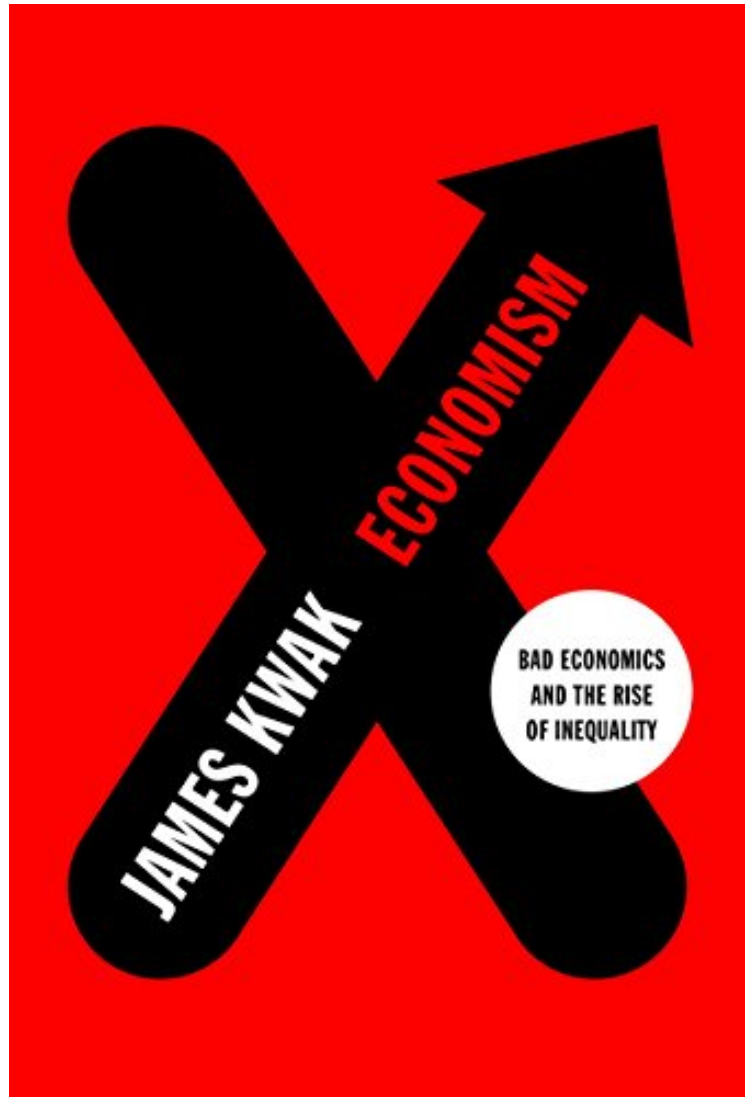


[Download] Economism: Bad Economics and the Rise of Inequality

## Economism: Bad Economics and the Rise of Inequality

*James Kwak*

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**James Kwak : Economism: Bad Economics and the Rise of Inequality** before purchasing it in order to gage whether or not it would be worth my time, and all praised Economism: Bad Economics and the Rise of Inequality:

4 of 5 people found the following review helpful. Very Useful Book in Understanding the Costs of Believing Neoliberals' Version of Economics  
By Customer  
I've read many books on economics over the last few years, trying to understand how to best argue against the nonsensical narrative presented by the right-wing (Heritage Foundation/Cato Institute, etc.), and Wall Street itself, regarding the state of our economy, and how it works. This is a fairly short book, simply explained, but as useful as any I have read in understanding the difference between Reagonomics/neoliberalism and real life...and how it is costing all of us. I highly recommend reading this book. Everyone should understand its

points.8 of 10 people found the following review helpful. Excellent: Shows How An Economic Theory Has Been Oversimplified Into an IdeologyBy Anne MillsIn this book James Kwak shows how an oversimplified version of classical economics, a version he calls "Economism" or "Economics 101", has become the credo of the right. More than that, it has taken over the center as well, dominating economic policy discussion and economic policy making in the US. By arguing that the market will always produce the best outcome, Economism has become a powerful argument for minimizing government. But Economism is vastly oversimplified -- markets are not perfect, economic actors are not rational, information is not universally available, and Economism can lead to false conclusions. (Oddly enough, this never seems to affect its proponents. We've had 50 years of tax cuts, and they still argue that all we need to unleash growth is another tax cut). Finally, he argues that the rise of Economism is no accident. It is a point of view that vastly favors the agenda of the very rich, and its spread through our culture has been funded and nourished by the very rich.Kwak has nothing against economics, but he wants to see economics used as a tool, based on hard evidence, rather than as a profession of faith to justify policies that favor the 0.1%. As a professional economist, I think he has got it right.0 of 0 people found the following review helpful. Misuse of economic theories to pad the pockets of the plutocratsBy Martin LobelEasy explanation for the layman of how the plutocrats have used bad economic theory to pad their pockets at the expense of the middle class.

Here is a bracing deconstruction of the framework for understanding the world that is learned as gospel in Economics 101, regardless of its imaginary assumptions and misleading half-truths.Economism: an ideology that distorts the valid principles and tools of introductory college economics, propagated by self-styled experts, zealous lobbyists, clueless politicians, and ignorant pundits.In order to illuminate the fallacies of economism, James Kwak first offers a primer on supply and demand, market equilibrium, and social welfare: the underpinnings of most popular economic arguments. Then he provides a historical account of how economism became a prevalent mode of thought in the United States--focusing on the people who packaged Econ 101 into sound bites that were then repeated until they took on the aura of truth. He shows us how issues of moment in contemporary American society--labor markets, taxes, finance, health care, and international trade, among others--are shaped by economism, demonstrating in each case with clarity and ease;lan how, because of its failure to reflect the complexities of our world, economism has had a deleterious influence on policies that affect hundreds of millions of Americans.

ldquo;For generations, we've been told that there's a simple framework that can explain the mysteries of how the economy can create optimal outcomes for us all. What James Kwak shows us is that this set of ideas--what he calls 'economism'--is magical thinking; it's certainly not grounded in science and evidence. In this pithy book of accessible prose, Kwak begs us to contend with the messiness of the real world--and the inequality our economic system has spawned--before it's too late.rdquo;mdash;Heather Boushey, executive director and chief economist, Washington Center for Equitable Growthldquo;In this beautiful and accessible book, James Kwak shows us how a simplistic idea about economics has captured policy-making to the detriment of sensible policy. No book better frames this pathology or better supplies the resources for resisting it.rdquo;mdash;Lawrence Lessig, Roy L. Furman Professor of Law and Leadership, Harvard Law Schoolldquo;For years, I've encountered people with a strong sense that many economic arguments in support of the status quo are not just inequitable, but wrong. With Economism, they've got the proof they've been waiting for, presented in language non-economists can understand.rdquo;mdash;Jared Bernstein, senior fellow, Center on Budget and Policy Prioritiesldquo;The next time some smug friend insists that a higher minimum wage guarantees higher unemployment or that American medical care costs so much because government is so involved, give them the gift of Economism. Better yet, convince them the book will increase their utility, not to mention their knowledge of how markets really work. Kwak has written the myth-buster that our distorted economic debate needs. And he's made it fun--er, welfare-enhancing--to read.rdquo;mdash;Jacob S. Hacker, Stanley B. Resor Professor of Political Science, Yale Universityldquo;In crisp prose, Kwak time and again debunks froshmorick economics platitudes to show why the minimum wage might decrease unemployment, why taxing profits might not reduce investment, and even why (gasp) free socialized medicine might not lead to overconsumption of health care.rdquo;mdash;Ian Ayres, William K. Townsend Professor of Law, Yale Law Schoolldquo;Makes an important case that the fetish of 'efficient markets' has distorted American politics. Kwak shows that it is bad economics but potent ideology, and it has distorted debates about labor law, international trade, and financial regulation. This clearly written book is an excellent dissection of some bad ideas that have been allowed to masquerade as common sense for too long.rdquo;mdash;Jedediah Purdy, Robinson O. Everett Professor of Law, Duke Law Schoolldquo;Politicians and pundits proclaim with the pomposity that many in Washington take to be gravitas that any tinkering with market forces will have unhappy results. But as Kwak shows, the dogma is often a self-serving pretext for policies that have led to extreme and growing concentration of income and wealth, and requires disregarding observable real-world experience.rdquo;mdash;Brad Miller, former member of the U.S. House of Representatives and the House Committee on Financial ServicesAbout the AuthorJAMES KWAK is a professor at the University of Connecticut School of Law

and the co-author, with Simon Johnson, of *13 Bankers and White House Burning*. He has a Ph.D. in intellectual history from UC Berkeley and a J.D. from the Yale Law School. Before going to law school, he worked in the business world as a management consultant and a software entrepreneur. Excerpt. copy; Reprinted by permission. All rights reserved.

1 The Best of All Possible Worlds

Gottfried Wilhelm Leibniz was one of the most brilliant people of any age; an inventor of calculus, an expert in virtually all of the natural sciences, and a pioneer of modern philosophy. One of his central preoccupations, however, was a fundamentally religious question: If God is both benevolent and all-powerful, why do evil and suffering exist? In his 1710 *Theodicy*, Leibniz answered, "There is an infinitude of possible worlds among which God must needs have chosen the best, since he does nothing without acting in accordance with supreme reason." If a better world were possible, God would have created that one instead; therefore, we live in the best of all possible worlds. Unfortunately for Leibniz, his philosophy is best known as the subject of Voltaire's satirical novel *Candide*, a manifesto of the French Enlightenment. In Voltaire's story, Pangloss proves to his student Candide that we live in the "best of all possible worlds," and Candide cheerfully repeats the mantra "all is for the best" as he suffers an increasingly fantastic succession of misfortunes. Voltaire was mocking not just Leibniz but also the use of religion to justify the social order of the time. Early modern Europe was a world of widespread material hardship in which a privileged few lived in relative comfort while the masses struggled to make ends meet; an archaic order that was upended by the French Revolution of 1789. If you were a landowning aristocrat in pre-revolutionary Europe; when the "1 percent" owned something like 60 percent of everything there was to own; how would you have explained the vast gulf in living standards between you and the common people? You might not have been a strict Leibnizian Optimist, but most likely you would have taken refuge in a religious understanding of the social order. Depending on your denomination, you might have believed that the socioeconomic hierarchy was dictated by God or that the virtuous poor would earn their just deserts in a kingdom to come. According to the sociologist Max Weber, we owe the rise of capitalism to Calvinist Protestants who saw their material success as proof of their personal salvation. One way or another, religion provided a ready justification for a vastly unequal society. Fast-forward to the late nineteenth century. The Western world has been utterly transformed by industrialization and the growth of the urban working class. But society once again appears dominated by a small number of extraordinarily wealthy families with names like Rockefeller, Carnegie, Mellon, and Morgan. On the eve of World War I, the 1 percent own more than 40 percent of total wealth in the United States. If you are a rich industrialist living in a Hudson Valley mansion, how do you rationalize an economic system that allows you and your peers to live like French monarchs while books like *How the Other Half Lives* are exposing the squalor of urban slums? In a post-Enlightenment world, traditional religion is unlikely to do the trick. Instead, you can appeal to modern science in the form of Darwinian evolution, metaphorically applied to human society. Herbert Spencer, who was enormously influential in the United States after the Civil War, claimed that societal evolution required the "survival of the fittest": "the poverty of the incapable, the distresses that come upon the imprudent, the starvation of the idle, and those shouderings aside of the weak by the strong" all ultimately serve the long-term progress of humanity. William Graham Sumner translated this doctrine into a celebration of the wealthy: "[The millionaires] may fairly be regarded as the naturally selected agents of society for certain work. They get high wages and live in luxury, but the bargain is a good one for society." Any attempt to tinker with this natural order of things would be doomed to failure. For the businessmen who emerged victorious from the "evolutionary" struggle, this worldview provided a convenient justification for their riches and social standing. In the words of the historian Richard Hofstadter, Social Darwinism "was seized upon as a welcome addition, perhaps the most powerful of all, to the store of ideas to which solid and conservative men appealed when they wished to reconcile their felicitous to some of the hardships of life." Now fast-forward to today. Across the developed world, vast fortunes are again ascendant. In the United States, the top 1 percent take home a larger share of total income than at any time except the late 1920s. The total wealth of the world's billionaires has quadrupled in the past two decades (even when the definition of "billionaire" is adjusted for inflation). The signs of excess are visible everywhere, from Stephen Schwarzman's \$3 million birthday party to Bill Ackman's \$90 million New York apartment that he doesn't plan to live in. In the meantime, ordinary people are struggling. In the United States, the average family makes only 8 percent more money (after adjusting for inflation) than it did in the early 1970s, and even that meager increase is due to the fact that more people work today, whether by choice or by necessity; median income for men has actually fallen. In the 1950s, a typical CEO of a large company took home as much money as twenty average employees; today he makes as much as two hundred workers. The percentage of families in poverty has remained essentially unchanged for the past half century. A rising tide no longer lifts all boats. If you are a Wall Street master of the universe or a billionaire hedge fund manager, you face the same challenge as the aristocrats and industrialists of centuries past: How do you justify the vast economic chasm that separates you from the people you pass on the street every day? Appeals to Christian theology or evolutionary necessity are unlikely to be convincing today. Instead, you can turn to another source of absolute truth: Economics 101. According to an introductory economics class, each person's income is equal to her marginal

product: you are necessarily paid the value of your work. Inequality simply reflects the fact that some people are smarter, more skilled, or more hardworking than others. Tinkering with the natural distribution of income—say, through taxes—would reduce the incentive to work, making everyone worse off. The law of supply and demand ensures that all resources are put to their optimal use, maximizing social welfare. Attempts to interfere with these fundamental principles—regulations, for example—only create “deadweight losses” that reduce the total output of the economy. We live in the best of all possible worlds (or we would, if only we could get rid of those taxes and regulations), not because God would otherwise have made a different one, but because any other world would make everyone worse off.