaways from the meeting:

- The stakes are high. Everyone on the team and their loved ones will be affected by this work, as will the whole society for generations to come.
- It's clear that any solution has to take into account that funding retirement is an interdependent endeavor, which means that what one person chooses will affect the outcome for everyone else. For example, a government-funded retirement system can't generate adequate funds unless everyone is involved. And likewise, a system of private retirement accounts won't be adequate unless everyone invests.
- While there is general agreement in society that care and peace of mind for the elderly is among our highest social priorities, there is heated disagreement about which system is the best for achieving that worthy goal.
- To keep it simple, our focus is only on providing basic necessities for retirement.

Now your group has two jobs:

- ① Figure out a technique to assess possible solutions.
- ② Apply that technique to understand the different economic perspectives.

Round 1: Neutral

The office that you're assigned has an old desk. As you put things away in the empty drawers, you come across a manila folder that was crammed into the back of one of the drawers. Curious to see what your predecessor left behind, you take a look inside. A rush of excitement washes over you as you realize that the previous occupant of your office had the idea to use game theory to compare retirement strategies. You call an emergency meeting and pass around the payoff matrix. Your teammates are also excited. They agree that game theory might be a brilliant technique for assessing different strategies to fund seniors' basic necessities. Everyone thinks that it's definitely worth exploring this tool, because what one person chooses to do to fund their retirement depends on what other people choose to do to fund theirs.

Your colleague squints at a note written in spidery handwriting along the bottom of the page. She reads aloud: "Payoffs not based on real data. Just testing whether game theory could be useful here."

		PRA	Saver Orange	GMF	
PRA	A	9, 9	6, 10	B	<i>Payoffs not based on real data. Just testing whether game theory could be useful here.</i>
Saver Gray					
GMF	C	10, 6	7, 7	D	

PRA: Private Retirement Account
GMF: Government-Managed Funds

Even though the numbers on this payoff matrix are completely made up, your group wants to see if game theory really can be used to analyze this issue. It shows two strategies to fund the basic necessities in retirement. The first strategy is to have workers save a set portion of their income during their working years in government-managed funds (GMFs). This is a strategy of cooperation. The second strategy is to invest that same portion of their incomes in private retirement accounts (PRAs). This is a strategy of competition. Everyone crowds around the whiteboard, and you copy the payoff matrix onto it. It's agreed that the higher the payoff, the better off retirees will be financially. Your group gets to work answering the following questions:

- ❶ What is the dominant strategy for Saver Gray?
- ❷ What is the dominant strategy for Saver Orange?
- ❸ Is there a Nash equilibrium? If so, what is it?
- ❹ Is there a possible Pareto improvement? If so, what is the Pareto Optimal cell?

Answer: The dominant strategy for Saver Gray is GMF. The dominant strategy for Saver Orange is GMF. There is a Nash equilibrium, which is cell D, and there is a Pareto improvement, which is cell A.

Test Payoff Matrix

		Saver Orange	
		PRA	GMF
Saver Gray	PRA	A 9 , 9 Pareto optimal	B 6 , 10
	GMF	C 10 , 6	 7 , 7 Nash equilibrium D

PRA: Private Retirement Accounts

GMF: Government-Managed Funds

Explanation: Saver Gray has two possible strategies: PRAs or GMFs. But Saver Gray's payoffs depend on what Saver Orange chooses. If Saver Orange chooses PRA, Saver Gray says, "Then which one should I choose in this case? Since GMF is higher (10 versus 9), that's my best strategy." But if Saver Orange chooses GMF, what should Saver Gray choose in that case? "Since GMF is higher (7 versus 6)," says Saver Gray, "that's my best strategy. Therefore, no matter what Saver Orange does, I'm best off choosing GMF, which means that's my dominant strategy." Saver Orange uses the same logic and finds that their dominant strategy is also GMF. Since both have the same dominant strategy for GMF, the Nash equilibrium is cell D (7,7). But there is a Pareto improvement. In cell A, both savers will be better off without one being worse off (9,9). That is when they both choose PRAs. But of course, that is assuming that the payoffs were correct.

Conclusion: Remember, your group was doing this exercise only to see if game theory would be useful to determine the best strategy for retirement security—not to analyze the actual options. The team concludes that game theory is, indeed, a useful technique. Your predecessor has given you all a great gift. Next, your group will use this technique as radicals, conservatives, and liberals to change the payoffs based on each perspective and then determine each perspective's Nash equilibrium and Pareto optimal cells.

Round II: Radical Perspective

Now we're in the radical world. Society can choose to meet seniors' basic necessities using universal basic pensions (UBPs), private retirement accounts (PRAs), or a combination of the two.

Consider the payoff matrix below. These are the original, made-up numbers. Your job is to decide how those payoffs should change to reflect the radical perspective.

- 1 Use the hints in each cell to remind you how radicals view each option.
- 2 Decide whether each payoff should be higher (*up* arrow) or lower (*down* arrow). Draw your arrows on the lines beside each payoff.
- 3 Adjust the payoffs by adding 5 or 10 where there is an *up* arrow, or subtracting 5 or 10 where there is a *down* arrow. The amount of the change depends on how strongly radicals feel about each option.
- 4 Identify the Nash equilibrium and Pareto optimal outcome.

Radical Payoff Matrix: Pre-adjusted

		Saver Orange	
		PRA	UBP
Saver Gray	PRA	A Individuals at Risk ____ 9 , 9 ____	Insufficient Savings & Underfunded Pension B ____ 6 , 10 ____
	UBP	Insufficient Savings & Underfunded Pension ____ 10 , 6 ____ C	Social Safeguards ____ 7 , 7 ____ D

PRA: Private Retirement Accounts

UBP: Universal Basic Pension

Answer:**Radical Payoff Matrix: Adjusted**

		Saver Orange	
		PRA	UBP
Saver Gray	PRA	<div>A</div> <div>↓ -1 , -1 ↓</div>	<div>B</div> <div>↓ 1 , 5 ↓</div>
	UBP	<div>C</div> <div>↓ 5 , 1 ↓</div>	<div>D</div> <div>↑ 17 , 17 ↑</div> <div>Nash equilibrium Pareto optimal</div>

PRA: Private Retirement Accounts

UBP: Universal Basic Pension

Explanation: From the radical perspective, when the whole society invests in a universal basic pension (UBP), we have a well-funded social safeguard that covers the basic necessities for seniors. Therefore, we adjust the payoffs up by 10 in cell D. When there are only PRAs, some don't even have the option of a workplace pension or private savings, so it leaves individuals at risk. Therefore, we adjust the payoffs down by 10 in cell A. A combination of a UBPs and PRAs creates a mix of an underfunded pension and insufficient savings. We end up with half-measures that leave seniors without the basic necessities, but because there is still some funding for UBPs and some savings, it's not as bad as only saving in PRAs. Therefore, we adjust the payoffs down by 5 in cells B and C.

Conclusion: To fund seniors' basic necessities in retirement, radicals exclusively use a UBPs. They also use it to fund the rest of seniors' needed income. UBPs in democratic socialism are universal and guaranteed as a human right. This gives people freedom and peace of mind throughout their lives. Because everyone funds it together, seniors can easily afford the basic necessities. With payoffs of 17 and 17, cell D is both the Nash equilibrium and the Pareto optimal outcome.



Round III: Conservative Perspective

Now we’re in the conservative world. Society can choose to meet seniors’ basic necessities using private retirement accounts (PRAs), government-managed funds (GMFs), or a combination of the two.

Consider the payoff matrix below. These are the original, made-up numbers. Your job is to decide how those payoffs should change to reflect the conservative perspective.

- 1 Use the hints in each cell to remind you how conservatives view each option.
- 2 Decide whether each payoff should be higher (*up* arrow) or lower (*down* arrow). Draw your arrows on the lines beside each payoff.
- 3 Adjust the payoffs by adding 5 or 10 where there is an *up* arrow, or subtracting 5 or 10 where there is a *down* arrow. The amount of the change depends on how strongly conservatives feel about each option.
- 4 Identify the Nash equilibrium and Pareto optimal outcome.

Conservative Payoff Matrix: Pre-adjusted

		Saver Orange	
		PRA	GMF
Saver Gray	PRA	<div><div>A</div><div>Market Surge</div><div><div></div>9, 9<div></div></div></div>	<div><div>Weak Market Returns & Underfunded Promises</div><div>B</div><div><div></div>6, 10<div></div></div></div>
	GMF	<div><div>Weak Market Returns & Underfunded Promises</div><div>C</div><div><div></div>10, 6<div></div></div></div>	<div><div>System Crash</div><div>D</div><div><div></div>7, 7<div></div></div></div>

PRA: Private Retirement Accounts
GMF: Government-Managed Funds

Answer:**Conservative Payoff Matrix: Adjusted**

		Saver Orange	
		PRA	GMF
Saver Gray	PRA	A ↑ 19, 19 ↑ Nash equilibrium Pareto optimal	B ↓ 1, 5 ↓
	GMF	C ↓ 5, 1 ↓	D ↓ -3, -3 ↓

PRA: Private Retirement Accounts
 GMF: Government-Managed Funds

Explanation: From the conservative perspective, when everyone invests in private retirement accounts (PRAs), the market surges and we have enough to cover the basic necessities for seniors. Therefore, we adjust the payoffs up by 10 in cell A. When everyone invests only in a GMF (either Social Security or a universal basic pension), there is a system crash because it's a Ponzi scheme and yields abysmally low returns on investment. Inevitably, the benefits owed quickly exceed the money available. Therefore, we adjust the payoffs down by 10 in cell D. A combination of PRAs and GMFs creates a mix of weak market returns and underfunded promises. We end up with half-measures that leave seniors without the basic necessities, but because there is still some saving in PRAs, it's not as bad as only saving in a GMF. Therefore, we adjust the payoffs down by 5 in cells B and C.

Conclusion: To fund seniors' basic necessities in retirement, conservatives exclusively use private retirement accounts. They also use them to fund the rest of seniors' needed income. PRAs in free-market capitalism are high growth, and the returns expand when everyone participates in the stock and bond markets. They give people the freedom to choose their own retirement security and leave their wealth to their heirs when they die. Because people in their working years are in charge of their own savings, they can easily afford the basic necessities when they retire. With payoffs of 19 and 19, cell A is both the Nash equilibrium and the Pareto optimal outcome.



Round IV: Liberal Perspective

Now we’re in the liberal world. Society can choose to meet seniors’ basic necessities using reformed Social Security (RSS), private retirement accounts (PRAs), or a combination of the two.

Consider the payoff matrix below. These are the original, made-up numbers. Your job is to decide how those payoffs should change to reflect the liberal perspective.

- 1
Use the hints in each cell to remind you how liberals view each option.
- 2
Decide whether each payoff should be higher (*up* arrow) or lower (*down* arrow). Draw your arrows on the lines beside each payoff.
- 3
Adjust the payoffs by adding 5 or 10 where there is an *up* arrow, or subtracting 5 or 10 where there is a *down* arrow. The amount of the change depends on how strongly liberals feel about each option.
- 4
Identify the Nash equilibrium and Pareto optimal outcome.

Liberal Payoff Matrix: Pre-adjusted

		Saver Orange	
		PRA	RSS
Saver Gray	PRA	<div> <div>A</div> <div>Market Crash</div> <div> <div></div> <div>9, 9</div> <div></div> </div> </div>	<div> <div>B</div> <div>Risky Investments & Underfunded Program</div> <div> <div></div> <div>6, 10</div> <div></div> </div> </div>
	RSS	<div> <div>C</div> <div>Underfunded Program & Risky Investments</div> <div> <div></div> <div>10, 6</div> <div></div> </div> </div>	<div> <div>D</div> <div>Viable and Sustainable</div> <div> <div></div> <div>7, 7</div> <div></div> </div> </div>

PRA: Private Retirement Accounts
RSS: Reformed Social Security Program

Answer:**Liberal Payoff Matrix: Adjusted**

		Saver Orange	
		PRA	RSS
Saver Gray	PRA	A ↓ -1 , -1 ↓	B ↓ 1 , 5 ↓
	RSS	↓ 5 , 1 ↓ C	↑ 17 , 17 ↑ Nash equilibrium Pareto optimal D

PRA: Private Retirement Account

RSS: Reformed Social Security Program

Explanation: From the liberal perspective, when everyone invests in a reformed Social Security system (RSS), we have a well-funded social safety net that covers the basic necessities for seniors. Therefore, we adjust the payoffs up by 10 in cell D. When everyone invests only in PRAs, there are speculative bubbles, and when they inevitably burst, we have a market crash, and seniors lose all their retirement security. Therefore, we adjust the payoffs down by 10 in cell A. A combination of RSS and PRAs creates a mix of an underfunded program and risky investments. We end up with half-measures that leave seniors without the basic necessities, but because there is still some funding for RSS, it's not as bad as saving only in PRAs. Therefore, we adjust the payoffs down by 5 in cells B and C.

Conclusion: To fund seniors' basic necessities in retirement, liberals exclusively use Social Security, which provides 40 percent of needed income. To fund the other 60 percent, they use private retirement accounts. Reformed Social Security in fair-market capitalism is a risk-free social safety net for those who pay in. The funding and the benefits are healthy and sustainable when beneficiaries contribute a reasonable portion of their income during their working years. Because everyone pays their fair share, retirees are able to meet the basic necessities of life. With payoffs of 17 and 17, cell D is both the Nash equilibrium and the Pareto optimal outcome.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Retirement Security. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

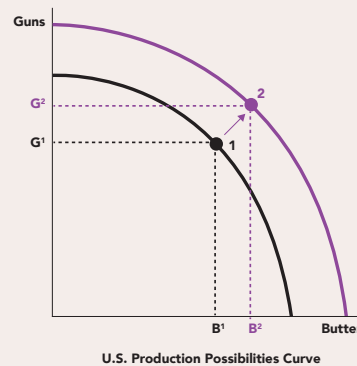
Chapter 17: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Which of the following are savings strategies for funding retirement for senior citizens? Choose all that apply.
 - A. 401(k) plans
 - B. Social Security
 - C. Pensions (government and private)
 - D. IRAs
 - E. Supplemental Security Income (SSI)

2. According to this conventional theory production possibilities curve, which one of the answers below might account for the change from point 1 to point 2?
 - A. With retirement security, more people are willing to become entrepreneurs in their working years.
 - B. Seniors retire earlier.
 - C. Firms invest in more consumer goods for elders rather than buying capital goods.
 - D. Fewer seniors volunteer because of health concerns.



3. According to Marx's analysis of capitalist competition, private owners are cornered into _____.
- A. manipulating the elderly to buy things they don't need
 - B. eliminating private pensions and cutting wages by the amount of employers' share of FICA Social Security
 - C. building a community of younger workers to help care for aging employees
 - D. A & B only
4. Why is game theory a useful tool for analyzing the issue of Retirement Security?
- A. Game theory analyzes the interdependent outcomes of different choices, so we can evaluate how one person's retirement choices affect the retirement outcomes of others.
 - B. Game theory examines supply and demand using three dimensions and identifies previously hidden nuances, so we can view retirement options in multiple ways.
 - C. Game theory approaches life as if it is a game that is played from the beginning (youth) to the end (old age), and therefore it can be used to plan for retirement.
 - D. Game theory is a way to determine winners and losers, allowing us to evaluate whether seniors will win or lose in retirement.
5. Match the investment term (left column) with its definition (right column).
- | | |
|----------------------------------|---|
| A. U.S. Treasury securities | i. Bundles of assets managed for a fee by a professional |
| B. Corporate and municipal bonds | ii. Partial ownership of a corporation that may pay dividends |
| C. Stocks | iii. Money loaned to the federal government that is paid back with interest |
| D. Mutual funds | iv. Money loaned to a firm, city, or county that is paid back with interest |
6. Maureen saves \$200 per month for retirement and earns simple annual interest of 10 percent. At the end of the year, she saved \$2,400 and earned \$240 in interest. In year two, she saves another \$2,400 and earns another \$240 in simple interest. That means, in year two she has \$4,800, plus simple interest of \$480. In addition, in year two she also earns interest on the \$240 from year one. Every year after, she continues to earn simple interest, as well as interest on the interest earned in all the previous years. This process is called _____ interest, and it explains why time is such a crucial factor in Maureen's successful retirement planning.
- A. compound
 - B. simple
 - C. simple times two
 - D. smart

7. From the radical perspective, how does a universal basic pension (UBP) differ from Social Security? Choose all that apply.

- A. Eligibility for a UBP is a human right and not contingent on the amount a person generates during their working lives.
- B. With the UBP, people can choose less lucrative careers that they are passionate about, without worrying about having a secure retirement.
- C. The UBP is a universal benefit that is guaranteed.
- D. The UBP is funded by all, and everyone pays their fair share.

8. Conservatives look at the game-theory payoff matrix comparing Saver Gray and Saver Orange and say that _____ is the Pareto optimal cell because _____.

		Saver Orange	
		PRA	GMF
Saver Gray	PRA	A 19 , 19	B 1 , 5
	GMF	C 5 , 1	D -3 , -3

PRA: Private Retirement Accounts
GMF: Government-Managed Funds

- A. cell A; when both save in PRAs, the government is able to collect more taxes and provide more retirement benefits for all
- B. cell D; when everyone saves in GMFs, the rest of their money can be invested in the stock market and grow exponentially
- C. cell A; when everyone saves in PRAs, it increases the value of investments
- D. either cell B or cell C; when both savers diversify, it creates a solid retirement base for all

- 9.** Liberals believe that private retirement accounts (PRAs) on their own are too risky for retirement security. They say that Social Security funds 40 percent of income to cover basic necessities, and PRAs fund the other 60 percent. However, they want to reform Social Security. Choose the answer that best describes their desired reforms.
- A.** Base the Social Security benefit on need, not contribution amount.
 - B.** Change the way Social Security is funded and the benefits it delivers.
 - C.** Eliminate bend points.
 - D.** Have no age of full retirement and let people choose for themselves.
- 10.** Choose the perspective that proposes we give Social Security benefits only to those who have more than \$100,000 annual retirement income from other sources.
- A.** Radicals
 - B.** Conservatives
 - C.** Liberals
 - D.** None of the perspectives
 - E.** All of the perspectives

Answers

1. A, B, C, & D **2.** A **3.** D **4.** A **5.** A-iii, B-iv, C-ii, D-i **6.** A **7.** A, B, C, & D **8.** C **9.** B **10.** D

Chapter 17: Key Terms

Ageism

Average indexed monthly earnings (AIME)

Bear market

Bend points

Bull market

Compound interest

Defined benefit plans

- Government pension programs
- Private pensions

Defined contribution plans

- 401(k)
- 403(b)
- 457
- SEP IRA
- SIMPLE IRA

Diverse portfolio

Dividends

Early retirement

Economic growth

Entitlement program

FICA (Federal Insurance Contributions Act)

Full retirement age (FRA)

Game theory

- Dominant Strategy
- Nash equilibrium

- Pareto improvement

- Pareto optimal cell

- Payoff matrix

- Payoffs

- Strategies

Government-managed funds (GMFs)

Individual retirement accounts (IRAs)

- Roth

- SEP

- SIMPLE

- Traditional

Individuals at risk

Interest

Investment Instruments

- Annuities

- Certificates of Deposit (CDs)

- Corporate and municipal bonds

- Mutual funds, ETFs, and index funds

- Stocks

- U.S. Treasury securities

Long-term care insurance

Old-Age and Survivors

Insurance (OASI) Trust Fund

Opportunity cost

Pareto optimal point

Pension

Pension trust funds

Pretax dollars

Primary insurance amount (PIA)

Principal

Private retirement accounts (PRAs)

Production possibilities curve (PPC)

Progressive benefit

Regressive funding

Retirement

Retirement security

Return on investment (ROI)

Shareholder

Social insurance program

Social pension plan

Social safeguards

Social Security

Speculation

Speculative bubble

Supplemental Security Income (SSI)

Universal basic pension (UBP)

Vested

Answer Key to Exercise 17.1

		Firm Orange	
		Cooperate	Compete
Firm Gray	Cooperate	A 9 , 9 Nash equilibrium Pareto optimal	B 6 , 7
	Compete	C 7 , 6	D 4 , 5

1. 9

2. 5

3. 7

4. Cooperate. Why? Because if Firm Gray cooperates, Firm Orange is better off cooperating than competing (9 is higher than 7); if Firm Gray competes, Firm Orange is better off cooperating than competing (6 is higher than 5).

5. Yes, cell A (9,9) because the dominant strategy for both firms is to cooperate.

6. No, cell A (9,9) is the best possible outcome for both firms. Neither firm can be better off without the other being worse off.

7. Cell A (9,9) is Pareto optimal.



18 Issue:

THE FEDERAL BUDGET

There's a joke you might have heard about a man whose business is on the verge of bankruptcy. On his way home to break the bad news to his wife, he passes a sign in the window of a convenience store. "Mega Millions Lottery Tickets Sold Here."

"That's it!" he thinks. "I'll win the lottery, and all my problems will be solved." Then he reads the small print on the sign, which says, "Odds of winning: 1 in 302 million."

How can he possibly improve his odds? As he tries to think of a way, he hears church bells ringing in the distance.

"That's it!" he exclaims aloud. "I'll pray!"

Every day, every hour, he repeats his prayer. "Please let me win the lottery. Please let me win the lottery. Please let me win the lottery."

After thirty days, he finally receives an answer. A voice from on high booms, "Enough already! I hear you, and I will answer your prayer. But

please, would you do me a favor? Go buy a lottery ticket!"

I love this joke because it reminds us that we can't just wish and hope for our dreams to come true. We also have to take action. When I was a girl, I would say wistfully, "I wish I could do that," and my mother would tell me, "Don't wish your life away. Give it a try!" Over the years, I've met many people who wished their lives away because they never tried. Of course, family obligations, health issues, and other crises might have taken precedence. But too many of us never pursue our true passions in life, and one of the most common excuses we use is, "I can't afford it."

That was Nikki's excuse. Her passion was the guitar. By high school, she was an accomplished musician, but what she loved most of all was the instrument itself. The variety of tones and designs of acoustic guitars fascinated her. She told her family that after graduation she wanted to



become a luthier's apprentice and learn how to design and build her own guitars. They encouraged her to be practical and get a college education instead. So Nikki put her dream aside and earned a degree in English. With student loans to pay back, she went to work as a proofreader for a publishing house. Although she appreciated the regular paycheck and friendly coworkers, she found the work to be incredibly tedious.

"So do something else," her best friend, Kiara, would say every time Nikki grumbled about her job.

"I can't afford to," Nikki would reply glumly.

She got into the habit of cheering herself up by going out for lunch every day. On weekends, to give herself a treat, she went on shopping sprees online and at the mall. At night, she went out to clubs with friends to hear live music. When Nikki maxed out all her credit cards, she felt more stuck than ever.

"Don't you think you could be happier?" Kiara asked her one day.

"I still dream of making guitars," Nikki admitted, "but luthier apprenticeships only cover living expenses, and I have too much credit card debt piling up, on top of my student loans. I wish I could just wave a magic wand and *poof!* it would be all paid off. Then I would be free to do what I really want with my life."

"You don't need magic for that," said Kiara wisely. "You need a budget."

"A budget?"

"It's like a roadmap that helps you get to your ideal life," Kiara explained. "It focuses you on your priorities."

That night, with Kiara's words rattling around in her head, Nikki opened a new document on her computer and named it "Nikki's Budget." She labeled the first column *Income* and typed in her monthly take-home pay. In the second column, *Expenses*, she listed everything she typically paid for in a month, including rent, groceries, utilities, student loan payments, credit card interest payments, and more. When she finished, she looked

at the very long list of expenses and felt queasy. Why had she spent so much money on things she didn't need or even care about? And how would she ever pay off her credit card debt?

The answer stared up at her from the computer screen. If she cut her expenses, she could use that money to pay off her debt. Did she really need a car? She lived in a city with good public transportation. Nikki deleted the line items for car payments, car insurance, fuel, maintenance, and parking fees.

"I'll ride my bicycle to work, so I can cancel my gym membership," she decided. "And I can do my own nails, so I don't need weekly manicures." Nikki also canceled her streaming music subscription and switched to a cheaper phone plan. She ruthlessly cut until she had reduced her monthly expenses by almost half.

Before she hit *save*, she went back into the *Expenses* column and added a line item: *Apprenticeship*. She allocated \$0 for now but promised herself that as soon as her debt was paid off, she would start saving so that she could afford to leave her job and take an apprenticeship.

Now that she had her priorities mapped out



on her budget, Nikki found it easier to make choices that moved her toward her goal. She brought coffee from home instead of buying expensive lattes at the café by her office. She skipped the takeout on the way home from work and cooked at home instead. On the weekends, she hosted low-budget game nights with her friends instead of spending money at clubs. She also took a weekend job at a local music store. The extra income helped pay down her debt, and being around guitars inspired Nikki to dream about her new career. As she dusted the guitars, she imagined a musician someday picking up a guitar she had made and breaking into a delighted smile.

On the day Nikki finally paid off her credit card debt, she called Kiara and announced triumphantly, “I’m free!” Then she estimated how much she would need to save to be able to afford to leave her job, while still keeping up with her student loans and other necessary expenses. She went back into her budget, and under *Apprenticeship*, she filled in the amount she would save per month to reach that goal.

It took Nikki more than a year to save what she needed. In the meantime, she applied for her dream luthier apprenticeship. When the acceptance letter arrived, Nikki joyfully skipped into her supervisor’s office and gave her two weeks’ notice.

“You’re really going to quit a steady job to go build guitars?” he asked, incredulous. “What if you discover you don’t actually enjoy it?”

Nikki grinned and said, “There’s only one way to find out! And if it isn’t what I hoped it would be, at least I’ll have tried.” In truth, she was a bit

Even though every life includes obstacles, if you know your priorities and let them guide the thousand different decisions you make each day, you will be on the path to realizing your dreams and living your best life.

apprehensive, but she told herself that even her most frustrating day as a luthier would be infinitely better than her best day proof-reading manuscripts.

Six weeks later, Kiara dropped her off at the airport to start her new adventure as a luthier’s apprentice. “I feel like I just won the lottery!” Nikki said as she thanked her friend and hugged her goodbye.

Nikki didn’t have to win the lottery to pursue the life she wanted, and neither do you. Even though every life

includes setbacks, obstacles, and unwelcome surprises, if you know your priorities and let them guide the thousand different decisions you make each day, you will be on the path to realizing your dreams and living your best life. We do this as individuals, and we also do this as a nation. We ask, “What is the bright future we want for our country, and are we allocating our resources in the best ways possible to make our vision a reality?” This chapter explores the issue of the **federal budget**, the detailed list of all the goods and services the government provides to people in a year and the plan for how it will be funded. Taken together, **expenditures** (the money the federal government spends) and **revenues** (the money it collects in taxes) reflect our national priorities. By the way, sometimes people talk about the federal budget as if it’s no different from a personal budget. But it’s not a fair comparison for one big reason: our country creates its own money, but individuals don’t. We’ll talk more about this later, but I wanted you to keep it in mind as we get started.

As you might imagine, people from different perspectives have constant battles about what should be included in the expenditures column,

how much money should be allocated to which programs, and how money should be raised to fund the federal budget. Radicals, liberals, and conservatives all agree that irresponsible budgeting and money management are problems, and they all share the same goal of financial freedom to invest in our future. But they have very different ideas for how to achieve it.

Of all the issues we explore in the VOTE Program, this one provokes some of the strongest feelings of hostility because we all have opinions about how our tax dollars should be spent. We all want our economic priorities to be represented, whether it's improvements to the local water supply, student loan forgiveness, upgrades to the roads that run through our city, government investment in research for the cure to a disease that runs in our family, or something else. We also want our ideas about right and wrong to be represented. That leads to even more heated controversy over whether to fund or cut funding for the death penalty, abortion, sex education in schools, and so forth. Although we're not looking at these social issues directly in the VOTE Program, it's important to acknowledge that they add fuel to the battles over the federal budget. As you read this chapter, don't be surprised if you start to have strong feelings. Please take note of them.

When it's time to revisit your VOTE Ballot, you'll know which economic perspective most closely matches your own.

A Budget for the Nation

During my freshman year of college, I saw a bumper sticker that read: "It will be a great day when our schools get all the money they need, and the Air Force has to hold a bake sale to buy a bomber." I remember it well because it was the first time I really thought about the federal budget. How is it decided that some things get funding and others don't? When I paid taxes on an airplane ticket to visit my family in Virginia, how were those taxes spent? Could anyone propose new ideas for how to spend those tax dollars? I had a dream that someday I would walk across the country from the East Coast to the West Coast, and I was suddenly curious if anyone in Washington would be in favor of funding a cross-country hiker-biker path. I daydreamed about all the incredible things I would fund if I had the power to make budget decisions. I ended up at the library—these were the days before the internet—where I looked up the federal budget from the previous year. I jotted down the different expenditure categories in the margins of my notebook and wrote in the percentages of government revenue each received. Then I asked



myself if those percentages reflected my priorities. Some did, and some didn't. I crossed out the actual numbers and wrote in my own percentages based on what I thought our nation should focus on for the next year. I also looked up the differ-

ent sources of government revenue and changed those percentages to match my ideas for how to fund my version of the federal budget. That's how I got hooked on this topic. You can give it a try in the following exercise.

Your Priorities for the Federal Budget

Imagine you have the power to write the federal budget. What are your priorities for our nation? How do you think we should fund them? There are no right or wrong answers to this two-part exercise. It's meant to help you identify your ideas about how to achieve the best possible future for our country.

Part A: Your Priorities for Spending. In the table below, the left column lists the line items that were funded in the federal budget in 2019. The middle column shows the percentages of federal revenue allocated to each line item. Your job is to fill in the right column with the percentages you believe should be allocated for each line item. Use the *Other* category for an expenditure you want to fund that is not on this list. Your numbers could be higher, lower, or the same as the ones from 2019. When you're finished, make sure all the percentages you filled in add up to 100.

Your Priorities for Federal Budget Spending

Line Item	2019 Budget Spending (%)	Your Spending Priorities (%)
Example: Puppies	50%	100%
Health Care	25%	
Social Security	23%	
Defense	16%	
Interest on Debt	8%	
Public Assistance	8%	
Veteran's Benefits	8%	
Infrastructure	2%	
Education	2%	
Scientific Research	2%	
Other: For example, Food & Agriculture, International Affairs, and Energy & Environment	6%	
TOTAL	100%	100%

Part B: Your Priorities for Revenues. In the table below, the left column shows the different sources of revenue used to fund the federal budget in 2019. The middle column shows the percentages of revenue the government collected. Your job is to fill in the right column with the percentages you believe should fund the budget. Use the *Other* category for a source of revenue that is not on this list. Your numbers might be higher, lower, or the same as the ones shown. When you're finished, make sure all the percentages you filled in add up to 100.

Your Priorities for Federal Budget Revenues

Line Item	2019 Budget Revenues (%)	Your Revenue Priorities (%)
Example: Puppy Taxes	50%	1%
Individual Income Taxes <ul style="list-style-type: none"> ▪ Progressive taxes on wages ▪ Salaries ▪ Capital gains from investments 	50%	
Payroll Taxes <ul style="list-style-type: none"> ▪ Social Security ▪ Medicare 	36%	
Corporate Income Taxes <ul style="list-style-type: none"> ▪ Taxes on profits 	7%	
Excise Taxes <ul style="list-style-type: none"> ▪ Special sales taxes 	3%	
Custom Duties <ul style="list-style-type: none"> ▪ Taxes on imported products 	2%	
Other: For example, estate & gift taxes, fees & fines, and income from the central bank (Federal Reserve)	2%	
TOTAL	100%	100%

Now that you've thought through your priorities for spending and revenues, you can understand the old saying, "There is no such thing as a free lunch." There are always trade-offs. We have to make tough choices, because we don't have unlimited resources. If we want to spend more in one part, we need to cut from somewhere else, or raise taxes to generate more revenue. If we want lower taxes, we have to cut spending or find a different revenue source. There is a third option that we haven't talked about yet. We could borrow money (and go into debt) if revenues don't cover all the things we want to fund in the

budget. Revenue, expenditures, and debt—we're always juggling these three balls when it comes to the federal budget.

When you hear the word *budget*, think **fiscal**. The word comes from the Latin *fiscus*, which means purse or treasury. A **fiscal year (FY)** is the twelve-month period covered in an annual budget. The federal government's fiscal year officially begins October 1 and ends on September 30. They refer to a budget year as FY 2020–21, for example. Firms, institutions, and organizations might have a fiscal year that starts on January 1 and ends on December 31.

Deficits and Debt

Any time there's talk about the federal budget, you'll inevitably hear about deficits and debt. Many people are confused about the differences between the two, so let me break it down for you. First, a **balanced budget** means that all the money the government collects in a year (*revenues*) is exactly equal to all the money it spends that year (*expenditures*). When the government spends more than it collects, we have a **budget deficit**. The United States had its first budget deficit in 1789, to the tune of \$19,608.81 (in 2021 dollars, that's around \$586,000). A few times in our history, we've had **budget surpluses**, which occur when government revenue is higher than expenditures. In 2000, we had a budget surplus of \$240 billion. Figure 18.1 shows deficits and surpluses from 2000 to 2020.

When there is a budget deficit, the government borrows money to fund the federal budget. The **national debt** is the total of all our deficits minus any surpluses. If you hear in the news,

“The budget deficit for 2020 was \$3.1 trillion,” you know that the government had to borrow \$3.1 trillion to fund the shortfall so that it could pay for all the expenditures in that year's budget. If you hear, “The national debt reached \$27.5 trillion,” you know that's the total of all the country's deficits minus surpluses since 1835 (the last time our national debt was \$0). For example, suppose we have no debt and a balanced budget in year one. In year two, we have a \$10 million deficit. In year three, we have a \$2 million surplus. In year four, we have a balanced budget. What was the national debt in year four? If you came up with \$8 million, you are correct. To get the answer, subtract the surplus in year three (\$2 million) from the deficit in year two (\$10 million).

When the federal government borrows money to fund the deficit, it is obligated to pay the lenders back. The amount borrowed is called the **principal**, but that's not all that is owed. **Interest** is the cost of borrowing money. Just to give you an easy example, let's say the government wants to bor-

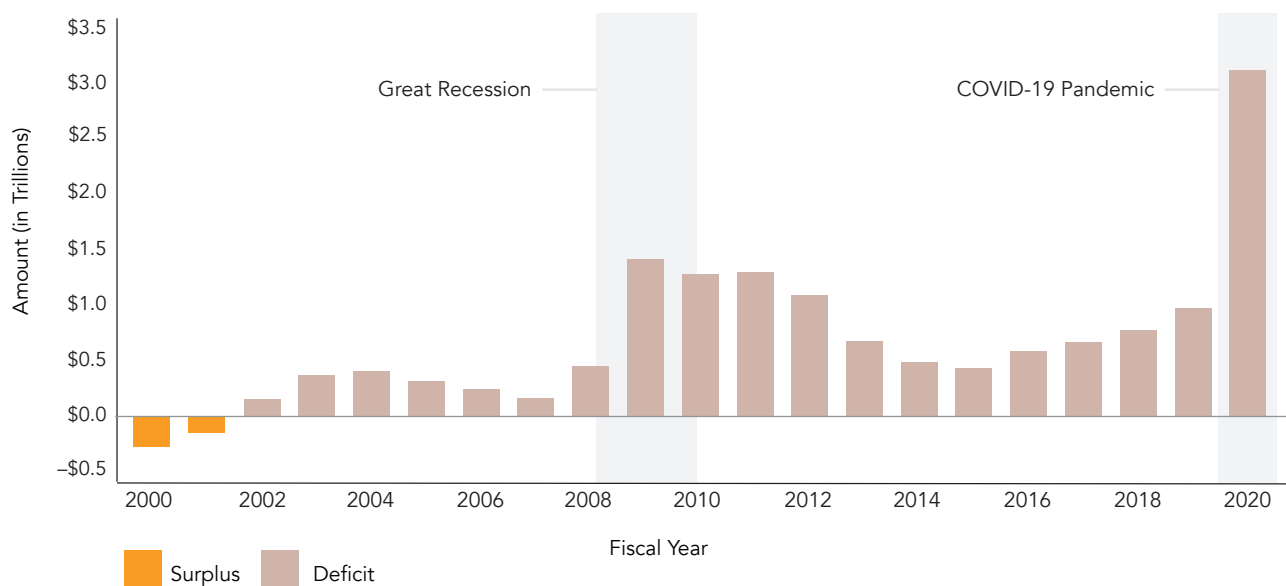


Figure 18.1
Federal Deficits and Surpluses, 2000–2020

row \$6 million for one year at an interest rate of 10 percent. At the end of twelve months, it owes the lender \$6.6 million. If it hands over that amount on time, then the debt is paid in full. If it only pays back part of the principal and interest, then interest will continue to *accrue* (accumulate) on the unpaid principal and sometimes on any unpaid interest.

Compounding Interest

We'll get back to federal government borrowing in a moment. First, I need to give you some basic information about borrowing money, which applies to you personally and to the federal government. Every time you use a credit card to make a purchase, the credit card company is lending you the money by paying the restaurant where you charged your lunch, the post office where you charged your stamps, and the yoga class where you charged your class fee. When you apply for the card, the firm checks your **credit score**, which is calculated by private firms based on your history of borrowing and paying back lenders, including paying utility bills and student loans. Based on that grade (850 was the highest possible score in 2021), the credit card firm determines your **credit limit**, which is the maximum it will let you borrow. If you have a poor credit rating, it's hard to get a loan, and if you do, the interest rate will be high. This is meant to give borrowers an incentive to pay back their loans.

If you pay your entire credit card balance on time each month, then the credit card firm doesn't charge interest or late fees. But if you pay only a portion of the balance, you are charged interest. Suppose you get a credit card on January 1 with a

When the government spends more than it collects, we have a budget deficit. Then it borrows money to fund the federal budget. The national debt is the total of all our deficits minus any surpluses.

simple interest rate of 15 percent. Simple interest is charged only on the principal. In the first month, you charge \$1,000, and at the end of the month, you pay \$600. On February 1, you are carrying a balance of \$400 from January, plus \$60 in simple interest. Since you sent in your payment on time and there were no other fees, the total you owe as of February 1 is \$460.

In February, you charge another \$1,000 and pay \$600 at the end of the month. On March 1, you owe \$400 from February, plus \$60 in simple interest on February's balance. Since you still owe \$400 from January in unpaid charges, the credit card company again lends you that amount at 15 percent simple interest. But you also owe \$60 of interest from January. So the credit card company lends you that as well—and charges you interest on it. In other words, it charges you interest on the interest. This is called **compound interest**. Every month that you carry over a balance, that amount plus the interest owed goes up by another 15 percent.

"That's not so bad," you may be thinking. Hmm. Wait for it.

Fast-forward to the end of the year. You charged \$1,000 and paid off \$600 of the principal each month for twelve months. On December 31—one year after you got your credit card—you are now in debt to the tune of \$13,340.77 even though you paid \$7,200. You carried forward a balance of \$400 each month for eating out and having fun, which was a total of \$4,800. The simple interest of \$60 for twelve months only added up to \$720. But your compounding interest amounted to \$7,820.77. Ouch! Compounding interest sneaks

up on you. It can run you into a deep financial hole if you're not careful. Switching from your personal finances back to the federal debt, if the government can't make its interest payments, it might have to borrow. Then it could end up owing interest on the new loan to pay the interest on the old loan. That compounding interest could quickly get out of control.

The U.S. Debt Clock

One of the most startling things I've ever seen is the national debt clock, mounted on the side of a building in New York City. It keeps a running account of what the country currently owes, and shows your family's share of that debt. There is also the U.S. Debt Clock website, which shows the amount we borrowed to fund the deficit and the interest we owe. It also displays the total amount of personal debt carried by individuals in the United States. You can visit the website or see the debt clock in person. By the way, the original debt clock had to be replaced with one that can also run backward during years when we have a budget surplus, as happened in 2000. The new clock could also accommodate the extra digit needed once the national debt passed the \$10 trillion mark. I stayed up on New Year's Eve 2020

and watched the debt clock website. The moment 2021 began (Eastern Standard Time), our national debt was \$27.5 trillion.

There's a saying coined by U.S. Senator Everett Dirksen, "A billion here, a billion there, and pretty soon you're talking real money!" People are always throwing around big numbers when they talk about the federal budget, but most of us have no idea what \$1 trillion actually looks like. Here's a way to roughly picture it. Assuming all are in \$100 denominations, you can walk around with a \$100 bill in your back pocket. You can fit \$10,000 in a shirt pocket. You can carry \$1 million in a backpack and drive away with \$100 million in a standard pick-up truck. You can store \$1 billion in a small one-car garage. And for \$1 trillion? You need 1,000 of those garages. When policymakers and pundits talk about the federal budget and the millions, billions, and trillions of dollars at stake, keep in mind that these are vastly different amounts.

Whom Do We Owe?

The national debt is made up of two parts. The first is **intragovernmental debt**, which is money the government borrows from itself to deficit spend. For example, it borrows from the



Old-Age and Survivors Insurance (OASI) Trust Fund (Social Security), the Medicare Trust Funds, the Highway Trust Fund, the Defense Retirement and Civil Service Retirement funds. Because not all the money in those funds is needed today to fund those programs, the money is available to be borrowed. The second part of the national debt is **public debt**. This is the money government borrows from individuals, pension funds, insurance companies, investment firms, foreign entities, and others. In figure 18.2 you can see the makeup of our national debt.

The federal government doesn't just have today's unpaid debts. It also has financial commitments, by law, to those who are eligible now and in the future to receive Medicare, Social Security, government pensions and benefits, and veterans' pensions and benefits. These are the government's **unfunded liabilities**, which are obligations that are not counted as part of the public debt. Remember we owed \$27.5 trillion on January 1, 2021? If we included our unfunded commitments, the debt was actually \$158.4 trillion.

Money and the Real Economy

Can you believe that we're on chapter 18 of an economics book and we're just getting around to talking about money? Up to this point in the VOTE Program, we've discussed the **real economy**, which is the production, consumption, and distribution of the goods and services that make up our material lives. Now it's finally our moment to ponder the relationship between the real economy and that ubiquitous thing in your pocket called *money*.

We all know how money works, but imagine for a moment that we didn't have money. You make backpacks, and I make hiking boots. We could **barter**, which means we make a direct trade of goods and services. But if I need a backpack and you don't need hiking boots, we won't have a deal. That's why money is so handy. The need for a mutual coincidence of wants—you want exactly what I offer, and I want exactly what you offer—is bypassed when we use money.

Today, money is a central concern for just about every person on the planet. We all need money to survive. We suffer and die if we don't have it.

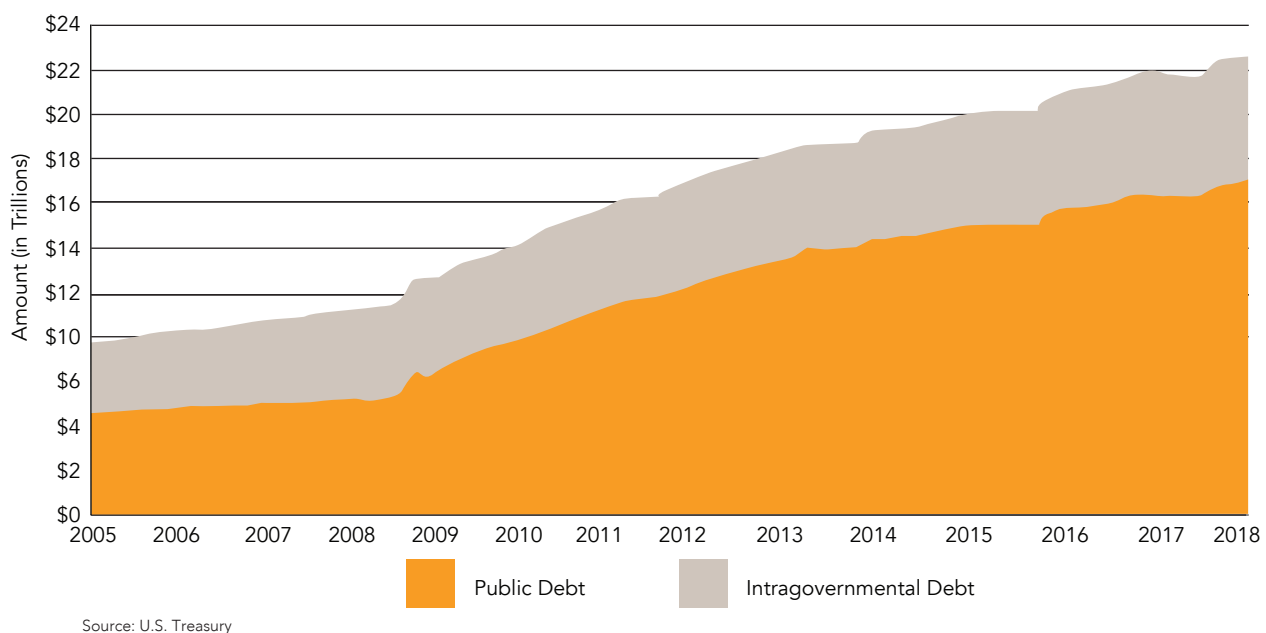


Figure 18.2
U.S. National Debt, 2005–2018

We spend the precious hours of our limited lifetimes striving to earn it and put ourselves in debt to borrow it. We write about it, make films and songs about it. We love it, hate it, dream about it, and obsess over it. Some people risk their freedom to steal it, and others even kill for it. We say, “Money is power,” and “Money is freedom,” and “Money makes the world go ’round.” No matter who we are or where we come from, money is a central subject in our lives. But isn’t that strange? You can’t eat it or sleep on it. Money doesn’t love you back. You can’t wear it, or make music on it, or play a video game on it. What exactly is this thing that wields such enormous power over human beings?

In economic terms, **money** is a claim on the goods and services that society generates. The \$10 in your pocket right now entitles you to a burrito for lunch, or a notebook for class, or electricity so that you can charge your phone. Money is anything used for purposes of exchange and to repay a debt. The U.S. dollar is our legal tender, which means by law it is accepted as a valid way to repay debts, including taxes, contracts, parking tickets, library fines, and so forth. People in ancient civilizations used a wide variety of physical objects as money. The ancient Sumerians used barley, which was commodity money—something physical that has value because it can also be used for something else (the barley could be eaten, for example). The Yap Islanders, who live in the Pacific islands of Micronesia, have used cloth, shells, and balls of ground turmeric (a spice) as currency. They also have stone money, called *rai*, which are carved disks with a hole in the center. Rai come in different sizes, and some are way too big for anyone to actually move. No one could eat the stone currency or start fires with it or sleep on it. Its value is based on a shared agreement that the sparkly stones are scarce—they were quarried on other islands—and desirable. Rai’s valuation is no different from the way gold, silver, sapphires,

emeralds, and diamonds are valued around the world because of their rarity and sparkle.

The Functions of Money

The money in your bank account has three functions. Let’s discuss. First, it’s a **medium of exchange**, which means that sellers are willing to trade goods and services for money. In other words, a hair stylist and a bookseller are both willing to exchange their products for this third object. Money is also a **unit of account**, which means that the relative worth of hiking boots, backpacks, math tutors, lawyers, pies, your labor, and every input and product is valued according to the same currency. For example, you’ll need six or seven times more money to pay for a consultation with a lawyer than for a piano lesson. And money is a **store of value**, which means that it’s durable. It won’t rot, melt, or otherwise transform quickly into something different. Imagine if your money suddenly crumbled into dust. No one would trust it, and therefore no one would agree to trade for it. You can see why shells and stones, and later gold, silver, and other metals, were better choices than barley or olive oil, which can spoil.

Money must also be portable. You’ve got to be able to move it around. Those Yap stones are fine until you want to take a house-sized one to the market to trade for sweet potatoes. Today, money has never been more portable because most of it doesn’t even have physical form such as bills or coins. In 2020, more than 90 percent of money existed as electronic data in cyberspace.

This may seem obvious, but it’s worth stating that money also needs to be divisible, which means it can be easily divided. If there were only \$100 bills, then it would be complicated to buy goods and services that cost less than \$100 because no one could make change. And finally, there has to be a limited supply of money. If you could easily scoop it up off the ground, no one would trade for it.

Gold Standard and Fiat Currency

Have you heard of Fort Knox? It's a military post in Kentucky that protects the U.S. Bullion Depository, which is a humongous vault that in 2020 held 4,580 metric tons of gold. That is half of our nation's gold reserves. No one has ever robbed Fort Knox as of 2021, but if they did, it would be quite a heist. In July 2020, the market value of the gold was \$290.9 billion.

Are you thinking, "Um, so we basically have a building filled with bars of shiny yellow metal that just sit there? Why?" It's because the value of the U.S. dollar was backed by gold until the mid-twentieth century. When we had the **gold standard**, the U.S. government guaranteed that anyone could march up to a bank teller and exchange their printed dollar bills for gold. That gave dollar users a sense of security, but it also meant that the government couldn't print more money unless it could back it with more gold. In

the past, U.S. coins were minted from gold and silver, while printed money was *representative*, meaning it represented a claim on gold. The gold standard ended in the 1930s, although foreign governments could still exchange dollars for gold until 1971. Then, President Richard Nixon officially shifted the United States to **fiat currency**. *Fiat* is the Latin word for command or decree. Fiat currency is money produced by the government that is neither a commodity itself (such as gold, silver, or barley) nor a representation of a commodity. Its value rests on people's faith and confidence in the government. When we believe that the government is reliable and stable, then the currency has value.

Cryptocurrency

For millennia, money was issued by governments. Then, in 2009, the first **cryptocurrency** began to circulate. It is digital money that comes



from a decentralized source—no government, no central bank, no national treasury. Cryptocurrency derives its name from the fact that transactions are highly encrypted (*crypto* means hidden or secret). Bitcoin was the first cryptocurrency, and by 2021 more than four thousand different cryptocurrencies were in circulation. Its popularity grew in part because transactions are anonymous. Users also liked bypassing banks and bank fees and being able to make fast transactions anytime, anywhere.

As with any currency, the more of it there is, the less valuable it becomes. So built into the bitcoin source code is a limit on the number of bitcoin that can exist—21 million. New bitcoins are generated through a process called *mining*. High-powered computers solve complicated mathematical problems that require substantial processing power (and use a lot of energy). When the problem is solved, bitcoins are generated. By December 2020, around 18.5 million were in circulation, and each was worth close to \$19,500. The average value of a bitcoin between 2009 and 2020 was \$7,000. Some people buy cryptocurrency as an investment, but it's also used every day to pay for phone plans, taxi rides, carpets, airplane tickets, restaurant meals, and more. The landscape of cryptocurrency is rapidly evolving, and the long-run effect it will have on national currencies remains to be seen.

The Money Supply

Earlier in this chapter, I mentioned that a household budget is an imperfect analogy to the federal budget. This is because the United States and many other countries create their own currencies, giving them the unique ability to control the supply of money in the economy. You can't create more money to pay your debts. The federal government can. But *should* it? Each perspective has a different answer. For now, we're going to leave their different opinions aside and take a quick look at the **money supply**, which is how

much money is in circulation on a given day. In the United States, two major players are involved in managing the money supply.

The U.S. Department of the Treasury

The first player involved with the money supply is the U.S. Department of the Treasury (usually just called the **Treasury**). It was established by Congress in 1789 to manage government revenue. Today, the Treasury's role is to manage the overall finances of the government. It's a big job that involves collecting taxes and enforcing tax laws, printing bills, minting coins, printing postage stamps, managing all the government's accounts and debts, and more.

To fund a deficit budget, government borrows not only from itself but also from the public. The Treasury issues **government securities**, which are investment instruments that individuals, firms, financial institutions, foreign governments, and others can buy. These include Treasury bills, Treasury notes, and Treasury bonds. When investors purchase a government security, they lend the government the principal amount for a set period. Once that time passes, the security **matures**, and the government pays the investor back with interest. The various government securities have different time frames for paying back lenders and different interest rates. For example, it takes up to a year for a Treasury bill to mature, while a Treasury note takes from two to ten years, and Treasury bonds can take more than ten years. This is how the public finances the deficit. Notice that investors buy them with money that is already in circulation.

The Federal Reserve

The other major player involved with the money supply is the **Federal Reserve System**, otherwise known as **the Fed**. It's officially the central banking system of the United States because it's the bank the Treasury uses, similar to the way you have an account at a certain bank.



When the Fed was created in 1913 by Woodrow Wilson, a Democrat, with the approval of a Democrat-controlled Congress, it was given what is known as the **dual mandate** to create a stable macroeconomy with maximum employment and stable prices, along with moderate long-term interest rates. It may surprise you to hear that the Fed is not a government agency. It's a nonprofit private corporation whose shareholders are the nation's commercial banks. Although the Fed is an independent entity, it is led by a seven-member Board of Governors (BOG) whose members are appointed by the president and confirmed by the Senate. Based in Washington, DC, the BOG is an agency of the federal government and is accountable to Congress and the president. But the government doesn't dictate the Fed's policies. The Fed acts independently and informs lawmakers of its decisions. As a nonprofit private corporation, the Fed may generate a profit, but none of it is distributed to BOG members or Fed shareholders. All profit made by the Fed belongs to the federal government. In 2019, the Fed added approximately \$55 billion to the government's annual revenue.

The Federal Reserve System is divided into twelve districts, as you can see in figure 18.3.

Each has its own Federal Reserve Bank. Each of the twelve district Feds has its own president, and all twelve presidents are managed by the BOG. A third entity of the Fed is called the Federal Open Market Committee (FOMC), made up of the BOG and five rotating bank presidents. What do they actually do? They do a lot, but one of the most important matters they decide is what the target range for interest rates should be at a given time. If you have a car loan or a credit card, you know how important interest rates are to your financial life.

If you have cash in your wallet, take a look at a dollar bill. Printed above the head of whoever is pictured on it are the words "Federal Reserve Note." Our printed money is produced by the Bureau of Engraving and Printing, which is part of the Treasury. But the Fed tells the Treasury how much money to print, and the Fed decides when to put those new bills into the money supply. Here's how it works. When the Fed decides that the economy needs a boost, it sets a lower target range for interest rates. Commercial banks now need more money in their reserves to lend. So the Fed buys government securities on the open market, which put those new bills into circulation. This increases the money supply. But when it

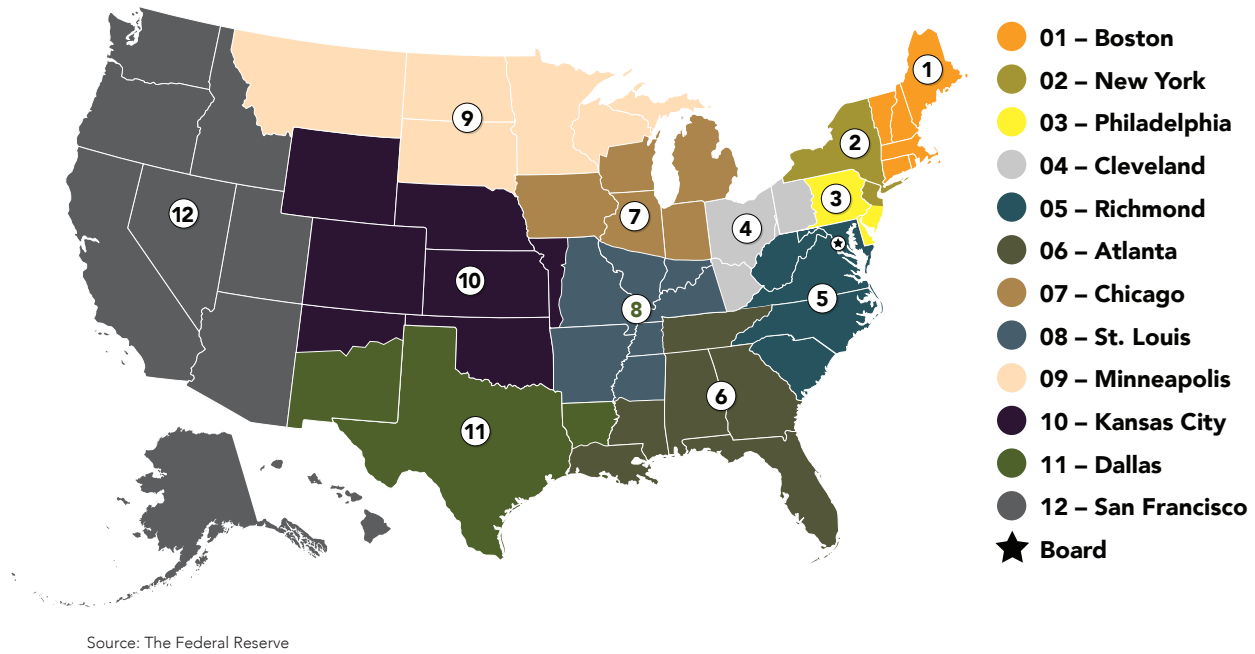


Figure 18.3
The Federal Reserve District Banks

wants to cool down the economy, it sets a higher target range for interest rates. That means banks should have less money in reserve. So the Fed sells government securities—again, on the open market—and takes that money out of circulation. This shrinks the money supply.

At this point, you might be wondering, “Why doesn’t the Treasury just tell the Fed to increase the money supply so we can use it to fund the deficit and pay off the national debt? Wouldn’t that solve all of our budgetary issues?” Congratulations. You have just tripped over one of the most contentious debates in our country (and around the world). Creating more money to pay the national debt is known as **monetizing the debt**. This idea was rejected by the government, which created a firewall (a barrier) between the government and the money supply by putting the Fed in charge of it. The idea was that if politicians could change the money supply whenever they wanted, they would be greatly tempted to keep printing money to fund everything their constituents wanted. The concern was that more

money in circulation without a matching increase in the production of goods and services causes runaway inflation, with too many dollars chasing too few goods. Lawmakers saw the need for an independent institution that wouldn’t be swayed by the pressure to please voters and therefore could make decisions about the money supply that were best for the overall economy.

There have been vicious fights about the role of the Fed since it was created. One major area of controversy revolves around the issue of the firewall between the Fed and the Treasury. Here are two prominent critiques about its effect on the deficits and the national debt.

“The firewall is ineffective.” Some critics say that the Fed is not a neutral party. It ends up enabling the government’s decision to run a deficit when it sets a lower target range for interest rates and increases the money supply. At that point, it becomes more affordable for the Treasury to borrow money from the public. Therefore, they say, the Fed enables more deficit budgets. It also indirectly participates in funding the deficit.

Although it is prohibited from buying government securities directly from the Treasury, it still buys them in a secondary market for securities. (Think of buying a used car. Instead of purchasing it from the car dealership, you buy it from the person who bought it from the dealership.) They say that no matter whether the Fed buys securities directly from the Treasury or indirectly on the secondary market, the effect is the same: it monetizes the debt. This puts the economy in danger of extreme inflation. This criticism is usually given from the conservative perspective.

“The firewall holds the economy back.”

Other critics say that we’re thinking the wrong way about the federal budget, and we need a whole new model for understanding expendi-

tures and revenues. Because the government makes its own currency, it doesn’t need to cut spending or raise taxes to fund what the country needs. They want to get rid of the firewall and use the Fed to increase the money supply when the government needs to fund the federal budget. They say we won’t have to raise taxes or make difficult choices about what to fund and what to cut. The federal budget can meet the challenges of the moment and best serve society. If inflation starts to become a problem, lawmakers can raise taxes to take money out of circulation. This argument is called **modern monetary theory (MMT)**. There are different versions of it from the liberal perspective and from the radical perspective.





Thinking about Nikki's story about personal budgeting and the thousands of decisions we make every day that lead us to the future we desire, and considering the federal budget, deficits, and the national debt, you can see that we're constantly challenged to meet our financial commitments, fund our priorities, and move toward our goals. Every year, like clockwork, the federal budget comes up for debate. The budget that gets

passed directly affects your choices, your community, your security, and your future. All three perspectives agree that irresponsible budgeting and money management are problems. And they all share the same goal of financial freedom to invest in our future. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for the Federal Budget

Before we unpack the different tools used by radicals, liberals, and conservatives to analyze the issue of the federal budget, let's take a moment to once again visit Gross Domestic Product (GDP). GDP is the money value of all final goods and services newly produced in a country during a specified period. You can think of GDP as the nation's income. When GDP goes up, we call it **economic growth**. Economists are captivated by GDP because they always want to know if the economy is growing, shrinking, or stagnating, and one way to know that is to compare recent GDP to the GDP of a past period—last month, quarter, year, decade, and so on. If you ever meet an economist at a party and you have nothing to talk about, just ask their opinion about the latest GDP report. But please make sure you have a comfortable place to sit, because it will no doubt be a very long conversation!

Shared Tools

If GDP this quarter is higher than last quarter, does that mean the country produced more goods and services in the past three months? Not necessarily. It could mean that prices went up, causing the money value of all those final goods and services newly produced in the country to be worth more. To account for possible changes in prices, economists look at real GDP, which

is adjusted for inflation. Those are the numbers you'll read about in the news.

When I was a child, older relatives used to pull me aside and tell me I should always try to live up to my potential. They meant I should make the most of the unique talents and opportunities I had been given so that I could live my best life. Similarly, as a country we want to make the most of our land, labor, capital, and technology



so that we can meet all our priorities as a nation and have the best quality of life. **Potential GDP** refers to the highest GDP we could possibly have if we used all our resources most efficiently. (*Efficiency* is the ability to produce without wasting any resources.) Potential GDP is also called **full employment (FE) GDP** because when we're at full employment, all our land, labor, capital, and technology are fully used.

Since no one can really know exactly how many goods and services we could have produced yesterday or last quarter or last year with our given resources and technology, potential GDP is an estimate that economists come up with so they can assess whether the country is producing efficiently. Radicals, conservatives, and liberals all agree that at least some growth in goods and services is vital to a healthy economy, and they all want to be at potential, but they disagree about what is the optimal level of economic growth and what is our potential GDP. These differences are at the root of their competing

ideas about the federal budget. Before we get into the details of those competing ideas, I first have to tell you about a very famous hockey stick.

The Hockey Stick of Human Prosperity

The hockey stick of human prosperity is not literally a hockey stick. It's an illustration of the global economy over the past two thousand years. Although the GDP measurement was only invented in 1937, economists used available data about population size and production around the world to create a picture of human productivity over time. They concluded that we basically produced the same amount of stuff per person (**GDP per capita**) for 1,700 years. With a few exceptions such as rulers, wealthy merchants, and landowners, most of the human race didn't have much. They lived in humble homes, wore the same clothes day after day, starved when the crops failed, and had little or no access to decent health care or education. Technology and innovation advanced, but slowly.

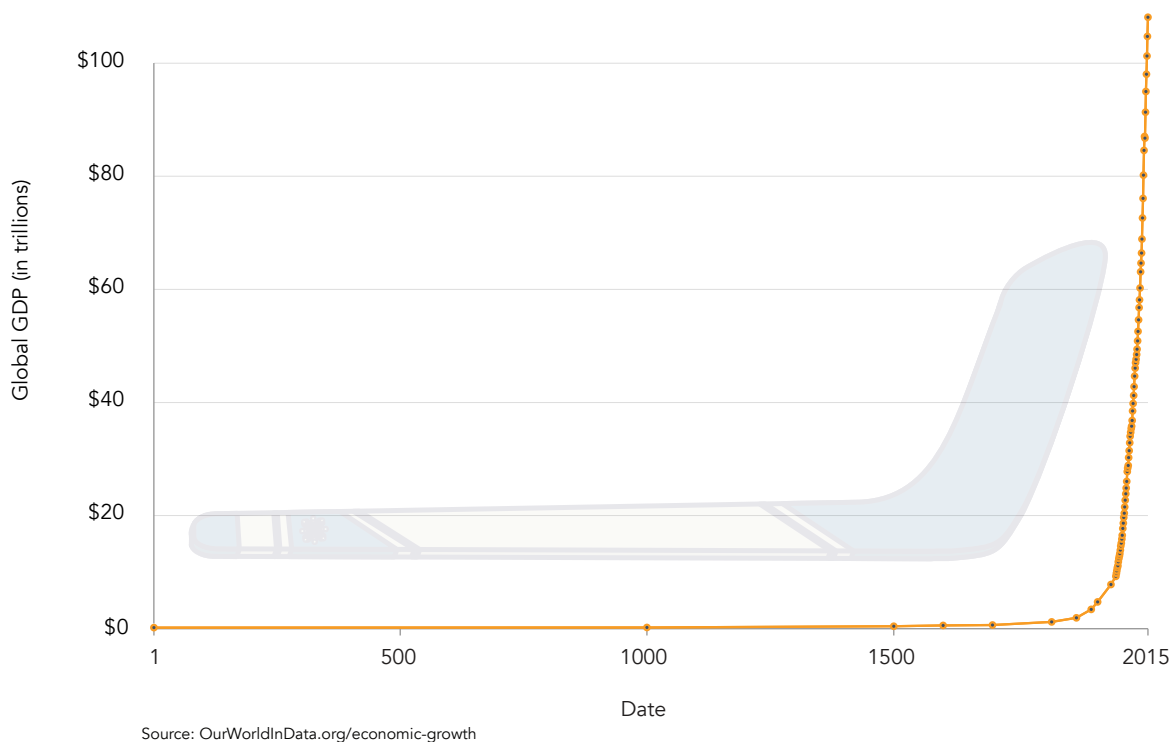


Figure 18.4
The Hockey Stick of Human Prosperity

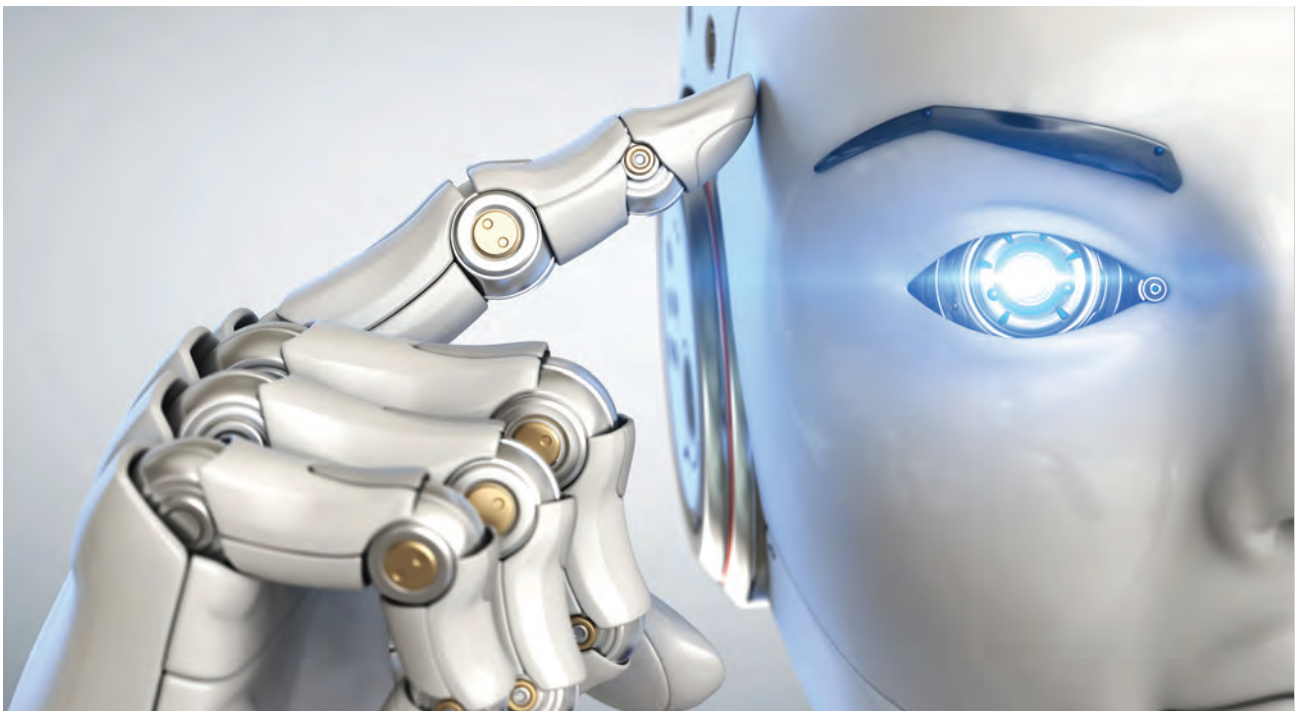
You can see in figure 18.4 that human prosperity remained flat for a long time. Imagine that flat line as the handle of a hockey stick lying on the ice.

Then came the first Industrial Revolution. Beginning in the 1700s, steam engines began to replace horse-and-pulley systems, which changed production. Now people could make a wide variety of goods in larger quantities because machines allowed them to make better use of the resources. The steam engine also transformed transportation, and all those goods could be moved around more quickly and cheaply. GDP per capita started to rise. When electricity was invented in the late 1800s, it started the Second Industrial Revolution. New machines made even higher levels of output possible, and workers could produce around the clock thanks to electric lights. Improvements to conveyor belts enabled factories to use assembly lines to mass produce goods. GDP per capita shot up. Then came the Digital Revolution of computers and automation beginning in the mid-1900s. With bar codes, scanners, automatic teller machines (ATMs), and other new inven-

tions, efficiency improved again, and GDP per capita soared. Some say that the Fourth Industrial Revolution started in the early 2000s with artificial intelligence, biotechnology, 3-D printing, quantum computing, and other new inventions making production even more efficient, leading to even higher GDP per capita. Take another look at the hockey-stick shape in the illustration of GDP per capita over time. Human prosperity went from flat, flat, flat to a sudden explosion of productivity.

Disagreements about Levels of Growth

The average American today lives more comfortably than the richest people in the past. We can control the temperature of our homes, refrigerate our food so that it stays fresh longer, communicate instantly with others across the world, and access nearly every book, song, film, and play in existence on our personal devices. With modern medicine and sanitation, we have fewer physical ailments and live healthier and longer lives. And we can travel farther (we can fly!) and see the wonders of

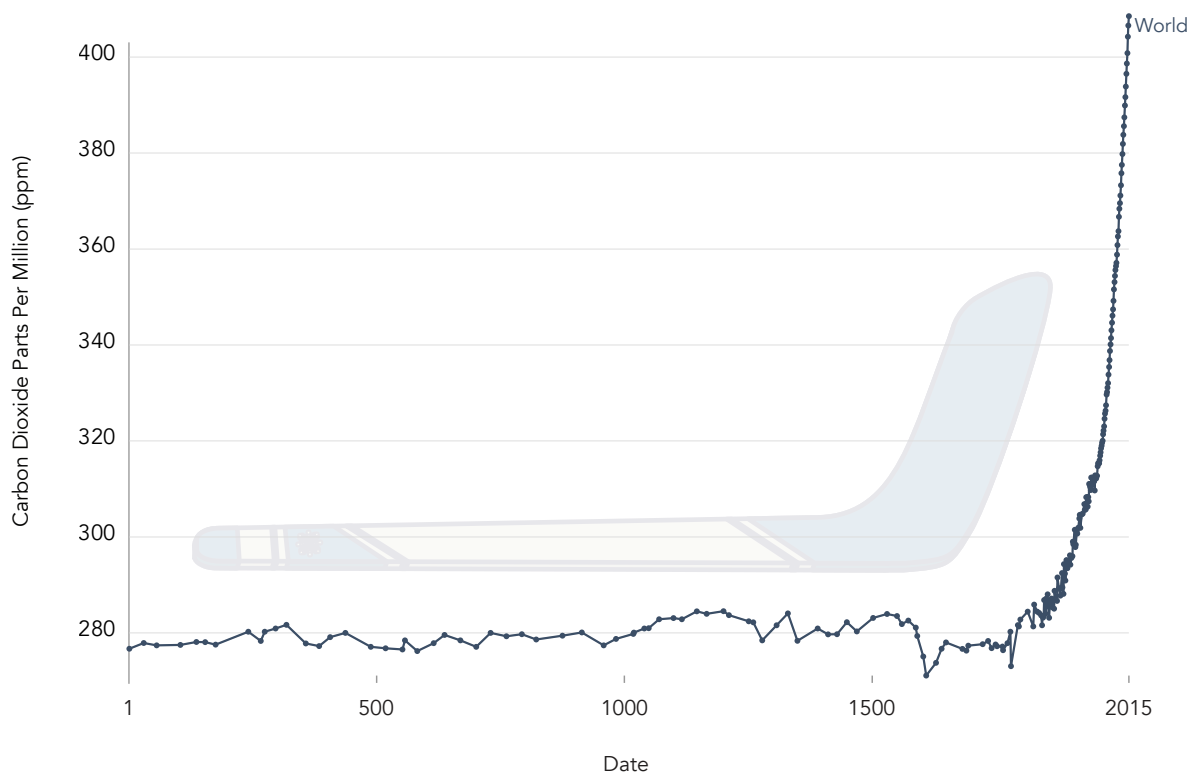


the world, while people in the past rarely ventured more than a few miles from home.

While all three perspectives want society to have continued economic prosperity, they disagree about whether GDP alone should be the measure of living up to our potential as a nation. They disagree about whether high levels of economic growth are desirable or justify the negative effects that increased production has had on our overall standard of living and quality of life. For instance, figure 18.5 shows the hockey stick of carbon emissions—one of the concerning byproducts of increased levels of production in the past three hundred years.

In debates about the federal budget, radicals, liberals, and conservatives argue about allocating resources to government—to build interstate highways, provide education and health care, or

regulate trade, for example. When government collects taxes to fulfill its various roles, that money is not available to private firms and individuals to spend on other activities such as starting or expanding businesses. There is no disagreement about the math. The more resources we allocate to government, the lower our GDP. So they each ask: when we have more roles for government—as you can see in figure 18.6—and more resources are redistributed from the private sector to the public sector, are the trade-offs worth it? For some, the answer is no, because GDP measures prosperity, and we should have the highest possible level of prosperity to achieve our potential as a nation. For others, prosperity is not necessarily an indicator of a high overall standard of living or the best quality of life. They believe we achieve our potential as a nation by having more



Source: OurWorldInData.org/co2-and-other-greenhouse-gas-emissions/

Figure 18.5
The Hockey Stick of Global Carbon Emissions

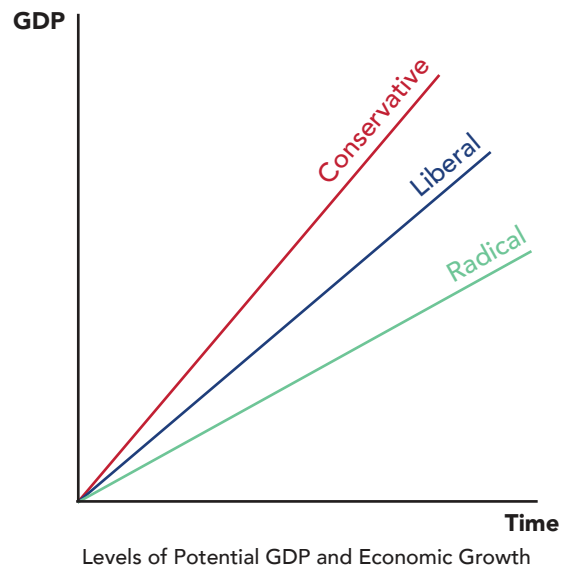
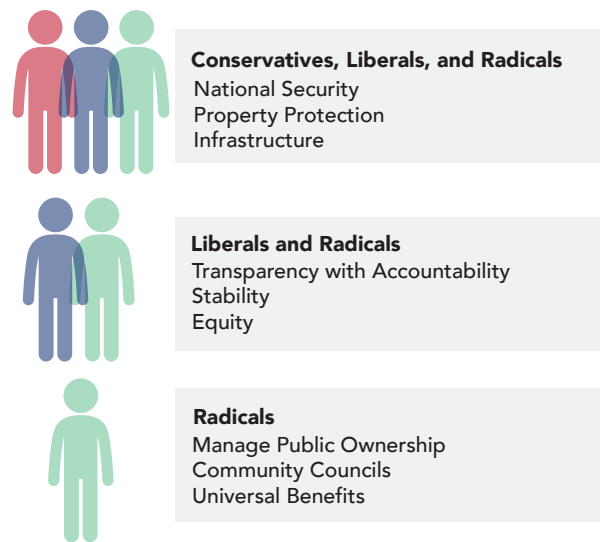


Figure 18.6
Roles of Government and Economic Growth

roles for government. Here is a quick summary of the ways each perspective views the connection between GDP growth, government involvement, and achieving our potential as a nation.

Conservatives: Fewest roles for government, highest GDP growth, maximum prosperity for all. For conservatives, nothing is more important than having the highest possible GDP because it enables the nation to flourish. They say too much government creates inefficiency. Regulations, high taxes, and other government interference slow GDP growth and prevent us from reaching our potential. The conservative version of the federal budget limits the government to three—and only three—necessary roles: provider of national defense, protector of property through a justice system, and creator of infrastructure. You can see where they draw the line of potential GDP in figure 18.6. They achieve the highest level of GDP growth among the three perspectives because they allocate the fewest resources to government. To conservatives, this is how we get the highest possible level of prosperity for all.

Liberals: Expanded roles for government, moderate GDP growth, highest overall standard of living. For liberals, nothing is more important than society prospering with high GDP, but only when there are equal opportunities for all. They say more government involvement creates the conditions for fair play. The liberal version of the federal budget funds the same three roles of government that conservatives support, plus three additional ones: ensure equity, stability, and transparency with accountability. You can see where they draw the line of potential GDP in figure 18.6. They trade some efficiency for a level playing field so that more people can succeed. To liberals, this is how we get the highest possible standard of living for the most people.

Radicals: Most roles for government, lowest GDP growth, best quality of life. For radicals, nothing is more important than the well-being of people and the planet. They say government involvement is the key to guaranteeing that everyone has what they need to thrive. The radical version of the federal budget funds all

the above-mentioned roles of government, plus three additional ones: manage public ownership, guarantee universal benefits, and convene, facilitate, and represent community council policy decisions. You can see where they draw the line of potential GDP in figure 18.6. They trade the most resources to meet everyone's basic needs and create more community vitality. To radicals, this is how we get the best quality of life.

Public Goods

The rationale for government producing goods or services is that it can produce them at the optimal level that society wants, while individuals can't. These are called **public goods**. They have two characteristics. First, they are **nonexcludable**—people can't be kept from using or benefiting from them. Think of a street light. You can't exclude someone from using the light when they walk their dog at night, and there's no way to charge for use of the light. So you end up with people using streetlights without paying for them. This is called the *free-rider* problem. Firms won't supply streetlights under those conditions, so we need the government to do so. Second, public goods are **nonrivalrous**, which means that when one person uses them, they are still available for others to use. The streetlight doesn't run out of light when you walk your dog at night just because someone else walked their dog earlier and used the streetlight to see where they were going.

Everyone agrees that it's the government's role to provide the optimal level of national security, property protection, and infrastructure. That's why all three perspectives want government to provide those public goods. Beyond that, only liberals and radicals believe that equity, stability, and transparency with accountability are goods that should be provided by the public. Only radicals believe that managing public ownership, providing universal benefits, and convening, facilitat-

ing, and representing the decisions of community councils should be provided by the public.

Conventional Theory Tools

The federal budget is a *macroeconomic* issue, meaning it's the big picture of all the markets in an economy taken together. (*Microeconomics* looks at individual markets.) To analyze the issue of the federal budget, liberals and conservatives use a tool that shows the macroeconomy, which is *all* the demand and *all* the supply in every market. It's called the **aggregate supply–aggregate demand (AS–AD) graph**. *Aggregate* means to add together.

You can see how conservatives and liberals start to build the AS–AD graph in figure 18.7, and we can also review some terms from above. The *x*-axis shows *real GDP* (adjusted for price changes). Movement to the right on the *x*-axis indicates that the nation produced more goods and services. Movement to the left indicates that fewer products were made, and we didn't simply experience a decrease in prices. When there is movement to the left, fewer workers are hired,

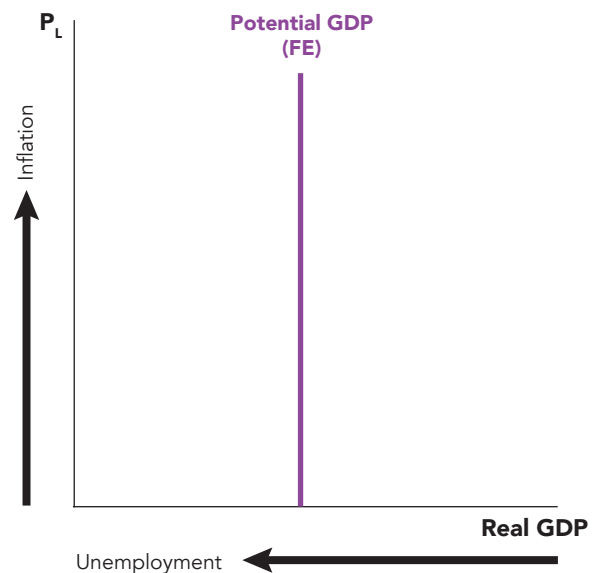


Figure 18.7
Building the AS–AD Graph

which causes unemployment to rise. The y -axis shows the price level (P_L). It's an average of prices in the economy—for example, the average prices in a basket of goods used by a typical urban consumer. Movement up the y -axis means *inflation* rises (prices on average go up). Movement down the y -axis means *deflation* (prices on average go down). The vertical line on the AS–AD graph shows *potential GDP* (what our country could possibly produce given its current resources and technology). It is also called *full employment (FE) GDP*. For now, we'll ignore the disagreement between conservatives and liberals about where to draw the line of potential GDP.

There are two more components on the AS–AD graph, as you can see in figure 18.8. The **aggregate demand (AD)** curve represents all our demand as a society. It falls into four categories: consumer spending, investment spending, government spending, and net export spending, which is imports subtracted from exports. When prices on average go up and nothing else changes, consumers here and abroad demand less. Consumer spending and net export spend-

ing fall. When prices on average go down, consumers demand more. Consumer spending and net export spending rise. All of this assumes that other conditions remain unchanged (*ceteris paribus*). Because aggregate demand is lower when prices on average are higher and aggregate demand is higher when prices on average are lower, the AD curve has a negative slope, as you can see in figure 18.8. You may have noticed that it looks similar to a demand curve on an individual market graph.

The **aggregate supply (AS)** curve represents everything supplied in society. Since firms are profit maximizers, when prices on average go up, aggregate supply rises because it is more profitable to produce. When prices on average go down, aggregate supply falls because it's less profitable to produce. (Again, all of this assumes that other conditions remain unchanged.) Because aggregate supply is lower when prices on average are lower, and aggregate supply is higher when prices on average are higher, the AS curve has a positive slope. But as you can see in figure 18.8, the shape of the AS curve doesn't look the same as the supply curve on an individual market graph. It has a flat bottom and then becomes increasingly steep as it moves toward and then beyond the vertical line of potential GDP. Let's talk about why.

When GDP is low, we're not using our resources and technology to their potential. With so many unused resources, firms don't have to compete for warehouse space, workers, raw materials, and other inputs of production, so prices remain low. Therefore, firms are willing to supply more goods and services with only minimal price increases. That's what gives the bottom of the AS curve a relatively flat shape. As society moves closer to potential GDP, however, it uses more of its resources, which creates more competition for office space, workers, and so forth. As costs to producers start to rise, firms are willing to supply more only at increasingly higher prices. That's

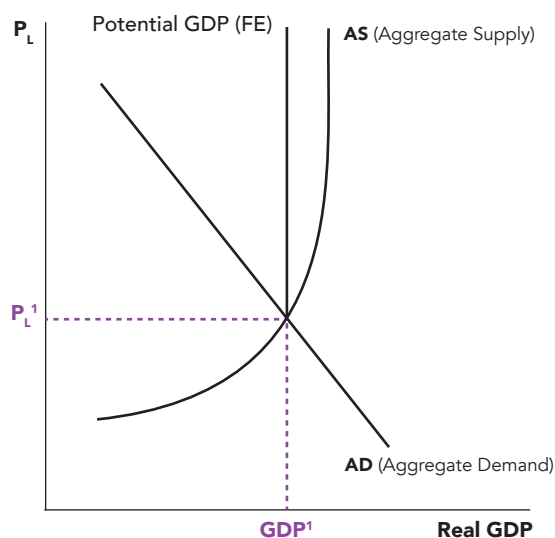


Figure 18.8
AS–AD Graph at Potential GDP

what gives the middle part of the AS curve the steep rise.

What's going on when the AS curve pushes out beyond the line of potential GDP? We're straining our resources by overusing them. Machines run day and night, workers labor around the clock, and competition for resources becomes fierce. That pushes costs up. Firms become willing to supply only at astronomically high prices. They can eke out a little more production, but at a certain point, no matter how high prices rise, they hit a wall. With no more resources or technology available, increases in GDP are impossible. You can see it on the AS–AD graph in figure 18.8 where the AS curve turns into a vertical line.

Potential GDP and the Federal Budget

The best possible situation for the economy from the conventional point of view is when aggregate demand and aggregate supply meet at potential GDP. It's the sweet spot where potential GDP is actual GDP. The goal for conventional theorists is to keep the economy in this sweet

spot. When the economy *underproduces*—we don't use all our available resources and technology—unemployment soars, and tax revenues fall. When the economy *overproduces*—we overuse our resources—inflation soars. Even though tax revenues increase, those dollars don't purchase as much, leaving the government unable to meet its financial obligations. Conventional theorists say that it's only possible to have maximum employment and stable prices when government fulfills its roles, and they use the federal budget to do it. When we're at potential, the nation is able to generate the revenue necessary to fund the government. They go hand in hand, as my grandmother would say.

Now let's put together what we discussed above regarding the different roles for government and the different lines of potential GDP with the AS–AD graph. Conservatives and liberals represent the different lines of potential (FE) GDP as different vertical lines on the AS–AD graph. You can see this in figure 18.9. Liberals trade some efficiency for more government involvement because



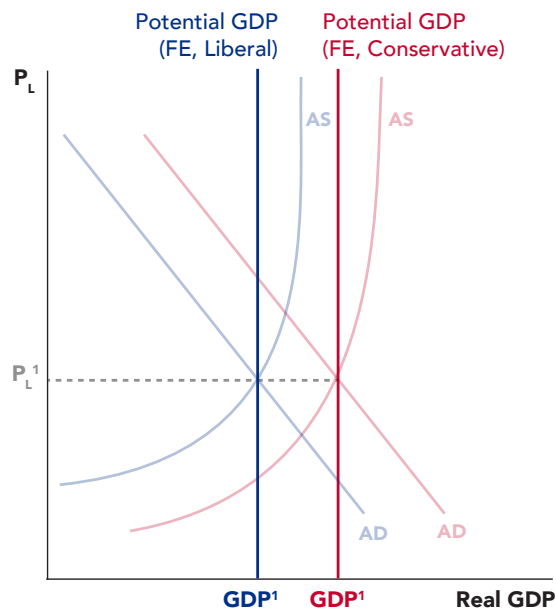


Figure 18.9
AS–AD Graph at Potential GDP

they say that doing so enables more people to have opportunities to achieve a higher overall standard of living. Their FE GDP is lower (to the left). Conservatives trade only a small amount of efficiency to fund limited roles of government because they say that the highest possible GDP is the key to prosperity for all. Their potential GDP is higher (to the right). According to each perspective, when government fulfills its appropriate roles, we're in the sweet spot, where aggregate supply and aggregate demand meet at potential. The important thing to remember is that while FE GDP is in different places, the liberals claim that their more expansive government is associated with a higher overall standard of living and the conservatives claim that their more limited government is associated with a higher level of prosperity for all.

Conservative policy: Annual balanced budgets and a constrained money supply. Conservatives use **annual balanced budgets** to meet our nation's priorities while keeping the economy growing. With an annual balanced bud-

get, expenditures are exactly equal to revenues each year unless the country is at war or in a national emergency. On the expenditure side, they say that we need to fund the three necessary roles of government and then “starve the beast” by cutting assistance programs, which demotivate individuals and firms, and eliminating regulatory agencies. On the revenue side, conservatives drastically reduce corporate and individual taxes. They say that with smaller government, there's no need for high taxes.

The necessary roles of government are easily funded with lower taxes, say conservatives, because those tax cuts end up paying for themselves. They consider the **Laffer curve** in figure 18.10. It was named for economist Arthur Laffer, who laid out his logic on the back of a napkin in a restaurant in 1974. He said that when income taxes are high, individuals are less motivated to work because the government takes a big bite out of their paychecks. A high capital gains tax makes individuals less willing to save because government takes a bite out of the value of their assets. A high corporate tax means that firms are less willing to invest because government takes a big bite out of their revenues. For all of those reasons, firms produce less and GDP falls. The economy shrinks, and as a result government revenue decreases. Conservatives say that the higher the income, capital gains, and corporate tax rates, the less revenue we have to fund the federal budget. So if GDP is \$100 and the tax rate is 50 percent, the government collects \$50 in tax revenue. When taxes are cut to 25 percent, individuals and firms have more incentive to work, save, and invest. Although the tax rate is lower, GDP grows substantially and government revenue goes up. In this example, GDP quintuples to \$500 with tax cuts, and tax revenue increases from \$50 to \$125.

The problem of deficit spending is solved with annual balanced budgets in free-market capitalism, say conservatives, and this prevents

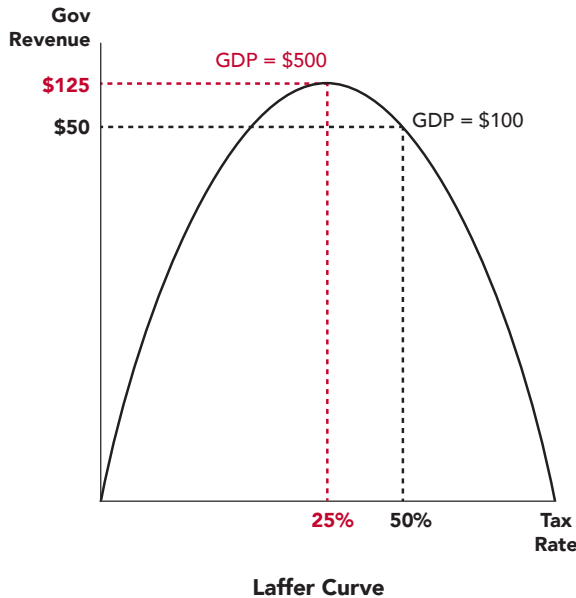


Figure 18.10
Laffer Curve: Conservative Perspective

spiraling national debt. When government can no longer deficit spend, the economy grows because private firms no longer have to compete with the government for investors' dollars. With private firms and the government in the market for loanable funds, interest rates get bid up. Conservatives say that the government has an unfair advantage when it sells securities because unlike private firms, it isn't constrained by the need to be profitable. Therefore, when government is in the business of raising money to fund a budget deficit, it **crowds out** private firms. That term means just what it sounds like. Companies get elbowed out of the way by big government. Deprived of money from lenders, firms can't expand or launch new initiatives, and that shrinks the economy. According to conservatives, it's just as damaging—if not more so—when the Fed buys securities on the secondary market to manipulate the money supply. Those purchases put new money into circulation. Conservatives call this “printing money” and say it's

a problem because society hasn't increased the number of goods and services, so there are more dollars chasing the same number of products. That's a recipe for skyrocketing inflation. When there is high inflation, lenders are unwilling to lend because they worry that the money they'll be paid back will be worth less. Companies are unwilling to commit to long-term contracts because prices are unpredictable, and therefore no new jobs are created. This devastates the economy.

Conservatives sidestep the problem of an out-of-control money supply by stopping the government from tampering with it in the first place. Different schools of thought among conservatives propose different ways to do this. Some **Austrian school** economists (followers of F. A. Hayek, who was from Austria) say that the supply of money should once again be tied to the gold standard. Government could increase the money supply only if it had the gold to back up those new dollars, and that would naturally limit interference. Other Austrians want to break the government's monopoly on currency by allowing competing firms to develop alternative currencies. They say this is a self-policing system. Consumers won't put up with a devaluation of their chosen currency, so issuers won't recklessly expand the supply of money or no one will use their currency. And as a further bonus, if one of these private currencies fails, it won't be contagious across the whole economy. In contrast to the Austrians, the **monetarists** follow the thinking of Milton Friedman and the Chicago school. They say that instead of manipulating the money supply, the Federal Reserve—or even a computer program—should set an annual growth rate for the money supply and then leave it alone. Conservatives believe that with annual balanced budgets and a constrained money supply, we achieve our potential as a debt-free nation.

Liberal policy: Adaptable balanced budgets and a flexible money supply. Liberals use **adaptable balanced budgets** to meet our priorities as a nation while keeping the economy growing. The word *adaptable* means able to adjust to new conditions, so an adaptable balanced budget changes from year to year in response to the changing realities of the economy. When the economy is humming along, we have a balanced budget—our revenues equal our expenditures. When circumstances cause GDP to fall, the government deficit spends to fund the necessary programs and policies that get the country back to potential. When the economy booms again, a surplus is created through increased tax revenue, and government spending automatically decreases because fewer people need assistance programs. At that point, the government pays back the federal debt with the surplus. Liberals use progressive income taxes (the wealthy pay a higher tax rate, and the poor pay a lower tax rate) to fund the federal budget. Liberals also increase capital gains taxes and taxes on corporations. They say that we should tax the wealthy and corporations appropriately to pay for the expanded roles of government because the helpful hand of government ensures equity, where everyone gets what they need. It gives us economic stability in an unstable world. And firms operate with transparency and accountability. Those who are financially successful benefited from government-provided goods that were funded with society's tax dollars. For example, their educated workforce exists thanks to the public school system. Their factories and businesses use the country's roads, sanitation systems, ports, rail system, and other infrastructure to be profitable. Liberals say it's only right and fair that they should pay a higher tax rate.

Liberals consider the line of potential GDP in figure 18.11 and recognize the tightrope we walk to try to balance steady growth with the needs of society. They use adaptable balanced budgets

as a tool to help the economy get back on track when it is thrown off course by an unpredictable event—a pandemic, stock market boom, terrorist attack, energy crises, and countless other scenarios. During periods of economic busts, it stimulates the economy with deficit spending. By cutting taxes on the poor and middle class and increasing funding for assistance programs, government puts more money into the pockets of poor and middle-class people. They have immediate needs, so they go out and spend it right away. That pushes up demand for products. Firms want to make a profit, so they eagerly **crowd in** to supply. That term means just what it sounds like—a rush of businesses hurrying to get in the game. Those firms hire more workers to meet the new demand, and now those workers have money in their pockets to spend. Liberals say government spending multiplies throughout the economy. For example, job-training programs hire new teachers, those teachers now have income, so they go out and buy appliances for their homes. The washing machine firms make a profit, and their workers turn around and buy new cars. The car dealers turn around and buy landscaping, and so on. When the economy overheats and prices start to soar, government pulls back on spending on assistance programs, which cools it off. From the liberal perspective, we are lucky to have a government that responds to the needs of the moment and brings the economy back to potential. They say the problem of deficits and debt are solved because we end up with a net result of zero national debt over time. When the economy struggles, GDP is below the line of potential, and the government borrows so it can deficit spend. When the economy booms, GDP is above the line of potential, so the government uses the surplus to pay back the money it borrowed. Through adaptable balanced budgets in fair-market capitalism, the national debt balances out to zero.

Liberals say we strengthen our ability to

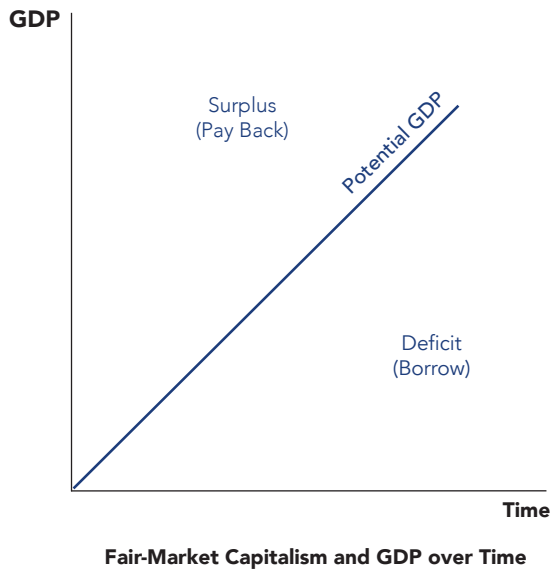


Figure 18.11
GDP over Time: Liberal Perspective

bring the economy back to potential by having a flexible money supply that is managed sensibly by the Fed. The key actions the Fed takes are to set a target range for interest rates and increase or decrease the money supply as needed. It adapts to meet the current economic conditions. For instance, when the Fed sets a target range for a lower interest rate and buys government securities from the public, this stimulates more borrowing and grows GDP. If the new money in the system suddenly pushes up prices, the Fed sets a new target range for lower interest rates and pulls money out of the system by selling government securities back to the public. Whether spending flows into or out of the system, the result is that we fulfill our national priorities and obligations. Liberals say that with the Fed working the levers of interest rates and the money supply, and the government using adaptable balanced budgets, we achieve our potential as a debt-free nation.

Radical Theory Tools

Now it's time to take a look at the radical tools you'll need to understand the issue of the federal budget. As always, there are two parts: radicals describe capitalism and then describe democratic socialism. Their model for each economic system is the Six-Core Cube, which is anchored by six core points around which everything is constantly shifting. The core points reflect the commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people's basic material needs. The commitments of each economic system lead to very different outcomes.

The Federal Budget in Capitalism

Each one of the six core points could be used to analyze every issue because these are the commitments of the economic system. To analyze the issue of the federal budget in capitalism, radicals drill down into the core point of **unsustainable growth**. Society makes decisions about resource use without taking into account the long-term impact on the environment and humanity, putting the well-being of future generations in jeopardy.

Radicals say that a commitment to *unsustainable growth* in capitalism puts society on a path to self-destruction. A singular focus on growing GDP regardless of the consequences does irrevocable harm to people, communities, and the environment. Even if we succeed in having the highest GDP in the world, we won't be better off, they say, because the process of generating wealth is just as important as the products we make. In capitalism, explosive economic growth is only possible because workers are exploited. It's only possible because firms must compete ruthlessly, racing to the bottom to wring out every last drop of profit. They must do it if they want to stay in business, say radicals. Even

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
- 5. Unsustainable Growth**
6. Unhealthy Communities

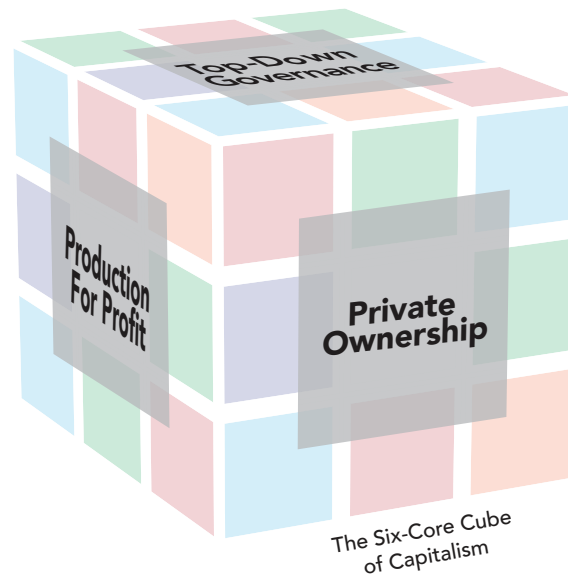


Figure 18.12
The Six Core Points of Capitalism

though they might not want to, private owners drain resources, contaminate ecosystems, and destroy communities. Then, to survive, they pick up and move to the next one and do it again. They grow their firms by increasing the rate of exploitation of their workers—cutting their wages, reducing their hours, speeding up production, and eliminating their benefits. Owners pocket even more of the profits and add another work shift. Production numbers soar, GDP swells, and workers are even more impoverished. Even when they work double shifts, they can't stay afloat, say radicals.

What does the government do in capitalism? As a puppet of the wealthy, it racks up more debt as it gives the wealthy tax breaks, subsidies, and other government handouts, say radicals. Meanwhile, workers' only option is to take on more personal debt to keep up with their rent and car payments, pay their medical bills, and put their kids through college. For-profit banks and credit card companies eagerly swoop in to offer loans at steep interest rates. According to radicals, occasionally the government throws the poor a few crumbs in

the form of assistance programs, but they say it is nothing more than window dressing to lull people into believing that the government actually has the backs of the poor and middle class. They point out that no government program in capitalism guarantees that people's basic material needs will be met. Assistance programs in capitalism are another corporate subsidy, they say, because firms know that the government will provide it with taxpayer dollars, so they don't give workers adequate benefits or a decent wage.

Radicals say that when the economic system is committed to growth at any cost, the only thing that matters are the short-term gains of profit, but future generations will be stuck with the bill. They will inherit tens of trillions of dollars of national debt. They will inherit a planet choked by pollution and imperiled by the worsening climate crisis. The shortsightedness of government in capitalism is appalling, say radicals. It deficit spends with no responsible plan or ability to ensure the country's long-term financial health. Instead of planning wisely for a financially

secure future, politicians dig us deeper in the hole. And the worst part, according to radicals, is that despite all the money government borrows, people's basic material needs still go unmet in capitalism. There is still widespread hunger and homelessness. Hardworking people are still one emergency away from bankruptcy. Their children still attend underfunded public schools. Decent health care is still unaffordable. Seniors are still economically vulnerable. The environment is more polluted every day. Radicals say that we need to end the magical thinking. A commitment to *unsustainable growth* will never make the national debt disappear, reverse climate change, or bring us a good quality of life. From their point of view, this economic system will not fix itself whether we balance the budget annually or adaptively. They believe when people realize that our debt is outpacing our national income, our planet is becoming unlivable, and our great-grandchild-

dren's futures have been mortgaged away, people will finally reject capitalism and demand democratic socialism.

Here is how the core point of *unsustainable growth* and the pressure for bad work in capitalism:

Scenario 1. You're having coffee with an old friend from grad school who owns a competing private college, and she tells you, "Our lobbyist down in Washington is making sure the new federal budget includes a tax exemption for our firm. All it costs us is a few strategic campaign contributions. We'll still use the roads and other infrastructure to do business. We'll still benefit from having a workforce educated in public schools. And our workers will get their health care, food assistance, and housing assistance from government programs, so we don't have to pay them more or give them benefits. We take all the money we save and use it to grow even bigger and make even more profit. Then next year, we'll do it again. You should get in on this sweet deal."

You say, "I'm really uncomfortable with this. If we don't pay our fair share in taxes, the communities where we do business won't be able to fund their elementary schools, or build new health-care clinics, or upgrade the fire stations and sewage plants. We shouldn't dodge our responsibilities to contribute to a system that directly benefits us. I don't want to do it."

"Then don't do it," she says.

But you will do it, and so will all the other owners. If you don't, your business won't survive. Radicals say *unsustainable growth* means firms must focus on short-term gains and ignore the long-term effect of their decisions on people and the planet. Government's only choices in capitalism are to deficit spend, which drags the nation down with massive debts, or to cut the programs that make people's lives slightly better.

Scenario 2. You're at a party with a competitor, who says, "We came up with a highly profitable reorganization model to expand our online educa-

Unsustainable Growth

- The focus is solely on short-term gains.
- Production continually expands, regardless of the costs to people and the planet.
- Future generations are burdened with the consequences of today's actions.



tion program. First, we laid off all our full-time faculty. Then we hired back the lowest-paid ones as contract workers to teach online courses. We saved a bundle on wages and benefits. Then we invited bank reps to offer our contract workers loans so they can maintain their current lifestyles. Now we don't worry that they won't keep renewing their contracts because they are locked into making those loan payments. We doubled class sizes, and next year we'll quadruple them. Since many students have a hard time learning in large online classes, we offer tutoring services for an additional fee. This year, our profits tripled using this new aggressive-growth model. You should try it."

You say, "Your model seems wrong in every way. You pay workers less, push them into debt, and then make a profit off the hardship you created. These are the people who do the actual work of educating students. And then you make it harder for students to learn and make their education more expensive. We both know the government offers substantial tax breaks to colleges like ours. This is the worst idea I've ever heard. I don't want to do it."

He says, "So don't do it."

But you will do it, and so will all the other owners. If you don't, you will be driven out of business. Radicals say *unsustainable growth* means when it comes down to choosing between making a profit and doing what's best for people, owners are forced to choose profit every time. Even though it hurts people and the planet, they relentlessly expand and ignore the consequences of their choices.

Scenario 3. You're at a college fair and meet a competitor, who says, "We doubled our profits this year by changing class schedules so that students in our most popular majors won't be able to complete all their requirements in four years. They'll end up having to enroll for an extra semester. We're taking advantage of new government student grants, so we'll be the direct recipients of this largesse. Even if students don't qualify for

that government benefit, we feel confident that they will find a way to fund it privately. After all, we hold the keys to their future. This is a genius idea to grow your profits. You should do it, too."

You say, "That is a truly dreadful idea. If they qualify for government grants, you rake in the profit and burden society now and in the future because the government has to borrow and take on more debt. And students who don't get grants have to take on more personal debt to fund that extra semester. It will take even more years until they dig out from under and can afford a home, cars, and college educations for their kids. I don't want to do it."

They say, "So don't do it."

But you will do it, and so will all the other owners. You'll have to if you don't want your firm to go under. Radicals say *unsustainable growth* leads to exploding public and private debt. Capitalism burdens future generations with having to pay it back, which puts their ability to thrive in peril.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- **Exploding public and private debt**
- Damaging trade relationships
- High prices and no jobs

The Federal Budget in Democratic Socialism

To analyze the issue of the federal budget in democratic socialism, radicals drill down into the core point of **sustainable development**. Society uses resources wisely today to create the best quality of life, while ensuring that future generations have what they need to thrive.

Radicals say that a commitment to *sustainable development* in democratic socialism refers to the countless decisions we make every day to allocate society's precious resources to their best uses. That means they make people's lives better and improve the planet so that everyone can flourish. They believe that responsible economic growth takes into account not only what we need today but also what future generations will need to succeed. There is equal focus on short-term and long-term gains. Instead of focusing on GDP

growth to the exclusion of everything else, radicals invest in developing the economy so that it lifts everyone to a higher quality of life. Communities don't have to fight over scraps. They have the resources they need so that people can make their best contributions to society. Economic growth is in service to the well-being of people and the planet.

Radicals say that when the priorities for a country are to take care of one another and take care of the Earth, everyone shares responsibility for using land, labor, capital, and technology wisely. Individuals and firms contribute their fair share to fund social safeguards and the sophisticated infrastructure that increase well-being for all. According to radicals, this includes convenient public transportation, a decent place to live, good health care, retirement security, safe drinking water, reliable internet access, excellent schools, senior services,



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
- 5. Sustainable Development**
6. Healthy Communities

Figure 18.13
The Six Core Points of Democratic Socialism

a guaranteed basic income, and more. These social benefits are guaranteed to everyone. Taxes also fund worker-owned firm incubators, a secure food system, aid to communities after a disaster, public health research for new vaccines, and all the other goods and services that people and firms need to succeed. While some government revenue is automatically allocated to fulfill our social promises, decisions about how to do so most effectively are decided through participatory governance, ensuring that resources are redistributed fairly. The direct and indirect benefits of this investment in society are evident every day in democratic socialism, say radicals. There is less crime, less addiction, less stress-related illness, and less cynicism. Communities are safer and cleaner, residents are healthier and happier, and people take pride in their contributions while appreciating the contributions of others. Radicals say that the country meets its obligations without going into debt, and it meet the needs of everyone—not just the wealthiest. Radicals say that a commitment to *sustainable development* allows us to achieve our highest potential as human beings and as a society.

Radical policy: Integrated balanced budgets and public banking. Radicals say that our first obligation as a society is to fund the promises of democratic socialism. They use **integrated balanced budgets** to make the vision and commitments of democratic socialism a reality and ensure that we have a thriving and prosperous society. *Integrated* means combining and coordinating separate elements to create a harmonious whole. Radicals say that integrated balanced budgets carefully calibrate the needs of individuals, firms, ecosystems, and communities. Resources are allocated to their best uses to realize our nation's priorities. This guarantees everyone a decent material life and a healthy environment. The budget also reflects our shared responsibility to fund these commitments through taxes. Using a system in which everyone pays in—the amount

Sustainable Development

- There is equal focus on short-term and long-term gains.
- Economic growth is in service to the well-being of people and the planet.
- Prosperity is assured for generations to come.



varying according to income level—radicals generate revenues from individual income taxes, sales taxes, property taxes, corporate taxes on worker-owned firms, and more. With everyone paying the appropriate level of taxes, individual expenses go down, say radicals, because when we fund it together, we efficiently and sustainably pay for the things we could never afford on our own as individuals—universal health care, universal higher education, universal basic income, and so on. With integrated balanced budgets, we responsibly fund our social contracts and keep the economy on track without indebting the nation.

Integrated balanced budgets allocate a portion of each year's federal tax revenues to cities and towns for discretionary spending. Community members use **participatory budgeting** to decide how to use it. Throughout the year, individuals, worker-owned firms, and community groups pro-

pose ideas for projects related to cultural heritage, parks and recreation, entertainment, the arts, and more. These are extras that go above and beyond social safeguards and all the other programs and initiatives that government is already committed to funding. For example, discretionary funds are used to stage a dance festival, establish a new bird sanctuary, underwrite a marathon, pay for public art, or sponsor a book fair. Local budgeting councils, which fairly represent the diversity of their regions, choose the projects to fund with this discretionary money. Participatory budgeting lifts the quality of life to a higher level than would otherwise exist, say radicals, while generating enthusiastic participation in communities.

Radicals say it is wrong that the money supply is managed by a private entity. They want to replace the Fed with **public banking** in democratic socialism. Public banks operate with a mandate to use money to serve the public's interest. They are owned by society and managed by worker-owned firms that are accountable to public banking councils. When we pay taxes—federal, state, county, and city—the revenue is parked in federal, state, county, and city public banks. Although some is spent right away by the government, a large portion is available to be loaned out to the community for building housing and other construction, research and development, agriculture, and other programs and initiatives. Radicals say that this stimulates the economy and leads to more job creation, which generates even more tax revenue. Loans made by public banks are paid back by individuals and firms with interest, just like loans from a private bank in capitalism, but what's radically different in democratic socialism is that the interest circulates back into the community. It might be used to offset the costs of building a new university, or subsidize graduate school tuition so that society can have more health-care professionals, engineers, lawyers, librarians, philosophers, and economists. Or it

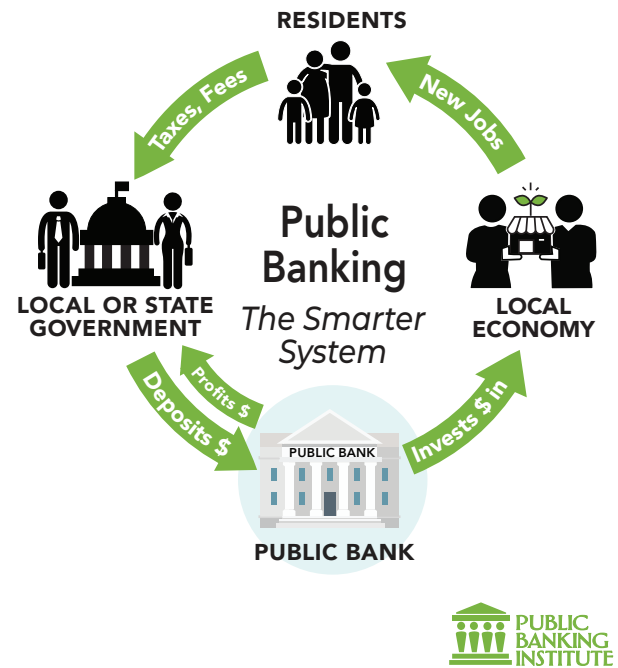


Figure 18.14
Diagram of Public Banking

might be added to the general government fund, lowering everyone's taxes. And when the government borrows from a public bank, it doesn't pay interest. This dramatically lowers the cost to taxpayers when government builds a new community center, upgrades a high-speed rail system, and takes on other infrastructure projects. With public banking, society is able to do more with its resources, say radicals. Public banking councils guide the money supply so it is flexible to meet the needs of society. You can see how local and state public banking works in figure 18.14.

Here is how the core point of *sustainable development* and the pressure for good work in democratic socialism:

Scenario 1. You're having coffee with a an old friend from grad school whose worker-owned firm is under contract with the government to manage a public college. She tells you, "Since our institution is funded with public dollars, we're stepping up efforts to reduce waste on campus. The budgeting council released new guidelines for best practices. We're focusing on energy waste, food



Figure 18.15

Sustainable Development: Radical Perspective

waste, and time waste, with the idea to cut costs by 8 percent this year. To enable us to meet our goals, we are buying new software. It will be paid for with public money. I was wondering if your college wants to join an exploratory committee to study its effectiveness. If so, we could share ideas with the budgeting council about new software that is worth the investment.”

You say, “Absolutely! We’re always looking for ways to operate more efficiently, especially since it’s the public’s money—our money!—that we’re spending. We want higher education expenditures to keep us viable for years to come. I’ll bring up this idea at our next worker-owner meeting.”

“You should do it,” she says.

Both of your firms will do it, say radicals, because a commitment to *sustainable development* means we have an equal focus on short-term and long-term gains, so firms improve technology. Integrated balanced budgets in democratic socialism deliver on the promises of society without putting the nation in debt, ensuring that people and institutions have what they need today and for years to come.

Scenario 2. You’re at a party with a worker-owner of a firm that also manages a public college. He says, “I just heard that the local budgeting council is considering a proposal to use our region’s discretionary budget for an outdoor adventure trip for low-income students who are the first in their families to attend college. These kinds of extracurricular activities have been shown to improve retention rates. I hope you’ll support this idea and let the budgeting council reps know.”

You say, “It’s a great idea. Anything we can do to help our students succeed and graduate on time is a wise investment. Then they’ll be able to guide their children and grandchildren to career paths that allow them to contribute their best to society. We will definitely discuss this idea.”

“You should do it,” he says.

Both of your firms will do it, say radicals, because a commitment to *sustainable development* means economic growth is in service to the well-being of people and the planet. In democratic socialism, participatory budgeting ensures that resources are allocated to fund the programs and initiatives that reflect society’s highest priorities.

Scenario 3. You meet a competitor at a college fair for high school seniors, who says, “The budgeting council directed our local public bank to give grants to students for paid internships and apprenticeships during their undergraduate years. It creates opportunities for more real-world experience, which ultimately pays for itself when the graduates launch their own worker-owned firms or join established worker-owned firms. If your college wants to partner with ours, we can both give students credit for these internships.”

You say, “That’s a fabulous idea. We’ll definitely want to set students up for success. It’s a smart investment because when students are better prepared, they can make better contributions to society, which improves everyone’s quality of life. I’m sure the other worker-owners at my college will want to be a part of this.”

“You should do it,” they say.

Both of your firms will do it, say radicals, because a commitment to *sustainable development* means everyone is both a beneficiary of society’s guarantees of material well-being and a taxpaying benefactor that makes those guarantees possible. In democratic socialism, prosperity is ensured for years to come because public banking keeps resources flowing where they are needed most.

Radicals represent democratic socialism as a Six-Core Cube that *can* be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- **A thriving, debt-free society**
- Mutually beneficial trade relationships
- Jobs and stable prices



You’re Ready to Explore the Issue

We’ve come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of the federal budget. This is an extremely relevant and personal debate for you and for all of us as a

society. Next, we’ll explore the conversations that are taking place around you about irresponsible budgeting and money management, including some background so that you’ll have a context to understand the different voices that will be presented at the end of the chapter.





The Issue

Have you ever started a new job or attended a new school and bonded with people by complaining (fairly or unfairly) about the cafeteria food? It's one of those things that people love to hate. Even if you don't mind Mystery Meat Monday, you're not likely to admit it out loud to strangers. In the same way, people bond by complaining about taxes—they're too high, they're not fair, they're wasted on the wrong things, and so on. We have a long tradition of complaining about taxes in this country. There were no bumper stickers for stagecoaches back in the 1770s, but if there had been, they would have said "No taxation without representation!" The feeling that it was unfair to be taxed without having any say in how that revenue was spent fueled the American Revolution. Today, we have a constitutional representative democracy, also called a republic, but people still like to grumble about taxes. Everyone accepts that some taxes are necessary for a society to function, but how much should they be? As nineteenth-century historian Albert Bushnell Hart wrote, "Taxation is the price which civilized communities pay for the opportunity of remaining civilized."

You may be surprised to learn that 95 percent of those surveyed in 2019 believed that it was their civic duty to pay taxes, and 87 percent said that cheating on taxes was "unacceptable." Once you realize that taxes pay for paved roads, firefighters, cybersecurity, a sewage system, and many other things that we all use every day, then shelling out some of your money to the government might not feel quite as unpleasant. Nonetheless, people will

probably continue to crack sardonic jokes about taxes because it's fun. This one by 1960s TV personality Arthur Godfrey still makes me chuckle: "I'm proud to pay taxes in the United States; the only thing is, I could be just as proud for half the money."

In 2019, half of the federal government's revenues came from individual income taxes, and 36 percent came from payroll taxes paid by indi-

viduals and firms for Social Security and Medicare. Another 7 percent came from corporate income taxes.

“Only 7 percent?” you’re probably thinking, startled by this low number. How can that be, when the United States is home to some of the richest corporations in the world? That complicated question leads us to a conversation about hamburgers.

When I was in high school, fast-food restaurants were everywhere. McDonald’s reigned supreme with its Big Mac, but in the late 1970s, Burger King launched an advertising campaign comparing the size of its Whopper to the McDonald’s Quarter Pounder. That’s how the so-called Burger Wars began. Other fast-food chains jumped in over the years to bring attention to their products (Wendy’s famously ran a “Where’s the beef?” ad campaign), but the rivalry between the two burger giants dominated my teens. Personally, I was neutral on the subject of burgers, but my friends liked Burger King, and my older sister worked there, so that’s where we hung out after school. We’d squeeze into a booth and share an order of large fries, wearing our paper Burger King crowns at jaunty angles. I didn’t pay attention to who owned Burger King (it was Minneapolis-based Pillsbury Company). I had no idea it changed hands several times over the next few decades, went public in 2006, and was taken off the stock market four years later by the majority shareholder, which was a Brazilian firm. Burger King came back on my radar in 2014



when I heard in the news that it had acquired a Canadian restaurant chain, Tim Hortons. Named after a famous hockey player, the restaurants were known for their coffee and donuts. (That’s not the important part of the story.) What caught my attention was that Burger King, now a multinational firm operating under the name Restaurant Brands International (RBI), was moving its corpo-

rate headquarters to Canada. Canada’s corporate tax rate was significantly lower than the tax rate in the United States, so with this address change, RBI avoided paying more than \$100 million in U.S. corporate taxes that year, and hundreds of millions more over the following years.

The practice of a firm acquiring or merging with a firm in another country and moving headquarters out of the country to avoid paying a higher corporate tax rate is called **tax inversion**. It is legal but controversial. After RBI announced the move, Burger King garnered a lot of negative press. Its CEO denied that the corporate move was motivated by a desire to avoid paying taxes in

the United States, but critics continued to accuse RBI of being un-American and called on consumers to give their business to fast-food chains that support U.S. society by paying taxes here. RBI countered with the argument that because of the way the U.S. corporate tax code is written, if it hadn’t moved its headquarters to Toronto, the U.S. government would have taxed not only the profits Burger King made from selling Whoppers and fries in the United States, but also the profits the firm earned doing business in Canada—

even though Canada *also* taxed those profits. RBI said tax inversion allowed the firm to avoid being unfairly taxed twice. A few years later, it bought out Louisiana-based Popeyes fast-food chain and did another tax inversion.

It's a lot easier to feel good about paying your taxes when you believe that others are also paying their fair share. Conservatives, radicals, and liberals have widely divergent ideas about what constitutes a "fair share" for individuals and firms. While they all agree that some taxes are necessary, they argue bitterly about how much tax revenue the government needs to raise and how tax rates should be structured. Should the wealthy pay more, firms pay less, or everyone pay the same? Whichever way you look at it, the revenue side of the federal budget is a touchy topic. "In this world," wrote Benjamin Franklin in 1789, "nothing is certain except death and taxes." Maybe he should have added, "and fights about taxes."

Understanding the Federal Budget

Let's do a quick exercise to explore your feelings about taxes and the goods and services the government provides with the money. Jot down five things you interacted with today that were paid for with taxes. For example, if you're at a public school right now, where you sit, the building you're in, and the instructor at the front of the room are all at least partially funded with tax dollars. If you gaze up at the sky and see three fighter jets from the local Air Force base practicing formations, the planes, the pilots, and the uniforms the pilots are wearing are all funded with tax dollars. If you drove on a highway recently, the pavement, signs, and roadside landscaping are all funded by tax dollars. After you write your list of five things, then write two sentences. The first should describe how you feel about paying taxes. (If you don't pay taxes, pretend that you do.) The second should describe how you feel about the goods and services the government

funded with your hard-earned money. Keep your answers handy. We'll return to them later.

Revenues, expenditures, and willingness to deficit spend and incur a debt—these are the three balls we're always juggling when it comes to the federal budget. Let's zoom in for a closer look at each one. I really want you to appreciate the nuance and drama of this issue.

The Ins and Outs of Taxes

Rule number one: pay your taxes. They are not optional. By law, everyone must pay them or face penalties, including fines and imprisonment. Tax laws are long and complicated, and they frequently change. There are economists, attorneys, accountants, historians, and policymakers who devote their entire careers to tracking changes in the tax code, rewriting the laws, and lobbying to change them. Sometimes, the Supreme Court has to rule on the constitutionality of a new tax.

Rule number two: don't confuse *tax evasion*, *tax avoidance*, and *tax loopholes*. It could land you in big trouble. When firms and individuals deliberately lie about their income or fluff up their expense reports to make it look like they had more legitimate costs than they actually did, or when they engage in other unlawful activities to get out of paying taxes, that's called **tax evasion**. Most people agree that convicted tax evaders should be punished with a large fine or prison time.

Tax avoidance is a legal way to minimize the amount of taxes owed. Every year, the government allows taxpayers to deduct certain expenses from their total income to motivate certain behaviors. For example, depending on the tax code, a firm that switches to clean energy can deduct the investment it made in solar panels. A person who saves for retirement can reduce their total taxable income for that year. Homeowners can deduct their mortgage interest.

Tax loopholes are provisions in the tax code that the government did not actually intend. They

are legal, but no one from any perspective likes them. They are mistakes that deprive the government of revenue and serve no purpose. Nevertheless, it is hard for lawmakers to close the loopholes because of pressure from special interest groups that benefit from them.

Rule number three: don't ignore letters from the Internal Revenue Service (IRS). The IRS is the bureau of the Treasury Department that collects federal taxes. If it needs more information, you are legally obligated to provide it. But also make sure the letter is really from the IRS and not a scam from someone trying to steal your identity.

Every year, firms and individuals must file a **tax return** with the IRS. It is a detailed report of total annual income and certain expenses. It works on the honor system. You self-report, but in the back of your mind, you know there's a chance you'll be **audited**—the IRS checks your records and receipts to make sure your report was accurate and truthful. It conducts a certain

number of random audits of individual and corporate tax returns each year, and it also conducts audits if it finds a reason to question information on a tax return. I don't know anyone who enjoys being audited, but on the bright side, if the IRS discovers a mistake in your favor, you'll get a refund. (Hard to believe, but this really happens.) Unfortunately, the majority of errors result in the discovery that more money is owed to the government. Those back taxes must be with paid with interest. In addition, there are penalties for errors or misinformation on tax returns, ranging from fines to jail time. If you can't pay the penalties, the IRS is allowed to seize your assets and sell them off to pay your tax bill. In 2019, the IRS audited 771,095 tax returns out of the nearly 152 million filed. Do you want to guess how much was owed to the U.S. government in back taxes from those 771,095 tax returns? An additional \$17.3 billion. That is money that wouldn't have otherwise made its way to the *revenue* side of the federal budget.



Individual Income Taxes

I have a good friend whose birthday is April 15. When he tells people this, they give him a look of pity. April 15 is notorious because it's tax day for individuals in the United States. Every person who earned a certain amount of income has to file (send in)

IRS Form 1040. The IRS will slap on a late fine unless you ask for an extension before the deadline. In 2019, the penalty for filing late was \$330 on top of whatever taxes you owed, and you also had to pay interest on the amount owed until it was paid in full.

Preparing one's tax return is an annual ritual that takes place in the weeks leading up to April 15 (for procrastinators, it happens on the night of April 14!). Across the land, people sit at their desks and kitchen tables and pull up the year's receipts from the cloud, or drag out shoeboxes and file folders crammed with wrinkled slips of paper. We pull up bank statements, mortgage statements, pay stubs, credit card statements, property tax statements, investment statements, student loan statements, and any other documents we have that are related to our income and expenditures for the year. We carefully set aside the W-2s that came in the mail from full-time or part-time employers, which are forms that show how much income we were paid by the firm or institution that year. We also carefully set aside any 1099s, which self-employed people receive from those who paid them more than \$600 (as of 2021) for work that year. Those have to be attached to Form 1040 when we file our tax returns.

Gulping down something highly caffeinated, an energy drink, or a big glass of water, we for-

A tax return is like an after-the-fact budget. You get to see what your revenue was and where it was spent, donated, saved, or invested.

tify ourselves for the next step. It's time to pull up the calculator app on the phone, or open the tax preparation software, or go to the tax preparer's office and start figuring out what was earned and what was spent. A tax return is like an after-the-fact budget. You get to see what your revenue was and where it

was spent, donated, saved, or invested.

A friend of mine once said, "Writing the check to the IRS is not nearly as painful as filling out the tax return!" It's not as simple as most people would like. Tax laws change, so you have to update your tax software or consult with a specialist just to keep up, and there's a lot of unfamiliar terminology. Individuals file individual tax returns, and married people have the option of filing a joint tax return. Their income is combined. Then many people reduce their total taxable income by taking the **standard deduction**. In 2020, it was \$24,800 for a married couple and \$12,400 for an individual. For heads of households (single parents and others who support a qualified dependent), the standard deduction was \$18,650. As my uncle used to joke every year at tax time: "My kids are deductions, but they're still quite taxing."

People with an uncomplicated tax picture file the IRS Form 1040-EZ (it stands for "easy"), which is fairly straightforward. You take the standard deduction and that's it. But if you have a business or a complicated financial picture, you'll instead want to take **tax deductions**, also called *tax write-offs*. Specific business expenses are allowed, by law, to be deducted from your total income, but you need to have receipts for all of them, and you have to list each one—*itemize* them. The

amount of taxes you owe depends on your total income, so the more you can reduce it through deductions, the less you'll have to pay.

When I filed my first tax return, an accountant gave me this advice: “Pay what you owe and not a penny less—but also, not a penny more.” Deductions change from year to year. Typical deductions include child tax credit, day care, college tuition, medical expenses, charitable contributions, retirement accounts, state taxes, and interest on student loans.

Individual Tax-Avoidance Strategies

Tax deductions have long been accepted practice. Even your kindergarten teacher and grandparents take advantage of tax deductions. Many people find more ways to reduce the amount of taxes they have to pay using **tax shelters**, which are legal tax-avoidance strategies. Some are not controversial—for example, individual retirement accounts and pension plans. Let's talk about three of the more controversial ones that take advantage of tax laws.

Investments as collateral. In case you haven't heard the word **collateral** before, it is an asset used as security when a person or business takes out a loan. When a person needs cash, instead of selling their assets and paying a capital gains tax on the profit from the sale, they use their valuables as collateral and borrow against them for a lower tax rate. Loans have lower tax rates than taxes on profits from the sale of an asset.

Trust funds. When people want to leave their estates (all their money, real estate, and everything else) to their heirs after they die, they set up a trust fund by legally transferring their assets to a bank or another neutral third party to manage it on their behalf. Because heirs aren't technically inheriting the estate—the trust is—they don't pay any estate tax, and they can withdraw the money tax free.

Incorporation. Individuals can **incorporate** their personal commercial enterprises so that they can take bigger tax deductions. As a business, they can write off many kinds of expenses that they can't write off as individuals, as long as they can justify them as business expenses.

Corporate Tax-Avoidance Strategies

Corporations also use tax-avoidance strategies to pay less in taxes. These are also legal, but many of them are controversial. Burger King's tax inversion is one example. Online retail giant Amazon used tax-avoidance strategies to pay \$0 in income taxes in 2018, despite earning \$11.2 billion in profit that year. On top of that, the firm claimed a \$129 million tax rebate (refund for overpayment) from the government. The corporate tax rate that year was 21 percent, so what happened? Amazon took advantage of legal tax deductions, including deductions for research and development. It also received corporate tax credits for economic development, which meant even more deductions were allowed. Amazon isn't the only firm to use current tax laws to reduce its tax burden. In 2018, more than sixty of the nation's largest firms paid no corporate taxes despite making billions in profit, including Netflix, General Motors, Halliburton, Chevron, Delta Air Lines, Eli Lilly, IBM, and Whirlpool. Besides tax inversions, here are three common strategies they used.

Business tax credits. Government uses corporate tax credits to give firms an incentive to take certain actions. For example, tax credits have been given to firms who switched from fossil fuel to alcohol-based fuel, created work opportunities for the disabled, participated in government welfare-to-work programs, and invested in research and development for vaccines.

Tax havens. Some countries have no corporate income tax on profits earned outside their



country. U.S. companies either establish or relocate their headquarters to one of these countries, which are called **tax havens**, so that profits earned in the United States are no longer subject to corporate income taxes. Popular tax havens have included the Cayman Islands, Monaco, Hong Kong, and Bermuda. There are dozens more.

Accelerated depreciation. Government allows firms to deduct the wear and tear on their equipment before it's actually worn out, which substantially lowers their profits on paper. **Depreciation** is the loss in value of a tangible asset, such as a conveyor belt or a delivery truck.

Expenditures

Now that you know how tax revenue for the federal budget is generated, let's look at where the money is spent. Expenditures fall into three broad categories, as you can see in figure 18.16. **Mandatory spending** accounts for two-thirds of the budget. *Mandatory* means it's not optional because Congress passed laws that guarantee funding for those programs. Social Security and Medicare are the biggest mandatory expenditures in the budget.

Others include federal pensions and disability benefits; veterans' pensions; Supplemental Nutrition Assistance Program (SNAP); Children's Health Insurance Program (CHIP); Women, Infants, and Children (WIC) nutrition program; unemployment compensation; agriculture subsidies; and others. The money for these programs is authorized automatically each year, so there is no negotiation about those line items in the federal budget. Congress could change the authorization laws, but it would not be easy. It requires a sixty-vote majority in the Senate.

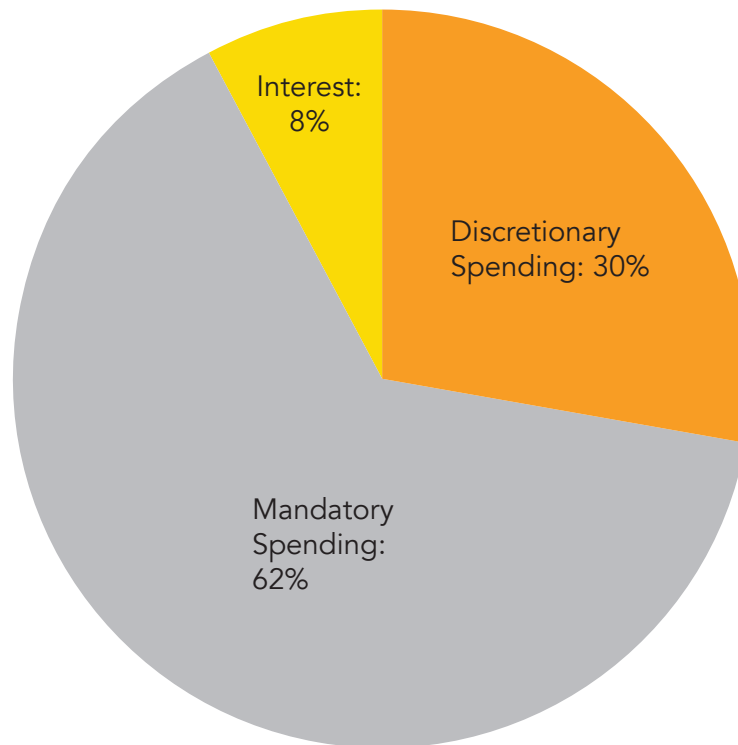
The second category of expenditures is **discretionary spending**. This includes defense, education and training, transportation, veterans' health, justice, foreign aid, the environment, science, and general government funding. Discretionary spending is not required by law and therefore provokes the most heated debates. Defense traditionally gets the most discretionary funding, which is why all the other categories are referred to as *nondefense discretionary*.

The third category of spending is the annual interest we owe on the national debt. These are payments to those who purchased government

securities. Figure 18.16 shows the spending percentages in 2019, when the interest rate on government securities was comparatively low. The payments to service that debt accounted for 8 percent of total expenditures.

Please review the list you made of five things you interacted with today that were funded by tax dollars and how you felt about paying taxes for them. Have your feelings changed after learning

about tax evasion, tax avoidance, tax loopholes, and tax deductions? Have your feelings changed after learning which expenditures are mandatory and which are discretionary? Now take your feelings and opinions and multiply them by well over 300 million other Americans who also have feelings and opinions about it. That's the United States trying to hash out a federal budget year after year. It's a daunting task and a fraught process.



Source: Congressional Budget Office

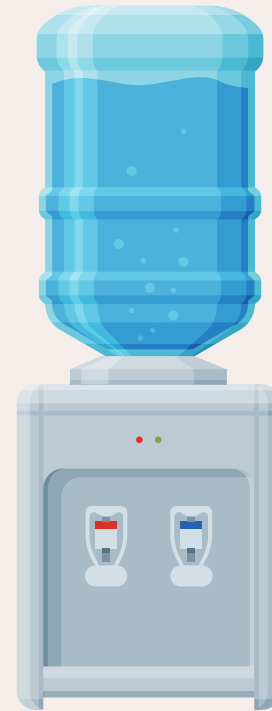
Figure 18.16
Federal Budget Expenditures, 2019

Exercise 18.1: Office Break Room Fill-in-the-Blank

Read the following dialogue overheard in the office break room at a privately owned firm and fill in the blanks using terms from the list below. Each one may be used more than once or not at all.

Terms:

tax loopholes	Internal Revenue Service
tax deductions	corporate taxes
tax inversion	trust fund
tax evasion	tax haven
payroll taxes	tax avoidance



"Have you heard? Our biggest rival paid zero taxes this year after it merged with a company overseas. This _____ gives them a competitive advantage over us."

"I know, right? They don't pay _____, but they get to do business here. That's not right."

"I agree, but it's still legal. Did you read about that CEO who went to the Cayman Islands, supposedly for a scuba vacation? Everyone knows that country is a _____."

"I read a report based on data from the _____ that said a record number of companies did the same thing last year."

"Well, Congress ought to do something about it. Do you know how much we pay our accountants to work day and night to come up with _____ strategies so that our firm can stay competitive? I wish we could use that money for more worker benefits!"

"I agree that we should close _____, but I don't see anything wrong with legally lowering our taxes. It's smart. If I had a fortune, I would leave everything in a _____ so that my kids wouldn't pay a dime in estate taxes."

"I'm not sure I would, but I do like that government allows _____ that motivate people to give more through philanthropy. I always write off my contributions to the local food bank."

"We might disagree about taxes, but I don't know anyone who wants cheaters to get away with it. Even though _____ is illegal, a lot of firms and individuals never get caught, and that's got to stop."

The Federal Budget Process

If you enjoy stories that have a dizzying number of twists and turns, and if you're captivated by tales of hope, heartache, pain, alliances, betrayals, secret trysts, and reconciliations, then get some popcorn and settle back in your seat. I'm about to tell you the tale of our annual federal budget process. Most people have no idea how exciting it really is because this high-stakes drama is obscured behind a curtain of dull-sounding committees, cryptic spreadsheets, and thick reports that—no offense to the authors—could use a few adjectives.

Our story begins in January during the annual State of the Union address, when the president of the United States announces the administration's priorities for the year. The Office of Management and Budget (OMB), part of the Executive Branch, takes those policy ideas and creates a budget to implement them. It also gathers budget requests from all the federal departments and agencies, each of which is managed by a member of the president's Cabinet. Around the first week of February, the president sends Congress a formal budget request for the coming fiscal year.

Now the budget process kicks into gear in Congress. In March, the Congressional Budget Office (CBO) distributes an analysis of the president's budget request to members of the House and Senate. Separate budget committees in each chamber write budget propositions that specify the total amount the federal government will spend in the next fiscal year. That might sound easy, but it's usually a hot mess. Supporters of the president write budget propositions to fund the administration's budget targets, while the opposition counters with their own ideas. Since the money they plan on spending will come from tax revenues, there are impassioned arguments about whether to raise, cut, eliminate, or add new taxes. Law-

makers harangue, sweet-talk, and make promises to one another to gather support for their budget propositions.

Let's be a fly on the wall and eavesdrop on what often happens behind closed doors in Congress. Let's say that you're trying to persuade another lawmaker to support your bill to fund a program that you fervently believe is crucial to the well-being of society. You make your best case and show your colleague compelling facts and figures. As you finish your pitch, you can see they're still lukewarm. But they haven't left the room. Now it's their turn to tell you about a pet project they'd like to fund in their congressional district, or a subsidy they want to pass for a certain industry that does business in their region or whose representatives support their campaigns. They agree to support your bill on the condition that it includes **earmarks** (direct funding) for their special projects. This practice is called *pork barreling*. Although it's controversial, this has been business-as-usual for lawmakers for most of U.S. history.

Finally, each chamber separately votes on overall spending and taxes for the year. If there's a difference between what the House and Senate approve, then a compromise is negotiated by a conference committee (a temporary committee that is formed for this purpose). You'll hear in the news that a bill is "in conference." Once that agreement is reached, identical **budget resolutions** are put to a vote in both chambers, and the agreed-upon plan for the new federal budget is approved. This is all supposed to happen by April 15. Since the budget resolution is not a law, Congress doesn't need the president's signature on it.

If you think, "We're done!" think again. Next, lawmakers begin the laborious process of hashing out the details of the discretionary expenditures in the budget. All the possible expenditures are organized into twelve different categories. Both

the House and the Senate have their own appropriations subcommittees that review proposals for funding—one subcommittee for each category. They hold hearings and listen to expert opinions about the different goods and services that could be funded. They scrutinize program reports and debate the merits of each. The subcommittees then vote on funding bills. The ones that don't get enough votes die in committee, leaving supporters crestfallen. This whole process is fraught with elation, frustration, and disappointment.

Spending bills that are approved in the appropriations subcommittees then go to the powerful Appropriations Committee. Again, both the House and the Senate have their own. The job of the Appropriations Committee is to decide how much funding to allocate. Instead of tediously having to vote on each individual bill, all the bills—with their price tags attached—are bundled together into an **omnibus spending bill** (*omnibus* means compilation). There is both a House version and a Senate version. Once the two chambers approve their own omnibus spending bills, any differences between the House version and the Senate version are negotiated in a conference committee. When a compromise is reached, identical spending bills go to the floor for a vote in the House and the Senate. The final bill that is passed is called the Consolidated Appropriations Act for that budget year.

Take a moment to imagine the tension in Congress as lawmakers and their aides scramble to secure enough votes to fund the goods and services they believe should be our nation's priorities. Imagine the trade-offs and frustration, the outrage, glee, and relief. It's high drama every day on Capitol Hill because it's high stakes.

If this doesn't seem complicated enough, I'll tell you about one more hairpin curve in the process. When one of the parties in the Senate realizes that it won't have enough votes to defeat the bill, it can block the vote on it by using the **filibuster**. This is a legislative procedure lawmakers use to prevent a vote on a bill they don't like but can't block with a majority of votes. The opposition can stop a filibuster with a sixty-vote **supermajority**, or it can override it using a process called **budget reconciliation**. The Senate is allowed to pass one bill per year that addresses spending, revenue, and the debt limit with a simple majority of

fifty votes in the Senate assuming that the vice president's vote serves as the tie breaker.

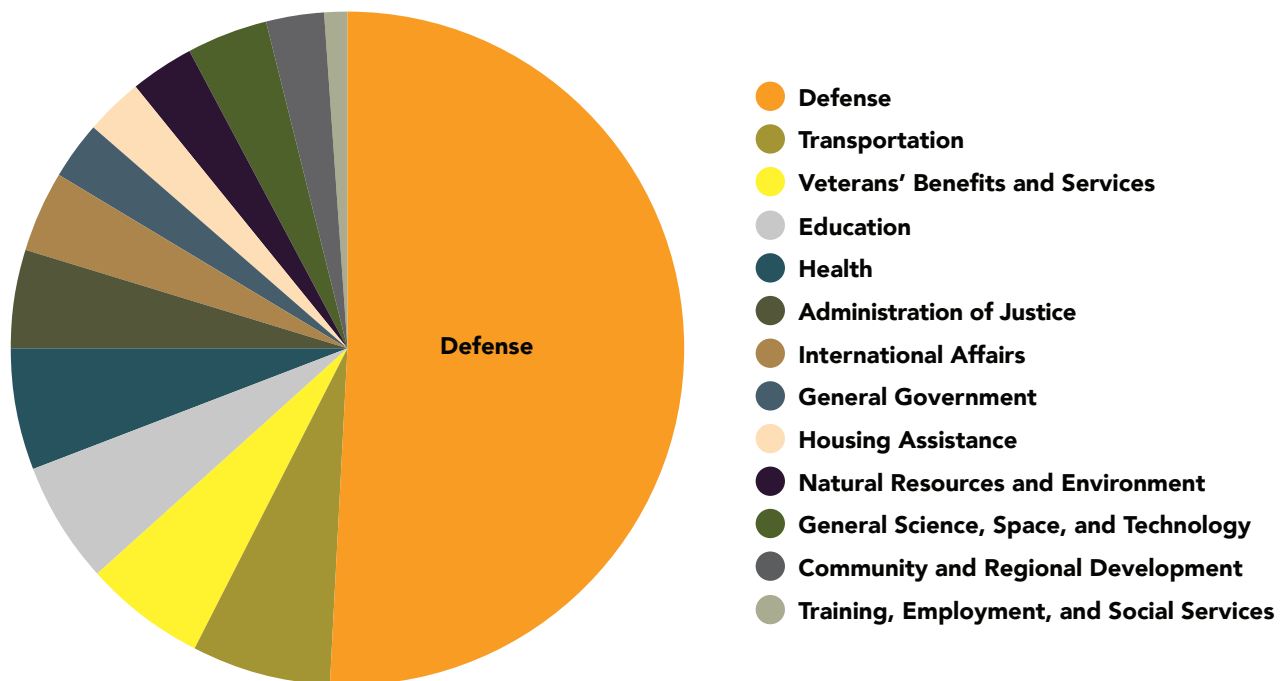
Take a moment to imagine the tension in Congress as lawmakers and their aides scramble to secure enough votes to fund the goods and services they believe should be our nation's priorities. Imagine the trade-offs and frustration, the outrage, glee, and relief. It's high drama every day on Capitol Hill because it's high stakes. Those line items represent our national security, food, housing, education, intelligence services, space programs, and so much more. Look at the 2019 discretionary spending allocations in figure 18.17. Now you can appreciate the effort it took to come to the agreement represented by this tidy little pie chart.

But don't think we are done yet. Now Congress sends the Consolidated Appropriations Act to the

president, who has the power to either sign it into law or veto it. A veto sends it back to Congress for more argument, deals, and compromises. There is no line-item veto, so the entire budget goes back for more discussion, even if just one sticking point keeps the president from signing it.

The new budget is supposed to be passed by October 1, but that typically happens only when the president and the majority of Congress are in the same political party. If it's clear that the budget won't be ready by the deadline, Congress can pass a **continuing resolution** to extend the current funding for a few more weeks, and the president must approve it. This is how a partial **government shutdown** is avoided. Without an approved budget, there is no funding to pay for the federal government's continued operation. Imagine a spigot being automatically shut off. Nonessen-

tial government workers are **furloughed** (given a temporary unpaid leave of absence) while they wait for the new budget to be approved, which turns the funding spigot back on. The threat of a government shutdown can be a powerful motivator for lawmakers to find a compromise when the budget process stalls, because voters generally aren't happy when the government shuts down. National parks close and applications for Medicare, Social Security, assistance programs, passports, and scientific research grants are not processed. Approvals for patents and licenses aren't issued. In other words, it's frustrating and inconvenient, and it's also a financial hardship for furloughed government workers. Between 1980 and 2020, the United States had ten government shutdowns with furloughs. The lengths varied from a few hours to thirty-five days.



Source: Peter G. Peterson Foundation

Figure 18.17
Federal Budget Discretionary Spending, 2019



Addressing Deficit Spending

As we discussed earlier in this chapter, when expenditures are greater than revenues, the federal government runs a deficit. Lawmakers have to decide whether to cut spending, raise taxes, or borrow from the public by selling securities. Some lawmakers propose **austerity policies**, which are spending cuts or tax increases. These are almost always controversial, with people from all perspectives accusing one another of cruelty, irresponsibility, and shortsightedness. One way Congress has dealt with deficits is by using **budget sequestration**. Congress sets a cap on the amount that can be spent in the fiscal year, and if the budget goes over that amount, every line item in the budget is cut by the same percentage.

Another strategy to deal with deficits focuses on revenues. Some tax cuts are passed with **sun-set provisions**, which are built-in expiration dates. After that date, the taxes go back up unless Congress extends the tax cuts or makes them permanent. The United States narrowly averted an economic catastrophe when across-the-board cuts in spending (budget sequestration) were set

to coincide with the expiration of tax cuts on December 31, 2012 (sunset provision). The economy teetered on the edge of a **fiscal cliff**. That's what it's called when government programs are set to be cut at the same time that taxes are set to be raised. It was so dire that lawmakers had to miss their New Year's Eve parties and stay in session to find a solution. They finally came to an agreement at 2:00 a.m. on January 1, 2013, to postpone the budget cuts until March.

During budget negotiations, Congress also has to keep an eye on the **debt ceiling**, the legal limit on allowable debt for the federal government. The first debt ceiling was set in 1917 and between 1960 and 2021, it was modified in some way 78 times—49 times by Republican presidents and 29 times by Democratic presidents. When the government is in danger of hitting the ceiling, the secretary of the Treasury steps in and takes what are called **extraordinary measures** to create some headroom by moving money around so that the government doesn't hit the debt limit. Doing so buys time for Congress to come to agreement about whether to raise or suspend the debt ceil-

ing. If no agreement is reached, we face the very real danger of defaulting on our loans. A **default** means we fail to pay our creditors as originally agreed when the money was borrowed. A default would very likely lead to a government shutdown, and there would be other devastating consequences. For example, we would almost certainly face higher interest rates the next time we needed to borrow because our credit rating as a nation would plummet.

Figure 18.18 shows the national debt and how many times the debt ceiling was raised from 1980 to 2013. The red and blue areas denote when the Republicans (conservatives) and Democrats (liberals) were in power, and the black stepped line shows the debt ceiling for each year. During the time frame shown in this graphic, Democratic Socialists (radicals) were a small minority of Independents in Congress.

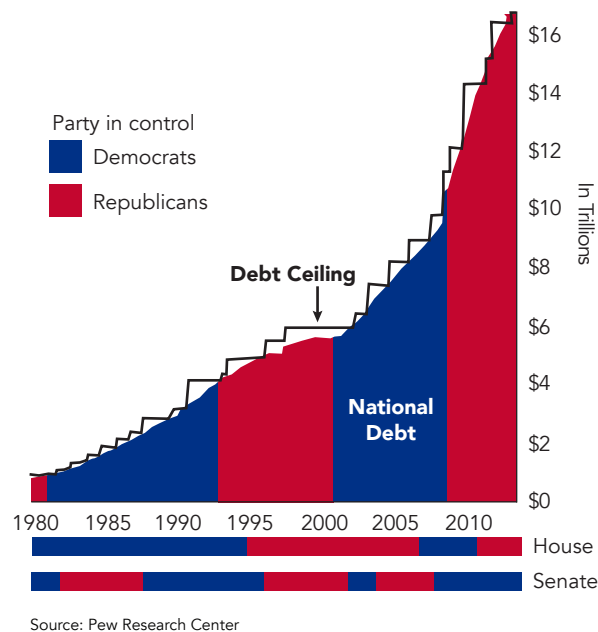


Figure 18.18
U.S. National Debt and
Debt Ceiling, 1980–2013

A Shout-Out to Pluralism

Hopefully, you now have a clearer idea of the immense effort it takes to pass the federal budget. I won't blame you if you're thinking, "Who came up with this crazy system!?" Admittedly, democracy isn't easy. Even if some procedural details change over the years, the basic process will be the same. It will never be easy. Partisan hostility is on a low simmer up to a high boil throughout the budgeting process, which basically goes on all year long, every year. It can be dispiriting and exhausting for radicals, liberals, and conservatives alike. But do you know what all three perspectives agree on without any reservation or hesitation? Democracy. Yes, it can be messy and inefficient. But they all believe it is better than giving the decision-making power to one person. That was why the colonies broke away from England in the 1770s and formed the United States. Alarmingly, surveys have shown that a small segment of the population would prefer to have a strong leader who can ignore Congress and elections and do what they think is best. Fortunately, the majority of Americans reject authoritarianism and cherish the ideals of freedom, liberty, the Bill of Rights, and the Constitution.

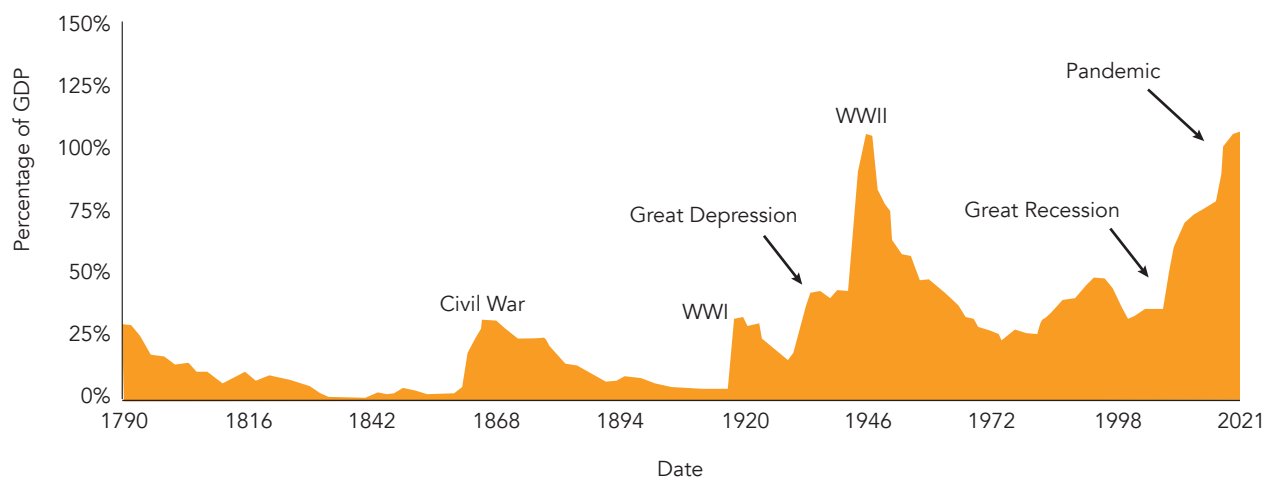
Our constitutional democracy, or republic (we can't even agree on what to call it!), gives us a process to continually work on forming "a more perfect union," as it says in the preamble to the Constitution. We have the freedom to keep striving to improve our country. I believe that pluralism is actually our nation's saving grace. We are rich with diverse ideas, but to make the most of them, we need an atmosphere of respectful listening, passionate advocacy, and intelligent debate. It has the potential to spark new and better solutions to our urgent economic problems. That's the idea behind the VOTE Program, and it's what I hope we'll achieve when we embrace pluralism as our strength and not our failure as a society.

The National Debt: Big Deal or No Big Deal?

While we work on embracing pluralism, we still have to figure out what, if anything, should be done about the national debt. The United States has been in debt for most of its history, and we've been arguing about it the whole time. Does our national debt matter? Three areas of focus tend to shape this debate:

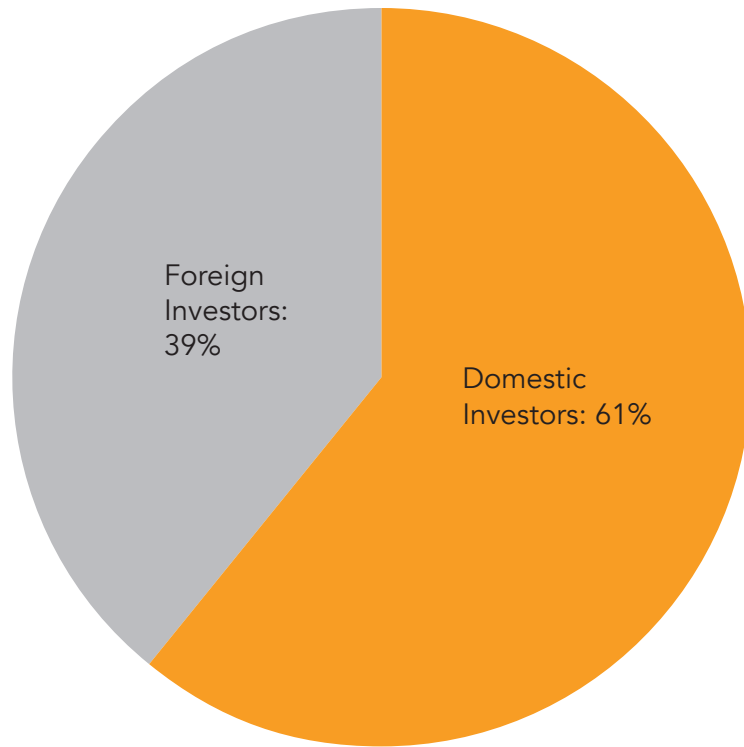
What percentage of GDP is the national debt? Some say that if the percentage of our debt is small relative to our national income (GDP), it's no big deal because we generate enough income to pay it off without a problem. But if the total debt is close to, or more than, our GDP, it's a very big deal. Figure 18.19 shows the U.S. federal debt as a percentage of GDP from 1790 to 2021.

Whom do we owe? Some say that if we owe the debt to ourselves and pay ourselves back, it's not a big deal because the money will just return to our economy when it gets paid back. But if we owe foreign investors (governments, firms, and individuals), it is a big deal because the money will leave the country, which is bad for the economy. Paying it back to foreign lenders leaves us with less money circulating in the domestic economy. It also puts us in a weaker position in the world when we're beholden to foreign powers. Figure 18.20 shows the percentage of public debt owned by domestic investors and foreign investors. As of 2020, foreign investors owned 39 percent of U.S. debt. We owed the most to Japan (\$1.3 trillion), followed by China (\$1.1 trillion plus another \$267 billion owed to Hong Kong), and the United Kingdom (\$425 billion).



Source: Peter G. Peterson Foundation

Figure 18.19
U.S. Federal Debt as Percentage of GDP



Source: Peter G. Peterson Foundation

Figure 18.20
U.S. Public Debt Ownership in March 2020

What is the interest rate we pay on the debt?

Some say that whether the national debt is a big deal depends on interest rates. When government securities mature, the government needs to borrow again to pay back the original investors plus the agreed-on interest. The problem is that we can't know what future interest rates will be. If they are low, debt is less of a big deal. But if they shoot up, then borrowing money costs the government more. That is a very big deal. As economics educator Gerald Swanson pointed out in his book *America the Broke*, if interest rates soar, we could end up spending all our national income to **service the debt**—pay the interest on it—with nothing left to pay for new schools, bridge repairs, job-training programs, or anything else. Swanson warned that since interest rates can't be controlled, we are vulnerable to **insolvency**, which means the United States would be unable to meet its financial obligation to pay the debt back.

Ideas to Address the Debt

The worst-case scenario is that the federal government will default on its loans. That's a terrible idea that's floated around every so often. Someone will say, "Let's just default on our loans. After all, the United States is a global superpower. It's not like the repo man is going to show up at our door and tow away our submarines and national parks!" Economists from all perspectives unite in agreement that we absolutely should *not* default on our loans. Investors would completely lose faith in the U.S. dollar—remember, it's fiat currency. It's only backed by people's confidence in its value. If the United States defaults, it would cause an economic crisis throughout the global economy. Therefore, tempting as it might sound, that option is off the table.

Another nonstarter idea that crops up from time to time is that we allow inflation to lessen the value of the dollar. Then we won't need as

much money to pay off the debt. At the same time, say proponents of this idea, since inflation drives wages up, our tax revenue will increase. That might sound like a solid plan, but from every perspective, inflation causes a credit crisis (lenders won't lend), creates suffering for people on fixed incomes, and slows growth in the whole economy because firms won't commit to long-term contracts. So that option is off the table, too.

We can't default. We can't inflate our way out of it. So what are our other options for dealing with the national debt? The standard ways people think about addressing the national debt are to raise taxes (controversial), cut spending (also controversial), and grow our way out of it by grow-

ing the economy (everyone likes this plan, but no one can agree on how to do it, or how much growth is the right amount, or how to make that growth happen in the best possible way). When it comes to how to address the federal debt and deficit spending, we are at an impasse. People just can't agree.

You can see that this issue is relevant to you in every way because it affects the public transportation that gets built, the life-saving new technologies that get developed, our military readiness, and more. You also understand the dangers of default and inflation as methods to address deficits and debt. The federal budget has everything to do with your material well-being today and in the future.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of the federal budget. You learned the tools needed to analyze

competing ideas about how long-term, escalating debt holds us back as a nation. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on the Federal Budget

Conservatives, radicals, and liberals all agree that irresponsible budgeting and money management are problems. They share the same goal of having financial freedom to invest in our future. But they disagree loudly and often about how to achieve it. Should we cut taxes and spending and have the highest possible GDP growth? Should we increase taxes and spending to guarantee material well-being for all? Should tax levels and spending levels change to meet the needs of the moment and grow GDP with opportunities for all? The policies we currently follow are adaptable balanced budgets and a flexible money supply in capitalism, which is why we

described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and hear from each of the perspectives.

As always, please remember that the VOTE Program doesn't take a position on this or any other issue. We're just channeling the voices of the perspectives so you can hear the different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the conservatives will go first.



Conservative

Voice on the Federal Budget



The Federal
Budget

When RBI, owner of Burger King, bought Tim Hortons and moved its headquarters from sunny Florida to chilly Canada, it was the right move for the corporation under the circumstances. When firms don't consider their bottom lines, they go out of business, and society pays the price in lost jobs and fewer products. We shouldn't blame RBI for choosing Canada over the United States. Not only did the United States have unfairly high corporate tax rates, but the firm faced the double jeopardy of being taxed twice—here and in Canada. That's just unreasonable. We shouldn't ask businesses to choose between making

a profit and keeping their headquarters in the United States, but that's exactly what bad tax policies end up doing. We force companies to use tax inversion and other tax-avoidance strategies to stay profitable instead of motivating them with low corporate taxes. We lose out to other countries, which welcome our firms with open arms and lower corporate tax rates. It's a huge waste. Entrepreneurs are a vital resource that we lose by demotivating them to succeed. We take a wrong turn when we regard financially successful firms and individuals as the nation's piggy bank. Every time someone wants to fund another unnecessary government program, profitable companies and the rich get slapped with outrageously high taxes. It's not fair to them, and it's shortsighted. By punishing them with high taxes, we drive them away

or dissuade them from launching new ventures or expanding their enterprises. They won't sweat over their start-ups and work nights, weekends, and holidays to build something valuable when the government is going to swoop in and take their hard-won profits.

Let's consider the Laffer curve in figure 18.21. By cutting taxes across the board, federal tax revenues actually go up because tax cuts pay for themselves. Here is how it happens. When taxes are high, GDP falls for three reasons. First, people at every income level are less willing to work when they have to pay high income taxes, so the cost of labor increases for firms. Why are people less willing to work? Because high income taxes take a big chunk out of their paychecks. Second, high capital gains taxes make people less willing

to save because they end up owing more to the government. Less money saved means fewer funds available to firms to borrow and higher costs for those loans. Third, high corporate tax rates force firms to give their revenue to the government—money they would have invested in their plants, equipment, and inventory. The higher costs for labor, for loans, and for corporate taxes lead firms to cut back on production, which shrinks our nation's GDP. In this shrinking economy, the government loses revenue and is forced to borrow to pay for its obligations. The good news is that we can fund the appropriate federal budget without any need to deficit spend. We use the right level of taxes and the right-size government—one that serves only the essential functions of providing national security, protection of property, and infrastructure. First, we cut individual income taxes, capital gains taxes, and corporate taxes, giving everyone an incentive to work, save, and invest. Because costs go down for firm (wages, borrowing, and taxes), GDP grows. A lower tax

rate on a higher GDP yields more government revenue than a higher tax rate on a lower GDP. By lowering taxes, we end up with higher GDP and a more productive society. Government revenue increases, and we have no problem funding the appropriate roles of government from year to year while we stay out of debt as a nation.

It used to be that when the holiday season rolled around, everyone in my department received an invitation to the annual holiday party. One year, we were asked to chip in \$35 to pay for a private room at a restaurant, the buffet dinner, and decorations. I paid my share, but when I showed up for the party, I discovered that I couldn't eat anything that was served. I had to order my dinner off the menu and pay for it myself. I resented having to subsidize everyone else's meals while having to foot the bill for my own. I feel the same way when the government requires me to pay high income taxes and then spends only a fraction of it on things that are necessary. It wastes the rest on needless bureaucracy and programs that make us worse off as a society. Other people are having lunch on my dime, funding their pork barrel projects on my dime, and creating more big government that enables people to be lazy on my dime. Have you heard of the Gravina Island bridge? Back in 2005, Congress wanted to spend \$230 million to build a bridge in Alaska to connect a small town of nine thousand residents to an island of fifty residents. It was dubbed "the bridge to nowhere." Leave it to big government to keep finding new ways to squander our hard-earned tax dollars. The worst waste of all is the interest we're paying on the national debt, which was created in the first place by wasteful government spending. Every year, when Congress passes yet another deficit budget, it means more debt for you, me, and our descendants, who will be paying it back for generations to come. I'm happy to pay my taxes when they fund the limited, necessary roles of government. But I'm sick of pay-

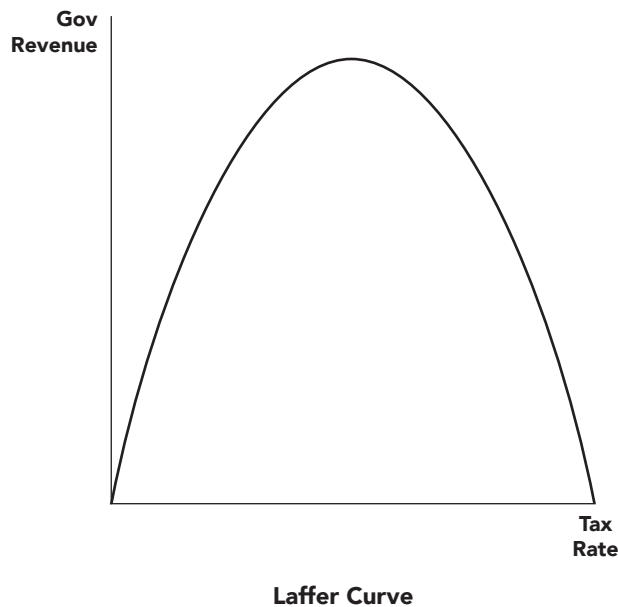


Figure 18.21
Conservative View: The Federal Budget

ing trillions of dollars for the bloated bureaucracy in Washington, DC, and all the other wasteful spending that doesn't make my life better—and even makes it worse. We need the discipline to cut all those entitlement programs that drag us down as a country. By getting government out of the way and creating a business-friendly environment, the economy grows, and we're released from the shackles of debt. Limited government spending and tax cuts stimulate the economy and shrink the deficit, freeing our nation to flourish.

When I decided to try roller skating, someone wise told me, "If you want to learn how to skate, you have to be willing to fall." The most successful entrepreneurs say the same thing: we have to make mistakes and even fail sometimes so we can learn and improve. I laced up my skates and wobbled onto the rink. Falling did hurt, but I quickly learned that if I bent my knees, I could keep my balance. Soon, I managed to glide around the skating rink with confidence, and falls became rare. Now imagine what would have happened if every time I fell, I wasn't the one who felt the sting of pain in my wrists or developed bruises on my legs. What if someone else bore the brunt of my clumsiness or recklessness? I would have happily crashed around the rink and not put in the effort to become a competent skater. I wouldn't have bothered, because it cost me nothing to fail. Every time the government spends our tax dollars to bail out or subsidize failing industries, we enable

The good news is that we can fund the appropriate federal budget without any need to deficit spend. We use the right level of taxes and the right-size government—one that serves only the essential functions of providing national security, protection of property, and infrastructure.

incompetence because they don't face the consequences of their poor planning, mismanagement, and inability to follow price signals. As long as they aren't losing their own money, those firms will keep making bad choices, and we'll keep enabling unwise and unnecessary risks. It's common sense, and we ignore it at our own peril. Big government is like an over-permissive parent who can't bear to discipline a misbehaving child. The child ends up out of control and becomes everyone else's problem. Actions have consequences. We need to say "No" to big government and the tax-

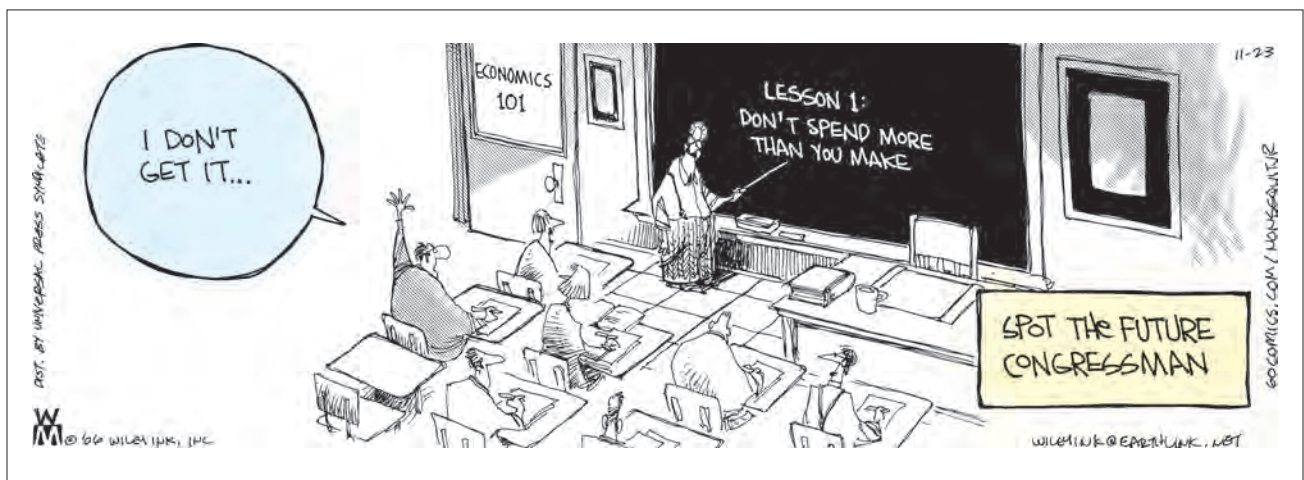
and-spend mentality. It hurts us all.

Radicals, you say your priorities are taking care of people and the planet, but then you make profit the villain. Don't you realize that nothing gets produced if there is no profit to be made? This is simple math. No production means no revenue, so you have no way to pay for your integrated balanced budget. In the end, people in democratic socialism are deprived of the products they need to survive. Desperate, they devour their natural resources. They chop down the trees to heat their homes. They overfish the rivers to feed their families. They also pollute the air with carbon emissions because they can't afford to switch to renewable energy. Radicals, you fail to take care of people, because without the profit motive, you have no tax revenues to fund health care for all, pensions, day care, and all your other social safeguards. Even if firms were motivated to produce, your sky-high cor-

porate tax rate would cure them of that ambition immediately. You can't fund your budget with individual income taxes, either, since no one bothers to show up for work when they can collect their government handouts and relax at home. The few who might still be motivated to work hard change their minds as soon as they realize the government redistributes their hard-earned money to freeloaders. The only option left is for the government to borrow to keep the economy afloat. Get ready for massive national debt on top of society-wide poverty and general apathy. Please don't expect public banks to be the answer to your problems. With no price signals and no profit motive, there's no way public banks can make good loans. Guided by idealism rather than responsible lending practices, they fund every pie-in-the-sky idea. Does a firm want a loan to expand but hasn't bothered to do market research to see if there is demand? The public bank gives them the loan anyway, because if the firm defaults, the public banking councils will print more money to bail out the bank. This leads to dangerous levels of inflation. But the council has no choice. If public banks fail, the whole money system comes crashing down. Radicals, with your inflation-inducing public banking and your debt-producing integrated balanced budgets, future generations will end up paying the

price for your terrible policies. Democratic socialism is unsustainable.

Liberals, your tax-and-spend policies leave us trillions of dollars in debt. Right now, the interest we're paying for the debt you already racked up holds us back from realizing our potential. The scope of this calamity compounds by the minute. Future generations will curse your spend-a-thons when they are stuck making interest payments that are greater than the nation's GDP. Instead of solving these problems, you double down and say we can continue to deficit spend without worrying about the consequences. It is completely irresponsible. We all know it's a slippery slope to live on borrowed money, but you want to keep leading us down that dangerous path. We borrow to pay for your adaptable balanced budgets, which are padded with wasteful government bureaucracy and programs. You justify deficit spending as the best response to crises, but more often than not, your policies create those crises in the first place. Assistance programs hurt individuals and society as a whole because they demotivate people from working. And your progressive taxes demotivate entrepreneurs and firms from contributing more to society. You cut GDP growth off at the knees. Your so-called helpful hand of government helps itself to the money in our pockets. Then it grabs us



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by the collar and prevents us from achieving our potential. Your belief that government can save us is completely wrong. It's a beast you keep feeding with high taxes. It sharpens its fangs on deficit spending, which you pay for by printing money. This is a terrible practice, because putting more money into circulation raises prices. Now we have to worry about alarming inflation. To add insult to injury, government also borrows from the public. Those lenders would have loaned their money to private businesses if government hadn't gotten involved. So liberal policies not only mismanage money, they crowd out firms with higher interest rates and make it even harder for the economy to achieve its potential. All your so-called fixes make the problems worse. Your adaptable balanced budgets will never work because you'll find a new crisis every day to justify more tax-and-spend policies. If we follow your policies, we'll never find our way out of this quagmire.

We should reject the current policies of adaptable balanced budgets and a flexible money supply and replace them with annual balanced budgets and a constrained money supply to ensure the financial freedom to invest in our future. We commit to low taxes that exactly equal our low expenditures, and the result is an economy that lives up to its full potential. Annual balanced budgets starve the beast of government. We stop funding burdensome regulatory agencies, entitlement programs, and corporate subsidies. We have the discipline to rein in overspending, and we keep government in its appropriate three roles. It protects private property from domestic and international threats with

a strong military and national security network. It protects property through a justice system. And it maintains a safe and reliable infrastructure, including power grids, roads, and sanitation facilities. These roles of government are necessary because they enable firms to produce and distribute the goods and services that society needs. We can easily fund it without running a deficit. Then we can grow our way out of our national debt instead of pretending it isn't there or telling ourselves it doesn't matter. It definitely matters. If lawmakers don't have the discipline to pass a balanced budget on their own, let's amend the U.S. Constitution and make annual balanced budgets the law. Let's say goodbye to yearly deficits, and say hello to firms having the money and incentives they need to start and expand businesses. That is the lifeblood of any successful economy. Say hello to a money supply that is constrained through a gold standard, competition among private currencies, or a predetermined growth rate. We let money function as it was intended—to facilitate transactions in the real economy—rather than watching it give us whiplash from wild swings between inflation and deflation. With annual balanced budgets, government delivers the goods and services we want and need, the economy lives up to its full potential, and future generations are set up to succeed.

Conservative

Free-Market Capitalism



The Federal Budget

BIG PICTURE

Limited government spending and tax cuts stimulate the economy and shrink the deficit, freeing our nation to flourish.

POLICY POSITION

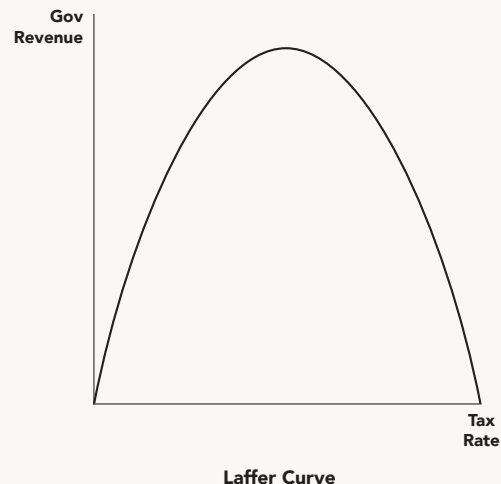
Irresponsible budgeting and money management are problems, but . . .

- ▶ Radical policies are empty promises that can never be funded because there is no economic growth, and since public banks inevitably need bailouts, more money is printed so prices skyrocket.
- ▶ Liberal policies create a bloated government and cycles of deficits, which lead to higher interest rates that crowd out firms and result in devastating rates of inflation.

SOLUTION

Reject adaptable balanced budgets and a flexible money supply and replace them with annual balanced budgets and a constrained money supply to ensure financial freedom to invest in our future:

- Starve the beast of government to eliminate deficits and debt.
- Money's only function is to ease transactions, not to interfere with prices.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Federal Budget Talking Points: **Conservative**

1. The good news is we can fund the federal budget without any need to deficit spend when it covers only the essential roles of government. Yes, we need government to provide national security, a justice system, and infrastructure, but anything else is cut. Then we use the right, low level of taxes—income, capital gains, and corporate—to pay for this right-size government, which gives individuals and firms the right incentives to work hard and be productive. This is how we reach our potential as a nation.
2. Government requires me to pay high income taxes and then spends only a fraction of it on things that are necessary. We need discipline to cut all those entitlement programs. Every year, when Congress passes yet another deficit budget, it means more debt for you, me, and our descendants. They will be paying it back for generations to come. By getting government out of the way and creating a business-friendly environment, the economy grows, and we're released from the shackles of debt.
3. Radicals, you make big promises, but you can't possibly deliver on them because democratic socialism is against profit. That is what makes your integrated balanced budget an impossible dream. Do you see the problem? Society generates no wealth because there's no reason for firms to produce. It's pointless to try to fund your budget by raising taxes. There's nothing to tax. Inevitably, you end up with massive national debt, society-wide poverty, apathy, and no hope for the future.
4. The radical idea of public banking is deeply flawed. With no price signals and no profit motive, there's no way public banks can make good loans. Guided by idealism rather than responsible lending practices, they fund every pie-in-the-sky idea. If the firm defaults, the public banking councils print more money and bail out the bank. This leads to dangerous levels of inflation. But the council has no choice. If public banks fail, the whole money system comes crashing down. Democratic socialism is unsustainable.
5. We all know it's a slippery slope to live on borrowed money, but liberals want to keep leading us down that dangerous path. We borrow to pay for their adaptable balanced budgets, which are padded with wasteful government bureaucracy and programs. Assistance programs hurt individuals and society as a whole because they demotivate people from working. And liberal progressive taxes demotivate entrepreneurs and firms from contributing more to society. With fair-market capitalism, GDP growth is cut off at the knees.
6. Liberals, your government is a beast you keep feeding with high taxes. It sharpens its fangs on deficit spending, which you pay for by printing money. This is a terrible practice because it creates alarming inflation. To add insult to injury, government also borrows from the public. Those lenders would have loaned their money to private businesses if government hadn't gotten involved. You not only mismanage money, you crowd out firms and make it even harder for the economy to achieve its potential.
7. We commit to low taxes that exactly equal our low expenditures, and the result is an economy that lives up to its full potential. Annual balanced budgets starve the beast of government. We have the discipline to rein in overspending and stop acting as if our shameful national debt doesn't matter. It definitely matters. If lawmakers don't have the discipline to pass a balanced budget on their own, let's amend the U.S. Constitution and make an annual balanced budget the law.
8. With annual balanced budgets, say goodbye to yearly deficits and growing national debt. Say hello to firms having the money and incentives they need to start and expand businesses. Say hello to a money supply that is constrained through a gold standard, competition among private currencies, or a predetermined rate of growth. We let money function as it was intended—to facilitate transactions in the real economy—rather than giving us whiplash from wild swings between inflation and deflation.

Radical

Voice on the Federal Budget



The Federal
Budget

After Burger King bought up Tim Hortons, of course the firm moved its headquarters to Canada. Private owners must capitalize on every opportunity to maximize profits by reducing their taxes. If they don't, they will be driven out of business by a competitor who has no compunction about ditching our country to save a buck. Capitalist competition turns privately owned corporations into stateless multinational profiteers loyal only to their bottom lines. Those owners aren't necessarily bad people, but they are stuck in an economic system that forces

them to devastate the environment and callously disregard the health and well-being of their workers, customers, and the communities where they do business. The drive for profit is all that matters, no matter what consequences their actions have on people and the planet. They spend millions on lawyers and accountants who find new ways for them to legally shirk their responsibility to pay their fair share in taxes, conveniently forgetting that we all pay for the infrastructure they use to make their money. As always, they privatize their profits, and when things don't go their way, they expect a bailout so they can socialize their losses. That is why they make big campaign contributions to politicians who cut taxes on the rich and give corporations more government subsidies and tax exemptions. The government borrows to pay that corporate welfare. The minute the corporate tax rate is lower somewhere else, those

firms abandon communities and take jobs out of the country. They leave behind unemployment, hunger, homelessness, crumbling infrastructure, underfunded schools, and a nation that is trillions of dollars in debt. Capitalism is like an abusive relationship. We know it's bad for us, but we convince ourselves it's for the best. We need to open our eyes and see the great rip-off going on around us every day, and then choose democratic socialism. It's the only way we will ever get out of this hole of debt, suffering, and despair.

Let's consider the Six-Core Cube of democratic socialism and drill down into the core point of *sustainable development*. Every decision in society reflects our shared commitment to prioritizing the well-being of people and the planet. We're here to take care of one another because we recognize that you are my most valuable resource, and I am yours. This is the radical view of the world,

and it's reflected in our federal budget. When all of us have what we need to thrive, all of us are able to participate in the economy. We grow the economy and achieve our potential by fulfilling society's obligations. The hallmark of socialism is that everyone has a guaranteed right to have their material needs met. Everyone's contributions are valued and needed to lift the quality of life for all. And everyone shares in the responsibility to fund our social commitments. So imagine you're a worker-owner in a firm, and your mother is diagnosed with cancer. You don't have to worry about how to pay for her care because your taxes fund universal health care. Your son is about to start college, but no worries there. Your taxes fund higher education for all. Yes, a big chunk of your personal income and your firm's business income are taxed, but you don't mind for two reasons. You spend less in taxes than you would if you had to privately fund all these things. And you directly benefit from everything your taxes pay for—the reliable and convenient public trans-

portation you take to work; your universal basic income and guaranteed retirement security; the festivals, museums, and clean air in your city; and everything else that makes your life comfortable, safe, and healthy. In democratic socialism, economic development is sustainable because it is funded by tax dollars, not by borrowing to deficit spend. And those tax dollars directly work for us because public banks use the funds to improve our lives. Future generations will inherit a sophisticated infrastructure, healthy ecosystems, and viable natural resources. They won't get stuck with trillions of dollars of debt.

During my college days I lived in a house with four roommates. We all paid equally into a shared fund for groceries, cleaning products, rent, and utilities, and we divided up the chores of cooking, cleaning, shopping, and paying bills. It was an amazing experience. Not only were my monthly bills lower than at any other time in my life because we all shared the expenses, I did less cooking and cleaning. To this day, that lovely old Victorian house is still the nicest and most affordable place I've ever lived. My group-house experience demonstrated that life is more efficient and less expensive when we make decisions as a community about how to use our resources and then share the costs fairly. I replicated this model in my thirties, when I became the organizer of our annual family reunion. By pooling our money, we were able to afford extravagant meals and activities. One year, we rented a museum for the afternoon. The next year, we took a luxury tour bus from Boston to Maine, where we splurged on lobster dinners. Everyone has a voice and a vote on how we spend our money and time together, and I believe that's the reason everyone looks forward to reunion weekends. In democratic socialism, there is no resentment about paying higher taxes because we all want government not only to deliver national security, infrastructure, protection of property, equity, stability, transparency,



Figure 18.22
Radical View: The Federal Budget

and accountability, but also to manage public ownership, convene and facilitate community councils, and provide the goods and services promised to each one of us as social safeguards. The federal budget is our annual renewal of our vows to one another to continue to fulfill our mutual commitments. It's also a vow to people who haven't been born yet, promising that we will continue to protect the long-term viability of resources to ensure their well-being. Our nation's resources create prosperity for all because we pay the appropriate level of taxes to fulfill our social contracts without going into debt and burdening those who come after us.

Every time I hear, "Bigger is better!" I think about vegetables. If you plant a vegetable garden and spray it with fertilizer and water four times a day, then yes, you will have super-sized produce. But when you cut into the cucumber, it's rotten inside. The tomato is tasteless, and the beans are too tough to chew. Bigger is not always better. Remember the hockey stick of human prosperity? The Industrial Revolution triggered phenomenal economic growth when unfettered capitalism was let loose on the world. But at what cost? That steep upward curve represents razed lands, dead rivers, mass extinctions, and irreversible climate change, not to mention workers all over the world exploited, destitute, crushed under the burden of debt, and dying from unsafe work conditions. It represents the growing income inequality of capitalism, where a few make it to the pinnacle, and the rest prop them up while struggling to survive.

The federal budget is our annual renewal of our vows to one another to continue to fulfill our mutual commitments. It's also a vow to people who haven't been born yet, promising that we will continue to protect the long-term viability of resources to ensure their well-being.

It represents social unrest, the wrongness of living to work instead of working to live. Our priorities are all wrong in capitalism because we swallow the lie that bigger is always better. The national debt grows alarmingly bigger every minute. The government is forced to deficit spend to keep this economic system on life support. Then politicians have the gall to say, "Sorry, we can't afford it" when communities need food for the hungry, funding for schools, affordable health care for the sick and injured, and internet service in rural

areas. Politicians claim the country is broke, but we have everything we need right now to take care of everyone. We just have the wrong priorities in capitalism. Profit is not more important than human beings and the environment. No one deserves a pass on paying their fair share. We bring the garden back into balance with right-sized growth and development that respects the needs of people and of ecosystems. The metaphorical vegetables won't be as ginormous, but they will be packed with nutrients, grown sustainably, delicious to eat, and available to all.

Liberals, it's like you're living in a house that's hopelessly infested with termites, with a roof that is visibly caving in and floorboards sagging ominously, and you take out a big loan to renovate the kitchen. Your adaptable balanced budgets throw good money after bad. Your tax-and-spend policies are warped because you're not guaranteeing material well-being for people. You're just pumping more money into the failing system of

capitalism. Your policies enable private owners to relentlessly increase production and exploit workers even more. Those workers—who can’t afford to write your politicians big campaign contributions—live on scraps your helpful hand of government carelessly tosses to them. At the same time, you give corporations huge subsidies, bail-outs, loans, and tax breaks, and they turn around and send their lobbyists over with more campaign contributions. Who pays for this corrupt system? Workers. Every year, you increase the national debt with deficit spending because you made it possible for firms to slither out of paying their fair share. You style yourselves as the “compassionate party” because you include a few assistance programs for the poor, but let’s be real. SNAP, CHIP, WIC, and Medicaid do the bare minimum. They don’t even scratch the surface of what people need to thrive. They only serve to keep workers grinding along just enough to ensure they will go back to their low-paying jobs tomorrow to be exploited for another day. The further insult is that they and their children and generations to come are the ones who will get stuck with the bill. Please don’t think our problems are solved by the privately owned Federal Reserve. The top-down decision-makers print money to keep the system of capitalism from toppling over. Its goal is to grow GDP, not to improve quality of life

for people or make the planet more livable. The national debt is a disgrace, but let’s understand it for what it really is: a symptom of the rot at the heart of fair-market capitalism. It’s exhausting to watch you keep trying to prop up capitalism. Your solutions can never fix the problem because capitalism itself is the problem. Now you see that the termites were only the beginning. The foundation is cracked, and you’ve got a mold problem. It’s time to give up on this money pit. Do us all a favor and tear it down.

Conservatives, you think you are the knight in shining armor who slays the beast of big government, but you’re waving your sword at the wrong target. You should point it at free-market capitalism and your limited roles of government, which make it impossible to create high-quality lives for all. Your annual balanced budgets cut spending and in the process abandon the most vulnerable. To feed themselves, the poor and middle class are cornered into taking on intolerable levels of personal debt from the profit-making loan sharks who crowd in to supply—perfectly legal in your world of unregulated capitalism. Then you have the gall to blame the victims for being “reckless” and “unmotivated.” Your budget cuts are both cruel and shortsighted. Workers are the true engines of the economy, and we only achieve our highest potential as a society when



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everyone has the material well-being to make their best contributions. On the revenue side, you cut taxes on the rich and then breezily insist that these cuts will pay for themselves. In what fantasy world do you live? The wealthy won't turn around and create jobs. Their single-minded purpose is to maximize their profits. They just buy up more machines, automate, and lay off more workers. Then they increase the rate of exploitation for those few workers who are left. Don't even get me started on your plans to constrain the money supply. What you really mean is that our economy should be handed over to the privately owned banks so society can further enrich the top 1 percent while abandoning everyone else. Once again, conservatives, your policies shamelessly make the rich richer and the poor poorer, and squeeze the middle class so they can't get ahead. Annual balanced budgets are an impossible dream because the revenue generated from your low tax rates can't pay for even your limited line items. We're back to annual deficits and a national debt that grows by leaps and bounds. You'll continue to insist that free-market capitalism is the solution while you mortgage the futures of your great-great-great-grandchildren.

We should replace the current policy of adaptable balanced budgets and a flexible money supply in capitalism with integrated balanced budgets and public banking in democratic socialism to ensure financial freedom to invest in our future. The good news is that our nation already has enough material wealth to provide every single one of us with a good quality of life. We just need democratic socialism to redistribute that wealth so we can all share it equally. Integrated balanced budgets are the mechanism by which

we do that. With appropriate taxes paid by all, we fund social safeguards and all the roles of government that enable us to achieve our potential as individuals and as a society. The beauty of paying for it together is that we can easily afford the things we could never pay for on our own—universal health care, a diplomatic corps, worker-owned business incubators, a space program, wildlife preserves, and more. The funding is sustainable because the tax base is robust. There is no deficit spending or national debt. In addition to funding the social safeguards and other social commitments, integrated balanced budgets allocate a portion of each year's revenues to communities for discretionary spending. Using a participatory process, budgeting councils allocate the money to “extras” that make life even better, such as public art, cultural festivals, street fairs, and sporting events. We use public banking to keep money flowing back into communities so we can develop the economy. Through low-interest loans to worker-owned firms and individuals, jobs are created, businesses expand, and we get new innovations and technologies. No-interest loans to government enable the nation to modernize our infrastructure. Without the added burden of interest payments, projects cost a lot less, so everyone's taxes go down. Wisely using our plentiful resources and money to pay for the life we want, we can all enjoy the highest standard of living and be in the best position to pay it back to society with our tax dollars, innovations, inventions, and creativity. With integrated balanced budgets, government delivers the goods and services we want and need, the economy lives up to its full potential, and future generations are set up to succeed.

Radical

Democratic Socialism



The Federal Budget

BIG PICTURE

Our nation's resources create prosperity for all because we pay the appropriate level of taxes to fulfill our social contracts without going into debt and burdening those who come after us.

POLICY POSITION

Irresponsible budgeting and money management are problems, but . . .

- ▶ Liberal policies try to spend their way out of a failing system with corporate welfare and token assistance programs, burying the nation in debt for generations to come.
- ▶ Conservative policies abandon the poor and enrich the wealthy, generating annual deficits along with suffocating levels of personal and national debt.

SOLUTION

Replace adaptable balanced budgets and a flexible money supply in capitalism with integrated balanced budgets and public banking in democratic socialism to ensure financial freedom to invest in our future:

- We use appropriate taxes with efficient and effective spending.
- Our money works to our benefit.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Federal Budget Talking Points: Radical

1. In democratic socialism, we're here to take care of one another because we recognize that you are my most valuable resource, and I am yours. This is the radical view of the world, and it's reflected in our federal budget. When all of us have what we need to thrive, all of us are able to participate in the economy. Everyone shares in the responsibility to fund our social commitments, and every decision in society reflects our shared commitment to prioritize the well-being of people and the planet.
2. Politicians like to claim that the country is broke, but we have everything we need right now to take care of everyone. We just have the wrong priorities in capitalism. In democratic socialism, human beings are more important than profit. We bring the economy into balance with right-sized growth and development that respects the needs of people and of ecosystems. Future generations will inherit a sophisticated infrastructure and viable natural resources, and they won't get stuck with trillions of dollars of debt.
3. Every year, you liberals increase the national debt with deficit spending because you made it possible for firms to slither out of paying their fair share. You include a few assistance programs for the poor, but they don't even scratch the surface of what people need to thrive. They only serve to keep workers grinding along just enough to be exploited for another day. The further insult is that they and their children and generations to come are the ones who will get stuck with the bill.
4. Our problems are not solved by the privately owned Federal Reserve. The top-down decision-makers print money to keep the system of capitalism from toppling over. Its goal is to grow GDP, not to improve quality of life for people or make the planet more livable. The national debt is just a symptom of the rot at the heart of fair-market capitalism. It's exhausting to watch liberals keep trying to prop up capitalism with adaptable balanced budgets. Their solutions can never fix the problem because capitalism itself is the problem.
5. Conservatives, you imagine you are the knight in shining armor who slays the beast of big government, but you're waving your sword at the wrong target. It's free-market capitalism and your limited roles of government that prevent society from creating high-quality lives for all. To feed themselves, the poor are cornered into taking on intolerable levels of personal debt from profit-making loan sharks—perfectly legal in your unregulated capitalism. You force people into poverty and then have the gall to blame the victims.
6. The conservative plan to constrain the money supply leaves it in the control of the private banking system, where it further enriches the wealthy with our hard-earned tax money. Then conservatives make the rich even richer by cutting taxes on the wealthy, while breezily insisting that these cuts will pay for themselves. In what fantasy world are they living? Their policies create a mountain of debt, which will loom over people for generations to come. It's a monument to the destructive system of free-market capitalism.
7. With integrated balanced budgets, we realize the vision of democratic socialism. Together, we fund social safeguards and all the roles of government so that we can reach our potential as a society. The beauty of it is that we all pay in to fund the things we could never afford on our own—universal health care, a diplomatic corps, worker-owned business incubators, a space program, public wildlife preserves, and more. We have all the resources we need and the right priorities to achieve the best quality of life.
8. In democratic socialism, a portion of each year's budget is used for discretionary spending by cities and towns. The decision-making process is guided by community councils using participatory budgeting. The money is used to pay for the events and programs that make communities unique. We also use public banking at the local, state, and national levels to manage our tax dollars wisely. With our money used for the public good, it works for us and becomes the revenue stream we invest in our communities.

Liberal

Voice on the Federal Budget



The Federal
Budget

It's no mystery why Burger King bought out Tim Hortons and moved to Toronto. RBI recognized an opportunity to avoid paying corporate taxes. The fast-food giant continues to sell its burgers and fries in all fifty states, raking in massive profits using our country's modern infrastructure and educated workforce. It relies on our police and firefighters to protect its restaurants, and it uses roads, and courts to settle disputes. But RBI doesn't pay U.S. corporate taxes on the profits it earns doing business in our country. This story makes me furious because it's

not fair. Tax inversion and other forms of tax avoidance enable free riders. So why do firms keep doing it? Because we don't have enough government oversight to close the loopholes and enforce the rules. Rules are good for society. We don't let people into a movie theater without paying. We don't let homeowners skip out on their property taxes. But unfair laws combined with lax enforcement enable corporations to wriggle out of their tax responsibilities. Firms who do pay taxes end up feeling like suckers when they see their competitors pick up and move across the border and then continue to operate their businesses and compete here without paying their fair share. Fairness affects everyone. When government is deprived of tax revenue, we can't afford to fix our bridges, outfit our military, upgrade our electrical grids, or develop new cures for diseases. We can't afford to give a hand up to the poor with

job-training programs, food assistance, and preschool. Everything we need is easily funded without deficit spending, but only when the wealthy pay their fair share. We use the helpful hand of government to close the loopholes and legislate fair play. In this business-friendly environment, entrepreneurs launch new ventures and expand their businesses because government in fair-market capitalism stands up for equity, stability, and transparency with accountability. When the economy hits a bump in the road, government uses deficit spending and surplus repayment to put us back on a smooth course.

Let's consider the line of potential GDP in figure 18.23. We always want to balance the budget when the economy is growing at a steady rate. On the expenditure side, funding the expanded roles of government—equity, stability, and transparency with accountability—leads to a vital

economy that reaches potential because the public-private partnership creates the right conditions to guarantee opportunities for everyone to participate. On the revenue side, we use a tax structure in which all people pay according to their ability. Wealthy firms and individuals give back more to society because their success was built on the infrastructure we all bought together with our tax dollars—advanced telecommunications networks, cutting-edge public health programs, groundbreaking research and development, and all the other vital goods and services that our tax dollars fund. The line of potential GDP is what we aspire to realize, but we know we’re walking a tightrope. An unpredictable event such as a pandemic, an energy crisis, a destabilizing stock market boom, or anything else can throw the economy off course. Happily, we don’t have to worry. The government has the flexibility to respond to the needs of the economy in any situation and bring it back into balance. It does so by borrowing when the economy is below potential. Then it deficit spends to respond to the crisis—develop a new vaccine, for example, or give subsidies to

firms that took a hit, or expand unemployment benefits and job-training programs to help people stay solvent. The Federal Reserve may also step in and increase the money supply to help bring us back to potential. When the economy is above potential, a surplus results as the economy overheats. Taxes go up and government spending goes down because fewer people need assistance. In addition to these automatic cooling factors, the Fed can decrease the money supply. Now the economy slows down. Once again, we are back at potential. We’re fortunate to have an involved government and an independent central bank with a mandate to help keep the economy humming along at potential. The adaptability of fair-market capitalism allows society to meet its immediate needs and ensures that the society prospers today and will continue to do so in the future.

The first time I ran a marathon, I had a vague notion that the organizers would line part of the route with orange cones, and there would probably be an archway of balloons at the finish line. But I dramatically underestimated what goes into staging a marathon. The organizers had closed segments of the route to cars, set up portable bathrooms every two miles, printed T-shirts, and supplied us with timer chips that recorded our race time. They hired announcers, security crews, DJs, registration staff, volunteer coordinators, and medical personnel. When I had first registered, I’d grumbled a bit about how expensive it was, but now I was grateful to be the beneficiary of all this marvelous infrastructure. I took my place on the starting line, and the person to my left nudged me and said, “I didn’t bother to register, but there are so many people here, no one will notice.” At mile five, I watched him grab an orange slice from a volunteer. The marathon security crew noticed that he wasn’t wearing a race shirt and escorted him off the runners’ route. There’s time for contemplation while you’re running 26.2 miles, and

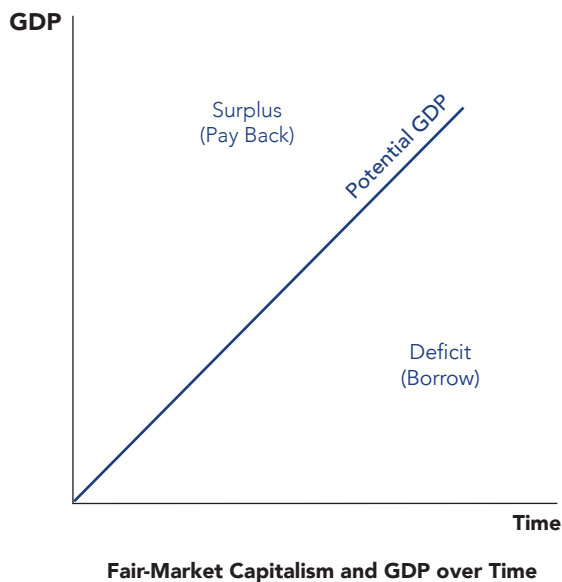


Figure 18.23
Liberal View: The Federal Budget

I found myself thinking about how the marathon organizers are a lot like our government. They anticipated what we would need to be safe and to succeed, provided security to keep people from breaking the rules, and kept us accountable by distributing timers so it would be clear who won the race. Like the government, they were clear about the rules and requirements of participating, and they were ready to protect us in case of unexpected events. They even ensured equity by offering sliding-scale fees, scholarships, and a special start time for wheelchair racers.

This is why I love government. It takes our tax dollars and spends them on our behalf to bring us the benefits of a modern society. When everyone contributes their fair share, and our institutions are set up responsibly, we can successfully fund our annual priorities. Each year looks different because we can't always account for the unexpected. We might be on target one year and then need extra funding the next year because of a crisis. And there are years when the economy does better than expected, and we have money left over. Taking the long view, deficits and surpluses balance out over time. Strategic spending and taxation policies meet the needs of society when the economy is on track, and when unexpected events occur, we can respond nimbly and stay debt-free.

Conservatives, your tax cuts for the top 1 percent and outrageous corporate tax breaks in the name of job creation are an outrage. While you

This is why I love government. It takes our tax dollars and spends them on our behalf to bring us the benefits of a modern society. When everyone contributes their fair share, and our institutions are set up responsibly, we can successfully fund our annual priorities.

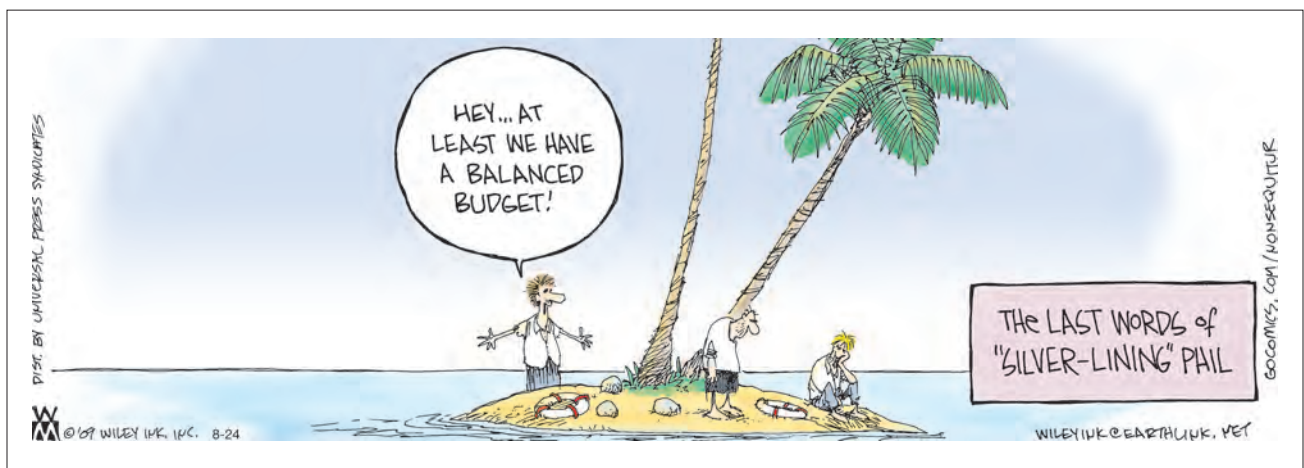
pander to your big campaign donors, the poor and middle class struggle to make ends meet because we can't adequately fund the goods and services society needs. Your handouts to the rich deprive the American people of decent schools, thriving communities, and assistance programs that give people a hand up so they can work hard and succeed. The idea that tax cuts pay for themselves would be hilarious if it wasn't so appallingly irresponsible. We end up with deficits and mounting national debt, with no hope of ever paying it back. Of course you conservatives want to limit

government. The tax loopholes stay open, there is no accountability, and the rich write the rules because you conservatives sell off government to the highest bidders. Instead of helping the hard-working poor and middle class succeed so they can rise and contribute more to society, you scold them and tell them to pull themselves up by their bootstraps. You call your spending cuts "starving the beast," but it's humans who go to bed hungry at night. During times of economic stress, your annual balanced budgets turn what should be inconsequential bumps in the road into crises because the government has no room to maneuver. When the economy sinks, it can't borrow to get the economy back on track, and it has nothing to spend to help firms and individuals get back on their feet. You want to get rid of the Fed, and one of your bad ideas is to leave the money supply in the hands of competing private currency owners. That is a recipe for complete chaos and

financial disaster. It will cost us jobs, businesses will fail, and the economy will tank. Your policies put the nation in peril. The national debt grows when government is forced to deficit spend after your tax cuts cripple it. Your policies make life meaner, harsher, and more brutal for hardworking poor and middle-class people, who take the hit from your annual balanced budgets and constrained money supply. Their descendants will continue to feel the pain for generations to come.

Radicals, your integrated balanced budgets are built on the premise that worker ownership generates enough wealth to pay the shockingly high price tag for all your social safeguards and everything else people get for free in democratic socialism. You have high-minded, but naïve and wrong-headed social commitments. The bug in your system is your unwillingness to accept that profit must be society's priority. The pursuit of profit in free-market capitalism lubricates the wheels of production and ensures that we have all the goods and services we need in the right amounts and at the right prices. It's fine to say that you put people and the planet first, but there's nothing for people to eat when nothing is produced. It's completely impractical to promise everyone a free income, free health care, and all the other freebies in demo-

cratic socialism, and then expect them to get up in the morning and be productive. There is no motivation to work hard when everything is handed to them by the government. No production means no tax revenues, so your integrated balanced budgets can't be funded. The government has to borrow. Year after year, the national debt grows more monstrous. As if that isn't scary enough, the government ends up with ultimate power over everyone's lives. It decides who gets the health care, housing, food, transportation, and everything else people must have to survive. This is why democratic socialism inevitably leads to totalitarianism. Public banks are also designed to fail because the worker-owned firms that manage them want to keep their government contracts, so they make whatever loans the powerful members of the public banking council request. *Bribes, special favors, and preferential treatment* become synonyms for public banking. Resources end up distributed to the most powerful players rather than to investments that bring society the highest returns. Radicals, without the sensible profit focus of fair-market capitalism and the steady hand of a government led by expert decision-makers, your society is a bankrupt free-for-all. Read between the lines of your integrated balanced budget: annual borrowing is the only



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option to fund it. With each passing year, the debt grows more unsustainable in democratic socialism.

We should strengthen the current policy of adaptable balanced budgets and a flexible money supply to ensure financial freedom to invest in our future. In fair-market capitalism, everyone pays their fair share, and everyone has equal opportunities to succeed. “Fair share” means progressive taxes that require the wealthiest to pay the highest tax rates. Redistributing resources this way benefits people at every income level because government not only provides national security, infrastructure, and a justice system, it also gives us humane and efficient programs and agencies that ensure stability, equity, and transparency with accountability. The helpful hand of government enables people to become contributing members of society, which is an investment that pays back dividends by growing the economy. We all benefit from a government that can adapt to the needs of the moment. For example, when times are tough, it borrows money to deficit spend. That spending multiplies across society. The teacher gets a raise and buys new eyeglasses. The optometrist hires a new assistant, who orders new shoes online, and the

online company buys new packaging materials. Firms crowd in to take advantage of the demand created by deficit spending. When the economy booms, the U.S. Treasury pays back the national debt. With adaptable balanced budgets, no one has to lose sleep every time there’s overexuberance in the stock market or a bad hurricane season. We expand the helpful hand of government so we don’t have to worry. It makes sure our economy hums along. The Federal Reserve is like the wingman for the Treasury. It’s independent but uses a flexible money supply to help fly the plane in the same direction. It accommodates government spending in a crisis by buying government securities on the secondary market. That puts more money into circulation. It cools off an overheated economy by selling securities back to the public. That pulls money out of circulation. By cooling off and warming up the economy as needed, the Fed sensibly keeps our financial house in order. The economy reaches potential, and we all prosper. With adaptable balanced budgets, government delivers the goods and services we want and need, the economy lives up to its full potential, and future generations are set up to succeed.

Liberal

Fair-Market Capitalism



The Federal Budget

BIG PICTURE

Strategic spending and taxation policies meet the needs of society when the economy is on track, and when unexpected events occur, we can respond nimbly and stay debt-free.

POLICY POSITION

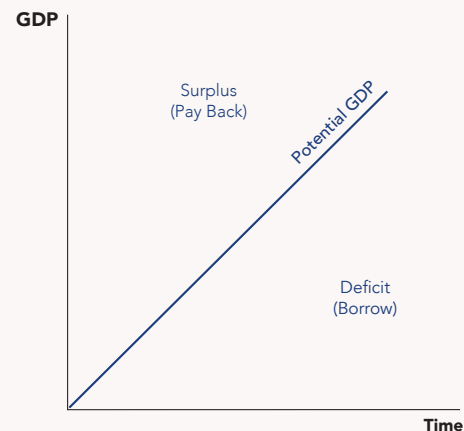
Irresponsible budgeting and money management are problems, but . . .

- ▶ Conservative policies create deficits and debt by cutting taxes on the rich, abandon the most vulnerable, fail us during crises, and crush growth.
- ▶ Radical policies can't pay for society's commitments, lead to insurmountable debt, invite totalitarianism, and lock us into an easily corruptible banking system.

SOLUTION

Strengthen adaptable balanced budgets and a flexible money supply to ensure financial freedom to invest in our future:

- We deficit spend responsibly and then pay it back.
- The independence of the Federal Reserve is maintained.



Fair-Market Capitalism and GDP over Time


- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

The Federal Budget Talking Points: Liberal

1. The helpful hand of government collects everyone's tax dollars and spends them on our behalf to bring us the benefits of a modern society. We can afford to fix our bridges, outfit our military, upgrade our electrical grids, and develop new cures for diseases. We can afford to create opportunities, job-training programs, food assistance, and preschool. In fair-market capitalism, government makes sure that everyone plays by the rules and contributes their fair share so that all have a chance to flourish.
2. We aspire to realize our potential as a nation, but we know we're walking a tightrope. An unpredictable event such as a pandemic, energy crisis, destabilizing stock market boom, or anything else can throw the economy off course. Happily, we don't have to worry. Government has the flexibility and the expertise to respond to the needs of the economy. It strategically uses the federal budget to put the economy back on track.
3. Conservatives, your tax cuts to the top 1 percent and outrageous corporate tax breaks in the name of job creation are just blatant pandering to big campaign donors. Your handouts to the rich deprive the American people of the revenue we need to succeed as a society. The idea that tax cuts pay for themselves is laughable. You won't even raise enough revenue to fund the three roles of government you tolerate. Your plan ensures deficits and growing debt, with no hope of ever paying it back.
4. Instead of helping the hardworking poor and middle class succeed so they can rise and contribute more to society, conservatives scold them and tell them to pull themselves up by their bootstraps. They call their spending cuts "starving the beast," but it's humans who go to bed hungry at night. During times of economic stress, their annual balanced budgets and constrained money supply turn what should be small bumps into ballooning crises. They make life meaner, harsher, and more brutal for hardworking people.
5. Radicals, there's no motivation to work hard when everything is handed to you by the government. No production means no tax revenues, so your integrated balanced budgets can't be funded. The government has to borrow. Year after year, the national debt grows more monstrous. Because not enough is produced, the government ends up deciding who gets the food, health care, housing, and everything else we need to survive. Democratic socialism inevitably leads to totalitarianism.
6. Public banking in democratic socialism is a bad idea. Worker-owned firms have government contracts to operate public banks, but their main motivation is getting their contracts renewed. It leads to bribery, special favors, and preferential treatment. Resources go to the most powerful players rather than to investments that bring the highest returns to society. Without the sensible profit focus of fair-market capitalism and a government led by expert decision-makers, society becomes a bankrupt free-for-all.
7. We all benefit from a government that is nimble and can adapt to the needs of the moment. When times are tough, it deficit spends, and the benefits multiply across society. When the economy booms, it pays back the outstanding debt. With adaptable balanced budgets, no one has to lose sleep every time there's overexuberance in the stock market or a bad hurricane season. We expand the helpful hand of government, and we get a debt-free, balanced, healthy economy.
8. The Federal Reserve is like the wingman for the Treasury. It's independent but uses a flexible money supply to help fly the plane in the same direction. It accommodates government spending in a crisis by buying government securities on the secondary market. That puts more money into circulation. It cools off an overheated economy by selling securities back to the public. That pulls money out of circulation. By cooling off and warming up the economy as needed, the Fed sensibly keeps our financial house in order.

The Shared Outcome

Every year, like clockwork, the new federal budget comes up for debate, and lawmakers from each perspective argue that their policies are the ones that responsibly budget and manage the nation's money. If you're a glass-half-empty person, you'll see this issue as a continual drag of fights and compromises. But if you're a glass-half-full person—and I hope you are—you'll realize

it's our annual opportunity to plan for the future we want. Whatever we put in the revenue and expenditure columns makes those priorities a reality. That's amazing, if you think about it. We're in control of our nation's future. By understanding the ideas of liberals, radicals, and conservatives, you can add your voices to the conversation and help shape that future. And your new ideas could be the urgent solutions we're waiting for! 



Three-in-One Activity

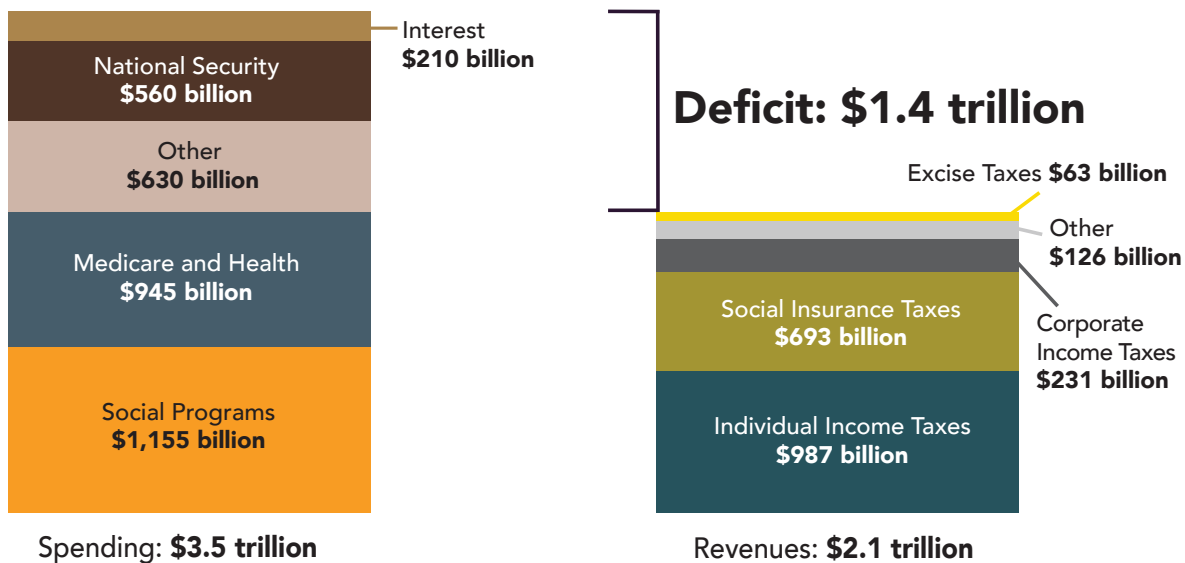
The Three-in-One Activity for the Federal Budget gives you an opportunity to experience for yourself how each perspective solves the problem by using their respective policies. We begin with a setup round to establish the scenario in a neutral way. This activity works best with a group of people (ideally six). If you don't have a group, use your imagination as best you can.



“Reduce-the-Deficit Challenge”

Passing a federal budget every year requires a lot of negotiation and compromise. In this activity, you and your group are lawmakers who are tasked with creating an annual budget. You are given an annual budget proposal that calls for expenditures of \$3.5 trillion and revenues of \$2.1 trillion. Since spending is greater than revenues, there is a deficit of \$1.4 trillion. People from every perspective are concerned that deficit spending will add to the national debt, which is currently (in this scenario) \$11.9 trillion. In each round of this activity, your group's task is to cut \$400 billion from the federal budget.

Annual Budget Proposal



National Debt: \$11.9 trillion

Round 1: Neutral

Here is the setup for this activity. Assume that each policy in the table below leads to spending cuts of \$100 billion. By agreeing to *four* policies, your group successfully reduces the deficit by \$400 billion.

- ➊ Read the list of ten policies.
- ➋ Working independently and without discussion, choose *four* that you think are best for cutting \$400 billion from the budget. Write **Y** for *yes* on the line next to those four. On the remaining policies, write **N** for *no*.
- ➌ After everyone in the group votes, compare your answers. If a majority agrees on four policies, congratulations! Your group successfully reduced the deficit by \$400 billion.
- ➍ If there is no majority agreement on four policies, it's time to negotiate. Try to persuade other group members to change their votes, and be open-minded to their attempts to persuade you to change yours. Remember that you can have only *four yes* votes, so if you change one of your votes to *yes*, you have to change a *yes* vote to a *no*.
- ➎ After trying to negotiate, if you still can't agree to four policies to cut the deficit, you're at an impasse.

POLICY	Y/N
1. Close tax loopholes for individuals and corporations.	
2. Replace Social Security with private retirement accounts.	
3. Raise taxes for privately owned corporations.	
4. Create a single-payer health-care system.	
5. Eliminate all government-imposed trade barriers.	
6. Regulate the private banking industry.	
7. Require all firms to be worker-owned.	
8. Eliminate capital gains taxes.	
9. Use a minimum wage to combat poverty.	
10. Authorize community councils to set standards for product safety.	

Conclusion: *When people don't share the same economic perspectives, they have different priorities. Finding agreement is exceedingly difficult. This is what Congress experiences every year. It is difficult to reach a majority agreement when people approach the federal budget in such divergent ways. In a negotiation, it's important to use respectful listening, passionate advocacy, and intelligent debate. Only then will you understand the logic of opposing ideas and not preemptively dismiss good ones because they come from a different camp. Remember that even if you have different priorities, every perspective shares the same goal of financial freedom to invest in our future.*



Round II: Conservative Perspective

For this round, you and your group are conservatives.

- 1 Working independently and without discussion, choose *four* policies (no more and no less) that you think are best from the conservative perspective.
- 2 Write **Y** for *yes* on the line next to those four. On the remaining policies, write **N** for *no* or **NA** for *not applicable*. Since the economic system is capitalism, use **NA** if the policy is only applicable in democratic socialism.
- 3 In the column labeled *Impact*, write “–\$100 billion” for each *yes* answer. The total deficit reduction should equal \$400 billion.
- 4 Compare your answers. If the majority of group members don’t agree on the same four *yes* policies, discuss the policies in dispute from the conservative perspective. Then vote again. Keep discussing and revoting until a majority agree.

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.		
2. Replace Social Security with private retirement accounts.		
3. Raise taxes for privately owned corporations.		
4. Create a single-payer health-care system.		
5. Eliminate all government-imposed trade barriers.		
6. Regulate the private banking industry.		
7. Require all firms to be worker-owned.		
8. Eliminate capital gains taxes.		
9. Use a minimum wage to combat poverty.		
10. Empower community councils to set standards for product safety.		

Answer:

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.	Y	-\$100
2. Replace Social Security with private retirement accounts.	Y	-\$100
3. Raise taxes for privately owned corporations.	N	
4. Create a single-payer health-care system.	NA	
5. Eliminate all government-imposed trade barriers.	Y	-\$100
6. Regulate the private banking industry.	N	
7. Require all firms to be worker-owned.	NA	
8. Eliminate capital gains taxes.	Y	-\$100
9. Use a minimum wage to combat poverty.	N	
10. Empower community councils to set standards for product safety.	NA	
Total Reduction		\$400B

Explanation: Since you all share the conservative perspective, your group successfully reduces the deficit by \$400 billion. Conservatives don't want clauses in the tax code that were mistakes, so you vote Yes on number 1. You also vote Yes on numbers 2, 5, and 8 because conservatives believe that individuals and firms are more efficient than big government. Cutting taxes and limiting government grow the economy and save taxpayer dollars.

Conclusion: Conservatives say their free-market approach, expanded beyond these four policies, eliminates the entire deficit. In the future, there won't be any deficits because we will have annual balanced budgets. The size of the national debt will go down relative to our increasingly robust GDP, so paying it off will not be a burden. Conservatives say the invisible hand of price signals in free-market capitalism gives us the financial freedom to invest in the future.



Round III: Radical Perspective

For this round, you and your group are radicals.

- 1 Working independently and without discussion, choose *four* policies (no more and no less) that you think are best from the radical perspective.
- 2 Write **Y** for *yes* on the line next to those four. On the remaining policies, write **N** for *no* or **NA** for *not applicable*. Since the economic system is democratic socialism, use **NA** if the policy is only applicable in capitalism.
- 3 In the column labeled *Impact*, write “–\$100 billion” for each *yes* answer. The total deficit reduction should equal \$400 billion.
- 4 Compare your answers. If the majority of group members don’t agree on the same four *yes* policies, discuss the policies in dispute from the radical perspective. Then vote again. Keep discussing and revoting until a majority agree.

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.		
2. Replace Social Security with private retirement accounts.		
3. Raise taxes for privately owned corporations.		
4. Create a single-payer health-care system.		
5. Eliminate all government-imposed trade barriers.		
6. Regulate the private banking industry.		
7. Require all firms to be worker-owned.		
8. Eliminate capital gains taxes.		
9. Use a minimum wage to combat poverty.		
10. Empower community councils to set standards for product safety.		

Answer:

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.	Y	-\$100
2. Replace Social Security with private retirement accounts.	NA	
3. Raise taxes for privately owned corporations.	NA	
4. Create a single-payer health-care system.	Y	-\$100
5. Eliminate all government-imposed trade barriers.	N	
6. Regulate the private banking industry.	NA	
7. Require all firms to be worker-owned.	Y	-\$100
8. Eliminate capital gains taxes.	N	
9. Use a minimum wage to combat poverty.	N	
10. Empower community councils to set standards for product safety.	Y	-\$100
Total Reduction		\$400B

Explanation: Since you all share the radical perspective, your group successfully reduces the deficit by \$400 billion. Radicals don't want clauses in the tax code that were mistakes, so you vote Yes on number 1. You also vote Yes on numbers 4, 7, and 10, because radicals believe that individuals and firms are most efficient when they cooperate and use resources for the common good. Social safeguards, worker-ownership, and community councils grow the economy and save taxpayer dollars.

Conclusion: Radicals say democratic socialism, expanded beyond these four policies, eliminates the entire deficit. In the future, there won't be any deficits because we will have integrated balanced budgets. The size of the national debt will go down relative to our increasingly robust economic development, so paying it off will not be a burden. Radicals say the invisible synergy of democratic socialism gives us the financial freedom to invest in the future.



Round IV: Liberal Perspective

For this round, you and your group are liberals.

- 1 Working independently and without discussion, choose *four* policies (no more and no less) that you think are best from the liberal perspective.
- 2 Write **Y** for *yes* on the line next to those four. On the remaining policies, write **N** for *no* or **NA** for *not applicable*. Since the economic system is capitalism, use **NA** if the policy is only applicable in democratic socialism.
- 3 In the column labeled *Impact*, write “–\$100 billion” for each *yes* answer. The total deficit reduction should equal \$400 billion.
- 4 Compare your answers. If the majority of group members don’t agree on the same four *yes* policies, discuss the policies in dispute from the liberal perspective. Then vote again. Keep discussing and revoting until a majority agree.

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.		
2. Replace Social Security with private retirement accounts.		
3. Raise taxes for privately owned corporations.		
4. Create a single-payer health-care system.		
5. Eliminate all government-imposed trade barriers.		
6. Regulate the private banking industry.		
7. Require all firms to be worker-owned.		
8. Eliminate capital gains taxes.		
9. Use a minimum wage to combat poverty.		
10. Empower community councils to set standards for product safety.		

Answer:

POLICY	Y/N/NA	IMPACT
1. Close tax loopholes for individuals and corporations.	Y	-\$100
2. Replace Social Security with private retirement accounts.	N	
3. Raise taxes for privately owned corporations.	Y	-\$100
4. Create a single-payer health-care system.	NA	
5. Eliminate all government-imposed trade barriers.	N	
6. Regulate the private banking industry.	Y	-\$100
7. Require all firms to be worker-owned.	NA	
8. Eliminate capital gains taxes.	N	
9. Use a minimum wage to combat poverty.	Y	-\$100
10. Empower community councils to set standards for product safety.	NA	
Total Reduction		\$400B

Explanation: Since you all share the liberal perspective, your group successfully reduces the deficit by \$400 billion. Liberals don't want clauses in the tax code that were mistakes, so you vote Yes on number 1. You also vote Yes on numbers 3, 6, and 9, because liberals believe production is more efficient with the public-private partnership. Progressive taxes that fund assistance programs along with government regulations that create stability, equity, and transparency with accountability grow the economy and save taxpayer dollars.

Conclusion: Liberals say fair-market capitalism, expanded beyond these four policies, eliminates the entire deficit. In the future, there won't be any deficits because we will have adaptable balanced budgets. The size of the national debt will go down relative to our growing GDP, so paying it off will not be a burden. Liberals say the helpful hand of government in fair-market capitalism gives us the financial freedom to invest in the future.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on the Federal Budget. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 18: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.

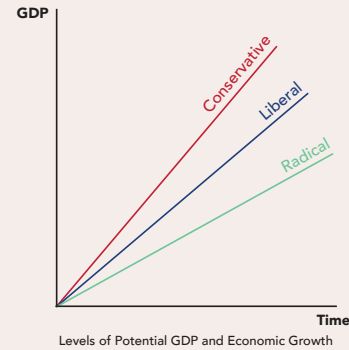


1. The federal budget focuses on a nation's _____, and a balanced budget means that budget surpluses and deficits are _____.
 - A. hopes and aspirations; greater than 1 but less than 1,000
 - B. money; mediums of exchange
 - C. budget surpluses and deficits; unequal
 - D. expenditures and revenues; nonexistent

2. A country is carrying a national debt of \$45 billion. This year, expenditures will be \$12 billion, and tax revenue will be \$14 billion. Which one of the following statements is true?
 - A. There will be a budget surplus of \$2 billion, and the national debt will grow to \$47 billion.
 - B. There will be a budget surplus of \$2 billion, and the national debt will shrink to \$43 billion.
 - C. There will be a budget deficit of \$2 billion, and the national debt will grow to \$47 billion.
 - D. There will be a budget deficit of \$2 billion, and the national debt will shrink to \$43 billion.

3. Which one of the following answers explains why the lines of potential GDP differ depending on the perspective?

- A. The role of government is the same regardless of perspective, so economic growth as measured by potential GDP depends solely on the quantity of natural resources.
- B. Each perspective claims it is responsible for the historic “hockey stick” of human prosperity.
- C. The appropriate roles of government ultimately determine the potential GDP of a nation and are the key to material well-being.
- D. The nation’s well-being is best assured by the conservative idea to have expansive roles of government, followed by the liberal idea to have moderate roles of government, and then the radical idea to have limited roles of government.



4. Which one of the answers below articulates a main difference between conservatives and liberals on the subject of the Federal Reserve?

- A. Conservatives want the Federal Reserve to change the supply of money as needed, while liberals want either a steady rate of growth for the money supply or a return to the gold standard.
- B. As conventional theorists, both liberals and conservatives want to strengthen the Federal Reserve so that it can continue its current activities.
- C. Liberals want the Federal Reserve either to expand or shrink the money supply to meet the needs of the moment, while conservatives want to constrain the money supply so that it doesn’t interfere with price signals.
- D. Neither liberals nor conservatives support the Federal Reserve. Liberals believe that it creates unfair opportunities. Conservatives believe that it takes away the motivation to work hard.

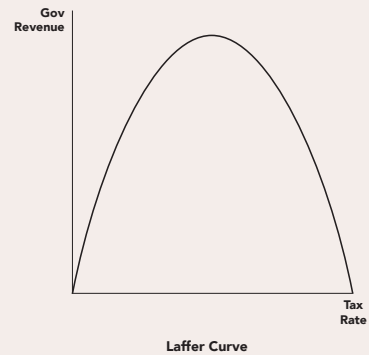
5. From the radical perspective, why is unsustainable growth in capitalism bad for society? Choose all that apply.

- A. Firms focus solely on long-term gains.
- B. Firms continually expand, regardless of the costs to people and the planet.
- C. Firms burden future generations with the consequences of today’s actions.
- D. The owners of firms are immoral and don’t care about exploding national debt.

6. Identify the reason(s) that some use to explain why the national debt hurts the economy. Choose all that apply.

- A. We borrow from foreign governments, firms, and individuals.
- B. Interest rates could rise.
- C. A big percentage of the national debt is money that one part of the government owes to another part of the government.
- D. The portion of the national debt that is owed to the public is a relatively small percentage of GDP.

7. The Laffer curve shows the conservative perspective on how to generate enough revenue to fund the necessary roles of government. Choose the explanation that best describes the graph.



- A. When tax rates are lowered to a certain point, the economy grows and government revenue increases.
 - B. When tax rates are increased, government revenue increases as GDP grows.
 - C. When tax rates are left alone, the invisible hand guides us to the perfect level of government revenue.
 - D. When tax rates are lowered to zero, there is enough revenue to fund the necessary roles of government.
8. Which answers below describe integrated balanced budgets and public banking in democratic socialism? Choose all that apply.
- A. Government spending is funded only by the wealthy, not the poor or middle class.
 - B. Tax revenues are used, in part, to fund social safeguards, organize community councils, ensure accountability of firms, and fund a justice system.
 - C. A portion of annual tax revenue is set aside for local projects.
 - D. Taxes are deposited in for-profit banks that use the money for the betterment of the community.
9. In times of economic crisis, people and firms need government assistance, so liberals deficit spend. When the economy heats up and a surplus is generated, liberals pay down the national debt. Putting these together, we get the policy of _____.
- A. integrated balanced budgets
 - B. adaptable balanced budgets
 - C. annual balanced budgets
 - D. government balanced budgets
10. Match the statement (left column) to its theoretical perspective (right column).
- | | |
|--|------------------------------|
| A. Debt is a direct result of our unwillingness to default on our loans, which we should do. | i. Conservative |
| B. Debt is a direct result of the drive for profits and competition between owners of capital. | ii. Radical |
| C. Debt is a direct result of tax cuts for the wealthy. | iii. Liberal |
| D. Debt is a direct result of government spending. | iv. None of the perspectives |

Answers

1. D 2. B 3. C 4. C 5. B & C 6. A & B 7. A 8. B & C 9. B 10. A – iv, B – ii, C – iii, D – i

Chapter 18: Key Terms

Adaptable balanced budgets

Aggregate demand (AD)

Aggregate supply (AS)

Aggregate supply–aggregate demand (AS–AD) graph

Annual balanced budgets

Audit

Austerity policies

Austrian school

Balanced budget

Barter

Budget deficit

Budget reconciliation

Budget resolutions

Budget sequestration

Budget surplus

Collateral

Compound interest

Continuing resolution

Credit limit

Credit score

Crowd in

Crowd out

Cryptocurrency

Debt ceiling

Default

Depreciation

Discretionary spending

Dual mandate

Earmarks

Economic growth

Expenditures

Extraordinary measures

Federal budget

Federal Reserve System (the Fed)

Fiat currency

Filibuster

Fiscal

Fiscal cliff

Fiscal year (FY)

Full employment (FE) GDP

Functions of money

- Medium of exchange
- Store of value
- Unit of account

Furloughed

GDP per capita

Gold standard

Government securities

Government shutdown

Incorporate

Insolvency

Integrated balanced budgets

Interest

Intragovernmental debt

Laffer curve

Mandatory spending

Matures

Modern monetary theory (MMT)

Monetarists

Monetizing the debt

Money

Money supply

National debt

Omnibus spending bill

Participatory budgeting

Potential GDP

Principal

Public banking

Public debt

Public goods

- Nonexcludable
- Nonrivalrous

Real economy

Revenues

Service the debt

Simple interest

Standard deduction

Sunset provisions

Supermajority

Sustainable development

Tax avoidance

Tax deductions

Tax evasion

Tax havens

Tax inversion

Tax loophole

Tax return

Tax shelters

Treasury

Unfunded liabilities

Unsustainable growth

Answer Key to Exercise 18.1

"Have you heard? Our biggest rival paid zero taxes this year after it merged with a company overseas. This **tax inversion** gives them a competitive advantage over us."

"I know, right? They don't pay **corporate taxes**, but they get to do business here. That's not right."

"I agree, but it's still legal. Did you read about that CEO who went to the Cayman Islands, supposedly for a scuba vacation? Everyone knows that country is a **tax haven**."

"I read a report based on data from the **Internal Revenue Service** that said a record number of companies did the same thing last year. "

"Well, Congress ought to do something about it. Do you know how much we pay our accountants to work day and night to come up with **tax avoidance** strategies so that our firm can stay competitive? I wish we could use that money for more worker benefits!"

"I agree that we should close **tax loopholes**, but I don't see anything wrong with legally lowering our taxes. It's smart. If I had a fortune, I would leave everything in a **trust fund** so that my kids wouldn't pay a dime in estate taxes."

"I'm not sure I would, but I do like that government allows **tax deductions** that motivate people to give more through philanthropy. I always write off my contributions to the local food bank."

"We might disagree about taxes, but I don't know anyone who wants cheaters to get away with it. Even though **tax evasion** is illegal, a lot of firms and individuals never get caught, and that's got to stop."



19 Issue: INTERNATIONAL TRADE

Have you ever looked around and wondered, “Why are humans in charge of this planet?” It’s not because we have the biggest brains. Sperm whales have the biggest brains. It’s not because we have the biggest hearts. Blue whales have the biggest hearts. So why aren’t whales running the show, or lions, or chimpanzees? Historian Yuval Noah Harari considers this question in his book *Sapiens: A Brief History of Humankind*. “If you place me and a chimpanzee together on a lone island to see who survives better, I would definitely place my bets on the chimp,” he writes. But unlike chimpanzees or any other animals or insects, humans are able to “cooperate flexibly in large numbers.” Ants and bees cooperate only with close relatives and in a highly rigid way, says Harari. Wolves and chimpanzees are more flexible, but they cooperate only in small numbers, and only with those whom they already know well. In contrast, we humans

are able to cooperate with billions of people we’ve never even met. If you put one hundred thousand chimps in Yankee Stadium, you’ll get chaos, writes Harari. But if you put one hundred thousand humans there, you’ll get sports contests.

Although much of human history is the story of our conflicts with one another, we are also incredibly good at cooperating. A primary example of human cooperation is **trade**, which is the exchange of one thing for another. Trading is a concept even young children understand. You can hear this in any school cafeteria in the country: “I’ll trade you my apple for your cookies!” When I was a child, I constantly negotiated complicated

trades with my siblings. “If you let me go ice skating with you and your friends tomorrow, I’ll do your chores on Sunday.” When my offer was rejected, I would try to sweeten the deal by thinking of something I had that they wanted. “I’ll also let you borrow my new sweater,” or “I’ll pay you.”



Trade may involve a direct exchange of goods and services, or it may be an exchange of money for goods and services (buying and selling is called *commerce*). It can also be a promise of money, goods, or services at a later time (an IOU). Imagine how difficult and inconvenient your life would be without trade. You'd have to grow all your own food, build your own computer, and weave your own cloth and sew it into clothing. Instead, you can trade for your sandwich, electronics, and T-shirts. We primarily trade using money as the medium of exchange, but it's also possible to leave money out of the transaction and **barter**, which is directly trading goods and services. For example, I'll trade you my telescope for your concert ticket.

I want to tell you a remarkable story about barter trading. It sounds unbelievable, but it really happened. Canadian blogger Kyle MacDonald was inspired by a game from his childhood called Bigger, Better. You start with a small item and then trade it for something more valuable, and then trade the next thing for something even more valuable, and so on until the game ends. MacDonald decided to try it in real life. He wondered what bigger and better thing he could end up with if he started with a red paperclip. A pair of skis? A lifetime pass to a theme park? He decided he wanted to trade up to a house. I realize how ridiculous that sounds. A paperclip is worth pennies, and even a tiny house is worth at least tens of thousands of dollars.



On July 14, 2005, MacDonald made his first trade. He bartered his red paperclip for a pen shaped like a fish. Then he turned around and traded the pen for a doorknob that was hand sculpted with a somewhat creepy face. He traded the doorknob for a Coleman camping stove, including fuel. He traded the stove and fuel for a

generator. He traded the generator for an “instant party,” which consisted of a neon Budweiser sign, an empty keg, and a promise to fill the keg with any kind of beer. He traded the instant party for a snowmobile, and then he traded the snowmobile for a trip for two to the Canadian Rockies. He traded the trip for a cube van (a boxy-looking truck), and then he traded the van for time in a recording studio. He traded the studio time for a one-year home rental in Phoenix, Arizona, which he then turned around and traded for an afternoon with rock star Alice Cooper. He traded that opportunity for a motorized KISS snow globe (KISS was a famous rock band in the 1970s, and the snow globe was a collector's item).

He traded the snow globe for a part in the movie *Donna on Demand* (a thriller). Fourteen months after he traded away his red paperclip, Kyle MacDonald traded the movie role for a two-story farmhouse in Saskatchewan, Canada. This really happened. He traded up from a paperclip to a house!

You might be thinking this was just a fluke, or that MacDonald only succeeded because he garnered a lot of publicity at the time. That may have helped, but there are many stories of people who

made impossible-sounding trades. A graduate course at Yale University's School of Management challenged students to hone their art of persuasion by trading up from a \$5 gift card to a local bistro. They went out in teams of two to start trading. One week and a handful of trades later, one team managed to trade up from the gift card to a seven-year-old Volkswagen Passat.

Why would someone trade away a farmhouse or a car? There is an old saying: "One person's trash is another person's treasure." I've known people who were willing to trade valuable artwork, jewelry, and vacation packages because they no longer wanted or needed them. They were happy to swap them for something else. When we trade voluntarily, it is always mutually beneficial. You get what you want, and I get what I want. If that weren't true, there would be no reason to make the trade, and the deal would naturally fall through. Involuntary trade is a different story. In certain situations, individuals, groups, and countries are coerced into making a trade even though it isn't to their benefit. Think of a bully forcing you to trade your place at the front of the line for their place at the back.

International trade is the buying and selling of goods and services across national borders. Every day, all day long, people around the world trade with one another for consumer goods and services, capital goods (the machines and technology used to produce things), and raw materials (inputs of production). **Imports** are goods and services produced in foreign countries and sold in our country. **Exports** are goods and services

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produced domestically and sold in other countries. When you buy ramen noodles made in Japan, hire a web designer in India, or sell blueberries to Sweden, you are participating in international trade. When you buy an apartment in a foreign city, or your firm makes a payment—buys land or a permit—to open a business in another country, that's international trade. When our government pays another country to process our recyclable materials, or when Brazil-

ians travel to Utah for a ski vacation, that is also international trade.

Pause for a moment and think about the last trade you made. It might have been with the cashier at the convenience store when you exchanged cash for a pack of gum, with an airline when you exchanged your credit card number for an airplane ticket, with your sister when you paid your share of the rent, or with a colleague when you traded a late shift for New Year's Day off. Even though it was voluntary, did you feel pleased about the trade? Did you regret that you didn't negotiate a better deal for yourself? Did you feel vaguely guilty that you didn't give the other person a break? Trading is emotional. Some people find it positively exhilarating, while others try to get it over with as quickly as possible. Some even hire others to negotiate on their behalf. Trade relationships break down when people believe they are on the bad end of a deal and walk away from the table.

Negotiations can become fraught in any context, but with international trade, potential obstacles arise because of different cultures, backgrounds,

languages, faiths, histories, political systems, belief systems, assumptions about foreigners, and more. Any one of these factors can cause trade deals to fail. Yet, of all the issues we explore in the VOTE Program, international trade is the most hopeful for humanity. We meet in the global marketplace and bring our best efforts to the world stage. We offer one another our latest innovations, food, music, medicine, poetry, natural resources, and everything else. Through trading goods, services, and inspiring ideas, we give strangers on the other side of the planet the chance to improve their quality of life. They do the same for us. From every perspective, international trade can be extremely beneficial. Liberals, conservatives, and radicals all agree that society loses out when trade relationships break down, and they share the same goal of having a higher standard of living through international trade. But they have very different ideas about how trade among nations should be structured to achieve that goal.

You and the World

Have you ever wondered what percentage of your material life would be completely unrecognizable if our country didn't engage in international trade? I've posed this question to my students and heard answers ranging from 20 percent to 90 percent. I don't know the actual number, but I do know that you would not recognize your material life if the United States didn't trade with foreign countries. To help you consider the effect of international trade on your personal life, try the following exercise.

First, randomly choose five things you interacted with today. It could be the coffee you had for breakfast, the sweatpants you're wearing, the scooter you rode to work or school, the device you're using to read this, and so on. List your five items in the first column on the table below. In the second column, write the brand name of each. Then go online and do a quick search of each company to find out in which country its

RANDOM ITEM	BRAND NAME	FIRM'S HEADQUARTERS	USEFULNESS TO ME
EXAMPLE: Refrigerator	LG Electronics	South Korea	Keeps my food cold and fresh.
1.			
2.			
3.			
4.			
5.			

headquarters are located. Write those country names in the third column. Finally, reflect on the item's usefulness to you (how it makes your life better) and jot down a few words about that in the fourth column.

Were items you use in your daily life made by foreign firms? What percentage were produced by domestic firms? I vividly remember the first time I did this exercise. My first item was a Bic pen. I've been writing with them for my whole life, yet I never realized they are made in Hauts-de-Seine, France. In college, my friends loved (and some lived on) Nutella, a chocolate-hazelnut spread. I had no idea it was imported from Italy. The Levi's jeans I'm wearing right now were made in Sri Lanka. My point is that if we suddenly stopped having international trade, our material lives would look very different. Whether it's our appliances, transportation, food, cell phones, computer programs, clothes, shoes, soap, or anything else, we rely heavily on imports for our quality of life.

It might seem obvious, but it's worth mentioning that money is incredibly useful in international trade because it allows trading partners to buy and sell products even when there is no one-to-one match of supply and demand of a certain product (economists call this a *mutual coincidence of wants*). Thanks to money, Egypt doesn't have to find a country that wants to trade salmon for Egyptian cement. Using money, it can buy salmon from Norway and sell its cement to Algeria. But international trade is complicated by the fact that countries use different currencies. The United States uses dollars, Egypt uses pounds, Norway uses krone, China uses yuan, and so on. To buy salmon from Norway, Egyptians exchange their pounds for krone. The **exchange rate** is the price of one country's currency in terms of another country's currency. Exchange rates constantly fluctuate. If you go to a bank to buy pesos for your backpacking trip to Chile, the exchange rate will be updated every minute.



Currency exchange rates are closely linked to international trade. They change depending on the flow of money in and out of a country and the demand for that currency. For example, when a bakery firm in the United States buys butter from France, it exchanges U.S. dollars for euros to pay for it. In the currency market, demand for euros goes up and supply of dollars goes up, and this causes the euro to become more expensive to holders of US dollars. This is called an appreciation of the value of the euro relative to the dollar. The role that currency exchange rates plays in international trade is one part of a fascinating area of study in economics called **international finance**.

Globalization

Since the 1970s, markets have become more integrated and interdependent across national borders than ever before. This is known as **globalization**. An example of globalization is the blue blanket on your bed. It was made from cotton grown in Egypt, woven into cloth in India, dyed blue at a factory in Guatemala, sewn into a blanket in Pakistan, bought by a wholesaler in Canada, shipped to North America by a Chinese firm, and then bought by a retail chain headquartered in Ohio, which sold it to you at a store in your town. The complexity of global **supply chains** can make your head spin. These are the behind-the-scenes activities, systems, and information that are used to bring goods and services to consumers. Globalization has turned commerce into a vast enterprise, with a dizzying number of moving parts involving not only consumers and firms but also governments and nongovernmental organizations. But the word *globalization* is not neutral. Depending on one's economic perspective, it signifies a potential threat to local populations and the environment, an exciting and advantageous development, or opportunities that must be carefully negotiated and navigated to



benefit the world. No matter how you feel about globalization, living in a **global economy** means our domestic economic activity—our consumption, production, and distribution of goods and services—is linked to the economic activity of other countries.

The biggest players in the global economy are **multinational corporations**, which are firms that own or control the production of goods and services in at least one other country outside the nation where they have their headquarters. For example, the U.S. coffee giant Starbucks, which operated 15,328 locations in the United States in 2020, also produced coffee drinks in eighty-two other countries. Private multinational corporations are common in capitalism. Although they can be organized in a variety of ways, typically the parent firm oversees foreign affiliate, subsidiary, or daughter firms. Big multinational corporations have division headquarters in the countries

where they do business. For example, the Japanese electronics firm Sony Group Corporation has an American subsidiary based in New York, called Sony Corporation of America, which runs the firm's U.S. operations. In democratic socialism, **multinational cooperatives** operate as a federation of local worker-owned firms in different countries. They coordinate their commerce around the world to compete in global markets. Although the cooperative headquarters are located in one country, the worker-owners from each of the member firms around the world have an equal vote on its policies and activities.

From the Silk Road to the World Trade Organization

Before countries existed, Indigenous communities on every continent engaged in intertribal trade. If your area wasn't suitable for farming or fishing, but you had access to the best materials for making arrowheads and knives, you could trade with other tribes for food. Today, we can ship goods to other countries in a matter of hours, but that is a relatively recent achievement. For most of human

history, traders had to leave the comfort of home and make difficult journeys on foot, on camel, in wagons, on river rafts and barges, or across rough seas to bring their wares to foreign markets. They bought and sold goods along the way, then turned around and made the arduous journey back home. This is how spices from the land we now call India came to the country we now call Ghana, and gold from Ghana landed in Constantinople (now called Istanbul, in Turkey), and so on.

Although trading is an ancient occupation, it first came to my attention when I learned how to swim. Did you ever play a game in the water called Marco Polo? You close your eyes and yell "Marco!" and the other players yell back, "Polo!" Using only your sense of hearing, you have to splash around and try to tag them. I don't know how the game originated, but Marco Polo was a trader from Venice. In 1271, he journeyed on the Silk Road through Europe, Persia (now called Iran), Mongolia, and Southeast Asia, bringing exotic goods from one place to another. *The Travels of Marco Polo*, published in 1300, was a first-person account of Polo's experiences and is probably the



reason he is still remembered today. He had many colorful adventures, including meeting the Mongolian emperor Kublai Khan and living for seventeen years in imperial China—one of the first Westerners to do so. Contrary to my imagination as a child, the Silk Road was not a single ribbon of road that connected Europe to China. It was a sprawling network of land and sea routes that connected Africa, Europe, the Middle East, and Asia, enabling international trade to flourish.

History is full of examples of conflict between neighbors, tribes, and nations. There is no denying our long and bloody trail of wars, colonization, genocide, and countless other atrocities we inflicted on one another. But consider the other story running parallel to that, which is filled with examples of people from different groups who cooperated and collaborated to their mutual benefit—sometimes even while they were in conflict. For example, during World War II, warring nations agreed to follow guidelines for humane treatment of prisoners of war, even while they actively sought to kill one another's soldiers on the front lines. Or consider the Olympic Games. Every few years, the nations of the world come together for peaceful sports competitions. The games are organized by the International Olympic Committee (IOC), which is a nongovernmental association led by representatives from an assortment of participating nations. The IOC has the authority to establish and enforce the rules, and every country that participates agrees to abide by its decisions. While the IOC has had its share of scandals and controversies, the countries of the world take part in the Olympics because no one wants to be left out. Another

The WTO's role is to make international trade stable and predictable by bringing member countries together to negotiate the rules and then settle disputes that arise.

example of international cooperation is the United Nations (UN). Its goal is to promote peace, harmony, security, and cooperation among nations. Each member country has a vote on resolutions. Even though there is resentment over the veto power of the Security Council (the United States, China, France, Russia, the United Kingdom, plus ten nonpermanent members), it is rare for a country to

withdraw from the UN. No country benefits from being excluded from the international community.

Those were just a few examples of international cooperation to warm you up for our discussion about the **World Trade Organization (WTO)**, an intergovernmental agency created in 1995 to facilitate the negotiation of international trade agreements among countries. Before the WTO existed, international trade was largely conducted under the General Agreements on Tariffs and Trade (GATT). It was an agreement formed in 1947, just after the end of World War II, to minimize barriers to trade among twenty-three countries. One of the main points of negotiation was how much each country could tax another country's imports. By 1994, 128 countries were trading under GATT. Each sent representatives to participate in **trade rounds**—negotiations to hammer out new trade agreements, renew existing ones, and revise those in place. The eighth round, called the Uruguay round (each trade round was named for the country or city that hosted the talks) lasted from 1986 to 1993. It ended with an agreement among participating nations to form the WTO. It was intended to be a permanent international organization that would establish and enforce the rules of international trade.

Whenever people attempt to do something together, whether it's playing a game, running a business, teaching a course, or trading internationally, a shared set of rules is crucial for avoiding chaos. Years ago, my daughter was given a new board game for her birthday, and she wanted me to play it with her right away. "Sure," I said. "Let's read the rules first."

"No," she said. "I've played it at my friend's house, so I'll just tell them to you."

"No," I said. "I need to see the rules before we get started so I can make sure we're both playing fairly."

The WTO's role is to make international trade stable and predictable by bringing member countries together to negotiate the rules and then settle disputes that arise. Each member country sends trade delegations to represent its interests in WTO talks. Countries with big economies sit at the same table as countries with small economies, and together they agree on trade rules and policies. Decisions are made by consensus, which

means all member nations agree. As you might imagine, reaching consensus can take years. Once an agreement is reached, the governments of each member country must ratify it for it to go into effect.

As of 2021, the WTO had 164 member countries out of 195 countries. Figure 19.1 shows the overwhelming support for international trade around the world. The countries in green were members of the WTO as of 2021. The countries in yellow were working their way toward membership. The few countries in gray were either associated with a member country and traded under their auspices, or they chose not to be part of the organization.

Trade Disputes

International trade involves both cooperation and competition. Countries work together to forge mutually beneficial trade agreements, and at the same time their firms compete for market share. If you have ever spent any time



Figure 19.1
World Trade Organization Member Nations, 2021

at all in a group—your family, neighborhood, school chorus, sports team—you already know that competition can cause conflicts. Countries agree to WTO trade rules, but disputes still arise. Supporters of the WTO say the organization plays an essential role in protecting everyone's interests by holding countries accountable to the rules. When countries accuse one another of cheating or believe their rights were violated, the WTO hears the complaints and makes judgments. It is empowered by the member nations to take action, including requiring the offending nation to stop the behavior, permitting the wronged nation to retaliate in kind, or requiring one country to pay damages to the other country. Many types of disputes arise. For example, countries complain when a trading partner gains a competitive advantage by lowering its labor or environmental standards. This brings down domestic production costs, allowing that country's firms to offer products at lower prices. Or

a country violates another country's intellectual property rights by reproducing and selling copyrighted and patented products (movies, books, video games, apps, software, medications, and more) without permission.

Have you ever seen the map at the back of an airline magazine with lines showing the flight routes of that airline? That's what figure 19.2 looks like, but instead of flight routes, the lines indicate trade disputes. These are just the ones involving the United States as of 2021. The red lines show countries the United States lodged a complaint against, and the blue lines show countries that raised a complaint against the United States. Anyone can visit the WTO website, look up the complaints, and read what each side had to say. For example, DS6 (which stands for *dispute settlement* 6) against the United States by Japan alleged that in 1995, the United States added a tax to imported Japanese cars, violating the Trade Act of 1974. The dispute was eventually settled or dropped by

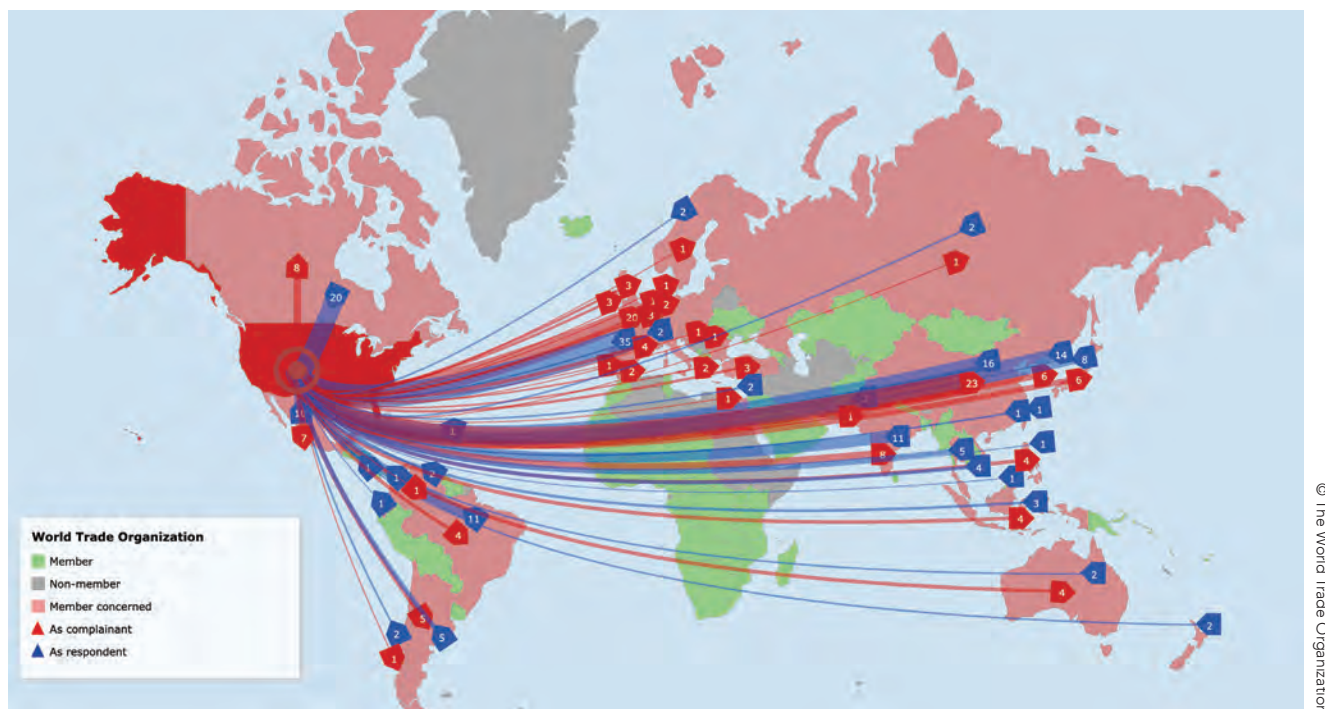


Figure 19.2
Map of U.S. WTO Trade Disputes, 2021

change, and leave poor nations more vulnerable to exploitation. A major concern of WTO critics is that the organization doesn't do enough to combat **human trafficking**—the illegal and highly unethical practice of coercing, forcing, or enslaving people to benefit from their labor. In 2021, an estimated 40 million people were trafficked, and an estimated 10 million of them were children.

Those critical of the WTO also point to the continuing problem of child labor. Even when children aren't trafficked, many live in such severe poverty that they must start working at very young ages to survive. In 2021, an estimated 152 million children around the world were in the labor force. Some end up in **sweatshops**, which are workplaces that pay low wages, demand long hours, and often have dangerous working conditions.

Many antiglobalization advocates say the WTO isn't doing enough to hold multinational corporations accountable for child workers and sweatshops in developing nations. Others defend multinationals and say those sweatshops create pathways out of poverty for workers in low-income countries, and if locals didn't have those jobs, they would be even worse off.

One of the biggest complaints about the WTO from groups across the political spectrum is that it has too much power. Critics say that national sovereignty (the right to self-governance) is compromised because the WTO has the power to tell countries how to conduct their business. They claim that this is undemocratic because WTO officials are appointed by WTO members, not elected by a country's own citizens. Yet the WTO's decisions overrule those made by democratically elected governments. For example, the U.S. Congress voted to ban imports of shrimp that were produced using a method that endangered sea turtles. But the WTO didn't allow import bans based on production methods, so the United States was forced to continue allowing those imports, even

though it went against its own national policies to protect endangered species. (The WTO's policy was eventually overturned.)

Developing and Developed Nations

A few years after the Seattle meeting in 2001, the WTO convened the Doha round of trade negotiations (in Doha, Qatar). The focus was on revising trade rules to reduce global poverty in **developing nations**. The term refers to countries that have a lower gross domestic product (GDP) and lower per capita (per person) income compared with **industrialized nations** (also called *developed nations*). Developing nations face higher infant mortality rates, higher levels of poverty and unemployment, less sophisticated infrastructure and technology, and higher birth rates compared with industrialized nations. In contrast, industrialized nations use more automation and have more advanced infrastructure, such as safe roads, clean drinking water, reliable electricity, widespread internet access, and more.

Trade between industrialized nations and developing nations is important for both, but concerns continually come up. In 2003, at a continuation of the Doha round in Cancun, Mexico, fights broke out between industrialized and developing nations on the issue of agricultural subsidies. Some industrialized nations (including the United States) gave their farmers subsidies. A coalition of developing nations protested that those subsidies lowered the prices of imports to their countries and pushed their farmers out of business. Industrialized countries argued back that developing nations had closed markets to foreign firms and limited their access in other ways. Ultimately, representatives from twenty-one developing nations walked out of those trade talks. As of 2021, the Doha round was still officially active, but negotiations had mostly stalled out by 2015.

The Fair-Trade Movement

Many WTO protesters—and others who may not have waved signs in the streets of Seattle but who also have mixed feelings about decisions made by the WTO—are in favor of a global trade idea that was started by an entrepreneur from Akron, Pennsylvania, named Edna Ruth Byler. After a trip to Puerto Rico in 1946, she decided to help craftswomen there sell their wares at a high enough price on the U.S. mainland to earn a decent living in Puerto Rico. She launched what became the **fair-trade movement**, an effort intended to help people around the world rise out of poverty by receiving a fair price for their goods in international markets. Today, a fair trade mark on a product (there are several different ones) is meant to indicate to consumers that the products were made according to the movement's fundamental principles: workers are paid a fair wage (as determined by one of the independent

fair-trade-certifying bodies); producers use environmentally sustainable practices; and producers reject child labor and the labor of enslaved or coerced people.

You've likely seen fair trade marks on bags of coffee beans from Costa Rica, bananas from the Dominican Republic, chocolate from Panama, and a host of other imports. You may have noticed that the prices for fair-trade products tend to be higher. There has been controversy over whether the extra dollar you pay for a fair-trade-certified chocolate bar actually goes to the fair-trade-certifying organization instead of the workers who produced it. There is also controversy over whether the fair trade mark is actually representative of fair-trade principles, or whether it's an empty symbol that companies use to help boost the image of their brands. Nevertheless, this international movement is no small player. Global sales of fair-trade products reached \$9.8 billion in 2018.



Trade Protections

Countries want to protect their ability to be competitive in the global economy, but there are different ideas for how to do so, and those ideas are controversial. One particularly controversial idea is the use of **trade protections**. These are actions taken by governments to limit foreign imports and promote exports of domestically made products. Think of trade protections as being like a field hockey or lacrosse game. Some teams play an offensive game, rallying all their energy to drive the ball down the field and into the goal. And other teams play a defensive game, directing their efforts to keeping the other team from scoring. In trade, countries that use an offensive strategy focus on making their domestic firms more globally competitive. Those that play a defensive strategy work to protect domestic firms from unfair, destabilizing, or harmful trade prac-



tices. Most countries that engage in trade protections choose a strategy that combines some of both. Often, when faced with trade protections, targeted countries retaliate by turning around and imposing the same trade protections on the initiating country. When this happens, it can escalate. We call that a **trade war**.

There are three types of trade protections. The first is a restriction on **foreign direct investment**. Governments prevent or limit foreign firms from owning or operating businesses in their country. For example, the United States doesn't allow foreign firms to own nuclear power plants in this country.

The second type of trade protection, and most common, is a **tariff**, which is a tax on imported goods. These are also called **custom duties** and **import fees**. For example, if a carpet company wants to sell its area rugs in another country, it must pay a tax to do so. Tariffs may be based on the value of the area rugs or on the number

of units imported, or they may be a flat tax on area rugs. Although there is deep disagreement about whether we need or should have them, tariffs have been around for a long time and are used throughout the world. In fact, the U.S. government was largely funded through tariffs until 1913, when the income tax was instituted.

The third type of trade protection restricts imports. These are known as **nontariff barriers (NTBs)**. Here are the ones most often used:

Embargoes. These are government bans on trade with a specific country. For example, from 1958 and continuing through 2021, the United States had a trade embargo against Cuba, which (at various times) included a ban on trade of Cuban cigars and travel between Cuba and the United States. Sometimes, groups of nations band together to impose an embargo. In the 1970s, oil-producing nations in the Middle East imposed an oil embargo against the United States, which led to an economically devastating oil shortage.

Quotas. These are laws that limit the number or total value of imports from a certain country during a set period. Over the years, the United States has imposed quotas on imports of alcohol, cotton, wool, and peanuts from multiple countries.

Voluntary export restraints. In these cases, trading partners voluntarily limit their exports. This allows them to avoid facing mandatory restrictions, which means they have more control over the terms of the trade restrictions.

Import licenses. In some countries, foreign firms must apply for permission to sell their products. When this is the law, the government can withhold an import license to prevent a foreign firm from competing in a domestic market.

Required standards. These are regulations that countries must follow to trade with one another. Governments may restrict trade with nations that don't adhere to their labor, workplace, or environmental standards. In the United States, for example, we have certain product safety standards, so appliances made in a country that doesn't follow our standards can't be sold in this country.

Firm subsidies. These are government payments or tax breaks to suppliers in certain industries. They are intended to help emerging industries become viable, support industries that are crucial for national security, and help domestic

Some say that rather than viewing international trade as a win-lose competition, countries should approach it as if it were an important interpersonal relationship. The same willingness to listen with curiosity and openness to the other's needs, concerns, and points of view would improve international relations.

firms compete in the global marketplace. For example, the United States has subsidized the dairy industry so that it could compete in countries that subsidize *their* dairy producers.

When countries disapprove of their trading partners' behaviors, they can impose **trade sanctions**. For example, they can impose tariffs or NTBs to pressure trading partners or potential trading partners to change their behavior—economic or otherwise. Trade sanctions are often motivated by opposition to human rights abuses, environmental abuses, state-sponsored terrorism, human trafficking, nuclear weapons programs, and aggression against neighboring countries. In 2021, the United States had trade sanc-

tions against dozens of countries, including Russia, Yemen, Iran, Syria, and North Korea.

Some say that rather than viewing international trade as a win-lose competition, countries should approach it as if it were an important interpersonal relationship. Israeli therapist Hedy Schleifer is well known around the world for helping couples improve their marriages, and she believes the same willingness to listen with curiosity and openness to the other's needs, concerns, and points of view would improve international relations. These mutually respectful practices are building blocks of trust, she says. Each side must cross a bridge to meet the other and must be willing to learn about the other's cultures and be

open to appreciating the similarities and differences. When we successfully make that crossing, something profound occurs. We encounter one another's humanity. We recognize our common ground and are transformed for the better. Even though trade relationships—just like any relationship—can have problems, the potential to recognize one another's humanity is one of the most gratifying aspects of international trade. We may

not always agree—chances are we won't—and we probably will still have conflicts and accuse one another of cheating, but the foundation of mutual respect will keep us at the table. Staying at the table means there is still hope for reconciliation and making the relationship better. Schleifer quotes thirteenth-century Sufi poet Jalaluddin Rumi: "Out beyond ideas of wrongdoing and rightdoing, there is a field. I'll meet you there."



Thinking about Kyle MacDonald and his paperclip, the WTO and criticism of the WTO, the fair-trade movement, and some of the main trade protections that have been used in the past, you can see that this issue of international trade is a complex puzzle. Trade presents exciting opportunities for gain and worrisome potential for conflict, which is why we need the best solutions

to structure international trade. All three perspectives agree that when trade relationships break down, society loses out. And they all share the same goal of improved standard of living through trade. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.



Expanding the Models for International Trade

Before we look at the separate tools that radicals, liberals, and conservatives use to analyze the issue of international trade, let's explore a relevant concept that all three perspectives share. After you hear about it, you will no doubt say, "Well, duh! Of course!" because you use it in your everyday life, multiple times a day. A great idea often seems obvious in retrospect.

Shared Tools

Back in 1776, with the publication of Adam Smith's *The Wealth of Nations*, many great thinkers were inspired to come up with their own theories and models for how to create prosperity. This is how economics as an academic discipline got started. An English economist named David Ricardo was four years old when *The Wealth of Nations* was published. I like to tell students his backstory because it shows that you don't need a PhD to come up with a brilliant new idea that changes the world. Ricardo was one of seventeen children in his family. He left school at age fourteen to work as a stockbroker with his father, who later disowned him for marrying someone who followed a different religion. After he made a fortune in the stock market, Ricardo retired (at age forty-one) and became a Member of Parliament. He devoted his time to thinking and writing about economics. The ideas in his book *Principles of Political Economy and Taxation* influenced some of the most prominent theorists from every perspective and continue to shape our thinking about economics today. One of his most famous contributions to the field is his argument for why international trade is beneficial for the world.

Just to give you some context, in Ricardo's day, many countries tried to produce all the goods and services they needed domestically so they wouldn't need to trade with other countries. That way, they could keep all their gold in their own country. Governments used tariffs to discourage imports, and fewer imports meant domestic

industries didn't have to worry too much about foreign competition. It also meant fewer products were available and less variety. Then along came Ricardo, who said governments were using the wrong strategy. He showed how nations are much better off when they increase trade with other countries.

Ricardo's reasoning is actually a commonsense notion that you use in your personal life all the time. Let's say that you have a law degree, and you really enjoy writing business contracts. Let's also say that you also have an accounting degree, and you really enjoy preparing tax returns. Finally, let's say that compared to others, you are the best lawyer and the best accountant because you can produce more business contracts and prepare more tax returns in a given period than anyone else. In other words, you have an **absolute advantage** in law and accounting. The definition of absolute advantage for an individual, firm, or country is the ability to produce a greater quantity of goods or services using the same number of inputs as another individual, firm, or country. In this example, with an absolute advantage in both law and accounting, should you do *both* jobs, or should you focus on one of these professions and let someone else do the other?

If you only think about your absolute advantage, you would say, "I should do both, because I'm more efficient at both compared to others." But should you really? Ricardo said that instead of making a decision based on absolute advantage, you'll be better off if you first consider your



comparative advantage. To do so, you measure how much you give up by doing one activity compared with how much you give up by doing the other. That's called **opportunity cost**. Any time you choose one alternative over another—going hiking instead of studying—you lose the potential gain from what you didn't choose. If you chose to go hiking last weekend, you lost the potential gain of the studying you didn't have time to do.

Going back to our example of practicing law and accounting, let's say in one week you're able to write three business contracts or prepare one corporate tax return. Your opportunity cost for law is one tax return, and your opportunity cost for accounting is three contracts. Assuming that you are equally happy doing both, which should you do? Obviously, you should practice law, because it has a lower opportunity cost. You give up less (one tax return) than when you practice accounting (three contracts). Following common sense, you would specialize in law, which

means concentrating your energy and resources on that endeavor. You wouldn't do both law and accounting because you would be worse off. Any time spent preparing tax returns is time (a precious resource!) taken away from writing business contracts.

This concept of specializing should feel familiar to you. We're constantly specializing according to lower opportunity cost and then trading with someone else for what we're not producing. At work, a colleague will say, "You're better at public speaking, so you make the presentation at our next meeting. I'm better at writing, so I'll write the proposal. And our other team member is better at math, so they can write the budget." At home, you'll say to your roommate, "You're a much better cook, and I'm much better at cleaning, so you make dinner, and I'll clean up."

We naturally play to our strengths, but it was Ricardo who applied this idea to countries to make a case for increased international trade. With dif-

ferent environments, natural resources, populations, and cultures, nations have different opportunity costs of producing one thing over another. Ricardo said that each nation benefits by figuring out its opportunity costs of production, specializing in the products that have the lowest opportunity cost, and then trading for products that have a high opportunity cost. This simple, yet profound, idea is called the **law of comparative advantage**. Countries are better off when they spe-

cialize in products for which they have a comparative advantage (lower opportunity cost) and then trade with other countries for the products for which they have a comparative disadvantage (higher opportunity cost).

In the nineteenth century, when Ricardo first proposed this idea, countries considered only their absolute advantage. For example, if a country produced metal bowls and ice skates more efficiently than other countries, it made both products domestically. Ricardo was the one who said basing production decisions on absolute advantage is wrong thinking. A country should consider its *comparative* advantage, not its *absolute* advantage.

It's no exaggeration to say that Ricardo's contribution in the nineteenth century shaped today's global economy and political landscape. The

The law of comparative advantage convinced nations to increase their trading activity with other countries, and that gave people around the world access to an unprecedented variety of goods and services.

law of comparative advantage convinced nations to increase their trading activity with other countries, and that gave people around the world access to an unprecedented variety of goods and services. I was really curious to see how the loss of this great economic thinker was perceived at the time of his death, so one of my students searched the internet and found David Ricardo's obituary. Sometimes people think I'm morbid because I love to read obituaries, but I don't believe obituar-

ies are stories of death. I read them as inspiring stories of what people were able to accomplish during their precious lifetimes. Ricardo died in 1823 from an inner-ear infection that spread to his brain. He was in his early fifties. His life was beautifully memorialized in the *Manchester Guardian*. The author wrote, "The death of Mr. Ricardo is as severe a national loss as that of any individual can be. Nor is it a loss to this country merely; for by all people to whom the increase of general prosperity, the principles of good government, and the examples of moral and intellectual excellence are of import, his decease is greatly to be deplored." Even if you aren't a fan of obituaries, I hope you can agree with liberals, radicals, and conservatives that Ricardo's contribution was monumental. They all agree that international trade has the potential to make countries better off.

Conventional Theory Tools

Let's turn our attention to the tool conventional theorists use to analyze the issue of international trade: the **production possibilities curve (PPC)**. The PPC (sometimes called the PPF for Production Possibilities *Frontier*) shows the different combinations of goods and services that a society can produce given its available resources and existing technology (the best methods for putting resources together). Every country has its own unique PPC, because every country has its own unique combinations of resources and technology. Liberals and conservatives use it to illustrate domestic opportunity costs, justify specialization, and determine the different comparative advantages of countries.

Building the Production Possibilities Curve

It is impossible to imagine all the possible combinations of goods and services a country could make, so conventional theorists group them into two categories for the purpose of showing comparative advantage on the PPC. It can be any two categories—bubble gum and beach houses, for example, or video games and can openers. Economists like to use guns and butter. *Guns* represents military output, which are all the goods and services used for national security (firearms—of course—and also drones, soldiers, uniforms, meals ready to eat, fighter jets, and more). *Butter* represents civilian output, which are all nonmilitary products (butter—of course—and literally everything else, including graphic novels, socks,



farms, broccoli, computer monitors, and theme parks). Because a country's land, labor, and capital are limited, if it makes more guns, it has fewer resources available to make butter. The same is true in the other direction. When more butter is made, fewer resources are available to make guns.

A country's production possibilities are shown on the PPC, as you can see in figure 19.3. To start building it, consider point 1, where society makes only guns (300 units) and no butter. (It could be a society like ancient Sparta, a highly militarized society.) Let's say there is an extended peacetime and the country reallocates some of its land, labor, and capital from gun production to butter production. Giving up resources that were used to make guns, the country loses 100 guns. But since it makes the most sense first to reallocate the land, labor, and capital that are least suitable for making guns and most suitable for making butter (pastureland, farmers, and milking machines), the country dramatically increases its butter production with those resources, ending up with 400 units of butter. In other words, the

land, labor, and capital that are best used for butter had been allocated to make guns but now are allocated to make butter. You can see the new production combination at point 2 on the PPC, with 200 units of guns and 400 units of butter.

Next, imagine the country decides to release even more resources from gun production to butter production. With most of the resources that are best used for butter production already allocated to butter, the remaining land, labor, and capital are useful for both butter production and gun production. Society gives up another 100 units of guns to gain 175 units of butter (point 3 on the PPC).

Finally, the country decides it wants only butter, so the remaining resources are taken out of gun production and allocated to butter production. At this point, that land, labor, and capital are the resources that were most useful for gun making (machines that make bullets, firearms experts, and missile factories) and the least useful for butter making. Therefore, society loses 100 units of guns, but ekes out only 25 units of butter, as shown on point 4 on the PPC.

A PPC has two noteworthy characteristics. First, it has a negative slope, which means that when one variable goes up (guns, for example), the other goes down (butter, for example). Conventional theorists say that there is always a trade-off between guns and butter (or any two categories you compare) because there is always a scarcity of resources. To produce more of one, society has to give up some production of the other. The amount given up in a trade-off is the opportunity cost of producing that good or service. For example, if a country makes all butter (point 4), and then decides it wants some national security, it must give up 25 units of butter to produce 100 units of guns. That is the opportunity cost of producing those additional guns. Pause here and try to calculate the opportunity cost from point 3 to point 2. (If your answer is 175 units of butter, you are correct.)

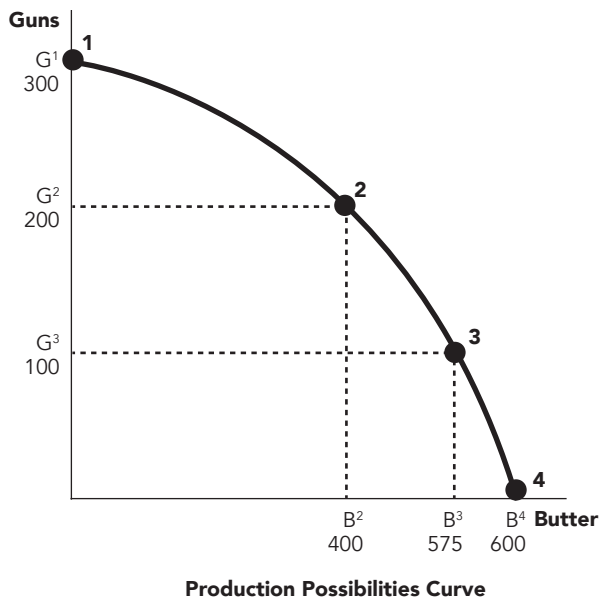


Figure 19.3
Production Possibilities Curve

The second noteworthy characteristic of the PPC is its distinctively bowed-out shape. It looks that way because resources are not perfect substitutes for one another. To make butter, the country uses more pastureland, barns, and cows. To make guns, it uses more metal, molds, and factory space. If resources were perfectly substitutable, the PPC would have a constant slope (a straight line). But that only happens in the unrealistic scenario of producing two of the nearly exact same kind of product. For instance, if we take resources away from the production of orange markers and use them to make gray markers (the ink pigment makes no real difference), we'll get the same number of gray markers we gave up in orange markers. Even though the PPC is technically always bowed out (because the reality is that we always make different kinds of products), in this chapter, we're going to show it as a constant slope (straight line), as you can see in figure 19.4. This will make it easier for you to see the effect of international trade on the economy.

As the name *production possibilities curve* implies, the PPC is a graphical representation of how much a nation could possibly produce using all its land, labor, and capital (resources), and using the best methods of putting them together (technology). Using the simplified PPC, figure 19.4 shows three different bundles of production possibilities that can occur for any country: efficient, inefficient, and unattainable.

Efficient. Any point on the PPC—on the curve itself—indicates that a country is using all its resources and technology to make guns and butter. This is called *efficient*. Conventional theorists say it is excellent news when a country is at any point of efficiency (for example, point 1 in figure 19.4) because it means the nation has achieved the highest production it could possibly have with its given resources and technology.

Inefficient. A point inside the curve (to the left of the PPC) is called *inefficient*. Conservatives and

liberals say inefficiency is terrible news because it means the country is wasting its resources. In other words, land, labor, and capital are sitting idle or are not being used for their most suitable purposes. When a country is at the point of inefficiency (point 2 in figure 19.4), it produces less than it could be making. For example, acres of desert land that would be perfect for solar energy production are left undeveloped. If that desert land is used to produce maple syrup, requiring maple trees to be transplanted from Vermont and grown in climate-controlled greenhouses, those resources are being misallocated from their most efficient uses to this very inefficient (and impractical) use. When a country ends up at a point inside the PPC, it is wasting its chance to achieve its highest possible standard of living.

Unattainable. Of course, countries would be in the best position at a point outside the PPC (to the right of the curve) because they could have even more guns and butter. But unfortunately, any point outside the PPC is *unattainable* (point 3 in figure 19.4), since there is always a limit to avail-

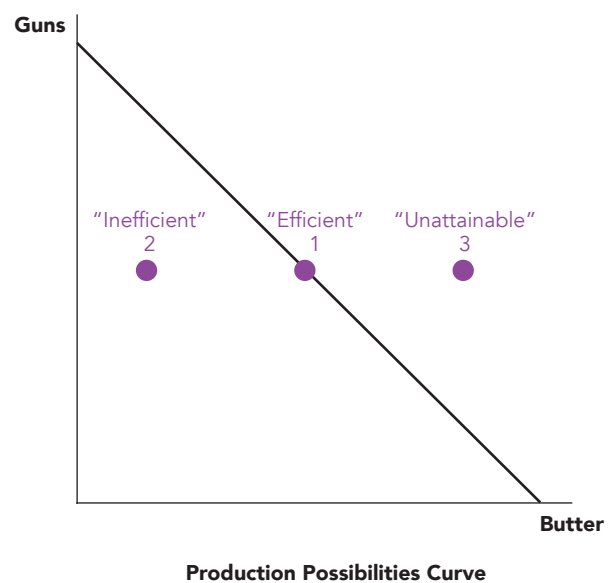


Figure 19.4
PPC with Constant Slope to
Simplify Analysis of International Trade

able resources and technology. Fortunately, even though countries can't *produce* more than their resources and technology allow, they can *consume* more, say conventional theorists. This outcome occurs through international trade. Liberals and conservatives say that when countries make production decisions according to the law of comparative advantage and then trade, they are able to consume more than they could possibly produce. In other words, they end up outside the PPC, in the *unattainable* area.

Let's use an example of Country A and Country B to see how international trade works. Country A can make either 20 guns or 10 butters, or a combination of 10 guns and 5 butters, as shown in the lefthand graph in figure 19.5. Country B can make either 4 guns or 8 butters, or a combination of 2 guns and 4 butters, as shown in the righthand graph in figure 19.5.

Country A has an absolute advantage over

Country B in both guns and butter. But having an absolute advantage doesn't mean Country A should produce both. First, it must determine the opportunity costs of producing guns and producing butter. When Country A makes 20 guns, it gives up the opportunity to make 10 butters. Another way to say this is that for every gun Country A produces, it gives up half a butter. That's its opportunity cost for guns. If you have a hard time working through the math in your head, just follow this simple equation: divide the change of the loss (10 butters) by the change of the gain (20 guns). Written as an equation, it looks like:

$$\frac{\Delta \text{Loss}}{\Delta \text{Gain}} = \frac{10}{20} = 0.5$$

Next, Country A considers the opportunity cost of making butter. When it makes 10 butters, it gives up the opportunity to make 20 guns. Another way to put it is that for every 1 butter Country A makes,

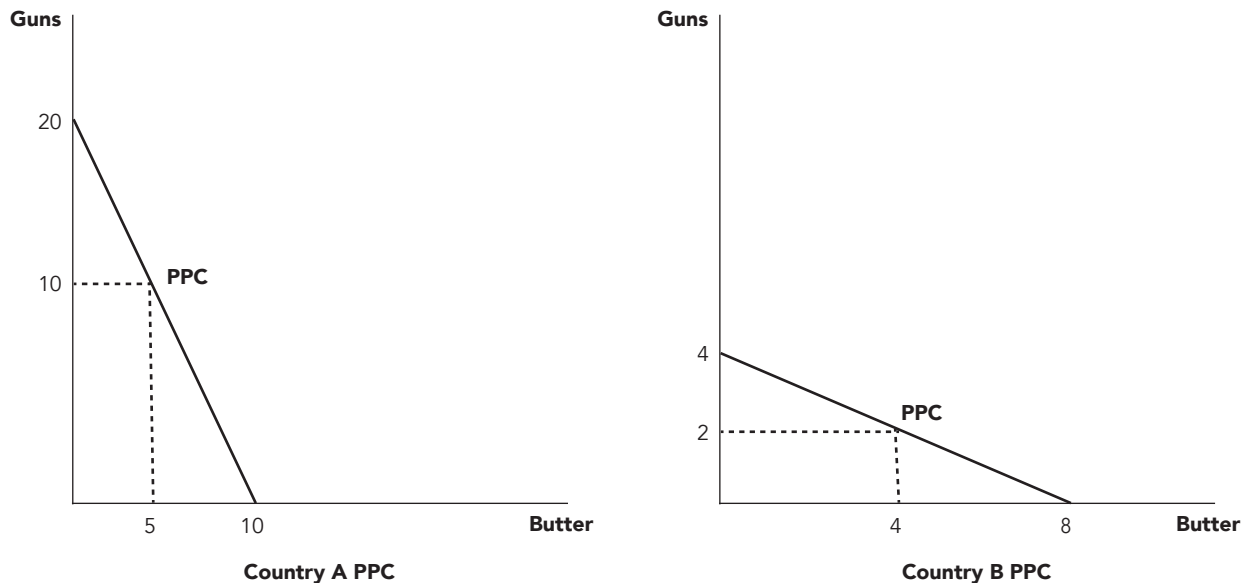


Figure 19.5
Country A and Country B: Production Possibilities Curves

it gives up 2 guns ($20 \div 10 = 2$). So its opportunity cost for making butter is 2 guns.

Try to calculate Country B's opportunity costs. Use the same technique that was just used for Country A. Pause here and try it before reading on.

Was your opportunity cost of guns for Country B 2 butters and the opportunity cost of butter 0.5 guns? If so, you are correct. You can see the opportunity costs for both in figure 19.6.

Trade and Negotiation

Now that both countries know the opportunity costs of production, they follow the law of comparative advantage and specialize in the product in which they have the comparative advantage (the lowest opportunity cost) and trade for the products for which they have a comparative disadvantage (the highest opportunity cost). Country A specializes in guns, producing 20 guns and 0 butters. Country B specializes in butter, producing 0 guns and 8 butters. Conventional the-

orists say that residents of Country A don't have to worry about going hungry, and residents of Country B don't have to worry about being without national security because they can trade for what they need. They say both countries use the commonsense reasoning that the amount gained from trading relative to the amount lost must be greater than the opportunity cost of making the product themselves. Otherwise, they have no reason to trade. If the benefit of the trade is less than or equal to the country's opportunity cost, a country will reject the offer to trade. A country has no reason to risk conflict with another nation if no gain can be made from making the trade. Therefore, the trade deal is only acceptable if opportunity cost is less than what a country gains (imports) divided by what a country loses (exports). In equation form, it looks like this:

$$\text{Opportunity Cost (0.5)} < \frac{\text{Amount the country gains (exports)}}{\text{Amount the country loses (imports)}}$$



Figure 19.6
Country A and Country B: Opportunity Costs of Guns and Butter

Next, let's use the equation (repeated below) to analyze potential trade deals. We know that Country A needs food, and Country B needs national security. Each wants to cut a deal that will make its country better off through trade. Please remember that the opportunity cost of guns for Country A is 0.5 butters and the opportunity cost of butter for Country B is 0.5 guns.

Initial Offer. Country B opens the negotiation by proposing to trade 4 butters to Country A for 10 guns. Country A says, "No deal." Why? Because the trade benefit is only 0.4 butters for 1 gun, whereas its opportunity cost is 0.5 butters for 1

gun. This deal would make Country A worse off than if it produced butter domestically. Of course Country B wanted to make this trade, because it would have come out with a trade benefit of 2.5 guns for 1 butter compared to its domestic opportunity cost of 0.5 guns for 1 butter.

Counteroffer. Country A comes back to the trade negotiation and makes a counteroffer of 4 guns for 8 of Country B's butters. Country B does the math and realizes it can produce 4 guns for 8 butters on its own. Since the potential trade benefit (0.5 butters for 1 gun) is equal to its opportunity costs (0.5 butters for 1 gun), it won't

$$\text{Opportunity Cost (0.5)} < \frac{\text{Amount the country gains (exports)}}{\text{Amount the country loses (imports)}}$$



Figure 19.7
Conventional Trade Negotiations

be better off with this trade deal, and it doesn't want to risk a conflict with Country A. Therefore, Country B says, "No deal." Of course Country A wanted to do it, because it would have come out ahead with a trade benefit of 2 butters for 1 gun, which is much higher than its opportunity cost of 0.5 butters for 1 gun.

Final Offer. Country B decides to make one last offer. It tells Country A it will trade 5 guns for 5 butters. Country A does the math and comes up with a trade benefit of 1 butter for 1 gun. Because that benefit is greater than its opportunity cost of 0.5 butters, it agrees to the deal. Country B is happy with the deal because the trade benefit of 1 gun for 1 butter is greater than its opportunity cost of 0.5 guns for 1 butter. The deal is accepted because both sides benefit. You can see a summary of these negotiations with all of the math worked out in figure 19.7.

Consumption Possibilities Curve

The conventional equation for making trade deals is not the end of the story. Conservatives and liberals show the accepted trade offer on

the graphs in figure 19.8 and say they reveal something extraordinary. Countries are able to consume *more* than they are able to produce with their given resources and technology. Having traded 5 guns for 5 butters, Country A now has a total of 15 guns and 5 butters, as shown in the lefthand graph. Its consumption is outside the PPC, in the area that was previously considered *unattainable*. That is the gift of international trade shown in graphical form, say conventional theorists. Theoretically, if Country A had been able to trade all 20 of its guns for 20 of Country B's butters, then there would be a new line to the right of the PPC called the **consumption possibilities curve (CPC)**. It represents the most possible goods and services a country could consume with trade.

It is important to note that Country B is also better off. It traded 5 of its butters for 5 of Country A's guns, as you can see in the righthand graph in figure 19.8. Now it has 3 butters and 5 guns—a situation that was previously unattainable with its given resources and technology. And if Country B traded all 8 of its guns for 8 of Country A's

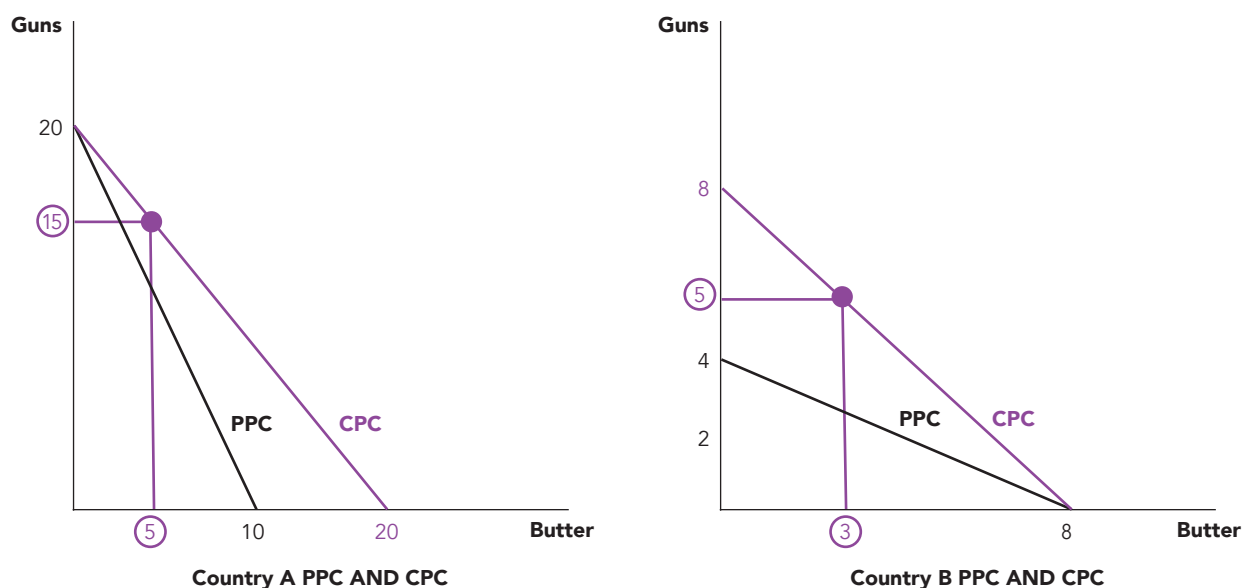


Figure 19.8
Consumption Possibilities Curve

butters, there would be a new curve to the right of the PPC—the CPC. Conventional theorists say that regardless of the size of a country's economy, when nations act in accordance with the law of comparative advantage, specializing in the products for which they have the lowest opportunity cost and trading for those for which they have a higher opportunity cost, they are able to consume more than they are able to produce. They say this demonstrates that all countries are better off through trade because it enables people across the globe to attain the highest possible standard of living.

Conservatives and liberals say that the policies we adopt to guide our international trade relationships are crucial because they directly affect our economy, quality of life, and place in the world. Even though they share the same conventional approach to analyzing the problem, they have very different approaches to policy.

Liberal policy: Strengthen trade protections. Liberals enthusiastically embrace the idea that international trade can make us better off. They use a policy of trade protections to safeguard the interests of domestic industries and workers, consumers, the environment, and the economy. Tariffs, quotas, standards, and restrictions on foreign direct investment all limit imports and promote exports to prevent our trading partners from taking advantage of us. They say that trade agreements establish sensible rules that safeguard our domestic industries. They also motivate our trading partners to do the right thing, including treating workers and the environment with respect. From the liberal perspective, we are fortunate to have a strong and effective government that uses diplomacy to establish beneficial trade agreements, which sets up our nation for success in the global economy. Government protects our national interests in negotiations, making sure the United States doesn't land on the bad end of a trade deal, and

it protects us from cheaters. Liberals expand the roles of government in international trade to ensure that trade deals are fair and equitable; create stability in our trading relationships through international partnerships with well-defined and enforceable rules; and require transparency with accountability to discourage cheating and to keep trade relationships beneficial for all.

Liberals look at the PPC and CPC in figure 19.9 and say that if we completely specialize, making only products for which we have a comparative advantage, we lose whole industries to countries that can produce at lower costs because, for example, they have lower standards. Jobs in our country are forever lost, which devastates the economy. And we become dependent on foreign powers to supply vital products, which compromises our national security. To avoid this disastrous scenario, liberals say, we moderately specialize, which gives us the best of both worlds. We enjoy a previously unattainable level of consumption (the blue dot in figure 19.9) by trading. We don't reach the dotted

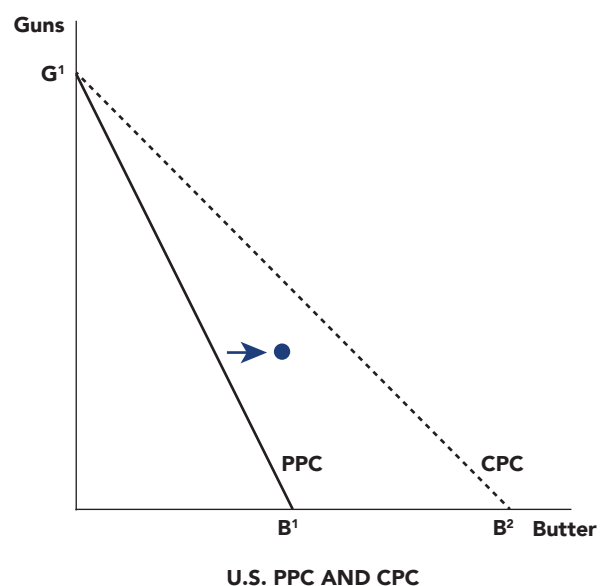


Figure 19.9
PPC and CPC: Liberal Perspective

CPC, but we protect our national security by keeping important industries in our own country. Also, in fair-market capitalism, effective trade protections help us make the most out of our trade deals by making sure the rules are fair and everyone is held accountable. Liberals argue that not only are we able to consume more than we can produce, but with government holding firms accountable, everyone can enjoy those products knowing they adhere to our standards of safety. At the same time, our exports can be trusted throughout the world. From the liberal perspective, with government experts overseeing and facilitating the flow of goods and services back and forth across our borders, we have the goods and services that are essential to our national security, domestic industries thrive, and we enjoy a higher standard of living with a wide range of products from around the world.

Conservative policy: Free trade. Conservatives wholeheartedly embrace the idea that international trade makes us better off, with a higher standard of living. They believe that we should make the most of the opportunities that abound in the global economy. From their perspective, maximum specialization gives us the maximum benefit from trade. They use a policy of **free trade**, which is the voluntary exchange of goods and services across national borders without restrictions. For conservatives, eliminating government interference is the key to a flourishing economy, so they reject all trade protections, including tariffs, subsidies, and other government-imposed measures to control trade. Even when well intentioned, government meddling ends up hurting the economy by limiting trade. Therefore, conservatives end the practice of using trade policies to pressure foreign governments and multinational corporations to change their labor and environmental standards. If consumers are unhappy with price, quality, or the behavior of a multinational firm or foreign government, they won't buy the product. Market pressures motivate the firm or

government to change. Conservatives limit government involvement to three roles in international trade: make sure we have national security so that foreign entities don't pose a threat to our sovereignty; maintain a justice system to protect private property, including disputes over technology, copyrights, and patents; and build and improve infrastructure that facilitates the movement of goods and services, including highways, rail systems, ports, and border crossings.

Conservatives look at the graph in figure 19.10 and say we absolutely want maximum specialization to achieve the highest consumption possible for society. That is how we reach the CPC. Not specializing at all, or even moderately specializing, means we needlessly give up the highest possible standard of living and there is no rational or legitimate reason to do so. Maximum specialization is best for the economy because we use our scarce resources to their best uses. When all nations follow this wise course, say conserva-

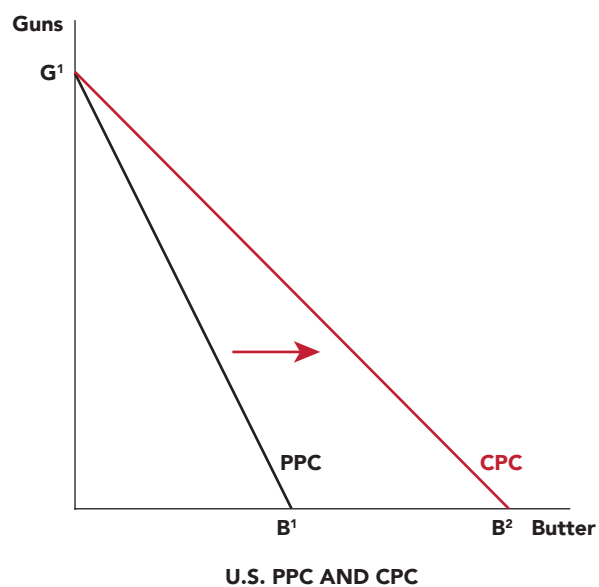


Figure 19.10
PPC and CPC: Conservative Perspective

tives, then the global economy flourishes because every country uses its resources to their best purposes, and none is wasted. Their vision is that every nation around the world focuses on its strengths, and worldwide prosperity grows. From the conservative perspective, our national security is protected through free trade because world peace arises with unrestricted trade. Today's enemies become tomorrow's allies when all countries rely on one another's products. Conservatives say that when countries use their resources to their best ends, we have peace and prosperity. Firms are able to thrive, and we enjoy the highest possible standard of living with products from every corner of the world.

Radical Theory Tools

It's time to look at the radical tools you'll need to understand the issue of international trade. Remember, there are two parts: radicals describe capitalism and then describe democratic socialism. Their model for each economic system is the Six-Core Cube, which is anchored by six core points

around which everything is constantly shifting. The core points reflect the commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people's basic material needs. The commitments of each economic system lead to very different outcomes.

International Trade in Capitalism

Radicals say all six core points could be used to analyze every issue because all six commitments and structures of the economic system are constantly in play. To analyze the issue of international trade in capitalism, they drill down into the core point of **unhealthy communities**. The term *unhealthy communities* can be confusing because it sounds like an outcome—something gone wrong in a community. But it's actually a process that leads to the outcome. It is defined as firms disregarding the impact of the production, consumption, and distribution of their products here and around the world, resulting in a host of harmful outcomes to individuals, communities, and the environment.

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
4. Production for Profit
5. Unsustainable Growth
- 6. Unhealthy Communities**



Figure 19.11
The Six Core Points of Capitalism

Capitalism has extremely dire consequences for the world, and global capitalism is exponentially worse, say radicals. Driven to maximize their profits at any cost, private owners treat people, communities, and natural resources as expendable—to be used up and tossed away when they no longer generate a profit. From the radical perspective, multinational corporations increase their profits by increasing workplace exploitation. Calling it “investment,” foreign firms pay off politicians, buy up land cheaply, and displace Indigenous people from their ancestral lands. They take away people’s ability to support themselves and leave them with no other option but to labor in sweatshops for pennies, say radicals. People work long hours with no benefits, often in dangerous jobs. Looking to save even more money, multinational firms cut corners on workplace safety. Radicals say that because those corporations are driven to make a profit, they descend on communities around the world and plunder ore, drain aquifers, clear-cut forests, dam rivers, and overfish waters. Their factories spew out toxic pollution while they pay off government officials to change the environmental standards or look the other way. Radicals believe it is wrong that people have no control over how the resources and technology in their own countries, cities, towns, and neighborhoods are used. Multinational corporations have no loyalty to anyone or anything but their bottom lines. When those firms inevitably move on to the next country to plunder its resources, they leave behind communities devastated by unemployment, public health crises, and lack of opportunities because their land is ruined. Radicals say that the big lie of global capitalism is that multinational corporations raise the standard of living in developing nations. Those countries might have a higher GDP, but at an unacceptable cost to people, communities, and the environment.

Radicals say that international trade agreements made in capitalism always prioritize the interests of multinational corporations over the well-being

of people and the planet because the international organizations that make and enforce the rules of trade are in the pockets of wealthy owners. Private owners may not be bad people, but in the race for market domination in global capitalism, they have no choice but to extract and exploit as much as possible to stay afloat and survive. Even though they know it’s wrong and may not want to do it, radicals say, they use child labor to harvest their tomatoes and work in their garment factories. They may feel guilty about it, but they still let pollution spill out of their factories while knowing those chemicals will cause illnesses for generations to come. Worried that a competitor is gaining an edge, they speed up the race to the bottom by finding new ways to increase their profits. They pay off local officials to lower workplace safety and environmental standards. They use cheaper materials and compromise the quality of their products. They manipulate consum-

Unhealthy Communities

- People and the planet are treated as expendable.
- There is no local control over resources.
- Firms race to the bottom.



ers through false advertising. Capitalism requires owners to make these kinds of antisocial decisions, according to radicals, because if they don't disregard the consequences to people and the planet, they won't be able to stay competitive, and they'll lose their firms. Radicals believe that international trade in capitalism is a heartbreaking story with no happy ending because it comes at an unacceptably high cost of corruption, pollution, poverty, disease, and death. The problem isn't a few bad actors; it's the economic system itself, they say. Capitalism voraciously devours everything in its wake, yet constantly needs more to consume. Built on the core point of *unhealthy communities*, capitalism trades the well-being of all for the profits of a few.

Here is how the core point of *unhealthy communities* and the pressure for bad work in capitalism:

Scenario 1. You're having coffee with an old friend from graduate school who owns a competing protein drink firm. She tells you, "Instead of paying a U.S. worker \$25 per hour, I moved my company to a developing nation where wages are \$5 per hour. And if wages go up there, I'll pick up and move to a country where labor is \$1 per hour. Some call this a race to the bottom, but I call it good business."

You say, "I really don't want to do that. I care about my workers, and if I move my firm someplace else, they'll be unemployed. Then they won't be able to pay taxes, so the school system will suffer, the potholes won't get filled, and the fire department will have to downsize. People will be forced to leave, and the community will turn into a ghost town. Communities around the world will suffer, too, because people will have no choice but to work in my sweatshops for next to nothing. They won't even be able to afford my protein drinks. It's a terrible idea."

"Then don't do it," she says.

But you will do it, and so will all the other

owners. You have to stay competitive or you'll lose your business. Radicals say a commitment to *unhealthy communities* means firms race to the bottom and pull societies down with them because in capitalism, people are viewed as expendable. Private owners have no choice but to prioritize their profits over the well-being of the people who work for them and the health of the environment.

Scenario 2. You're watching a softball game with a competitor, who says, "We've been buying up land in developing countries at a cheap price. We tear down the neighborhoods and then pay the people who used to live there rock-bottom wages to build our protein drink factories and work for us. We pay off government officials to ignore the fact that we're draining the local water supplies to make our products. A few campaign contributions in the right pockets and all the inconvenient environmental regulations go away. The profits we're making are unbelievable. In a few years, we'll pick up and move operations to a country where labor is even cheaper, and water is abundant and for the taking."

You say, "That sounds awful! You go around the planet razing people's homes, destroying their way of life, using up their resources, and then abandoning the area after you suck it dry. I don't want to be a part of that."

He says, "So don't do it."

But you will do it, and so will all the other owners. If you don't, you'll be driven out of business. Radicals say a commitment to *unhealthy communities* means local workers, their families, and their neighbors end up paying a high price for the damaging decisions made by the faraway owners of firms. In capitalism, the lack of local control over resources destroys cultures, disrupts lives, and causes irreversible environmental harm across the face of the planet.

Scenario 3. You're at a trade show and meet a competitor, who says, "Our business took a hit last

year after new studies showed that protein drinks aren't as nutritious as we claimed. It turns out that eating unprocessed protein is a lot healthier. So we paid for a study to say the opposite, and then we started an advertising campaign to hook consumers in low-income countries on our products."

You say, "That idea is morally corrupt. Those communities are already struggling to get ahead, and now you're going to manipulate them to waste their money on products they don't need. There is no way I want to be a part of that."

They say, "So don't do it."

But you will do it, and so will all the other owners. You'll have to if you want to keep your own family fed. Radicals say a commitment to *unhealthy communities* leads to a breakdown of societies across the world. Capitalism leaves people suffering from higher levels of personal debt, poverty, illness, corruption, and other avoidable hardships.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- **Damaging trade relationships**
- High prices and no jobs

International Trade in Democratic Socialism

To analyze the issue of international trade in democratic socialism, radicals drill down into the core point of **healthy communities**. This core point is defined as firms taking into account the impact of the production, consumption, and distribution of their products here and around the world, resulting in a host of beneficial outcomes for individuals, communities, and the environment.

Radicals say society is better off with democratic socialism because the government, firms, and communities are dedicated to economic justice and environmental sustainability here and beyond our country's borders. Acting with the understanding that we are all intrinsically connected as humans who share one planet and a global economy, worker-owned firms make *prosocial* decisions—decisions that put the well-being of people and the planet first. A central radical idea is that workers are productive collectively, not just individually, so they use a democratic process to make sure all worker-owners are compensated fairly and have enough income to meet their material needs. When trading with firms in foreign countries, domestic worker-owned businesses leverage their buying power to support foreign trading partners that are also worker-owners. Radicals say that countries with democratic socialism value the contributions of their international trading partners and are motivated to negotiate deals that improve everyone's standard of living. But please don't think this is because they are inherently more moral or selfless, say radicals. Prosocial behavior is incentivized in an economic system that recognizes that we are all intrinsically interconnected, so it is in our mutual best interest to cooperate, be accountable, and treat people and the planet with respect. This is why worker-owned firms add value to the communities where they do business. A decision to make safer cars for domestic and foreign markets translates into fewer preventable accidents and more

physical well-being around the world, radicals say. It also sets a high standard that competitors are inspired to emulate. Prosocial decisions create a race to the top, where worker-owned firms vie to produce in the most sustainable ways and use their businesses to support and uplift communities and consumers.

According to radicals, nothing happens in isolation. Everything and everyone is connected—not just in a community or a country, but throughout the world. That is why firms automatically think globally while acting locally. Worker-owners in every country consider the effects of their products and production processes and then make decisions that do the least harm and the most good. In democratic socialism, one of the roles of a participatory government is to negotiate, monitor, and follow through on international trade agreements. Government officials convene international trade councils made up of representatives from worker-owned firms of all sizes, consumer groups, workplace safety specialists, environmental experts, local community members, and other

stakeholders. They facilitate the meetings and then represent the trade policies developed by the councils. The international trade councils are guided by the golden rule: treat others as you want to be treated. For example, you would not want a firm to come into your community and cut down your forests, put a road through your neighborhood, or poison your river, say radicals. With local ownership of resources, the people who are affected by production have a say in how their shared resources are used. As local stakeholders, they are motivated to make decisions that benefit the whole society today and for generations to come. According to radicals, the drive for well-being is like a benevolent wind that spreads seeds of progress and innovation around the globe. The cross-fertilization of goods and services from community to community through international trade allows people to prosper and the planet to thrive when the well-being of people and the planet is prioritized over profits. Radicals believe that momentum is generated by a commitment to *healthy communities*. One prosocial



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
4. Production for Use
5. Sustainable Development

6. Healthy Communities

Figure 19.12
The Six Core Points of Democratic Socialism

decision builds on the next, leading to economic and social justice around the world.

Radical policy: Fair trade and collaboration. Radicals wholeheartedly embrace international trade among democratic socialist countries according to each one's comparative advantage. They recognize the potential of trade to improve everyone's quality of life by giving us all access to a greater number and wider variety of products and promoting peace and cooperation. But when it comes to trading with capitalist countries, radicals use minimum specialization. That way, society benefits from *some* comparative advantage, but it doesn't become dependent on products that are produced under global capitalism, so there is no pressure to become an accomplice to the many antisocial behaviors that arise from capitalist competition. Radicals use fair trade to elevate the standard of living throughout the world. They say that when there is local control over resources, and the people who produce the goods and services are able to profit from the fruits of their own labor, society benefits with economic justice, democracy, and eco-friendly production. International trade councils promote prosocial policies—not just domestically, but throughout the world. Their flagship prosocial policy is fair trade. It calls for strong labor and environmental standards and the protection of human rights. It frees workers everywhere to meet their material needs because fair trade ensures that they are compensated according to their actual contributions. Radicals say that fair trade enables communities to flourish because resources are managed wisely for long-term sustainability. As more people internationally are able to meet their material needs and thrive, they contribute their ideas, inventions, innovations, art, wisdom, and productive energy to the whole world.

Radicals use collaboration in the context of fair trade to spread worker-ownership to other countries. For example, worker-owned firms collaborate with their foreign suppliers to improve

Healthy Communities

- People and the planet come first.
- Firms think globally and act locally.
- There is local control over resources.



the quality of products and create a better quality of life here and abroad. So a worker-owned spice import firm in the United States invests in a worker-owned spice farm in Sri Lanka, providing loans to build a sustainable irrigation system. The U.S. firm helps its trading partner make capital improvements, such as acquiring drying equipment that helps the spices retain their flavor and prevents harmful mold. It offers expert consulting on eco-friendly pesticides and suggests ways to improve efficiency in packaging. In turn, the U.S. firm benefits from the foreign partner's expertise on the beneficial uses and successful production of the spices. The U.S. firm is better able to use the imported spices in its products and give reliable information about its benefits to consumers. Both firms freely exchange ideas, provide relevant technical training, mentor one another's workers, and support each other's success because they share

the same goal of making products that are of the highest quality and sustainably produced. Collaboration in democratic socialism is a win-win for society, and on a global scale, it's a win-win for the whole planet. From the radical perspective, the combination of collaboration and fair trade allows us to enjoy the goods and services that are essential to our well-being while workers and communities thrive, the environment is healthy, and there is peace throughout the world.

Here is how the core point of *healthy communities* and the pressure for good work in democratic socialism:

Scenario 1. You're having coffee with an old friend from grad school who is a co-owner of a competing protein drink factory. She tells you, "We joined other firms in our industry and pledged to source our supplies only from worker-owned firms here and abroad. We believe strongly in the principles of fair trade, so we're leveraging our buying power to create more economic justice around the world. By paying those firms a fair price for their products, we're helping to raise the standard of

living in their communities. Are you in?"

You say, "That's a wonderful idea. Our firm will definitely want to sign on to that pledge. We know that when companies are worker-owned, everyone is highly motivated to improve the quality of products because we are all the owners, so we all reap the rewards. I'll bring this up for a vote at our next worker-owner meeting."

"You should do it," she says.

Both of your firms will do it, say radicals, because a commitment to *healthy communities* means the well-being of people and the planet are the top priority. Doing business according to the principles of fair trade means that all people are able to thrive in the global economy and human rights are protected. In democratic socialism, everyone operates with the shared understanding that all people everywhere are inextricably connected, so we all win or we all lose together.

Scenario 2. You're watching a softball game with a competitor, who says, "Our protein drink firm just started a new collaboration with one of our international bottle suppliers. The firm is developing a promising alternative to plastic that uses plant-derived materials. We invested in their research because if this endeavor succeeds, we'll be able to stop using plastic bottles. Not only will we cut back on pollution, we'll attract more customers."

You say, "That sounds awesome. Our firm should collaborate with our foreign suppliers, too. We could benefit from their expertise in developing new eco-friendly inputs, and we could help them afford to innovate. Our firm has a seat on the international trade council. I'll talk to other worker-owners about advocating for these kinds of collaborations in future trade negotiations."

"You should do it," they say.

Both of your firms will do it, say radicals, because a commitment to *healthy communities* means that people value the diverse knowledge, experience, and expertise of trading partners, and support one another to develop better products and technolo-



Figure 19.13
Healthy Communities: Radical Perspective

gies. In democratic socialism, firms that do business internationally benefit from respectful, mutual collaborations that lift the standard of living for all.

Scenario 3. You're at a trade show and meet a competitor, who says, "Because we're committed to supporting healthy communities around the globe, we're committed to truth in advertising. The worker-owners in our firm voted to stop doing business with firms that manipulate consumers in the developing world with lies about their products. We had to drop a few of our suppliers, but we decided it was worth the hassle and expense because it's in both our short-term and long-term interests to be good global citizens."

You say, "I love that idea. I'm sure the other worker-owners at my company will want to make that commitment. We try to use our purchasing power to influence other firms to do the right thing because we recognize that when we do business responsibly around the world, it is mutually beneficial. People everywhere are our potential business partners and potential customers, so when they thrive, we thrive. I'll definitely raise this issue at our next worker-owner meeting."

"You should do it," he says.

Both your firms will do it, say radicals, because a commitment to *healthy communities* means firms think globally and act locally. In democratic socialism, every decision a firm makes is carefully

weighed to ensure that its products and business practices make people and the environment better off both here and around the world.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- **Mutually beneficial trade relationships**
- Jobs and stable prices



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of international trade. This is an extremely relevant and personal debate for you and for all of us as a

society. Next, we'll explore the conversations that are taking place around you about when trade relationships break down and society loses out, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.



The Issue

Try to guess what the following brands all had in common in 2021: Purina, Nescafé, Alpo, Dreyer's, Gerber, Perrier, Stouffer's, Garden of Life, Häagen-Dazs, Lean Cuisine, California Pizza Kitchen, Cheerios, and Hot Pockets. Any ideas? The answer is that these brands—and two thousand more—belonged to the multinational firm Nestlé. It is very likely that you have some relationship with Nestlé brands. I have childhood memories of coming inside after playing in the snow and sipping a cup of Nestlé hot chocolate. Maybe you can't live without your Nescafé coffee. Maybe your one-year-old cousin will eat only Gerber baby food, and your brother can't start the day without his giant bowl of Cheerios with milk.

Nestlé is a multinational corporation headquartered in Vevey, Switzerland. In 2021, it was the world's largest food and beverage company. Just to give you an idea of how big this company is, it did business in 186 countries. It operated 354 factories in seventy-nine countries and employed 276,000 workers worldwide. Its annual sales that year amounted to \$95.2 billion. That is more than the national income of most countries. In the United States alone, Nestlé operated 58 factories.

The company bears the name of its founder, Heinrich Nestlé. Born in 1814 in Germany, he moved to Switzerland in his twenties (and changed his name to Henri). He worked as a pharmacist and experimented with making different products. He had some entrepreneurial success producing lamp oil, liqueurs, bottled soft drinks, and powdered milk.

Fast-forward to 1860, when another German chemist, Justus von Liebig, patented the first infant



formula. Soluble Food for Babies was a life-saving alternative for infants whose mothers couldn't breastfeed or chose not to. Infant formula was first sold as a powder that needed to be mixed with warm cow's milk. In 1867, Nestlé came up with his own infant formula recipe using powdered milk along with sugar, malt, and wheat flour. It only needed to be mixed with water, which made it more convenient. A biographer of Nestlé surmised

that his interest in infant formula may be related to his family history. He was the eleventh of fourteen children, seven of whom had died in childhood.

Nestlé's formula, *Farine Lactée* (French for *flour* and *milk*), gained recognition after it saved the life of an infant. Little Wanner had been born a month premature and couldn't tolerate breast-milk. Nestlé fed the child his formula, and Wanner gained strength and started to thrive. The news about this miraculous recovery spread, and people came to see the so-called miracle child for themselves. Doctors tested Nestlé's formula and gave it high praise, and the product took off. By 1870, it was on the shelves in stores in the United States.

Most people associate the Nestlé brand with chocolate. Before Henri Nestlé retired, he and his neighbor (who invented milk chocolate) went into business together and sold milk chocolate bars and chocolate milk. Perhaps the most iconic Nestlé product is its Tollhouse semi-sweet chocolate chips. The idea to bake little chocolate bits into cookie dough came from a one-time home economics teacher and chef named Ruth Graves Wakefield. In 1938, she and her husband owned the Tollhouse Inn outside Boston. She invented the chocolate chip cookie using chopped-up pieces of a Nestlé semi-sweet chocolate bar and then popularized the recipe in a best-selling cookbook. The Nestlé company bought the rights to use Wakefield's recipe in exchange for \$1 and a free supply of Nestlé chocolate for the rest of her life. Today, chocolate chip cookies are a multibillion-dollar market. If you look at the back of a package of Nestlé semi-sweet chocolate chips, you can still find Wakefield's original recipe.

Henri Nestlé sold his company in 1875 and died fifteen years later. The firm that bears his name has as its motto "Good Food, Good Life." To many people in the United States and around the world, this multinational firm has certainly brought good to the world. Nestlé's products are trusted by mil-

lions. No one can deny, however, that some of its activities have had dire consequences. One of the longest-running controversies has to do with its infant formula. In the 1960s, the use of infant formula started to fall out of vogue in wealthier Western nations. To boost its falling sales numbers, Nestlé sent salespeople dressed in white lab coats to birthing centers in low-income countries in Africa, Asia, and Latin America. Giving the impression that they were medical experts, they falsely claimed that infants would be healthier if mothers fed their babies formula instead of breast milk. A blitz of print, radio, and television ads reinforced this idea, even though studies showed that babies fed breast milk had fewer hospitalizations and fewer infections than infants on formula. Nevertheless, Nestlé distributed free samples of its product to hospitals, doctors' offices,

stores, and anywhere else its sales teams could reach new mothers.

Those free samples came at a high cost for some mothers. Breast milk dries up if it's not used, so when women stopped breastfeeding to try out the free samples for a week or two, some were not able to go back to breastfeeding. Their milk had dried up. They became dependent on infant formula, which was often prohibitively expensive for low-income families. Some parents diluted the free samples with more water to make them last longer, which meant their infants didn't get enough nutrition. Some of those children died. Water was a problem in another way. In many low-income countries, drinking water was tainted with pollutants. Since the Nestlé formula needed to be mixed with water, many babies on formula in those countries grew sick and died. An official from the U.S.



Agency for International Development (USAID), Dr. Stephen Joseph, said in 1981 that dependence on infant formula was the reason for one million infant deaths in developing countries. Others claimed the number was dramatically higher.

In 1974, a book about Nestlé's questionable infant formula marketing practices and the tragedies that resulted led to worldwide **boycotts** against the multinational firm. People consciously decided not to buy products made by Nestlé as a way to protest against its behavior and to pressure it to change its marketing practices. By the late 1970s, the boycott spread from the United States to Australia, Canada, New Zealand, the United Kingdom, Sweden, Germany, France, Finland, and Norway. The Nestlé boycott was suspended seven years later, when the company agreed to abide by the World Health Assembly's newly established International Code of Marketing of Breast-Milk Substitutes. The new rules banned firms that sold infant formula from promoting their products in birthing centers, hospitals, and doctor's offices; distributing free samples; giving gifts to health-care workers and mothers; and misleading the public that infant formula is superior to breast milk. Firms also had to be clear about the costs of feeding babies their formula. Nonetheless, the boycott against Nestlé was revived several more times during the decades since then. The firm has repeatedly been accused of violating the rules.

The infant formula tragedy was only one of many scandals involving Nestlé. For example, it was revealed that the firm sourced its cacao from African farms that used child slave labor. Nestlé responded by requiring suppliers to sign their Responsible Sourcing Standard pledge, while admitting that this is a difficult issue to monitor effectively. The multinational corporation also became mired in controversies over water rights. One of the biggest bottled water companies in the world, Nestlé was accused of aggressively siphoning off water from public lands in the

United States and Canada to bottle and sell under its labels Arrowhead, Poland Spring, Deer Park, Nestlé Pure Life, and others. It has since sold off many of its U.S. brands, but not before getting embroiled in legal battles with some California residents, who sued the company for pumping water out of the San Bernardino National Forest while paying no fee for water rights.

While Nestlé has clearly improved the quality of life for many by bringing beneficial products to people around the world, it has also clearly done harm. Still, you might be surprised to learn that Nestlé isn't the most boycotted multinational firm. It isn't even in the top three. That dubious honor belongs to Nike, Coca-Cola, and McDonald's.

Understanding International Trade

Do you know what goods the United States exports? Try this quick exercise. Guess three of the top ten goods we exported the most (by value) in 2020. Jot down your answers and hang on to them. We'll return to this question soon.

When economists measure how much international trade is taking place, they mainly look at the total value (in U.S. dollars) of goods and services traded among the countries of the world. That number rose dramatically over the twentieth century and continues to rise. According to a United Nations report, global trade hit \$28.5 trillion in 2021—setting an all-time record for trade up to that point.

I realize that it's hard to imagine how big \$1 trillion really is. Simply tacking on three more zeroes to a billion doesn't adequately convey how massive that number is. Toledo's Science Center uses two analogies that might help. If you laid one trillion dollar bills end to end, they would just about stretch from the Earth to the Sun. And if one trillion dollar bills were rolled up like paper towels, it would take a jet plane flying at the speed of sound 14 years to unroll it as it flew. Suffice it to say, a trillion is an enormous number.

You might assume that only big multinational corporations such as Microsoft, Apple, Amazon, and Nestlé engage in global commerce. That's not the case. In the United States in 2019, three hundred thousand companies engaged in international trade, and 98 percent were small or mid-sized firms, according to the Department of Commerce. Many U.S. jobs depend on international trade: one in five—around 39 million—in 2019. It was half that many in 1992.

In 2019, China was the world's leading exporter of goods (tangible products—things you can touch), and the United States was the world's leading exporter of services (intangible products—things you can't touch). These included transportation, travel, financial and insurance

services, charges for intellectual property use, construction, and more. Goods are broken down into two categories. Capital goods (also sometimes called industrial goods) are equipment and supplies that are used to produce other goods and services. For example, the United States exports commercial aircraft, industrial machines, semiconductors, petroleum, and chemical products. Consumer goods include final products that you buy at the store. For example, the United States exports cars, food, pharmaceutical drugs, cell phones, beverages, clothing, furniture, books, and kayaks. In 2018, our biggest export of goods by far was petroleum, as you can see in figure 19.14, which shows each country's top export by value.

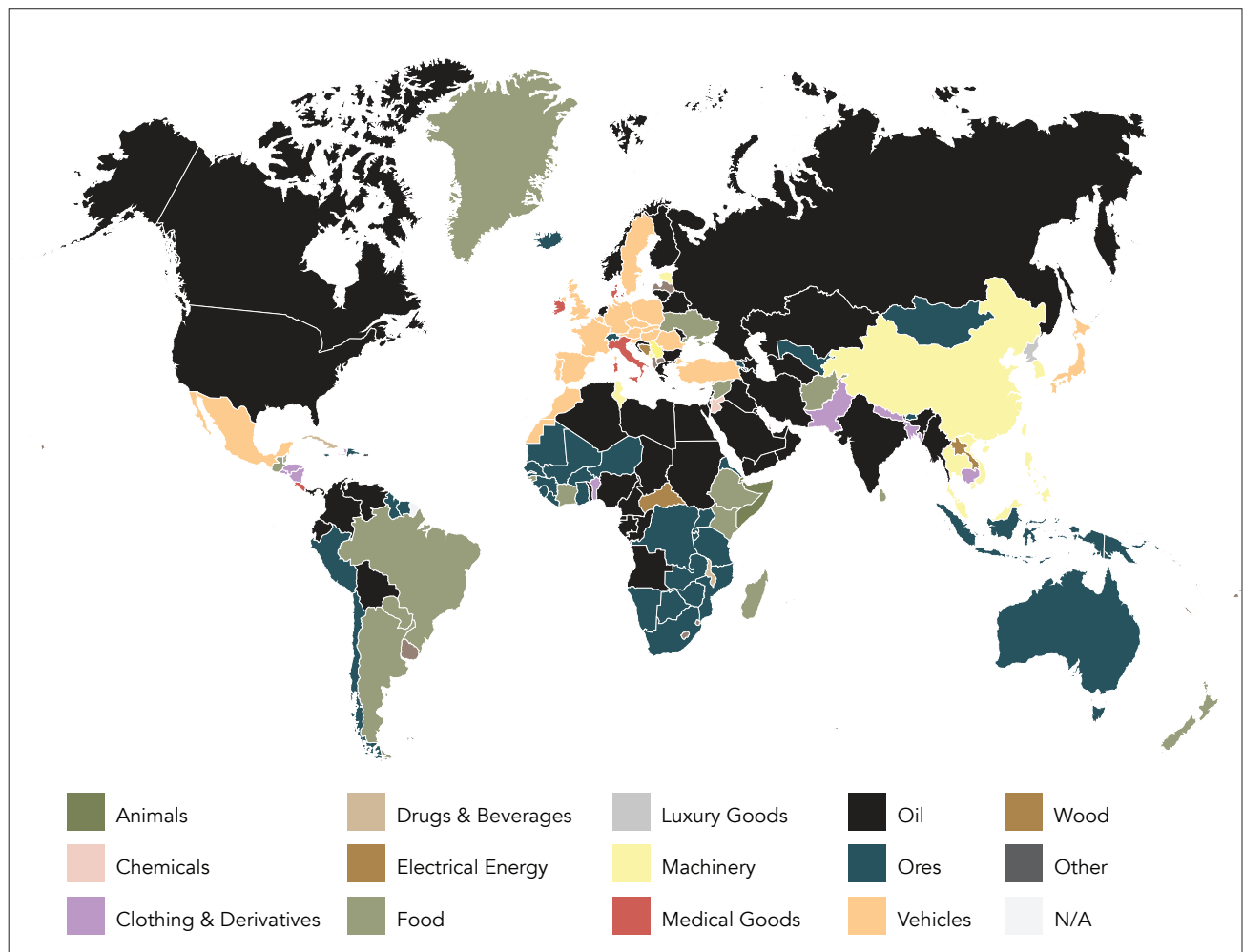


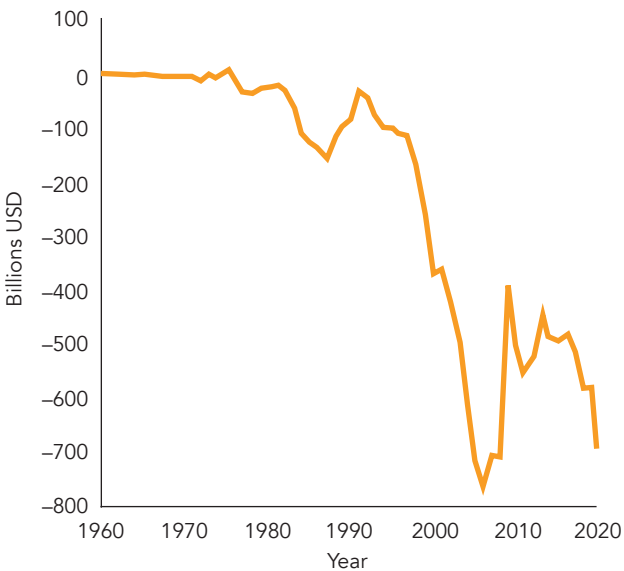
Figure 19.14
Top Exports of Goods in the World, 2018

It's time to check your answers to the exercise from earlier in this section. What were your guesses for three of the top ten goods we exported the most (by value) in 2020? Compare them to the list in table 19.1. How did you do? Did you guess any of them?

Trade Balance

If a country imports more (in value) than it exports, then it has a **trade deficit**. When it exports more than it imports, it has a **trade surplus**. After the Civil War and up to the 1970s, the United States mostly had a trade surplus. By the early 1980s, new trade agreements led to a burst of international trade activity, and the United States began to import more products. That's when we started have a trade deficit, as you can see in figure 19.15.

Trade affects our gross domestic product (GDP), which is the measurement of our national income (the money value of our final goods and services newly produced in a given period). GDP



Data Source: U.S. Census Bureau, Economic Indicator Division

Figure 19.15
U.S. Goods and Services
Trade Balance, 1960–2020

PRODUCT	VALUE
Processed petroleum oils	\$60.7 billion
Crude oil	\$50.3 billion
Cars	\$45.6 billion
Integrated circuits and microassemblies	\$44.2 billion
Petroleum gases	\$33.3 billion
Automobile parts and accessories	\$33.2 billion
Phone system devices, including smartphones	\$28.1 billion
Electro-medical equipment (for example, imaging machines)	\$28.0 billion
Blood fractions (used for medical products)	\$26.1 billion
Soybeans	\$25.9 billion

Table 19.1
Top Ten U.S. Goods Exports by Value, 2020

is the sum of all our consumer (C) spending, investment (I) spending, government (G) spending, and net export spending, which is exports (X) minus imports (M). The equation looks like this:

$$GDP = C + I + G + (X - M)$$

When there is a trade deficit, our net exports are negative, which lowers our GDP. Since GDP is a measure of our national income, obviously that is not great news. But when you see that number, be aware that sometimes the news only shows the deficit in the trade of goods (called the *merchandise trade balance*). Other times, it will show the trade of both goods and services. These numbers are dramatically different. For example, in 2020, our trade in goods was a deficit of approximately \$910 billion. Our trade in goods and services was a deficit of approximately \$675 billion. Please note that figure 19.15 shows U.S. trade in goods *and* services, while table 19.1 shows the top U.S. exports of goods only.

Balance of Payments

The news that there is yet another record trade deficit can send some people into a panic. You might hear pundits voice their alarm that we're in debt to other nations because we bought more foreign products than we exported to the world. But this isn't the whole story. A trade deficit is not like being in the red on your monthly household budget. International trade accounting has another layer to it. Here is an example to explain how it works. Suppose that people in the United States buy ten thousand flat-screen TVs from South Korean firms. Those firms end up with U.S. dollars, but they can't spend dollars in South Korea. That country has its own currency, called won. Even if the firms go to the bank and convert their dollars into won, South Korean banks are left with U.S. dollars that they need to spend. One way or another, those dollars are spent on things of value in the United States, including

land, apartment buildings and other real estate, U.S. corporate stocks and bonds, and government securities (Treasury bonds and bills). This is called *trade in assets*.

When economists measure international trade activity, they consider the trade in goods and services as well as the trade in assets. Think of a ledger with two columns. The **current account** shows the trade in goods and services, and the **capital account** shows the trade in assets. (Confusingly, here we aren't referring to capital goods.) When a country has a deficit in the trade of goods and services, it has a surplus in the trade of assets. The opposite is also true. When a country has a deficit in the trade of assets, it has a surplus in the trade of goods and services. The two balance each other out. That's why it's called the **balance of payments**. There is a lot more to it, of course, but this is the basic idea of international trade accounting. If you read in the news that a record trade deficit led to the closure of automobile factories in the United States, you are hearing only half the story. Turn the page and you'll read about investors from the countries that sell us their automobiles buying up skyscrapers in Chicago and Houston, launching joint mining ventures with U.S. firms, and becoming major shareholders in U.S. film production companies. Regardless of how you feel about foreigners buying our assets or selling us more of their products than we sell to them, please remember the balance of payments. The more people who understand how the balance of payments works in international trade activity, the more sophisticated our national conversations will be on the topic of trade deficits.

Organizations that Guide International Trade

Firms and consumers are affected every day by the rules of international trade. If you're still a little fuzzy about how all the moving parts fit together, imagine it's 2021 and a firm produces



yoga gear. It decides that it wants to sell yoga mats in Mexico, Germany, New Zealand, and North Korea. The United States has a trade agreement with Mexico that eliminates import tariffs on yoga mats in Mexico. With no tariffs, the price of the imported yoga mats will be competitive with ones produced domestically, so the firm moves ahead with its plan to do business in Mexico. Germany is part of the European Union (EU) trading bloc—a group of countries in the same region that coordinate their international trade together. The United States doesn't have a special trade agreement with the EU, so there will probably be import tariffs on yoga mats in Germany. The firm rethinks its plan to do business in Germany, because those tariffs will drive up the price of its yoga mats, and it will be harder to compete with German firms. New Zealanders are yoga enthusiasts, and even though the United States doesn't have a trade agreement with their government, New Zealand tends to have few tariffs. The firm decides to do business there. But the plan to sell its yoga mats in North Korea never gets off the ground because that country is under an embargo by the United States. It is illegal for U.S. firms to do business there.

Many different departments in the U.S. federal government manage these different aspects of trade. Here are just a few examples of **domestic trade organizations**, in alphabetical order:

Bureau of Industry and Security (BIS).

Part of the U.S. Department of Commerce, BIS was created to protect national security by monitoring exports. For example, it is tasked with making sure that firms comply with regulations regarding the proliferation of weapons of mass destruction and the sale of weapons to terrorist groups or countries with which the United States has conflicts.

International Trade Administration (ITA).

As part of the U.S. Department of Commerce, the ITA was created to make U.S. firms more competitive in the global marketplace, ensure that trade is fair, promote trade and investment, and enforce trade laws and agreements.

Office of Trade, Mutual Recognition, and International Arrangements (OTMRIA).

Part of the U.S. Food and Drug Administration (FDA), OTMRIA works with foreign governments to cooperate on regulations. Goods produced outside our country still must comply with FDA

regulations regarding production, product safety, labeling, and more.

Office of the U.S. Trade Representative (USTR). The USTR coordinates and oversees all aspects of our country's international trade, including negotiating trade agreements. The president appoints the U.S. trade representative—a Cabinet-level position—who serves as the administration's spokesperson on trade issues.

U.S. Customs and Border Protection (CBP). All goods that come into the United States must pass through CBP, which is part of the U.S. Department of Homeland Security. CBP enforces trade regulations and is intended to protect consumers from harmful and counterfeit imports. Its job is to make sure all imports are genuine, safe, and lawfully sourced.

In addition to domestic agencies that deal with international trade and the WTO, many **international trade organizations** are involved in some aspect of trade. Here are a few you might have heard of in the news:

G20. It stands for the Group of 20, which is an international forum on economic governance. Members include representatives from the twenty countries with the world's biggest economies, including the United States. Committees meet throughout the year to discuss ways to cooperate to create a resilient and sustainable global financial system. The WTO monitors G20 trade measures and issues reports summarizing their effects.

International Chamber of Commerce (ICC). Headquartered in France, the ICC represents more than 45 million companies in more than one hundred countries. It represents the needs of firms to the WTO, the UN Conference on Trade and Development (UNCTAD), and other international trade organizations, advocating for policies that open markets to international trade. It also advises industries on issues that affect their ability to trade internationally.

International Monetary Fund (IMF). The IMF coordinates the international monetary system and is intended to create financial stability throughout the world. Its work is geared toward helping member countries with their balance of payments, thereby increasing international trade, global employment, and economic growth, as well as decreasing global poverty.

Organisation for Economic Co-operation and Development (OECD). This international organization produces independent analysis and statistics about economic well-being around the world. It collaborates with the WTO to develop evidence-based policies related to global trade.

United Nations Conference on Trade and Development (UNCTAD). With a motto of "Prosperity for all," UNCTAD is intended to provide developing countries with technical assistance and other support so they can benefit from globalization. The WTO and UNCTAD work closely on joint initiatives.

World Bank. It provides both funding and knowledge for developing countries. Toward that end, it works with government and the private sector to achieve its stated mission of ending poverty and building shared prosperity.

Trade Agreements

Before I learned about international trade, I assumed that we needed separate agreement with each trading partner. That's not how it works. In 2021 we had fewer than two dozen trade agreements, but as a member of the WTO, the United States could also trade with any of the 163 other member countries. That trade is governed by the general WTO rules. Those rules are hashed out in trade rounds. Every member nation participates. As discussed earlier in the chapter, only when a consensus is reached (everyone agrees), do the rules pass. At that point, they must be ratified by each member nation's government before they go into effect. That helps explain why trade rounds

can last for decades. It's quite challenging to get more than 160 countries to agree on anything.

It also takes a tremendous amount of negotiation between countries to forge a trade agreement. Those agreements are time limited, so they have to be renewed or renegotiated over time. Add geopolitical factors to that mix and it gets even more complex. For example, when the United Kingdom left the European Union in 2020 (a move that was nicknamed Brexit), it lost its membership in the EU trading bloc, so it had to negotiate new trade deals with the EU and other countries it had been trading with under EU agreements. If trade deals seem convoluted, let me break it down for you. There are three general types:

Global trade agreements. The WTO works to reach consensus on the basic principles of international trade. There are many matters to consider, but three are especially important. **National treatment** means once imports enter a country, they must be treated no differently from domestic products. In other words, there can be no discrimination against imports. Governments are not allowed to exclude or ban those products from the market, levy a special tax on them after customs

duties have been collected, or take other actions that would make those products less competitive with their domestic counterparts. In addition, all countries must uphold the copyrights, patents, and trademarks on foreign goods and services.

Tariff binding is meant to create stability in trade and make it more business friendly. Countries agree to put a ceiling (an upper limit) on import tariffs. Agreeing not to raise tariffs above a certain level can be as important as agreeing to lower them to a certain level.

Most-favored nation (MFN) is a contradictory term. It is often misunderstood to mean exactly what it sounds like: countries gave certain trading partners special treatment. But the WTO uses MFN to mean that WTO member countries won't discriminate against one another. If the United States lowers tariffs on cloth for Kenya, then it must lower tariffs on cloth for all WTO member countries. There are a few exceptions. Some countries have been banned from MFN status over the years for various reasons. WTO member countries are allowed to ban or limit trade with them and charge high tariffs for their imports.

Another exception to MFN allows countries to



have separate trade agreements with other countries. These are called **free-trade agreements (FTAs)**. The United States had fourteen FTAs with twenty countries in 2021. Despite the word *free*, FTAs often include some tariffs on imports and other trade restrictions. But the point of a free-trade agreement is to reduce barriers to international commerce even more than what was agreed to by the WTO.

Regional trade agreements. These are free-trade agreements among countries in a certain area. For example, the Dominican Republic–Central America Free Trade Agreement (CAFTA-DR) includes the United States, Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, and Nicaragua. When a trade agreement involves three or more countries, it is a **multilateral trade agreement**. A famous one you may have heard of was the North American Free Trade Agreement (NAFTA). It was in force from 1994 to 2020, when it was replaced by the United States-Mexico-Canada Agreement (USMCA). Just to give you an idea of what kinds of provisions end up in a multilateral trade agreement, USMCA requires that a vehicle sold in those three countries must have

75 percent of its parts manufactured in either Canada, Mexico, or the United States. Otherwise, the vehicles are subjected to tariffs. NAFTA required only 62.5 percent. The idea behind the change is to create more jobs in all three countries. USMCA also tightened labor standards compared to NAFTA, allowing inspections of facilities and factories in all three countries. In addition, it stipulates that U.S. companies doing business in Canada and Mexico may store their data on U.S. servers rather than being required to store it on in-country servers. NAFTA didn't address **digital trade**—the online buying and selling of goods, services, information, and data.

Bilateral trade agreements. **Bilateral** means there is a free trade agreement between two countries. In 2021, the United States had bilateral trade agreements with Australia, Bahrain, Chile, Colombia, Israel, Jordan, Morocco, Oman, Panama, Peru, Singapore, and South Korea.

Bilateral and multilateral agreements are meant to make trade more beneficial for both countries.

While all perspectives agree that international trade has potentially tremendous benefits, trade



negotiations regularly fail. The United States had three notable failed attempts at bilateral agreements in the early 2000s. The Free Trade Area of the Americas (FTAA) was intended to be a special agreement of all the countries located from the northern tip of the Americas all the way to the southern tip. The Transatlantic Trade and Investment Partnership (T-TIP) was intended to extend trade relationships between the United States and the European Union. And the Trans-Pacific Partnership (TPP) was intended to extend trade among several countries that border the Pacific Ocean. The United States pulled out of negotiations on the TPP in 2017, but other countries moved forward with it.

Ten Common Concerns in International Trade

International trade is a very complex undertaking. It's like trying to play dozens of card games simultaneously while the rules change and the decks of cards don't match. Even with trade agreements, countries routinely accuse one another of cheating. This is bad for commerce and potentially explosive for international relations. Let's take a look at the ten common conflicts that come up in international trade so that you'll have a better idea of what some of the fights are about. We'll describe them in alphabetical order.

Currency manipulation. Currency manipulation occurs when governments artificially lower the value of their currency to lower the price of their exports. This can be done by buying up the other country's currency. For example, if Malaysia buys South African rands on the foreign exchange market, the rand appreciates in relation to the Malaysian ringgit because Malaysia is increasing the demand for rands. The concern is that the relative value of the Malaysian ringgit goes down in relation to the rand, which means Malaysian imports cost less. South African firms become less competitive in their own domestic markets.

Dumping. When foreign firms sell exports for less than what they cost to produce to gain market share, domestic firms are potentially underpriced and pushed out of business. The concern is that foreign firms take a short-term loss to push domestic competitors out of the market. Then they are in a position to corner the market. For years, Vietnam was accused of dumping shrimp in the U.S. market, but it claimed that its firms had legitimately lowered their costs by using new techniques in shrimp farming. In 2019, the United States was accused of dumping lobster in China's lobster market, and China was accused of dumping mattresses in the U.S. mattress market.

Forced technology transfer. When a firm wants to do business in another country, the foreign government sometimes requires it to share its technology, recipes, formulas, plans, blueprints, technical drawings, and other intellectual property. If it doesn't agree to these terms, the firm isn't allowed to do business in that country. Sometimes, firms are even required to partner with a domestic firm and create a joint venture. The concern is that it is unfair to force firms to give up control over their intellectual property.

Infant industry. When countries try to launch new industries in the global marketplace, but well-established firms already dominate the market, the concern is that this makes it difficult or impossible for new firms to gain traction. If you are a fan of the musical *Hamilton*, you might be interested to learn that Alexander Hamilton was the first to make the infant industry argument. In 1791, he argued in favor of trade protections to limit imports from Great Britain, saying we needed to make sure the young industries in the newly formed United States could get a foothold in domestic markets.

Intellectual property rights. When foreign companies take copyrighted, patented, and trademarked works and inventions and then produce

and sell them without compensating the owners of that intellectual property, it leads to financial losses to firms. Pirating is one concern, and another is the risk posed to consumers by counterfeit pharmaceuticals, medical devices, and other products. A concern in the other direction is when foreign copyright holders make life-saving medicine prohibitively expensive. Some believe this justifies violating intellectual property rights because it saves lives. Some companies say this is unfair because they invested heavily in research and development. They also say it is shortsighted, because it sends other firms the message that it doesn't pay to find the next cures that the world needs.

Investor-to-state dispute settlement. When foreign firms are allowed to sue governments because domestic policies interfere with their business interests in that country, the concern is that these suits can interfere with national sovereignty. For example, the multinational tobacco firm Philip Morris sued the Australian government for requiring cigarette firms to use plain packaging (no exciting, colorful graphics) on their products to prevent young people from smoking. The firm said the new law infringed on its rights to do business in that country.

National security. When governments claim that certain products are essential to their national security, they impose special trade protections. The concern is that the country would be at risk if it could no longer produce those things domestically. This argument is often used to limit the trade of such products as military equipment, computer technology, satellites, artificial intelligence, and certain foods. In 2018, the national security argument was used to raise tariffs on steel and aluminum imports.

Offshoring and outsourcing to foreign countries. When firms move production to other countries (offshoring) or hire a third party in another country to complete some aspect of production (outsourcing), the concern is that domestic jobs are

lost. For example, a U.S. automaker moves its factory from Indiana to Mexico and closes its operations in the United States, or a language school in Montana hires a bookkeeping firm in the Philippines.

Standards. When foreign countries have lower labor and environmental standards, some multinational firms move their operations there from countries with higher standards to lower their costs. The concern is that whole industries are lost in countries with higher standards. The other concern is that countries with lower standards are at risk for human rights violations, unsafe workplaces, and toxic levels of pollution. For example, Bangladesh had lower workplace safety standards in 2013, when a garment factory that supplied to multinational corporations collapsed, killing more than 1,100 workers.

Subsidies. When foreign governments give financial support to domestic industries, the concern is that trading partners are at a disadvantage if they don't subsidize their own domestic industries. For example, in 2002, Brazil submitted a WTO complaint that the United States was subsidizing its cotton farmers, which made U.S.-grown cotton cheaper and therefore more competitive, not just in Brazil's markets but in cotton markets around the world where Brazil was also competing. The U.S. government responded that those subsidies were part of the Farm Bill, so by law they had to be paid to cotton farmers. Several appeals and eight years later, a settlement was finally reached. The United States agreed it would also subsidize Brazilian cotton farmers until that version of the Farm Bill expired.

These ten areas of concern lead countries to become unwilling to trade with one another. Considering this long list, the surprise isn't that we regularly have failed trade agreements; the surprise is that we have any international trade agreements at all!

This issue is relevant to you in every way because it affects your standard of living and the

Exercise 19.1: International Trade Bingo

To win this game of Bingo, complete a row either horizontally, vertically, or diagonally by naming the term described in each of the statements below. Only one term is correct for each clue. The Answer Key can be found at the end of this chapter.

- 1. Country A accuses Country B of selling soybeans for less than the cost of producing them.
- 2. Products are made domestically and sold in another country.
- 3. Country M hires workers from Country Z to handle its customer service.
- 4. These are taxes on imported products.
- 5. The value of a country's imports is greater than the value of its exports.
- 6. Ground rules for international trade are established by this organization.
- 7. There is a limit on the number of certain foreign-made goods allowed into the country.
- 8. A firm moves production to another country.
- 9. When countries agree to follow the same labor and environmental regulations, they share these.
- 10. This is what it's called when a country can produce a product at a lower opportunity cost than another country.

Infant Industries	Intellectual Property Rights	Fair Trade	Subsidies	National Security
Imports	Tariffs	Free Trade	Trade Deficit	Global Economy
Exports	Offshoring		The Environment	Multinational Corporation
Currency Manipulation	Quotas	Investor-to-State Dispute Settlement	Trade Protections	Specialization
World Trade Organization	Standards	Outsourcing	Comparative Advantage	Dumping

products you rely on. We live in an increasingly globalized economy, so trade between nations is only going to become more relevant. In other

words, international trade has everything to do with your material well-being today and into the future.



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of international trade. You learned the tools needed to analyze

competing ideas about the breakdown of trade relationships. It's time to hear the voices of the different perspectives on the issue so that you can find your own voice.





Voices on International Trade

Liberals, conservatives, and radicals all agree that society loses out when trade relationships break down. They share the same goal of improving the standard of living through trade. But they can't agree on how to achieve it. Should we protect our national interests by putting some limits on trade? Should we remove barriers and restrictions to trade to maximize our prosperity? Should we trade only according to shared principles that elevate the lives of workers and safeguard the environment? The policy we currently follow is trade protections in capitalism, which we described in detail in the previous section. These are liberal ideas, so to keep

it fair, we'll give the radicals and conservatives each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and hear from each of the perspectives. As always, please remember that the VOTE Program doesn't take a particular position on this or any other issue. We're just channeling the voices of the perspectives so you can hear the different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the liberals will go first.



Liberal

Voice on International Trade



International
Trade

Without a doubt, Nestlé has made positive contributions to the world. Just think of the hundreds of thousands of jobs it provides to people in dozens of countries, and all the life-saving products it offers in the global marketplace. Infants unable to breastfeed can thrive on Nestlé's infant formula, and the firm was the first to make this remarkable human advancement widely available. But without a doubt, Nestlé acted unethically by overstating the benefits of infant formula to convince new parents in developing nations to use it instead of breast milk. The firm's actions led to the deaths of a million or more infants. When this

horrible tragedy came to light and international standards were adopted for marketing infant formula to avoid more tragedy, what did Nestlé do? It repeatedly violated those standards. All the pain and suffering caused by Nestlé could have been prevented with more regulation and oversight. With clear and enforceable rules, multinational firms are held accountable, and consumers and workers are protected from the rampant excesses of profiteering. When it comes to international trade, we absolutely need an active, involved government to negotiate on our behalf. Our democratically elected government hires experts who do the research and use their diplomatic skills to make sure our collective interests are well represented in trade agreements. With a strong and impartial government following through on those

agreements and monitoring the activities of foreign firms that do business on our soil, we discourage cheaters and create the best conditions for fair competition. Global competition is vital to our quality of life because it inspires the creation of better products and new innovations and technologies. But international competition needs to happen on a level playing field so that everyone has a chance to participate and succeed. Government makes sure of it. We don't have to worry that our country will be subjected to unfair trade terms, unsafe products, compromised national security, or widespread job losses. Government makes sure workers have bargaining power, the environment is protected, and private property rights are respected, including intellectual property rights. With fair-market capitalism, our vital

domestic industries thrive, and our firms are competitive at home and around the world.

Let's consider the PPC in figure 19.16. We eagerly embrace international trade because when we produce according to our comparative advantage and trade with other countries for the things for which we have a comparative disadvantage, we end up better off. But it makes no sense to fully specialize because it puts us in a compromised position in three ways. First, our national security is at risk when we don't make the things we need to survive. Imagine how vulnerable we would be if we relied on foreign countries to produce the military equipment we need to protect our nation's borders. As history has often demonstrated, today's allies can easily become tomorrow's enemies. Second, our economy is compromised when we lose whole industries to other countries in one fell swoop—even industries that are not vital for our national security. Those job losses are devastating to individuals and to the whole economy. We become a nation of rusted-out, abandoned factories. Third, our domestic firms are at risk when foreign coun-

tries take advantage of us by dumping their goods in our markets, manipulating their currency to make their products cheaper in our markets, and using other practices that undermine the ability of our domestic firms to compete. The good news is that we can enjoy the myriad benefits of international trade without putting our country at risk. By moderately specializing in the products for which we have a comparative advantage, our vital industries stay strong, and we don't compromise our national security. We trade with other nations using sensible and enforceable regulations that prevent cheating and keep competition fair. Through regulated trade relationships, we achieve a previously unattainable level of consumption (the blue dot on the graph), where we are able to consume more than we are able to produce. With regulations, we lose some efficiency—we might have had even more consumption without them—but it is a trade-off well worth making because we gain increased equity, stability, and transparency with accountability. In other words, it gives us the best of all possible worlds: a higher standard of living through trade, national security, a level playing field where more people can compete and succeed, and prosperous industries here at home.

I have a friend who fell in love with ziplining at the age of sixty-five. His first zipline experience took place in the jungles of Costa Rica, and now he travels around the world in search of zipline adventures. I can't imagine finding it enjoyable to speed through the air while desperately gripping a little bar, but he assures me that it is exhilarating and not as dangerous as it looks, since he is always hooked onto a safety line. As my mother used to say, "To each, their own," meaning we all have our own tastes and preferences. But whether it's trying high-adrenaline ziplines in a far-off land, or trying a new brand of nail polish from China, no one wants to get hurt partaking in the bounty of goods and services from around the world. We

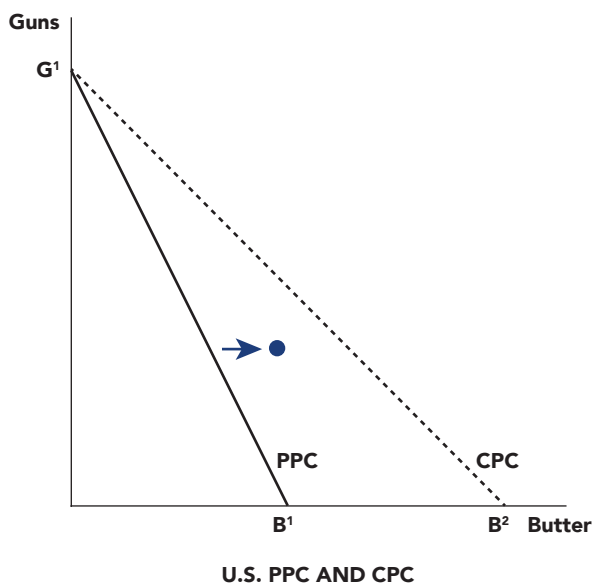


Figure 19.16
Liberal View: International Trade

want to know that someone has double-checked the safety lines and made sure nothing dangerous is in the nail polish no matter where it was made. We want guardrails on narrow mountain roads. A few sensible precautions can prevent the loss of life and limb as well as protect jobs and industries when it comes to international trade. For example, we don't want to be pressured to share proprietary information with other countries, so we ban the practice of technology transfer. We don't want U.S. work-

ers waking up tomorrow to find a "Closed" sign on their offices and factories, so we use laws and regulations to slow firms down when they want to offshore and outsource to foreign countries. We don't want foreign firms owning resources that are vital to our national security, so we restrict some foreign direct investment. We don't want our firms to be plowed under by foreign competitors, so we use tariffs and quotas to keep the right balance of trade. This is how government plays defense, but it also plays offense by supporting exciting new areas of research and development, as well as protecting emerging industries as they get ready to launch into the international marketplace. We can't expect firms to have all the data and see the bigger picture, but luckily we can count on government to make objective, measured, and informed decisions about when to tighten trade protections and when to loosen them. Government ensures fair international competition, protects jobs and the environment, preserves our national security, strengthens our

We don't want our firms to be plowed under by foreign competitors, so we use tariffs and quotas to keep the right balance of trade. This is how government plays defense, but it also plays offense by supporting exciting new areas of research and development.

alliances, and secures our position in the world.

Conservatives, when you get rid of trade protections, you might as well stick a note on the back of the United States that says, "Kick me!" Without government to watch our backs, we get a bad deal every time. The great American poet Robert Frost famously wrote: "Good fences make good neighbors." Rules and regulations are the good fences that keep the global economy healthy, but you want to tear down those fences and let our economy get pummeled

by foreign competitors. There will be nothing to stop them from using currency manipulation, subsidies, dumping, and other cheats to drive our firms under. They will pirate our intellectual property and force us to share our proprietary technology, formulas, blueprints, and designs. No one in their right mind should ever agree to trade without protections. It's like agreeing to be carjacked. Of course we all want to make a profit—profit is crucial—but we can realize profit from trade without getting ripped off by a bad deal. Your blind devotion to free trade saddles us with record-high trade deficits. With pockets filled with our dollars, foreigners buy shares in our firms, our prime real estate, and national landmarks, not to mention our national debt. Free trade means multinational firms can freely abandon communities in the United States and take those jobs to other countries. It leads to rising debt and desperation, leaving us in the worst possible position. It doesn't take a stretch of the imagination to realize that when we don't produce our own

food, energy, missiles, cybersecurity, and other vital goods and services, we become vulnerable. When foreign powers take over the United States, it will be too late to do anything about it. But you keep those blinders on as you crow about store shelves stocked with foreign goods for sale at low prices. You're ignoring the high cost of those low prices. Any price is too high when you don't have a job. Let's be clear that with no domestic competition, those prices won't stay low for long. No one wants unfettered free trade except the world's mega rich, who will increase their fortunes exponentially with free trade at the expense of the rest of us.

Radicals, your approach to trade is a mish-mash of wrong-headed idealism and stubbornness. Just because of a few bad apples, you want to dismantle the only economic system that has ever lifted the standard of living for the whole world. All we need are sensible trade protections in fair-market capitalism to address abusive practices by multinational firms. We don't have to impoverish countries by refusing to trade or

invest there. Your quaint notion of "local control" denies people in developing nations opportunities to attain a decent material life. If local control were truly a magic solution, then those countries wouldn't have been suffering in the first place. By deliberately standing in the way of responsible international trade policies, you condemn those communities to remaining stuck. Think about what happens when they don't get the washing machines that your worker-owned firm makes. Those parents are forced to spend hours hand-washing the laundry. That time could have been spent teaching their children math, growing food, or doing any number of things that make better use of their labor. You radicals talk about multinational corporations as if they're the big bad wolf, but what you should really be afraid of is democratic socialism. As you self-righteously stand on your principles and limit trade to a trickle, society is deprived of imports. Quality of life goes down. No imports also means no competition, so domestic firms have no incentive to make new or better products. Add to that recipe for disaster



the fact that yours is an economic system with no profit motive, so we languish with outdated goods and lackadaisical services. Inevitably, illegal markets for imports sprout up because people want and need those products. The next thing you know, the democratic socialist government is cracking down, and a minute later we're living under the thumb of bureaucrats. No crystal ball is needed to see it coming. History reveals this pattern time and time again. So while you hope your fair-trade principles will somehow influence us all to take a ride on the democratic socialism bus, it's a nightmare ride. The world is lucky that democratic socialism usually stalls out before it has a chance to leave the parking lot.

We should strengthen the current policy of trade protections to improve our standard of living through trade. People the world over benefit from voluntary trade among nations, and of course we want our country to benefit from trade. That means we need the rules to be fair so that everyone has a chance to compete and succeed. We use tariffs and nontariff barriers to level the playing field and keep our domestic and international markets competitive. Restrictions on foreign direct investment and subsidies for key industries in the United States safeguard our national security by ensuring that we will never be dependent on foreign powers for the things we need to survive. While trade creates jobs in some industries, it costs jobs in other industries, so we use gov-

ernment to give firms incentives to move slowly with their plans to offshore or outsource to other countries. This way, a portion of our nonessential industries remain viable, and we have time to transition land and capital to new uses and workers to new careers so that the economy continues to grow. We should expand government's role so it can do even more to strategically balance the risks and benefits of trade. We are lucky to have an impartial and effective government that acts in our collective best interest to forge advantageous trade alliances. It makes sure the products we want and need flow into the country so we can have access to the latest goods and services that make our lives better. The government also supports businesses by promoting U.S. products abroad. With trade protections and strong government involvement, domestic firms are protected, our industries have a chance to develop and flourish, and workers have more job stability. Cheaters are punished, while trustworthy trading partners are rewarded. Our planet is cleaner, consumers are safer, and businesses thrive. And as a global leader, we use our influence to motivate our trading partners to protect human rights and the environment in their countries, which promotes social and economic justice throughout the world. Thanks to trade protections in fair-market global capitalism, all societies of the world benefit from a wide variety of products, opportunities to prosper, and world peace through mutual cooperation.

Liberal

Fair-Market Capitalism



International
Trade

BIG PICTURE

Government ensures fair international competition, protects jobs and the environment, preserves our national security, strengthens our alliances, and secures our position in the world.

POLICY POSITION

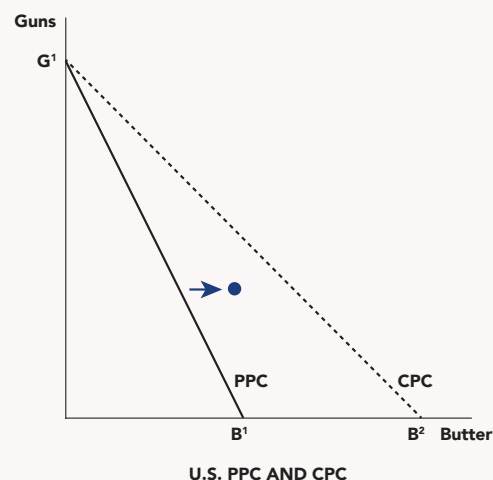
When trade relationships break down, society loses out, but . . .

- ▶ Conservative policies leave us at the mercy of foreign countries and ruthless multinational corporations, putting our sovereignty and our physical, financial, and material well-being at risk.
- ▶ Radical policies reject the only economic system that has ever successfully created worldwide prosperity and leave us without the products we need or the possibility of trading for them.

SOLUTION

Strengthen trade protections to have an improved standard of living through trade:

- Expand government intervention to unleash trade's highest potential.
- Safeguard national security, fair competition, and jobs.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

International Trade Talking Points: Liberal

1. Whenever we do something risky, we want to know that someone has double-checked the safety lines. We want guardrails on narrow mountain roads. Likewise, when we engage in international trade, we want sensible precautions that protect our national security, jobs, and economy. Government makes objective, measured, and informed decisions about trade deals. It determines the best ways to structure our foreign relationships so that we can enjoy the myriad benefits that come from international trade.
2. Global competition is vital to our quality of life. It inspires us to create better products and new innovations and technologies. Government regulations ensure that international competition occurs on a level playing field so that everyone has a chance to participate and succeed. In fair-market capitalism, our vital domestic industries thrive, and firms are competitive at home and around the world. Multinational firms are held accountable, and consumers and workers are protected from the rampant excesses of profiteering.
3. Conservatives, when you get rid of trade protections, you might as well stick a note on the back of the United States that says, "Kick me!" Without government to watch our backs, we get a bad deal every time. You let our economy get pummeled by trading partners that use currency manipulation, subsidies, dumping, pirating intellectual property, and other cheats. You can see only the profit potential. Yes, profit is very important, but we can realize profit from trade without getting ripped off by a bad deal.
4. As poet Robert Frost wrote: "Good fences make good neighbors." Trade protections are the good fences that keep the global economy healthy. But conservatives keep their blinders on and crow about store shelves stocked with foreign goods for sale at low prices. Any price is too high when you don't have a job. Let's be clear that with no domestic competition, those prices won't stay low for long. Without government oversight, the handful of the world's mega rich prosper at the expense of the rest of us.
5. Radicals, you want to dismantle the only economic system that has ever lifted the standard of living for the whole world. All we need are sensible trade protections in fair-market capitalism to address abusive practices by multinational firms. But you want to impoverish countries by refusing to trade or invest there. Your quaint notion of "local control" denies them opportunities to attain a decent material life. If local control were truly a magic solution, then those countries wouldn't have been suffering in the first place.
6. Radicals talk about multinational corporations as if they're the big bad wolf, but it's democratic socialism that should scare us. In an economic system with no profit motive, we languish with outdated goods and lackadaisical services. Inevitably, illegal markets for imports sprout up because people want and need those products. The next thing you know, government is cracking down, and a minute later we're living under the thumb of bureaucrats. History reveals this pattern time and time again.
7. People the world over benefit from voluntary trade among nations, and of course we want our country to benefit from trade. That means we need the rules to be fair so that everyone has a chance to compete and succeed. We use tariffs and nontariff barriers to keep our domestic and international markets competitive. Restrictions on foreign direct investment and subsidies for key industries in the United States safeguard our national security by ensuring that we will never be dependent on foreign powers for our survival.
8. With trade protections and strong government involvement, cheaters are punished, while trustworthy trading partners are rewarded. Our planet is cleaner, consumers are safer, and businesses thrive. And as a global leader, we use our influence to motivate our trading partners to protect human rights and the environment in their countries, which promotes social and economic justice throughout the world. We should expand government's role so it can do even more to strategically balance the risks and benefits of trade.

Conservative

Voice on International Trade



Considering that millions of firms throughout the world engage in international trade, we can expect that a few bad apples from time to time will go off track and do the wrong thing. That's what happened with Nestlé. It made positive contributions for decades, saving the lives of infants with its infant formula, providing good jobs for millions of people around the world, bringing innovative products to market that improved quality of life, and more. Then a few people in the company came up with the bad idea to exaggerate the benefits of infant formula. It had disastrous consequences throughout the developing world. Since that time, there have been other concerns about Nestlé's activities. It came to light that some of its cacao suppliers used enslaved children to work in the

fields, and its bottled water division wrongfully took water from national lands. No one condones these behaviors. Laws already exist to punish wrongdoers, and violators should be prosecuted. But we shouldn't overreact by creating more big government. Slapping on more rules and regulations is completely unnecessary and causes harm. The government ends up overreaching and erecting unnecessary barriers to trade. If one person in the class cheats, should the whole class be punished? Of course not, but that's what happens when we overregulate. Firms and consumers alike are deprived of all the amazing benefits of trade. Our standard of living goes down because

there are fewer products at higher prices and less variety available. The economy suffers with lost jobs and lower GDP. The worst part is that those regulations don't even work. Did more regulations convince Nestlé to change its behavior? No. It was consumer demand that motivated it to stop doing harm. By boycotting the firm's products, consumers voted with their wallets. Companies don't want to lose customers, so they get rid of bad apples and bad policies. Problem solved, and we didn't need to raise taxes or weigh ourselves down with more red tape to solve it. And unlike big government, the profit motive in free-market capitalism is incorruptible.

Let's consider the PPC in figure 19.17. We enthusiastically embrace international trade because we know that when we produce according to our comparative advantage and trade with other countries for the things for which we have a comparative disadvantage, we end up with a higher standard of living. The idea is simple, elegant, and follows common sense. We should fully specialize, making the things that have the lowest opportunity cost. That is how we use our resources most efficiently. When we don't specialize or only moderately specialize, we needlessly give up the highest possible standard of living we could have. There is no reason to give up any benefits from trade. When all countries follow this rational course of maximum specialization, humanity thrives, because land, labor, capital, and technology are allocated to their most suitable purposes worldwide. With free-market capitalism, we realize the three promises of capitalism on a global scale: firms make the profit-maximizing number of products without wasting resources, firms make the products that people want, and the products go to those who want them the

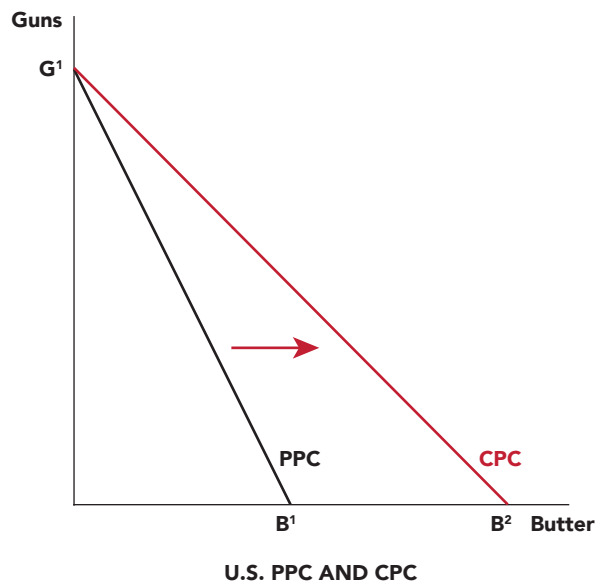


Figure 19.17
Conservative View: International Trade

most. This is enlightened self-interest spread to every nation on Earth. When every country trades according to the law of comparative advantage, the world becomes more interdependent, which is great news. If one nation needs to trade with another for its food, and that country is dependent on a different country for its clothing, and so on, all the nations of the world have a strong incentive to collaborate and cooperate. Trade conflicts are resolved quickly and peacefully so that harmony can be restored, and the flow of goods and services back and forth across borders can continue without interruption, which is to everyone's mutual benefit. The best news of all is that fully specializing in the products we can produce at the lowest opportunity cost and then trading for the rest allows us to reach the consumption possibilities curve (the red line on the graph). We attain the unattainable and are able to consume more than we are able to produce, enjoying a standard of living beyond our wildest dreams.

Around fifteen years ago, I paid thousands of dollars for a thirty-two-inch flatscreen TV (it's a long story). A year later, the market was flooded with flatscreen TVs from around the world. The price dropped by 50 percent. Within five years, flatscreen TVs cost a third of what I had paid for mine. Today, I could pick one up for less than \$100, the picture is even sharper, and it streams internet content. I could tell you similar stories about most of the appliances in my home. When it comes time to replace them with newer models, I spend less money, I get more features, and the products are more energy efficient and easier to use. All of this is thanks to international trade. Because start-ups in other countries are hungry to get a share of U.S. markets, they work day and night to innovate and make better products. Our firms are inspired to step up and improve their game, and because there is more competition, prices go down. The big winner from international trade is clearly the consumer. When we can freely trade

with the other free nations of the world, it's like celebrating our birthday every day. We are inundated with gifts. If my firm wants to do business in Bolivia, Spain, Kenya, or anywhere else, and I can buy and sell goods, services, resources, and machines without asking for permission from the government or the World Trade Organization, the party never ends. With no limits to how much or with whom we can trade, everyone is able to maximize their happiness with more of the things that make life better. The beauty of international trade in free-market capitalism is that we experience the magic of markets on a global scale. We may not share languages, cultures, or other common ground, but when we build trust through voluntary trade relationships, we become essential to one another's well-being, turning strangers into allies and good neighbors. International trade has been the single most important factor in reducing worldwide poverty. Suppliers and demanders come together in markets, and price signals direct resources to their best uses. Guided as if by an invisible hand, we end up realizing the promise of capitalism across the entire planet. Removing all barriers to trade makes people everywhere better off by vastly increasing the variety of goods and services available and stimulating profitable partnerships throughout the world.

For horse racing fans, the Kentucky Derby is the two most exciting minutes of the year. For the owners, jockeys, and horses, it's the culmination of hours of training, financial investment, and strate-

Companies don't want to lose customers, so they get rid of bad apples and bad policies. Problem solved—and we didn't need to raise taxes or add more red tape to solve it. And unlike big government, the profit motive in free-market capitalism is incorruptible.

gizing. At the starting gate, a surge of adrenaline goes through the riders as they wait for the signal to leap out of the starting gate and run. The horses stamp and snort, barely able to contain their pent-up energy. The crowd in the stands and people watching around the world buzz with anticipation. Everyone wants this race to start. Now imagine a government bureaucrat walks out onto the track and says, "Not so fast. We need more rules and regulations. We need more oversight. You'll have to wait." All the energy just fizzles out. By

the time the gate opens, the horses and jockeys are so frustrated and unhappy that none deliver their top performance. A race that should have been one for the history books is mediocre at best. This is what happens when government meddles with international trade. Firms put in the hard work, long hours, and investment to develop appealing, life-enhancing products. They identify exciting opportunities in international markets and negotiate mutually beneficial trade relationships with foreign firms. Then government tells them, "Hold your horses. We have a regulation about that, and you need an import license, and it looks like you exceeded your quota." Government should be making our lives better, but instead it's in the business of keeping itself in business. While we're waiting for someone in Washington to let us out of the starting gate, the rest of the world runs laps around us.

Radicals, your big policy idea is to export your brand of mass poverty to the whole world. You see global capitalism as a giant boulder that rolls

over less developed nations and crushes them, but you have it all wrong. Multinational firms are doing good in the world when they set up shop in countries with high poverty rates. They create jobs—indoor jobs, as opposed to jobs that require people to spend hours picking through piles of garbage or working in the fields in the broiling sun. Those firms teach workers valuable skills, such as how to run sewing machines, assemble motherboards, and process ores. You say sweatshops are inhumane, but they often pay well above average wages in those countries. If you ask a worker if they're glad to have that job, the answer is "Yes!" They've already answered you with their feet. They show up for work every day because it is much better than the alternatives. Multinationals provide jobs that are pathways out of poverty, and you want to take them away. Your barriers to foreign direct investment in the name of "local control over resources" are simply barriers to progress. I wish you would be honest and admit that your fair-trade principles make you feel more righteous, but they don't help the world's workers. In fact, they do harm. First, you refuse to trade with capitalist multinational firms, so those companies lose money and lay off workers.

Unemployment spreads far and wide. Second, the prices for your fair-trade-certified bananas, cocoa, hammocks, and acai berries are pushed so high that consumers buy fewer of them and people once again lose their jobs. Your radical plan arranges for the unemployment and impoverishment of all. Another problem with democratic socialism is that everything is worker-owned, which means people get trapped in their jobs. They must buy an ownership share, and then they have no mobility because they have to stay local. The result is stagnation. Democratic socialism leaves us on the sidelines of the global economy with nothing to trade and no one to trade with, so we end up sitting out the game.

Liberals, your trade protections have disastrous results because, as usual, you miss the big picture. When you see on the nightly news that factories are closing, you overreact by slapping on new tariffs and quotas to keep imports down. You say you want to save those jobs, but what is the real cost of your policies? Consumers face higher prices for products because you limit competition. Everyone has fewer choices, and we're all stuck with lower-quality products. Then you decide subsidies will save those jobs.



Again, what is the real cost here? Hardworking taxpayers are stuck paying for the billions of dollars in handouts to industries that induce them to make bad business decisions. It should be obvious that if it were profitable to keep those workers on the payroll, they wouldn't need a bribe from the government. When a business can't compete or an industry is dying, those jobs should be lost. Then more appropriate industries that are right for the economy will come in and fill the gap, bringing new jobs. That's called *progress*. Not only do subsidies cost us a bundle, they also lead to corruption. Washington, DC, is a mob scene of lobbyists elbowing one another out of the way to pay off politicians and get their industries on the list. This racket is a disgrace. If you add up the higher prices paid by the consumers and the subsidies funded by taxpayers, it's glaringly obvious that saving those few dead-end jobs makes no logical sense. Of course, no one wants unemployment, but as my grandmother used to say, "To make an omelet, you have to break a few eggs." The problem is that you bleeding-heart liberals feel sorry for the eggs, so you make bad economic decisions. Equally horrifying is how you use trade protections to pressure other countries to change their behaviors. We are not the world's police, and we shouldn't be. We should respect the sovereignty of other nations and stop presuming we know what's best for their people and their environment. When you play politics with your trade protections, other countries retaliate by raising tariffs and imposing quotas on us. That sinks our chances of prospering and leads to trade wars. With your policies, our country ends up poorer, more at risk, and more isolated in the world.

We should reject the current policy of trade protections and replace it with free trade to improve our standard of living through trade. The nations of the world offer one another a feast of goods

and services, but trade barriers keep the feast from being served or cut us off at the appetizers. Free trade liberates us from unnecessary government meddling and clears the way for robust international commerce. Our country gains more jobs, people have higher incomes, and products are more varied, better made, and lower priced. Firms are inspired to bring their A game to market so they don't lose out to competitors. It's truly amazing when we realize the promises of free-market capitalism in a country. It is even more magnificent to see it realized throughout the global capitalist economy. We enjoy the full abundance of human enterprise by ditching tariffs, quotas, regulations, standards, and all the other trade protections that only protect bureaucrats' jobs. Instead, we come together in the global marketplace and trade freely for the latest temperature-controlled mattresses, the newest information technology, the most useful artificial intelligence assistants, the smartest financial consulting, and everything else that makes human life better. We have access to exciting innovations that bring us a higher standard of living. Free trade is our passport to limitless opportunities to build wealth and create prosperity at home and abroad. Countries focus their energy on making the things for which each is best suited. Free trade means unrestricted foreign direct investment. Multinational firms help the world by moving capital into regions that are looking to develop their economies. They are the world's job creators, and their profit-driven efforts solve poverty and foster peace and harmony. Countries are far less likely to have bloody conflicts when they are able to feed and house their own people and when they are mutually dependent on the goods and services each provides. Thanks to free trade in free-market global capitalism, all societies of the world benefit from a wide variety of products, opportunities to prosper, and world peace through mutual cooperation.

Conservative

Free-Market Capitalism



International
Trade

BIG PICTURE

Removing all barriers to trade makes people everywhere better off by vastly increasing the variety of goods and services available and stimulating profitable partnerships throughout the world.

POLICY POSITION

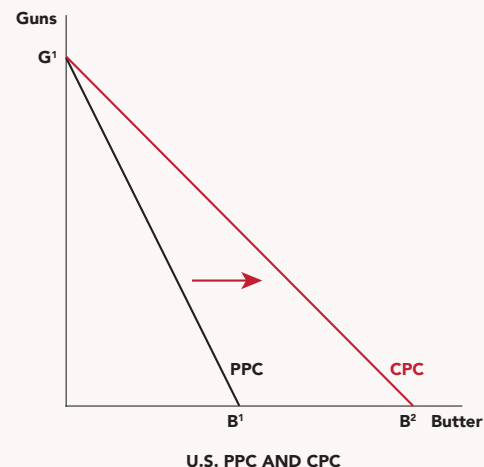
When trade relationships break down, society loses out, but . . .

- ▶ Radical policies create a triple whammy of unemployment by rejecting foreign investment, refusing to trade with capitalist firms, and driving businesses under by making products too expensive.
- ▶ Liberal policies waste billions to save dead-end jobs and give us higher prices, shoddy products, less variety, and lower quality of life, while miring us in trade wars.

SOLUTION

Reject trade protections and replace them with free trade to have an improved standard of living through trade:

- We get lower prices and more innovations, choices, and opportunities.
- Peace, prosperity, and harmony abound across the globe.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

International Trade Talking Points: **Conservative**

1. When we are able to freely trade with the other free nations of the world, it's a win for society and the planet. If my firm wants to do business in Bolivia, Spain, Kenya, or anywhere else, I can buy and sell goods, services, resources, and machines without asking for permission from the government or the World Trade Organization. With no limits to how much or with whom we can trade, everyone can maximize their happiness with more of the things that make life better.
2. The beauty of international trade in free-market capitalism is that we experience the magic of markets on a global scale. We may not share languages, cultures, or other common ground, but when we build trust through mutually beneficial trade, we become essential to one another's well-being, turning strangers into allies and good neighbors. Suppliers and demanders come together, and price signals direct resources to their best uses. Guided as if by an invisible hand, we realize the promise of capitalism across the entire planet.
3. Radicals, your big policy idea is to export your brand of mass poverty to the whole world. You see global capitalism as a giant boulder that rolls over less developed nations and crushes them. But you have it all wrong. Sweatshops create better jobs for people. If you ask a worker if they're glad to have that job, they've already answered you with their feet. They show up for work every day because that job is their pathway out of poverty.
4. I wish radicals would be honest and admit that their fair-trade principles only make *them* feel more righteous, but they don't help the world's workers. First, they refuse to trade with capitalist multinational firms, so those companies lose money and lay off workers. Second, the prices for radicals' fair-trade-certified bananas, cocoa, hammocks, and acai berries are pushed so high that consumers buy fewer of them and more people lose their jobs. Radicals create unemployment and impoverishment for all.
5. Liberals, your trade protections are a disaster and miss the big picture—as usual. You read in the news that factories are closing, so you react by slapping on new tariffs and quotas to keep imports down to try to save those jobs. Consumers suffer with higher prices, fewer choices, and lower-quality products. Then you subsidize industries that should not be propped up, and taxpayers are stuck footing the bill for those handouts. You bleeding-heart liberals make bad economic decisions that hurt us all.
6. We are not the world's police, and we shouldn't be. We should respect the sovereignty of other countries and stop presuming we know what's best for their people and their environment. When liberals play politics with trade protections, other countries retaliate by raising their tariffs and imposing quotas on us. Not only does that sink our chances of prospering, it leads to trade wars. It leaves our country poorer, more at risk, and more isolated in the world.
7. The nations of the world offer one another a feast of goods and services, but trade barriers keep the feast from being served or cut us off at the appetizers. Free trade liberates us from unnecessary government meddling and allows for robust international commerce. Our country gains more jobs, people have higher incomes, and products are not only better, but they are lower priced. We all enjoy a wide array of new innovations brought to market, and we achieve a higher standard of living for all.
8. Free trade is our passport to building wealth and creating prosperity here and abroad. Multinational firms move capital into regions that are looking to develop their economies. They are the world's job creators, and their profit-driven efforts solve poverty and foster peace and harmony. Countries are far less likely to have bloody conflicts when they are able to feed and house their own people and when they are mutually dependent on the goods and services they all provide to one another.

Radical

Voice on International Trade



International
Trade

I guarantee you that when someone at Nestlé came up with the plan to send marketing teams to developing nations to oversell the benefits of infant formula, the CEO didn't say, "Yes! I want to trick all those women into being unable to breastfeed, so they'll have no choice but to buy our product!" I'm sure he felt backed into a corner and could see no other choice except to do the wrong thing so the firm could stay profitable and survive. When those mothers became dependent on formula to keep their infants alive and grew even more impoverished as a result, and when a million or more babies around the world

sickened and died, the CEO must have agonized over the outcome. Nestlé's advertising executives, marketing teams, and employees who handed out the free samples all must have suffered from being put in this terrible position. They didn't want to be complicit in the deaths of children, but they had their own bills to pay and families to support. Capitalism forces us to do things we find repugnant. When the story came out, Nestlé *still* had to continue its pernicious marketing campaign or risk losing market share. When executives learned that its cacao suppliers were using enslaved children to harvest the crop, Nestlé couldn't stop sourcing from those low-cost suppliers, or its competitors would move in on its business. When Nestlé's bottled water division learned about the devastating environ-

mental impact of its production in the San Bernardino National Forest, the company couldn't shut off the tap if it wanted to stay in business. Every firm in capitalism knows that competitors wait like hungry lions to pounce if they show the slightest weakness. But please don't think Nestlé is just a bad apple or an outlier in capitalism. It's the quintessential example of success because it relentlessly pursues profit no matter who or what it hurts in the process. Multinational firms in global capitalism all make these same terrible choices every day because they have no other choice. It's an economic system that leads to the destruction of people and the planet.

Let's consider the Six-Core Cube of democratic socialism and drill down into the core point of *healthy communities*. International trade enriches

the whole world when we have democratic socialism. In that scenario, we maximally specialize and trade freely with all the other democratic socialist countries and enjoy the highest benefits of trade. No one worries that foreign firms will barge into an area and take over the resources, because they are locally controlled. No one worries that production will harm people or release toxic pollutants into the environment, because people and the planet are more important than profits. Firms think globally and act locally, so they are mindful of the effects of production and the products they make on people around the world. They source their inputs from firms that pay workers fairly, use democratic decision-making in the workplace, respect human rights, and produce in ways that are environmentally sustainable. They also consider the environmental effects of transporting capital, raw materials, and products internationally, whether shipping them by sea, air, or land. This is factored into decisions about whether people and the planet will be better off if products are made domestically or imported. But

when we trade in a world of global capitalism, we minimally specialize so there is never pressure to do the wrong thing. We carefully choose which countries we rely on for vital products. As more countries embrace democratic socialism, we moderately specialize and increase trade accordingly. But no matter which economic system other countries choose, we always make sure our trade partnerships benefit people and the environment at home and abroad. So imagine that when you go to the store to buy groceries, you feel confident that the people who grew the corn in Chile, grew the rice in India, and made the cheese in the Netherlands were all paid fairly, treated respectfully, and used sustainable production practices. When people in those countries go to the store, they have the same confidence in our products.

I have a friend from another country whose daughter used to visit us during her summer breaks—from elementary school until she graduated from university. At first, she was excited by fast food and snack foods, mansions, theme parks, big cars, and gigantic shopping malls. As she grew older, she became critical of U.S. exports, including the addictive sugary foods that cause obesity and diabetes, the addictive tobacco products that cause cancer, and the addictive video games that promote violence as entertainment. Massive advertising campaigns made her feel like she should want those products, even though she knew they were bad for her. In global capitalism, multinational corporations peddle the most destructive products to people around the world because those are the money makers. Their incessant advertising manipulates us into becoming obsessed with consumption instead of finding meaning in things that don't generate profit—satisfying relationships, a connection with nature, our own creativity. Multinational firms spend billions to spread chronic dissatisfaction, along with pollution, unemployment, debt, and deeper poverty to communities all over the globe. Con-



Figure 19.18
Radical View: International Trade

trast that with democratic socialism. Worker-owned multinational cooperatives use international trade to spread well-being throughout the world. They leverage their purchasing power to promote more worker-ownership, treat trading partners with respect, and take care of the communities where they do business. For instance, they work with foreign suppliers to improve the quality of their products and use more environmentally sustainable production processes. The benefits are mutual, because those firms share local knowledge and expertise so both firms can improve their products and develop better ones. When trade relationships are founded on a commitment to the well-being of communities around the world, we all prosper with more choices, a cleaner planet, and innovations that raise everyone's quality of life.

If someone showed up at your home and cut down the trees in your yard, filled a fleet of water tank trucks with your well water, or bulldozed your home and started pumping oil out of a hole in the ground where the kitchen used to be, you would be livid with rage. When countries do this to other countries, it's called *imperialism*. This practice was business as usual for thousands of years. Using swords, guns, tanks, and trickery, armies sailed or marched into other domains and took the land, labor, and capital. In the modern version of capitalist imperialism, multinational corporations descend on low-income countries, pay off the politicians, and kick people off their ancestral grazing lands. They cut down their forests for lumber, drain their aquifers for their industrial farms, and dynamite their mountains

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to extract ore. Then they build sweatshops and hire the locals to work in them for next to nothing, while they congratulate themselves on “developing” the country. If they can make more profit somewhere else, they continue the race to the bottom by picking up and moving to the next low-income country, where they do it all over again. With the WTO, international banks, and politicians in their pockets,

they make sure the rules and regulations allow them to freely move capital around the world so they can continue to gorge on the resources that should rightly belong to all of us. They treat our planet like their own personal cookie jar. Why do we stand for it, when there are billions of us and only a few dozen of them? Because we are manipulated into believing that capitalism makes us all better off. Even if we recognize the lie, we're all trapped in this destructive system. We may care about the human suffering and environmental destruction, but our savings are invested in those companies, and our jobs depend on those firms staying profitable. In global capitalism, we become unwitting accomplices, despite wanting to be people who care about the world.

You liberals lull us into believing that trade protections in capitalism address the problem of damaging trade relationships, but if that were the case, then why do we still have sweatshops around the world, people forced to work as slaves, and children put to work when they should be learning how to read and write? Capitalism can never be fixed by a veneer of liberal concern. You may slightly slow the loss of domestic jobs to other countries, but you never address the problem of

workers here and abroad being exploited. You may limit some foreign direct investment, but you still put communities at risk by enabling firms to drain their resources for short-term profits. None of your tariffs and nontariff barriers are effective against the voraciousness of profit-driven multinationals. You ignore reality and confidently claim that your trade protections actually protect us. In fair-market capitalism, top-down government is in the pockets of corporate interests, so here is what really happens. You decide we must ban the use of cancer-causing fertilizers—great plan—but then fertilizer manufacturers put a few large campaign contributions into the right pockets and a loophole appears. They are permitted to manufacture it for export. They sell their cancer-causing product to low-income countries without any mention of the risks. Farmers in developing countries spray it on their crops and unknowingly get exposed to the toxin. But the joke is on us, because they export the food to our country, and we eat it for dinner. The farmers across the world get sick, we get sick, and all because firms in global capitalism need to show a profit. Liberals, your trade protections put us in even more danger because they make it seem as if we have nothing to worry about.

When children, pregnant women, and the elderly develop cancer from those “banned” chemicals, you feel really bad about it—but not bad enough to admit that your ideas will never root out the real problem, which is capitalism.

Conservatives, your policy of free trade in capitalism leaves all nations at the mercy of multinational corporations. As you love to say, firms are not charities. They are in business to make a profit. That's true. And no firm will succeed unless it makes decisions that prioritize its bottom line over the safety of people, the health of the environment, and the well-being of communities. Your biggest export is the lie that free trade in capitalism lifts the standard of living for all. Domestic capitalism is bad enough, hurting the workers, communities, consumers, and yes even the CEOs. But in global capitalism, the losses are exponentially more extreme. We have shockingly high income inequality and an irreversible climate crisis. If capitalism on a domestic *or* global scale really were the best economic system on Earth, then why are the majority of people unable to meet their basic material needs? Because multinational corporations have no commitment to any country or any ideal. They are driven only by



the need to turn a profit. Meanwhile, people die from preventable illnesses because the owners of patents for life-saving medicines won't sacrifice profit to make them affordable. They won't share the formulas with poorer nations because their goal isn't to save the lives of people; it's to accumulate more profit. While workers in the industrialized world lose jobs, and communities turn into ghost towns of rusted-out factories, workers in the developing world are forced to work sixteen-hour days and risk life and limb in sweatshops. The private owners then have the nerve to pretend they are doing those people a big favor by paying them thirteen cents an hour. Workers can't even afford to buy the products they make, and they get sick from harmful pollutants from production. The products they make go to the industrialized world, where people drown in debt to buy shoddy goods they don't need, which then end up choking the landfills and clogging up the oceans with plastic. The owners of multinational corporations are on a barely concealed mission to own the planet, and your free-trade policy hands it to them on a silver platter. They can do what they want with impunity because they own the media, the politicians, the courts, the education system, the workers, and you.

We should replace the current policy of trade protections in capitalism with fair trade and collaboration in democratic socialism to improve our standard of living through trade. The goal of international trade in democratic socialism is not simply to get a wider variety of products on our store shelves or to open new markets for our firms. Of course, those things are important, but not more important than the well-being of people and the planet. International trade councils forge mutually beneficial agreements with other countries with the goal of making the whole world better off. Based on the principles of fair

trade, they promote just compensation for workers, safe working conditions, environmentally sustainable production processes, and an end to child labor and forced labor. By promoting worker ownership, exploitation is eliminated and the well-being of workers and communities increases throughout the world. When the profits are distributed fairly and everyone benefits from the fruit of their labor, people are able to meet their material needs and enjoy a high standard of living. Through collaboration across borders, we develop better products, innovations, and technologies, and share them freely. Instead of sailing in and taking over, multinational cooperatives partner with local communities. They collaborate by investing in capital improvements; providing expert consulting, technical training, and mentoring; giving low-interest loans; and more. Worker-owned firms use their purchasing power to prioritize trade with foreign worker-owned firms, which brings democracy into the workplace and spreads social and economic justice throughout the world. And while we can't control what the rest of the world does, we know that no amount of rules, regulations, or standards will change the fact that capitalism is rotten to the core. So when we trade with capitalist countries, we only trade with those who commit to the principles of fair trade, and we use tariffs, nontariff barriers, and restrictions on foreign direct investment to protect workers and the environment from the rapaciousness of capitalism's drive for profit. This way, we don't abet capitalism's rampant destruction of communities and the Earth. With fair trade and collaboration in democratic socialism, all societies of the world benefit from a wide variety of products, opportunities to prosper, and world peace through mutual cooperation.

Radical

Democratic Socialism



International
Trade

BIG PICTURE

When trade relationships are founded on a commitment to the well-being of communities around the world, we all prosper with more choices, a cleaner planet, and innovations that raise everyone's quality of life.

POLICY POSITION

When trade relationships break down, society loses out, but . . .

- ▶ Liberal policies trick and trap people into believing the problems of trade in capitalism are being addressed, leaving us at the mercy of corporations, which are forced to put profits before people.
- ▶ Conservative policies destroy communities, cultures, and ecosystems as firms race across the globe making decision after decision to trade our well-being for their profit.

SOLUTION

Replace trade protections in capitalism with fair trade and collaboration in democratic socialism to have an improved standard of living through trade:

- Workers around the world unite to make life better for one another.
- Multinational cooperatives are a force for good.




- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

International Trade Talking Points: Radical

1. We all want international trade to make us better off. In democratic socialism, the “us” includes our trading partners. When we buy corn from Argentina, we can feel confident that the people who grew it were paid fairly and have what they need to thrive. When they buy our products, they can feel confident that our workers were also treated fairly and have what they need to thrive. We can all rest assured that a commitment to healthy communities spreads well-being throughout the world.
2. With local control over our resources, we don’t have to worry that a foreign firm will barge in and take over, or that production will harm people or release toxic pollutants into the environment. Worker-owned firms think globally and act locally. We understand that we are all connected to one another. Because our self-interest is our mutual interest, we make decisions that ensure that production is environmentally sustainable and products are beneficial to communities here and around the world so everyone can flourish.
3. Liberals, you lull us into believing that trade protections in capitalism address the problem, but capitalism won’t be fixed by a veneer of liberal concern. You may slightly slow the loss of domestic jobs, but you never address workplace exploitation. You may limit some foreign direct investment, but you continually put communities at risk by enabling firms to drain their resources for short-term profits. None of your tariffs and nontariff barriers are effective against the voraciousness of profit-driven multinationals.
4. In fair-market capitalism, politicians are in the pockets of corporate interests. So when liberals ban cancer-causing fertilizers, firms just pay off politicians, and a loophole appears that allows them to make it for export. Farmers in other countries spray it on the food we import, and we are exposed to those carcinogens after all. When people develop cancer, liberals feel really bad about it—but not bad enough to admit that their ideas will never root out the cause of the problem, which is capitalism.
5. Conservatives export the lie that free trade in capitalism lifts the standard of living for all. Tell that to the workers in industrialized countries who lose their jobs and end up with communities that are ghost towns of rusted-out factories. Tell that to the workers in the developing world who labor for sixteen hours a day in sweatshops for thirteen cents an hour. Free-market capitalism doesn’t lift any of us. It leaves human beings around the world sick, bankrupt, and drowning in pollution.
6. Conservatives, multinational firms have no commitment to any country or any ideal. They are on a barely concealed mission to own the planet, and your free-trade policy hands it to them on a silver platter. Multinationals have no heart or soul—they aren’t human beings; they are profit-making entities. Now you let them do what they want with impunity because they own the media, the politicians, the courts, the education system, the workers, and you.
7. International trade councils forge mutually beneficial agreements that make the whole world better off. Based on the principles of fair trade, they promote just compensation for workers, safe working conditions, environmentally sustainable production processes, and an end to child labor and forced labor. Exploitation is eliminated and the well-being of workers and communities increases throughout the world. People are able to meet their material needs and enjoy a high standard of living.
8. Instead of sailing in and taking over, multinational cooperatives participate in economic development in partnership with local communities. They collaborate by investing in capital improvements; providing expert consulting, technical training, and mentoring; giving low-interest loans; and more. Worker-owned firms use their purchasing power to prioritize trade with foreign worker-owned firms, which brings democracy into the workplace. Social and economic justice spread throughout the world.

The Shared Outcome

Every day, you probably encounter a product that was made by strangers in a far-off land. Most people don't give much thought to who made the objects that make up our everyday lives, but I want to share with you a line by the Lebanese poet Khalil Gibran: "Work is love made visible." I agree with this sentiment. I believe we express our love for one another when we contribute our gifts to the world. "And what is it to work with love?" asks Gibran. "It is to weave the cloth with threads drawn from your heart, even as if your beloved were to wear that cloth. / It is to build a house with affection, even as if your beloved were to dwell in that house. / It is to sow seeds with tenderness and reap the harvest with joy, even as if your beloved were to eat the fruit." Gibran

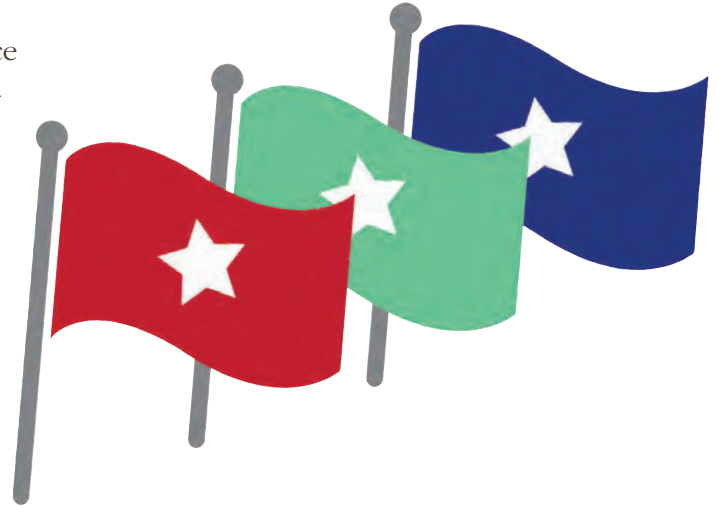
wasn't writing about international trade, but his poem makes me think about how much we benefit every day from the labor of strangers. Your beloved teddy bear, which you cherished as a child, was made by someone you never met in Sweden. When your computer crashed, a reassuring IT specialist in India talked you through a fix. Next time you're chopping up a tomato for your salad, think about the people in Mexico who grew it, harvested it, and delivered it to your supermarket. All three perspectives share the same goal of achieving a higher standard of living through international trade. Now you can join the global conversation and help shape our future. And let's hope you come up with the new idea that everyone on the planet is waiting for! 



Three-in-One Activity

Try this activity for International Trade to experience the excitement of forging beneficial trade relationships. The goal is to determine how much foreign trade will benefit your country. Every country has its particular resources—different types of land, labor, and capital—and therefore is capable of making a unique combination of products. You and your team must figure out (from each perspective) how much of which products should be made domestically, and how much of which products should be acquired through international trade. In this way, you'll understand how liberals, radicals, and conservatives achieve beneficial trade relationships.

This activity works best if you have a group of at least five players, but if you don't have five, adjust as best you can.



“Let’s Make a Deal!”

Here is the setup for this activity. Imagine you and your team are trade advisers for your nation—let’s call it Flagland. You have a potential trading partner, Awayland. Like all countries, both nations have a limited number of resources.

- If Flagland uses all its resources and technology, it can produce 40 machines or 20 units of food, or it can produce a combination of 20 machines and 10 units of food.
- If Awayland uses all its resources and technology, it can produce either 20 machines or 40 units of food or a combination of 10 machines and 20 units of food.

Round 1: Neutral

Your first job is to determine how Flagland and Awayland should use their resources. Here are your instructions for the neutral round:

- ➊ Determine Flagland's opportunity costs for machines and foods.
- ➋ Determine Awayland's opportunity costs for machines and foods.
- ➌ Decide which product Flagland should specialize in producing.
- ➍ Decide which product Awayland should specialize in producing.
- ➎ According to the law of comparative advantage, should Flagland trade with Awayland?
- ➏ According to the law of comparative advantage, should Awayland trade with Flagland?

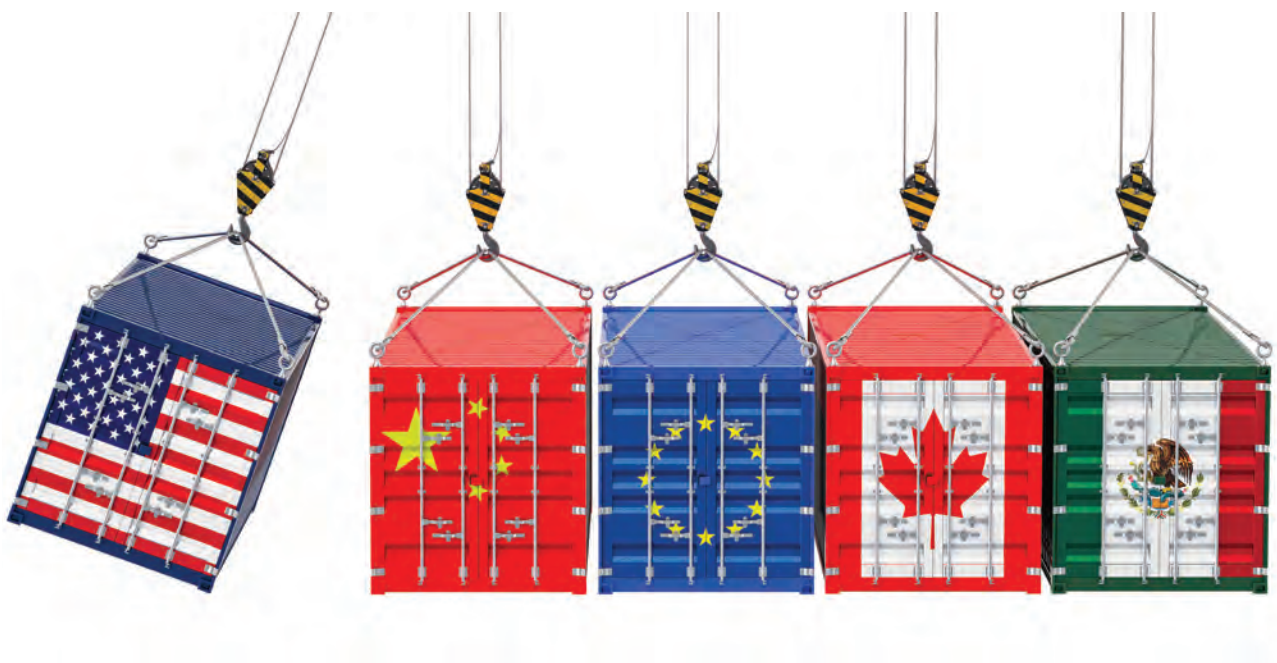
Answers:

- ➊ *Flagland's opportunity cost for machines is 0.5 foods, and the opportunity cost for foods is 2 machines.*
- ➋ *Awayland's opportunity cost for machines is 2 foods, and the opportunity cost for foods is 0.5 machines.*
- ➌ *Flagland should specialize in producing machines because that has the lower opportunity cost (0.5 foods) compared to the opportunity cost of producing foods (2 machines).*
- ➍ *Awayland should specialize in producing foods because it has the lower opportunity cost (0.5 machines) compared to the opportunity cost of producing machines (2 foods).*
- ➎ *Yes, Flagland should specialize in machines and trade with Awayland for food.*
- ➏ *Yes, Awayland should specialize in food and trade with Flagland for machines.*

Next, review the list of the ten common concerns in international trade. Read these aloud and make sure you know what each one means.

Ten Common Concerns in International Trade

- Currency manipulation
- Dumping
- Forced technology transfer
- Infant industries
- Intellectual property rights
- Investor-to-state dispute settlement
- National security
- Offshoring and outsourcing
- Standards
- Subsidies



Information You Will Need for Rounds II, III, and IV

For each subsequent round, you must determine the degree to which Flagland should specialize in making the product for which it has a comparative advantage, which is machines. The table below describes the different degrees of specialization.

Maximum Specialization	Moderate Specialization	Minimum Specialization
a. Domestic production: 40 machines and 0 units of food.	a. Domestic production: 30 machines and 5 units of food.	a. Domestic production: 24 machines and 8 units of food.
b. Trade: 20 machines for 20 Awayland foods.	b. Trade: 10 machines for 10 Awayland foods.	b. Trade: 4 machines for 4 Awayland foods.
c. Result: Flagland has 20 machines and 20 foods.	c. Result: Flagland has 20 machines and 15 foods.	c. Result: Flagland has 20 machines and 12 foods.
d. Outcome: Without trade, it could produce 20 machines, but only 10 foods, so it gains 10 foods from international trade.	d. Outcome: Without trade, it could produce 20 machines, but only 10 foods, so it gains 5 foods from international trade.	d. Outcome: Without trade, it could produce 20 machines, but only 10 foods, so it gains 2 foods from international trade.

Round II: Liberal Perspective

For this round, you are liberal trade advisers. Consider four of the common concerns in international trade (dumping, national security, offshoring, and standards) and validate them.

PART A

- 1 One person reads each of the trade concerns below (in black), while other group members take turns responding by reading the statements in blue.

DUMPING:

Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us.

Dumping is cheating, and it makes our domestic industries vulnerable. We use tariffs to punish Awayland and protect our firms.

NATIONAL SECURITY:

Awayland threatens to stop selling us computer components, which we rely on for our national security.

We should never become completely dependent on foreign powers. We subsidize domestic firms to make it profitable for them to produce what we need so that we have true national security.

OFFSHORING:

Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment.

This is a serious problem. Our factories are rusting away, and poverty is rising. We use quotas on the imports produced outside Flagland to give our firms an incentive to stay here.

STANDARDS:

Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete.

Mistreating workers and ruining the environment are not "comparative advantages." We don't trade with Awayland unless it agrees to adopt the same standards we follow.

PART B

- 2 Considering the liberal responses to the trade concerns, advise your government on the level of specialization it should pursue with its limited resources. Should it be maximum, moderate, or minimum?

Answer:

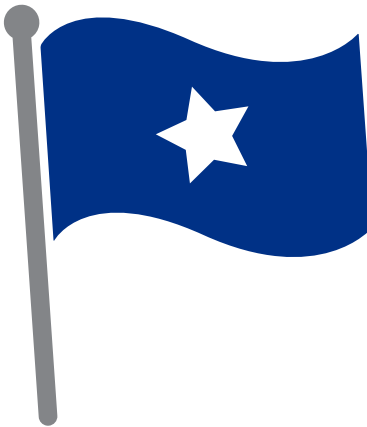
Flagland should moderately specialize. It should produce 30 machines and 5 units of food, and then trade 10 machines to Awayland for 10 foods.

Explanation:

Flagland will end up with 20 machines and 15 foods. It gains 5 additional foods from trade, above and beyond what it could have produced domestically (20 machines and 10 foods), while successfully addressing all four trade concerns.

Conclusion:

Liberals use trade protections in fair-market capitalism. They say we should trade according to our comparative advantage while protecting our national interests. Therefore, they use moderate specialization. They believe minimum specialization misses the opportunity to benefit from the law of comparative advantage, which makes society worse off unnecessarily. Maximum specialization leaves us vulnerable to detrimental trade practices by foreign nations because we end up dependent on their products. Liberals protect our standard of living through moderate specialization along with equitable trade agreements and trade protections, including tariffs, quotas, standards, and subsidies.



Round III: Conservative Perspective

For this round, you are conservative trade advisers. Consider four of the common concerns in international trade (dumping, national security, offshoring, and standards) and invalidate them.

PART A

- 1 One person reads each of the trade concerns below (in black), while other group members take turns responding by reading the statements in red.

DUMPING:

Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us.

Foreign firms only cheat themselves when they sell products for less than what they cost to make. Consumers are the winners, and we use our resources to make something else.

NATIONAL SECURITY:

Awayland threatens to stop selling us computer components, which we rely on for our national security.

True national security occurs when all countries benefit from free trade. We use our global resources to their best ends, prosperity spreads, and we dependably get the products we need.

OFFSHORING:

Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment.

It's not a problem when industries move to other countries. It pushes us to focus on our strengths, and then we generate the jobs that bring higher levels of prosperity to Flagland.

STANDARDS:

Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete.

We are not the world's police. Awayland is a sovereign nation, and it rightly chooses its own workplace and environmental policies. It's not our place to interfere.

PART B

- 2 Considering the conservative responses to the trade concerns, advise your government on the level of specialization it should pursue with its limited resources. Should it be maximum, moderate, or minimum?

Answer:

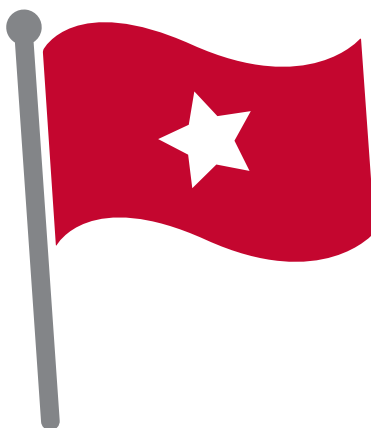
Flagland should maximally specialize. It should produce 40 machines and 0 units of food, and then trade 20 machines to Awayland for 20 foods.

Explanation:

Flagland will end up with 20 machines and 20 foods. It gains 10 additional foods from trade above and beyond what it could have produced domestically (20 machines and 10 foods), while successfully addressing all four trade concerns.

Conclusion:

Conservatives use free trade in free-market capitalism. They say we should make the most of our comparative advantage and trade with other nations to acquire the products for which we have a comparative disadvantage. Therefore, they use maximum specialization. They believe moderate specialization unnecessarily uses resources inefficiently, resulting in a lower quality of life here and around the world. Minimum specialization is even more needlessly inefficient and wasteful, leaving us isolated and lacking the products that make our lives better. Conservatives bring about the highest possible standard of living through maximum specialization along with free-trade agreements that ensure an unfettered exchange of goods, services, capital, and ideas.



Round IV: Radical Perspective

For this round, you are radical trade advisers. Consider four of the common concerns in international trade (dumping, national security, offshoring, and standards). Validate the trade concerns, assuming domestic democratic socialism within global capitalism.

PART A

- 1 One person reads each of the trade concerns below (in black), while other group members take turns responding by reading the statements in green.

DUMPING:

Awayland dumps electronics in our markets to drive our domestic producers out of business to gain market share. This unfairly gives them a trade advantage over us.

Workers everywhere and in any economic system pay a high price for dumping. They lose jobs when there is unfair competition. We impose high tariffs to discourage this practice.

NATIONAL SECURITY:

Awayland threatens to stop selling us computer components, which we rely on for our national security.

The only way any nation achieves true national security is by rejecting global capitalism and its inevitable resource wars. For now, we make those computer components domestically.

OFFSHORING:

Awayland gives our firms tax breaks and other incentives to steal whole industries from our shores. We end up losing jobs and are stuck with high unemployment.

In democratic socialism, offshoring is a nonissue because firms are worker-owned. Jobs stay in Flagland because a majority of workers are unlikely to vote in favor of moving.

STANDARDS:

Awayland allows low wages and has no workplace safety requirements or environmental regulations, so our firms can't compete.

We don't trade with countries that support practices that hurt people and the planet. If Awayland doesn't change, we lead a worldwide boycott until they value people over profits.

PART B

- 2 Considering the radical responses to the trade concerns, advise your government on the level of specialization it should pursue with its limited resources. Should it be maximum, moderate, or minimum?

Answer:

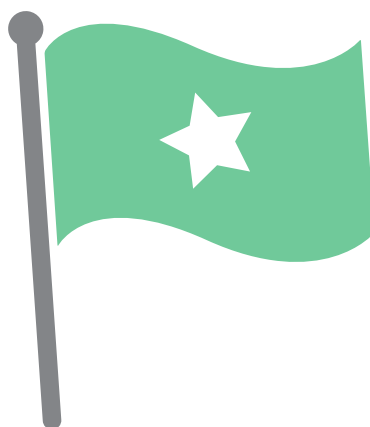
Flagland should minimally specialize when trading with capitalist countries, and moderately to maximally specialize when there is global democratic socialism. Assuming Awayland is a capitalist country, Flagland should produce 24 machines and 8 units of food. It should then trade 4 machines to Awayland for 4 foods.

Explanation:

Flagland will end up with 20 machines and 12 foods. It gains 2 additional foods from trade, above and beyond what it could have produced domestically (20 machines and 10 foods), while successfully addressing all four trade concerns.

Conclusion:

Radicals use fair trade and collaboration in democratic socialism. They say we should trade according to our comparative advantage, but not when it compromises our commitment to healthy communities. Therefore, they use minimum specialization when trading with capitalist countries. They believe maximum specialization leaves society vulnerable to doing the wrong thing because we become dependent on products that come from global capitalism. Moderate specialization is on the same continuum of harm, but with a pretense of concern about people around the world. Radicals create a better standard of living through minimum specialization and fair-trade agreements that protect the rights of workers and the environment, along with collaborative trading partnerships.



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on International Trade. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 19: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.



1. Match the term (left column) with an example of it (right column).

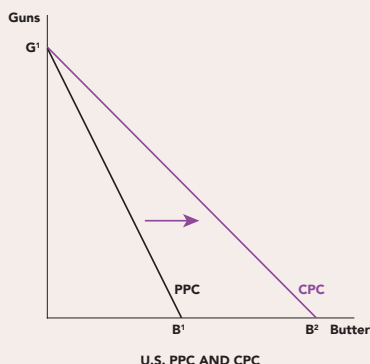
- | | |
|-------------------------------------|---|
| A. Import | i. A shoe firm produces and sells boots in both Vietnam and China. |
| B. Export | ii. Peter lives in the United States and buys bananas that were grown in Costa Rica. |
| C. Global economy | iii. A German artist sells her award-winning glass marbles in France. |
| D. Multinational corporation | iv. A car is designed in Japan, built with parts manufactured in Mexico, assembled in the United States. |

2. Which one of the following is not a trade protection?

- A.** A tax is imposed on imported grapes.
- B.** Foreign companies are not allowed to own domestic electric companies.
- C.** Firms in one country trade with firms in another country, constrained only by their profit considerations.
- D.** There is a limit on the number of motorcycles a foreign firm is allowed to sell in another country.

3. Samantha is a talented personal trainer and an outstanding auto mechanic. She enjoys both professions equally and has more skill and efficiency at both compared to other trainers and mechanics. In one hour, Samantha can train one client or complete two car repairs. In this scenario, which one of the following statements is true?

- A. Samantha has a lower opportunity cost in auto mechanics, so she should specialize in personal training.
- B. Samantha has a higher opportunity cost in personal training, so she should specialize in auto mechanics.
- C. Samantha has an absolute advantage over any other trainer or mechanic, so she should do both.
- D. Samantha doesn't have a comparative advantage in either training or auto mechanics, so she should look for a new occupation.



4. According to conventional theorists, without trade, the consumption possibilities for Country X, as shown in the graph, is _____.

- A. inside the PPC
- B. along the PPC
- C. outside the PPC
- D. along the CPC

5. Which of the following do radicals believe are the inevitable outcomes of a global economy dominated by privately owned multinational corporations? Choose all that apply.

- A. Higher living standards
- B. Loss of national sovereignty
- C. Manipulated preferences
- D. Greater economic instability

6. Match the term (left column) with an example of it (right column).

- | | |
|--------------------------|--|
| A. Dumping | i. Country L buys U.S. dollars to make the value of dollars go up relative to its own money. |
| B. Currency manipulation | ii. Country Q sells toasters in Morocco for less than what it cost to produce them. |
| C. Standards | iii. Country S lowers its workplace safety requirements to attract foreign direct investment. |
| D. Subsidies | iv. Country Y allocates a percentage of its annual revenue to support firms that make ammunition for the military. |

7. What do liberals mean when they quote poet Robert Frost's famous line "Good fences make good neighbors" in the context of international trade?
- A. Trade puts nations at risk of conflict, so to ensure world peace and harmony, we should not trade.
 - B. When nations collaborate, we can have more and better products, which helps us be better allies.
 - C. The justice system and consumer behavior are adequate protections against trading partners taking advantage of us.
 - D. As long as we have sensible rules and regulations and clear boundaries, we can enjoy the benefits of trade while limiting the risks to our country.
8. When it comes to international trade, Valentina is concerned about national security, dumping, standards, and offshoring. Choose the most likely reply that Dennis, a conservative, would offer to relieve Valentina's fears about *dumping*.
- A. "Trade opens up more opportunities to capitalize on our domestic strengths, which will bring us more jobs than ever."
 - B. "The best way to protect ourselves is to make sure that everyone has what they need for a secure material life, which is what free trade brings to the world."
 - C. "It's not our place to interfere, because other countries can make their own decisions about conditions for workers, product safety, and the environment."
 - D. "If foreign firms choose to undersell their products, it makes us better off, and then we can use our resources for other things."
9. Choose the most accurate statement that reflects the radical approach to the law of comparative advantage, assuming a democratic socialist trading partner.
- A. When we trade with capitalist countries, we should maximally specialize.
 - B. When we trade with democratic socialist countries, we should moderately to maximally specialize.
 - C. When we trade with capitalist countries, we should moderately specialize.
 - D. When we trade with democratic socialist countries, we should minimally specialize.
10. Which perspective is the most enthusiastic about the benefits of international trade in capitalism?
- A. Liberal
 - B. Conservative
 - C. Radical
 - D. All of the perspectives equally
 - E. Conventional theorists only (A & B)

Answers

1. A – ii, B – iii, C – iv, D – i 2. C 3. B 4. B 5. B, C, & D 6. A – ii, B – i, C – iii, D – iv 7. D 8. D 9. B 10. E

Chapter 19: Key Terms

Absolute advantage

Balance of payments

Barter

Bilateral trade agreement

Boycott

Capital account

Comparative advantage

Consumption possibilities curve (CPC)

Current account

Custom duties

Developing nations

Digital trade

Domestic trade organizations

- Bureau of Industry and Security (BIS)
- International Trade Administration (ITA)
- Office of the U.S. Trade Representative (USTR)
- Office of Trade, Mutual Recognition, and International Arrangements (OTMRIA)
- U.S. Customs and Border Protection (CBP)

Exchange rate

Exports

Fair-trade movement

Foreign direct investment

Free trade

Free-trade agreements (FTAs)

Global economy

Globalization

Healthy communities

Human trafficking

Import fees

Imports

Industrialized nations

International finance

International trade

International trade concerns

- Currency manipulation
- Dumping
- Forced technology transfer
- Infant industry
- Intellectual property rights
- Investor-to-state dispute settlement
- National security
- Offshoring and outsourcing to foreign countries
- Standards
- Subsidies

International trade organizations

- G20
- International Chamber of Commerce (ICC)
- International Monetary Fund (IMF)
- Organization for Economic Cooperation and Development (OECD)
- United Nations Conference on Trade and Development (UNCTAD)

▪ World Bank

▪ World Trade Organization (WTO)

Law of comparative advantage

Most-favored nation (MFN)

Multilateral trade agreement

Multinational cooperatives

Multinational corporations

National treatment

Nontariff barriers (NTBs)

- Embargoes
- Firm subsidies
- Import licenses
- Quotas
- Required standards
- Voluntary export restraints

Opportunity cost

Production possibilities curve (PPC)

Supply chains

Sweatshops

Tariff

Tariff binding

Trade

Trade deficit

Trade protections

Trade rounds

Trade sanctions

Trade surplus

Trade war

Unhealthy communities

Answer Key to Exercise 19.1

The Bingo answers are shown in orange, and the other answers are shown in gray. The number beneath the answers corresponds to the number of the question.

Infant Industries	Intellectual Property Rights	Fair Trade	Subsidies	National Security
Imports	Tariffs (4)	Free Trade	Trade Deficit (5)	Global Economy
Exports (2)	Offshoring (8)		The Environment	Multinational Corporation
Currency Manipulation	Quotas (7)	Investor-to-State Dispute Settlement	Trade Protections	Specialization
World Trade Organization (6)	Standards (9)	Outsourcing (3)	Comparative Advantage (10)	Dumping (1)



20 Issue: ECONOMIC STABILITY

There's a proverb that says, "The best time to plant a tree is twenty years ago." If I had planted an orange tree back then, I could be sitting under its shade today, drinking fresh-squeezed orange juice. We spend the first part of our lives metaphorically planting trees that we hope will bear fruit in adulthood. If we're lucky, we're encouraged to discover and develop our unique talents. We're able to get education and training that prepare us to succeed in the world.

When I was young, life seemed like a grand adventure, as if I were setting off on an exciting journey, rowing my little boat across a wide sea of possibilities. I also felt some trepidation. I didn't know if I would be happy where I landed—in that relationship, job, community. Even though some of us have to row the boat ourselves while others inherit boats equipped with decent outboard motors or sail through life in a yacht, none of us

knows what the future will bring. We are all in the same boat in that sense.

One of the hardest truths in adulthood is that much happens in life that is beyond our control. Even if you prepare well, play by the rules, and chart the safest course, you could still be thrown off course by illness, family misfortune, or accidents. Your life could be disrupted by wars, terrorism, or natural disasters. On top of that, all of us are vulnerable to economic crises. Businesses could fail when prices on average unexpectedly drop, no matter how carefully they were managed. Jobs could disappear overnight, no matter how

hard people worked to become qualified. There's a famous story about three bricklayers that illustrates this point. Here's how we tell it in the VOTE Program.

English architect Christopher Wren is tasked with rebuilding St. Paul's Cathedral after the Great Fire of London in 1666. One day, he goes to inspect the



work in progress and comes across three master bricklayers. These are the top craftsmen in their field. It took them years of hard work as apprentices and journeymen to develop their skill. Wren observes with pleasure as they expertly arrange the blocks in even rows and then deftly smooth mortar on top to affix them together. There is no wasted motion. The wall rises in front of them like magic.

“What are you doing here?” Wren asks the first bricklayer.

“I’m earning a living,” the man answers.

“And what are you doing here?” Wren asks the second bricklayer.

“I’m making a wall,” he says.

“What about you?” Wren asks the third bricklayer. “What are you doing here?”

“I’m building a cathedral,” he replies.

Wren thinks about the bricklayers all afternoon. They were doing the same job and were all equally proficient, yet they viewed their profession in very different ways. The first saw bricklaying as a livelihood, the second regarded it as an occupation, and for the third, it was a calling. “Does one outlook on work lead to more happiness than another?” wonders Wren.

A year later, Wren decides to pay another visit to the cathedral to see how construction is coming along. For the past three months, economic activity has slowed down, and as he walks across London, he passes shuttered businesses and children begging in the streets. Crowds of unemployed workers are lined up in front of the charity soup kitchen. As the half-built cathedral

comes into view, Wren can tell immediately that work has come to a standstill. There is silence where there should be the ringing of hammers, the shouts of workers calling out to one another as they raise the beams, and the deafening clang of the stonecutters’ chisels. With a sigh, he turns to go back home—and nearly trips over the three bricklayers. They are sitting on the curb.

“What are you doing here?” he asks.

The first says, “I’m sitting here worrying about my future because I can’t even find a job as a street sweeper. No one is hiring. I’m waiting for the economy to recover so that I can get any job at all and go back to earning a living.”

The second says, “I’m sitting here feeling exhausted. Without an income, my children go hungry, and I can’t pay the rent. The stress of financial ruin is making me physically sick. I’m waiting for the economy to recover so that I can support my family again as a bricklayer.”

The third man says, “I’m sitting here feeling lost and depressed. Not only did I lose

my income, but my life has no meaning without my work. I’m waiting for the economy to recover so that people will start donating to the church again, and I can go back to building the cathedral.”

As Christopher Wren walks away, he reflects on the three bricklayers. The fact that they once regarded their jobs as bricklayers in different ways now seems trivial in the face of their shared despair at being laid off.

Anyone who has ever faced the harsh reality of not being able to meet their basic material needs



can relate to the three bricklayers. When the economy slows down—**recession**—you forget about finding your dream job. You're just happy to have a paycheck so that you can keep a roof over your head and food on the table. And when prices on average suddenly shoot up—unexpected inflation—and wages don't keep up, it doesn't matter whether you love or hate your job; you're going to suffer when you can't afford your life. When I was helping my daughter plan for her future career, I often wished for a vaccine

that would immunize her against the ups and downs of the macroeconomy. It's a nice fantasy, but the reality is that we all share the same economy. That's why the issue of **economic stability** will always be vital to you, personally. A stable economy has three characteristics: it grows at a steady rate, prices are predictable, and the country's available resources are used to their best potential. Of course, each perspective has a different idea about what "best potential" looks like.

There is hearty agreement among all the perspectives that economic stability is desirable. One sign of what is important to us is the number of words we have to describe it. For example, the Inuit dialect spoken in Canada's Nunavik region has more than fifty terms for snow, including *muruaneg*, which means soft, deep snow. The weather is vital to the people's survival, so that makes sense. Similarly, economists use a wide variety of synonyms to describe the state of the economy, because it so crucial to our well-being. You've probably heard some of these in the news.

When the economy slows down, forget about finding your dream job. You're just happy to have a paycheck so you can keep a roof over your head and food on the table. And when prices on average suddenly shoot up, but wages don't, you suffer because you can't afford your life.

They say the economy is *growing* and *shrinking*, *stagnating* and *recovering*, *expanding* and *contracting*, *booming* and *bustling*, *surging* and *crashing*, *overheating* and *cooling*. They say we're in a *recession*, in a *bubble*, in a *depression*, *hitting a peak*, *bottoming out*, *stuck in a trough*, and more.

Even if you don't study economics or follow the news, you know when the economy is in trouble. **Economic instability** is caused by a natural or a human-made event that interrupts our ability to be

productive and puts our material well-being suddenly at risk. It occurs in every generation. People born in 2000—Generation Z—lived through the 9/11 terrorist attacks, the financial crisis of 2008, and the COVID-19 pandemic before they turned twenty. Economic instability affects your job opportunities, health care, and transportation. It affects your ability to pay your bills, take out a loan, and find what you need at the store. When the economy becomes unstable, it can send your life plan off course or sink it altogether. No one from any perspective wants economic instability. That's like wishing for a Category 5 hurricane. Radicals, liberals, and conservatives all agree that unexpected price changes and unemployment undermine the well-being of society. They share the same goal of ensuring that we have stable prices and full employment. But as usual, each perspective has its own ideas about the best way to keep the economy stable and how to recover when an unexpected event sends it off course. Of all the issues we explore in the VOTE Program,

economic stability is the most omnipresent. When the economy is unstable, it's hard to focus on anything else.

Taking the Temperature of the Economy

You probably don't take your temperature unless you feel feverish, but have you ever been in bed with the flu and had a hard time remembering what it felt like to be well? When it happens to me, I start to marvel that I'm *ever* well. Bodies are made up of countless interdependent systems. When one is off balance, the others are also affected. Likewise, an economic system is made up of countless interdependent parts, and when something goes wrong in one part of the economy, it throws other parts off balance. That explains why a stock market dive affects people who aren't even invested in the stock market, and a company closing its retail stores in several key cities sends tremors through the whole economy. Liberals believe that the government needs to do regular checkups to make sure capitalism stays healthy, and when the economy is unexpectedly thrown off balance, government should intervene strategically to get it back on course. Conservatives believe that capitalism works perfectly when we leave it alone, and when the economy hits a bump in the road, we should continue to leave it alone so it can self-heal and get back on course. Radicals believe that capitalism has a congenital defect that causes and then worsens the sickening ride of ups and downs, but we can get on the right course by switching to democratic socialism.

Whatever their point of view, economists need to know how the economy is performing. How can they tell if it is stable or unstable? They take its temperature. They measure the country's production, unemployment rate, and average price levels, and then compare current numbers to the past to see how we're doing. Economists look for trends. Are we slightly more productive than

we were three months ago? We may be turning a corner and coming out of a recession. Are unemployment numbers starting to rise? The recent recovery might have been a false start. Are wages beginning to plummet? We may be seeing the first signs of deflation.

Every quarter, the Bureau of Economic Analysis (BEA) measures our nation's production of goods and services, which is our gross domestic product (GDP). Each month, the Bureau of Labor Statistics (BLS) measures unemployment and price changes. Not unlike new parents who obsess over their infant's every burp and snuffle, economists are alert to the slightest fluctuations in these three measurements. Some indicators are *lagging*, meaning they reveal what happened in the past. Some indicators are *coincident*, meaning that they reveal what is currently going on. *Leading* indicators anticipate what might happen in the future. But no one really knows what will happen. An unexpected event could send the economy off balance at any time.

The Three-Legged Stool of Production, Jobs, and Prices

Many analogies and metaphors are used to talk about the economy. One that I find useful is to compare it to a three-legged stool, with GDP, employment, and prices as the three legs. When all three legs are stable, we can rest on it securely. When one leg becomes unstable, we'll be at best uncomfortable, and at worst we'll crash to the floor. Because these three legs are interconnected, when one is off-balance, the whole stool becomes unstable. For example, let's say there's an **economic downturn**, which is a general slowdown in economic activity—people don't spend as much, individuals and firms don't borrow money to invest in new projects, and entrepreneurs don't launch new businesses. When production drops, the GDP leg of the stool shrinks. The economy wobbles and threatens to topple over. With lower

production, firms lay off workers, and businesses shut down. Unemployment rises, so the employment leg of the stool shrinks. The economy is now dangerously unstable. To make matters worse, prices might plummet or skyrocket. When that happens, the stool collapses.

We need all three legs of the economy to be balanced to have economic stability. A change in one not only unbalances the economy, it affects the other two. But please don't think a change in GDP is always the cause of economic instability. We could just as easily have started that example with a change in prices, which led to job losses, which lowered GDP. Or it could have started with job losses, which caused GDP to fall, which led to unexpected price changes. It doesn't matter which goes first. The point is that a change in one leg affects the other two legs.

Economic stability is a *macro-economic* issue because it looks at the economy as a whole. While you perch on your stool and read the newspaper, scanning the articles for information that tells you where to invest, what career to choose, and when to buy, you're reading about markets, which are *micro-economics*. Of course, microeconomics is very important, but changes in individual markets can seem like child's play when you read that GDP fell for the third quarter, unemployment numbers continue to climb, and prices plummeted for the ninth month in a row. That news matters to your life on a completely different scale. For example, if the soda market declines, you'll probably be okay, even if you work in the soda industry or are invested in a cola company. But if *all* the markets

in the economy decline at the same time, then the stool falls apart while you're sitting on it. You and everyone else get hurt.

When it comes to economic stability, the stakes could not be higher. Let's take a closer look at the three legs of the economy.

Gross Domestic Product (GDP)

GDP is the measure of the total market value of all final goods and services newly produced within a nation's borders during a given period. In

other words, it's the measure of our national income. This quarter's GDP tells you how much was produced in the nation during the last three months compared to other quarters. But there's a little wrinkle in this explanation. We always measure GDP in money terms—it's the *money* value of what's produced. That's a problem when we try to compare GDP from different periods. How do we know if we actually made more or fewer goods and services, or if the change in GDP reflects the fact that prices went up or down? For example, if TVs,

haircuts, airplane tickets, and refrigerators cost less in 1990 than in 2020, GDP in 2020 could look higher than in 1990 even if we didn't produce more TVs, haircuts, airplane tickets, and refrigerators. To get around this problem, economists compare GDP from different periods using *real* GDP, which is adjusted for price changes. When real GDP goes up, you know that the nation actually produced more goods and services. In that case, we say the economy *grew*. When real GDP goes down, the nation produced fewer goods and services. We say the economy *shrank*. When real



GDP stays level, the nation produced the same amount of goods and services.

Sometimes, you'll see the quarterly GDP reports **annualized**. This is a way economists predict what the economy would look like if that quarter's performance continued for the entire year. You have to listen carefully when GDP is reported to determine whether it's given as an annualized number or being compared with the previous quarter. This information could prevent you from having a panic attack when reading the news. For example, during the second quarter of 2020, when the United States was coping with the first surge of the COVID-19 pandemic, the percentage change in GDP between the first and second quarters was a whopping *negative* 9.5 percent (production shrank by 9.5 percent). But even more alarming was the annualized rate, which was *negative* 32.9 percent. Reporters and economists were quick to remind the nervous public that our production had not actually dropped by that much in one quarter. It was a projection of what GDP would look like if first-quarter numbers stayed the same for all four quarters of the year.

The ups and downs of GDP are often compared to a roller coaster. If you love roller coasters, you can thank the French for building the first one back in 1799. It was inspired by the Russian gravity ride, a sled that slides down a track of ice. The British built the world's first looping roller coaster in 1842. Inventor LaMarcus A. Thompson built the first roller coaster in the United States, at Coney Island, New York, in 1884. Roller coasters quickly became a popular attraction at amusement parks across the country. Personally, I've never been a fan. I genuinely don't understand why anyone would want to pay money to be terrified and nauseated. I always used to joke that someone would have to pay me to ride on one. Then I went to Disneyland with my daughter and accidentally ended up on a ride called Splash Mountain, which turned out to be a roller coaster. They took a picture of me at the end of the ride, and I was literally crying. But that's just me. I have family, friends, and students who absolutely love roller coasters and say the scarier the better. But when the economy goes up and down like a roller coaster, no one enjoys it. We all want the ride to end as soon as possible.



You can see economic instability on a graph of GDP over time in figure 20.1. The orange line shows the many abrupt ups and downs we've experienced since the 1940s. The orange line shows the percentage change of real GDP from the previous quarter. Take a look at what happened in 2020, which is when the COVID-19 pandemic first started in the United States. The economy took a terrifying nosedive during the second quarter (April, May, and June) and then shot back up the next quarter. Compare the size of that rise and fall to real GDP in earlier years and imagine (or remember) what it felt like to be on that ride. I'll just say that no one was having fun.

When the economy is in a downturn for two quarters in a row, economists start to mutter that we're in a recession, although there is no set marker for when a recession begins or ends. The official determination of the start and end of recessions is left to an independent, nonpartisan, nonprofit organization of economists called the National Bureau of Economic Research (NBER). The gray-shaded vertical areas in figure 20.1 indicate periods of recession.

In the news, you might hear economists forecast an economic recovery by referring to letters of the alphabet that correspond to the shapes made by the real GDP line. Whether it's an *L*, *U*, *W*, or *V* shape tells you how much nausea medicine you'll need and whether to expect the roller coaster ride to be over soon or to last a long time. An *L* shape is bad news, meaning the bottom fell out of the economy, and economists predict that it will stay there with no end in sight. A *U* shape is more hopeful. It indicates that although the economy plunged, it will only stay down for a bit and will soon climb out of recession. A *W* shape means we can expect whiplash, because the economy will be going down, then up, then down again and up again. The *V* shape is the best scenario because it means production will pop right back up and the economy will get back into full swing relatively quickly. Some letters of the alphabet that are referenced can't actually be seen on the real GDP line. For example, a *K*-shaped recovery means that the economy recovers at different rates for different sectors, industries, or groups of people. For example, after the short-lived COVID-

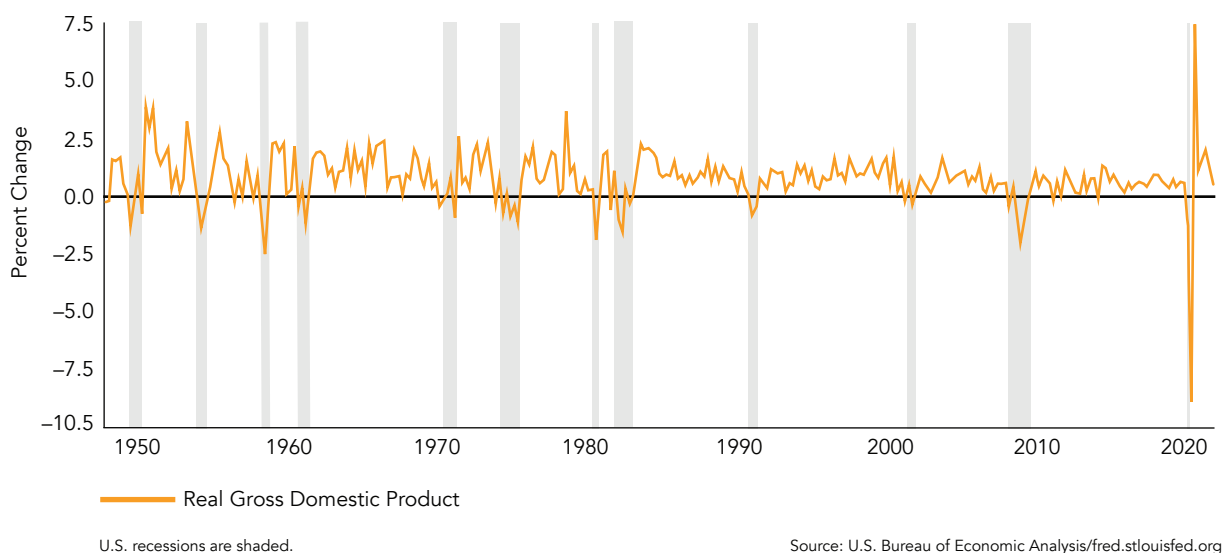


Figure 20.1
Quarterly Percentage Changes in Real GDP

19 recession in 2020, high-income workers recovered quickly (a line went up), but low-income workers became worse off (a line went down), which formed the *K* shape.

Many people think that GDP measures happiness, standard of living, or quality of life. That's not the case. It measures only overall production of goods and services. Production may be—but isn't always—linked to those things. For example, when we work harder, GDP goes up, but higher GDP doesn't show the loss of workers' leisure time. Most people would agree that leisure time leads to more happiness and a better quality of life. Also, GDP doesn't differentiate among the types of products we make—whether we're producing bombs or preschools. It measures production, but not the distribution of those goods and services. Certain people may get a lot of those products while others get very few. GDP also doesn't take into account the negative effects of production on the environment.

Unemployment

The second leg of the three-legged stool is employment, which means working full time or part time for pay. (Volunteer work doesn't count.) On the flip side of the coin, the official definition of unemployment has three parts: wanting a job but not having one, actively seeking work, and being eligible and available to take a job.

If you wanted to know whether you were using all the hours in a day, you'd obviously first have to know how many hours are in a day. Likewise,

Many people think that GDP measures happiness, standard of living, or quality of life. That's not the case. It measures only production of goods and services. Production may be—but isn't always—linked to those things.

to know if society is fully using its labor resource, economists first need to know the size of the labor force, which is the sum of all employed and unemployed people. The Bureau of Labor Statistics measures unemployment by comparing the size of the labor force to the numbers of currently unemployed people (according to its official definition). If everyone in the labor force has a job, the rate of unemployment is zero. But keep in mind that some categories of workers are

not counted in the labor force, including stay-at-home caregivers, undocumented workers, retired people, those living in long-term care facilities, those who serve in the military, and anyone who is incarcerated. Even though part-time workers are counted in the labor force, some are underemployed, meaning they would prefer to be working full time. Known as involuntary part-time workers, they are not accurately represented in the employment numbers. Also, people who can't find a job and give up looking for one—discouraged workers—are not counted as part of the labor force. When people become discouraged and stop looking for work, the unemployment rate drops, but that lower rate doesn't necessarily mean that more people now have jobs. It may mean that more people have given up.

There are three types of unemployment:

Frictional unemployment is considered natural and even healthy for an economy. It happens if you leave your job to move across the country to be with your true love. Frictional unemployment also occurs when you change your occupation,

when you've entered the workforce for the first time and you're looking for a job, or when you are a bad fit for a job and either resign or get fired.

Structural unemployment is also natural. It occurs when your job becomes obsolete because of a change in demand for a product, or as a result of automation or outsourcing. For example, when society switched from using typewriters to using computers, typewriters were no longer in demand, so firms that made typewriters, typewriter ribbons, or typewriter repair parts went out of business and laid off their workers. The different perspectives disagree about whether the government should offer programs to help workers who experience structural unemployment, but they all agree that those job losses are the casualty of progress, and that progress is good for society. When economists talk about achieving 0 percent unemployment, it's with the assumption that some frictional and structural unemployment will always occur. They call it the **natural rate of unemployment**. There is no set agreement on what the natural rate of unemployment should be, but if it is 4 percent, for example, then the full employment rate is 96 percent. Please keep in mind that even though frictional and structural unemployment are considered natural and inevitable in a healthy economy, they more often than not have devastating effects on people's lives.

Cyclical unemployment is always problematic. It is not natural, healthy, or inevitable. When it occurs, we know that we are in a period of economic instability. People lose their jobs because the whole economy slows down. Cyclical unemployment is precipitated by an unexpected event such as a pandemic, drought, war, or stock market crash. For example, during the COVID-19 pandemic, people stopped leaving their homes because they were afraid of getting infected with the virus. Restaurants, gyms, movie theaters, vacation resorts, hair and nail salons, airlines, and many other industries experienced a

sudden steep drop in demand. Firms responded by laying off workers. Unemployment reached 14.8 percent in April 2020. Newly unemployed people, having lost their income, changed their spending behavior. They cooked at home instead of ordering takeout, canceled app and cable subscriptions, stopped buying clothes, and put off replacing old appliances. Facing lower demand, firms across the economy laid off workers. There was a domino effect as those newly unemployed people cut back on their spending, more firms laid off workers, and so on.

From every perspective, unexpected natural or human-created events don't inevitably lead to cyclical unemployment. Conservatives, radicals, and liberals blame one another's policies for turning those events into economic crises, and then they continue to blame one another for worsening the situation with ineffective responses. The goal for all of them is an economy that fully employs our country's available land, labor, capital, and technology. They want 0 percent cyclical unemployment. You can see in figure 20.2 that unemployment in the United States has been a nauseating roller-coaster ride over the past seven

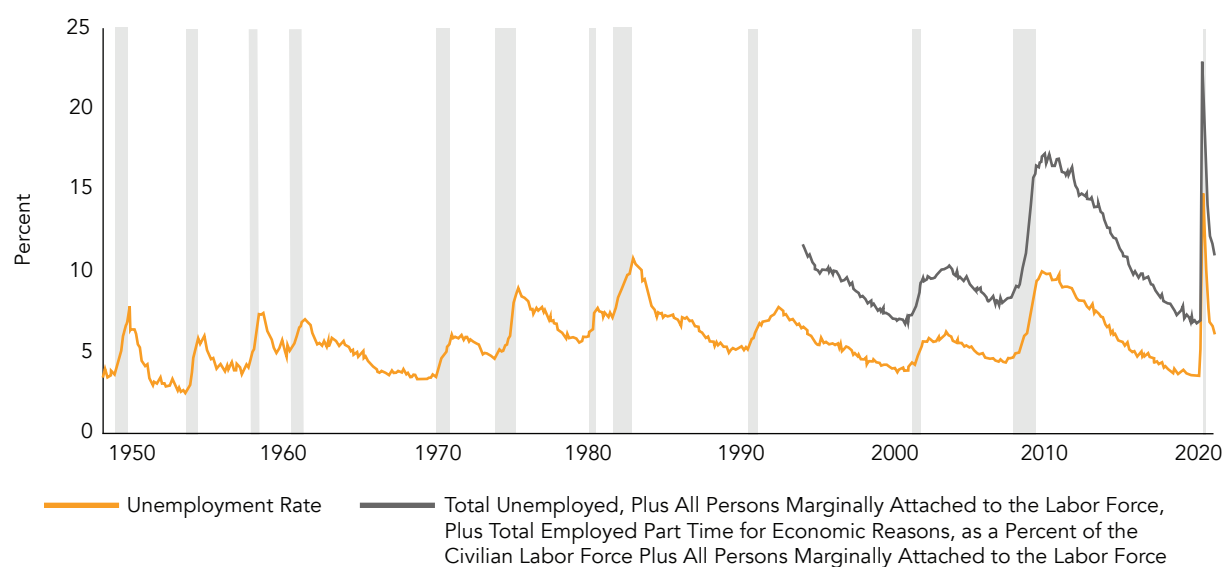


decades. The orange line shows each percentage change in unemployment from the month before, revealing the movement of unemployment over time—whether the economy lost jobs or added jobs compared to the preceding month. Notice the steep inclines in unemployment as we entered and endured the financial crisis of 2008 (also called the Great Recession) and the COVID-19 recession in 2020. Earlier, I mentioned that discouraged workers and involuntary part-time workers are not counted in the official unemployment number. That means they aren't included on the orange line in the figure. Starting in the 1990s, they were counted as the **marginally attached**. The unemployment rate with the marginally attached included is the dark gray line in figure 20.2. As you can see, it is much higher than the official unemployment rate. During the Great Recession, the highest official unemployment rate was 10 percent, but when the marginally attached were included, it nearly doubled to more than 17 percent. Please note that the numbers you hear in the news every month when the unemployment figures are released don't include the marginally attached.

The Three Costs of Unemployment

“The best way to appreciate your job is to imagine yourself without one,” wrote playwright Oscar Wilde. Unemployment is devastating for individuals, families, and communities. When the economy is in a recession, real GDP drops, and unemployment soars. A recession can turn into a **depression** when the downturn is severe and long lasting. During the Great Depression of the 1930s, unemployment reached an estimated 25 percent—and that didn't even include the marginally attached. It takes a toll on individuals, families and society in three significant ways:

Social crises. Unemployment leads to higher rates of crime, substance abuse, depression, and domestic violence. In our society, work is a primary source of meaning and identity for many people. In addition to losing their paychecks, people often lose a sense of purpose, direction, and self-esteem. Higher rates of unemployment are correlated with more mental health issues and higher rates of suicide. During the financial crisis of 2008, for every 1 percent increase in unemployment, there was a corresponding 1 percent increase in the suicide rate.



U.S. recessions are shaded.

Source: U.S. Bureau of Economic Statistics/fred.stlouisfed.org

Figure 20.2
Monthly Percentage Changes in the Unemployment Rate

Lower standard of living. Losing their income creates hardships for people. Unable to pay their bills, they go into debt and lose their homes. Many can't afford food or medication. They can't afford to see a doctor, which can lead to new health problems and exacerbate existing ones. They can't afford to fix their cars or take public transportation. Without access to these basic necessities it is even more challenging to find a new job. And as I described earlier, layoffs have a domino effect. When people are unemployed, they cut back on spending, and lower demand leads more firms to lay off workers, and they cut back on spending, and so on, which lowers the standard of living across society.

Slow economic growth. Unemployment is a tragedy for the whole society. When a worker has no work, we all lose out on the goods and services that would have been produced if they had been employed. Potholes are left unfilled, apples are left unpicked, and webpages are never designed. If the unemployed were to all be hired tomorrow, it wouldn't make up for today's losses. What they produce tomorrow in their new jobs are tomorrow's products. The goods and services they could have made today are lost to society forever. From an economist's perspective, this is perhaps the most long-lasting and devastating cost of unemployment, even though it is the least visible.

Exercise 20.1: Your Solution to Unemployment

US jobless rate masks a hidden, larger total

8.8M part-timers seeking full hours;
millions more have given up search

By Christopher Leonard
and Paul Wiseman
THE ASSOCIATED PRESS

WASHINGTON—The job market is even worse than the 9.1 percent unemployment rate suggests.

America's 14 million unemployed aren't competing just with each other. They must also contend with 8.8 million other people not counted as unemployed—part-timers who want full-time work.

When consumer demand picks up, companies will likely boost the hours of their part-timers before they add jobs, economists say. It means they have room to expand without hiring.

Let's try an exercise to discover your ideas for solving unemployment.

1. Read this brief article about unemployment.
2. Ask yourself, "If I were in power, how would I fix this problem?"
3. Write down three ideas to fix unemployment. There are no right or wrong answers. Think creatively. Keep in mind that sometimes a new idea may seem outlandish, nonsensical, or simplistic at first, but later it could be recognized as an ingenious new solution.
4. Save your answers. You'll need them for the Three-in-One Activity at the end of this chapter.

Inflation and Deflation

The third leg of the stool is prices. Prices for individual products go up and down all the time, although the overall trend is upward. Have older relatives ever told you that movie tickets, which cost \$12 today, used to cost \$2.50 back when they were kids? That is perfectly normal in a stable economy. We expect prices on average to rise over time, including the prices for labor (wages and salaries). We also expect that the prices for some products will go up or down because of new innovations, higher or lower demand, and so on. For example, the price of cars may go up this month because of a new tariff on imported car parts, so firms supply fewer cars. Or the price of candy bars may go down because a new study showed that refined sugar causes illnesses, so people demand fewer candy bars. Those price changes are not signs of economic instability. Instead, economists worry about *unexpected* price changes, when prices *on average* go up or down by more than 2 percent. If that happens, grab your nausea medicine. Further on, we'll talk about what happens when they go down. For now, let's focus on what happens when they go up.

In a stable economy, there are small and predictable price increases over time, so a gallon of milk won't cost \$3 one day and \$118 the next. When unexpected inflation occurs, however, milk could cost \$3 one day and then double, triple, or quadruple the next. Imagine if all prices in the economy shot up this way but incomes didn't. It would be an utter disaster for everyone.

The BLS uses the Consumer Price Index (CPI), which measures the change in prices from one

When prices on average
unexpectedly go up
or down by more than
2 percent, economists
worry. It's time to grab your
nausea medicine.

month to the next for a typical basket of goods. The CPI is an important number because it's used to determine the official cost of living adjustment (COLA). Many workers, often including those who earn the minimum wage, receive an annual wage increase that is tied to the COLA. So do retirees on Social Security, people on

government assistance programs, and others. But as with all measurements, the CPI has shortcomings. Critics point out that it takes a long time for new products to be added to the basket. For example, millions of people were using cell phones before a cell phone made it into the basket. CPI doesn't account for changes in the quality of products over time. A computer today is faster and better in every possible way than a computer thirty years ago. Another shortcoming of the CPI is that different groups of consumers need different items in their baskets. Seniors, for example, require more medical equipment and caregiver services, while families with young children need more toys, clothes, orthodontists, and so forth. But the CPI that is used to determine the official COLA measures only a typical basket of goods and services that an urban wage earner and clerical worker would purchase. Finally, the CPI that is used to determine the COLA (called *core CPI*) doesn't include food or energy. The rationale for this is that those prices too often change to be predictors of bigger trends in price changes. Many critics say that this is an unfair omission, because everyone has to eat, use transportation, turn on a light in their home, and so on. When the prices of food and energy go up, wages and benefits don't adjust accordingly, and that makes it harder for people to afford their

lives. As you look at figure 20.3, which shows the roller coaster of percentage change in the CPI from one month to the next, please keep in mind these limitations.

Hyperinflation

At the extreme end of inflation is **hyperinflation**. This is the worst-case scenario. It occurs when prices increase by more than 50 percent in a month. Just to put that in perspective, if prices go up 2 percent every year, it will take thirty-five years for today's prices to double. If prices go up 2,178 percent a year, as they did in China in 1949, prices will double every 6.7 days. A jacket you consider buying today for \$35 will cost \$70 before the end of the week. Not only the price of the jacket is rising. Prices are also rocketing up for food, rent, piano lessons, phone service, college tuition, and everything else. Hyperinflation is a nightmare. It destroys economies. Currencies collapse because

the money becomes next to worthless. There have been situations where people burned their money for heat because it was cheaper than buying fuel. They brought wheelbarrows of cash to the store to pay for a gallon of milk. This has happened in China, Hungary, Germany, Greece, Venezuela, Yugoslavia, and Argentina, among other countries. Table 20.1 shows the rates at which some of these countries' currencies shot up.

I don't know if this story that is often told about hyperinflation is true, but it illustrates the problem. After World War I, Germany suffered from such extreme hyperinflation that prices went up hourly. (That part is true.) German beer drinkers would order two pitchers of beer at the same time, even though the second pitcher would be warm by the time they were ready to drink it. Why did they do this? To beat inflation. If they didn't, by the time the first pitcher was empty, the price for the second

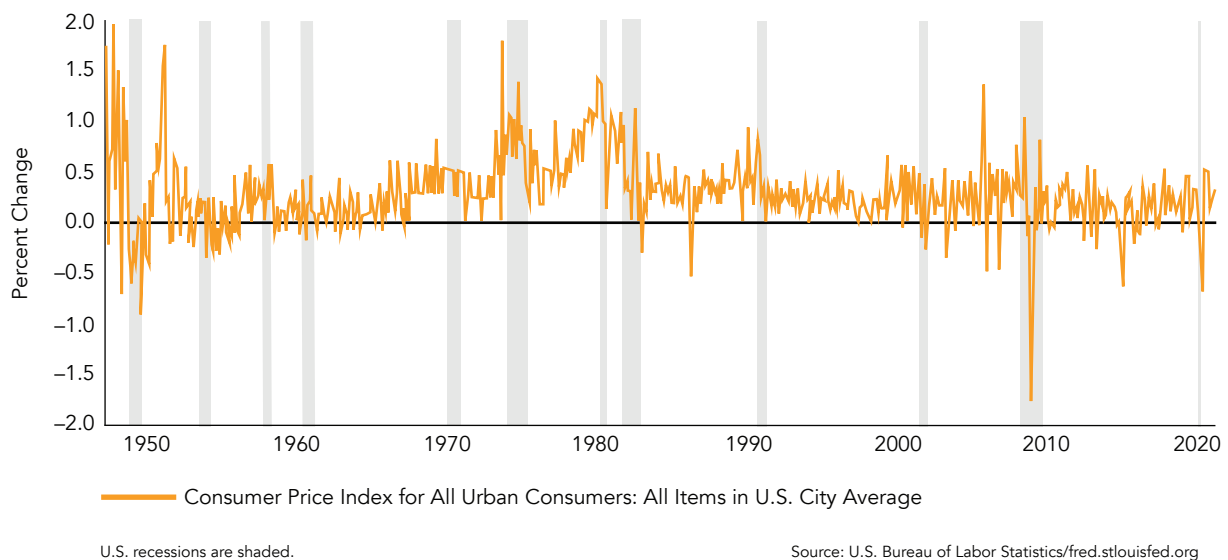


Figure 20.3
Monthly Percentage Changes in the Consumer Price Index



would have gone up. This became known as *warm beer inflation*.

Zimbabwe experienced one of the worst periods of hyperinflation on record, and it went on for years. By 2008, Zimbabwe's prices were doubling every twenty-five hours. A jacket priced at \$35 on Monday cost \$4,480 one week later. It's hard to conceive of the stress and despair people feel when their country's economy experiences hyperinflation. In 2008, Zimbabwe's hyperinflation was 79.6 billion percent. There came a point when the government had to print bills in the denomination of \$100 trillion.

The Three Costs of Inflation

Inflation doesn't have to be *hyper* to be painful. Any level of unexpected inflation, whether it's 5 percent or 50 percent, takes a terrible toll on individuals and society. Even if your wage rises at the same rate as prices spiraling out of control, inflation is painful. To keep it simple, moving forward in our discussion, when we say *inflation* or *deflation*, we mean *unexpected* inflation or deflation. There are three significant effects.

Lending crisis. When prices on average go up, it wreaks havoc on the credit industry. Credit is an agreement to borrow money that you'll pay







Country	Currency name	Month	Rate (%)	Time required for prices to double
 Hungary	Hungarian pengő	July 1946	4.19×10^{16}	14.82 hours
 Zimbabwe	Zimbabwe dollar	November 2008	7.96×10^{10}	24.35 hours
 Yugoslavia	Yugoslav dinar	January 1994	3.13×10^8	1.39 days
 Germany	German papiermark	October 1923	29,500	3.65 days
 Greece	Greek drachma	October 1944	13,800	4.21 days
 China	Chinese yuan	April 1949	5,070	5.27 days

Table 20.1
Highest Historical Monthly Inflation Rates through 2008



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later. Because people can take out loans, they have the money to start businesses, buy homes and cars, and pay for education. Firms borrow to expand and invest in new projects. All of this economic activity is good for the economy. In a stable economy, lenders are willing to lend. Borrowers pay a price for the loan, which is the interest rate. They pay back the principal—the original amount they borrowed—and an agreed-on percentage of the principal. Let's say that you want to borrow \$100 from me, and we agree that you will pay me 3 percent interest to borrow the money for a year. At the end of the year, you pay me back \$100 plus \$3 interest, as promised. But during those twelve months, prices on average rose by 8 percent. When I originally made the loan, I'd planned to use the \$100 you paid back to buy a concert ticket and spend the \$3 interest on a drink. Because of inflation, the price for the ticket is 8 percent higher, so it costs \$108. Even if I skip the beverage, I'm still short \$5. If I had known ahead of time that prices would go up 8 percent, I would have charged you 11 percent

interest—8 percent to offset inflation, plus the 3 percent I wanted to earn on the loan. Instead of coming out of our deal ahead by 3 percent, my real rate of return was *negative* 5 percent. Ouch!

Imagine you come back to me a month later and ask me to lend you another \$100. I'll say no, because in a period of inflation, I don't want to risk losing money on the deal. The value of the dollar could erode even more. During a period of inflation, lenders aren't willing to make loans. That is a big problem for the economy, because people don't have money to buy the things they need, and firms don't have money to start up or expand. Credit keeps the economy growing. Economists describe inflation as *corrosive* because it eats away at the health of the economy.

Lower standard of living. Let's say that inflation sends the average prices for rent, food, and everything else sky high, but you are on a fixed income. You are forced to make painful decisions about what to give up. Should you cut back dramatically on your food budget? Find a cheaper place to live? Leave the heat off even

though it's below freezing outside? Walk to the store instead of taking the bus? Inflation lowers the standard of living for people on a fixed income. Also, when demand drops, firms lay off workers. Even workers who don't lose their jobs must tighten their budgets when prices on average rise at a faster rate than their wages. Now they spend less, so once again demand drops and firms lay off more workers, which further lowers the standard of living.

Slow economic growth. With the sucker punch of inflation, businesses instinctively pull back from making long-term plans. They take a defensive posture in an uncertain economy because they can't be sure what prices they will face in the future. This wait-and-see attitude slows the economy. Most projects take years to put in place—for example, building a new apartment complex, renovating a space to open a second restaurant, expanding the routes for an airline, or establishing a law firm branch in a new city. The whole society suffers when long-term projects are delayed or abandoned altogether. This is perhaps the most long-lasting and devastating cost of inflation, although it is also the most invisible one.

The Three Costs of Deflation

I'm worried that you might be thinking it would be a sweet deal if prices on average dropped instead of shot up. Sadly, this is not the case. Deflation—when prices on average go down—is equally damaging to society, in three ways.

Borrowing crisis. Remember that \$100 you wanted to borrow from me at 3 percent interest in the example above? In this scenario, when you pay me back twelve months later, prices have plummeted by 8 percent. You pay me back \$103, but in real terms, it is a shocking 11 percent (\$111) because your money is worth less now than when you borrowed it. Do you want to borrow more money right now? You don't, because prices could drop even further, so it's not a good

deal for you. Unexpected deflation makes borrowers unwilling to borrow, which means they don't have money to spend and invest.

Lower standard of living. When prices go down on average, it becomes less profitable for firms to produce, so they start laying off workers. This situation leads to even more unemployment because demand goes down when those laid-off workers cut back on their spending. As a result, the standard of living is lower.

Slow economic growth. When there is uncertainty about future price deflation, firms are unwilling to engage in long-term planning for new projects. They don't want to sign new contracts to rent, buy, hire, or borrow, so economic growth slows.

Misery Index

I know you're already reeling from all the revelations in this section about how the three-legged stool of GDP, prices, and employment affect your life, but let me add one last thought. Have you ever had a run of really bad luck, when nothing was going your way? My father used to say of people who were on a bad-luck streak, "If it weren't for bad luck, they'd have no luck at all." Imagine how miserable you'd be if you lost your job, and then, on top of that, prices for everything unexpectedly shot up. It would feel like getting kicked when you're already down. That's called **stagflation**. It combines the words *stagnation* and *inflation*, meaning we have a sluggish economy with high prices. The measure for this particular misfortune is called the **misery index**. The basic equation is to add the inflation rate and the unemployment rate together. The misery index offers a picture of how an average person fared, economically, during a given period.

The misery index is used not only to compare the economic situations of different countries but to examine well-being within a country. If you

wonder whether today is a happy time, economically speaking, or a miserable time compared with other periods in history, you can look it up on the misery index. In September 2019, the misery index in the United States was at 5.21 percent. (In contrast, Venezuela's misery index was 7,459 percent that month.) By the time the COVID-19 pandemic was in full swing in April 2020, the misery index in the United States had tripled to 15.03 percent. By the way, the misery index is also sometimes called the *economic discomfort index*. Many economists consider it more of a thought experiment than real economic data, but it's interesting to think about.

When I was born in 1960, the misery index was around 9 percent. When I decided to become an economics major in college in 1980, it was nearly 20 percent. That had a lot to do with why I found the subject to be so relevant. Take a moment and think of an event that happened to you or your family during one of the years shown in figure 20.4. How might it relate to the misery index? For example, maybe your family put off having another child because prices and unemployment were high that year. Or maybe they bought a house that year because prices were steady and there were plentiful jobs.

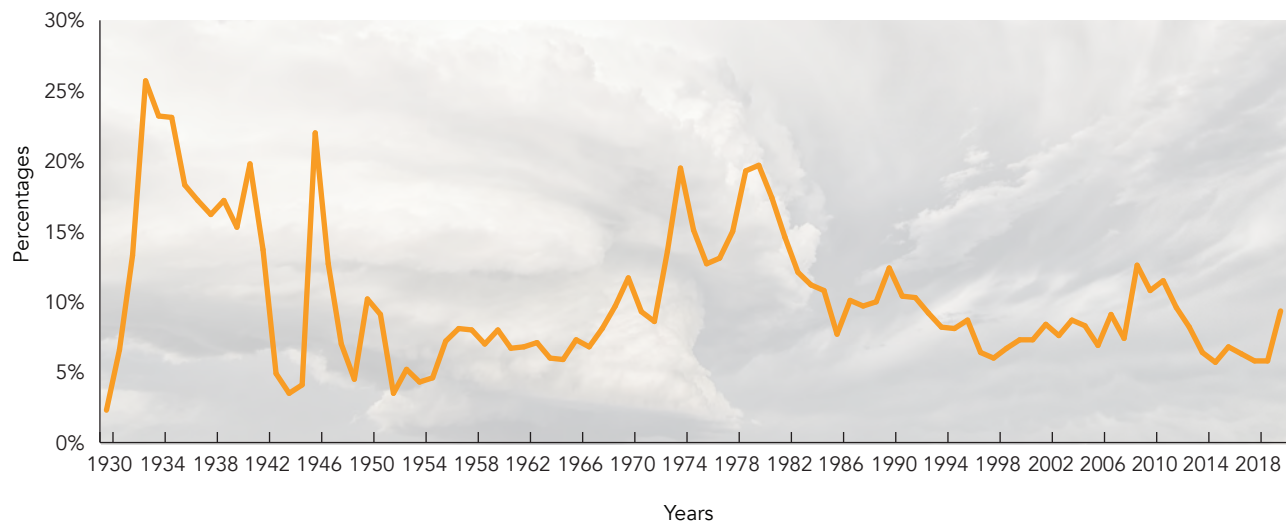


Figure 20.4
U.S. Misery Index, 1930–2020



Thinking about the three bricklayers and how economic crises can derail our lives at any moment, and thinking about the three-legged stool of GDP, employment, and prices, you can see that a stable economy is absolutely essential to our material well-being. Without it, our survival

is at risk. All three perspectives agree that inflation and unemployment undermine the well-being of society. And they all share the same goal of stable prices and full employment. But as with all our other issues, they disagree about how to get there—as you'll discover in the following section.

Expanding the Models for Economic Stability

Before we talk about the different tools conventional theorists and radicals use to analyze the issue, let's look at an illustration of economic stability and instability that is shared by all three perspectives. (Spoiler alert: when you see it, you'll see what inspired the metaphor of a roller coaster to describe economic instability.)

Shared Tools

The government measures GDP every three months to take the temperature of the economy and see if production is up, down, or the same. When production goes up, we experience economic expansion, and when it goes down, the economy contracts. One rise-and-fall sequence of GDP is known as a **business cycle**. Check out figure 20.5. The orange line shows real GDP. It soars high and hits a peak (point B) and then drops low into a trough (point C). You might ask,

“High and low relative to what?” Great question. High or low relative to **potential GDP**, which is the black line. When society produces at potential GDP, we are fully using all our land, labor, capital, and technology. That's why potential GDP is also called **full employment (FE) GDP**. In the figure, you can see that it has a slow and steady rise. An economy is expected to grow over time. If there were no economic instability, our actual GDP would be the same as our potential GDP. By the way, *full employment GDP* can be a confus-



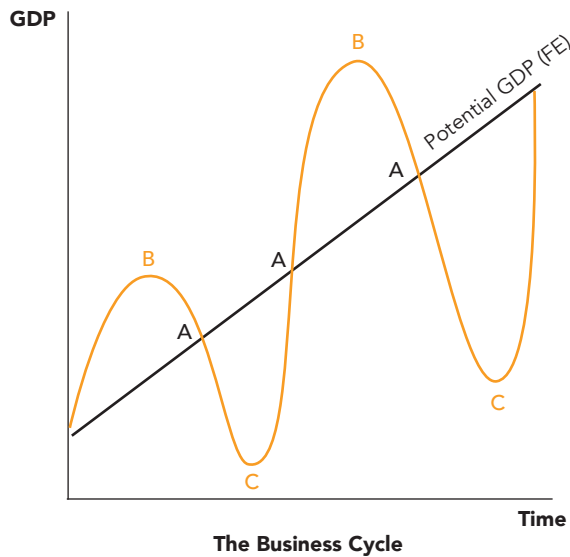


Figure 20.5
Economic Stability and Instability

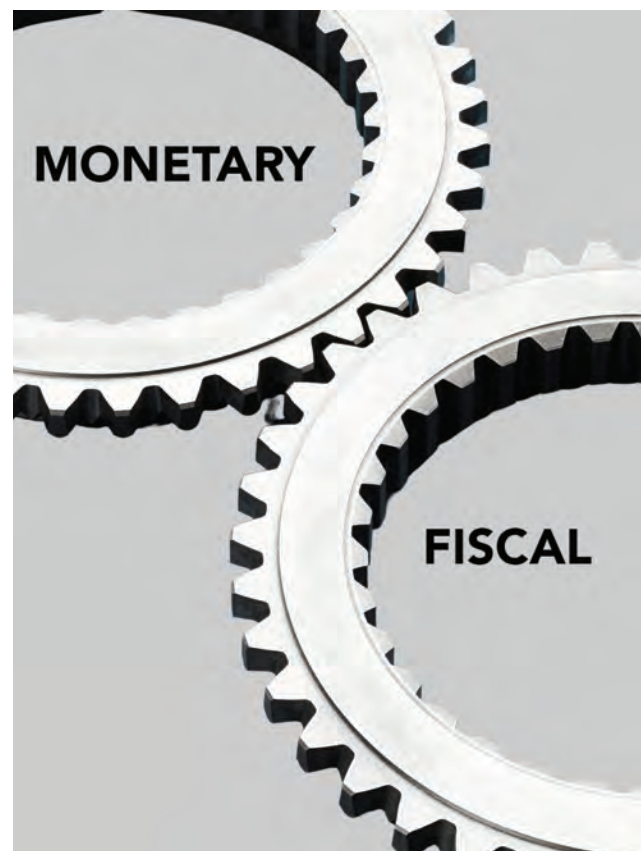
ing term because it sounds as if it's only saying that everyone in society has a job. Remember that at FE GDP, there is still frictional and structural unemployment.

When we experience economic instability, there is a gap between what we actually produce and what we potentially could produce. You can see it in figure 20.5 as the vertical distance between actual GDP (orange line) and potential GDP (black line). At any point on the black line, there is a gap except at the A points, where our actual GDP is the same as our potential GDP. No one wants a gap. So what should be done when the economy overheats (point B in figure 20.5) or is in a recession (point C) to bring it back to potential GDP (point A)? That question is the center of the debate about economic stability. The good news is that all three perspectives agree that economic instability is not inevitable. They also agree that the problem of extreme fluctuations in prices and rates of employment should be addressed using two types of policies: fiscal and monetary. A policy is a proposal for action, but keep in mind that it could be a proposal to do

something, stop doing something, or do nothing. **Fiscal policies** relate to government taxation and spending. When you hear *fiscal*, think *budget*. **Monetary policies** relate to changes in the money supply. When you hear *monetary*, think *money*. Monetary policies focuses on how much money is circulating in the economy at a given moment. We'll describe the unique ways that liberals, radicals, and conservatives use fiscal and monetary policies further down in this section. For now, you just need to know that each takes this two-pronged approach to bring the economy back from booms and busts.

Conventional Theory Tools

Let's turn to a tool used by liberals and conservatives to analyze the issue of economic stability. To model the macroeconomy, conventional theorists use the **aggregate supply–aggregate demand (AS–AD) graph**. It shows *all* the supply and *all* the demand in every market, added



together (*aggregated*). You can see the building blocks of an AS–AD graph in figure 20.6. The x -axis shows real GDP. Movement to the right means the country produced more and unemployment fell. Movement to the left means the country produced less and unemployment rose. The y -axis shows the average price levels in the economy (P_L). Movement up the y -axis means prices on average went up—inflation—while movement down indicates that prices on average went down—deflation. The vertical line in the center of the graph shows potential (FE) GDP. It represents everything we could have produced if we had fully employed all our available land, labor, capital, and technology.

There are two more components to an AS–AD graph. The **aggregate demand (AD) curve** represents the total amount of expenditures in society. Aggregate demand is made up of four categories: consumer spending (C), investment spending (I), government spending (G), and net export spending, which is total imports (M) subtracted from total exports (X). The AD curve has a negative slope, as you can see in figure 20.7, because if

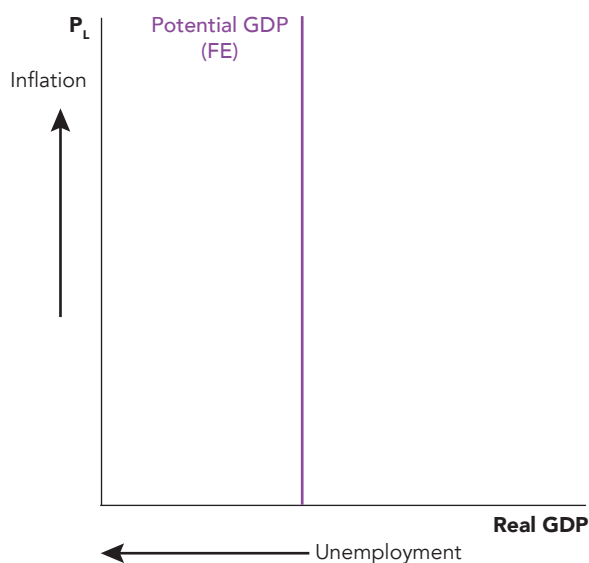


Figure 20.6
Basic Components of the AS–AD Graph

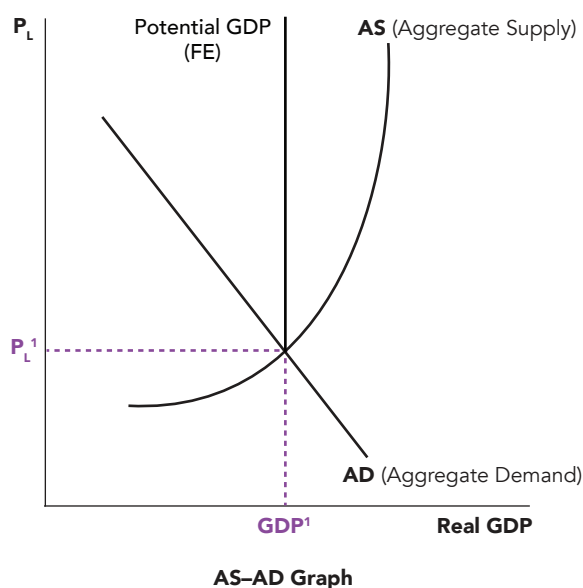


Figure 20.7
Full Employment GDP

prices on average go up, consumers at home and abroad buy fewer of our products, so consumer spending and net export spending fall. If prices on average go down, those same consumers demand more of our products because they can get more for their money, so consumer spending and net export spending go up. The words might be unfamiliar, but the concept is simple: aggregate demand is higher when prices on average are lower, and aggregate demand is lower when prices on average are higher, *ceteris paribus* (a Latin term that means “all other things being equal”).

The **aggregate supply (AS) curve** represents everything supplied in society. As profit maximizers, firms supply more when average price levels go up—they can get more money for their products—and they supply less when price levels on average go down, *ceteris paribus*. This gives the AS curve a positive slope, just like the supply curve on a market graph for chocolate bars or ballet shoes. But you’ll notice it doesn’t look like the supply curve on a market graph. The AS curve has a flat bottom that suddenly angles up and becomes increasingly steep as it moves toward and then

past potential GDP. There's an interesting reason for that unique shape. When GDP is low, we're not fully employing our available resources and technology, so there is less competition for resources. Fewer firms hire workers, so wages stay low; fewer need warehouses, so rents stay low; fewer buy forklifts, so equipment costs stay low; and so on. Lower costs of production make firms willing to supply more products at lower prices. That's why the bottom of the AS curve remains relatively flat. As the economy moves closer to FE GDP, however, competition for resources increases and the cost of inputs rises. Now firms are only willing to supply more if they can sell their products for increasingly higher prices. That's what gives the middle part of the AS curve a steep rise

When the AS curve moves past the line of potential GDP, it becomes vertical. Past our potential means people are working two or three jobs and factories are running twenty-four hours a day, seven days a week. In this environment, costs for

resources skyrocket, and firms are only willing to supply at much higher price levels. At a certain point, we max out. There are no more available resources or technological improvements to put into production. No matter how high prices go, we simply don't have the capacity to increase GDP. On the graph, that's shown on the graph where the AS curve turns into a vertical line.

The AS–AD graph in figure 20.7 illustrates the goal for conservatives and liberals: where the AS curve meets the AD curve at potential GDP. You can think of it as being the macro-equilibrium point. This is the bull's-eye they aim for with their respective policies, and it's where they fervently wish the economy would remain at all times. But it's not as easy to hit the mark as it might seem. The economy is in constant danger of falling short or overshooting the target. It's like a *Goldilocks and the Three Bears* situation. When aggregate supply and aggregate demand meet to the left of potential GDP, the porridge is too cold. We have unem-



ployment. This is called a **recessionary gap**. You can see what it looks like in the lefthand graph in figure 20.8. But please don't confuse a recessionary gap with a *recession*, which is a decrease in GDP over a certain period. If GDP increased from negative 10 percent to negative 5 percent, we might be out of the recession, but we would continue to have a recessionary gap because GDP is still below potential.

When aggregate supply meets aggregate demand to the right of potential GDP, the porridge is too hot. The economy is overheated, and we have overproduction. This is called an **expansionary gap**, which you can see in the righthand graph in figure 20.8.

When aggregate supply and aggregate demand meet at potential GDP, as you saw in figure 20.7, it indicates that all our resources are being used to their full capacity. We have stable prices and no cyclical unemployment. Conventional theorists

say that this is the goal. The porridge is just right.

Shifts on the AS–AD Graph

If we lived in the static world of *ceteris paribus*, we could remain at full employment, say conventional theorists. But unfortunately, there are factors that shift the AS curve and AD curve and create economic turmoil. Let's start with aggregate demand. Changes in consumer (C) spending, investment (I) spending, government (G) spending, or net export (X – M) spending can shift it to the right or left. If the change is an increase, the AD curve shifts to the right. If the change is a decrease, the AD curve shifts to the left. (Left is **Less** and right is **moRe**.) Let's say the stock market goes down, and consumer spending decreases—the AD curve shifts to the left (AD²), as shown in the lefthand graph in figure 20.9. Society experiences an unpleasant combination of underproduction and deflation. A booming stock market increases consumer spend-

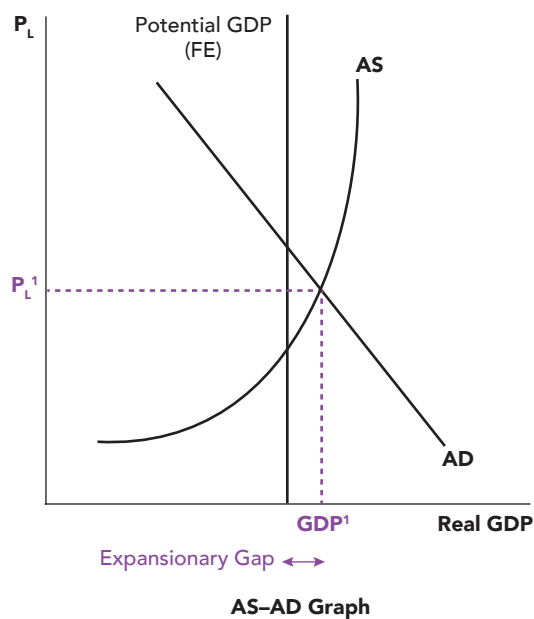
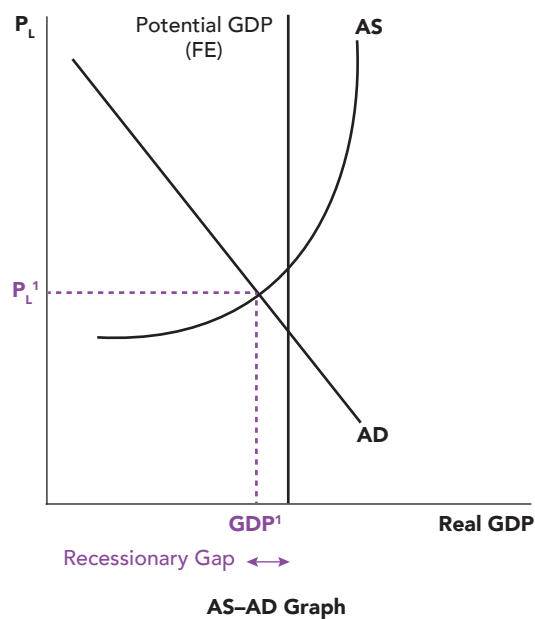


Figure 20.8
Recessionary Gap and Expansionary Gap

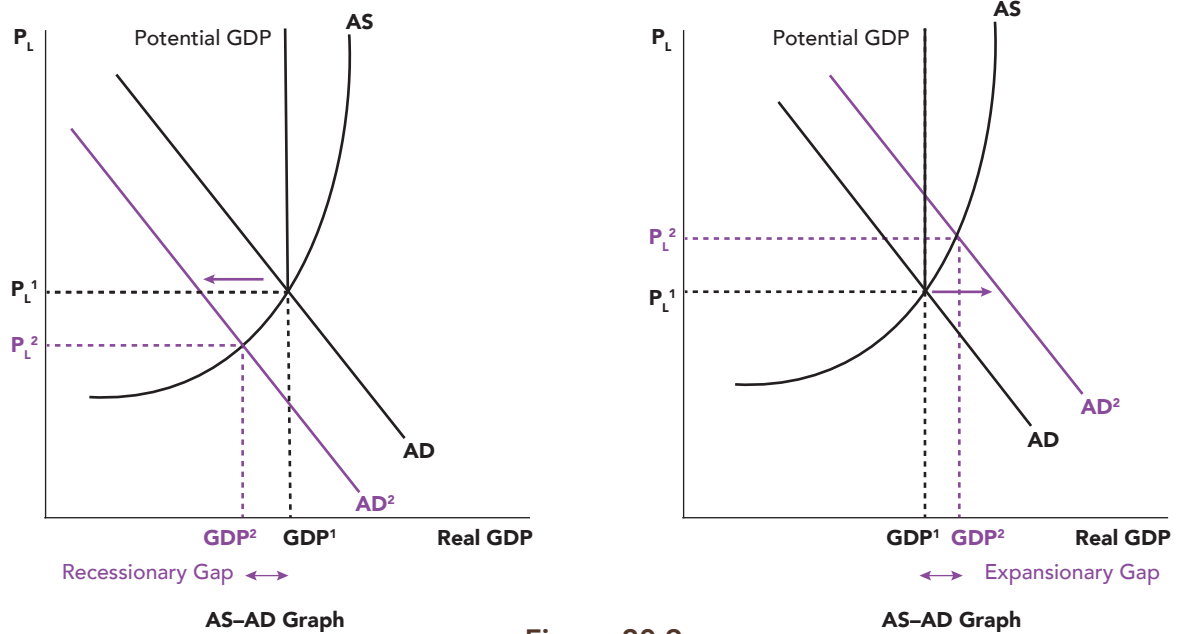


Figure 20.9
Aggregate Demand Shifts

ing, shifting the AD curve to the right (AD^2). This also results in an unpleasant combination—this time overproduction and inflation. You can see that in the righthand graph in figure 20.9.

Now let's look at aggregate supply. Four factors shift the AS curve either to the right or to the left. These include a change in the cost of

inputs, business taxes and subsidies, government regulations, and the supply of resources. For example, an increase in the cost of electricity (an input of production) shifts the AS curve to the left (AS^2 in the lefthand graph in figure 20.10). This brings about the unpleasant condition of stagflation, which is a simultaneous increase in

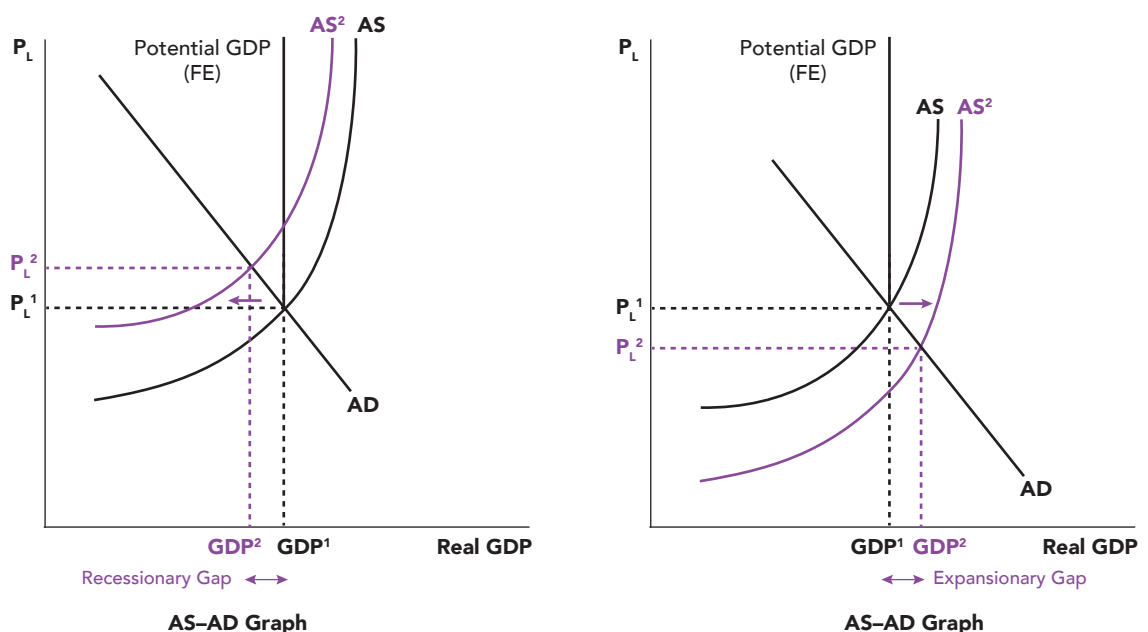


Figure 20.10
Aggregate Supply Shifts

unemployment and inflation. A decrease in the cost of electricity shifts the AS curve to the right (AS^2 in the righthand graph in figure 20.10). This is the unpleasant combination of overproduction with deflation.

Please note that in figures 20.9 and 20.10, either a leftward shift in aggregate supply or a rightward shift in aggregate demand can be the cause of inflation. When caused by a rightward shift in aggregate demand, it's called **demand-pull inflation**. When it's caused by a leftward shift in aggregate supply, it's called **supply-push inflation**. One reason for supply-push inflation could be a **supply shock**, which occurs when an unexpected event suddenly reduces the availability of a widely used input of production, such as oil, steel, or lumber.

Liberals and conservatives agree that unexpected events can cause shifts in aggregate supply and aggregate demand. These events could be human-caused or natural occurrences, including pandemics, stock market crashes, housing bubbles, severe weather, asteroid strikes, a plague of locusts, or countless other things. Let's take a hypothetical scenario and see how conventional theorists look

at the ways the AS and AD curves might shift in response to one of these events. Imagine you're in a world where everything is perfect, and the economy is whistling a happy tune. That's the middle graph (b) in figure 20.11. Then aliens come from outer space. *Aliens!* If people become terrified and hide under their beds, no one goes out and buys things. The AD curve shifts to the left, prices and wages go down, and we have unemployment and deflation. The recessionary gap is shown in the lefthand graph (a) in figure 20.11. The second possibility is that aliens arrive, and people are thrilled. Firms start churning out T-shirts, bumper stickers, and other products that say, "Welcome, Aliens!" and "We are not alone!" People become overexuberant and start buying like crazy. The AD curve shifts to the right, prices and wages go up, and we have overproduction and inflation. You can see the expansionary gap in the righthand (c) graph in figure 20.11. This alien story illustrates one of the ways that a stable economy can become unstable according to conventional theory. Different unexpected events will tip the economy in different directions, but whichever way it goes, the goal is to come back to potential.

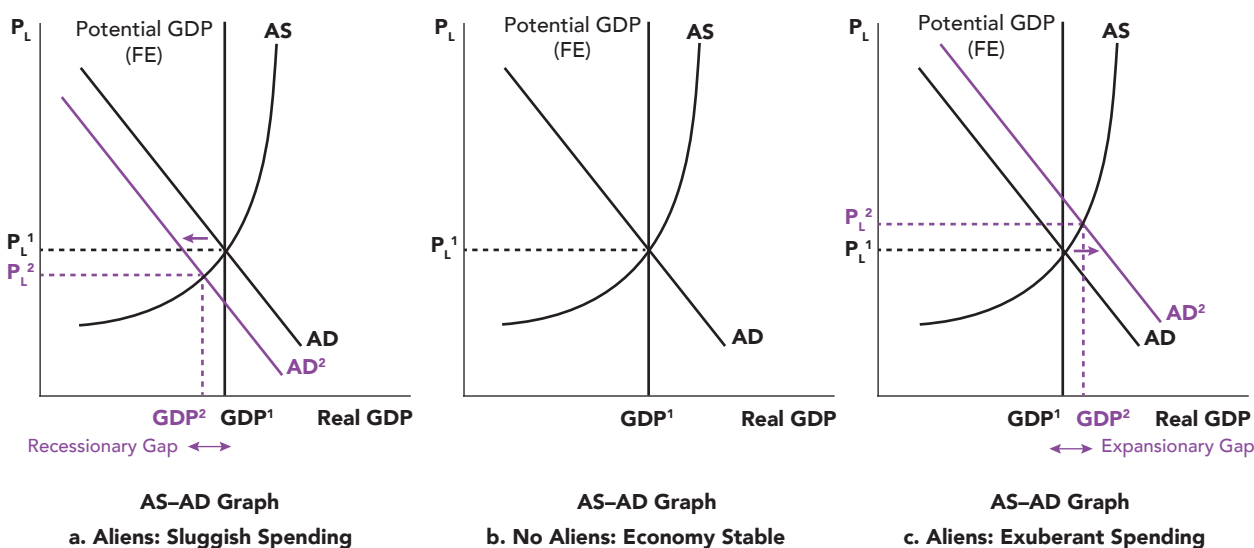


Figure 20.11
Aggregate Demand Shifts with Aliens

Classical Theory

Conventional theory has its roots in Adam Smith's **classical theory**, which says that when suppliers and demanders come together in markets, price signals emerge, and those price signals direct resources to their best uses as if by an invisible hand. Long before Smith articulated his theory, humans had been grappling with how to feed, clothe, and shelter themselves despite stampeding buffalo, floods, random lightning strikes, and other unexpected events.

Let's take a look at how classical theory solves economic instability when aliens show up on Earth. If people react with fear and hide under their beds, they stop spending. Demand falls, so prices on average fall. One of those prices is the price of labor (wages). Classical theorists say that firms respond to lower costs by hiring more workers and supplying more products. Now that those previously unemployed workers have an income, they demand more products, so firms hire even more workers to supply more. That is how capitalism self-corrects and returns the economy to potential. They show this in three stages, illus-

trated by the graphs in figure 20.12. In stage 1, the economy is stable at full employment. In stage 2, aliens make first contact, and people stop spending. The AD curve shifts to the left (AD^2), and prices and wages fall. In stage 3, firms are more willing to supply because the costs of inputs are lower. They hire workers and increase supply. The AS curve shifts to the right, and the economy snaps back to potential GDP (GDP^3) at an overall lower price level (P_L^3).

Classical theorists say that price signals are the mechanism guaranteeing that the economy will always self-correct. A contemporary of Adam Smith's named John-Baptiste Say famously summed up this process as *supply creates its own demand*. Therefore, no matter what happens in the world to affect demand, we don't have to worry, because price signals will always bring the economy back to potential. This insight is known as **Say's law**. Proponents say that it works equally well to correct a recessionary gap or an expansionary gap. If aliens arrive and people become exuberant and overspend, aggregate demand shifts to the right. Prices and wages go up, and

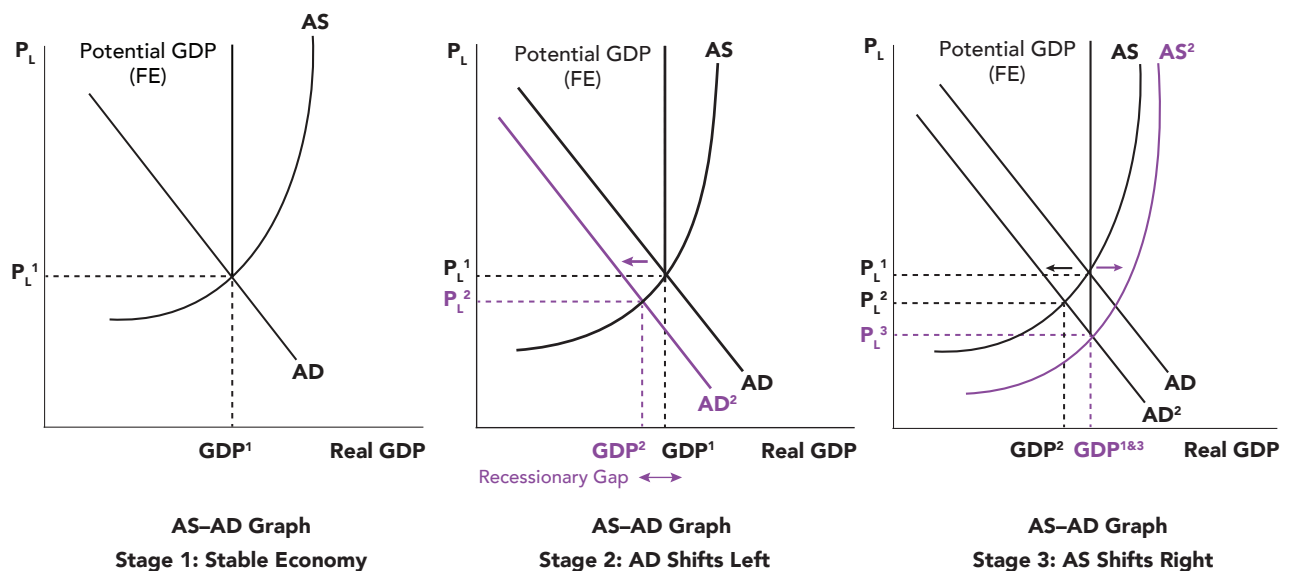


Figure 20.12
Classical View of Self-Correction

firms respond to the higher costs of production by laying off workers and producing less. That shifts aggregate supply to the left, acting like a bucket of ice water to cool down the economy. This is not shown in figure 20.12, but just imagine the same shifts in reverse.

To sum up, classical theorists say that capitalism has a built-in self-correcting mechanism, which is price signals. Changes in price levels signal firms to increase or decrease production and hiring, and that process snaps us right back to potential GDP, whether we have a recessionary gap or an expansionary gap. Therefore, they say, in times of economic instability, all we need to do to get the economy back to potential GDP is to leave it alone. Another way to think about the potential GDP line from the classical theorists' point of view is to regard it as the **long-run aggregate supply**. No matter what happens in the short run, prices and wages bring us back to potential.

Keynesian Economics

John Maynard Keynes was trained as a classical theorist. In 1936, in the midst of the Great Depression, he critiqued classical theory, famously saying that yes, if we leave the economy alone, it will self-correct in the long run, "but in the long run, we're all dead." Keynes said that people were needlessly suffering while they waited for capitalism to self-correct. He proposed bypassing the invisible hand of price signals and using government intervention to get the economy back on track by increasing demand. He rejected Say's law, saying supply doesn't create demand; demand creates supply.

When we're in an economic crisis, said Keynes, time is of the essence. Think of a snowball rolling down a hill. The longer it rolls, the bigger the problem grows. Recessions left alone for too long can turn into depressions for two reasons, according to Keynes. First, when the economy is in a slump and unemployment rises, firms are well

aware that people have no money to buy their products. Even when the price for labor falls, they don't follow the price signal and start hiring workers at the lower wage. They wait for demand to pick up, even though they know, rationally, that aggregate demand will continue to be low *until* people get jobs and have money to spend again. Keynes used the term **animal spirits** to describe this phenomenon of human instincts and emotions overriding logic during times of stress. Animal spirits lead firms to become overly pessimistic during a downturn, so they ignore price signals, and the economy can't self-correct. In an overheated economy, animal spirits make firms overly optimistic and again they ignore price signals, so the economy can't self-correct.

The second problem with leaving it alone is that prices and wages are **sticky**, meaning they don't *immediately* change in response to demand. In downturns, firms hesitate before lowering prices, because they are concerned about profit margins. They also hesitate before lowering wages, because they are concerned about workers' morale going down and negatively affecting production. In an overheated economy, firms hesitate before raising prices, because they are concerned about losing customers. They also hesitate before raising wages, because they worry about losing profit. All of these concerns cause prices and wages to be sticky in both downward and upward directions. When demand rises or falls, prices and wages don't follow right away, which means firms don't respond with the appropriate level of supply that would allow the economy to self-correct. Instead, it stays in crisis. In a downturn, animal spirits and sticky prices are exacerbated by the **paradox of thrift**. When the economy goes into a slump, no one knows how long it will last, so people cut back on spending to make their money last longer. This thriftiness ends up decreasing aggregate demand even more, which worsens the recession. Keynes said that all the pain and suffering caused by

economic instability could be alleviated by strategic government intervention to boost demand.

Liberal policy: Keynesian (bubble-up) economics. Liberals follow the **Keynesian** roadmap and use **interventionist** (or *activist*) fiscal and monetary policies to stabilize the economy. This is sometimes called **stabilization policy**. The key to understanding the liberal perspective is to remember that they believe the real job creators are the poor and middle class—the people who make up the majority of the population. It's their spending that drives aggregate demand up. The rich are a smaller percentage of the population,

Liberals use fiscal and monetary policies to create economic stability. Because liberal policies prioritize the poor and middle-class demanders to generate wealth for the whole economy, liberal policies are also called *bubble-up economics*.

and they can buy only so many cars and restaurant meals. Only when demand rises do firms become willing to hire, say liberals. During an economic downturn, they use government intervention to get money into the pockets of the poor and middle class. These groups have immediate needs and spend it right away, so the AD curve shifts to the right and brings the economy back to potential (the lefthand graph of figure 20.13). Because liberal policies prioritize the poor and middle-class demanders to generate wealth for the whole economy, liberal policies are also called **bubble-up economics**. In an overheated economy, government gets

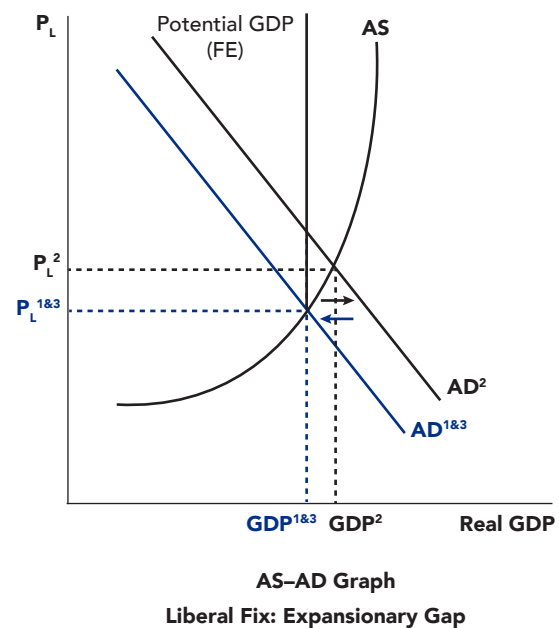
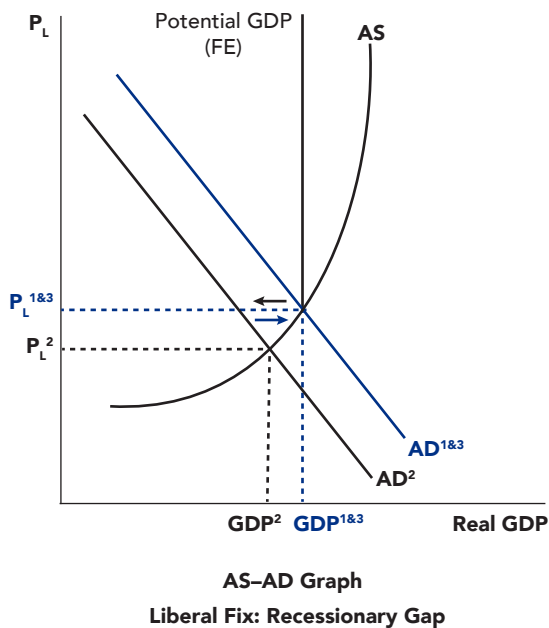


Figure 20.13
Fiscal and Monetary Policy: Liberal Perspective

money *out* of their pockets. The AD curve shifts to the left and brings the economy back to potential (the righthand graph in figure 20.13).

Liberal fiscal policy uses taxes and government spending to intervene to bring the economy back to potential GDP. There are two parts: they change taxes on the poor and middle class to change consumer spending, and they change government spending. Remember, $AD = C + G + I + (X - M)$. During a recession, liberals cut taxes to increase consumer spending. Once the poor and middle class start spending that money, aggregate demand rises. Liberals say that tax cuts for the wealthy won't necessarily change consumer spending. The rich don't have immediate needs, so they could choose to save their money instead, which won't help the economy recover. Liberals also increase government spending on programs that get money into the pockets of the poor and middle class, including unemployment benefits, jobs programs, housing assistance, temporary assistance to needy families (TANF), and infrastructure projects that create jobs. Aggregate demand shifts to the right and closes the recessionary gap, bringing the economy back to FE GDP. This is called **expansionary fiscal policy**. When the economy overheats and prices unexpectedly soar, liberals would—in theory—use **contractionary fiscal policy**, raising taxes on the poor and middle class and cutting government spending to shift aggregate demand to the left and back to potential GDP. Yet this would be an unpopular policy with a majority of voters. Instead, liberals mostly leave it to the **Federal Reserve System** (often called **the Fed**), our nation's central banking system, to cool down the economy. Led by an appointed Board of Governors, the Fed is not subject to the same political pressures and can make the unpopular decision to “take away the punch bowl the second that the party gets started,” as one Fed chairperson famously put it.

The Federal Reserve System enacts monetary policy. Although the Fed is a private institution, it was created in 1913 by Congress with a dual mandate to guide the economy to full employment and stable prices. It focuses on changing investment spending throughout the economy— $AD = C + G + I + (X - M)$. Investment spending in this context refers to firms buying equipment and facilities for production, as well as individuals purchasing new homes. To make these substantial investments, firms and individuals need to borrow money. Interest is the price of a loan. At high interest rates, loans are more expensive, so there is less willingness to borrow. Investment spending goes down, and the AD curve shifts to the left. At lower interest rates, loans are less expensive, so firms and individuals are more willing to borrow. Investment spending goes up, and the AD curve shifts to the right.

The Fed has used many tools and methods over the years to influence interest rates to reach certain targets that it sets. The essential role it plays is to set a target range for interest rates and then make sure there is an appropriate supply of money to accommodate that range. The Fed's goal is to change interest rates so that investment spending changes, which shifts aggregate demand and bring the economy to FE GDP. Liberals say that during a downturn, the Fed sets a lower target range for interest rates, which increases investment spending to get the economy moving again. This is called **loose monetary policy** (as in “loosen the purse strings”). In an overheated economy, it sets a higher target range for interest rates, which decreases investment spending and cools off the economy. This is called **tight monetary policy** (as in “tighten the purse strings”). According to liberals, because the Fed is able to respond nimbly during crises, the economy is guided back to stability. It is like the playground monitor who stands next to the seesaw and makes sure we don't go too low and

painfully hit bottom or go dangerously high.

To sum up liberal fiscal and monetary policies, the government and the Fed stabilize the economy and prevent momentary economic instability from turning into long-lasting crises. During downturns, you might have heard the term **government stimulus**. It refers to the liberal idea that action should be taken to stimulate demand by doing all of the above (and sometimes giving people stimulus checks) to increase spending. Liberals believe that prosperity *bubbles up* from the demand created by the poor and middle class because they are the true job creators and engines of the economy.

Conservative policy: Supply-side (trickle-down) economics. Conservatives say that the classical model is right. In free-market capitalism, price signals always direct resources to their best uses as if by an invisible hand. By leaving those price signals alone, we prevent the economy from experiencing wild up-and-down swings. When the unexpected occurs to throw the economy off balance, price signals bring it back to full employ-

ment. All that needs to happen, from the conservative point of view, is to eliminate government interference and meddling by the Fed and then leave the economy alone. Suppliers and demanders follow price signals, and the economy self-corrects. The invisible hand works without any interference from an individual, firm, government, or central bank. Conservatives say that when the economy is unstable and we experience a boom or a bust, we can trust that free-market capitalism will heal itself.

The key to understanding the conservative perspective is to remember that they believe that suppliers are the job creators. Therefore, they are the key drivers of economic stability. That is why the conservative approach is called **supply-side economics**. They cut taxes and regulations to make it more profitable for firms to produce. They say this helps the whole society. We need firms to be as profitable as possible so that they will expand and launch new ventures, which creates more jobs. With jobs, people have money to spend, and the whole nation prospers and

Liberal Summary

Keynesian “Bubble-Up” Economics

Fiscal policies -- Government (Expansionary or contractionary)

- △ Income tax rates for poor and middle class
- △ Government spending

△ = change

Monetary policy -- The Fed (Loose or tight)

Set target for interest rates
Adjust money supply to accommodate that range.

thrives. Because conservative policies prioritize the job-creating suppliers to generate wealth for the whole economy, conservative policies are also called **trickle-down economics**. What happens when the government slaps high taxes and burdensome regulations on firms? It causes them to be unwilling to supply, conservatives say, which raises prices and causes unemployment. The economy experiences stagflation. This is a nightmare scenario.

Conservatives take a *laissez-faire*—French for *leave it alone*—approach to economic stability. They are adamantly opposed to government taking any action that affects price signals. They want to avoid giving the wrong price signals and wage signals because those lead society to misallocate land, labor, and capital. As a result, we don't achieve the highest possible level of prosperity as a nation. To protect us from this dire situation, conservatives use policies that prevent government interference. Once that is accomplished, they strategically step back and let free-market capitalism self-correct.

Conservatives wholeheartedly agree with Say's

law, which says that in a world freed from government interference, supply creates its own demand. Whether demand goes up or down, suppliers respond to changing prices and wages, and their actions snap the economy back to potential GDP. Therefore, say conservatives, potential GDP is the long-run aggregate supply. The problem of economic instability is firms' unwillingness to supply, they say. It shifts the AS curve to the left. You can see this in the lefthand graph in figure 20.14, where prices rise to P_L^2 and GDP falls to GDP^2 .

To remedy this stagflation, conservatives use fiscal policy, which has two parts. The first is across-the-board tax cuts to stimulate supply. That's because tax cuts increase willingness to work, save, and invest. By cutting income taxes, the government ensures that more people are willing to work because now they can keep more of their hard-earned income. With more people working, the supply of labor goes up, so the price of labor comes down. Those lower wages bring down costs for firms, which makes them more willing to supply. Cuts in capital gains taxes

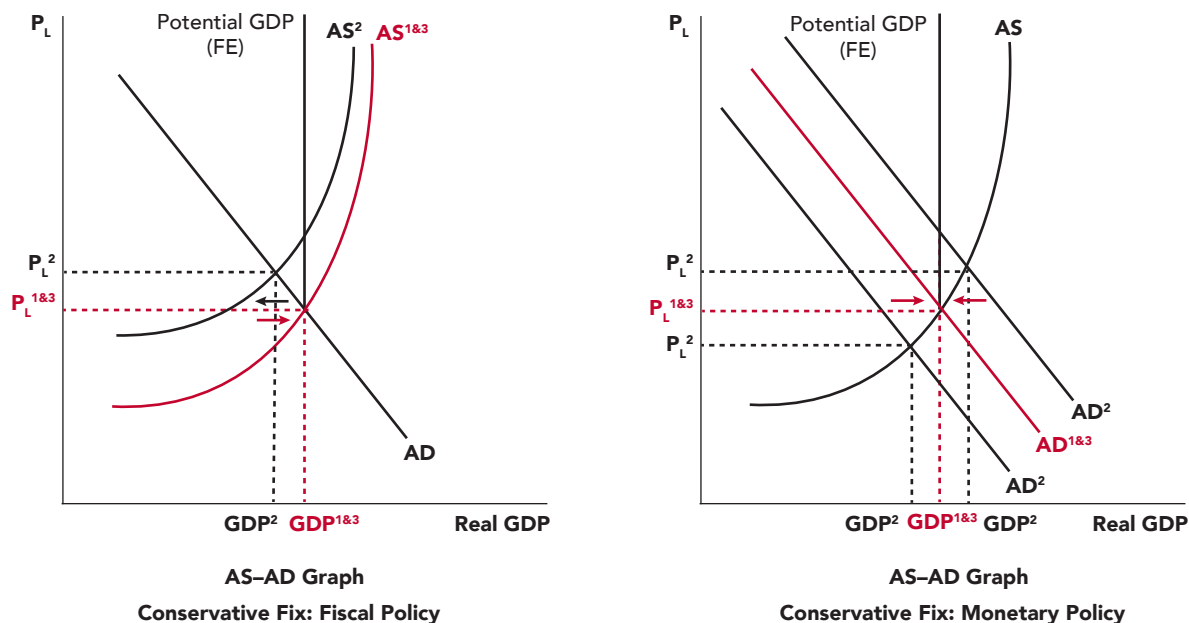


Figure 20.14
Fiscal and Monetary Policy: Conservative Perspective

increase loanable funds, and this decreases the borrowing costs for firms. Once again, their willingness to supply increases. Finally, cuts in corporate taxes give firms the incentives to increase investment because they can keep more of their hard-earned profits. They again become more willing to supply.

The second part of conservative fiscal policy is **deregulation**. They repeal and eliminate government rules and restrictions on firms because they believe regulations imposed by bureaucrats burden firms by making production more expensive and stifling innovation. It makes no sense for Washington, DC, to tell companies how to run their businesses, say conservatives. Industries are fully capable of regulating themselves and do a better job of it because they have the expertise to develop best practices, and they are highly motivated to do so because their own profits are on the line. Deregulation creates a business-friendly environment. It decreases costs and increases profitability, making firms more willing to supply. With tax cuts and deregulation, aggregate supply shifts to the right. This is shown in the lefthand graph in figure 20.14.

There are two different conservative schools of thought about monetary policy to stabilize the economy. Both approaches limit or stop altogether the Fed's ability to manipulate the money supply because they say the role of money is to ease transactions, not manipulate price signals. Austrian school economists (followers of F. A. Hayek,

Conservatives use fiscal and monetary policies to create economic stability. Because conservative policies prioritize the job-creating suppliers to generate wealth for the whole economy, conservative policies are also called *trickle-down economics*.

who was from Austria) blame the Fed for causing and exacerbating ups and downs in the economy. Tampering with interest rates sends the wrong price signals, causes booms and busts as individuals and businesses respond, and prevents the economy from self-correcting. The Austrians propose two mechanisms to restrict the government's ability to interfere with the money supply. The first is to tie the supply of money to the gold standard again (it changed to fiat currency in the 1970s), because the supply of gold can't be

manipulated. The government won't be able to issue more currency without having the gold to back it. Because gold is a limited commodity, the money supply would naturally be limited. Their second approach is to break the government's monopoly on currency. In other words, private firms compete with the dollar by creating their own currencies (as we already see happening with cryptocurrencies). This is a self-regulating system because competing currencies lose value when there is too much of it in supply, which means consumers won't buy it. Therefore, firms issuing those currencies have a profit incentive not to oversupply.

In contrast to the Austrians, **monetarists** follow the thinking of Chicago school economist Milton Friedman (who taught at the University of Chicago). They say that the Fed flooding the economy with money as a way to move us out of a downturn is a problem because we haven't actually produced more goods and services. Everyone ends up with

a wallet full of money to spend, but there aren't enough products to buy. With too much money chasing too few products, prices shoot up, and we have inflation. Monetarists say that when the Fed creates inflation, it devalues people's money. They compare it to a tax that no one voted for. In Friedman's words, inflation is "taxation without legislation." Their alternative to manipulating the money supply is to set an annual growth rate for it and then leave it alone.

Both conservative monetary policies are shown in the righthand graph in figure 20.14. The Fed's manipulated aggregate demand shifts either to the right, creating overproduction and inflation, or to the left, creating underproduction and deflation (AD^2). They get the Fed out of the way, and AD shifts back to the original aggregate demand, which is now the new AD

as well ($AD^{1\&3}$). It stays there until an external factor beyond our control shifts it. When it shifts and then is left alone, suppliers respond to the new prices and wages, which snaps the economy back to potential.

To sum up conservative fiscal and monetary policies, tax cuts, deregulation, and a constrained money supply stabilize the economy and prevent government interference from turning momentary economic instability into long-lasting crises. During periods of overheating, you've likely heard conservatives talk about **printing money**. It's a derogatory term they use to describe the Fed's actions to increase the money supply, which they believe puts us at risk of hyperinflation. Conservatives believe that prosperity *trickles down* from the wealthy, who are the job creators and therefore the true engines of the economy.

Conservative Summary

Supply-Side "Trickle-Down" Economics

Fiscal policies

(*Laissez-faire*)

- ↓ Income tax rates for all
- ↓ Corporate taxes
- ↓ Capital gains tax rates
- ↓ Government regulations

↓ = lower

Monetary policies

(*Laissez-faire*)

Abolish the Fed

Return to the gold standard
or have competing currencies.

or

Limit the Fed

Set a growth rate for the
money supply and then
leave it alone.

Radical Theory Tools

It's time to look at the tools you'll need to understand the radical approach to economic stability. Radicals regard the economy holistically, as one important part of the larger social totality, which comprises all the dynamic social relationships that coexist and affect one another. For example, education, science, psychology, art, language, and history constantly shape one another and everything else in the social totality. Let's say it was possible to perch someplace very high up and peer down at the social totality. The view is breathtaking, and you could gaze at it all day, but you're on a mission. You focus in on the economy. There are different economic systems, including capitalism and democratic socialism. You zero in on the Six-Core Cube of capitalism and the Six-Core Cube of democratic socialism. Each is anchored by six core points that reflect the economic systems' commitments to, and structures of, ownership, production, governance, sustainability, communities, and meeting people's basic material needs. They shift and change, along with everything else in the social totality. But *how* they

shift and change differs. Radicals say that this is why the commitments of different economic systems lead to very different outcomes.

Economic Stability in Capitalism

In radical theory, all six core points could be used to analyze every issue because all six commitments and structures of the economic system are constantly in play. To analyze the issue of economic stability in capitalism, they drill down into the core point of **production for profit**. Firms make things that bring them the most profit regardless of whether those products are necessary, useful, or beneficial.

Radicals say that when you look at GDP in capitalism, don't be fooled by the numbers. Those trillions of GDP dollars that supposedly reflect our quality of life as a nation mask a harsh reality. The country's land, labor, and capital are not allocated to make our lives better, our communities stronger and more stable, or our environment healthier. The only purpose of production is to make a buck for private owners, and they are continually pressured to lower workers' wages and cut their

1. Private Ownership
2. Top-Down Governance
3. Individuals at Risk
- 4. Production for Profit**
5. Unsustainable Growth
6. Unhealthy Communities

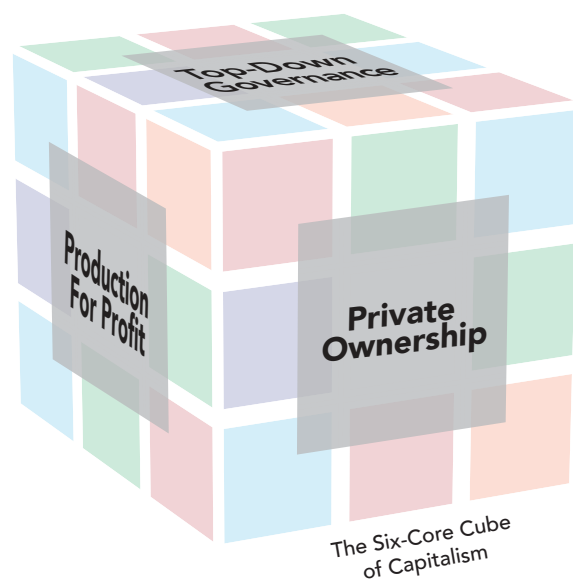


Figure 20.15
The Six Core Points of Capitalism

hours and benefits. Every day, hard-working people fall further behind and have to take on personal debt just to afford the basic necessities of life. In that precarious position, it takes only one sick child, one car repair, or one accident to slide into financial ruin. That's "stability" in capitalism. Whenever unexpected national or global crises occur that threaten people's material well-being, proponents of capitalism talk about returning the economy to "normal." But for the poor and middle class, "normal" is soul-crushing, say radicals. They are in a perpetual economic crisis, and the cause is capitalism itself. Radicals are quick to point out that "normal" is no rosy picture for the wealthy, either. They have more in their bank accounts, but they have to live behind walls in gated communities because they feel desperately insecure and scared that their lives and property are at risk. Private owners aren't the villains. They are also victims of capitalism. It forces them to do things they don't want to do, but they do it to survive. They exploit their workers, produce shoddy products, destroy the environment, bankrupt communities, manipulate consumers, and then do it all again the next day. When an unexpected event occurs—and it's not a matter of *if* but *when*—the whole teetering structure of capitalism falls apart, and we act surprised, even though it was inevitable, say radicals. Because success is measured only in profit, communities lose electricity during a storm because firms cut corners and didn't insulate their power lines to guard against a freeze. Because success is measured only in profit, firms take further advantage of customers during the crises that they caused. They charge astronomical prices for their products and get away with it because people will pay anything when it's a matter of life or death.

Radicals believe that capitalism traps us on a nauseating roller-coaster ride of economic instability because it requires a reserve army of the unemployed to sustain itself. It needs people who

are so desperate to survive that they will work for pennies in unsafe conditions for long hours. Firms have no loyalty to workers, though. The firms pick up and move as soon as they find people willing to work for even less. In capitalism, private owners must do these things or they will be taken over by competitors. Win-lose competition is business as usual in capitalism. They don't want to be losers, so owners act irresponsibly, make bad investments, and produce products that leave society worse off—all to gain another percentage point of profit. Radicals say that this is why private banks make high-interest loans to students, burying them in a lifetime of debt before they even have a chance to start their careers. Banks take undue risks with their deposits, causing turbulence in the financial sector, and lose people's hard-earned savings. Then they pocket the government bailout money and give their executives obscene bonuses. They charge outrageous fees to the public and the government, pocket billions more, and then hire expensive lobbyists to make sure we continue to have laws that ban the government from depositing tax dollars in public banks. This racket continues when the government ends up subsidizing firms that destroy the planet with fracking and drilling for fossil fuels. It continues, say radicals, because the government is bought and owned by private banks and corporations. Because capitalism is built around the core point of *production for profit*, there is no choice, they say. Everyone must play this destructive game if they want to survive. To top it all off, win-lose competition is not only normalized in capitalism—it's celebrated. The winners end up with their names on stadiums. People clamor to hear their words of wisdom, buy their "self-help" books, and beg for their philanthropy. We roll out the red carpet for them, while pointedly ignoring the blood stains, say radicals.

Here is how the core point of *production for profit* and the pressure for bad work in capitalism:

Production for Profit

- The primary goal of production is to make money.
- The success of every endeavor is measured in profit, not well-being.
- Win-lose competition is normalized and celebrated.



Scenario 1. You're having coffee with an old friend from grad school who owns a private bank. She tells you, "New artificial intelligence software has inspired us to launch an online portal so that customers don't need to meet with a live person anymore. We've laid off a third of our salesforce and cut salaries in half for those who are left."

You say, "That's harsh. I want our customers to have a person at the other end of the line to help them solve their problems and make the best choices. My employees do a wonderful job. I don't want to fire them or cut their salaries."

"So don't do it," she says.

But you will do it, and so will all the other bank owners. You'll have to if you don't want your bank to get driven out of business by competitors. Radicals say that a commitment to *production for profit* means the primary goal of production is to make a profit, so new technology ends up causing hardship for working people

and leads to mass unemployment and unnecessary suffering. In capitalism, machines are used to hurt workers instead of being tools to improve their lives.

Scenario 2. You're doing volunteer work with another private bank owner, who says, "After the terrible floods last summer, there was a wave of defaults on loans. The banks in those regions took a hit. We bought up two firms at rock-bottom prices. Then we closed their underperforming branches and laid off staff. Because we have a corner on the market in those communities, we doubled our fees. We haven't lost any business because people have nowhere else to go. Next, we're going to charge customers to use the online bill-pay feature. Our profits will be substantial."

You say, "You're taking advantage of your competitors' misfortune to make money off this bad situation, and you're punishing their loyal workers and customers. Those people are already strapped because of the chaos of the storms, and you're making it worse. It's just plain wrong. I don't want to do it."

"So don't do it," they say.

But you will do it, and so will all the other owners, or your firm won't stay competitive. Radicals say that a commitment to *production for profit* means firms must strengthen their position in the market or end up watching helplessly as rivals take over their business, fire their staff, and overcharge their customers. In capitalism, win-lose competition is normalized and celebrated, and society ends up the big loser with higher prices and lost jobs.

Scenario 3. You're at a banking conference and meet a competitor, who says, "When the market was hot, we created more investment instruments and sold them around the world. We raked in the profit. When the bubble burst, we were too big to fail. We would have taken the whole economy down with us, so the government gave us billions of dollars in bailouts using taxpayer money. It all worked out for the best. No one at our firm was

fired. In fact, our CEO received a huge bonus.”

You say, “It’s wrong that taxpayers had to foot the bill for your firm’s bad investments and irresponsible business decisions. To add insult to injury, your boss gave himself a bonus when so many people were financially wiped out and lost their homes and their jobs. I would never do that.”

“So don’t do it,” he says.

But you will do it, and so will all the other owners. You’ll have to, if you don’t want your firm to go under. Radicals say that a commitment to *production for profit* means the bottom line is the only measure of success. In capitalism, firms engage in any activity that will wring out an extra penny of profit, even when it causes the whole economy to crash and burn.

Radicals represent capitalism as a Six-Core Cube that can never be solved. They say that when we build an economy around the six core points of capitalism, it will always be rotten to the core and lead to the visible suffering.

The Visible Suffering of Capitalism

- Hunger and malnourishment
- Harmful products
- Mass poverty
- Homelessness
- Extreme income inequality
- Pollution and climate crisis
- Inaccessible, low-quality health care
- Destructive market domination
- Impoverished elders
- Exploding public and private debt
- Damaging trade relationships
- **High prices and no jobs**

Economic Stability in Democratic Socialism

To analyze the issue of economic stability in democratic socialism, radicals drill down into the core point of **production for use**. Firms produce things that improve the lives of people rather than producing for the sole purpose of making a profit.

Radicals say that when you look at growing GDP numbers in democratic socialism, you can trust that it reflects a better quality of life for all. That’s because the primary goal of production is to make goods and services that are necessary, useful, and beneficial. Profit is important because it helps fund new investments, but the well-being of people and the planet is at the center of all production decisions in democratic socialism. The measure of success of every endeavor is the increased well-being of society. This is demonstrated every day by society’s commitments to universal health care, housing for all, and the many other social safeguards. According to radicals, society allocates the land, labor, and capital to making sure everyone is able to meet their material needs. The baseline for financial well-being is high. People aren’t drowning in debt from student loans, going to bed hungry at night, or unable to afford their medications, because society provides higher education, a universal basic income, and health care—beneficial, necessary, and useful products—to all. All the worker-owned firms that are contracted by the government to supply social safeguards are motivated to use the country’s limited resources wisely to make what people need. The day care firm, the firm that runs the health clinic, the firm that provides higher education, and all other firms across all industries are motivated not by altruism but by the understanding that we are all interconnected, say radicals. When everyone thrives, the whole nation flourishes. From the radical perspective, when an unexpected event occurs and the economy is affected, democratic socialism rights itself in a relatively short period because resilience

is built into the system. Everyone already has the material well-being needed to weather downturns. In addition to measuring economic performance as GDP, radicals also measure society's success as gross national happiness (GNH) and evaluate how the products society produces improve psychological and physical well-being, the environment, cultural diversity, community vitality, and more. A commitment to *production for use* brings us the right goods and services in the right amounts, radicals say, and everyone has opportunities to contribute to society.

Worker-owned firms want to do well, of course, but that doesn't mean they want to drive their competitors out of business. Radicals say that firms are motivated to cooperate and collaborate because when a competitor's business succeeds, those worker-owners contribute jobs and tax rev-

enue to the economy, so everyone's standard of living is positively affected. If a business fails, those tax dollars and jobs are lost. If a competitor uses production processes that pollute, everyone's air, water, and land are affected, so companies have an incentive to help their competitors develop green technologies. It's also to everyone's benefit when all firms do well because then more are able to participate in corporate philanthropy that improves communities. Without those philanthropic dollars, all manner of projects would have to be abandoned. For all these reasons, the business culture in democratic socialism is focused on finding win-win solutions rather than driving one another under. Win-win solutions are normalized and celebrated in democratic socialism, where the pressure for good is behind each decision a firm makes.



1. Cooperative Ownership
2. Participatory Governance
3. Social Safeguards
- 4. Production for Use**
5. Sustainable Growth
6. Healthy Communities

Figure 20.16
The Six Core Points of Democratic Socialism

Production for Use

- The primary goal of production is to make products that are necessary, useful, and beneficial.
- The success of every endeavor is measured in the well-being of society, not profit.
- Win-win solutions are normalized and celebrated.



Radical policy: Socialist (ripple-out) economics. Radicals say that democratic socialism establishes a steady foundation for the economy to begin with. Worker ownership of firms, public ownership of resources, and social safeguards distribute resources more evenly across the economy. When the economy hits a bump, they use fiscal and monetary policy to get us back on track. The first part of their fiscal policy is a **federal jobs guarantee** in democratic socialism. When worker-owned firms experience a steep drop in demand during a downturn, some worker-owners voluntarily take a temporary leave of absence or work less to enable the firm to stay afloat. They can walk right into a good-paying public-sector job that is guaranteed by the government. These jobs are available to every citizen who needs one, they pay a living wage, and they enhance the common good by

improving the environment, serving the community, and helping people. Because workers are able to shift seamlessly from the private sector to the public sector, their ability to cover their living expenses is uninterrupted. Social safeguards, including universal basic income and universal basic pension guarantees, continue to ensure that they can meet their material needs. As a result, demand doesn't drop steeply during a recession, and firms are able to keep their doors open. When the economy stabilizes and demand rises, people shift back to the private-sector jobs that are waiting for them as worker-owners. The economy is once again back on track. The federal jobs guarantee also acts as an automatic stabilizer during periods of unexpected inflation because when people leave their public-sector jobs and return to their worker-owned firms, government spending automatically decreases, since it no longer has to pay those salaries. Because radicals prioritize meeting the needs of everyone in society to generate wealth throughout the whole economy, radical policies are called **socialist** or **ripple-out economics**.

Recognizing that worker-owned firms are the backbone of the economy, radicals create a business-friendly environment through **networking hubs**. This is the second piece of radical fiscal policy. These government-funded services help established worker-owned firms to forge mutually beneficial collaborations with competitors and firms across related industries. Thinking creatively about how best to leverage resources and expertise, they share ideas about ways to streamline production, cut costs, and reduce the effect of production on the environment. For example, they share suppliers, pool their research, collaborate on studies, develop new products together, and more. Networking hubs are like a matchmaking service for worker-owned firms, helping them find strategic partners on local, regional, national, and international levels. Radicals say that when

unexpected events occur, these relationships add to the nation's economic resilience by helping firms recover quickly because they can leverage their shared resources and coordinate to make decisions that are mutually beneficial and good for the economy.

Radicals use **public banking** as their monetary policy to keep the economy stable and bring it back into balance when an unexpected event occurs. While people do their personal banking at local **credit unions**—cooperative banks owned by the members who bank there—public banks manage public funds. They exist on the federal, state, county, and city levels to serve the public interest. Here's how it works. When people pay taxes, some of the money is deposited in a public bank, where it is then available to be loaned out to firms and individuals. It is used to fund projects that benefit communities. For example, public banks might provide seed money for new resident-owned cooperatives and fund infrastructure upgrades, new parks and recreational opportunities, agricultural innovations, and research and development on sustainable energy. The worker-owned firms that are contracted to do the work now have more profit, which generates more corporate tax revenue, which ends up back in a public bank. Plus, the projects that were funded created new jobs, and now those new worker-owners have more income, which generates more income tax

Radicals use fiscal and monetary policies to create economic stability. Because radicals prioritize meeting the needs of everyone in society to generate wealth throughout the whole economy, radical policies are called *ripple-out economics*.

revenue, which ends up back in a public bank. It's a positive, self-reinforcing loop, say radicals. Interest from loans also goes back into public banks and then circulates back into the community as loans, grants, and tax rebates. Society is able to do more with its resources when they are used to benefit people and not siphoned off by for-profit money managers and executives. Public banks also reduce the costs of government. For example, when the government borrows from a public bank to pay for a new water treatment

plant, it pays no interest. That lowers everyone's taxes, and the public can afford more upgrades and investment in infrastructure. Public banks are managed by worker-owned firms, which are accountable to monetary policy councils made up of relevant stakeholders, including financial experts, community planners, worker-owned business representatives, consumers, economists, and others. When unexpected events occur and the economy overheats or goes into a downturn, public banks are guided and supported by public banking councils to prevent financial devastation to firms, individuals, and communities by lending more or lending less, depending on what is needed. With public banking, the economy stays nimble and is quickly able to recover, say radicals.

When the economic system is built around the six core points of democratic socialism, radicals

say, stability is built in. Cube A in figure 20.17 shows a “solved” six-core cube—the squares on each side are the same color. But there will always be unexpected events that destabilize the economy. That is shown in cube B. The economy is temporarily not “solved,” which is illustrated by the jumble of colors on each side of the cube. Radicals use a federal jobs guarantee, networking hubs, and public banking to restabilize the economy. This is shown in cube C, which is “solved.”

To sum up radical fiscal and monetary policies, when the unexpected occurs and the economy becomes unstable, it quickly restabilizes because radicals use the monetary policy of public banking and fiscal policies of a federal jobs guarantee and networking hubs in the context of the six core points of democratic socialism. You might have heard variations on the phrase “_____ for all.” It could be health care for all, universal basic income for all, or something else. This is the radical idea that when every individual is set up to thrive, the whole society flourishes. Radicals believe that prosperity *ripples out* from each one of us, because all of us together are the true engines of the economy.

Here is how the core point of *production for*

use and the pressure for good work in democratic socialism.

Scenario 1. You’re having coffee with a friend whose worker-owned firm also manages a credit union. She tells you, “Our local networking hub connected us with another credit union that wants to use new artificial intelligence software for better customer service. We invested in it together, and our firms teamed up to figure out its best uses. We’ve already reduced our paper consumption, which is better for the environment. Also, since our customers can do more online now, they don’t come into the credit union branches as often. That cuts down on pollution from transportation, and it means our worker-owners in customer service can spend more one-on-one time with the customers who do come in.”

You say, “That’s a great example of how new advances in artificial intelligence can make people’s lives better. We were just talking at our last worker-owner meeting about developing more features on our automatic teller machines. Maybe the networking hub can connect us with other credit unions that have found creative uses for their ATMs.”

“You should do it,” she says.

Both of your firms will do it because in demo-

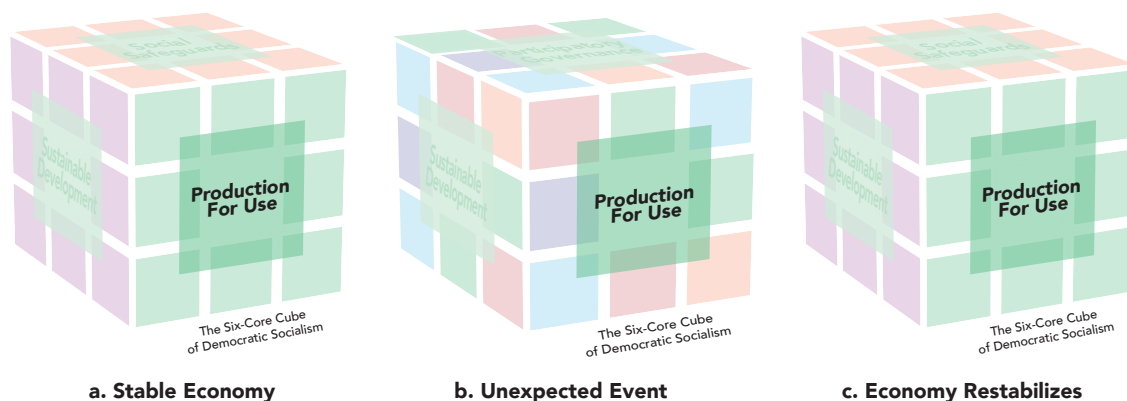


Figure 20.17
Well-Being in Democratic Socialism

cratic socialism, a commitment to *production for use* means new machinery and technology enable society to have products that improve people's lives, streamline production to make life easier for worker-owners and customers, and strengthen firms' bottom lines. Technological innovations are embraced as tools of progress that benefit people and the planet.

Scenario 2. You're doing volunteer work with a worker-owner whose firm also manages a credit union. They say, "After the floods, our credit union met with several public bank reps to talk about how we can support our members with a simpler and more efficient loan process. We partnered with our national, state, and local public banks to give firms and families help right away to get back on their feet. Because we're all living through this disaster together, we understand how vital our role is to help restore the economy in our state. You should think about using this process in your community."

You say, "That is a wonderful idea. Leaders from all the public banks in our state meet with our firm periodically to talk about how we can be

proactive to prepare for future disasters. I'll bring it up at the next meeting."

"You should do it," they say.

Both of your firms will do it because in democratic socialism, a commitment to *production for use* means that economic downturns and upturns don't take firms, individuals, or communities on a nauseating ride. They are spared from financial devastation because public banks—guided by banking councils—invest in the present, plan for the future, and make strategic decisions that stabilize the economy after an unexpected event.

Scenario 3. You meet a worker-owner from another credit union at a conference, who says, "Last year, our firm expanded and invited in new worker-owners. Then the trade crisis hit. We unanimously voted on across-the-board pay cuts, and we all agreed to continue working full time. Some worker-owners took a temporary leave of absence to work in federal jobs. They served as aides to the elderly, construction workers, public artists, bookkeepers, and in other positions. When the economy recovered, they returned to our firm

Radical Summary

Socialist "Ripple-Out" Economics

Fiscal policies

(Prioritize people over profit)

- ✓ Federal jobs guarantee
- ✓ Networking hubs

✓ = commitment

Monetary policy

(Prioritize people over profit)

Use public banking

Operate public banks at the federal, state, regional, and local levels.

with a slew of new ideas. It's been an incredible infusion of energy and discovery for us."

You say, "That was a creative solution. Because we're all worker-owners, we come up with solutions that are fair and feasible when the economy takes an unexpected turn. Our commitment to one another and to the success of our businesses is an automatic restabilizing force. We can adapt to the needs of the moment to stay afloat, and no one gets left behind. Our firm should consider using the federal jobs guarantee the next time we hit a rough patch."

"You should do it," she says.

Both of your firms will do it because in democratic socialism, a commitment to *production for use* means recognizing that the central goal of production is to give us the best quality of life. The federal jobs guarantee in democratic socialism ensures that people always have meaningful work and a way to earn a livelihood. The economy quickly recovers when unforeseen events send it off track.

Radicals represent democratic socialism as a Six-Core Cube that can be solved. They say that when we build an economy around the six core points of democratic socialism, it will always be beneficial to the core and give rise to the invisible synergy.

The Invisible Synergy of Democratic Socialism

- Abundant, healthy food
- Safe and helpful products
- Prosperity
- Housing for all
- Equitable income distribution
- Clean environment
- Universal, first-rate health care
- Fair and positive competition
- Secure and dignified retirement
- A thriving, debt-free society
- Mutually beneficial trade relationships
- **Jobs and stable prices**



You're Ready to Explore the Issue

We've come to the end of the conventional and radical tools section. Now you can understand how each perspective analyzes the issue of the economic stability. This is an extremely relevant and personal debate for you and for all of us as

a society. Next, we'll explore the conversations that are taking place around you about the harm caused by inflation and unemployment, including some background so that you'll have a context to understand the different voices that will be presented at the end of the chapter.



The Issue

We don't know what will happen in the future to destabilize the economy. It might be first contact with aliens, climate change, or any number of scenarios. Although economists can't see the future, they study the past to understand what happened when the country experienced recessions, depression, stagflation, and periods of overheating. They try to figure out why booms and busts occur and what could have been done to prevent them or recover from them more quickly. To paraphrase nineteenth-century philosopher George Santayana, we study history so we can avoid repeating mistakes in the future. It will come as no surprise to you that economists from different perspectives look at the same events and draw different conclusions.

The financial crisis of 2008, also called the Great Recession, officially lasted from December 2007 to June 2009. Economists vehemently argue about how it could have been avoided and who was to blame. There were many different moving parts, and each one affected the others. As I describe the events leading up to and following the crisis, imagine each was one domino in a long and intricate chain. When one fell, they all tumbled over. Which domino was the cause of the financial collapse? That depends on your perspective.

Home Mortgages

Home mortgages are the first domino. To understand what happened during the Great Recession, you need to know a few things about buying a home, because the recession revolved around the housing market. For generations, home ownership was the centerpiece of the American dream, representing financial success, respectability, and freedom. People wanted to be homeowners so they could raise children without worrying about having to move if the landlord raised the rent. They could take in friends and relatives who

needed a sofa to sleep on, plant trees and watch them grow year after year, have multiple cats and dogs, and do whatever else they want because they owned the property. I was lucky to grow up in a family that owned a home, and I wanted my child to have that stability as well. So in 1998, I went to a bank and applied for a mortgage. The loan officer confirmed my income by looking at my pay stubs and income tax returns for the previous few years. She reviewed my credit report (my history of paying bills on time), and decided I was an acceptable credit risk. I was approved for a thirty-year **fixed-rate mortgage** at 7 percent interest. I agreed to make monthly payments for thirty years to pay back not only the *principal* (the amount I was borrowing) but also the interest, which was the price of the loan. *Fixed rate* meant that the interest would always be 7 percent. The bank couldn't increase the rate at some later date.

Before I signed the loan documents, I had second thoughts. What if mortgage rates went down significantly in the next thirty years? The loan officer explained that I could always **refinance** the loan, which means getting a new mortgage at a lower interest rate, using that money to pay off the current mortgage amount, and then making monthly payments at the lower rate. Reassured, I signed the papers. The whole process of getting approved for a mortgage took around two months, which was typical at that time. I could have also gone through a mortgage broker. They arrange funding from banks, investors, and other lenders who offer home financing, charging a fee for their services.

After I found a home I could afford and my offer was accepted, it was time to buy it. I paid 10 percent of the purchase price with my savings, and my mortgage covered the other 90 percent. On top of that, I paid closing costs of a few thousand dollars, including a home inspection—the bank and I both wanted to make sure we

weren't investing in a property that was about to fall over—and a **loan origination fee**. That was money the bank charged for the loan in addition to the 7 percent interest. With excitement and trepidation, I signed all the documents. My realtor said, "Congratulations! Now you own a home!"

Did I? That seemed overly optimistic. It wouldn't actually be mine until I paid off the mortgage and interest. Still, the bank wasn't going to butt in and tell me to use green tile in the bathroom or insist I put up curtains. It was mine to do with as I pleased—unless I stopped making the mortgage payments for four months in a row. If that happened, the bank had a legal right to **foreclose** on the property (repossess the house) and kick me out. The property was the **collateral**, or security, on the loan. If I defaulted (failed to pay it back as agreed), I would not only lose the property, I would forfeit the money I had put into it: the down payment, the closing costs, the monthly payments I'd already made, and any money I'd spent to make improvements.

One reason home ownership is thought to be good for the economy is because it leads to more purchases of goods and services. I bought paint, furniture, window coverings, bath mats, appliances, and plants for the front yard. I hired a landscaper, roof repair company, plumber, electrician, and moving company. Year after year, I paid for repairs, renovations, and upgrades. I replaced the old water heater, furnace, and windows. You get the picture. Homeowners are generally motivated to take care of their properties because they live in them and because homes are a major investment. I knew that if I ever wanted to sell it, buyers would be willing to pay more if the place was in good shape.

Homeownership has many benefits to society. People who buy homes want safe streets, clean parks, and improvements to local schools because those aspects of a neighborhood affect their quality of life and property values. Guided



by this belief, Congress passed the 1977 Community Reinvestment Act. It was intended to create more home ownership in low- to moderate-income neighborhoods by encouraging banks to provide credit for people living in those areas. It was also enacted to counter discriminatory practices in lending, called **redlining**, which disqualified people who lived in certain areas from getting mortgages. People of color were disproportionately affected.

In 1982, the Alternative Mortgage Transaction Parity Act allowed lenders to offer many different kinds of mortgages—not just the thirty-year fixed-rate mortgage that the majority of homeowners had. The hope was that new mortgage products would make mortgages more affordable and more people eligible for homeownership. There are too many to mention, but the one that matters the most for this story is the **adjustable-rate mortgage**. There are different types, but most have a fixed rate for a certain number of years, and then the interest rate adjusts up or down. Leading up to the financial crisis of 2008, many people signed up for adjustable-rate mortgages that started below the **prime rate**, which is the rate

offered to people with good credit. After a certain number of years, the rate increased to a predetermined amount, and a few years later, it increased once more—often to a rate above prime. From some perspectives, this type of adjustable-rate mortgage was a creative solution for low-income buyers because their monthly payments started off low and were affordable. Buyers figured that before the first rate increase was scheduled to kick in, they could either refinance the loan or sell the property for a profit (homes generally increase in value).

People with good credit from every income level may choose either a fixed-rate or an adjustable-rate mortgage. But for those who had no job, income, or assets or who had bad credit, **subprime mortgages** were widely available in the years leading up to the Great Recession. These loans came with higher interest rates than prime mortgages to compensate for the risk that the borrower would default. Close to 90 percent of the twelve million subprime loans made in 2006 were adjustable-rate mortgages. Some people were critical of subprime loans and called it **predatory lending**, saying that lenders knowingly made

loans that they knew borrowers would not be able to pay back.

The Banking Industry

The next domino in this story is the banking industry. One of the main activities of banks is to make loans. They take in deposits from customers, but instead of leaving all that money in their vaults, they lend it to firms and individuals. The money is paid back with interest, and then all of that is available to be loaned out again. The economy runs on borrowing. Firms need to borrow to buy the equipment and services to operate, expand, and start new projects. Individuals need to borrow to pay for big-ticket items—cars, homes, appliances, educations. If they can't borrow, they can't demand those things, and people lose their jobs, so banks' ability to extend credit is vital.

Before the Great Depression, banks didn't use their depositors' money just to make loans. Many also invested it in stocks, bonds, and other risky investments. When the stock market crashed in 1929, that money was lost. At the same time, firms across the country defaulted on their loans and went out of business. Those closures led to widespread unemployment, so individuals defaulted on *their* loans. Nine thousand banks ran out of money. A **bank failure** is an absolute nightmare. One in four people lost their life savings. In response to that banking crisis, in 1933, the government passed the Glass-Steagall Act. One provision of the new law was to separate the activities of commercial banks and investment banks. **Commercial banks** could offer retail banking services to individuals and small businesses, but they weren't allowed to invest their clients' money in the stock market or other risky investments. **Investment banks** could provide financial services to corporations, pension funds, other banks, and the government, and they were permitted to invest in the stock, bond, real estate, and securi-

ties markets. In other words, Glass-Steagall put up a firewall between Main Street and Wall Street. Decades later, the banking industry pushed back against that firewall. In 1999, that provision in Glass-Steagall was repealed. Commercial banks were permitted to invest their depositors' money in the stock market and elsewhere.

The Federal Reserve

The next domino in this story began with a terrible tragedy. The terrorist attacks on September 11, 2001, shocked the nation and sent the economy into a tailspin. Afraid that more attacks might be planned, people canceled vacations, stopped going to stores and restaurants, and took a wait-and-see approach to investing. Consumer demand fell, so firms laid off workers. Unemployment jumped from 4.2 percent in August to 5.7 percent by the end of 2001.

Worried that the economy was headed for a recession, the Federal Reserve used monetary policy to influence mortgage interest rates to go down. The idea was that more new home purchases would get the economy back on track because it would increase demand for all the other products homeowners generally purchase—paint, furniture, and so on. By 2003, a thirty-year fixed-rate mortgage dropped below 6 percent, which was lower than it had been in decades. People flocked to the real estate market, eager to buy homes.

The Securities and Exchange Commission

One more domino in the chain was the federal agency that regulated investment banks. One of the jobs of the Securities and Exchange Commission (SEC) is to make sure banks have enough cash to cover possible losses on investments and loans. Liquid assets (things of value that can quickly be converted to cash) are important for banks because they can't know in advance how much money depositors will want to withdraw

on a given day. Banks calculate their net worth (how many deposits have been made) and then keep a percentage of it in their vaults or at a Federal Reserve branch bank in their region. This is called the **reserve requirement**. The amount differs depending on the type of bank. Some are not required to keep any deposits in reserve. When there is a reserve requirement, that money is not available for lending. It's there in case depositors want to make a withdrawal. Between 2004 and 2007, the SEC relaxed

the rules (called the net capital rule) for how the biggest banks could calculate their net worth, and the result was that they kept less money in reserve and had more available to lend—an estimated thirty to forty times more. With more money available to lend, they were eager to make more loans and looked for more investment opportunities.

Fannie Mae and Freddie Mac

Right after my bank loaned me money to buy a home, it turned around and sold my mortgage in a secondary market (think of a market for used cars). Nothing changed for me except that I sent my monthly payments to a different address. At the time, two entities bought up most of the mortgages in the United States. The Federal National Mortgage Association, nicknamed Fannie Mae, was created in 1938 by an act of Congress to buy mortgages from banks so that banks would have more money available to lend. Think about it: if you lend me \$100, you have to wait for me to pay you back before you have cash to lend to your cousin. Also, by selling the mortgages to

When people invest with overly optimistic expectations that the investment will dramatically increase in value, it's called speculation. When lots of people rush in to buy on speculation, it creates a bubble in the market.

Fannie Mae, banks reduced their risk. If borrowers defaulted on their loans, they wouldn't take a loss. The Federal Home Loan Mortgage Corporation, nicknamed Freddie Mac, was created in 1970 to do the same thing as Fannie Mae, but it focused on loans made by smaller banks. Both institutions were established to create a stable, liquid mortgage market.

Fannie Mae and Freddie Mac were restructured to be privately owned by shareholders and managed by a board of directors, five

of whom are appointed by the president of the United States. They have government-sponsored enterprise status, which is given to financial services corporations that are created by Congress. Fannie and Freddie are regulated by the Department of Housing and Urban Development and the Federal Housing Finance Agency. Both firms are exempt from state and federal taxes. According to their original charters, the U.S. Treasury secretary was authorized to buy \$2.25 billion in assets from them if they need cash. Their special status with the federal government was regarded by many as an implicit guarantee, meaning it was assumed that the government would bail them out if borrowers defaulted on their mortgages. Add this domino to the line.

The Housing Bubble

Picture the early 2000s. Mortgage interest rates are at record lows. Banks have thirty or forty times more money available to lend. Banks and mortgage brokers are offering subprime loans, and suddenly the dream of home ownership is

in reach for millions of people who previously could not qualify for a mortgage. Lenders aren't worried, because if buyers default, lenders will repossess the home and sell it to someone else—probably for more money, since real estate values were rising steadily. Also, since most mortgages were sold to Freddie or Fannie after the ink dried on the paperwork, lenders were even less concerned about bad credit risks. There was so much demand for mortgages that lenders started making subprime loans to borrowers without confirming their incomes or employment status.

With so many new buyers in the market, demand for housing was through the roof. Home values soared. Investors bought properties and flipped them—turned around and sold them to the next investor. I knew a woman who worked in a health food store for minimum wage, had no savings, and lived in a rented condo. She went to a weekend seminar on how to make money flipping homes. Two months later, she made \$60,000 flipping a house that hadn't even been built yet.

In the city where I lived, new housing developments seemed to spring up overnight. Before the builders even broke ground, buses filled with out-of-state investors rolled up to the sales offices at the crack of dawn clutching their pre-approved mortgage documents. Every home in an unbuilt neighborhood was sold before lunchtime. It wasn't just happening in my city. This was going on all over the country.

When people invest with overly optimistic expectations that the investment will dramatically increase beyond its intrinsic value, it's called **speculation**. When lots of people rush in to buy on speculation, it creates a **bubble** in the market, meaning the price is artificially inflated by high demand. Prices shoot up *even though nothing has occurred to change the underlying value of the asset*. Demand is up only because people believe it will become more valuable. Higher demand pushes up the price, attracting even more buyers. This is how a bubble grows. How does a bubble burst? At a certain point, something changes. Inves-



tors suddenly get nervous and start selling, and overnight the value plummets. Those who bought when the price was high lose a lot of money. Have you ever played the party game Hot Potato? You sit in a circle, turn on music, and toss around a potato (or tennis ball, or rolled-up pair of socks). You pretend it's hot, so as soon as you catch it, you get rid of it as quickly as possible by throwing it to someone else. When the song ends, whoever is left holding the hot potato is the loser. This is what it's like when the bubble bursts. You're left holding the overvalued investment and you lose.

The housing bubble burst when subprime, adjustable-rate mortgages started to adjust up. People's monthly mortgage payments became unaffordable. Some scrambled to refinance, but as more and more people faced rate adjustments, the number of foreclosures started to climb. In 2006 alone, there were 1.2 million foreclosures. That was a 42 percent increase from the previous year. By 2008, foreclosures were up 225 percent from 2006. All told, banks

repossessed a staggering 3.8 million homes between 2007 and 2010.

The foreclosure catastrophe sent the economy into a recession. Families lived out of their cars, moved in with relatives, and filled the homeless shelters, while their former neighborhoods became ghost towns with "Foreclosed" signs in front of every home. Seemingly overnight, half-built construction projects were abandoned in cities and towns across the country. Unemployment soared, which led to more people defaulting on their loans. The losses were incalculable. People didn't just lose the roof over their heads. They lost all the money they had spent to buy and improve their properties. Their credit was negatively affected—some for decades. They had to leave their neighborhoods, change schools, and figure out where to live. It was financially and emotionally devastating, and the stress caused physical problems for many. Some who were evicted weren't even the owners. They were renters who had diligently paid their rent on time



but nevertheless were kicked out when the banks reclaimed the property. Tent cities of the homeless sprang up all over the country. It was a nightmare for people trying to keep jobs, manage health problems, raise children, and care for elders.

You may have seen a scene like this in a superhero movie: an inhumanly strong character drives her fist into the ground, and the ensuing shockwaves flatten everything around her. That was the effect of the housing bubble bursting. Even those who hadn't engaged in speculation were hurt. In 2006, my home needed plumbing and electrical work, so I went to the bank to apply for a home equity loan. It's a way to borrow money against the value of the property. With housing prices sky high, the bank informed me that the new value of my home was nearly twice what it had been when I'd purchased it. Delighted, I calmly signed the paperwork on the home equity loan. I didn't mind owing more, since clearly my property was a great investment. Then the bubble burst, and everyone's property values fell, including mine. They fell for the simple reason that there was now a huge supply of empty homes, and the market had gone cold. I found myself underwater, meaning I owed more on the house than it was worth. I wasn't alone. Close to one in four homeowners were in this situation at the worst point of the Great Recession.

Wall Street's Role

The housing bubble bursting was only the beginning. Before I can tell you what happened next, you need to understand the role Wall Street played in all of this. Let's hit the rewind button and go back to the 1970s. Investment banks came up with a new low-risk product that offered a steady rate of return. They bought up thirty-year fixed-rate mortgages, bundled them together, and sold shares to investors. Called **mortgage-backed securities**, these were attractive to investors because homeowners are highly motivated to keep their homes, so even if they struggle to meet

their other obligations, they typically try to keep up with their mortgage payments. And banks approved mortgages only for people who were a good credit risk. Fannie Mae and Freddie Mac—who held the most mortgages—also created and sold mortgage-backed securities as a way to raise cash to buy more mortgages.

There are firms that provide information to potential investors about different investment products. Called **rating agencies**, they specialize in researching the potential risk. Mortgage-backed securities earned top ratings. Investors around the world grabbed up shares in U.S. mortgage-backed securities and clamored for more. This made lenders even more motivated to approve new mortgages. When the housing bubble started to grow, so did the number of subprime mortgages, and they were bundled into the mortgage-backed securities. Even though they were no longer low risk, the ratings agencies continued to give them high marks. In 2006, \$1.28 trillion in mortgage-backed securities were issued to investors. Many of those investors were commercial banks and investment banks. They confidently bought shares because of the excellent ratings, and because they were insured by policies called **credit default swaps**. These were guaranteed by the nation's biggest insurance firm, AIG, so if the investment failed, their clients' money would not be lost. What could go wrong? It turned out that AIG sold the policies without having money to back them up. When the housing bubble burst and those investments became next to worthless, people all over the world lost their money, and AIG collapsed.

The Dominos Fall

When the dominos fell, everything happened fast. The big banks couldn't cover their losses, AIG couldn't cover the credit default swaps, and on September 15, 2008, the fourth-largest investment bank in the country, Lehman Broth-



ers, went bankrupt. Bear Stearns, one of the world's biggest global investment banks, also went bankrupt, and another 463 banks went out of business. A financial panic ensued, which disrupted the supply of credit. Banks weren't making loans, and firms were frantic. They had to lay off workers or shut down. More than 170,000 small businesses shut down. Between 2007 and 2009, bankruptcy filings increased by 74 percent—1.3 million people. The unemployment rate was above 10 percent, which was double what it had been before the crisis began. People in the United States lost a staggering \$19 trillion in net worth. Local food banks were mobbed with unemployed working-class and middle-class people who couldn't put food on the table. Everyone was scared, angry, and bewildered—and not just in the United States. Banks, investment firms, and governments all over the world were reeling.

At President George W. Bush's urging, Congress passed the National Economic Stabilization Act, which authorized \$700 billion in bailouts through the Troubled Asset Relief Program (TARP). The idea was for the government to buy up the bad loans and get money back to banks to end the credit freeze and get the economy back on track. Although it was extremely controversial, lawmakers eventually passed it, reasoning that the banks were “too big to fail.” If they went bankrupt, everyone's money would be lost, and this would crash the already-faltering economy. The Fed bought up \$3.6 trillion in mortgage-backed securities and other long-term debt from its member banks to bring down mortgage rates to stimulate the economy—a process called **quantitative easing**. Fannie Mae and Freddie Mac, which owned more than \$3.7 trillion in mortgage-backed securities, went into conservatorship—the government appointed new leadership. They were

bailed out by the government and had to pay it all back with interest over time—it took a decade or so. AIG was also bailed out, and so were all of the big banks, except Lehman Brothers. Some felt this was sending the wrong message to Wall Street. If they didn't accept the consequences of their actions, they would engage in risky behavior again in the future. But the Bush administration and Congress believed that a bailout was necessary to avert another Great Depression. As Bush's Treasury secretary at the time, Hank Paulson, put it, if government didn't staunch the bleeding on Wall Street, then Main Street would not be able to recover.

A few months later, when Barack Obama took office, he approved \$80 billion of TARP to revive the U.S. automaker industry, which was teetering on the edge of failing as a result of the recession, to try to keep unemployment from climbing even higher. He also allocated billions of dollars in TARP funds to banks so they would lower homeowners' mortgage interest rates. This afforded some relief to those who were underwater. The people who lost their homes did not get a bailout, however, which was controversial. Some said the government cared more for Wall Street than it did for working people. Others said it wasn't the government's job to rescue people who had made a bad risk and lost. This is still a controversial debate. Although most of the bailout money was paid back with billions of dollars in interest, many still believe Wall Street got a free ride off the backs of taxpayers. This was fueled by the fact that bank executives gave themselves end-of-year bonuses with the bailout money, and AIG executives took themselves on a luxury retreat.

Fury over the bailouts turned into two populist

movements. The Tea Party launched in 2009. Made up largely of conservatives, it called for an end to excessive government spending of taxpayers' dollars. The Occupy Wall Street movement began in 2011. Made up largely of radicals, it called for an end to government's coziness with the 1 percent and more economic justice for the 99 percent. Both movements expressed populist frustration with the way government had handled the financial crisis. In 2010, Congress passed the Dodd-Frank Wall Street Reform and Consumer Protection Act, which instituted new regulations intended to protect consumers by creating more accountability and transparency in banking and finance.

There is more to the story, but I'll just leave you with one last thought. Ten years after the Great Recession, the nation's biggest banks were even bigger than they had been during the financial crisis, when they were deemed "too big to fail," and only one person went to prison for playing a role in causing this calamity.

Understanding Economic Stability

Here's a quick exercise. Imagine a natural or human-made catastrophe hits every region of the country at the same time and lasts for three weeks. You have no electricity. No water comes out of the tap. There are fuel shortages, toilet paper shortages, and food shortages. Transportation systems are down. Imagine yourself at home, living through this disaster. Think of five ways your material life is affected. (For example, you can't charge your phone.) Stop here and write down your answer before you read on. After you've jotted down your five ideas, I challenge you to try to identify one way your material life *isn't* affected. I would bet you were not able to think of a sin-

gle one. There is no way to insulate yourself and your loved ones when the unexpected happens and affects the macroeconomy. No one produces all their own food, medicine, energy, transportation, shelter, or anything else. We're all part of a very complex chain of supply and demand. This is why economic instability is a constant worry.

Since the founding of the United States, our economic history has been one of wild swings up and down. The financial crisis of 2008 was only one of forty-seven economic downturns that occurred between 1776 and 2020. If you include the periods of overheating (problematic inflation), that number jumps substantially. Figure 20.18 shows a picture of the roller-coaster ride we've been on for the past seventy years. It illus-

trates changes in the **output gap** from one year to the next. It's a measure used by economists to calculate the difference between what we actually produced and what we potentially might have produced if we had used all of our land, labor, capital, and technology. (The equation for the output gap, which is measured as a percent change, is given below the figure.)

As mentioned earlier, the National Bureau of Economic Research (NBER) is in charge of determining whether we are in a recession and when it has ended. Although there is no set formula for doing so, the NBER gauges three criteria to make its assessments: *depth*—how low or how high the economy goes relative to potential GDP; *diffusion*—how widespread the up or down is

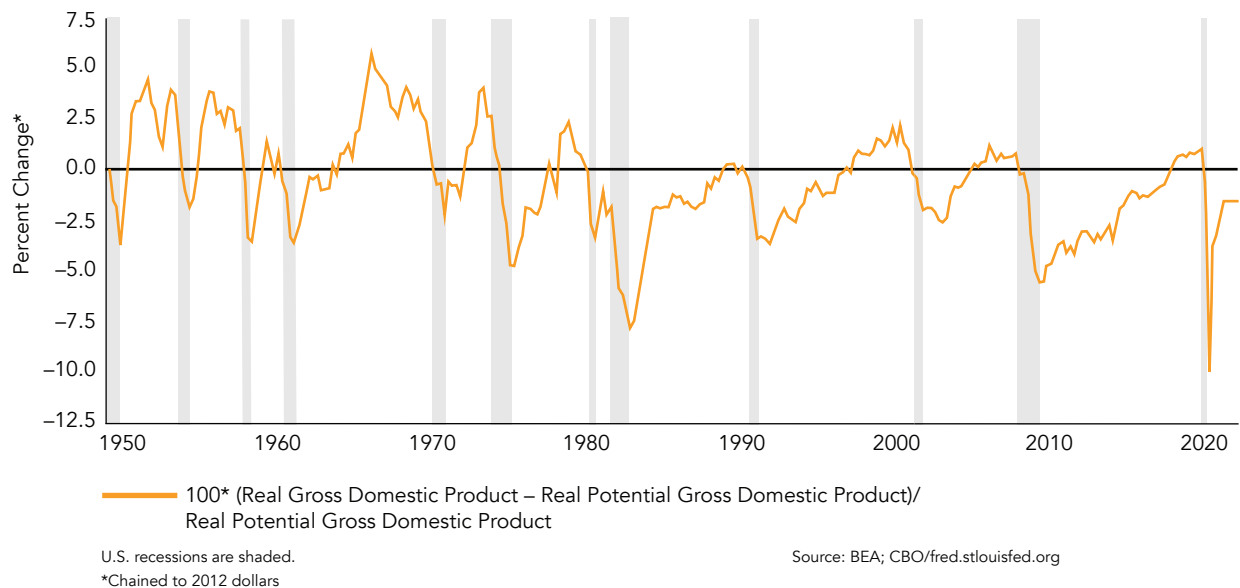


Figure 20.18
The Output Gap over Seventy Years

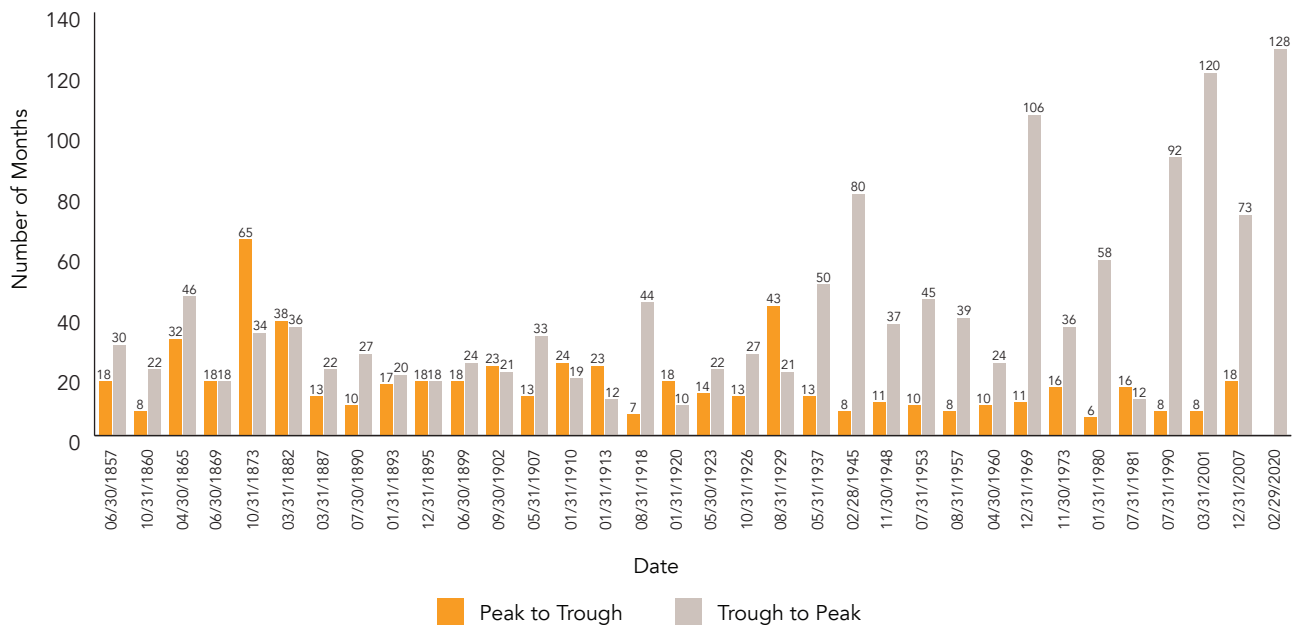


Figure 20.19
Duration of Peaks and Troughs Measured in Months

throughout the economy across the nation; and *duration*—how long it lasts.

In figure 20.19, you can see how the NBER measures the duration of an upswing and downturn. The figure shows the number of months the economy took to go from peak to trough (represented by the orange bars) beginning in 1857. It also shows the number of months it took to go from trough to peak (represented by the gray bars). When you look at this graph, try to imagine what it was like for the people who lived through those periods of economic instability—the fear, loss, and uncertainty they faced. We barely scratched the surface of the backstory, events, and aftermath of the Great Recession of 2008, and we could tell forty-seven more stories about other recessions and depressions our country has experienced. Each has its own backstory and, depending on your perspective, its own casts of heroes and villains. Here are a few examples of some other downturns to give you a sense of the combinations of events that have crashed our economy in the past.

The Panic of 1785 was said to be caused by post-Revolutionary War debt, combined with overexpansion, lack of credit, and manufacturing competition with Britain.

The Panic of 1857 was said to be caused when customers of the Ohio Life Insurance and Trust Company learned that their funds had been misappropriated; a bubble created by European investors' speculation in U.S. railroads burst; and a ship on its way to New York carrying a cargo of gold sank, which led to widespread distrust of gold-backed paper money.

The Panic of 1893 was said to be caused by the failure of the Reading Railroad, which caused the other railroad companies to fail, the stock market to crash, and banks to fail.

The Panic of 1907 was said to be caused by the collapse of Knickerbocker Trust, one of the largest banks in the country, causing the stock market to plummet. This crisis was the catalyst for the creation of the Federal Reserve System.

The Great Depression was said to be caused by the stock market crash of 1929 and exacer-

bated by the Dust Bowl. It caused immense hardship and suffering, and had repercussions around the world. The United States had a shocking 25 percent unemployment rate.

The Recession of 1945 was said to be caused by the challenges we faced when World War II ended, and manufacturing needed to shift from wartime production to civilian production.

The Early 2000s Recession was said to be caused by speculation in emerging online companies (“the dot-com bubble”) in combination with the September 11, 2001 terrorist attacks.

The Pandemic Recession of 2020 was said to be caused by the worldwide COVID-19 health crisis, which resulted in massive unemployment and firm closures.

A Quick History of Policy Approaches to Instability

Behind every recession, depression, and overheated economy is a fascinating story of the policies that were used to try to bring the United States back to potential. From George Washington to Herbert Hoover, U.S. presidents and their economic advisers generally followed the classical model of *laissez-faire*. For the most part, they waited it out, believing that in the long run, capitalism would self-correct.

Many detractors were heavily influenced by the anti-capitalist theory of Karl Marx and called for socialism. The most prominent of these politicians was Eugene V. Debs, a founder of the Socialist Party of America. He ran for president five times between 1900 and 1920. The socialist thinking at that time was to reject capitalism and replace it with collective ownership—managed democratically—of land, transportation, banking, communication, and more. Debs famously said, “The Republican and Democratic parties, or, to be more exact, the Republican-Democratic party . . . are the political wings of the capitalist system and such differences as arise between them relate to spoils and not to principles.”

The stock market crash of 1929 and the ensuing Great Depression was a financial catastrophe on a scale that had never been seen before in this country. GDP fell an estimated 30 percent, and a quarter of the workforce was unemployed. People called on President Herbert Hoover to do something, but his solution was to wait for the economy to self-correct in the long run and rely on private philanthropy in the short run. His approach angered the working class and poor, who felt abandoned. They started calling the shanty towns where the poor lived Hoovervilles as an insult to Hoover.

In 1933, Franklin Delano Roosevelt (FDR) took office with the promise that he would do something to get the economy back up and running. His New Deal is one of the most interventionist pieces of legislation in U.S. history. It comprised three parts, known as “the three R’s”: *relief* for the unemployed in the form of government assistance; *recovery* stimulus in the form of more government spending and job creation; and *reform* of capitalism through social welfare programs, such as Social Security and Medicare. In 1936, Keynes published *The General Theory*, which matched FDR’s approach. Some claim FDR was influenced by Keynesian ideas. Some say that his policies brought the country out of the Great Depression, while others say that the downturn only became a depression because of government interference.

As World War II ended, President Harry S. Truman finished FDR’s term after FDR died in 1945. Truman tried to advance FDR’s liberal policies, although he was often thwarted by a Republican-controlled Congress. He was elected for a second term, followed by Republican Dwight D. Eisenhower, who took a middle-road approach by supporting free markets *and* government assistance programs. After Eisenhower, John F. Kennedy, a Democrat, was elected, and Keynesian economics took hold in the Executive Branch of government, continuing through the presidencies of Lyndon B. Johnson (a Democrat who finished Kennedy’s term after his assassina-

tion), Richard M. Nixon (a Republican), Gerald Ford (a Republican who finished Nixon's term after his resignation), and Jimmy Carter (a Democrat).

The Energy Crisis

In 1971, when Nixon was in his first term, the economy was limping along with 6 percent unemployment. Following his decision to change the dollar from the gold standard to fiat currency, the dollar was immediately devalued by 8 percent, which caused prices to soar. Nixon tried to control inflation by mandating a ninety-day freeze on all wages and prices. By the time he won a second term in 1972, prices were stabilizing, and more jobs were in the economy. Nixon declared, "I am now a Keynesian in economics." But then the unexpected happened. In 1973, war broke out in the Middle East. A coalition of Arab nations led by Egypt and Syria attacked Israel on the Jewish holiday of Yom Kippur in support of the Palestinian cause, and the United States threw its support behind Israel. In retaliation, Arab oil-producing countries decided to stop selling to us. This embargo on top of the price controls led to gas shortages, raised production costs for firms, and became an economic disaster for the United States. In the midst of all this, Nixon hired men to break into the Democratic Party's headquarters at the Watergate Hotel in Washington, DC, to steal campaign secrets. The scandal was revealed, and at the same time, Vice President Spiro Agnew resigned over unrelated bribery charges. Nixon appointed Gerald Ford as vice president, and then Nixon resigned. Ford pardoned him and finished out his term.

Democrat Jimmy Carter, a peanut farmer from Georgia, was elected president after Gerald Ford, and the Senate and House also came under Democratic control. Carter was strongly Keynesian in his economic approach, but he said Keynesian economics wouldn't solve the energy crisis

because the country was facing a supply shock. In this case, a sudden increase in the price of oil drove up costs overall for manufacturers, leading to lower output and higher prices for consumers. In 1978, an Islamic revolution took place in Iran, and the U.S.-supported leader, the Shah of Iran, went into exile. He took shelter in the United States, where he received medical treatment for cancer. This made the revolutionaries in Iran very angry, and in protest they stormed the U.S. embassy in Tehran and took Americans hostage. They also cut off all oil sales to our country. According to Carter, this created a second oil shock and another round of stagflation. With the nation suffering the double jeopardy of unemployment and inflation, Carter's solution was a national campaign to conserve energy.

As the 1980 presidential election approached, the United States was in the midst of an ongoing oil crisis, Iran was holding Americans hostage, and the combination of inflation and unemployment was hitting people hard. The interest on a thirty-year fixed-rate mortgage around that time was 18.45 percent. To give you some perspective, in 2020, it was around 3 percent. Measured on the misery index, the United States reached a staggering 19.7 percent that year. Carter's popularity was low, and Republicans were eager to replace him. Eight out of nine candidates for the Republican nomination proposed Keynesian ideas to turn the economy around. The one exception was Ronald Reagan. The former governor of California and actor popularized the idea of supply-side economics. He insisted that the economy could recover if we gave support to job creators through tax cuts and got rid of government regulations. Rival George H. W. Bush dismissed his ideas as "voodoo economics," but voters liked what they heard. Reagan won the Republican primary and then unseated Carter in a landslide victory.

Let the Ping Pong Presidents Game Begin!

The next episode of our economic history starts with the Reagan era, which kicks off what I call the Ping Pong Presidents game. Do you like to play ping pong? Also called table tennis, it was invented in England at the turn of the twentieth century and became an Olympic sport in 1988. One thing I appreciate about ping pong is that you don't have to be physically imposing to excel at it. Multiple-time world champion and four-time Olympic gold medalist Deng Yaping is not even five feet tall. Ping pong is a perfect metaphor for how our country has tried to fix economic instability for the past forty-plus years. We've bounced from supply-side to Keynesian to supply-side and so on. Although we've never had a Democratic Socialist president, some policies could be said to have a socialist topspin.

Of course, no president has complete power. Our constitutional democracy is a system of checks and balances between the Judicial, Legislative, and Executive Branches of government. Every president comes into office with a plan for how they want to improve the economy, but as often as not, they are unable to enact their policies because they don't have the support of Congress. That being said, it's still interesting to see what moves they have brought to the game. Imagine them grabbing their ping pong paddles and doing a few squats and warm-up stretches

Ping pong is a perfect metaphor for how our country has tried to fix economic instability for the past forty-plus years. We've bounced from supply-side to Keynesian to supply-side and so on. Although we've never had a Democratic Socialist president, some policies could be said to have a socialist topspin.

before the game begins. Here we go! The Republicans will serve first.

Ronald Reagan, Republican. Ronald Reagan's 1980 campaign slogan was "Let's make America great again." Reagan revived Say's law, that supply creates its own demand when we leave price signals alone. But Reagan believed the economy could only self-correct after getting rid of government interference. He famously said, "The nine most terrifying words in the English language are: 'I'm from the government, and I'm here to help.'" His approach was called supply-side economics. It was also known as the Reagan revolution, trickle-down economics, and Reaganomics. Toward the

end of his second term, the Soviet Union collapsed, ending the Cold War.

George H. W. Bush, Republican. Reagan passed the Republican ping pong paddle over to his vice president, George H. W. Bush. When Bush had been picked to serve as VP, he had claimed to change his mind about supply-side being "voodoo economics" and disavowed the Keynesian approach. During his presidential campaign, he famously said, "Read my lips: no new taxes." His campaign slogan in 1988 was "Kinder, gentler nation." But when his term started, the national debt had tripled under Reagan's administration. Reversing his position, Bush decided it was necessary to raise taxes, which caused many to question his commitment to supply-side economics. Two years into his term, the Gulf War

started. The United States led a coalition of thirty-five nations to defend Kuwait in response to Iraqi aggression. Bush didn't win a second term.

Bill Clinton, Democrat. When Bill Clinton ran for office against George H. W. Bush, the economy was in a recession. One of Clinton's campaign advisers told him to keep his focus on the issue people cared about the most, saying, "It's the economy, stupid." It became a famous phrase that is still used today. Clinton's campaign slogan was "For people, for a change." Clinton brought back Keynesian economics. He blamed the recession on twelve years of supply-side, trickle-down policies. In his eight years in office, Clinton focused on tax cuts for the middle class, increasing the minimum wage, and child tax credits to help the poor. Clinton's eight years in office saw the growth of the internet and ended with three years of budget surpluses.

Clinton's vice president, Al Gore, was ready to take up the paddle and continue the Keynesian ping pong game for the Democrats. He won the popular vote, but he lost the electoral college vote, which was determined following a delay involving a complication with counting the ballots in Florida that was ultimately resolved by a Supreme Court decision. This situation is worth noting because a split between the popular vote and the electoral college vote meant there wasn't necessarily widespread support for a different economic approach.

George W. Bush, Republican. George W. Bush, son of George H. W. Bush, had a very eventful presidency, and most of those events took a toll on the economic picture in the country. His campaign slogan was "Compassionate conservatism," and he was an avowed supply-side proponent. He famously said, "If you raise taxes on the so-called rich, you're really raising taxes on the job creators." There was a budget surplus when he came into office. Bush cut taxes and redistributed the surplus back to taxpayers. Three months

later, the United States was attacked by terrorists on September 11, 2001, and the economy faltered. The United States went to war in Afghanistan and Iraq. During George W. Bush's second term, with the wars still under way, the housing bubble started to grow, and the economy picked up. Then the housing bubble burst and the United States experienced what became known as the financial crisis of 2008 or the Great Recession.

Barack Obama, Democrat. When Barack Obama came into the White House, the country was reeling from the Great Recession. Obama vowed to use Keynesian economics to bring back jobs and get the economy moving again. His campaign slogan was "Change we can believe in." He followed in the footsteps of FDR by increasing government spending on infrastructure projects and assistance programs to get money into the pockets of the middle class and poor. Obama believed that prosperity bubbles up from the middle class. He famously said, "Everybody does best when everybody gets their fair shot, everybody is doing their fair share, and everybody plays by the same set of rules." His major piece of legislation was the Affordable Care Act (also known as Obamacare), which, among other things, subsidized health care for poor and working-class families. He served for two terms.

Former First Lady and secretary of state (under Obama) Hillary Clinton was ready to pick up the Keynesian ping pong paddle and play for the Democrats. She won the popular vote but lost in the electoral college to business mogul Donald Trump. Once again, it's important to note that the split between the popular vote and the electoral college meant that opinions differed significantly about changing the economic approach.

Donald Trump, Republican. Donald Trump came into office as an enthusiastic supply-sider. His campaign slogan echoed Reagan's: "Make America great again," which his supporters shortened to MAGA. When Trump's term began, the country was

in its 128th month of economic expansion. Trump cut individual taxes and corporate taxes, and he energetically eliminated regulations. He famously said, “We are imposing a new rule that mandates that for every new regulation, two old regulations must be eliminated.” Three years into his presidency, the COVID-19 pandemic started. It caused severe economic crises around the world, including in the United States. To protect national security, Trump signed an economic relief package that included financial support for both individuals and businesses. Trump served one term.

Joseph Biden, Democrat. The former vice president under Obama, Joe Biden, started his presidency amid the raging COVID-19 pandemic. The economy was suffering from business clo-

tures, unemployment, and uncertainty. Biden’s campaign slogan was “Build back better.” During his campaign, he promised to raise taxes on the wealthy, and when he came into office, he immediately passed a stimulus package that put money into the pockets of the poor and middle class and increased government spending on assistance programs, including unemployment benefits, child tax credits, housing assistance, and more. Biden famously said, “It’s about rebuilding the backbone of this country and giving people in this country, middle class people—the people who built this country—a fighting chance.”

Take a look at the labels below each president. It now should be obvious to you why this is called the Ping Pong Presidents game!



Keynesian



Supply-Side

Mixed
Keynesian and Supply-Side

Keynesian



Supply-Side



Keynesian



Supply-Side



Keynesian

Exercise 20.2: Breaking News!

Every day, you’re deluged with news about the economy—unemployment numbers, GDP reports, price changes, the latest turns in the stock market, and so on. It’s very useful and time saving to be able to identify what the story is about just by scanning the headlines. Let’s practice. Read the following headlines and say whether the story would be welcome news from the liberal (L), radical (R), or conservative (C) perspectives, or whether it is simply describing the state of the economy (N for neutral). The Answer Key can be found at the end of this chapter.

Breaking News!	R, L, C, or N?
1. U.S. consumers see price hikes on everyday items	
2. House passes bill to ease regulatory grip on Wall Street	
3. Jobless rate is under 5 percent, wages are rising	
4. Administration puts federal jobs guarantee back on the table	
5. U.S. economy contracted in a frigid first quarter	
6. Fed raises interest rates, signaling end to recession	



Now you have the lay of the land. You know the definitions and the history of what has already been done to address the issue of economic stability. You learned the tools needed to analyze competing ideas about inflation and unemployment. It’s time to hear the voices of the different perspectives on the issue so that you can find your own voice.



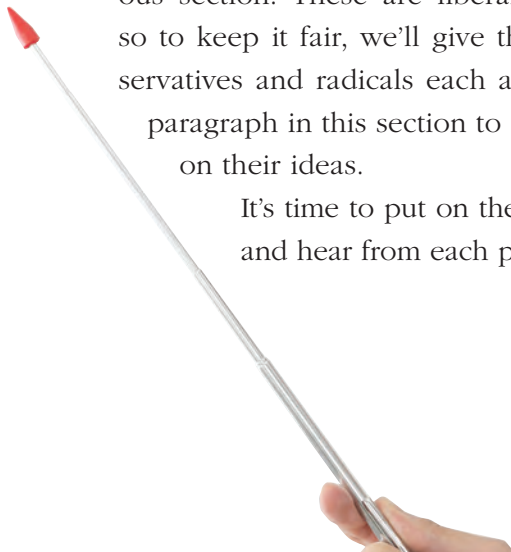
Voices on Economic Stability

Radicals, liberals, and conservatives all agree that inflation and unemployment undermine the well-being of society. They share the same goals of stable prices and full employment. But they are completely opposed to one another's ideas about how to achieve these ends. Should society guarantee everyone a job to stabilize the economy? Should government use its power to change taxes and expenditures, and adjust the money supply to stabilize the economy? Should government get out of the way so that unfettered price signals can stabilize the economy? The extent of the government's involvement in stabilizing the economy changes depending on which political party is in power. Since the Great Depression, Keynesian policies have had a strong influence on the economy. That's why we

described them in detail in the previous section. These are liberal ideas, so to keep it fair, we'll give the conservatives and radicals each an extra paragraph in this section to expand on their ideas.

It's time to put on the masks and hear from each perspec-

tive. As always, please remember that the VOTE Program doesn't take a particular position on this or any other issue. We're just channeling the voices of the perspectives so that you can hear their different points of view and draw your own conclusions. We rotate the order in which the perspectives are presented in each chapter to keep it balanced. For this issue, the radicals will go first.



Radical

Voice on Economic Stability



Economic
Stability

The financial crisis of 2008 wasn't caused by a freak accident, bad luck, or bad timing. We didn't suffer through a recession for years because we were victims of an unexpected event. We were victims of capitalism. The whole debacle can be blamed on that economic system, which prioritized profits over the well-being of people. It forces participants to do the wrong thing—even when they don't want to—because that's how they survive. The obsessive drive for profit led mortgage lenders to prey on the poor and middle class by selling them subprime loans they could never pay back. It drove private banks and investment firms to pad their

mortgage-backed securities with bad loans and then market them as low-risk investments—and it drove ratings agencies to collude. It also drove AIG to sell credit default swaps that it knew it couldn't back. Like good capitalists, everyone took their cut and passed the problem on to someone else. They knew they were building a house of cards. They knew when it collapsed, people would get badly hurt. But they did it anyway, telling themselves it was okay because when it all went sideways, the government would bail them out because they were too big to fail. So the mortgage brokers collected their fees. The realtors pocketed their commissions. The investment managers and big banks raked in obscene profits. Who paid the price? The millions of people who lost their homes, jobs, businesses, and life savings when that rickety house of cards came

down on their heads. Then, to add insult to injury, the government spent their tax dollars to bail out Wall Street and the big banks. Those executives paid themselves end-of-year bonuses while the families they made homeless were living out of their cars. But it would be a mistake to believe that this economic catastrophe was caused by a few bad actors. It was caused by the entire production-for-profit system of capitalism. No one should be fooled into thinking we learned our lesson and the danger is past. Maybe it won't be housing next time. Maybe it will be tech stocks, or pharmaceuticals, or water. If we continue with capitalism as our economic system, we will most certainly have another Great Recession, or worse.

Let's consider the Six-Core Cube of democratic socialism and drill down into the core point of *pro-*

duction for use. We're each given what we need to live up to our potential at every point in our lives, and then we are in a position to produce the things others need to do the same. This is the key to economic stability. In radical theory, economic stability and beneficial products occur in a continuous and magnificent self-reinforcing loop. Imagine you and everyone else are set up from day one with everything you need to thrive. You didn't need to be lucky or privileged to have access to outstanding prenatal care, excellent nutrition, top-notch education, state-of-the-art health care, first-rate housing, and more. All those goods and services were guaranteed to you because you're a human being. They were provided by society because everyone is committed to making people's well-being the top priority. The goods and services society produced enabled you to reach your physical, emotional, and intellectual potential. The beneficial products you have today—safety equipment at work, clean energy, public parks—are setting you up to make your best contributions tomorrow. They determine how long you'll be able to remain in the workforce and the roles you'll serve as an elder in your

family and community. Achieving our potential as a society means everyone has what they need to live up to their individual potential and contribute their best to society. This is what creates the conditions for economic stability. Society bounces back quickly when unexpected events occur because we start from this firm foundation. In times of economic crisis, we double down on our commitment to *production for use* so we're able to weather the storms and come out of them quickly, with no one left behind.

Many years ago, during a downturn in the economy, the company where I worked announced that there would be layoffs. I was filled with dread that whole week. When the list was finally posted, and my name wasn't on it, I felt relieved for me but heartsick for the people who were being laid off. I knew them. They also had bills to pay and families to support, but in a recession, firms weren't hiring. After they left, their empty offices were stark reminders to those of us remaining that any one of us could be next. This scene plays out over and over again in capitalism. With no voice or vote in the workplace, workers are treated like an expendable resource that owners can discard any time it's profitable to do so. Workers end up alienated from their colleagues because they are forced to see them as competitors for raises, bonuses, promotions, or the jobs themselves. The specter of unemployment hangs over everyone's heads, and people have to live with a perpetual sense of dread that they won't be able to pay their bills. In capitalism, there is no built-in mechanism to provide material security to all of us. In democratic socialism, no one has to worry. Acting in their mutual interest, worker-owners make sure that everyone continues to have an income. They use a democratic process to come up with the best, most fair solutions when their firm is in trouble. For example, they might decide to restructure production by converting a sit-down restaurant to takeout only, or moving yoga classes



Figure 20.20
Radical View: Economic Stability

online to save money on studio rentals. They might vote for across-the-board pay cuts, agree to cut back their hours, or donate a certain number of hours to the firm. They might hold a lottery to choose a percentage of worker-owners who will take a leave of absence and temporarily move into public-sector jobs. When the economy recovers, they can return to the firm. Although ups and downs are a fact of life, and no one can control or plan for every unexpected crisis, when the economy goes off track in democratic socialism, it quickly recovers. By taking care of one another, wealth and well-being ripple out to all. Resting on the commitments of democratic socialism, when the economy hits a bump, no one is left behind, and together we get back on the road to prosperity.

I once saw a bee that was trapped in a corner of a screened porch. Frantically trying to find its way back outside, it zoomed up and smashed into the ceiling, dove down and crashed into the floor, ricocheted back up and hit the ceiling, arrowed back down and slammed into the floor. It was painful to watch and reminded me of the suffering we all endure with capitalism's endless cycle of booms and busts. This is how it happens. With a single-minded focus on profit, owners exploit workers. They invest the stolen profits to acquire more capital. The new machines make workers even more productive. Workers don't see a dime of the additional profit because the owners pocket it. They use it to expand and buy out competitors. Then they fire workers and outsource production

We can't plan for
unexpected events or
predict the future, but
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a society.

to bring costs down. Now they rake in the profit, but in capitalism there is never enough. So they manipulate consumers to buy more of their unnecessary and unhelpful products, pushing debt onto individuals. They push the government into debt by getting it to pay for their workers' benefits. Now owners are making obscene profits. The economy booms and prices rise, but workers' wages don't keep up with inflation. They can afford less and less. Capitalism creates a profit crisis of overproduction and under-

consumption. What happens then? The economy smashes into the ceiling and takes a dive. Private owners socialize their losses by demanding government bailouts, sticking taxpayers with the bill. They lay off workers—unemployment soars—and force the rest to accept lower wages. They lobby for deregulation and push individuals and the government into debt. The economy crashes to the floor. Now we have an economic crisis, and conditions for profitability are restored only when workers become desperate enough to accept even lower wages. That signals private owners to start the whole dysfunctional cycle over again. The economy goes from boom to bust to boom to bust, and workers get hurt in both directions. The tragedy of the bee story is that the whole time it was killing itself trying to get out, it was only an inch from freedom. If it had only turned to the left, it would have found its way outside to a garden of flowers. Likewise, to free ourselves from the cycle of despair caused by capitalism, we only need to turn to democratic socialism.

Liberals, when the economy overheats, you tie workers to the tracks and run them over by using the Fed to influence interest rates to go up. Workers are forced to cut back on their spending, demand falls, and they get laid off. You balance the economy on the backs of workers. Congratulations on creating more unmet needs and more unemployment with your Keynesian ideas. Your policies are just as bad in an economic downturn. Bubble-up economics is a complicated rigmarole to boost demand to boost supply to stimulate firms to hire workers to boost the economy. Instead, why not just give people jobs? I'll tell you why. It's because your tax-and-spend policies are not actually meant to help human beings thrive; they are meant to get the exploitation train back on track. When the economy is in a recession, we face soaring rates of unemployment and a tsunami of unmet needs in society. You respond by making concerned noises and attempting to hold it at bay with a few inadequate government assistance programs that stigmatize recipients, require massive government borrowing, and get defunded at the drop of a hat. In an economic downturn, you hand out government stimulus checks that barely meet people's needs because you want to make sure they'll still be des-

perate enough to go back to work for low wages. Then you turn around and give hefty bailouts to the firms that nine out of ten times created the crisis in the first place. That makes as much sense as giving a dog a treat for ruining the carpet. Those firms will crash the economy again because they know they won't pay the price for taking bad risks. Instituting a few new regulations never works. Firms always find ways around them. Remember those banks that were "too big to fail"? Today's banks are even bigger and engage in even sketchier financial shenanigans. Your regulations made no difference. Until you finally face the fact that your fair-market capitalism is, and has always been, a wrong turn for our nation, Keynesian policies will continue to threaten our well-being.

Conservatives, in times of economic stability or instability, you say that we should get government out of the way and then leave the economy alone. Your trickle-down economics is dangerous, and you lie about leaving government out of it. You have a very active government agenda. You use government to cut taxes on the rich and regulations on firms, as well as to constrain the money supply so that it works only for the wealthy. Tax cuts on the private owners of firms don't just cause



more income inequality. They also enable the rich to pay off politicians so that more laws are passed in their favor. Cutting regulations gives firms free rein to exploit workers, ruin the environment, and take even more risks that crash the economy. Here is the kicker: you justify your fawning over the rich—even when they crash the economy—by saying that they are the job creators and that we owe them our thanks and billions of our tax dollars. Trickle-down economics is a sick joke. It's the workers who generate the wealth in this country. They pay the price for your bad policies. Jobless, homeless, bankrupt, hungry masses of people suffer. In capitalism, we have tent cities, long lines at the community food bank, and overwhelming personal and national debt. Your idea that we should all have faith in the free market's ability to keep the economy stable and self-correct if we are thrown into a crisis is preposterous. On top of that, you restrain the money supply by restricting it to the pockets of the rich—those who start their own currencies, those who run the private banks with the Fed in their pockets, and those who are the beneficiaries of each. During times of desperation, you leave people dependent on private philanthropy to get their basic material needs met. What that really means is you leave us at the mercy of the mega-billionaires who got rich by exploiting us. Now they get to decide what kind of education we can have, what kind of health care, food security, and everything else. This is how your free-market capitalism destroys democracy and replaces it with plutocracy—government by the wealthy—where only misery trickles down.

We should replace the current policy of Keynesian economics in capitalism with socialist economics in democratic socialism to ensure stable prices and full employment. Anchored by the six core points, democratic socialism keeps the economy from going too far off track no matter what unexpected events occur, because if there is a wide-

spread drought, a pandemic, or anything else that causes the economy to become unstable, everyone can still meet their basic material needs. That guarantee is the foundation of the economic system. Wealth ripples out to all when everyone is able to contribute their gifts to society. During a downturn, government is the trampoline that keeps people employed through the federal jobs guarantee. These public-sector jobs give people a decent income. That keeps demand relatively steady, which prevents drastic dips in the economy. At the same time, the workers serve real needs in society and help their communities flourish. When the economy recovers, they shift back to their worker-owned firms. Government spending automatically decreases at that point, which keeps inflation in check. Best of all, people are able to continue to contribute to society without interruption, so everyone's quality of life improves. Economic *stability* is inevitable in democratic socialism because everyone is guaranteed an opportunity to participate in the economy and make a decent living. We also use networking hubs to support worker-owned firms to become more resilient during times of economic instability by forging mutually beneficial collaborations. Because of the pressure for good in democratic socialism, firms make decisions that prevent the economy from booming and busting in the first place. It happens naturally, because firms' primary motivation is to make things that bring more well-being to people and the planet. Our money works for us when we have public banking because it is invested in projects that improve our collective well-being. When the economy is knocked off course, public banks are guided by public banking councils to act strategically so communities can recover quickly. We can't plan for unexpected events or predict the future, but democratic socialism quickly returns us to the stability we need so prosperity can ripple out and we can realize our potential as a society.

Radical

Democratic Socialism



Economic
Stability

BIG PICTURE

Resting on the commitments of democratic socialism, when the economy hits a bump, no one is left behind, and together we get back on the road to prosperity.

POLICY POSITION

Inflation and unemployment undermine the well-being of society, but . . .

- ▶ Liberal policies in an economic crisis offer paltry assistance programs that barely scratch the surface of unmet needs, throw us under the bus with high interest rates, and reward firms for doing the wrong thing.
- ▶ Conservative policies exacerbate the booms and busts inherent in capitalism through their ludicrous argument that making the rich richer grows and stabilizes the economy.

SOLUTION

Replace Keynesian economics in capitalism with socialist economics in democratic socialism to ensure stable prices and full employment.

- Government-guaranteed jobs are a basic human right.
- Wealth ripples out to the whole society.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Economic Stability Talking Points: Radical

1. In democratic socialism, it's not luck or privilege that gives each of us access to outstanding housing, excellent nutrition, top-notch education, or state-of-the-art health care. It's our right as human beings. This is the key to a thriving economy. Because we're each given what we need to live up to our potential throughout our lives, we are able to produce the goods and services others need to do the same. Economic stability and beneficial products occur in a continuous and magnificent self-reinforcing loop.
2. Ups and downs are a fact of life, and no one can control or plan for every unexpected crisis, but when the economy goes off track, worker-owners respond by acting in their mutual interest to make sure that everyone continues to have an income. They might vote for across-the-board pay cuts or reduced hours, or some might agree to move to public-sector jobs temporarily. By taking care of one another, wealth and well-being ripple out to all.
3. Liberals, when the economy overheats and the Fed raises interest rates, workers suffer. First, they have to cut their spending, and then they get laid off when demand falls. In a downturn, your government stimulus checks barely meet people's needs. You make sure they are still desperate enough to go back to work for low wages. Stop balancing the economy on the backs of workers. Your stabilization policies are just thinly disguised attempts to get the exploitation train back on track.
4. When liberals give corporate welfare to the firms responsible for crashing the economy, it's like they're giving a dog a treat for ruining the carpet. This guarantees that firms will continue to make terrible decisions that destabilize the economy. They'll just look forward to another government bailout and more end-of-year bonuses for executives. And liberal regulations to rein them in are a joke. Remember those banks that were "too big to fail"? Today's banks are even bigger and engage in even sketchier financial shenanigans.
5. In bad times, conservatives say that we should get government out of the way and then leave the economy alone. Their trickle-down economics is dangerous, and they lie about leaving government out of it. They have a very active government agenda. They use government to cut taxes on the rich and regulations on firms. They constrain the money supply so that it works only for the wealthy. They give the rich free rein to exploit workers, ruin the environment, and take even more risks that crash the economy.
6. During times of desperation, you conservatives leave us dependent on private philanthropy to get our basic material needs met. What that really means is that you leave us at the mercy of the mega-billionaires who got rich by exploiting us. Now they get to decide what kind of education we can have, what kind of health care, food security, and everything else. This is how your free-market capitalism destroys democracy and replaces it with plutocracy—government by the wealthy—where only misery trickles down.
7. During a downturn, the federal jobs guarantee is the trampoline that keeps people employed. Public-sector jobs give people a decent income, and the jobs serve real needs in society. Best of all, people are able to continue to contribute to society without interruption, so everyone's quality of life improves. We also use networking hubs to support worker-owned firms in forging mutually beneficial collaborations so that they make decisions that prevent the economy from booming and busting in the first place.
8. Democratic socialism keeps the economy from going too far off track so that well-being ripples out to the whole society. With public banking, our money works for us because it is invested in projects that improve our collective well-being. When the economy is knocked off course, public banks are guided by public banking councils to act strategically so communities can recover. No one can plan for every unexpected crisis, but democratic socialism quickly returns us to the stability we need.

Liberal

Voice on Economic Stability



Economic
Stability

It's no mystery why the financial crisis of 2008 happened. It wasn't because we had bad luck, or bad timing, or a freak accident. We suffered through years of recession because we didn't have enough government oversight to prevent the risky behavior of banks, investment firms, rating agencies, AIG, Fannie Mae, and Freddie Mac. The Community Reinvestment Act in the 1970s required fair lending practices for people in low- to moderate-income neighborhoods. That was the right thing to do. After the September 11 terrorist attacks, the nation was in a recession, so the Fed influenced interest rates to go down to get the

economy moving again. That was the right thing to do. But in an environment of deregulation, that lower price signal spiraled the economy out of control. When key parts of Glass-Steagall were repealed, banks were allowed to grow too big and take risks with depositors' and investors' money. Then the SEC relaxed the net capital rule, and the effect was like pouring gasoline on a bonfire. Now banks had forty times more money available to lend and invest. They sold millions of subprime mortgages to people who clearly would never be able to afford to pay them back, and then sold bundles of those worthless mortgages to investors with the seal of approval from the rating agencies. The lack of oversight meant firms were not transparent or accountable. In the meantime, lenders preyed on the poor and

middle class because there wasn't enough government oversight. AIG sold empty credit default swaps because they weren't regulated. The housing bubble exploded in our faces, and the value of homes and mortgage-backed securities plummeted. Banks couldn't cover their losses, AIG and the big banks were on the verge of bankruptcy, Fannie and Freddie were left holding all those bad loans, and the whole economy was driven to its knees. While millions of people lost their homes, businesses, jobs, and life savings, those too-big-to-fail banks had to be bailed out to keep even more people from losing their shirts. All this suffering was caused by irresponsible deregulation. Then what happened? Government intervention got us back on track. People don't always act rationally, firms don't always act responsibly,

and unexpected events can't be predicted. Luckily, government in fair-market capitalism makes impartial and wise decisions and acts on our behalf. It uses sensible regulations to keep all the players in capitalism transparent with accountability, ensuring that we have a stable, equitable economy that works for everyone. Without a government partner watching our backs with strong regulations, then without a doubt we will experience another Great Recession—or worse.

Let's consider the aggregate supply–aggregate demand (AS–AD) graph in figure 20.21 in a downturn. When the economy is sailing along and we're at potential GDP, it's sunny skies ahead. Then something unexpected happens, and we find ourselves in a recessionary gap. People stop spending because they are afraid of the future. Firms cut back and lay off workers. Now the snowball starts to roll down the hill. There is even less demand, prices fall, and everyone watches with dread as more businesses fail and unemployment soars. Luckily, the government steps in and averts disaster with expansionary fiscal policy and loose monetary policy. It turns the economy

around by lowering taxes on the poor and middle class and increasing government spending on assistance programs, infrastructure projects, job training programs, and more. At the same time, the Fed sets a lower target for interest rates and increases the money supply. These policies act like a triple espresso in the bloodstream of the economy. The middle class and poor immediately start spending, now that they have money in their pockets. Aggregate demand shifts to the right and we're back to full employment (shown in blue in figure 20.21). Although not shown in figure 20.21, government also saves the day when the economy is overheated. When people become overly optimistic and spend exuberantly, firms expand, and prices unexpectedly shoot up. The government uses contractionary fiscal policy and tight monetary policy to manage inflation. These act like a cup of hot chamomile tea to calm the economy down. The government could cut spending and even raise taxes on the middle class and poor to cool off the economy, but it sensibly leaves it to the appointed Federal Reserve Board of Governors to set a higher target for interest rates and decrease the money supply. This causes firms to pull back on investment spending. Aggregate demand shifts to the left, bringing the economy back to potential. Capitalism is by far the best economic system for creating prosperity when it is managed by a democratically elected government. Either way the economy tilts, fair-market capitalism guides us back to stability.

In my college days, I drove an old used car that could accurately be compared to a tin can. The engine rasped more than it purred. If it had shock absorbers, I couldn't tell. One winter, I was driving it on a six-lane highway in the middle of a blinding snowstorm. I gripped the steering wheel with both hands and tried not to panic as the high winds tried to blow my little car into the next lane. Suddenly, I hit a patch of ice and lost control. The car spun out, and it was like a scene from a movie: time

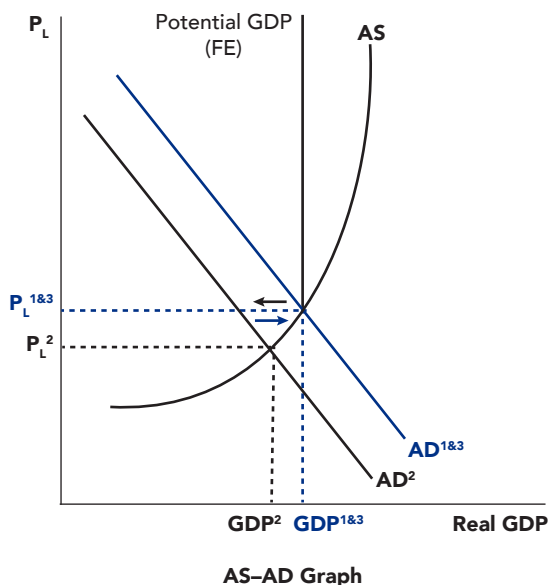


Figure 20.21
Liberal View: Economic Stability

slowed, and I was hyper-aware of my breathing and my furiously racing heart. I was paralyzed with fear, and then instinct kicked in, and I started to slam on the brake and cut the wheel in the opposite direction of the spin. But then I heard my driving instructor's voice in my head, saying, "Always turn into a skid and give it gas." So that's what I did. To my great relief, it worked. I quickly regained control of the car and was able to safely pull over. After my

heartbeat returned to normal, I got back on the road. This is a perfect analogy to how our government gets us safely back on the road when the economy is spinning out of control. In a downturn, it gives it gas by pumping more money into the pockets of the poor and middle class. Once they start spending, demand picks up, firms start hiring, and wealth abounds. Crisis averted. In an overheated economy, the government responsibly taps the brakes and slows it down so that people don't get hurt. Storms are inevitable, no matter how carefully we try to anticipate and prevent them. But in fair-market capitalism, we don't have to worry about getting left in a ditch or flying off a mountainside. Our government is ready and able to take the wheel. Strategically using the helpful hand of government, we act responsibly to prevent crises and recover quickly from unexpected events to get the economy safely back on the road.

Conservatives, your policies never work to bring the economy out of a downturn because they only make the rich richer while they squeeze the middle class and abandon the poor. Your trickle-down approach runs dry long before wealth ever reaches anyone but the wealthy because it's based

We can't plan for
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on flawed logic. Demand creates supply, not the other way around. The rich aren't the drivers of the economy; it's the poor and middle class whose demand drives our economy. How many dishwashers, cell phones, airline tickets, haircuts, or video games can the rich buy? It's poor and middle-class consumers whose spending signals firms to start producing. When the economy is in crisis, you twiddle your thumbs and wait for the invisible hand

to fix it. In the meantime, recessions snowball into depressions, and inflation balloons into hyperinflation. When you cut assistance programs for the unemployed, hungry, and homeless, and give the wealthy big tax cuts and constrain the money supply, it's like you purposely leave the life preserver on deck while people are falling overboard. As they sink, you advise them to toughen up while blaming them for not making better choices. Your supply-side policies make economic crises worse. People need assistance to be able to be productive and contribute to society. We all lose when people can't get a foot in the door or don't have the basic material well-being to show up for work ready to do their best. Because you have an irrational dislike of government, you actually cause crises in the first place. You repeal perfectly sensible and helpful regulations, so firms have no accountability. Their reckless behavior leads to speculation and business practices that hurt society. Thanks to your irresponsible policies, we end up with firms that are too big to fail. The economy careens from booms to busts, and the nation is prevented from reaching its potential. Then, in a dizzying turnaround, you corner the government

into cleaning up your mess. It is forced to bail out those too-big-to-fail firms to keep the economy from descending into a depression. Then you have the nerve to blame government, denying any responsibility for the economic catastrophe your *laissez-faire* policies caused. You loudly complain about the next sensible regulations, and the whole nauseating cycle starts again.

Radicals, you blame capitalism for economic catastrophes like the Great Recession, but historically, socialist economics has failed every time it has been used to regulate the economy and provide people with opportunities to create wealth. Without private property and the profit motive, your entire system can never ripple out prosperity to the masses. Instead, motivation to be productive fizzles out. Networking hubs are another one of your reckless ideas. The notion that firms in democratic socialism happily disregard the need to compete to make a profit and instead help their competitors succeed is foolish. Firms can't survive without turning a profit, and only healthy competition can ensure the

correct market share allocation. No amount of wishful thinking changes those facts. Please get over your allergy to profit and healthy competition. Both are essential proteins for the economy. Your fiscal policy to guarantee everyone a public-sector job, whether there is a downturn or not, is overkill. In times of crisis, it makes sense, but when the economy is on an even keel or overheating, this socialist program creates a permanent drag on the economy. Everyone is stuck paying astronomically high taxes to keep the costly program funded. Entrepreneurs are demotivated by sky-high taxes, so they don't launch new firms, which means no new worker-ownership opportunities. Government ends up driving existing firms out of business as it moves into more areas of production—which it must do so it can keep its legions of jobs-guaranteed employees working. But unlike those firms it competes with, the government doesn't have to be concerned about profitability. As businesses fail, more people flock to the public sector, and the cycle snowballs. Government ends up



being everyone's employer, on top of supplying health care, housing, and all the other social safeguards. Instead of being a trusted equal partner, government controls our lives. As for your monetary policy, public banks are run by community councils made up of a few experts and a lot of other "stakeholders" who have no idea what they're doing. Bad decisions are inevitable because there's no hierarchy. Experts are outvoted and it's mob rule. Public banks impulsively flood the economy with too much money during downturns, and they don't pull back when we overheat. The end result is a monetary system that implodes. Nothing but misery ripples out from democratic socialism.

We should strengthen the current policy of Keynesian economics to ensure stable prices and full employment. If you witness an accident where someone is badly injured, you use every tool at your disposal to staunch the bleeding and save a life. In the same way, when our economy is in crisis, the government uses its tools of taxes and expenditures along with a flexible money supply to alleviate people's suffering and bring us back to full employment. Even if the economy self-corrects in the long run, as Keynes so famously said, we're all dead in the long run. If we can do something to alleviate suffering now, we should. It's common sense that the most effective stabilization policies expand government's commitment to put money in or pull money out of the wal-

lets of society's principal demanders. Consumer demand creates the motivation for firms to supply and hire workers, and therefore consumers are the real job creators. Because the poor and the middle class fuel demand, wealth bubbles up from them to the rest of society. In every case, we benefit from having a nimble government that acts on our behalf when the unexpected occurs. In a downturn, government intervention boosts demand in several ways. It can increase government spending on jobs programs and unemployment benefits. It can issue stimulus checks and cut income taxes on the middle class and poor. The Fed can set a lower target for interest rates and increase the money supply. All these actions heat up the economy. If it gets too hot, the government can cut spending and raise taxes, while the Fed can set a higher target for interest rates and decrease the money supply. These actions cool off the economy. Whichever way it tips, government acts wisely to bring it back into balance. Fair-market capitalism creates economic stability while making sure we have equity and transparency with accountability. We can all sleep well at night knowing government is acting in our best interests. We can't plan for unexpected events or predict the future, but fair-market capitalism creates the stability we need for prosperity to bubble up and enables us to realize our potential as a society.

Liberal

Fair-Market Capitalism



Economic
Stability

BIG PICTURE

Strategically using the helpful hand of government, we act responsibly to prevent crises and recover quickly from unexpected events to get the economy safely back on the road.

POLICY POSITION

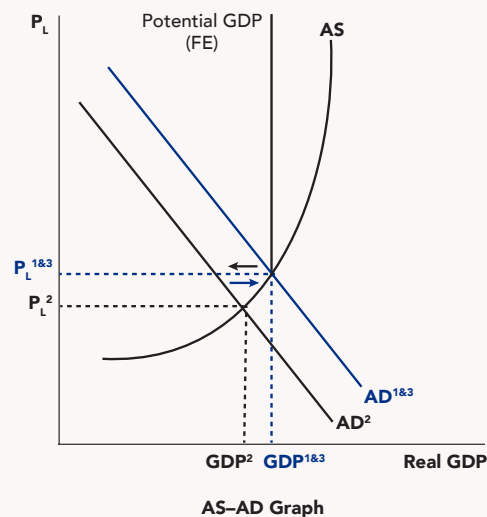
Inflation and unemployment undermine the well-being of society, but . . .

- ▶ Conservative policies create instability by rejecting sensible regulations, and in a crisis they worsen the swings with giveaways to the wealthy while the rest of us are left to struggle on our own.
- ▶ Radical policies create overdependence on the government, drive up taxes, kill motivation, and leave amateurs in charge of monetary decisions.

SOLUTION

Strengthen Keynesian economics to ensure stable prices and full employment:

- Expand government's role during times of crisis.
- Wealth bubbles up from the poor and middle class.



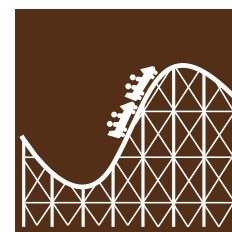
- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Economic Stability Talking Points: Liberal

1. People don't always act rationally, firms don't always act responsibly, and unexpected events can't be predicted. Luckily, government in fair-market capitalism makes impartial and wise decisions and acts on our behalf. With sensible regulations, it keeps all the players in capitalism transparent with accountability, ensuring that we have a stable, equitable economy that works for everyone. When the economy spins out of control, the government alleviates the immediate suffering and guides us to safety.
2. Capitalism is by far the best economic system for creating prosperity, but only when it is managed by a democratically elected government. During times of economic busts, government is prepared to take the wheel. It pumps more money into the pockets of the poor and the middle class. Once they start spending, demand picks up, firms start hiring, and wealth bubbles up. Crisis averted. During booms, it responsibly taps the brakes in an overheated economy and slows us down so that people don't get hurt.
3. Conservatives, your tax cuts on the rich, cuts to government assistance programs, and shrinking money supply only make the rich richer while squeezing the middle class and abandoning the poor. Your trickle-down approach runs dry long before wealth ever reaches the middle class or poor. The rich aren't the drivers of the economy; it's the poor and middle class whose demand drives our economy and motivates firms to produce. Demand creates supply, not the other way around.
4. Because conservatives have an irrational dislike of government, they actually cause crises. They repeal perfectly sensible and helpful regulations. Firms have no accountability, and their reckless behaviors lead to speculation and business practices that hurt society. Then they corner the government into cleaning up their messes. Thanks to free-market capitalism's irresponsible policies, we get firms that are too big to fail. The economy careens from booms to busts, and the nation is prevented from reaching its potential.
5. Radicals, in times of crisis, it makes sense to give people public-sector jobs, but when the economy is on an even keel or overheating, your federal jobs guarantee requires astronomically high taxes that demotivate entrepreneurs. Government must keep its legions of jobs-guaranteed employees working, but unlike firms, it doesn't have to be profitable, so it drives existing firms under and becomes everyone's employer. Instead of being a trusted partner, government now controls every aspect of our lives.
6. Radical public banks are run by community councils made up of stakeholders who have no idea what they're doing. Bad decisions are inevitable because the experts are outvoted. Then public banks impulsively flood the economy with too much money during downturns, and they fail to pull back when the economy overheats. Without a reasonable hierarchical process to make sound financial decisions, the monetary system is destined to implode. Nothing but misery ripples out from democratic socialism.
7. We benefit from having a nimble government that acts wisely when the unexpected occurs. To heat up the economy, it increases spending on jobs programs and unemployment benefits and cuts income taxes on the middle class and poor. At the same time, the Fed sets a lower target for interest rates and increases the money supply. To cool off the economy, it does the opposite. Whichever way the economy tips, government brings it back into balance. This means we can all sleep well at night.
8. An economic crisis might self-correct in the long run, but as Keynes said, we're all dead in the long run. If we can do something now to alleviate suffering, we should. Stabilization policies put money in or pull money out of the wallets of society's principal demanders. Consumer demand motivates firms to supply and hire workers, and therefore consumers are the real job creators. Because the poor and middle class fuel demand, wealth bubbles up from them to the rest of society.

Conservative

Voice on Economic Stability



Economic
Stability

The financial crisis of 2008 wasn't caused by bad timing, a freak accident, or bad luck. It was caused by the government. It set the stage in 1977, when it passed the Community Reinvestment Act, which forced banks to make loans to people who couldn't afford to pay them back. There was a reason banks weren't making subprime loans before that. They were unprofitable. After we were hit with the terrorist attacks of September 11, the economy took a nosedive. It would have righted itself if we'd left it alone, but once again, government interfered. Instead of letting the invisible hand of price signals bring the economy back to potential, the Fed manipulated interest rates. That's when bad met worse. We

had banks with a directive to make unprofitable loans, combined with artificially low interest rates. It was like the government was setting off flares in the housing market and shouting, "Over here!" People rushed to sign up for subprime loans, which started the housing bubble. But those eager home buyers didn't realize they'd been lured to the edge of a cliff. You don't need a crystal ball to know that booms fueled by false price signals are destined to bust. We were diverting resources to their wrong uses when they flooded into housing instead of other parts of the economy where they should have gone. Tragedy ensued. When interest rates readjusted upward, borrowers defaulted on their loans, foreclosures followed, banks failed, mortgage-backed securi-

ties lost their value, investment firms failed, AIG failed, unemployment soared, and tens of millions of people fell off the cliff. Did government learn its lesson? No. It interfered again—this time by giving bailouts to Wall Street, automakers, AIG, and others. It manipulated the money supply, spent more taxpayer money on costly programs, and enacted more burdensome regulations that made it harder for the economy to recover. The story never ends well when government gets involved. We get dragged to the edge of that cliff and pushed off every time. The real tragedy is that all this suffering is completely unnecessary. The recession after 9/11 would have ended if we'd just left the economy alone. Until we put an end to activist government once and for all, we

are doomed to experience another Great Recession—or worse.

Let's consider the aggregate supply–aggregate demand (AS–AD) graph in figure 20.22. If something unexpected happens, we don't have to do anything. In a world of unfettered price signals, capitalism self-corrects and returns to full employment GDP on its own. But this can't happen if government interferes by imposing regulations and burdensome taxes on firms and individuals. Government creates an unprofitable environment, making firms less willing to supply, and the AS curve shifts to the left. That's how government causes economic instability. Firms lay off workers, and at the same time prices skyrocket. We have stagflation, which is a nightmare scenario for society. Now, since government caused the crisis, we have to first use government to prevent further government interference so that free markets will be free to self-correct. So we eliminate regulations and cut taxes on corporations and individuals. This increases profitability. Second, we leave it alone. Of course we always want a business-friendly environment for firms.

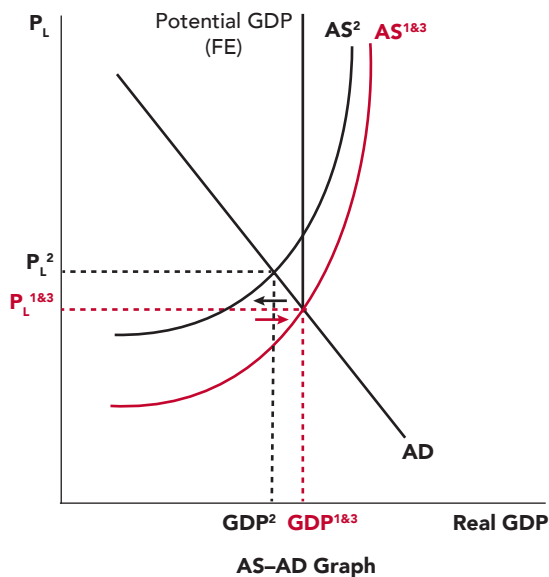


Figure 20.22
Conservative View: Economic Stability

They create the jobs that keep society prosperous. Firms respond to increased profitability by supplying more, which shifts aggregate supply back to potential (AS^1). We also use government to end government interference by stopping the Federal Reserve from targeting a range for interest rates and manipulating the money supply, both of which send the wrong price signals. Although not shown in figure 20.22, this creates chaotic and unnecessary shifts in aggregate demand, which cause price levels to change and sends the wrong signals to suppliers and demanders. All we need to do to stay at potential GDP is to leave aggregate demand alone (AD^1) and let accurate price signals direct the actions of individuals and firms. No matter where the economy is at present and no matter what causes an economic crisis, our approach is the same: we get government out of the way and leave it to the invisible hand to create the right conditions for capitalism to stabilize itself. Then we all flourish. As Say's law rightly tells us, supply creates its own demand. You can't do much demanding if you don't have a job.

When I was in graduate school, something happened to me that was just like a scene from the movie *Five Easy Pieces*. I tried to order a tuna sandwich, and the server said, “We don't serve tuna sandwiches.” I pointed to the menu. “I'll order the tuna melt, then. Just leave off the cheese, please, and don't grill it.” He shook his head. “Sorry. We only serve what's on the menu.” I said, “I understand that, but look here—” I pointed to the menu again. “A tuna melt *is* on the menu. Just leave off the cheese and don't grill it.” He said, “I'm not allowed. It's against the rules.” I left the restaurant, went home, and made myself a sandwich. This is a small example of what happens to firms every day when government is in charge. It imposes equally ridiculous and nonsensical rules that drive up costs and frustrate firms, causing them to be less willing to produce the goods and services we want and need. Regulations only keep the

bureaucrats employed—and at the taxpayer's expense. Firms respond to this untenable situation by hiring lobbyists to persuade legislators to get rid of their absurd policies, but please don't blame them for crony capitalism. Of course they would rather not spend millions of dollars influencing politicians. They are forced to do it just so they can stay in business. The beauty of free-market capitalism is that we get the government out of the way. When

we leave firms alone to be guided by unfettered price signals, they bring us not only the products we want and need but also the jobs that society desperately needs to flourish. Wealth trickles down from the job creators. We untie their hands so they can bring us the material well-being that free-market capitalism promises. We don't have to worry about economic surges and crashes in an economy guided by free-market price signals. No one controls them or manipulates them, so they are always fair and impartial, working equally for the benefit of all. Relying on price signals and a restricted role for government, we ride out the storms and let the economy get itself back on track so that the nation can continue to prosper.

Before an airplane takes off, the flight attendants review the safety procedures. They say, "In the event that the cabin loses pressure, an oxygen mask will drop down. Put your mask on first before helping someone else put on their mask." That makes sense. Obviously, you'll be no use to anyone if you pass out from oxygen deprivation. When the economy is in trouble, we use the same logic to make sure the entrepreneurs put their masks on first because they are the ones

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who keep the economy thriving. If they fail, so do we. Their oxygen is profit. If they aren't profitable, they can't provide jobs and incomes for people, or make the products that society wants and needs. We should all be thankful to them because they take risks, work seven days a week, and dream big to create products that change our lives and start firms that provide us with livelihoods. That's why we make sure they put on

their masks first when the economy starts to take a dive or soars too high—so they can then help the rest of us. There may be some short-term pain for everyone else, but that is solved by the long-term outcome of a strong economy. When the economy is in trouble, the wrong move is to focus our resources on demanders. When was the last time a poor person gave you a job? Putting more money in their pockets without more production only leads to more turbulence in the economy—more dollars chasing fewer products, which is a recipe for inflation. Both workers and entrepreneurs are crucial to the economy, but there's no work for workers without firms to hire them. When we take care of the job creators, then we know we're all going to be okay. Crisis averted. We're back on course.

Radicals, you won't stabilize the economy by having government act as everyone's employer of last resort. Your federal jobs guarantee is designed as a backup to keep unemployment numbers down, but it quickly becomes everyone's first-choice employer. Why? Because even though a worker does a terrible job, makes something no one wants, and rarely shows up for work, it

doesn't matter. They still collect their paycheck at the end of the week. Democratic socialism is a welfare state on steroids, and it's destined to fail. You give people make-work jobs that cost society a pretty penny. When jobs go through private markets, the wages for those positions reflect their value to society. But when jobs are handed out like Halloween candy, you can't know if society actually needs those jobs to be done. When government takes over, it interferes with price signals, so you're stumbling around in the dark. This is the core problem with democratic socialism. A community council in a room somewhere decides what products will be produced and what jobs people will have. It's tyranny of the masses because those council members each represent their special interests. Even if there were a grownup in the room to make the tough and impartial decisions, your system still wouldn't work because you radicals interfere with the invisible hand. If a few of those products or jobs turn out be helpful, it's just dumb luck. Even a broken clock is correct twice a day. Democratic socialism creates chaotic ups and downs. Entrepreneurs are unwilling to take

risks. They settle for safe government jobs instead of starting new businesses or inventing the next amazing products. Everyone's standard of living drops as tax revenue dwindles, making it impossible to fund the federal jobs guarantee or any of your pie-in-the-sky social safeguards. The only way out of this predicament is to print money. You'll churn it out night and day—creating inflation in the process—because community councils in charge of public banking will clamor for more cash for their communities. With so much power in the hands of a few, corruption is inevitable. That leads to even more economic instability. Radicals, your ripple-out approach may have started with good intentions, but those ripples don't go anywhere. They slam into a wall of apathy. Your economy doesn't have booms or busts in the traditional sense; it has a chronic state of bust with ever-inflating prices.

Liberals, the bubbles from your bubble-up approach are the last sign of a drowning economy. Keynesian policy is shorthand for “tax more, spend more, and regulate more,” and long-hand for “pain.” When your misguided attempts



to turn the economy around inevitably fail, we end up with a toxic combination of unemployment and inflation. Then you try to clean up the mess by mucking around with the money supply. When the economy overheats, you close the wallet and cause unemployment. When we slide into a downturn, you throw money around like it's confetti on New Year's Eve, and we end up with inflation. How can you possibly believe that printing money could ever be a solution? No one is producing anything. Every time you liberals interfere, you make things worse. Firms can't be profitable when you raise their taxes and impose arbitrary and costly rules, and on top of that, your Fed messes with interest rates, which gives firms the wrong signals and incentives to invest. You force them to make business decisions in a fog of government interference. You're like a teacher with a class full of brilliant students. You hand out the midterm exam and announce a new rule: all students may use only their non-dominant hand to fill in the answers. No surprise, they struggle to complete the test because you've made it unnecessarily difficult. Then you blame them for their terrible scores and decide the solution is to take away their pencils altogether and give the test again. Now your students throw up their hands in disgust and drop the class, and then you scratch your head and wonder what's wrong with the education system. Similarly, you set businesses up for failure. You make the same wrong moves over and over again and expect a different outcome. Instead of just leaving it alone and letting capitalism's built-in mechanism self-correct to avoid unnecessary peaks and troughs, you jam up the works and make it impossible to function as it should.

We should reject the current policy of Keynesian economics and replace it with supply-side economics to ensure stable prices and full employ-

ment. If you're swimming in the ocean and you get caught in a riptide, the more you flail around, the more the currents pull you under. Instead of fighting it, relax, take a deep breath, and let yourself be carried on the tide back to safety. This is the same advice we should take when the economy hits a rough patch. Whether the problem is human caused or a natural occurrence, we trust free-market capitalism to bring us safely back to potential. But this only happens when we actively remove government interference. So we eliminate high taxes, regulations, interference with interest rates, and a manipulated money supply, and then the economy stabilizes itself. Then we leave it alone, and we don't have to worry about economic instability. It will always correct itself. When the government no longer siphons off our hard-earned income and profits with high taxes, we have the freedom to practice generosity. Philanthropy enables us to express our values and take care of our communities as we choose. When an unexpected event shakes the economy, during the short time that it takes to self-correct, charitable giving is the bridge that helps people continue to thrive. As for the money supply, we constrain it so that prices accurately reflect the value of resources and the desirability of products. We do this by either going back to the gold standard, setting a steady-state growth rate and leaving it alone, or allowing firms to compete with the government by issuing their own currencies. Free-market solutions propel us to prosperity, and government serves us well because it is limited to its three necessary functions: to secure our property rights, to ensure our national defense, and to build the infrastructure that makes commerce possible. We can't plan for unexpected events or predict the future, but free-market capitalism creates the stability we need for prosperity to trickle down and enables us to realize our potential as a society.

Conservative

Free-Market Capitalism



Economic
Stability

BIG PICTURE

Relying on price signals and a restricted role for government, we ride out the storms and let the economy get itself back on track so that the nation can continue to prosper.

POLICY POSITION

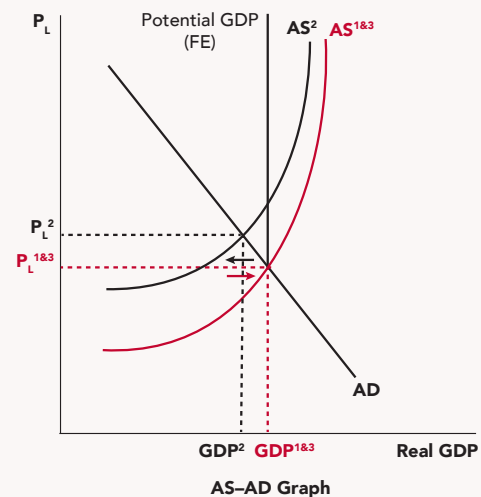
Inflation and unemployment undermine the well-being of society, but . . .

- ▶ Radical policies guarantee tyranny of the masses, a government with too much power, community councils that make the worst decisions, and an economy in a constant state of bust.
- ▶ Liberal policies punish job creators with high taxes and costly regulations, manipulate the money supply, and send the wrong price signals, making it impossible for the economy to find a stable footing.

SOLUTION

Reject Keynesian economics and replace it with supply-side economics to ensure stable prices and full employment:

- Use government to get rid of government.
- Wealth trickles down from the job creators.



- Talking Points Rules:**
- Say these aloud to someone else.
 - Say them with conviction and passion, even if you disagree.
 - Please avoid mockery and sarcasm.

Economic Stability Talking Points: **Conservative**

1. Free-market capitalism self-adjusts to bring about a stable economy. No matter where the economy is on the business cycle, and no matter what causes an economic crisis, we don't have to worry about economic surges and crashes because the economy is always guided by price signals. They are always fair and impartial—no one controls them—and they work equally for the benefit of all by bringing us the products and jobs that form the foundation of a good life.
2. We liberate businesses to bring us the material well-being that free-market capitalism promises. Wealth trickles down, and we all flourish. It makes logical sense that supply creates demand. After all, you can't do much demanding if you don't have a job. The system works, but first we have to get government out of the way. Then we can create the right conditions for firms to be profitable. The foundation of a stable economy is a business-friendly environment.
3. Radicals, your federal jobs guarantee might be designed as a backup to keep unemployment numbers down, but it quickly becomes everyone's first-choice employer. Why? Because even if a worker does a terrible job, makes something no one wants, and barely shows up for work, it doesn't matter. They still collect their paycheck at the end of the week. Your ripple-out approach may have started with good intentions, but those ripples don't go anywhere; they slam into a wall of apathy.
4. The core problem with democratic socialism is that when government takes over, it interferes with price signals and we're left stumbling around in the dark. A community council in a room somewhere decides what products will be produced, what jobs people will have, and what the money supply should be. If a few of their decisions turn out to be helpful, it's just dumb luck. Even a broken clock is correct twice a day. And with so much power in the hands of a few, corruption is inevitable.
5. Liberals, the bubbles from your bubble-up approach are the last sign of a drowning economy. Keynesian policy is shorthand for "tax more, spend more, and regulate more," and longhand for "pain." You foolishly raise taxes on job creators and impose arbitrary and costly regulations. When those misguided attempts to turn the economy around inevitably fail, we end up with a toxic combination of unemployment and inflation. It's as if you go out of your way to make it impossible for the economy to get back on its feet.
6. When the economy is in crisis, liberals muck around with the money supply. When it overheats, they close their wallets and cause unemployment. When it's in a downturn, they throw money around like it's confetti on New Year's Eve, and we end up with inflation. How can they possibly believe that printing money could ever be a solution, when no one is producing anything? Every time liberals interfere, whether it's with the money supply or taxes or regulating the way firms do business, they make things worse.
7. If you're caught in a rip tide, instead of fighting the current, let yourself be carried back to safety. This is also what we do when the economy hits a rough patch. Whether the crisis is human-caused or a natural occurrence, trust free-market capitalism to bring us safely back to potential. But this only happens when we actively remove government interference by cutting taxes and regulations, and by constraining the money supply. Then wealth trickles down, and the invisible hand carries us back to potential.
8. When unexpected events affect the economy, in the short time that it takes free-market capitalism to self-correct, charitable giving is the bridge that helps people continue to thrive. Philanthropy enables us to express our values and take care of our communities as we choose, and we have more money to give because it's not siphoned off in taxes. Government serves us well when limited to three functions: to secure our property rights, to ensure our national defense, and to build the infrastructure that makes commerce possible.

The Shared Outcome

We never know when an unexpected event will send the economy into a crisis. All three perspectives share the same goal of full employment and stable prices because history has shown the devastation caused by recessions, depressions, periods of stagflation, and overheated economies. No one wants a repeat of those disasters. The stakes are too high. I hope that you never experience it firsthand, but—at the risk of sounding fatalistic—

you likely will and already have. You'll be asked to vote at the ballot box, and in debates with friends, family, and at work on the policies you believe can bring us back to potential. By understanding the solutions proposed by liberals, conservatives, and radicals, you can add your respectful listening, passionate advocacy, and intelligent debate to the conversation. Maybe—hopefully!—you will be the one to find new solutions that save us from future pain and suffering. ▣



Three-in-One Activity

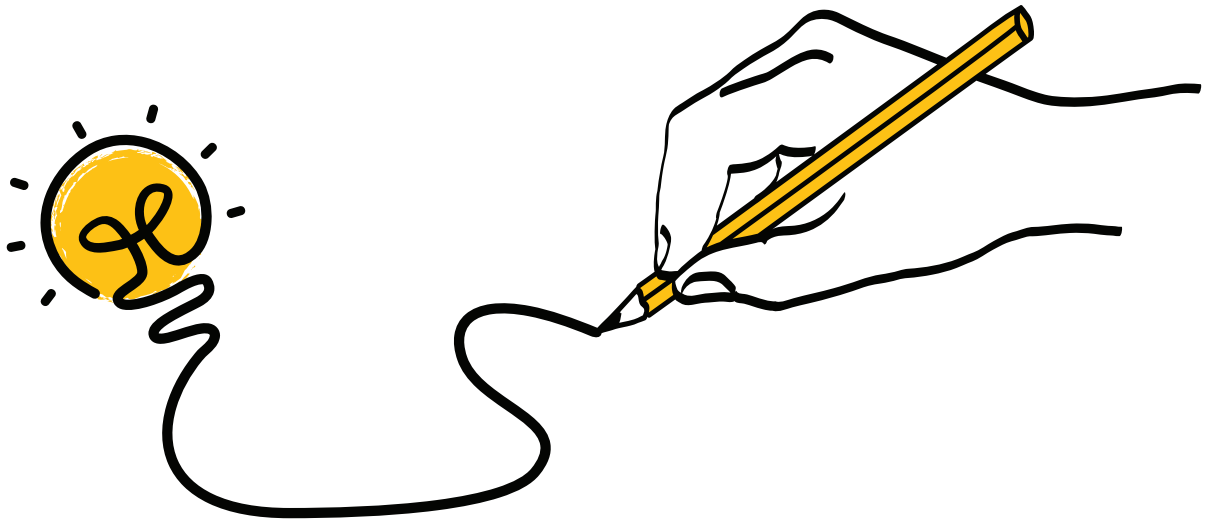
The Three-in-One Activity for Economic Stability gives you an opportunity to understand this issue from the inside by experiencing how each perspective's policies directly affect your life, your community, and the world. You can do this activity on your own or in a group. This is my favorite three-in-one in the VOTE program. I hope you'll find it as exciting as I do!



“Are You the Next Great Economic Thinker?”

In every century since the 1700s, great economic thinkers have made significant contributions to our understanding of how economic systems create prosperity. We had Adam Smith in 1776, Karl Marx in 1867, and John Maynard Keynes in 1936. It's no surprise that these notable thinkers from the past were all white European men, because during their eras, it was mostly white men who had the privilege of education. They were the only group in European society that had a voice and a vote. They were the policymakers, scholars, journalists, publishers, artists, novelists, business owners, and land owners, while men and women of color as well as white women were typically prevented from joining those professions and contributing their gifts. This situation was repeated in societies throughout the world, where certain groups have not been encouraged or allowed to participate in the important conversations.

It has taken time, but progress has been made in breaking down barriers so that today the field is wide open for people from all groups and all walks of life to contribute their unique talents to society. This is great news, because our country and our world face enormous challenges. We need everyone's genius to find the next brilliant economic solutions. This activity is meant to spark your creative thinking about new solutions to our urgent economic problems. We are in the twenty-first century now, and we're ready for the next great economic thinkers. One of them could be you!



Round I: Neutral

In Exercise 20.1, in the first section of this chapter, you were asked to come up with three ideas to solve the problem of unemployment. Please find those answers now.

- 1 Use the table below.
- 2 In the first column, write your three original ideas.
- 3 Now that you have read this chapter, have your ideas changed? If so, write your new ideas in the second column. If there is no change, write "No change." (We'll get to the third column later.)

Are You the Next Great Economic Thinker?

Your Ideas	Changes to Your Ideas?	R/L/C Perspective or New?
1.		
2.		
3.		

Your Signature and Today's Date

Round II: Radical

For this round, you are a radical. Read the nine ideas below for solving unemployment and then answer the following questions:

- Which three ideas represent the radical perspective? Underline the correct answers using the color green.
- How do those ideas solve unemployment in democratic socialism?

COLOR THE PERSPECTIVES!

Radical

Liberal

Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

Support worker-owned firms

Public banking

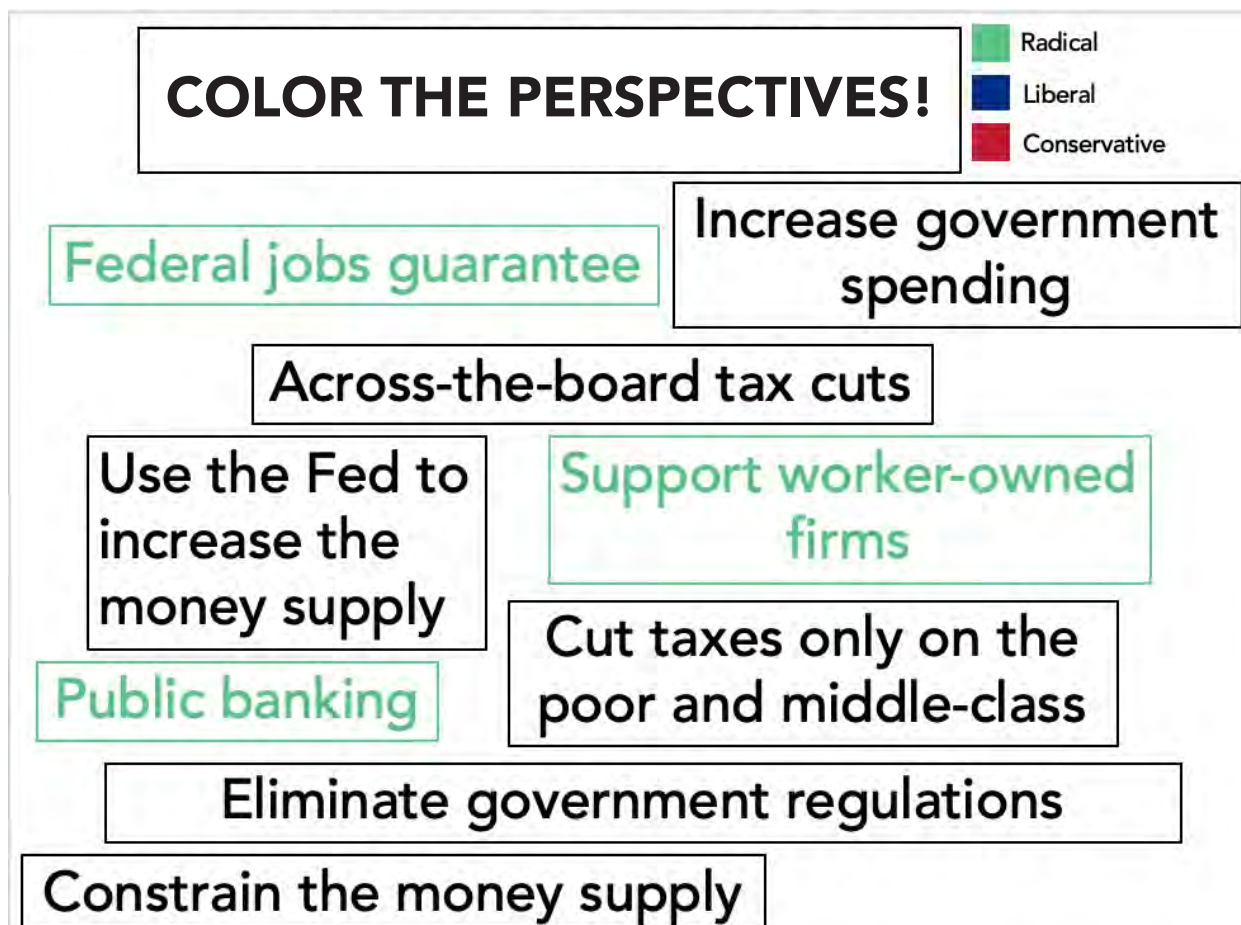
Cut taxes only on the poor and middle-class

Eliminate government regulations

Constrain the money supply

Answers:

a.



- b. Jobs are guaranteed as a human right for all, so there is no unemployment. In a downturn, the radical **federal jobs guarantee** enables people to switch from the private sector to the public sector. Because workers have uninterrupted income, demand stays level, and the economy bounces back. At that point, workers return to their private-sector jobs. **Public banks** infuse tax money into communities by making low-interest loans to worker-owned firms, enabling them to expand and bring on new worker-owners. Society also **supports worker-owned firms** with networking hubs, which make firms more resilient during economic crises, resulting in no lost jobs. This is how radicals eliminate unemployment in democratic socialism.



Round III: Liberal

For this round, you are a liberal. Read the nine ideas below for solving unemployment and then answer the following questions:

- Which three ideas represent the liberal perspective? Underline the correct answers using the color blue.
- How do those ideas solve unemployment in fair-market capitalism?

COLOR THE PERSPECTIVES!

Radical
 Liberal
 Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

Support worker-owned firms

Public banking

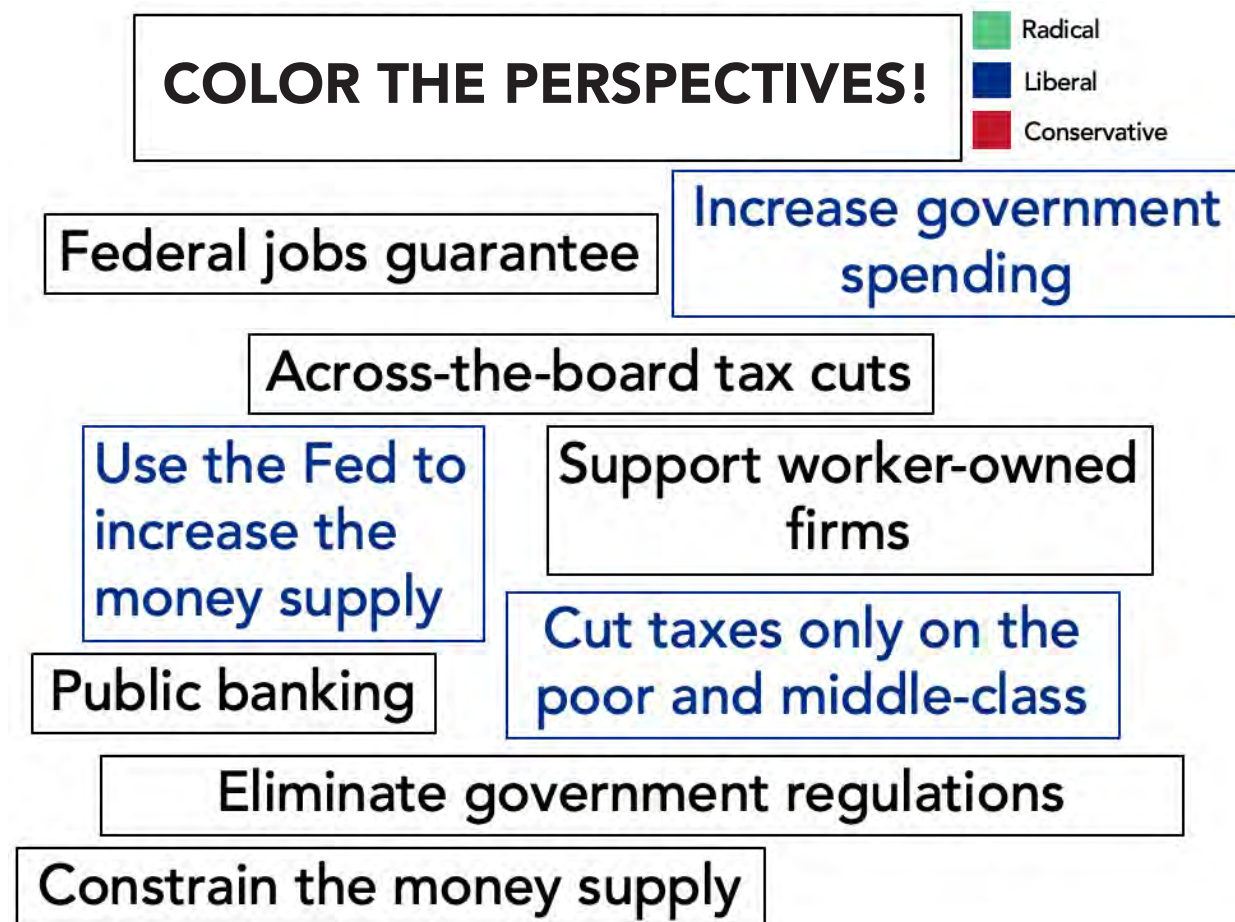
Cut taxes only on the poor and middle-class

Eliminate government regulations

Constrain the money supply

Answers:

a.



- b. In a downturn, when unemployment is high, liberals **use the Fed to increase the money supply** to accommodate lower interest rates, which increases investment in businesses and new homes. This gives suppliers the incentive to expand production and hire more workers. **Government increases spending** on jobs and assistance programs, and it **cuts taxes on the poor and the middle class**, both of which put money in their pockets. They have immediate needs, so they go out and spend it right away. A boost in demand signals firms to supply, and they hire more workers. This is how liberals eliminate unemployment in fair-market capitalism.



Round IV: Conservative

For this round, you are a conservative. Read the nine ideas below for solving unemployment and then answer the following questions:

- Which three ideas represent the conservative perspective? Underline the correct answers using the color red.
- How do those ideas solve unemployment in free-market capitalism?

COLOR THE PERSPECTIVES!

Radical
 Liberal
 Conservative

Federal jobs guarantee

Increase government spending

Across-the-board tax cuts

Use the Fed to increase the money supply

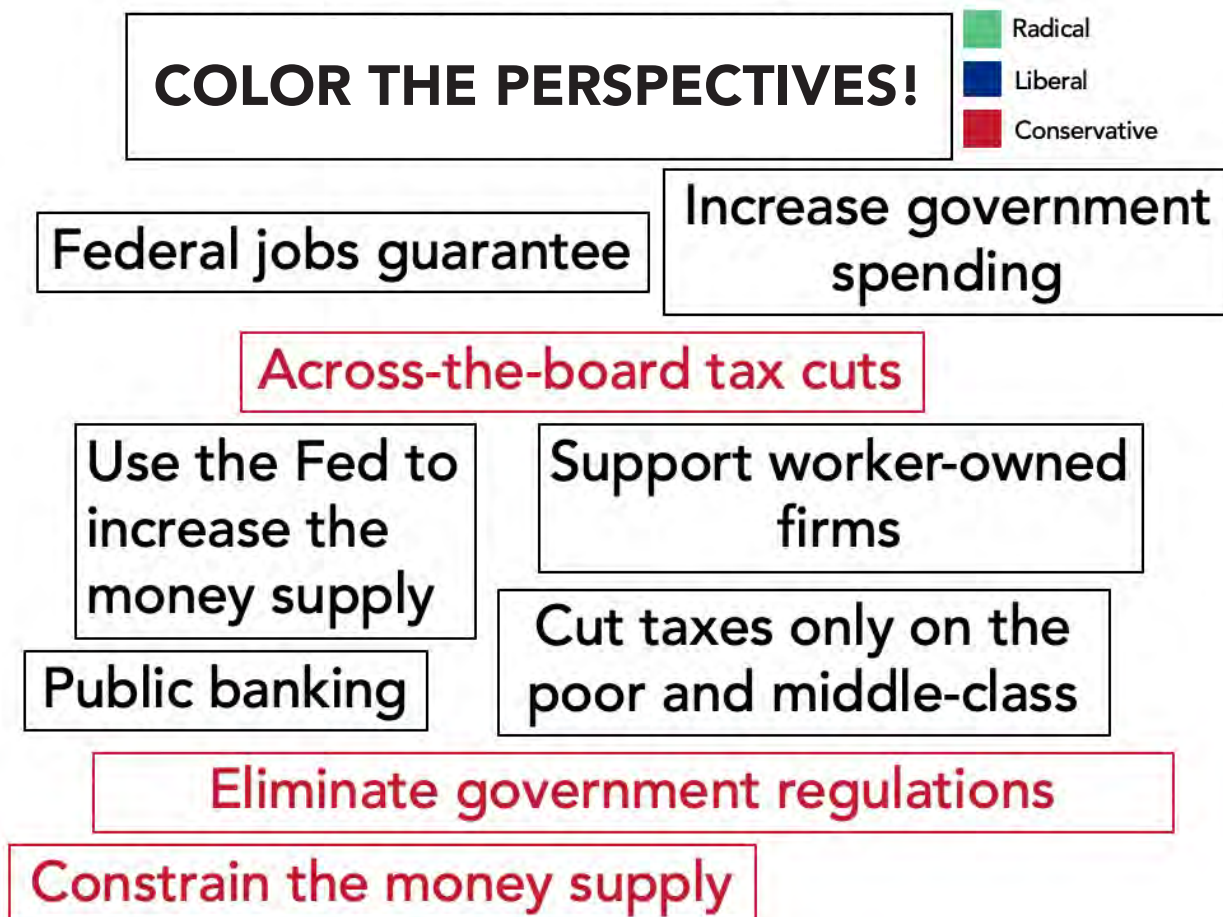
Support worker-owned firms

Public banking

Cut taxes only on the poor and middle-class

Eliminate government regulations

Constrain the money supply

Answers:**a.**

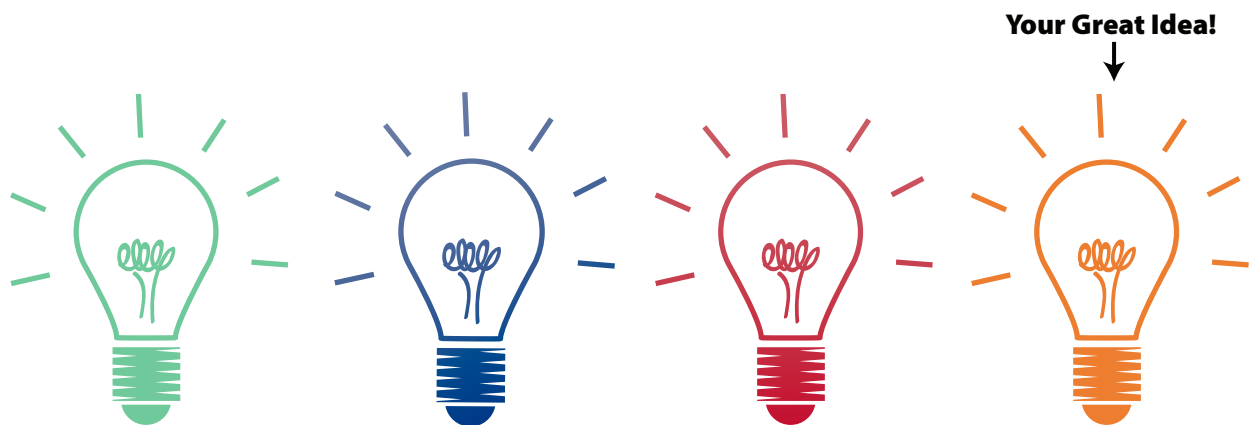
- b.** All long-term cyclical unemployment is caused by government interference. In a downturn, **constrain the money supply** so that it can't be used to manipulate price signals. Then remove government-created obstacles that keep firms from being profitable. This includes **cutting taxes across the board** and **eliminating government regulations**. Production becomes less costly for firms, so they expand their enterprises, start new projects, and create more jobs. This is how conservatives eliminate unemployment in free-market capitalism.



Round V: Final

Now that you know the ideas each perspective uses to solve unemployment, review the ideas you wrote in the table during Round I.

- ❶ Do any of your ideas echo the radical, liberal, or conservative perspectives? If so, identify the relevant perspective(s) in the third column by writing R (radical), L (liberal), or C (conservative). If your idea is a combination of two or all three perspectives, write the corresponding letters.
- ❷ If one, two, or all three of your ideas don't reflect any of the perspectives, then you may have come up with a totally new idea! Write "New" in the third column.
- ❸ Sign your name and today's date at the bottom of the table. If it turns out that you had a new idea that sparks a brilliant solution to this urgent economic problem, then this will become a valuable document. Show it to as many people as possible so it can get traction. If you really believe in it, don't give up. You will want to frame this table and hang it on your wall. One day, it might even hang in a museum next to your photograph with a sign that says, "A great economic thinker of the twenty-first century!"



Re-Vote

Now that you've immersed yourself in all three perspectives, it's time to revisit the VOTE Ballot that you filled out in Chapter 1 and vote again on Economic Stability. Are you more convinced than ever that your original position was correct? Have you shifted toward a different perspective? Be sure to fill in the "Why?" column and say why you support the position that you have chosen. The VOTE Program is all about helping you think critically about the issues so you can develop educated and informed opinions and find your voice on the economy.

Chapter 20: Test Yourself!

Below are multiple-choice questions to help you review the material you read in this chapter. You can find the answers below.

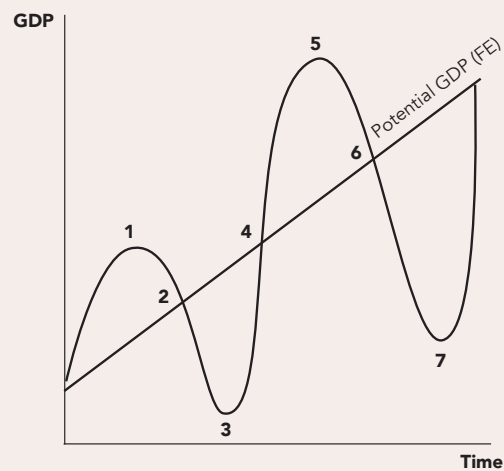


1. There are three costs to inflation and three costs to unemployment. All are corrosive to society. Which tends to be most invisible?

- A. Slow economic growth
- B. Credit and spending crises
- C. Social crises
- D. Lower living standards
- E. Lack of leisure

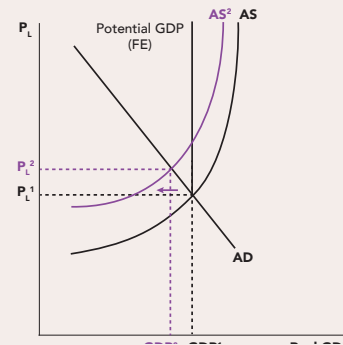
2. When Country A moves from point 1 to point 5 on this graph, it is called a/an_____.

- A. business cycle
- B. recession
- C. overheated economy
- D. boom



3. Consider the conventional theory AS–AD graph and choose the possible reason(s) for the recessionary gap. Choose all that apply.

- A. There was a general increase in the value of stock portfolios.
- B. A major storm system wiped out the power grid on the West Coast.
- C. Government dedicated a larger percentage of the budget to build roads and bridges.
- D. Foreign spending on domestic products fell after failed trade talks.



4. Which one of the following statements is an accurate description of Say's law, which is used in classical theory?

- A. When the economy is left alone, consumers respond to changing price signals by demanding more or less, which creates supply and brings the economy back to potential GDP.
- B. With strong government intervention, supply automatically creates its own demand, which brings the economy back to potential GDP.
- C. In the case of a downturn or an overheated economy, firms respond to changing prices and wages by increasing or decreasing supply, which creates demand and brings the economy back to potential GDP.
- D. During a recessionary gap or an expansionary gap, firms respond to community council guidance by increasing or decreasing supply, which creates demand and brings the economy back to potential GDP.

5. Match the radical policy idea for economic stability (left column) to its meaning (right column):

- | | |
|---------------------------|--|
| A. Federal jobs guarantee | i. Tax dollars invested in communities |
| B. Networking hubs | ii. Matchmaking for firms |
| C. Public banking | iii. Not a radical idea |
| D. Eliminate regulations | iv. Public-sector employment |

6. Match the politician (left column) to their economic perspective (right column):

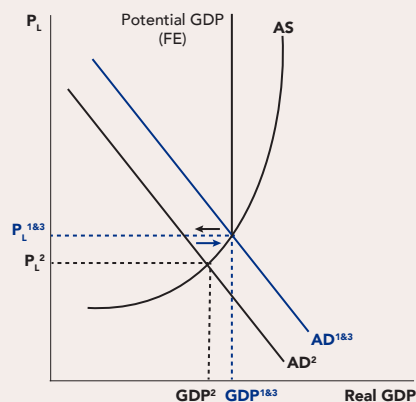
- | | |
|---------------------------------|----------------------------------|
| A. Barack Obama | i. Keynesian |
| B. George W. Bush | ii. Supply-sider |
| C. Ronald Reagan | iii. Democratic socialist |
| D. Bernie Sanders | |
| E. Eugene Debs | |
| F. Franklin D. Roosevelt | |

7. According to radicals, why are cycles of booms and busts inevitable in capitalism? Choose one answer.

- A.** Private owners are hard hearted, so they exploit workers, burden people with debt, and ruin the environment.
- B.** The invisible hand is prevented from allowing us to realize our greatest collective wealth potential.
- C.** The drive for profit pushes society into a profit crisis of overproduction and underconsumption, followed by an economic crisis of stagnation and unmet needs.
- D.** Government fails to intervene and cool off the economy when prices and unemployment soar.

8. Which of the following best reflect(s) the liberal justification for activist fiscal and monetary policy in times of economic instability, as shown in the graph? Choose all that apply.

- A.** For firms to be willing to produce, people must have the means to buy their products.
- B.** Guaranteeing jobs to all keeps the economy in balance.
- C.** Firms need tax cuts to continue supplying.
- D.** Firms' animal spirits prevent them from following price signals, which might otherwise allow the economy to self-correct.



9. According to supply-side economics, when an economy successfully moves from a recessionary gap to full employment GDP, what is the reason?
- A. Expanded government assistance programs
 - B. Decrease in taxes and regulations
 - C. Increase in the prices of imported goods
 - D. Increase in public banking
10. Which of the following perspectives favors government policies exclusively focused on creating incentives for businesses to increase production?
- A. Radical
 - B. Liberal
 - C. Conventional
 - D. Conservative
 - E. All of the perspectives
 - F. None of the perspectives

Answers

1. A 2. A 3. B 4. C 5. A – iv, B – ii, C – i, D – iii 6. A – i, B – ii, C – ii, D – iii, E – iii, F – i 7. C
8. A & D 9. B 10. D

Chapter 20: Key Terms

<u>Adjustable-rate mortgage</u>	<u>Federal Reserve System (the Fed)</u>	<u>Printing money</u>
<u>Aggregate demand (AD) curve</u>	<u>Fiscal policies</u>	<u>Production for profit</u>
<u>Aggregate supply (AS) curve</u>	<u>Fixed-rate mortgage</u>	<u>Production for use</u>
<u>Aggregate supply–aggregate demand (AS–AD) graph</u>	<u>Foreclose</u>	<u>Public banking</u>
<u>Animal spirits</u>	<u>Full employment (FE) GDP</u>	<u>Quantitative easing</u>
<u>Annualized GDP</u>	<u>Government stimulus</u>	<u>Rating agencies</u>
<u>Bank failure</u>	<u>Hyperinflation</u>	<u>Recession</u>
<u>Bubble-up economics</u>	<u>Interventionist</u>	<u>Recessionary gap</u>
<u>Business cycle</u>	<u>Investment banks</u>	<u>Redlining</u>
<u>Classical theory</u>	<u>Keynesian economics</u>	<u>Refinance</u>
<u>Collateral</u>	<u>Loan origination fee</u>	<u>Reserve requirement</u>
<u>Commercial banks</u>	<u>Long-run aggregate supply</u>	<u>Ripple-out economics</u>
<u>Contractionary fiscal policy</u>	<u>Loose monetary policy</u>	<u>Say's law</u>
<u>Credit default swaps</u>	<u>Marginally attached</u>	<u>Socialist economics</u>
<u>Credit unions</u>	<u>Misery index</u>	<u>Speculation</u>
<u>Demand-pull inflation</u>	<u>Monetarists</u>	<u>Speculative bubble</u>
<u>Depression</u>	<u>Monetary policies</u>	<u>Stabilization policy</u>
<u>Deregulation</u>	<u>Mortgage-backed securities</u>	<u>Stagflation</u>
<u>Economic downturn</u>	<u>Natural rate of unemployment</u>	<u>Sticky (prices and wages)</u>
<u>Economic instability</u>	<u>Networking hubs</u>	<u>Subprime mortgages</u>
<u>Economic stability</u>	<u>Output gap</u>	<u>Supply shock</u>
<u>Expansionary fiscal policy</u>	<u>Paradox of thrift</u>	<u>Supply-push inflation</u>
<u>Expansionary gap</u>	<u>Potential GDP</u>	<u>Supply-side economics</u>
<u>Federal jobs guarantee</u>	<u>Predatory lending</u>	<u>Tight monetary policy</u>
	<u>Prime rate</u>	<u>Trickle-down economics</u>

Answer Key for Exercise 20.2

1. Neutral

3. Neutral

5. Neutral

2. Conservative

4. Radical

6. Liberal



21 YOUR VOICE, OUR FUTURE

One morning, I saw someone wearing a T-shirt that said, “The most important things in life are not things.” I heartily agreed. Although I use my computer all day long while sitting in a comfortable chair that I really like, I’m very clear that these are not the most important things in my life. In fact, if I were to lose every one of my material possessions in a fire, I would certainly be sad, but I wouldn’t have lost what is most important to me. My family, my friends, and my health are what I value most. Like the T-shirt says, those aren’t *things*.

On my way home from work that evening, I passed by a homeless man lying on a bench. He was emaciated and wrapped in a thin jacket against the chilly autumn weather. As I dropped a donation in his cup and wished him a good night, his whole body shook from a wracking cough. Walking away, I reconsidered the meme from his point

of view. When you’re hungry, sick, and cold, could there be anything in life more important than a meal, medicine, and warm shelter? Human bodies must have proper fuel and protection from the elements or they won’t survive. Looked at from that perspective, the most important things in life *are* things. Only when our basic material needs are met can we focus on family, friends, health, work, spirituality, art, sports, and everything else that gives our lives meaning. This is why economics is relevant to everyone, no matter where or how we live.

The word *economics* is made up of two Greek

words: *eco* means home, and *nomos* means management. Our *eco* is our community, our country, our world. Economists focus on how the nation’s resources should be managed. What should we make? How should we make it? Who should get it? You have engaged with these three questions of



economics for more than one thousand pages now. But these aren't just the questions of economists. These are the questions people have been asking forever because goods and services are absolutely necessary for our survival. These are the questions we fight about because resources are not limitless. It all comes down to what you believe are the most important things in life. On this subject, there is a story that has been around for ages and has many variations. Here is how we tell it in the VOTE Program.

There once was a country ruled by a king and queen. The monarchs were old and frail. It was time to step aside and let one of their three grown children take the throne. They loved them all, but they couldn't decide which one should take their place. Who would be the most compassionate, diligent, and wise leader? They worried that their fondness for their offspring might cause them to overlook a catastrophic character flaw. An irresponsible, lazy, or corrupt ruler would cause terrible suffering to the people of their country.

It was the queen who came up with the idea of a contest. "There are three empty rooms of equal size in the basement of the castle," she told the king. "Let each of our children fill one of the rooms with what they believe is the most important thing for our country."

"Yes!" said the king. "Let them fill it to its utmost capacity. When we see what they have chosen, we will know who will be the best among them to rule in our place."

The eldest child went for a walk in the countryside in search of ideas. What was the most important thing for her country? Everywhere she looked, she saw farmers busy in the fields. They were tilling the land, planting the new crop of wheat, harvesting the flax, and tending the apple orchards. The princess thought about the earth and how it supplied everything people needed to thrive. Inspired, she arranged to have wheelbarrows of rich, loamy soil brought into the castle.

It took two days to fill one of the empty rooms in the basement from floor to ceiling. When she couldn't pack in one more shovelful, she invited the king, queen, and royal siblings to see.

"With this soil, our people grow the food that nourishes the whole nation, the fibers that are woven into cloth, and the trees that provide wood to build homes," the princess explained. "The most important thing is having food, clothing, and shelter. Without food, we would all suffer, and without protection against harsh weather we are at risk of getting sick and dying."

The king and queen were impressed. "Well done," they said. "A compassionate ruler knows that the physical well-being of the people is of the utmost importance."

The second child rode out on horseback the next day in search of the most important thing for his country. He went from town to town and everywhere he looked, people were engaged in commerce. In the marketplaces, they traded their goods and services for coins, gold, and gems, which they turned around and spent on the things they wanted and needed. Even though the weavers grew no food, they had plenty to eat. Even though the farmers wove no cloth, they had sturdy garments to wear. Inspired, he galloped back to the palace and went straight to the royal treasury. The large warehouse was crammed with gold, gems, and coins. The prince organized the guards to carry crates of it to the basement of the palace. It took a day to fill the empty room from floor to ceiling. When he couldn't jam one more coin across the threshold, he invited his parents and siblings to see.

The king and queen were surprised to find that the royal treasury had been relocated to the basement. The prince explained, "When the harvest fails because of a drought, or a storm sinks our fishing boats, we don't have to worry. With this wealth, our people can purchase the food, clothing, shelter, and everything else they want and

need to make their lives better. The most important thing for our country is to have gold, coins, and gems that we can trade.”

The king and queen looked pleased. “This is well done,” they said. “A diligent ruler knows it is of the utmost importance to plan ahead so that the people don’t suffer during times of hardship, and to find ways to improve the quality of life beyond meeting their basic material needs.”

The third child considered the choices their brother and sister had made. The room filled with fertile soil and the room brimming with sparkling riches were excellent ideas. If either one of them were in charge of the country, the people would always have full bellies, be protected from the elements, and have other physical comforts. But wasn’t there something more that a good leader should provide? The third child went for a walk to consider what was the most important thing for their country. As they wandered through the city, they witnessed people going about their daily lives—studying, arguing, working, laughing, worrying, and making plans. Eavesdropping on conversations, the third child realized that each one had unique ambitions, concerns, and dreams. What was the most important thing to all these people? Still unsure what should fill the empty room, they headed back to the castle. The sun had already set and the first stars were beginning to appear in the sky. All at once, an idea occurred to them. Hurrying down to the basement, they sent messages to the royal family to come and see.



“What is the meaning of this?” the queen exclaimed, peering into the dark room. “It’s empty!” Calmly, the third child walked to the center and struck a match. They touched the flame to the wick of a candle and suddenly light flooded the chamber from floor to ceiling. It reached into every corner and even spilled into the dim hallway, illuminating the astonished faces of their family members.

“Light represents knowledge and open-mindedness to new ideas,” the third child explained. “The most important thing for our country is having the best solutions to the problems we face today and the ones we will face tomorrow. The light allows us to see clearly where we are and where we want to go. It helps us evaluate what has already been tried and find new and better ways to make it possible for our people to achieve their goals and realize their dreams.”

Everyone was impressed. “This is very well done, indeed!” said the king. “If storms were to wash away all our fertile soil, a great idea could help us find a new way to feed

ourselves and prevent future disasters. If all our treasure were to become worthless, a great idea could help us figure out a new way to trade for what we need.”

The queen agreed. “The wisest rulers know that brilliant ideas ensure our nation’s well-being today and far into the future.”

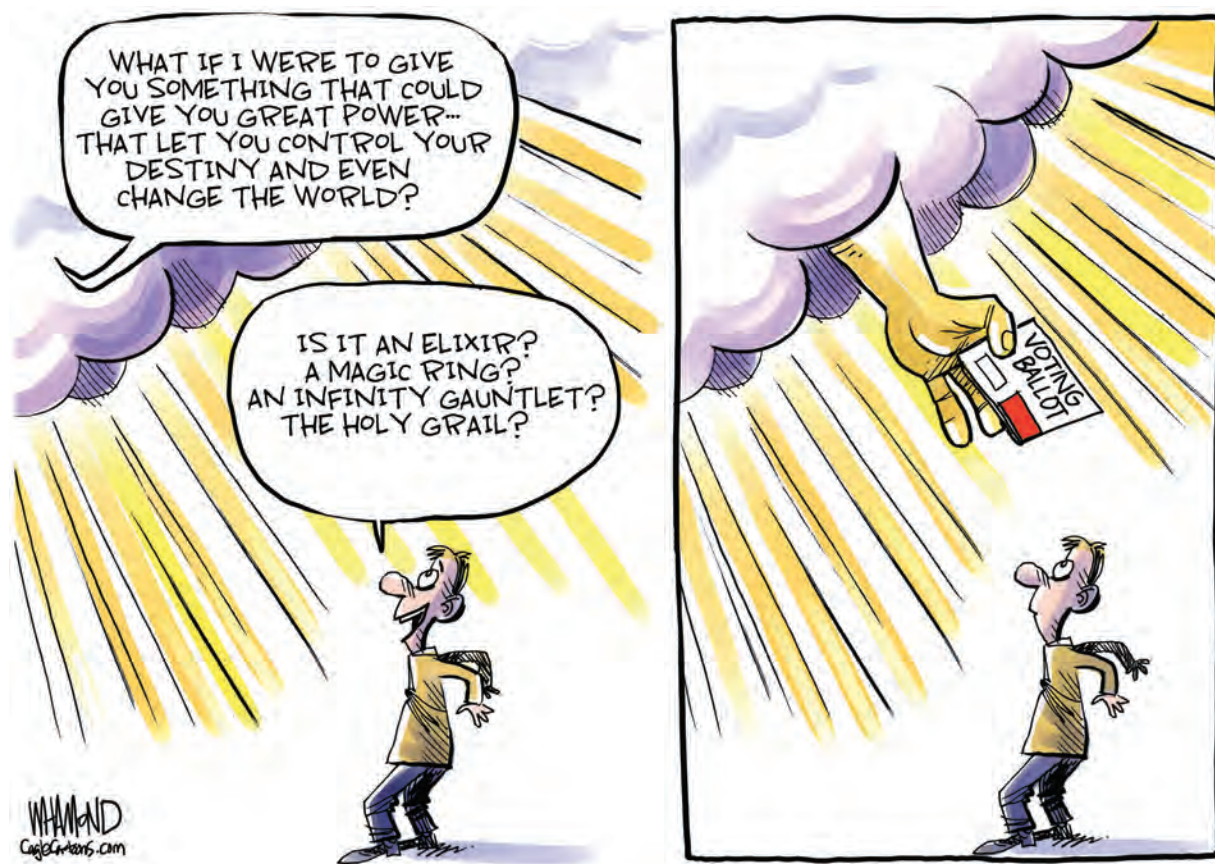
By unanimous decision, the third child inherited the throne. The light became the symbol of their reign. Anyone who had a good idea was

welcome to come to the palace and discuss it with the ruler and their advisers.

Like the three royal siblings in this story, people from all three economic perspectives want to create prosperity so that everyone can achieve their goals and realize their dreams. But without the light of knowledge and open-mindedness to new ideas from multiple perspectives, our country will continue to struggle to provide material well-being for all. We will keep reinventing the wheel, or stay stuck in a rut and spin in place, or backslide to an even worse place. By letting in the light, we set the foundation for innovative thinking to emerge. We find the solutions that free us from material worry so we can each contribute our unique gifts and society can reach its highest potential. This is the vision of the VOTE Program. Everything you read and practiced in this book has prepared you to bring the light that will guide us to a bright and prosperous future.

Democracy and Voting

In the United States, we don't have a monarchy. Our well-being doesn't depend on a single individual who makes all the decisions. We have a representative, constitutional democracy, which means we are governed by elected leaders who enact laws that are in line with the U.S. Constitution. If you are eligible to vote, you can cast your ballot for politicians who represent your point of view on issues. Even if you can't vote at the ballot box, you can "vote" by joining the conversations around you about our nation's urgent economic problems. You can use your voice to share your views on how we should use our limited resources to improve life for everyone. Whether you become a leader or support someone else whose economic views match your own, the beauty of our republic is that we, the people, are in charge. We have the power to shape the future of our country.



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Democracy is not a new idea. The first recorded democratic society started in 507 BCE in the nation-state of Athens. They came up with the word “democracy”—*demos* means people and *kratos* means power. In other words, power in the hands of the people. Instead of staging violent uprisings to oust unpopular leaders, citizens could vote them out. Only free men qualified for citizenship, however. Women, slaves, and children had no vote. That democracy experiment ended when the Romans invaded two hundred years later. Throughout history, political systems changed often. This continues to be true in modern times. For example, in 1976, only 24 percent of the world’s countries were democracies. By the end of 2017, the number was up to 57 percent. Autocracies (governments run by one person who wields absolute power) accounted for around 13 percent. The remainder of countries had a mix of some elements of democracy and autocracy.

If you are a citizen of the United States, when you turn eighteen you are automatically eligible to vote. You have to register in the state where you reside. Most people think the system always

worked this way, but the story of who is permitted to vote involved many long and bitter fights—some that continue today. After the American Revolution, the U.S. Constitution allowed states to determine who could vote. In most places, that right was limited to white men over the age of twenty-one who owned land. Depending on where you lived, you could be excluded from voting if you were a woman of any race or religion, a free Black person, a Jew, a Catholic, someone who didn’t own land, of Mexican heritage, of Chinese heritage or from another Asian country, Native American, an enslaved person, and anyone else who wasn’t an adult white male landowner.

After the Civil War, in 1870, the Fifteenth Amendment to the Constitution gave all Black men the right to vote. In 1920, the Nineteenth Amendment gave women—including Black women—the right to vote. Even with their constitutional rights secured, Black people were routinely barred from voting. States required literacy tests, charged a poll tax, and used other tactics including violence and intimidation to keep Black Americans from exercising their right to register and to vote. This



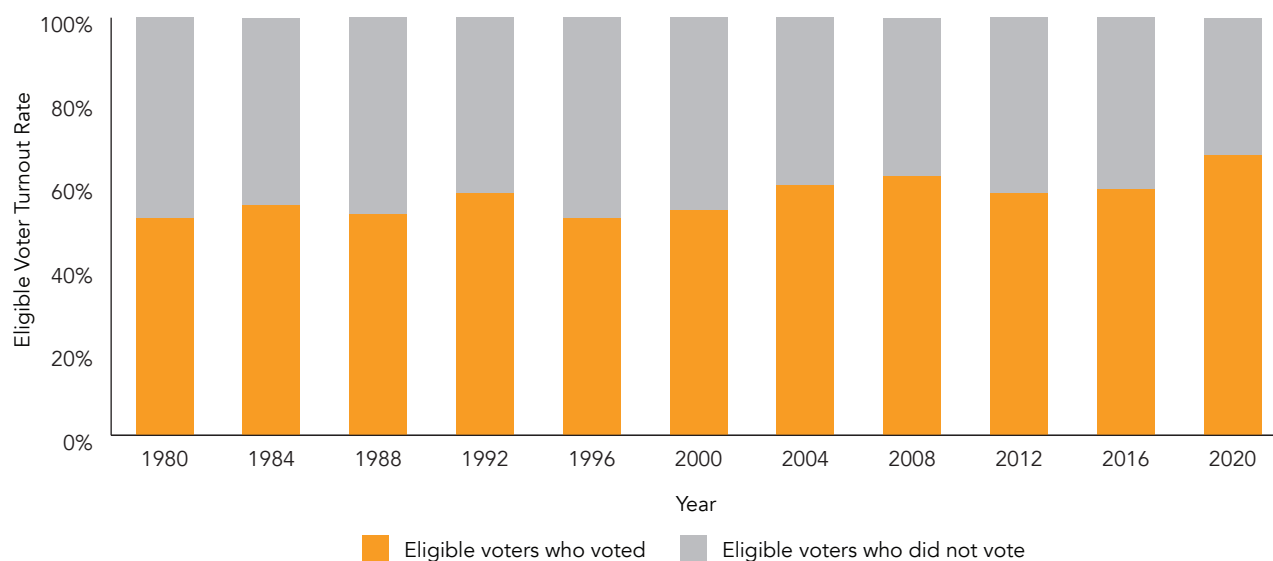
type of activity is called *voter suppression*. The Voting Rights Act of 1965 made it illegal to create barriers to voting. But decades later, the struggle to secure voting rights continues.

During the 1960s, another aspect of voter eligibility became controversial. Men were being drafted at age eighteen to fight in the Vietnam War, yet they weren't eligible to vote until they turned twenty-one. A strong case was made that this was unfair, and that if someone was old enough to serve in the military, they were old enough to vote. In 1971, the Twenty-Sixth Amendment changed the age of eligibility from twenty-one to eighteen. There are more twists and turns in the story of who can vote, including the status of convicted felons. In some states, their right to vote is restored after the person serves their sentence. In others, their right to vote remains revoked even after they have successfully completed their time in prison or on probation.

Generations of people fought and even gave their lives to secure the right to vote. I imagine they would be intensely disappointed to know that in the last few decades, barely half of eligible voters

bothered to cast their ballots and millions more were not registered and therefore could not vote. As you can see in figure 21.1, eligible voter turnout was depressingly low in presidential elections between 1980 and 2020. The average percentage of eligible voters who exercised their right was just over 57 percent. Even though 66.9 percent of people voted in the 2020 presidential election, there were still one in three eligible voters who didn't.

We can't take for granted that our democratic system will endure—not when we know how often political systems change and how fragile democracy has been in the past. Do we really want to be ruled by an autocrat—an individual who has absolute power? An alarming report from the Pew Research Center in 2018 revealed that 21 percent of people surveyed in the United States didn't think that would be so bad. They said it would be better to give presidents more power so they wouldn't have to worry about Congress and the courts and could pass the laws they thought were best. Another 3 percent weren't sure, but fortunately, 76 percent believed that power should remain in the hands of the people.



Data Source: The American Presidency Project, UC Santa Barbara

Figure 21.1
U.S. Eligible Voter Turnout in Presidential Elections, 1980–2020

In case you're wondering, the radical, conservative, and liberal perspectives all agree with the 76 percent. People from all three economic perspectives share a deep commitment to maintaining our democracy.

Voting is meaningful because our votes determine who gets elected.

The perspectives of our representatives inform the laws that are passed and ultimately govern our lives. Those policies affect you in every way—your job and educational opportunities, the quality of your food and products you use, your ability to afford the health care you need, and more. It frustrates me when I hear students and friends say that voting doesn't matter or voter suppression isn't a big deal because "all politicians and parties are the same." That kind of cynicism is a danger to democracy. The minute you disengage from the conversation, you let other people take control of your future well-being. An international student in one of my classes became very emotional when he heard someone say that voting was a waste of time. He explained, "Right now, in my country, people are fighting and dying in the streets to overthrow a dictator. We want to have the right to elect our leaders. If you lived one day under the rule of a tyrant you would understand how important your vote is and what a privilege you have to live in a democracy."

If you ever hear a person say that voting doesn't matter, explain to them how fragile and important our democracy is, and then let them know there are many examples of a single vote making all the difference. For example, Thomas Jefferson was elected president by one vote in the House of Representatives in 1800, after a tie in the Electoral College. The United States went to war against Mexico in 1846 after President James

Your vote is your voice. The minute you disengage from the conversation, you let other people take control of your future well-being.

Polk's request to Congress passed by one vote. In 2017, an effort to repeal the Affordable Care Act failed by a single vote. There are many other good examples, but my favorite is the Hoxie, Alabama, election for city council in 2018. One of the candidates, Cliff Farmer, reminded his wife

to vote but somehow he forgot to cast his own ballot. Much to his dismay, the contest ended in a tie. It was decided by a roll of the dice, which Farmer lost. Imagine how chagrined he was to know he would have won if only he had voted.

Throughout the VOTE Program, you've been asked to vote. When you started this book, you voted on your perspective on twelve urgent economic issues. At the end of each Issues chapter, you were asked to revisit your VOTE Ballot and vote again. Take a look at your ballot now. Compare your first vote to your second vote on each issue. Did you completely change your perspective on at least one issue? Did you keep the same perspective but shift a bit toward another perspective on at least one issue? Were both votes identical on at least one issue, but you became more articulate and confident about your position (why you believe you are right and the other perspectives are wrong)? The point of spending your precious and limited time in any educational endeavor is to be transformed. If you answered *yes* to any of these questions then I can say with confidence that you used your time wisely. Your views might have changed significantly and now you regard the world in a whole new way. Your views might have changed somewhat and you now have some new insights on the world. Or your views might not have changed at all, but your ability to articulate your ideas and consider the ideas of others is potentially world-changing.



The VOTE Mission

Here is what I hope will happen after you finish reading the last page of this book. You're in an elevator with an acquaintance who asks, "In your opinion, what was the most important takeaway from the VOTE Program?"

You only have twenty seconds until you reach your floor. You start to panic, but suddenly you remember an amazing realization you had in chapter 7. It was the golden moment when you saw that all the perspectives share the same basic understanding of the problems and they all want the same outcomes. You tell your acquaintance, "Even though liberals, radicals, and conservatives strongly disagree on economic policies, they share the same goals. They all want to create prosperity and well-being. They just have very different ways to do it."

As you exit the elevator, you hear them say, "Wow! That actually gives me hope!"

I'm also hopeful and optimistic that the golden moment can make us more open to the ideas of people from opposing perspectives and turn down the dial on suspicion and hostility. Imagine how the conversations would change if we accepted that the ultimate goal of each perspective is to create prosperity and well-being. This is what the VOTE Program is trying to do.

Have you ever seen the *Mission Impossible* movies or reruns of the classic television show from the 1970s? They always begin with the lead character being told his mission. A recording says, "Your mission, if you choose to accept it, is..." After the details are revealed, the recording dramatically self-destructs. I hope your VOTE textbook doesn't self-destruct after I tell you our mission, which I sincerely hope you will choose to accept. The mission of the VOTE Program is *to inspire new solutions to our country's urgent economic problems by building a culture of respectful listening, passionate advocacy, and intelligent debate*. It's in your power to do this. Let me break this down into its component parts so you are very clear about what this mission entails.

Inspire New Solutions

There are many wonderful economists doing research in a wide variety of areas, but the field as a whole hasn't had a transformative breakthrough idea since John Maynard Keynes came up with

his ideas in the 1930s. Before Keynes, it was Karl Marx in the 1860s, and before Marx it was Adam Smith in the 1770s. Looking at the calendar, we are overdue for the next breakthrough idea.

In the hard sciences, breakthroughs happen all the time because researchers rigorously follow the scientific method. Ideally, they make sure their own biases and preconceived notions don't influence their research design, methodology, analysis, interpretation, or reporting of results. They are trained to keep an open mind and not be afraid to consider new information. When an anomaly arises—something that doesn't fit the existing hypothesis—they don't sweep it under the rug or feel threatened by it. Led by curiosity, they try to understand it. This is how scientific revolutions come about. Someone looks at the anomaly and suddenly has a breakthrough idea that shifts the existing paradigm—the underlying assumptions—and changes the world.

You might be asking yourself, “How can we have more breakthrough ideas in economics?” Great question. Solutions to our economic problems can come from many directions and take many forms. The more we talk about what we know, what we need, and what's been tried, the more likely it is that we'll come up with something even better that no one has tried yet. We can be open-minded to diverse ideas and use them as springboards to gain new understanding of urgent economic problems so we can find better solutions. The realization that all perspectives share the same goals—the golden moment—frees you to do this. *You don't have to be afraid of ideas that challenge your underlying assumptions.* You don't have to be angry at rival economic theories, or dismiss them because they come from a different perspective. You can set aside your preconceived notions and give rival points of view a fair hearing because you can trust that people from every perspective share your goals. The



realization that all perspectives share the same goals is the golden moment that frees you to be unafraid of ideas that challenge your assumptions and to be curious about rival economic theories.

But let's be totally honest. In our heart of hearts, we don't really think *our* biases are the problem. It's the people who are biased against *our* ideas who need to change. The fact is that each of us has our own particular life experiences and exposure to certain ideas that lead us to assume that some things are obviously true and others are clearly false. This is how our preconceptions are formed. If we can't see past our own experiences and imagine what it's like for others, then our preconceptions become obstacles to open-minded exploration of ideas that could lead to breakthroughs. It's easy to see when someone else is close-minded to our way of seeing things. It's harder to see when we're the ones who are close-minded.

Philosopher John Rawls came up with a famous thought experiment to help people challenge their biases. First, imagine you are going to be born into a society, but you have no idea what circumstances you will be born into—your race, gender, class, physical abilities, national origin, talents, or anything else. Assume you could randomly be born into any possible circumstance. From behind this *veil of ignorance*, as Rawls called it, we assess different policies. He theorized that when you don't know what your particular advantages or disadvantages will be, you'll make the most impartial and rational decisions about how to organize society. You'll choose policies that

The realization that all perspectives share the same goals is the golden moment that frees you to be unafraid of ideas that challenge your assumptions and to be curious about rival economic theories.

have the best outcomes for society as a whole. By challenging our own prejudices through this kind of thought experiment or by other means, you'll open your mind to new ways of thinking. That will put you in the best position to have the breakthrough ideas we desperately need to solve our entrenched economic problems.

Building a Culture

Unless you've been living in a cave or on an isolated mountaintop with no

internet connection, you are aware that the VOTE way of approaching opposing economic perspectives with open-minded curiosity is not the norm. In the United States, we suffer from entrenched partisan hostility. To be *partisan* means to strongly support your political party (or economic perspective). More recently, it's also taken to mean unwilling to hear one another, much less compromise with those from other parties or perspectives. Partisanship has been going on for years, but hostility between partisan groups has escalated to worrisome levels that disappoint and alarm people on every side. It's the nature of democracy to have disagreements, but we are in trouble when we start to treat people with contempt or as the enemy simply because they are not part of our group. We're in trouble when it becomes socially acceptable to dehumanize, disrespect, and discriminate against those who don't share our perspectives. Sadly, we are living in a toxic culture where the attitudes and behaviors of some groups have become obstacles to solving our problems together. For example, surveys conducted during the 2020 presidential election found that Dem-



ocrats, Republicans, and Democratic Socialists all were afraid to put their preferred candidates' bumper stickers on their cars and yard signs on their property because they feared it would incite vandalism and violence.

The echo chambers of social media and partisan news media ramp up the rhetoric and add fuel to everyone's rage and fear. Sadly, the golden moment gets buried under all this noise and we come to believe we are more divided than we really are. We huddle together in our metaphorical silos, only hearing from people who agree with us. The divisions deepen and we become even more close-minded to potentially amazing new ideas because they come from a rival ("wrong") group. A dangerous sentiment starts to spread as people tell themselves that the only problem the country has are those other groups, who are wrecking the country, and if only we could silence them or get rid of them all our troubles would be over. As poet Audre Lorde wrote, "It is not our differences that divide us. It is our inability to recognize, accept, and celebrate those differences."

When we don't trust that other perspectives genuinely share the same goals of material well-being for all, good ideas are shouted down and shut out. By being curious, you can actually enjoy listening to divergent views and considering their merits and flaws. I look forward to watching the debates during election season much the same way people look forward to watching the Super Bowl or the FIFA World Cup. I am eager to hear the new economic policies offered by the candidates. I listen closely to how conservatives, liberals, and radicals changed their views since the last election. It is always invigorating and exciting to witness the golden moment. Everyone on the debate stage fervently wants well-being and prosperity for the nation. They just have different ideas for how to make it happen.

I once had a married couple in my VOTE class. They were having a lot of conflict in their relationship because they couldn't understand or respect each other's point of view on economic issues. By the end of the semester, their feelings of anger and suspicion had been replaced with mutual respect. The experience of having to try on all three perspectives gave them an insider's view of why someone would agree with those ideas, and it made them thoughtful instead of judgmental. Although they still disagreed about how to address economic problems, they trusted



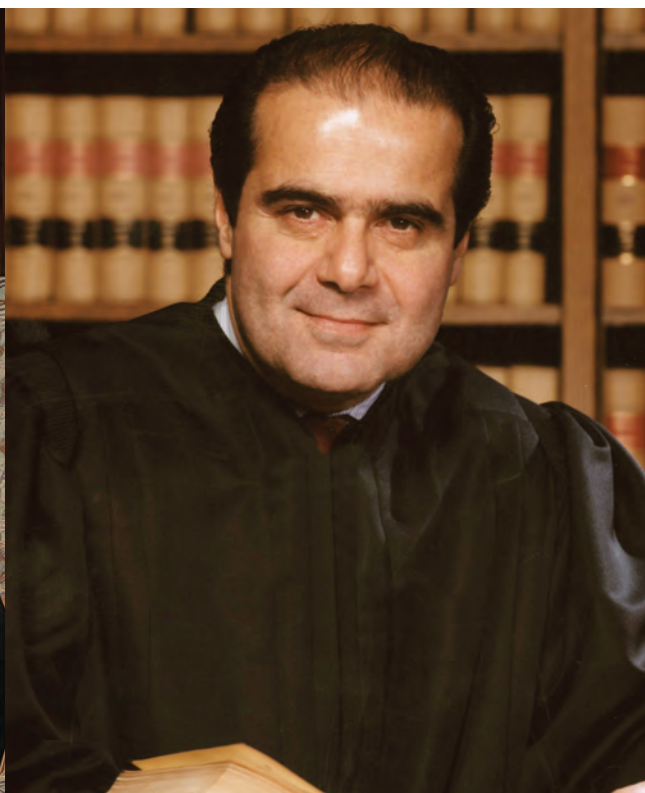
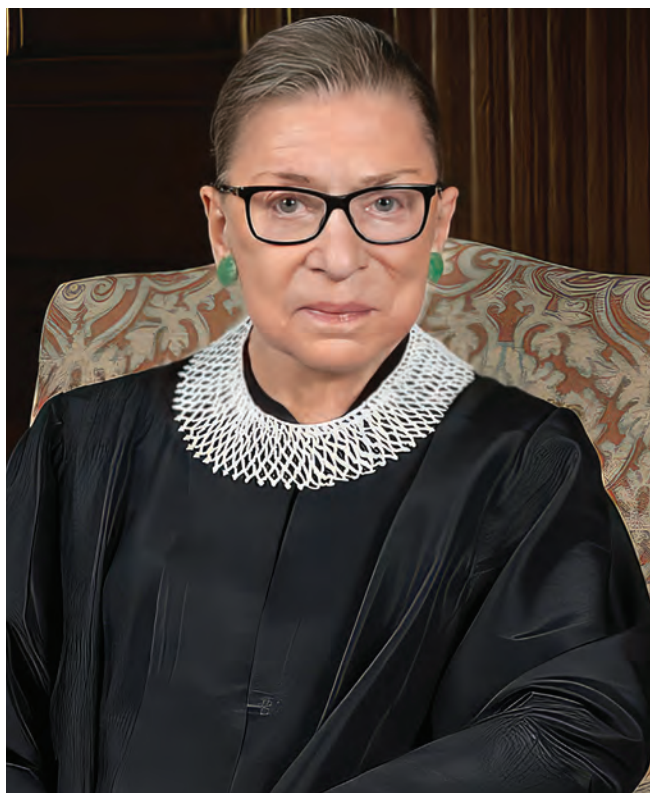
each other's intelligence and commitment to finding the best solutions. By becoming fluent in different points of view, solution-focused conversations replace shouting matches. I love this example because it shows that when we reject a culture of partisan hostility and dismantle the silos, we can build a culture that sets the foundation for new solutions to arise.

You might be thinking that this will never happen because people are too afraid, too stubborn, or too opinionated. I understand your doubts, but I see it differently. I collect stories about people from different perspectives who manage to forge deep friendships. One of my favorite examples was the decades-long friendship between conservative Supreme Court Justice Antonin Scalia and liberal Supreme Court Justice Ruth Bader Ginsburg. They couldn't have been more diametrically opposed when it came to interpreting the law, but on a personal level they were dear friends. They shared a love of opera, spent New Year's Eve together every year, and once rode on an elephant

together. Although they fought bitterly about how the Constitution should be interpreted, they could still like and respect each other on a personal level and continue to serve on the Supreme Court together. How was this possible? They trusted that the other also wanted the best outcomes for the country. Because of the golden moment, we can trust that people from other perspectives are not trying to ruin the country. They're not trying to cause poverty, hunger, and homelessness. We can deeply disagree with a person's policies while simultaneously trusting that they want the same outcomes that we want. This is the kind of sophisticated culture that we can build.

Respectful Listening, Passionate Advocacy, and Intelligent Debate

People are suffering right now because they don't have what they need to thrive. People are suffering because they are terrified that one illness, accident, job loss, market crash, natural disaster, or other change in their life circumstances will



snap their tenuous hold on economic security. We're all in this economy together, so everyone's well-being is at risk. Recognizing that this is high stakes, we can all see the potential gains of hearing one another's ideas with an open mind.

All my life, I loved to argue about economic ideas with my brother. Jon had strong views that were usually the polar opposite of mine. He fascinated me. While most kids our age had posters of rock bands on their bedroom walls, he had posters of his favorite presidents. I often marveled that two people who had grown up in the same era, in the same home, with the same family, and in the same community could emerge from those experiences with such different ways of seeing the world. Our arguments were always great fun. We would play with ideas the way other siblings played games together. I had to listen closely so that I could be lightning-fast to respond to his zingers with good ones of my own. There was banter and good-natured teasing about our different points of view. Listening to Jon's ideas and advocating for my own in our debates was never fraught or threatening because we had trust. We knew the other also wanted the best outcomes for the nation. When we both moved away from home, my brother would send me a barrage of political cartoons, videos, and articles, and I would respond in kind. After not seeing each other for months, we would get together and pick up the conversation exactly where we had left off on the last visit.

Me: "Did you see the new poverty numbers? I cannot believe you thought that policy would really work."

Jon: "You've got to be kidding! That was a great idea. It was your people that caused those poverty numbers to shoot up!"

Having someone who respectfully disagreed with my ideas, who was extremely passionate about his views, and was an intelligent sparring partner helped me hone my arguments and

become more articulate about what mattered most to me. Although I never convinced him that my thinking was correct, and Jon never convinced me that his was, we were both transformed by respectful listening, passionate advocacy, and intelligent debate. We developed more nuanced understandings of rival perspectives, and when we heard different opinions from friends, family, and pundits, we didn't dismiss them so quickly because we were used to considering opposing viewpoints. In those early days, I was certain about my perspective. Today, my perspective is that *we need to be open to all the solutions on the table so that we can inspire new ways to create prosperity and move our country forward.*

Respectful Listening

Whenever I practice respectful listening with colleagues and students, I silently thank my brother, who helped me learn how to approach divergent views with a sense of adventure. Whenever I say *respectful listening* in class, I'm sure my students aren't imagining the lively and entertaining arguments that Jon and I used to have. They're probably thinking they have to pretend to agree while hiding their impatience and mentally rehearsing what they will say when it's finally their turn to speak. Respect can take many forms, but at the center is honest curiosity. It's a problem if you go into conversations with the goal of bringing the other person around to your point of view. Try instead to deeply understand what they are saying and then repeat it back and ask if you got it right. They can correct any parts you got wrong or acknowledge that you heard them correctly. This gives you the opportunity to refine your understanding of their point of view, and you're also giving them a gift. They will feel respected by your effort to hear and understand them, and nine times out of ten they will respond in kind. That is respectful listening in a nutshell.

Curiosity is a powerful gesture of respect. You can ask people to teach you about their ideas and

share their experiences. I have a friend I only see occasionally. The last time we met, he said, “Every time we get together, I try not to assume I already know everything about you. That way, I’m open to hearing who you are now. You probably changed since we last met, and I don’t want to tell myself a story about you that isn’t true anymore, or was never true.” This was one of the most generous things anyone has ever said to me. It also caused me to become curious about my assumptions about others. When I checked in and inquired more deeply, I was often surprised at how wrong I could be. For example, when my daughter was in kindergarten, I used to put a note in her lunchbox every day to let her know how much I loved her. When she started the first grade, I asked her if she wanted me to continue writing her notes. She said no, she didn’t. I assumed it was because she felt that she was too old, at age six, to be getting lunch notes every day from her mom. I casually asked, “Are you embarrassed?”

“No,” she said, “That’s not the reason. There are some kids in my class who don’t have mommies

and I don’t want them to feel bad because they don’t get notes in their lunchboxes.”

I had been making a wrong assumption, and I never would have known if I hadn’t been curious and asked. There is a danger of missing the mark when we tell ourselves stories about other people and their ideas. We cut ourselves off from learning something new, being surprised, and being inspired.

One of the toughest situations is when you are being a respectful listener but the other person or people are not. This happens all the time. A student once told me about a painful interaction with her uncle during Thanksgiving dinner. The conversation turned to a supplemental Social Security bill that had been proposed in Congress, and he started to rant about it. She listened respectfully and then tried to offer an alternative perspective. He cut her off and proceeded to insult her experience and intelligence. “He just took over the conversation and turned it into an angry diatribe,” she told me. “I couldn’t get a word in edgewise. He wasn’t respectful of me, so I gave up. I mentally dismissed



everything he had to say and walked away. We avoided each other for the rest of the holiday.” This outcome left my student and her uncle with zero possibility of achieving mutual understanding or even respectfully agreeing to disagree.

Strong feelings come up when we talk about policies that affect our well-being, and the reality is that not everyone is open to hearing rival ideas or being curious about our point of view. Respectful listening is hard work, especially when others don’t reciprocate. Still, it is vitally important to try, because if neither of you comes to the table willing to try to listen with an open mind, then we’ll stay stuck. If you remain willing even in exceedingly difficult situations, at least there is a slim possibility of changing the conversation. My student walked away, but imagine what could have happened. As her uncle was shouting her down, she raised her hand and said, “Wait a second. Let me see if I understand what you’re saying.” She reflected back what she’d heard him say, using his own words. Taken by surprise, her uncle listened and pointed out where she got it wrong. She thanked him and then repeated it back correctly. Now feeling heard and understood, he lowered his guard a bit. His shoulders relaxed and he sat back in his chair and didn’t explode when she said, “Even though we disagree about a lot of things, we share the same goal. I have a different idea for how to solve this problem.” Will he listen respectfully to her idea? Maybe, or maybe not. But at least a slim possibility now exists where before the door was slammed shut. The point is, *you* can always be respectful even if others aren’t, and over time your respectful listening may build trust and mutual understanding.

That being said, if you constantly find yourself having to defend and explain policies that are central to your safety and well-being, it can be exhausting. While we should all strive to engage respectfully and openly with those who have different opinions, you don’t have to engage with

everyone you meet. That would be overwhelming, especially when you have a personal stake in the issue that makes you feel particularly vulnerable, or you’re having a difficult day, or you’re feeling too emotionally volatile. You can respectfully postpone a conversation for another day. Try to do your best without burning yourself out.

While respectful listening is a foundation of the VOTE Program, please don’t think that all ideas should be considered equally. Remember, we don’t consider economic systems that were already rejected in the past—slavery, feudalism, or Soviet-style communism. Also, we should categorically reject any ideas that denigrate others, undermine human rights, or incite people to hatred, violence, or bigotry. Those ideas are the opposite of great economic thinking. A great economic thinker is someone who tries to elevate *all* people to higher levels of material well-being. Radicals, liberals, and conservatives strive to move humanity forward, not obliterate those who are different or think differently.

Passionate Advocacy

Everyone cares deeply about something. That caring fuels our passion, and our passion is a powerful force. When used constructively, it can make a profound difference. As famed abolitionist Harriet Tubman advised, “Always remember, you have within you the strength, the patience, and the passion to reach for the stars to change the world.” Advocacy means speaking up for what you think is right. Please be a passionate advocate for the policies that you believe can solve our urgent economic problems. But remember that *passionate* doesn’t mean close-minded. Your enthusiasm can work against you if it turns into rants and diatribes. You won’t win opponents over to your side if you make personal attacks when they disagree with your ideas. Speaking with fervor about your economic perspective will backfire on you if you’re not aware of how you’re

coming across to your audience. Instead of being intrigued by your ideas, others will be repelled by your fiery conviction. The goal is to be the most convincing, not the loudest or most self-righteous. Passionate advocacy is a skill you can develop with practice. Diplomacy is needed, and it helps to be strategic. You have to read the room and decide if voicing your ideas at that moment will be constructive, or whether it will be better to sit back and wait for a different time to speak up.

Just because someone is passionate about an idea doesn't mean it is a good idea or worthy of our time and attention. Throughout history there are examples of passionate advocacy that turned into hate speech and propaganda (false and misleading information). When those ideas get oxygen, it leads to disastrous outcomes. I was born in 1960, a mere fifteen years after the end of World War II. It wasn't until the allies liberated the Nazi concentration camps that the horrors set in motion by hate speech and scapegoating were revealed. The Nazis orchestrated a genocide of Jewish people and Romani people, and targeted socialists, Jehovah's Witnesses, people with disabilities, LGBTQ people, and those who openly opposed the Nazi party. More than 11 million people were murdered. Some Jewish survivors were relocated to my town in New England, so I grew up hearing the stories of those who had lived through it. Soldiers had rounded up men, women, and children. Some people were killed immediately. Others were cruelly separated from their loved ones and shipped to concentration camps in cattle cars. Some died en route. Others were killed in gas chambers after they arrived. Those who survived were forced to work and live as slaves. They were

Throughout history there are examples of passionate advocacy that turned into hate speech and propaganda. When those ideas get oxygen, it leads to disastrous outcomes.

starved, tortured, branded with tattooed numbers on their arms, and forced to endure many other deprivations and assaults on their humanity. In school, I learned about other genocides that had taken place throughout history. As an adult, I discovered that genocides continue to take place in the present-day world. They aren't just relics of the past.

Why do hateful ideas sometimes lead to genocidal atrocities, while at other times those same ideas are ignored or dismissed as the rantings of disturbed individuals? I have a theory that might partially explain this. When people are suffering economically, they become more susceptible to the idea that their problems are caused by a certain group. Desperate for a better future, they become more willing to scapegoat others. Deprivation and fear of deprivation gives hate speech oxygen. Using fear-mongering and propaganda, leaders stir up their followers. They manipulate people's emotions and encourage them to carry out atrocities that normally would never be considered. When Nazi leader Adolf Hitler rose to power in Germany in the 1930s, the country's economy was in shambles. After its defeat in World War I, Germany signed the Versailles Treaty, which had punishing terms that caused devastating hyperinflation. Many Germans were scared, angry, frustrated, and, most importantly, impoverished. They weren't sure they would be able to feed themselves and their families, keep a roof over their heads, or afford fuel to stay warm in the winter. Hitler, an Austrian who had been jailed by Germany for high treason after being a ringleader of a failed insurrection, seized the opportunity to unite

Germans by scapegoating others. He promised that if those “inferiors” were eradicated, Germany’s economic problems would disappear. He called this appalling plan “the Final Solution.” The Nazi party consolidated power by creating an us-versus-them mentality and systematically dehumanizing those groups.

I believe great economic thinking could help us avoid the problem of hate speech gaining traction in society. Great economic thinking creates prosperity for everyone. When people have full bellies and roofs over their heads, they are less likely to believe propaganda or be motivated to take part in oppressing or killing entire groups of people just because they are different. Sadly, throughout history, brutal dictators have risen to power during times of economic suffering. Imagine if we’d had inspiring new ways to solve our urgent economic problems. These atrocities might never have happened. Open-minded exploration of alternative economic perspectives is one crucial part of preventing the destructive forces of hatred and dehumanization from taking root again and causing another tragedy.

Learning about the cruel things that humans have done to one another is extremely dispiriting. As Rabbi Sharon Brous once wrote, “Hope may be the single greatest act of defiance against a politics of pessimism and against a culture of despair.” It is easy to lose hope in the goodness of others when we have this capacity to treat one another as less than human. We must always be alert to this potential in ourselves and guard against it.

Even if the people around us are attracted to hate speech, we can walk our own path. Remember the words of Martin Luther King Jr., who said, “Injustice anywhere is a threat to justice every-

“Hope may be the single greatest act of defiance against a politics of pessimism and against a culture of despair.”

where.” None of us are immune to being scapegoated. Even if others become passionate advocates for hate and attack us personally, *you* can always do the right thing and be a passionate advocate for constructive ideas that improve everyone’s lives.

Intelligent Debate

A debate doesn’t have to be a formal argument at the front of the room. Debate can be any conversation between people who take different positions on an issue. Ideally, you want to persuade others to see things your way, but even if that never happens, you can at least convince others that your ideas have merit, and you can give their ideas a fair hearing as well. Unfortunately, there are times when conversations don’t go well. Some people just want to hear themselves talk even when they don’t know what they’re talking about. That is painful for the listener. Trapped in a one-sided conversation with someone engaging in useless blathering and meaningless bloviating, you’ll start inching out of the room or turn and flee. It’s bad enough being on the receiving end of this, but it’s even worse when you alienate conversation partners in this way.

Intelligent debate is the opposite of blathering and bloviating. With a nuanced understanding of your economic perspective, you communicate the pro and con arguments in a thoughtful manner and apply thoughtful and substantive points to make your case. You respond to their arguments in ways that communicate respectful disagreement. Intelligent debaters don’t make things up because they sound good. They actually *know* things. The good news is that now that you’ve completed the VOTE Program, you know things. You know the tools used to analyze economic



issues from different perspectives. You know the history of the policies and their contexts and backgrounds. You know the different voices and their talking points. Throughout this book, we asked you to keep switching from one perspective to another, so your mind is trained to track different arguments and compare and contrast divergent points of view. This has prepared you well to engage in intelligent debates. Also, you know to reject stereotypes and practice the rules of civil discourse—listen thoughtfully, critique issues instead of individuals, use your biofeedback to be mindful of your reactions, remember that empathy helps, aim for peaceful persuasion, and be open-minded.

All this knowledge is necessary for intelligent debate, but it's not sufficient to make you a persuasive communicator. One of the best books I've ever read on that topic is called *Made to Stick: Why Some Ideas Survive and Others Die*, by Chip and Dan Heath. It offers a formula for communicating ideas so that people remember them. Their acronym for their model is SUCCEsS, which stands for simple, unexpected, concrete, credible, emotional, and stories. These six principles

of communication can help you get your point of view across in a memorable way.

Here is a quick tour of the six components of SUCCEsS. First, find a way to sum up the heart of the idea in a way that is *simple* and easy to remember. Second, surprise people with something *unexpected* so you can capture and hold their attention. Third, make it *concrete* so they know exactly what you mean and can bring it to mind later. Fourth, make your idea *credible* by supporting it with reliable and accurate facts and figures so that listeners believe you. Fifth, give them a way to connect with the idea on an *emotional* level so they really care. Help them see how the idea is personally relevant to them. Finally, use *stories* to activate their imagination and generate empathy so they feel what the characters in the story are feeling and see how the problem could be solved. By using the SUCCEsS formula, your ideas will stick in people's minds. Although that doesn't mean you will convince them that you're right, you can be more confident that they have understood you and haven't ignored or dismissed out of hand what you had to say.

It feels good to meet people who agree with

our perspective because we are social creatures. We have always relied on cooperation to survive and succeed. Have you ever struck up a conversation with a stranger on a bus or in line at the grocery store and discovered that you both follow the same band, or share the same political affiliation, or have the same opinions about the latest economic policy? You realize you have something in common—a shared identity. In the past, we identified with relatively small groups—families, clans, and tribes. Today, our group identities center on much larger groups that share our interests, geography, beliefs, experience, culture, race, gender, physical and mental ability, and more. For example, we say proudly, “I’m a New Yorker,” “I’m a NASCAR fan,” or “I’m a vegetarian.” The more important something is to you, the more strongly you identify with it. People in groups tend to conform to the norms of the group. In other words, they act in certain ways and believe certain things that reinforce their group identity. On college campuses, for example, students wear sweatshirts with the name of their school. It’s a way of fitting in, creating a sense of belonging, and showing allegiance to the group. But the down side of groups is that they can lead us to divide the world into insiders and outsiders, us and them. If someone is in your group, you automatically have a reason to like and trust them because you identify with them. You are more likely to have empathy for them. However, if they are not in your group, you are less likely to automatically give them the benefit of the doubt, have empathy, or trust them.

Think about the groups you belong to and ask yourself if there are times when you conform to the group rather than think for yourself. This is a question worth asking because most of us believe we always think for ourselves and are never influenced by our group. There was a series of fascinating studies published in 2003 by Yale University psychologist Geoffrey Cohen that looked at the question of group influence on political beliefs.

First, in an informal pilot test, college students were given different versions of a made-up newspaper article about a welfare policy. One described a policy that gave more benefits to more people. The other described a policy that gave less welfare assistance. Unsurprisingly, self-identified liberals who participated in the study preferred the more expansive policy, and self-identified conservatives preferred the more limited policy. This makes sense because a person who identifies as a liberal wants more government, and a person who identifies as a conservative wants less government. Participants’ views lined up as expected based on the content of the policies. (This study did not include the radical perspective.)

Next, researchers tested whether participants’ preferences still held true when each policy was affiliated with a perspective. New versions of the fake newspaper articles were given to participants. Now they included quotes from Republicans in support of the more expansive policy and quotes from Democrats in support of the more limited policy. What happened? When participants read that prominent members of their respective parties supported the policy, they also supported it. Self-described liberals ended up supporting the more limited welfare policy because they believed Democrats supported it, and self-described conservatives supported the more expansive welfare policy because they believed Republicans supported it. Think about what this means for a moment. The actual content of the policy was less important to participants than their group affiliations. Researchers asked the subjects if they had been influenced by the quotes in the articles and the participants said they had not. They claimed that it was their own understanding of the policy that led them to support it.

This social science experiment is a cautionary tale for all of us. We all have times when we stubbornly believe we are seeing things clearly and thinking for ourselves, but we’re only echoing

what we hear from our group. It could be a conspiracy theory, a new cause to support, or the idea that people who don't conform to the group are traitors. We don't even realize that we automatically agreed with a position because it came under a certain label or was endorsed by a certain group. How often do we believe that we're thinking for ourselves when we're actually being swayed by our biases toward our group and against other groups? This is something we need to be aware of, especially when we're crunched for time and haven't given an idea more than a cursory glance. This study shows us that we should pause and give ideas more thought before we rush to conclusions.

As an intelligent debater, please make sure you have carefully considered the ideas you're putting forth and are not just parroting what others in your group like to say. Pretend you're an outsider and judge whether the logic of those arguments still holds up. If you decide that it does, and you are more sure than ever that these are the best ideas, you will be better able to articulate them to people outside your group. Even if others march in step with the group and don't think for them-

selves, *you* can keep an open mind and practice intelligent debate.

One last thing about intelligent debate. If you find conflict unpleasant and would rather keep your views to yourself and not get involved in a debate—formal or informal—I urge you to reconsider. That would be a great loss. Use your knowledge of issues, your intelligence, your curiosity, and your passion, to educate, challenge, and inspire others and yourself to think in new ways about economic problems and their solutions.

In one of the *Mission Impossible* movies, one character asks, “You really think we can do this?” The other replies, “We’re going to do it.”

Our mission will only have a successful outcome if you believe it's possible. I wholeheartedly believe we're going to do it. Even if others don't listen respectfully, use their passionate advocacy to stir up hatred, or don't want intelligent debate, we can carry out the mission anyway. It is always in your power to inspire new solutions by building a culture of respectful listening, passionate advocacy, and intelligent debate.



Your Note in the Song

Imagine our society is one big chorus. Together, we're striving to create the most beautiful song that our nation could possibly sing. It's a song of prosperity, freedom, liberty, fairness, well-being—all the words we've used in the VOTE Program to describe the ideal world from all three perspectives. The only way this song can reach its full potential and be as beautiful as possible is to include every voice. Each one of us is necessary and valuable to this endeavor. Your physical voice is like your DNA—unique to you. It's influenced by the particular shape of your mouth, nasal cavity, and airways, the movement of your jaw, the frequency and intensity of sound waves that issue forth, along with your accent (everyone has one), pitch, tone, tempo, resonance, pauses, texture, rhythm, and more. No one else in the world has your exact physical voice. If you communicate through sign language, an assistive device, or by typing, your “voice” is also completely unique to you. No one in the world has your particular way of understanding life and expressing it to the world.

Everyone's insights, inspiration, and innovative new thinking are desperately needed in the boundless song we're trying to sing together. In the opening story in chapter 1, I told you about the artist Dante Gabriel Rossetti, who met an old man who had wasted his amazing artistic talent because he was never encouraged to develop

it. The old man didn't know that we needed his note in the song to reveal the nuances of truth, beauty, humor, sorrow, and everything else that he was uniquely able to sing to us through paintbrush and canvas. This wasted opportunity wasn't just a personal tragedy for him. The whole world missed out on his genius, and generations later



we are still missing out. His masterpieces aren't hanging in any museum because he never painted them. Imagine what this world would be like if there were no more wasted gifts—if we all were freed from whatever prevents us from adding our unique note to the song. We would already have the most brilliant ideas to solve our urgent economic problems. We each would have everything we need to thrive.

You are always solving problems, no matter what you do in your life. As a student, you make a plan to manage your time so you can get your work handed in on time. As a plumber, you strategize how to repair a leak. As a personal trainer, you figure out how to correct someone's form when they're lifting weights. As a parent, you find ways to help your children reduce their anxiety before math tests. As an actor, you come up with a method to remember your cues. Every occupation and every activity requires creative thinking. Consider what could happen if we harnessed everyone's problem-solving talent and focused it on solving our economic problems. Imagine a bread baker applying their skills to the issue of affordable health care. They might note that it's not just about the missing ingredient (not enough trained nurses, perhaps), it's also about too much of an ingredient (too much paperwork, say). They would point out that we also need to pay attention to timing (for instance, when to intervene with medication or when to intervene with surgery). To avoid throwing money and resources at the problem and ending up with a half-baked health-care system or one that only has a single usable slice, the baker could see new ways to balance all these factors. Then the journalist could pick up on those ideas and offer their ways of looking at it, and then the airplane pilot, and the veterinarian, and so on. Soon, people from every field imaginable would be proposing innovative solutions to our country's entrenched economic problems. We all need economic prosperity. We all want the best solutions

and the best lives for ourselves and our loved ones. When everyone participates in this great endeavor, we benefit from a wealth of experience, expertise, and insight. There is no doubt in my mind that we will find the best ways forward when we involve everyone in this enterprise.


It took decades to develop the ideas in this book and six years to write the chapters you just read. Thank you for reading it. You have given me the greatest gift, which is your time. Time is our most precious resource. Even if you only read this book to get through it and earn credits toward your degree, I hope you aren't thinking, "I finished that class and I never need to deal with economics again!" You can throw away your notes, but you can never throw away our polluted environment, trillions of dollars of debt, or trade wars. You can't throw away our extreme income inequality or the millions of people who have no access to health care, or the elderly who struggle to make ends meet. You can try to pretend economics has nothing to do with you, but reality will intrude on that fantasy the minute you need food, transportation, a roof over your head, or a monetary system that works. The job you need may or may not be there depending on whether we solve our urgent economic problems. The VOTE Program was meant to do much more than teach you a few interesting conventional theory and radical theory tools and give you background and facts about economic issues. All that knowledge is certainly very important and useful, but what I sincerely hope you take away from everything you've read in these pages is this one vital message: *your* voice is desperately needed to bring light to our country.

We can't change the past, but we can set ourselves up for success in the future. It starts with you tuning your voice. Practice hitting the right note at the dinner table. Polish your persuasive skills in conversations with coworkers, classmates, neighbors, and strangers. Hone your arguments

so you can discuss ideas with strength and clarity. Above all, don't be silenced by fear or insecurity. Remember that your unique point of view contains the seeds that could sprout the next great economic idea. Without your voice, our song is incomplete because it's missing the key part that only you can contribute.

If you look around at the world and think it's hopeless, our problems are too deeply rooted and we'll never fix this, then that will be a self-fulfilling prophecy. You have to believe we can make things better or you might as well stay in bed. We inherited this world, but the condition of society is not set in stone. We can decide to change what isn't working and build on what is working. In the classic movie *The Wizard of Oz*, the main characters are on a pilgrimage to find the most important thing to them. Dorothy is desperate to get home. The Tin Man longs for a heart. The Scarecrow wishes for a brain, and the Cowardly Lion seeks courage. When they make the decision to take that first step on the yellow brick road, they commit to trying their best even

if they fail. We have to believe it's possible to succeed or we'll never take that first step.

The VOTE program rolls out a carpet of theory for you. It's ready for you to use as a starting place to solving economic problems here and around the world. At the end of *The Wizard of Oz*, the characters discover that what they sought was within them the whole time. They already had everything they were looking for. They didn't need a wizard with special powers to solve their problems. They just needed a new way to see and understand. It's the same for us. We don't need an economics wiz to come up with the next great idea. A background in economics is wonderful, but think about all the people you've learned about in this book who made meaningful contributions even though they had no background or education in the field. What I'm saying is, don't count yourself out and don't wait on the sidelines for someone else to fix this. Your voice on the economy is needed. This is your time. Take the first step by using the light of knowledge and open-mindedness to change the conversation. 



Map of the VOTE Book

VOTE Color Key

■ Red indicates the **conservative perspective**.

■ Green indicates the **radical perspective**.

■ Blue indicates the **liberal perspective**.

■ Purple indicates **conventional theory**.

Underlining indicates forms you might want to save.

PART I: Background and Theories

Chapter 1: The World Needs Your Voice



Opening story: *Dante Rossetti and the old man* – 1

Finding Your Voice – 2

Multiple Perspectives on Economic Issues – 3

Why Economics? – 4

VOTE Issues – 4

Your Voice Is Your Vote – 7

The VOTE Ballot – 7

VOTE Ballot – 8

The Three Questions of Economics – 9

Important Economic Terms – 11

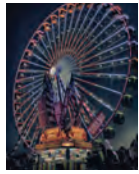
Exercise 1.1: Inputs and Outputs – 12

Choose Your Economic System – 13

The Next Great Economic Thinkers – 18

Test Yourself, Key Terms, Answer Key – 19

Chapter 2: The Power of Definitions



Opening story: *Reading the newspaper* – 23

We Make It Up – 24

Gross Domestic Product (GDP) – 27

Exercise 2.1: What Is Measured in GDP? – 32

Unemployment – 36

Exercise 2.2: What Type of Unemployment Is It? – 41

Inflation – 42

Exercise 2.3: Calculate the CPI – 45

Test Yourself, Key Terms, Answer Key – 48

Chapter 3: Thinking About Thinking



Opening story: *Sherlock Holmes on a camping trip* – 53

Essentialism, Non-essentialism, Relativism, and Absolutism – 56

Exercise 3.1: Name the Type of Thinker – 58

Economics and Pluralism – 58

Pluralism in Economics – 59

The Case for Pluralism in Economics – 59

Ethics and Economics – 61

How to Build “Theory-Plus” – 62

Positive, Contextual, and Normative Economics – 64

Positive, Contextual, and Normative Economics – 65

But What Is True?! – 65

Test Yourself, Key Terms, Answer Key – 67

Chapter 4: The Great Economic Thinkers



Opening story: *The jigsaw puzzle* – 71

History of Economic Thought – 72

■ **Adam Smith** – 72

■ **Karl Marx** – 80

■ **John Maynard Keynes** – 86

Exercise 4.1: What’s My Perspective? – 92

The Roles of Government from Three Perspectives – 93

The Big Picture of Economic Thought – 94

VOTE Perspectives (summary) – 96

Test Yourself, Key Terms, Answer Key – 97

Chapter 5: Conventional Theory—Conservatives and Liberals



Opening story: *Champion wheelchair racer Tatyana McFadden* – 101

Building **Conventional Theory** – 103

Conventional Assumptions and Model – 104

Market Change Guide Instructions – 115

Market Change Guide – 115

Exercises 5.1, 5.2, 5.3: Market Change Guide Practice – 117

Conventional Conclusions – 123

Conventional Policy – 124

Liberal Policy: Embrace fair-market capitalism – 124

Conservative Policy: Embrace free-market capitalism – 125

Conventional Theory: Capitalism (summary) – 127

Conventional Critique of Socialism – 128

The Dangers of Socialism (summary) – 132

Economic Well-Being from Different Perspectives – 133

■ Conservative Voice: Free-market capitalism – 134

■ Liberal Voice: Fair-market capitalism – 135

Test Yourself, Key Terms, Answer Key – 137

Chapter 6: Radical Theory



Opening story: *Micah White and Occupy Wall Street* – 143

Factories Without Bosses – 145

Cooperative Ownership in Democratic Socialism – 146

Building **Radical Theory** in Two Parts – 149

Radical Assumptions – 149

Radical Model and Conclusions: Capitalism – 152

Radical Policy: Capitalism – 162

Radical Policy, Part 1: Reject Capitalism – 162

Radical Model: Democratic Socialism – 162

Six-Core Cube Guide Instructions – 169

Six-Core Cube Guide – 169

Exercises 6.1, 6.2, 6.3: Six-Core Cube Guide Practice – 171

Radical Conclusions: Democratic Socialism – 176

Radical Policy: Democratic Socialism – 178

Radical Policy, Part 2: Embrace Democratic Socialism – 178

Radical Theory: Capitalism versus Democratic Socialism (summary) – 179

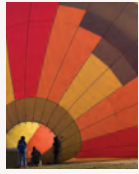
Economic Well-Being from Different Perspectives – 180

■ Radical Voice: Democratic Socialism – 180

Test Yourself, Key Terms, Answer Key – 182

PART II: Twelve Issues

Chapter 7: Tools to Get Started



Opening story: *Island of cannibals* – 187

Shared Tools: Challenging Stereotypes – 188

Shared Problem Statements and Shared Goals – 189

Four Common Stereotypes about Liberals – 192

Four Common Stereotypes about Radicals – 194

Four Common Stereotypes about Conservatives – 196

Exercise 7.1: Think Again – 198

Expanding the Models for Agriculture and Product Safety – 199

Conventional Theory Tools: Equilibrium and social welfare – 199

Conventional Agriculture Policies – 204

Liberal Policy: Strengthen agricultural subsidies – 204

Conservative Policy: Unfettered price signals – 204

Conventional Product Safety Policies – 204

Conservative Policy: Unfettered price signals – 205

Liberal Policy: Strengthen product safety regulations – 205

Radical Theory Tools: Top-down governance and participatory governance – 205

Radical Agriculture Policy – 210

Radical Policy: Food security council's emergency and innovation funds – 210

Radical Product Safety Policy – 210

Radical Policy: Product safety council's hazard assessment protocols – 210

Test Yourself, Key Terms, Answer Key – 213

Chapter 8: Agriculture



Discussion story: *The Dust Bowl* – 219

Understanding the Issue – 221

Voices on Agriculture – 226

- Conservative: Voice, Summary, Talking Points – 227

- Liberal: Voice, Summary, Talking Points – 233

- Radical: Voice, Summary, Talking Points – 239

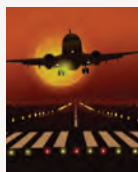
The Shared Outcome – 245

Debate Activity: “Point-Counterpoint” – 246

Re-Vote – 248

Test Yourself, Key Terms – 248

Chapter 9: Product Safety



Discussion story: *Chevy Corvair* – 253

Understanding the Issue – 255

Voices on Product Safety – 261

- Liberal: Voice, Summary, Talking Points – 262

- Radical: Voice, Summary, Talking Points – 268

- Conservative: Voice, Summary, Talking Points – 274

The Shared Outcome – 280

Role-Play Activity: “Breakfast with the Family” – 281

Re-Vote – 282

Test Yourself, Key Terms – 283

Chapter 10: Tools to Move Ahead



Opening story: *Is it wrong to steal life-saving medicine?* – 287

Facts or Value Judgments? – 289

Shared Tools: Civil Discourse – 290

- Six Guidelines for Civil Discourse – 292

- Exercise 10.1: Keep it Civil – 293

Expanding the Models for Livelihood and Housing – 294

- Conventional Theory Tools: Price controls and elasticity – 294

- Conventional Livelihood Policies – 303

- Conservative Policy:** Free-market wages – 305

- Liberal Policy:** Strengthen minimum wage legislation – 305

Conventional Housing Policies – 305

 Liberal Policy: Strengthen rent control laws – 306

 Conservative Policy: Free-market rent signals – 306

Radical Theory Tools: Private ownership and cooperative ownership – 306

Radical Livelihood Policy – 309

 Radical Policy: Worker-owned business incubators – 309

Radical Housing Policy – 310

 Radical Policy: Resident-owned communities – 310

Test Yourself, Key Terms, Answer Key – 313

Chapter 11: Livelihood



Discussion story: *Poverty in a sixth-grade class* – 317

Understanding the Issue – 318

Voices on Livelihood – 328

 ■ Radical: Voice, Summary, Talking Points – 329

 ■ Conservative: Voice, Summary, Talking Points – 335

 ■ Liberal: Voice, Summary, Talking Points – 341

The Shared Outcome – 347

Skit Activity: “All the World’s a Stage” – 348

Re-Vote – 349

Test Yourself, Key Terms – 350

Chapter 12: Housing



Discussion story: *The game of Monopoly* – 355

Understanding the Issue – 356

Voices on Housing – 367

 ■ Conservative: Voice, Summary, Talking Points – 368

 ■ Radical: Voice, Summary, Talking Points – 374

 ■ Liberal: Voice, Summary, Talking Points – 380

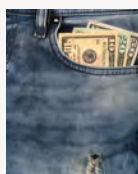
The Shared Outcome – 386

Poster Activity: “A Picture Is Worth a Thousand Words” – 388

Re-Vote – 389

Test Yourself, Key Terms – 390

Chapter 13: Income Distribution



Opening story: *The fisherman* – 395

Introduction to the Issue – 396

Workplace Discrimination – 401

Radical solution – 402

Liberal solution – 403

Conservative solution – 403

Expanding the Models – 405

Shared Tools: Lorenz curves and Gini coefficients – 405

Exercise 13.1: Comparing Income Distribution on a Lorenz Curve – 407

Conventional Theory Tools: Wages and marginal revenue product – 406

Conventional Policies – 412

Liberal Policy: Progressive taxes to fund government programs – 412

Conservative Policy: Flat consumption tax; defund government programs – 413

Radical Theory Tools: Unhealthy communities and healthy communities – 415

Radical Policy – 419

Radical Policy: Universal basic income; maximum wage caps – 419

Discussion story: *Roger Bannister and the four-minute mile* – 423

Understanding the Issue – 424

Exercise 13.2: Crossword Challenge – 436

Voices on Income Distribution – 437

■ Liberal: Voice, Summary, Talking Points – 438

■ Conservative: Voice, Summary, Talking Points – 445

■ Radical: Voice, Summary, Talking Points – 452

The Shared Outcome – 459

Three-in-One Activity: “It’s Off to Work We Go” – 460

Re-Vote – 467

Test Yourself, Key Terms, Answer Key – 467

Chapter 14: The Environment



Opening story: *The mousetrap* – 473

Introduction to the Issue – 474

Expanding the Models – 482

Shared Tools: Tragedy of the commons – 482

Exercise 14.1: Is It a Commons? – 484

Conventional Theory Tools: Negative externalities and cost-benefit analysis – 483

Conventional Policies – 491

Liberal view: Cost-benefit analysis – 491

Liberal Policy: Command and control regulation; supplemental carbon pricing – 492

Conservative view: Cost-benefit analysis – 493

Conservative Policy: Expanded private property rights; revenue-neutral carbon taxes; free-market cap and trade – 494

Radical Theory Tools: Unsustainable growth and sustainable development – 495

Radical Policy – 500

Radical Policy: Green New Deal; commons viability analyses – 500

Discussion story: *The Cuyahoga River* – 503

Understanding the Issue – 505

Voices on the Environment – 521

■ **Radical:** Voice, Summary, Talking Points – 522

■ **Liberal:** Voice, Summary, Talking Points – 529

■ **Conservative:** Voice, Summary, Talking Points – 536

The Shared Outcome – 543

Three-in-One Activity: “Tragedy of the Commons” – 544

Re-Vote – 552

Test Yourself, Key Terms, Answer Key – 552

Chapter 15: Health Care



Opening story: *Margaret Mead and the femur bone* – 557

Introduction to the Issue – 559

Expanding the Models – 570

Shared Tools: Experimental economics – 570

Radical Perspective – 574

Conventional Perspective – 575

Conventional Theory Tools: Third parties in markets and demand-curve rotation – 576

Conventional Policies – 578

Conservative Policy: Deregulated health-care system of private insurance – 578

Liberal Policy: Regulated for-profit health-care system; government health-care programs – 580

Radical Theory Tools: Individuals at risk and social safeguards – 582

Radical Policy – 586

Radical Policy: Single-payer health-care system – 586

Discussion story: *The heart attack* – 590

Understanding the Issue – 593

Quick Activity: “Your Recent Health Care” – 593

Exercise 15.1: What’s Your Health Care? – 601

Voices on Health Care – 610

■ Conservative: Voice, Summary, Talking Points – 611

■ Liberal: Voice, Summary, Talking Points – 618

■ Radical: Voice, Summary, Talking Points – 625

The Shared Outcome – 632

Three-in-One Activity: “First, Do No Harm” – 633

Re-Vote – 643

Test Yourself, Key Terms, Answer Key – 643

Chapter 16: Market Power



Opening story: *Desert Pete and the water pump* – 649

Introduction to the Issue – 650

Exercise 16.1: Match the Firm to Its Market Structure – 658

Expanding the Models – 662

Shared Tools: Accounting profit and economic profit – 662

Conventional Theory Tools: Perfect competition versus monopoly – 665

Conventional Policies – 679

Liberal Policy: Market power regulations – 679

Conservative Policy: Free-market competition – 680

Radical Theory Tools: Production for profit and production for use – 682

Radical Policy – 687

Radical Policy: Prosocial competition laws – 687

Discussion Story: *MCI versus AT&T* – 691

Understanding the Issue – 694

Quick Activity: “The Brands in Your Life” – 694

Copyrights, Patents, Trademarks, and Licenses – 701

Liberal view – 702

Radical view – 703

Conservative view – 703

Voices on Market Power – 707

- Liberal: Voice, Summary, Talking Points – 708
- Radical: Voice, Summary, Talking Points – 715
- Conservative: Voice, Summary, Talking Points – 722

The Shared Outcome – 729

Three-in-One Activity: “To Merge or Not to Merge, That Is the Question” – 730

Re-Vote – 739

Test Yourself, Key Terms, Answer Key – 739

Chapter 17: Retirement Security



Opening story: *Hazel's 90th birthday party* – 745

Introduction to the Issue – 747

Quick Activity: “Dream Retirement Vision Board” – 748

Expanding the Models – 760

Shared Tools: Opportunity cost – 760

Conventional Theory Tools: Production possibilities curve (PPC) – 761

Conventional Policies – 766

Conservative Policy: Total privatization of retirement accounts – 766

Liberal Policy: Strengthen Social Security; improve incentives for supplemental private retirement accounts – 768

Radical Theory Tools: Individuals at risk and social safeguards – 769

Radical Policy – 774

Radical Policy: Universal basic pension (UBP); optional worker-owned pension funds – 774

Bonus Tool: Game Theory – 777

Exercise 17.1: Cooperate or Compete? – 781

Discussion story: *Which box did he check?* – 785

Understanding the Issue – 786

Quick Activity: “Your Retirement Savings” – 787

Voices on Retirement Security – 804

- Radical: Voice, Summary, Talking Points – 805
- Conservative: Voice, Summary, Talking Points – 812
- Liberal: Voice, Summary, Talking Points – 819

The Shared Outcome – 826

Three-in-One Activity: “The Golden Years” – 827

Re-Vote – 836

Test Yourself, Key Terms, Answer Key – 836

Chapter 18: The Federal Budget



Opening story: *Nikki and her dream to build guitars* – 843

Introduction to the Issue – 845

Quick Activity: “Your Priorities for the Federal Budget” – 847

Expanding the Models – 860

Shared Tools: Potential GDP and the roles of government – 860

Conservative View: Fewest roles, highest growth, maximum prosperity for all – 864

Liberal View: Expanded roles, moderate growth, highest overall standard of living – 864

Radical View: Most roles, lowest growth, best quality of life – 864

Conventional Theory Tools: Aggregate supply–aggregate demand (AS-AD) graph – 865

Conventional Policies – 868

Conservative Policy: Annual balanced budgets; constrained money supply – 868

Liberal Policy: Adaptable balanced budgets; flexible money supply – 870

Radical Theory Tools: Unsustainable growth and sustainable development – 871

Radical Policy – 876

Radical Policy: Integrated balanced budgets; public banking – 876

Discussion story: *Burger King HQ moves to Canada* – 880

Understanding the Issue – 882

Exercise 18.1: Office Break Room Fill-in-the-Blank – 888

Voices on the Federal Budget – 897

■ Conservative: Voice, Summary, Talking Points – 898

■ Radical: Voice, Summary, Talking Points – 905

■ Liberal: Voice, Summary, Talking Points – 912

The Shared Outcome – 919

Three-in-One Activity: “Reduce-the-Deficit Challenge” – 920

Re-Vote – 929

Test Yourself, Key Terms, Answer Key – 929

Chapter 19: International Trade



Opening story: *The red paperclip* – 935

Introduction to the Issue – 937

Quick Activity: “Where is the firm headquartered?” – 938

Expanding the Models – 951

Shared Tools: Law of Comparative Advantage – 951

Conventional Theory Tools: Consumption possibilities curve (CPC) – 954

Conventional Policies – 961

Liberal Policy: Strengthen trade protections – 961

Conservative Policy: Free trade – 962

Radical Theory Tools: Unhealthy communities and healthy communities – 963

Radical Policy – 968

Radical Policy: Fair trade; collaboration – 968

Discussion story: *The Nestlé corporation* – 971

Understanding the Issue – 974

Exercise 19.1: International Trade Bingo – 984

Voices on International Trade – 986

■ Liberal: Voice, Summary, Talking Points – 987

■ Conservative: Voice, Summary, Talking Points – 994

■ Radical: Voice, Summary, Talking Points – 1001

The Shared Outcome – 1008

Three-in-One Activity: “Let’s Make a Deal!” – 1009

Re-Vote – 1019

Test Yourself, Key Terms, Answer Key – 1019

Chapter 20: Economic Stability

Opening story: *The three bricklayers* – 1025

Introduction to the Issue – 1026

Exercise 20.1: Your Solution to Unemployment – 1035

Expanding the Models – 1042

Shared Tools: Business cycle – 1042

Conventional Theory Tools: Fixing recessionary gaps and expansionary gaps – 1043

Conventional Policies – 1051

Liberal Policy: Keynesian (bubble-up) economics – 1051

Conservative Policy: Supply-side (trickle-down) economics – 1053

Radical Theory Tools: Production for profit and production for use – 1057

Radical Policy – 1062

Radical Policy: Socialist (ripple-out) economics – 1062

Discussion story: *Financial crisis of 2008* – 1067

Understanding the Issue – 1076



Exercise 20.2: Breaking News! – 1084

Voices on Economic Stability – 1085

■ Radical: Voice, Summary, Talking Points – 1086

■ Liberal: Voice, Summary, Talking Points – 1093

■ Conservative: Voice, Summary, Talking Points – 1100

The Shared Outcome – 1107

Three-in-One Activity: “Are You the Next Great Economic Thinker?” – 1108

Re-Vote – 1117

Test Yourself, Key Terms, Answer Key – 1118

PART III: New Conversations

Chapter 21: Your Voice, Our Future



Opening story: *The royal siblings and three empty rooms* – 1125

Democracy and Voting – 1128

The VOTE Mission – 1132

Inspire New Solutions – 1132

Building a Culture – 1134

Respectful Listening, Passionate Advocacy, and Intelligent Debate – 1136

Your Note in the Song – 1145

Key Terms Index – 1161

About the Authors and the VOTE Program– 1171

Mission, Vision, Obstacle, and Method – 1171

Key Terms Index

- Absolute advantage, 951
- Absolutists, 57
- Accountability, 89
- Accounting profit, 664
- Accumulation of capital, 155
- Acquisitions, 697
- Actual distribution of income, 405
- Adaptable balanced budgets, 870
- Adjustable-rate mortgage, 1069
- Adjusted gross income, 428
- Adverse selection, 596
- Affordable Care Act (ACA), 607
 - Affordable health care defined, 608
 - Ban on exclusions, 608
 - Health insurance exchanges, 608
 - Health insurance mandate, 607
 - Limits and caps, 608
 - Needs-based coverage, 608
 - Rebates to consumers, 608
 - Standardized policies, 608
 - Workplace insurance requirement, 608
 - Young adult coverage, 607
- Affordable housing, 360
- Ageism, 753
- Agency shop, 322
- Aggregate demand (AD), 866, 1044
- Aggregate supply (AS), 866, 1044
- Aggregate supply–aggregate demand (AS–AD) graph, 865, 1043
- Agrarian, 73
- Agribusiness, 222
- Agricultural dumping, 223
- Agricultural (farm) subsidies, 204, 224
 - Agricultural research, 224
 - Conservation reserve, 224
 - Crop commodity program, 224
 - Crop insurance, 224
 - Direct payments, 224
 - Disaster assistance, 224
 - Food promotion, 224
 - Loan programs for farmers, 224
- Agriculture, 222
- Alienation, 161
- Allocative efficiency, 75
- Animal spirits, 87, 1050
- Annual balanced budgets, 868
- Annual limit, 594
- Annualized GDP, 1030
- Antitrust legislation, 704
- Assets, 398
- Assumptions, 62
- Asymmetrical information, 597
- Audit, 883
- Austerity policies, 892
- Austrian school, 869
- Average income, 427
- Average indexed monthly earnings (AIME), 797
- Balance of payments, 977
- Balanced budget, 849
- Bank failure, 1070
- Barriers to entry, 656
- Barriers to exit, 656
- Barter, 852, 936
- Base year, 43
- Bear market, 793
- Bend points, 798
- Big business, 697
- Bilateral trade agreement, 981
- Boycott, 974
- Break even, 675
- Bubble-up economics, 1051
- Budget deficit, 849
- Budget reconciliation, 890
- Budget resolutions, 889
- Budget sequestration, 892
- Budget surplus, 849
- Built environment, 476
- Bull market, 793
- Business cycle, 1042
- Byproducts of production, 476
- Capital, 11
- Capital account, 977
- Capitalism, 14, 73
- Capitalist competition, 81

- Capitalists, 80
- Carbon emissions, 478
- Carbon pricing, conservative, 495
 - Free-market cap and trade, 495
 - Revenue-neutral carbon tax, 495
- Carbon pricing, liberal, 492
 - Cap and trade, 492
 - Carbon tax, 492
- Cartel, 697
- Catastrophic coverage, 599
- Categories of taxes, 431
 - Flat, 431
 - Progressive, 432
 - Regressive, 432
- Central planning, 130
- Ceteris paribus, 105
- Chained CPI, 46
- Civil discourse, 290
- Class process, 149
- Class struggle, 153
- Classical theory, 73, 1049
- Climate change, 477
- Climate justice, 517
- Closed shop, 322
- COBRA, 598
- Co-housing community, 359
- Collateral, 885, 1068
- Collective bargaining, 322
- Collective creation of value, 162
- Collusion, 697
- Command and control regulation, 492
- Commercial banks, 1070
- Commodities, 222
 - Hard commodities, 222
 - Soft commodities, 222
- Commodities exchanges, 222
- Commons, 482
- Commons viability analyses, 500
- Commune, 360
- Communism, 82
- Community councils, 208
- Community Development Block Grants, 364
- Community land trust (CLT), 360
- Comparative advantage, 952
- Complement, 113
- Compliance, 256
- Compound interest, 791, 850
- Conclusions, 62
- Condo board, 358
- Condominium, 357
- Condominium owners association (COA), 358
- Conglomerate mergers, 697
- Connection, 177
- Constitutional democracy, 10
- Consumer cooperatives, 147
- Consumer Price Index (CPI) , 43
- Consumer safety standards, 255
- Consumer sovereignty, 258
- Consumer spending, 30
- Consumer surplus, 201
- Consumerism, 143
- Consumption possibilities curve (CPC), 960
- Consumption question, 9
- Contextual economics, 65
- Continuing resolution, 891
- Contractionary fiscal policy, 1052
- Conventional critique of socialism, 128
 - No competition, 131
 - No hierarchy, 131
 - No price signals, 129
 - No private ownership, 128
 - No profit, 129
 - No sustainable democracy, 131
- Conventional theory, 103
- Co-op apartment, 359
- Co-op board, 359
- Cooperatives, 146
- Coordination among competitors, 83
- Copayment (copay), 594
- Copyright, 653
- Core CPI, 45
- Corporate trust, 697
- Cost burdened, 360
- Cost-benefit analysis, 77, 487
- Cost-of-living adjustment (COLA), 45
- Creative destruction, 659
- Credence good, 565
- Credit default swaps, 1074
- Credit limit, 850
- Credit score, 850

- Credit unions, 1063
- Crowd in, 870
- Crowd out, 869
- Cryptocurrency, 854
- Current account, 977
- Custom duties, 948
- Cycle of poverty, 427
- Cyclical unemployment, 40
- Deadweight loss, 203
- Debt ceiling, 892
- Deductible, 591
- Default, 360, 893
- Defined benefit plans, 756
 - Government pension programs, 756
 - Private pensions, 756
- Defined contribution plans, 756
 - 401(k), 757
 - 403(b), 757
 - 457 plan, 757
 - SEP IRA, 758
 - SIMPLE IRA, 758
- Deflation, 24
- Demand curve, 110
- Demand-pull inflation, 1048
- Demanders, 105
- Democracy in the Workplace, 687
- Democratic Party, 16
- Democratic socialism, 14, 83
- Democratic Socialists of America, 16
- Depreciation, 886
- Depression, 1034
- Deregulation, 1055
- Determinants of demand, 113
 - Availability/convenience, 113
 - Future expectations, 113
 - Income, 113
 - Number of buyers, 113
 - Preference, 113
 - Price of complements and substitutes, 113
- Determinants of price elasticity of demand, 297
 - Fraction of income, 297
 - Necessity versus luxury, 297
 - Number of substitutes, 297
 - Time factor, 298
- Determinants of price elasticity of supply, 300
 - Available inputs, 300
 - Complexity of production, 301
 - Inventories, 301
 - Time factor, 302
- Determinants of supply, 114
 - Changes in technology, 114
 - Cost of inputs, 114
 - Future expectations, 114
 - Number of firms, 114
 - Prices of related goods, 114
 - Taxes, subsidies, and regulations, 114
- Developing nations, 946
- Differentiated product, 657
- Digital trade, 981
- Discouraged worker, 38
- Discretionary spending, 886
- Disinflation, 42
- Distribution question, 9
- Distributive efficiency, 75
- Distributive justice, 401
- Diverse portfolio, 794
- Dividends, 792
- Domestic trade organizations, 978
 - Bureau of Industry and Security (BIS), 978
 - International Trade Administration (ITA), 978
 - Office of the U.S. Trade Representative (USTR), 979
 - Office of Trade, Mutual Recognition, and International Arrangements (OTMRIA), 978
 - U.S. Customs and Border Protection (CBP), 979
- Downstream effects, 491
- Dual mandate, 856
- Dynamic interactions over surplus, 150
- Early retirement, 797
- Earmarks, 889
- Ecological resilience, 477
- Ecology, 477
- Economic downturn, 1028
- Economic growth, 765, 860
- Economic instability, 1027
- Economic loss, 675
- Economic profit, 664
- Economic stability, 1027
- Economic system, 13

- Economic theories, 13
- Economics, 9
- Economies of scale, 679
- Ecosystems, 477
- Efficiency loss, 203
- Effluent, 480
- Elastic, 296
- Elasticity, 296
- Empirically, 56
- Employment, 24
- Enlightened self-interest, 77
- Entitlement program, 795
- Entrepreneur, 11
- Environmental racism, 509
- Epistemology, 56
- Equality, 88
- Equilibrium, 107
- Equity, 88
- Equity gain, 204
- Essentialists, 56
- Establishment survey, 38
- Ethics, 61
- Evict, 357
- Exchange rate, 939
- Excise tax, 432
- Expansionary fiscal policy, 1052
- Expansionary gap, 1046
- Expenditure method, 30
- Expenditures, 845
- Experimental economics, 570
- Exploitation, 153
- Exports, 31, 937
- Extraordinary measures, 892
- Factors of production, 11
- Fair market, 88
- Fair-market capitalism, 14
- Fair-trade movement, 947
- Farm Bill, 223
- Federal budget, 845
- Federal jobs guarantee, 1062
- Federal Reserve System (the Fed), 855, 1052
- Feudalism, 13
- Fiat currency, 854
- FICA (Federal Insurance Contributions Act), 796
- Filibuster, 890
- Final goods and services, 28
- Fiscal, 848
- Fiscal cliff, 892
- Fiscal policies, 1043
- Fiscal year (FY), 848
- Fixed costs, 663
- Fixed-rate mortgage, 1068
- Flat consumption tax policies, 414
- Flexible savings account (FSA), 598
- Food aid, 223
- Food security councils, 210
- Foreclose, 360, 1068
- Foreign direct investment, 948
- Free market, 75
- Free-market capitalism, 14
- Free trade, 962
- Free-trade agreements (FTAs), 981
- Frictional unemployment, 39
- Full employment (FE) GDP, 861, 1042
- Full retirement age (FRA), 796
- Functions of money, 853
 - Medium of exchange, 853
 - Store of value, 853
 - Unit of account, 853
- Furloughed, 891
- Futures, 223
- Game theory, 777
 - Dominant strategy, 779
 - Nash equilibrium, 780
 - Pareto improvement, 780
 - Pareto optimal cell, 780
 - Payoff matrix, 779
 - Payoffs, 779
 - Strategies, 779
- GDP per capita, 30, 861
- GDP price deflator, 43
- Gentrification, 376
- Gini coefficient, 405
- Global economy, 940
- Globalization, 940
- Gold standard, 854
- Golden parachute, 428
- Goods, 11
- Governance, 10
- Government agencies for the environment, 517

- Agency for Toxic Substances and Disease Registry (ATSDR), 518
- Department of Agriculture (USDA), 518
- Department of the Interior (DOI), 518
- Environmental Protection Agency (EPA), 518
- Geological Survey (USGS), 518
- National Oceanic and Atmospheric Administration (NOAA), 518
- Government anti-poverty programs, 323
 - AmeriCorps VISTA, 324
 - Head Start for School Readiness, 324
 - Federal TRIO Programs, 324
 - Job Corps, 324
- Government regulatory agencies, 258
 - Consumer Financial Protection Bureau (CFPB), 259
 - Consumer Product Safety Commission (CPSC), 259
 - Food and Drug Administration (FDA), 259
 - National Highway Traffic Safety Administration (NHTSA), 259
- Government securities, 855
- Government shutdown, 891
- Government spending, 31
- Government stimulus, 1053
- Government transfer payments, 28
- Government-managed funds (GMFs), 755
- Green capitalism, 519
- Green marketing, 519
- Green New Deal, 500
- Greenwashing, 519
- Gross Domestic Product (GDP), 12, 24
- Gross income, 433
- Gross National Happiness (GNH), 34
- Gyres, 475
- Hazardous waste, 510
- Health insurance, 565
- Health savings account (HSA), 598
- Health-care system, 560
- Hedge, 223
- Helpful hand of government, 88
- Herfindahl-Hirschman Index (HHI), 699
- Holistic, 151
- Homeowners association (HOA), 358
- Homogeneous product, 656
- Horizontal mergers, 698
- Household, 364
- Household survey, 38
- Housing, 357
- Human footprint, 508
- Human trafficking, 946
- Hyperinflation, 1037
- Import fees, 948
- Imports, 31, 937
- Incentives, 74
- Inclusionary zoning, 366
- Income, 398
- Income distribution, 396
- Income method, 30
- Incorporate, 885
- Individual retirement accounts (IRA), 757
 - Roth, 757
 - SEP, 758
 - SIMPLE, 758
 - Traditional, 757
- Industrialized nations, 946
- Industry, 655
- Inelastic, 296
- Inflation, 12, 24
- Inheritance tax, 433
- Initial public offering (IPO), 696
- Injection, 31
- Input markets, 294
- Inputs, 11
- Insolvency, 895
- Integrated balanced budgets, 876
- Intentional community, 360
- Interest, 792, 849
- Interest-based negotiation, 209
- Intermediate goods, 28
- International climate agreements, 516
 - Copenhagen Accord and Cancun Agreement, 516
 - Kyoto Protocol, 516
 - Paris Agreement, 517
 - Rio Earth Summit, 516
- International finance, 940
- International trade, 937
- International trade concerns, 982
 - Currency manipulation, 982

- Dumping, 982
- Forced technology transfer, 982
- Infant industry, 982
- Intellectual property rights, 982
- Investor-to-state dispute settlement, 983
- National security, 983
- Offshoring and outsourcing to foreign countries, 983
- Standards, 983
- Subsidies, 983
- International trade organizations, 979
 - G20, 979
 - International Chamber of Commerce (ICC), 979
 - International Monetary Fund (IMF), 979
 - Organization for Economic Cooperation and Development (OECD), 979
 - United Nations Conference on Trade and Development (UNCTAD), 979
 - World Bank, 979
 - World Trade Organization (WTO), 942
- Interventionist, 1051
- Intragovernmental debt, 851
- Investment banks, 1070
- Investment instruments, 792
 - Annuities, 793
 - Certificates of deposit (CDs), 793
 - Corporate and municipal bonds, 792
 - Mutual funds, ETFs, and index funds, 792
 - Stocks, 792
 - U.S. Treasury securities, 792
- Investment spending, 31
- Invisible hand, 74
- Invisible synergy, 167
- Involuntary part-time workers, 39
- Keynesian, 88, 1051
- Labor, 11
- Labor force, 37
- Labor force participation rate, 38
- Labor theory of value, 153
- Labor unions, 322
- Laffer curve, 868
- Lagging indicator, 27
- Laissez-faire, 75
- Land, 11
- Landlord, 357
- Law of comparative advantage, 953
- Law of demand, 105
- Law of diminishing marginal returns, 409, 669
- Law of supply, 106
- Lawful and unlawful ways firms gain market power, 699
 - Advertising, 700
 - Control over key resources, 700
 - Corporate espionage and sabotage, 701
 - Cost advantage, 700
 - Fraudulent advertising, 700
 - Frivolous lawsuits, 701
 - Network effects, 700
 - No close substitutes, 700
 - Predatory pricing, 700
 - Price fixing, 700
- Leading indicator, 27
- Leakage, 31
- Leveraged buyouts, 697
- Lien, 360
- Livelihood, 318
- Loan origination fee, 1068
- Local knowledge problem, 131
- Long run, 663
- Long-run aggregate supply, 1050
- Long-term care insurance, 752
- Loose monetary policy, 1052
- Lorenz curve, 405
- Low-Income Housing Tax Credit (LIHTC), 365
- Macroeconomics, 12
- Managed care, 606
- Mandatory spending, 886
- Marginal analysis, 77
- Marginal average rule, 672
- Marginal benefit, 199
- Marginal cost, 199, 671
- Marginal cost curve, 486
- Marginal output, 410
- Marginal private cost (MPC), 486
- Marginal revenue, 668
- Marginal revenue product (MRP), 410
- Marginal social cost (MSC), 486
- Marginal tax rate, 433
- Marginally attached, 39, 1034

- Market concentration, 699
- Market failure, 485
- Market structures, 656
 - Monopolistic competition, 656
 - Monopoly, 657
 - Monopsony, 658
 - Natural monopoly, 658
 - Near-monopoly, 657
 - Oligopoly, 657
 - Perfect competition, 656
- Market power, 651
- Market value, 28
- Markets, 12
- Material well-being, 10
- Materialism, 10
- Matures, 855
- Maximum wage cap, 420
- Means of production, 11
- Median income, 427
- Medicaid program, 580
- Medical tourism, 604
- Mercantilism, 72
- Mergers, 697
- Microeconomics, 12
- Minimum wage, 303
- Misery index, 1040
- Model, 62
- Modern monetary theory (MMT), 858
- Monetarists, 869, 1055
- Monetary policies, 1043
- Monetizing the debt, 857
- Money, 853
- Money illusion, 46
- Money supply, 855
- Moral hazard, 595
- Mortgage, 360
- Mortgage-backed securities, 1074
- Most-favored nation (MFN), 980
- Move along, 112
- Multilateral trade agreement, 981
- Multinational cooperatives, 941
- Multinational corporations, 940
- Mutual interest, 152
- National debt, 849
- National treatment, 980
- Natural environment, 475
- Natural rate of unemployment, 1033
- Natural resources, 476
- Necessary labor, 152
- Negative competition, 659
- Negative externalities, 485
- Negligent, 258
- Neoclassical theory, 73
- Net export spending, 31
- Net income, 433
- Net neutrality, 705
- Net-zero greenhouse gas emissions, 500
- Networking hubs, 1062
- Nominal value, 46
- Non-essentialists, 56
- Nonrenewable resources, 476
- Nontariff barriers (NTBs), 948
 - Embargoes, 948
 - Firm subsidies, 949
 - Import licenses, 949
 - Quotas, 949
 - Required standards, 949
 - Voluntary export restraints, 949
- Normative economics, 65
- Official Poverty Measure (OPM), 320
- Old-Age and Survivors Insurance (OASI) Trust Fund, 801
- Omnibus spending bill, 890
- Open access, 483
- Open shop, 322
- Opportunity cost, 664, 760, 952
- Output, 11
- Output gap, 1077
- Output markets, 294
- Outsourcing, 40
- Paradox of thrift, 1050
- Pareto optimal point, 764
- Participatory budgeting, 876
- Patent, 653
- Peer nations, 33
- Pension, 756
- Pension trust funds, 795
- Per capita, 427
- Perfectly elastic, 299
- Perfectly equal distribution of income, 405

- Perfectly inelastic, 299
- Perks, 428
- Personal Consumption Expenditures (PCE), 46
- Pluralism, 59
- Point-in-time count, 362
- Policy, 62
- Pollution, 477
- Pollution abatement, 480
- Positive competition, 659
- Positive economics, 64
- Potential GDP, 861, 1042
- Poverty, 318
- Poverty threshold, 320
- Poverty trap, 427
- Predatory lending, 1069
- Preexisting conditions, 579
- Premium, 566
- Pressure for bad, 155
- Pressure for good, 164
- Pretax dollars, 756
- Prevention, 256
- Price ceiling, 295
- Price control, 294
- Price elasticity of demand, 296
- Price elasticity of supply, 296
- Price floor, 296
- Price gouging, 687
- Price maker, 657
- Price signals, 74
- Price taker, 656
- Primary insurance amount (PIA), 798
- Prime rate, 1069
- Principal, 793, 849
- Principal-agent problem, 565
- Printing money, 1056
- Private health insurance, 565
- Private retirement accounts (PRAs), 756
- Producer Price Index (PPI), 43
- Producer surplus, 201
- Producer/marketing cooperatives, 147
- Product recall, 257
- Product safety, 255
- Product safety councils, 210
- Product safety regulations, 204, 255
- Production possibilities curve (PPC), 761, 954
- Production question, 9
- Productive efficiency, 75
- Profit, 663
- Progressive benefit, 799
- Progressive tax policies, 412
- Property manager, 357
- Prosocial competition, 687
- Provider network, 598
- Public banking, 877, 1063
- Public debt, 852
- Public goods, 865
 - Nonexcludable, 865
 - Nonrivalrous, 865
- Public health institutions, 600
 - Centers for Disease Control and Prevention (CDC), 600
 - National Institutes of Health (NIH), 600
 - U.S. Public Health Service (USPHS), 600
- Public health insurance, 566
- Public housing, 364
- Public housing authorities, 364
- Public option, 566
- Puffery, 701
- Purchasing power, 42
- Purchasing/retail cooperatives, 147
- Quality control, 256
- Quantitative easing, 1075
- Quantity demanded, 105
- Quantity supplied, 106
- Rating agencies, 1074
- Rationally, 56
- Real economy, 852
- Real GDP, 29
- Real value, 46
- Recession, 1027
- Recessionary gap, 1046
- Red Scare, 322
- Redlining, 1069
- Reduce, reuse, and recycle, 512
- Refinance, 1068
- Regressive funding, 799
- Relativists, 57
- Renewable resources, 476
- Rent, 357
- Rent control, 305

- Rent seeking, 681
- Rent stabilization, 366
- Representative democracy, 10
- Republic, 10
- Republican Party, 16
- Research and development (R&D), 653
- Reserve army of the unemployed, 155
- Reserve requirement, 1071
- Resident-owned communities (ROCs), 310
- Resources, 11
- Retirement, 746
- Retirement security, 747
- Return on investment (ROI), 788
- Revenues, 845
- Right to Work movement, 323
- Ripple-out economics, 1062
- Safe product, 256
- Say's law, 1049
- Scabs, 322
- Scarcity, 104
- Section 8 housing, 364
 - Project-based rental assistance, 364
 - Tenant-based housing choice vouchers, 365
- Sectors, 655
- Self-interest, 76
- Self-pay, 565
- Service the debt, 895
- Services, 11
- Shareholder, 792
- Sherman Antitrust Act, 704
- Shift, 112
- Short run, 662
- Shortage, 108
- Shut-down point, 675
- Simple interest, 850
- Single-payer health care, 566
- Six core points of capitalism, 158
 - Individuals at risk, 158, 582, 769,
 - Private ownership, 158, 306
 - Production for profit, 158, 682, 1057
 - Top-down governance, 158, 206
 - Unhealthy communities, 158, 415, 963
 - Unsustainable growth, 158, 495, 871
- Six core points of democratic socialism, 166
 - Cooperative ownership, 166, 306
 - Healthy communities, 167, 417, 966
 - Participatory governance, 166, 206
 - Production for use, 167, 685, 1060
 - Social safeguards, 167, 585, 773
 - Sustainable development, 167, 498, 875
- Six guidelines for civil discourse, 292
 - Aim for peaceful persuasion, 293
 - Be open-minded, 293
 - Critique issues, not individuals, 292
 - Listen thoughtfully, 292
 - Remember that empathy helps, 292
 - Use your biofeedback, 292
- Slavery, 13
- Small business, 654
- Social capital, 412
- Social insurance program, 755
- Social pension plan, 755
- Social Security, 755
- Social welfare, 199
- Socialist economics, 1062
- Solid waste, 510
- Soviet-style communism, 13
- Specialize, 73
- Speculation, 793, 1072
- Speculative bubble, 793, 1072
- Squatter, 357
- Stability, 88
- Stabilization policy, 1051
- Stagflation, 1040
- Standard deduction, 884
- Standard of living, 24
- State capitalism, 13, 82
- Stereotype, 190
- Stewardship councils, 501
- Sticky (prices and wages), 1050
- Stock options, 428
- Strike, 322
- Strikebreakers, 322
- Structural unemployment, 40
- Subprime mortgages, 1069
- Subsidiaries, 695
- Substitute, 113
- Sunset provisions, 892
- Supermajority, 890
- Supplemental Poverty Measure (SPM), 321

- Supplemental Security Income (SSI), 796
- Suppliers, 105
- Supply chains, 940
- Supply curve, 110
- Supply shock, 1048
- Supply-push inflation, 1048
- Supply-side economics, 77, 1053
- Surplus, 81, 107, 149
- Surplus labor, 152
- Surplus value, 153
- Sweatshops, 946
- Synthetic repeal, 608
- System, 13
- Tariff, 948
- Tariff binding, 980
- Tax and transfer, 413
- Tax avoidance, 882
- Tax bracket, 412
- Tax deductions, 884
- Tax evasion, 882
- Tax havens, 886
- Tax inversion, 881
- Tax loophole, 882
- Tax return, 883
- Tax shelters, 885
- Taxable income, 433
- Technology, 104
- Temporary housing, 360
- Tenant, 357
- Theory, 13
- Third parties, 485
- Tight monetary policy, 1052
- Total cost, 663
- Total revenue, 299, 663
- Total surplus, 201
- Trade, 935
- Trade deficit, 976
- Trade protections, 947
- Trade rounds, 942
- Trade sanctions, 949
- Trade surplus, 976
- Trade war, 948
- Tragedy of the commons, 483
- Transaction cost, 131
- Transparency, 89
- Treasury, 855
- Triangle trade-off, 202
- Trickle-down economics, 1054
- Types of private health insurance, 597
 - Conventional indemnity plan, 598
 - Health maintenance organization (HMO), 598
 - High-deductible health plan (HDHP), 598
 - Preferred provider organization (PPO), 598
- Types of public health insurance, 599
 - Children's Health Insurance Program (CHIP), 599
 - Federal Employees Health Benefits Program (FEHBP), 600
 - Indian Health Service (IHS), 600
 - Medicaid, 599
 - Medicare, 599
 - TRICARE, 600
 - Veterans Health Administration (VA), 600
- Types of taxes and transfers, 432
 - Capital gains tax, 432
 - Consumption tax, 433
 - Estate tax, 433
 - Government transfer payments, 433
 - Income tax, 433
 - Property tax, 433
 - Wealth tax, 433
- Underemployed, 39
- Unemployment, 12, 24
- Unfunded liabilities, 852
- Union shop, 322
- Universal basic income (UBI), 419
- Universal basic pension (UBP), 755
- Utilities, 360
- Value-added tax (VAT), 433
- Variable costs, 663
- Vertical mergers, 698
- Vested, 794
- Visible suffering, 159
- Volatile prices, 45
- Wage laborer, 81
- Wealth, 398
- Worker-owned business incubators, 309
- Worker-owned cooperatives, 146
- Working poor, 320
- Workplace exploitation, 81
- Workplace justice, 83
- Zero-sum game, 659

About the Authors

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To inspire new solutions to our country's urgent economic problems by building a culture of respectful listening, passionate advocacy, and intelligent debate.

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The Obstacle

Partisan hostility and siloed thinking keep us from sparking the brilliant ideas we desperately need to create prosperity for all.

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