

Fact-Value Confusion Driving Methodological Error in Macroeconomic Theory

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Introduction

This paper aims to show errors in common methodology of reasoning about macroeconomic theory. The error comes from confusion about descriptive and scientific methods of inquiry being used as a means of justifying conclusions with a normative basis. I will argue that many tools used in theorizing about the political economy that are thought of as able to express an isolated variable proving a normative point, actually contain normative assumptions which impact the soundness of the conclusion. The hidden values generally serve to justify the status quo. Looking at my argument from a metaperspective, I argue that some popular methodology winds up in the general state of circular reasoning. I will try to weave two arguments together, the first is showing how economic concepts are value-laden, and also that they are implicit values of ideology, and operate as a powerful tool for the status quo. The ideology learns that things must be what they are, because the rest of the ideology seeks to justify it.

There is both a factual and a value-driven thesis to this paper. Using examples I show how economic concepts that are thought of as being value neutral, are actually implicitly holding values that uphold the status quo and the growing tides of income inequality. I also wish to demonstrate how ideology constructs the common understanding, and how this effort keeps the populace from seeking emancipatory economic ideals and tax reform.

First I define what I mean when I write about an ideological hegemony.

Next, I analyze the first principle of economics ‘people have rational self-interest’. I show how ambiguities in definition lead to an individualized understanding of economic systems, and limit public emphasis on complex human goods, and are more focused on capitally produced goods.

Next I examine the concept of Pareto. In theorizing political economy this is the first principle the dominant economic worldview endorses. This assumes that there is a rationally organized starting point to the analysis, which there has never been. This is a fact that is known, but more likely to be forgotten by the ideological hegemony which controls the tides of economic thinking.

In the next section I write about the presumptive assumptions within the field of law and economics, and hopefully show how normative analysis can be made to look as though it is merely scientific. .

Next I want to examine the concept of efficiency. It has been labeled an inherent good, rather than as an instrumental measure of some other good. Often the efficient outcome is assumed to be a profit optimization. I argue that this is valuing profit alone as the principle good of the reasons for organizing society.

Further, I want to argue that efficiency is actually a scientifically incoherent concept.

I briefly explore the relationship between ideology, and the political economic academy. And lastly, I consider how this work points at the wider charge of circular reasoning dominating much of macroeconomic theory.

What is Ideology

From Stanford: "Ideology refers, in a general sense, to a system of political ideas, and law and politics seem inextricably intertwined."¹ Marx and Engels theorized that it was the capitalist elements of society alienating the working people that required the advent of a ruling ideology to prevent resentment from the underprivileged.² To Habermas, ideology split types of communication between two levels, the level that constituted structures and organizations, and the types of everyday communication that we did between each other. To engage in everyday conversation, one has to tacitly accept the super structures that confine the smaller micro level interactions.³ Marcuse saw how ideology could direct working people to work past the necessary levels of production, for instance, in the event scarcity ended, and that they would do this due to ideological reasons attaching to their libidinal processes.⁴

Ideology is the narrative that working people accept as the narrative truth of society, so as to keep them from questioning the way things are run. In some ways, the divine right of kings could be seen as ideology.⁵

Ideological political moves have been common throughout politicized society. US backed coups against socialist countries in South America, the assassination of Martin Luther King Jr., the Cultural Revolution in Maoist China, the Red Scare in the United States film industry.

Ideology is also shaped by our news and education. Fox news is building an ideology in viewers that adopts acceptance towards less assistance and less democracy.

¹ Synpnowich, Christine, "Law and Ideology", *The Stanford Encyclopedia of Philosophy* (Summer 2019 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/sum2019/entries/law-ideology/>>.

² Ibid

³ Bohman, James and William Rehg, "Jürgen Habermas", *The Stanford Encyclopedia of Philosophy* (Fall 2017 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/fall2017/entries/habermas/>>.

⁴ Farr, Arnold, "Herbert Marcuse", *The Stanford Encyclopedia of Philosophy* (Summer 2020 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/sum2020/entries/marcuse/>>.

⁵ Figgis, John Neville 'The Divine Right of Kings' *Cambridge University Press* (1914) pg 45

Differing levels of media influence in some cases convey the common message of academics in a way that makes an ideology coherent. Pop culture builds society in some ways, but the popular understanding about the way the world works is often driven by the views of a certain academic field.

Reagan and Thatcher, armed with a gratuitous reading of Friedman shaped the ideology around taxes throughout the world.

Ideology in the 21st Century

Our ideology allows us the illusion of choice, yet never the ability to change meaningful things about the lives of working people. In his book '*Manufacturing Consent*' Noam Chomsky writes about how the media shows a false dichotomy for the purposes of propagandizing what they have the opportunity for choice.⁶

A famous quote misattributed to Huxley states "The perfect dictatorship would have the appearance of democracy, a prison without walls in which the prisoners would not dream of escape. A system of slavery where, through consumption and entertainment, slaves would love their servitude."⁷

In Canada an ABACUS poll found that 79% of Canadians were in favour of a wealth tax.⁸ Despite this, a motion to implement this M-43 was voted down by a large majority of sitting MPs.⁹ In addition, news coverage on support for this policy is very rare, despite its overwhelming support with democracy

⁶ Chomsky, and Herman '*Manufacturing Consent: The Political Economy of the Mass Media*' (1998) Pantheon Books pg 31

⁷ A quote famously attributed to Huxley and popularized on meme pages

⁸ Abacus Data, poll, "Wealth Tax? Canadians Like the Idea, (Nov 19, 2020) <https://abacusdata.ca/wealth-tax-canada-poll/>

⁹ M-43 43rd Parliament 1st Session

In October 2020, Angus Reid published an opinion poll showing near universal support for pharmacare in Canada.¹⁰ Yet Canadians are not able to see their will expressed in parliament.

It is ideology that creates the disconnect. “We 'feel free' because we lack the very language to articulate our unfreedom.”¹¹

The tool of the ideological creator is to hide normative evaluations about the way the world is and instead say that certain concepts are merely descriptive and necessary parts of society.

The Fact-Value Distinction In Economics

As is put by Hausman, “The extent to which economics bears on and may be influenced by normative concerns raises methodological questions about the relationships between a positive science concerning “facts” and a normative inquiry into values and what ought to be.”¹²

Most economists believe the distinction between fact and value is relatively clear.¹³

Textbooks seek to downplay the amount of normative work that the field does. A beginner economics textbook defines ‘positive analysis’ as “an objective testable statement- how the economy is” and a ‘normative analysis’ as a “subjective, non-testable statement- how the economy should be”.¹⁴ The distinction being drawn so wide deceives students into thinking it is

¹⁰ Angus Reid, report on pharmacare, ‘Access for All: Near Universal Support for a Pharmacare Plan Covering Canadians’ Prescription Cost’ (October 29, 2020) <https://angusreid.org/pharmacare-2020/>

¹¹ Zizek, Slavoj ‘Welcome to the Desert of the Real: Five Essays on September 11 and Related Dates’ (2002) Verso pg 2

¹² Hausman, Daniel M., “Philosophy of Economics”, *The Stanford Encyclopedia of Philosophy* (Spring 2021 Edition), Edward N. Zalta (ed.), forthcoming URL = <https://plato.stanford.edu/archives/spr2021/entries/economics/>.

¹³ Ibid

¹⁴ Sexton, Fortuna, and Kovac, “Exploring Microeconomics”, *Nelson Education Ltd* (2007) Page 39

impossible to confuse. In another textbook it is written “First, economics is not a form of moral instruction. Rather, it seeks to describe economic behavior as it actually exists.”¹⁵ Gregory Manikiw mentions this in his textbook, “Much of economics is positive: It just tries to explain how the economy works. Yet those who use economics often have normative goals: They want to learn how to improve the economy. When you hear economists making normative statements, you know they are speaking not as scientists but as policy advisers.”¹⁶

This is problematic for a few reasons. The first is that economists are limited by the political and social decisions of human actors, with regards to human goods. At least as far as macroeconomic policy, they are limited in making scientific assumptions about human made actions, which are laden with normative value judgments. This is further described by Fritz Matchup, “These assumptions are decried as unverified, unverifiable, imaginary, unrealistic. And the hypothetico-deductive system built upon the unrealistic or unverifiable assumptions is condemned either as deceptive or as devoid of empirical content...”¹⁷

A second reason to question the ability of economists to do pure science is that the subject matter requires more human value judgements to be made, some argue that these are closer to policy makers than scientists.¹⁸

Critics also argue that the assumptive norm of ‘economic rationality’ that is at the heart of economic theory¹⁹, is more linked to the principles guiding policy decision making than true science.²⁰ Related is the problem of levels of certain positive facts, can have a normalizing effect

¹⁵ Greenlaw, and Shapiro, “Principles of Macroeconomics” (2e), *Rice University* (2018) Pages 6-7

¹⁶ Manikiw, Gregory N., “Principles of Microeconomics” (5th edition) *Harvard University* (2008) page 31

¹⁷ Matchup, Fritz, “Methodology of Economic and Other Social Science” *New York: Academic Press* (1978) Page 143

¹⁸ Supra note 1

¹⁹ Supra note 3 at pg 15; Supra note 5 at pg 6; Supra note 4 at 321: These are textbooks laying out the foundational basis of rational economic theory

²⁰ Supra note 1

on behaviour.²¹ Even the view forwarded by economic theory of supreme human interest may have an impact on society.²² Lastly, criticisms of this distinction come from a place charging hegemonic authority of ideology that benefits the researcher.²³ Marx describes this phenomenon in *Capital*, “It was thenceforth no longer a question, whether this theorem or that was true, but whether it was useful to capital or harmful, expedient or inexpedient, politically dangerous or not.”²⁴

Other Relevant Errors In Economic Reasoning

Rational Self-Interest

Within the field of economics, Mankiw writes to his first years students, “Economists normally assume that people are rational. Rational people systematically and purposefully do the best they can to achieve their objectives, given the available opportunities.”²⁵ Later on, the textbook acknowledges that this is not always the case in a chapter on behavioural economics.²⁶ However, this principle is at the very heart of the knowledge communicated to young scholars.

Firstly, it views objective from the paradigm of the individual supremacy of objectives. Built into the fundamental principle is that objectives are primarily aimed from within an individual alone, rather than as a collaborative effort. Without getting caught in deeply

²¹Supra note 1; This is an interesting tool used by critics of the Liberal State such as Schmitt and Vermule

²² Supra note 1

²³ Supra note 1

²⁴ Marx, Karl, “Capital: A Critique of Political Economy (Volume 1)” *Progress Publishers USSR* (2008) page 11

²⁵Supra note 5 at page 15

²⁶ Ibid at 494

psychoanalyzing the types of things that govern one's objective making, nor diving into questions about personal agency, it still appears that most of the end a person's action is aimed is made with a collaborative approach. No objective was thought of alone, and no action was not constrained by the larger community. There is no precise contradiction here, however I want to express that the language underpinning economic reasoning has the tendency to use language that emphasizes individual action. This challenge is alluded to by Von Mises when he wrote a foundational essay on the methods of economics. He notes difficulties for computing functions of the brain with mathematical and quasi-mathematical data.²⁷ He especially worries about this challenge with regards to business.²⁸

Secondly, there are challenges against the veracity of the principle. One such challenge is the lack of theoretical certainty the definition of rationality has. Theories of rationality stretch back as far as philosophy, and the implicit definition used by economists does not find a strong basis in precedence.

Kant believes that rational choice can only come free from the metaphysic good itself, free from worldly influence.²⁹ Hume believes that reason alone cannot ever stir human action.³⁰ Aristotle believes that sometimes our appetitive souls control our actions with reason, and not merely our excellent souls, that of the rational.³¹

Robert Nozick wrote a compelling book called 'The Nature of Rationality'.³² Nozick notes that rationality is based on 1) reasons for holding a belief, and 1a) the reasons for thinking

²⁷ Von Mises, Ludwig 'The Ultimate Foundation of Economic Science: An Essay on Method' (1962) Princeton Press pg 166

²⁸ Ibid

²⁹ Kant, Immanuel, 'Groundwork on the Metaphysic of Moral' (1988) Cambridge University Press Page 3

³⁰ Cohon, Rachel, "Hume's Moral Philosophy", *The Stanford Encyclopedia of Philosophy* (Fall 2018 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/fall2018/entries/hume-moral/>>.

³¹ Aristotle, 'Nichomachean Ethics' in 'Aristotle the Complete Works' (1984) Princeton University Publishers page 1742

³² Nozick, Robert, 'The Nature of Rationality' (1993) Princeton University Press

that belief is true, but 2) the level of reliability the agent can depend on for the veracity of their belief.³³

The obvious challenge to the economist's view is about whether people actually come to hold rational beliefs based on their actions. We might ask if people are generally rational in actuality.

However, to the economist, this rational interest centers around markets, and an individual's ability to choose their objectives in a market situation. The principle holds more easily when there is an ice cream stand and an agent who likes ice cream must decide between different prices. However, this rationality principle seems to fall apart when making complex decisions about objectives or what objectives should be. Many contemporary scholars on motivation for action, such as Schroeder,³⁴ and Scanlon,³⁵ doubt how necessary rationality is in the decision making process.

Pareto

Pareto optimality is an equilibrium within a dynamic system where no variable can be made better off without making one worse off.

Pareto had worked on the problem with a mind that was directed toward optimality in regards to a society.³⁶ His students had tried to integrate hedonistic principles into the theorem.³⁷ Pareto soon became aware of the circularity of trying to use his theorem to justify the validity of his theorem.³⁸ Pareto became interested in trying to derive the optimal arrangement in society by

³³ Ibid page 64

³⁴ Schroeder, M., 2007, *Slaves of the Passions*, Oxford: Oxford University Press.

³⁵ Scanlon, T M 2014, *Being Realistic about Reasons*, Oxford: Oxford University Press.

³⁶ Mornati, Fiorenzo 'Poreto Optimality in the Work of Poreto' *European Journal of Social Sciences* 51(2) 2013 pg 66-68

³⁷ Ibid

³⁸ Ibid pg 68

using a calculus to find the optimal arrangement between individuals and an open market.³⁹ His findings were “The maximum of ophelimity for society is obtained when (i) total revenues equal total costs and (ii) prices reflect marginal cost.”⁴⁰

Contrary to his goal, he did not find if the optimization required private property, liberal considerations, or collectivization.

Obviously calculating an optimization between different variables, where the set is ‘individuals’ and ‘welfare’ can not find the ideal political system. For the purposes of political philosophy I doubt those variables can be defined, let alone defined in a way that allows one to derivate.

However, pareto is a valuable equation for setting output and price within the bounds of strictly defined variables.

The Misuse of Pareto

The idea of trying to set a tax rate using Pareto distribution as a tool requires variables to be set in a way that an advocate is not entitled to. Questions of just distribution hinge on too many things to optimize on a limited and strictly defined number of factors.

Let’s say I asked you what you wanted out of life, and I would try and help you use math to figure out how many years of school you wanted to do. You might say a healthy family, a rewarding career, a meaningful impact, adventure, health, well-being, virtue etc. I cannot accurately calculate an answer without limiting the variables and the possibilities of meanings of them to the point that my calculation has told us no meaningful information.

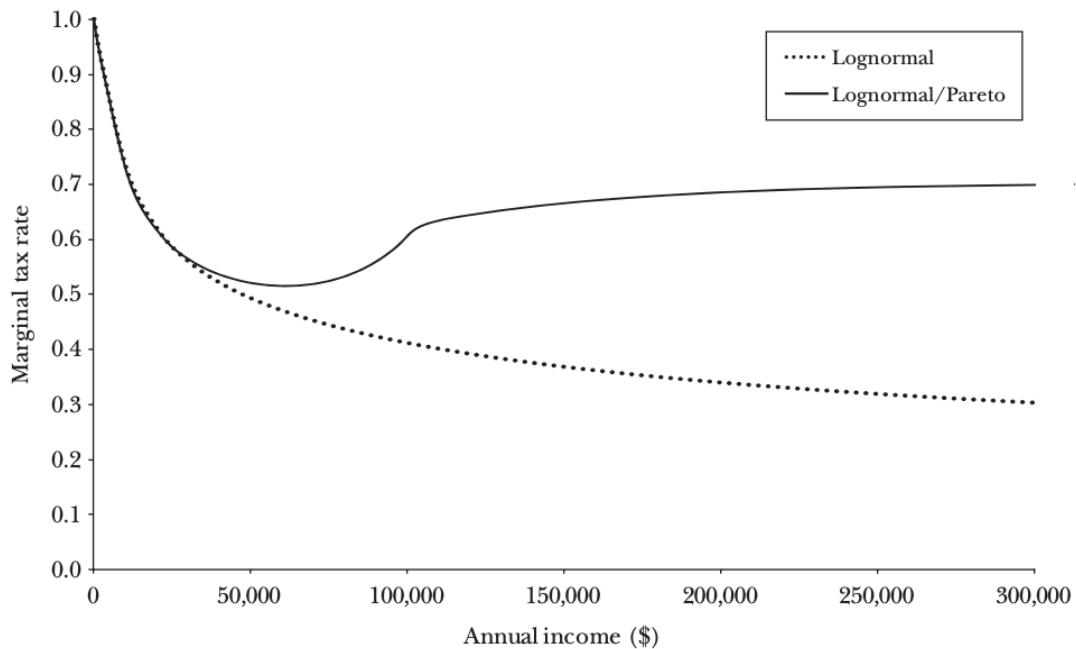
³⁹ Ibid

⁴⁰ Ibid

Yet still, in political economic theory, pareto optimality is a huge justifying factor. In Gregory Mankiw et al., paper '*Optimal Taxation in Theory and Practice*'⁴¹ The term pareto is used 20 times. Consider this graph from the paper.⁴²

Figure 3

Optimal Marginal Tax Simulations, with Different Ability Distributions



Note: The figure shows optimal marginal tax rates given two different ability distributions: one lognormal; and one lognormal until approximately \$43 per hour and Pareto thereafter.

Here the differentia between data points on the x-axis is based on what he calls “ability”. This assumes that in whatever society is created there are the same levels and inequalities toward what ability in regards to production is created.

⁴¹ Mankiw, Weinzerl, Yagan '*Optimal Taxation in Theory and Practice*' *Journal of Economic Perspectives*—Volume 23, Number 4—Fall 2009—Pages 147–174

⁴² *Ibid* pg 157

The optimality, that this graph is meant to maximize is total output, and it is done on a dollar scale. The assumption here is that the tax system is optimal when the highest total dollars are created.

In his understanding of this optimality, it makes sense that the poor are taxed nearly 100% because the “high-ability” people need incentive to use their abilities to achieve.

Here it is assumed that the people that already have the highest ability to succeed in an unequal society that is optimized to maximize total wealth, is the correct way to measure income distribution. It also assumes that maximizing total dollars is the goal for a tax system.

He uses this figure to argue that the correct distribution of tax is a flat tax. If we go deeper we find his assumptions about ability to be that they are currently highly correlated with the wealth distribution of society.

This is not to mention any lack of concern about whether factors like equity should concern our financial system.

The use of pareto in political economy benefits existing structures and understandings in a way that is completely unreasonable. The amount of variablized things that are fixed to our current tax system, is doomed to return mostly a similar type tax system. Pareto cannot help with a problem like this.

The Chicago School

Our Gross National Product, now, is over \$800 billion dollars a year, but that Gross National Product - if we judge the United States of America by that - that Gross National Product counts air pollution and cigarette advertising, and ambulances to clear our highways of carnage. It counts special locks for our doors and the jails for the people who break them. It counts the destruction of the redwood and the loss of our natural wonder in chaotic sprawl. It counts napalm and counts nuclear warheads and armored cars for the police to fight the riots in our cities. It counts Whitman's rifle and Speck's knife, and the television programs which glorify violence in order to sell toys to our children. Yet the gross national product does not allow for the health of our children, the quality of their education or the joy of their play. It does not include the beauty of our poetry or the strength of our marriages, the intelligence of our public debate or the integrity of our public officials. It measures neither our wit nor our courage, neither our

wisdom nor our learning, neither our compassion nor our devotion to our country, it measures everything in short, except that which makes life worthwhile.⁴³

- JFK

In his Nobel prize winning paper, Ronald Coase admonishes past legal principles as not being the most efficient way of solving legal disputes.⁴⁴ The basic idea is that the nature of legal disputes has a worse overall outcome when simply engaging with an analysis about wrongdoing.⁴⁵ In the absence of transaction costs, trade would create the best possible output.⁴⁶ He argues that welfare reasoning should be an important part of any judges toolkit, and that its use should be made more explicit.⁴⁷ In his examples, it is easy to prove the veracity of a welfare based analysis that gets more people a better outcome. Coase describes his issues as thus: “Analysis in terms of divergencies between private and social products concentrates attention on particular deficiencies in the system and tends to nourish the belief that any measure which will remove the deficiency is necessarily desirable. It diverts attention from those other changes in the system which are inevitably associated with the corrective measure, changes which may well produce more harm than the original deficiency.”⁴⁸

However, allowing analysis based on welfare is completely different than what our legal system is based on. Consider *Jacques v Steenberg Homes*.⁴⁹ In this case, minor use of the Jacques property would save a company a significant expense, when the Jacques refused, the company went ahead with their trespass instead. Coase’s theory would have to account for the Court’s new found ability to make an agreement involving the total welfare would require the Jacques to lose

⁴³ Kennedy, John. *Remarks Made at The University of Kansas* (March 18, 1968)

⁴⁴ Coase HR, ‘*The Problem of Social Cost*’ *The Journal of Law and Economics* 1960 pg 2

⁴⁵ *Ibid*

⁴⁶ *Ibid* pg 18

⁴⁷ *Ibid* pg 22

⁴⁸ *Ibid* 43

⁴⁹ *Jacques v Steenberg Homes*

some rights of alienation over their property. Our legal system privileges individual rights over even the most extreme violations in overall utility.

Often economists end up inserting pure dollar terms into the utilitarian maximization equation. Even in times when they wish to be analyzing welfare in some other terms, the ease of conversion to money, while usually explicitly rejected, falls back to wealth maximization in practice.

The Chicago School and Assumptive Failures

“In many respects, the impact of law and economics has exceeded its planned ambitions. One effect of the incorporation of economics into the study of law was to irreversibly transform traditional legal methodology. Legal rules began to be studied as a working system — a clear change from the Langdellian tradition, which had relied almost exclusively on the self-contained framework of case analysis and classification, viewing law as little more than a filing system. Economics provided the analytical rigor necessary for the study of the vast body of legal rules present in a modern legal system. This intellectual revolution came at an appropriate time, when legal academia was actively searching for a tool that permitted critical appraisal of the law, rather than merely strengthening the dogmatic consistencies of the system.”⁵⁰

According to Parisi, law and econ holds several assumptions. 1) “individuals are rational maximizers”, 2) “studies the role of law as a means for changing the relative prices attached to alternative individual actions,” and 3) “(see) a change in the rule of law will affect human behavior by altering the relative price structure — and thus the constraint — of the optimization problem.”⁵¹

Assumption one, as has been argued earlier, implies an individualism that I deny. It also relies on rational choice as a basis for decision making, which scholars doubt as being true.⁵² The maximizing element is factually untrue, we have seen a great example for this in *Jaques*, and when the Court makes this assumption, it is applying a normative standard on all of those before

⁵⁰Parisi, Francesco ‘Positive, Normative, and Functional Schools in Law and Economics’ *European Journal of Law and Economics*, Vol. 18, No. 3, December 2004 pg 4

⁵¹ Ibid pg 5

⁵² Supra notes 34, 35

it, under the guise of a description of the motivations of a person that is only held by academic economists.

Assumption two deeply misunderstands the nature of the law, the depth of my disagreement is beyond the scope of this paper.

Early in this paper we contended with skepticism about the value of optimization as a concept and calculation as having valid uses in legal and moral analysis. John Stuart Mill maintained that, “Political economy...[is concerned with] such of the phenomena of the social state as take place in consequence of the pursuit of wealth. It makes entire abstraction of every other human passion or motive, except those which may be regarded as perpetually antagonising principles to the desire of wealth, namely aversion to labour, and desire of the present enjoyment of costly indulgences.”⁵³

If the field, and its advice to judges, has foundational assumptions that are not laudable, or even potentially coherent, that presents a challenge to the field as a whole.

Most often, Law and Economics is described as a type of methodology, and its normative force is sold as “welfare”, however, when examining the assumptions it holds, the normative force stretches much wider, and to more disagreeable places.

The Efficiency Problem On Conceptual Terms

The assumption that the allocation of any type of variables is the best if it is the most efficient. It appears efficiency is the primary aim of economics. “Many specialists of public economics (e.g. Stiglitz 1987) have considered that the Pareto criterion was the core ethical principle on which economists should buttress their social evaluations, denouncing all sources of

⁵³ Mill, John Stuart *'A System Of Logic, Ratiocinative And Inductive'* New York Harpers, and Brothers Publishers (1882) pg 1093

inefficiency in social organizations and public policies.”⁵⁴ In a pure positive science there is no specific metric from which all so called descriptive types of analysis seems to strive.

The difficulty with this is that efficiency is merely a unit of measurement. It measures how well a process can achieve the goal of its use. If the study of macroeconomics is the market, then according to this popular view of economics, the factual side of economics is to understand how to get the most out of the economy (earth), and the normative side is to advocate for that.

In beginner microeconomics we learn that when the equations have met we have reached our goal and have gotten the correct answer: we have found the efficient outcome. Generally it would be how many hats to sell and at what price.

Some economists have held the obvious worry that macroeconomics is based on a concept which is not compatible with our natural restraints. Calabresi notes the problems with doing the work with wealth optimization in mind.⁵⁵

Our economies run on wealth on wealth optimization. A quarter or year without increased growth leads to a recession. In 2008, the recession household assets dropped by 18%, some have called the generation that has arisen the “lost generation”.⁵⁶

⁵⁴ Fleurbaey, Marc, "Economics and Economic Justice", *The Stanford Encyclopedia of Philosophy* (Winter 2016 Edition), Edward N. Zalta (ed.), URL = <<https://plato.stanford.edu/archives/win2016/entries/economic-justice/>>. ; The citation being referred to here is Stiglitz, J.E., 1987, "The theory of Pareto-efficient and optimal redistributive taxation", in Auerbach, Feldstein (eds.), Chapter 15.

⁵⁵ Calabresi, Guido. 'An Exchange: About Law and Economics: A Letter to Ronald Dworkin' 8 Hofstra L. Rev. 553 (1979-1980) pg 561

⁵⁶ US National Institute of Medicine National Institute of Health, report, 29780882, "The U.S. Labor Market During and After the Great Recession: Continuities and Transformations" (May 18, 2018) <https://www.ncbi.nlm.nih.gov/pmc/articles/PMC5959048/>

Many critics are calling for a fundamental rethinking of our economy to move away from wealth optimization and GDP growth as our indicator of economic growth.⁵⁷ An early adopter of this thinking was New Zealand, who adopted a ‘wellness’ indicator in the place of GDP.⁵⁸

The Efficiency Problem on Scientific Terms

The problem with the word efficiency is that it is being fundamentally equivocated across the field. Here are the definitions from just one textbook:⁵⁹

- Productive efficiency means that, given the available inputs and technology, it is impossible to produce more of one good without decreasing the quantity that is produced of another good.⁶⁰
- Allocative efficiency means that the particular combination of goods and services on the production possibility curve that a society produces represents the combination that society most desires.⁶¹
- Within the supply demand function efficiency is indicated by a lack of deadweight loss to the firm. Deadweight is represented in the right image of the figure below by areas J + H.⁶²

⁵⁷ See: D’Alisa, Giacomo, Federico Demaria and Giorgos Kallis (edit.) 2014. Degrowth: A Vocabulary for a New Era, Routledge. And; Muraca, Barbara . Décroissance; A project for radical social transformation. *Environmental Values* 22 (2013): 147–169.; There is also an advocacy group at <https://degrowth.org/>

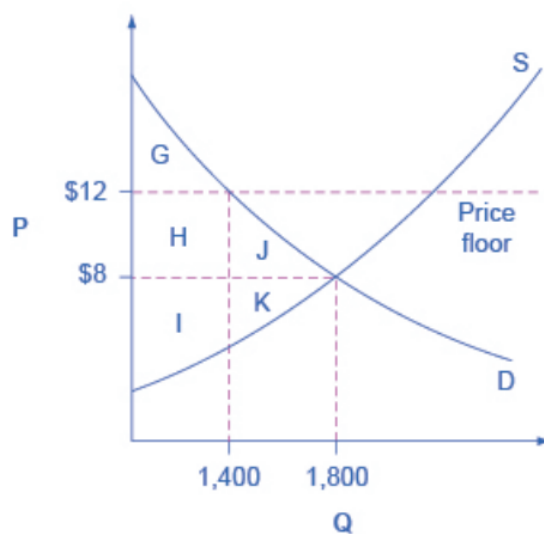
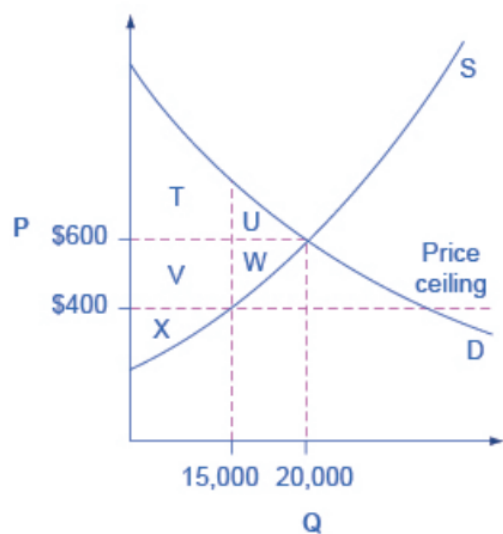
⁵⁸ Ellsmoore, James ‘New Zealand Ditches GDP for Happiness and Wellbeing’ *Forbes* (June 11, 2019) <https://www.forbes.com/sites/jamesellsmoor/2019/07/11/new-zealand-ditches-gdp-for-happiness-and-wellbeing/?sh=640fe2bb1942>

⁵⁹ Supra note 15

⁶⁰ Ibid Pg 36

⁶¹ Ibid Pg 36

⁶² Ibid pg 73



- “One typical way that economists define efficiency is when it is impossible to improve the situation of one party without imposing a cost on another”.⁶³
- “The loss in social surplus that occurs when the economy produces at an inefficient quantity is called deadweight loss.”⁶⁴

The problem when this undefined ‘good’ in the descriptive parts of economics, is when it begins to find its way into normative problems. The book states “A family with two adults earning minimum wage and two young children will find it more cost **efficient** for one parent to provide childcare while the other works for income.”⁶⁵

The usefulness of ‘efficient’ as a pure scientific measure, is limited by the many meaninged-uses its given. Even efficiency within the demand function has limited use. The limits of the use of these concepts are ignored, and are used as rhetorical tools, or as fools errands to set with sails that always travel back where they came from.

⁶³ Ibid pg 71

⁶⁴ Ibid 72

⁶⁵ Ibid 90 (Emphasis mine)

Academic Hegemony and Ideology

Academica can promote ideology in the way that Habermas describes. Certain overarching structures must be accepted before one is allowed to participate in the everyday type of relationships and expectations. The assumptions within economics are taught and engrained. The assumptions are tied to certain outcomes, and these outcomes generally favour the assumptions of the class of people who created them. The distinction between fact and value is blurred in the view of the economist, and this permeates the mind of the electorate. Tax reform would not work because of some reason that masquerades as descriptive, but when in focus, we can see that it holds normative assumptions. These ideals help make up our conception of what our economy can and cannot do.

The Circular Scholarship

While I was not able to show this precisely here. I believe that the assumptions made to limit variables done by macroeconomists, have a general tendency to only prove their own assumptions true. Someone might vary a variable that given the constants it is related to in the actual world, it must always turn with the same value. In this case the variable output would be the one justifying the status quo, as the variable output comes to reflect its natural relation to other data points set as stable in the model. This is confirming their own bias in a loosely circular way.

Conclusion

Economists should be careful when assuming certain philosophical matters in their modeling.

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