Abstractions Versus the "Real World": Economic Models and the Apologetics of Greed

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Economists build models by subtracting from reality the characteristics they deem unessential to the economic situations they model. The result is a bare bones description consisting of what economists deem economically essential. Everything that is discarded (not taken into consideration in the model) is called an "externality." So the models only work when the externalities that were in effect before the models are implemented do not change afterward. The realm of economic models can be likened to the realm of Platonic Ideas. Both realms are static and unchanging throughout all time. Unfortunately the real world constantly changes. Since externalities are excluded from all economic models and can be expected to change after any model is implemented, all economic models necessarily fail. Economists are frauds and economics amounts to nothing but an apologetics of greed.

In the 1980s, manufacturers of apparel began offshoring their production to underdeveloped countries, one of which was Bangladesh. Economists endorse this practice; they have a model that justifies it.

Offshoring production to underdeveloped nations gives needy people jobs, increases their incomes, reduces poverty, and expands their nations' GNPs. It also enables people in developed nations to purchase products produced offshore at lower prices enabling them to consume a wider range of things. As a result, everyone everywhere is better off.

Convinced? Most economists are, but it hasn't worked that way. Everyone everywhere is not better off—as the whole world now knows. Why?

In the latter part of the 80s or early part of the 90s, a large retailer (don't remember which one) thought it would be a good idea to bring an employee of a factory in Bangladesh to America to see how the clothing the factory was producing was being marketed to Americans. So a Bengali woman was selected to represent her factory and brought to America. This idea didn't work out well. The woman not only saw how the products were being marketed but how much they cost and she was infuriated. She knew what she and her coworkers were being paid, about two percent of the price of the garments. She did not remain silent and was quickly sent back to Bangladesh. Here is the gist of her story:

She said she and her coworkers were not financially better off after being hired by the factory. Yes, the wages were better than those that could have been earned before, but they weren't much benefit. Why? Because when the paychecks began to arrive, the local landlords and vendors increased prices on everything, so just as before, all of their incomes went to pay for basic necessities. The landlords and vendors got the money; the workers were not better off, and those in the community who were not employed by the apparel factory were decidedly worse off. It fact, it quickly became apparent that the workers were working for nothing. They did the work; the landlords and vendors got the pay. But, of course, the country's GNP was better, which is all that matters to economists who still claim that Bangladesh's economy is improving.

And although Americans were able to buy the apparel more cheaply than they could have before the manufacturing was offshored, the American apparel workers who lost their jobs are decidedly not better off.

Two conclusions follow from this scenario: employment alone is not a sufficient condition for prosperity; full employment can exist in an enslaved society along side abject poverty, and an increasing GNP does not mean that an economy is getting better. Remember these the next time the unemployment rate and GNP numbers are cited. Those numbers mean nothing.

More than thirty years has now passed and nothing has changed in Bangladesh. Most Bengalis still continue to live on subsistence farming in rural villages. Despite a dramatic increase in foreign investment, a high poverty rate prevails. Observers attribute it to the rising prices of essentials. The economic model described above just does not work, not in Bangladesh or anywhere else. Explaining why reveals what's wrong with economics and why current economic practices, which have not essentially improved mankind's lot over the last two and a half centuries, won't ever improve it.

Economists build models by what they call "abstraction." But it's really subtraction. They look at a real world situation and subtract from it the characteristics they deem unessential. The result is a bare bones description consisting of what economists deem economically essential. Everything that is discarded (not taken into consideration in the model) is called an "externality." So the models only work when the externalities that were in effect before the models are implemented do not change afterward.

For instance, had the Bengali landlords and vendors not raised their prices after the factory was opened, the employees would have been better off. But the greed of the vendors and landlords was not taken into consideration by the model. The realm of economic models can be likened to the realm of Platonic Forms or Ideas. Both realms are static and unchanging throughout all time. Unfortunately the real world, as Heraclitus knew, is not static—change is ever-present, "No man ever steps in the same river twice." Since externalities are excluded from all economic models and can be expected to change after any model is implemented, all economic models necessarily fail. Economists are frauds and economics amounts to nothing but an apologetics of greed. The world that economists model is imaginary, not real.

Don't believe that what I have described takes place only in the underdeveloped world; it takers place everywhere a profit driven economy exists. I well remember working in Washington, D.C. as a staffer for a U.S. Senator. One year, a pay raise was scheduled to take effect the coming January. Shortly after Thanksgiving Day, prices began rising in all the area's stores. The workers who received the raise were no better off in January that they were in October. The raise was siphoned into the pockets of vendors.

Free market economic conditions create a situation in which vendors always prevail. In the end, they get all the money. The economy's business is business and it is protected by the legal system. Because prices cannot be controlled in a free market economy, vendors can always set them high enough to get all the money. Economists call it inflation, and the only way it can be controlled is by reducing the amount of money available for the taking. Reducing the amount of money available for the taking reduces wage levels and keeps workers poor. The business cycle is an excuse business uses to take back any gains workers have acquired. The American financial industry bribed the Congress to amend the Bankruptcy code in 2005 even though no financial institution was in any danger of collapse because of consumer bankruptcy filings. In 2008, the same financial industry brought down the world's economy, began foreclosing on people's houses, and forced thousands into bankruptcy. After reading this article, do you believe that both revising the bankruptcy code and the financial collapse were coincidental? The whole point of a free market economy is to take back all the money paid to employees so that the rich get richer and the poor stay poor. What happened in Bangladesh happens everywhere all of the time. Humanity is enslaved by these economic practices but the enslavement is carefully and continuously hidden. Workers, those whose efforts keep the society functioning and produce all of its wealth, are mere fodder—farm fodder, factory fodder, and when necessary, cannon fodder.

As a result,

"most of the new jobs being created are in the lower-wage sectors of the economy – hospital orderlies and nursing aides, secretaries and temporary workers, retail and restaurant. Meanwhile, millions of Americans remain working only because they've agreed to cuts in wages and benefits. Others are settling for jobs that pay less than the jobs they've lost. Entry-level manufacturing jobs are paying half what entry-level manufacturing jobs paid six years ago.

Other people are falling out of the middle class because they've lost their jobs, and many have also lost their homes. Almost one in three families with a mortgage is now underwater, holding their breath against imminent foreclosure.

The percent of Americans in poverty is its highest in two decades, and more of us are impoverished than at any time in the last fifty years. A recent analysis of federal data by the *New York Times* showed the number of children receiving subsidized lunches rose to 21 million in the last school year, up from 18 million in 2006-2007. Nearly a dozen states experienced increases of 25 percent or more."

In America, just as in Bangladesh, the vendors have emptied the people's pockets. All economic models can be rendered ineffective by how the actions of people change externalities. Governments try to restrain such uncontrolled changes by enacting regulations, but conceiving of effective regulations that cover all eventualities and that cannot be gamed is impossible. All market economies motivated by profit are founded on unfairness as should be easily seen. In any financial transaction between two parties motivated by profit, one party wins and the other party loses, because it is mathematically impossible for both parties to profit at the same time. One person's profit is another person's loss. So if bettering the human condition is an economic goal, no economy motivated by profit will succeed in doing it. Unless people stand up for humanity, most humans will always be slaves. People should honestly be asked whether this is the world they want to live in. No economist, apparently, has the courage to stand up and ask. Why is that? If you know a working economist, please ask her/him!

John Kozy is a retired professor of philosophy and logic who writes on social, political, and economic issues. After serving in the U.S. Army during the Korean War, he spent 20 years as a university professor and another 20 years working as a writer. He has published a textbook in formal logic commercially, in academic journals and a small number of commercial magazines, and has written a number of guest editorials for newspapers. His on-line pieces can be found on http://www.jkozy.com/ and he can be emailed from that site's homepage.

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