

On ethics and capitalist economics

"Wherever there is great property, there is great inequality. For one very rich man there must be at least five hundred poor, and the affluence of the few supposes the indigence of the many".

[\(Adam Smith, "An Inquiry into the Nature and the Causes of the Wealth of Nations", Book 5, Ch. 1, Part II p.580\)](#)

"What may be rational for each individual corporation is irrational for society",

Robert Reich, 1996, "A hand across the great divide", The Financial Times, London, March 6, 1996. Reich was US Secretary for Labour, during Clinton Administration

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“...the basic objectives of TNCs and governments are not the same: governments seek to spur development within a national context; TNCs seek to enhance their competitiveness in an international context..”

UNCTAD, World Investment Report 1999, chapter 5, page 155.

...”An economy is efficient, as opposed to just production efficient, if it is impossible to make anyone better off without making someone else worse off” ...

...”however, an economy may be efficient and yet produce a distribution of income and wealth that is deemed unacceptable. “

“...The government may then impose taxes and subsidies or intervene in other ways to improve the distribution of income and wealth”.

World Bank Report 1983, page 42, Box 4.1

"Price system (the capitalist market) is an impersonal mechanism. It has no conscience, and it does not cater to any set of ethical standards concerning what is an "equitable", or "just", distribution of income.

“In fact, the basically individualistic environment of the capitalist economy is more than permissive of a high degree of income inequality.”

(from C. R. McConnell, "Economics", McGraw-Hill, 1978).

... "In principle, at least, our political and social institutions are based upon notions of equality; but our economic institutions, centered on the market system, generate substantial disparities in income and wealth."

"...efforts to redistribute income and alleviate poverty are a public response to the tensions created by the conflict between the political principles of democracy and the economic principles of capitalism".

"To the extent that the system succeeds, it generates an efficient economy. But that pursuit of efficiency necessarily creates inequalities. **And hence society faces a trade-off between equality and efficiency.**"

From Arthur M. Okun, "Equality and Efficiency: The Big Trade-off", The Brookings Institution, 1975:

On the internal dynamics of a capitalist market

U.K. Sources of gross income: by income grouping of households, 2007/08 - £ per year

Source: Social Trends 40: 2010 Edition

	Bottom fifth (A)	Next fifth	Middle fifth	Next fifth	Top fifth (B)	B / A
Earnings in labour market	4,600	10,850	19,350	30,350	68,200	15.0
% of average income	0.17	0.41	0.73	1.14	2.56	15.0
State support	6,500	6,550	4,450	2,850	1,700	0.3
Investment income	400	450	650	1,000	6,600	17.0
Income from pensions	400	950	1,500	2,050	3,150	8.0
Miscellaneous income	350	500	600	600	850	2.5
TOTAL gross income	12,250	19,350	26,600	36,800	80,500	6.6
% of average income	0.35	0.55	0.76	1.05	2.29	6.6
Total income AFTER taxes	7,509	13,023	17,396	23,773	52,405	7.0
Taxes as % of gross income	38.7	32.7	34.6	35.4	34.9	

On the internal dynamics of a capitalist state

U.K. Taxes as percentage of gross income: by income grouping of households, 2007/08

Percentages

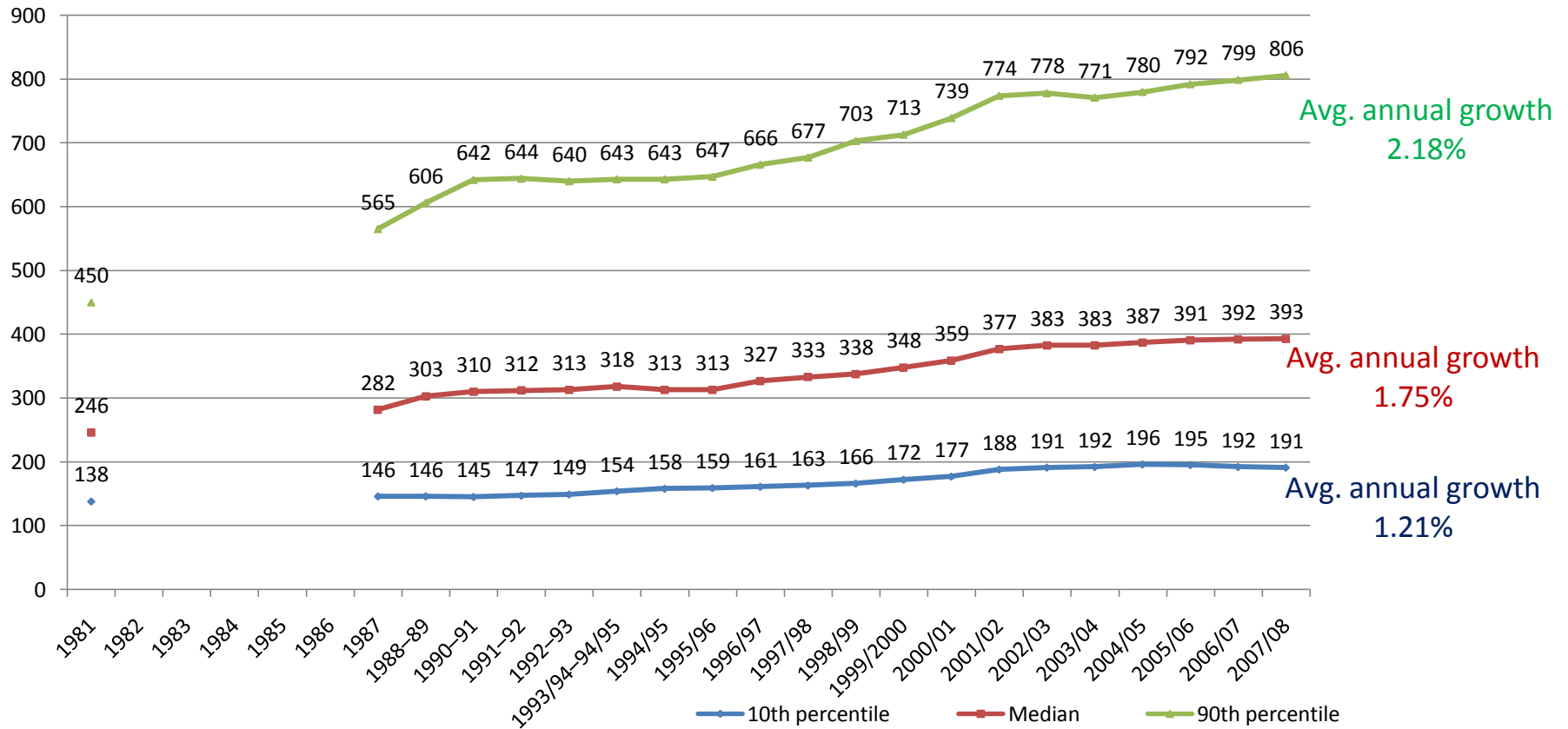
Source: Social Trends 40: 2010 Edition

	Bottom fifth	Next fifth	Middle fifth	Next fifth	Top fifth	All households
All direct taxes	10.8	14.1	18.6	21.8	24.9	21.0
Income tax	3.2	6.9	10.7	13.5	18.4	13.7
Employees' NIC	1.5	3.1	4.6	5.5	4.7	4.5
Council tax and N.I. rates	6.1	4.0	3.4	2.8	1.8	2.8
All indirect taxes	27.9	18.6	15.9	13.7	10.0	13.9
Value Added Tax	10.8	7.2	6.5	5.8	4.5	5.8
Duty on alcohol	1.5	1.0	0.9	0.8	0.6	0.8
Duty on tobacco	2.6	1.8	1.2	0.7	0.3	0.8
Duty on fuel and vehicle excise	3.2	2.3	2.2	1.9	1.2	1.8
Other indirect taxes	9.9	6.3	5.3	4.4	3.5	4.7
ALL TAXES	38.7	32.7	34.6	35.4	34.9	35.0

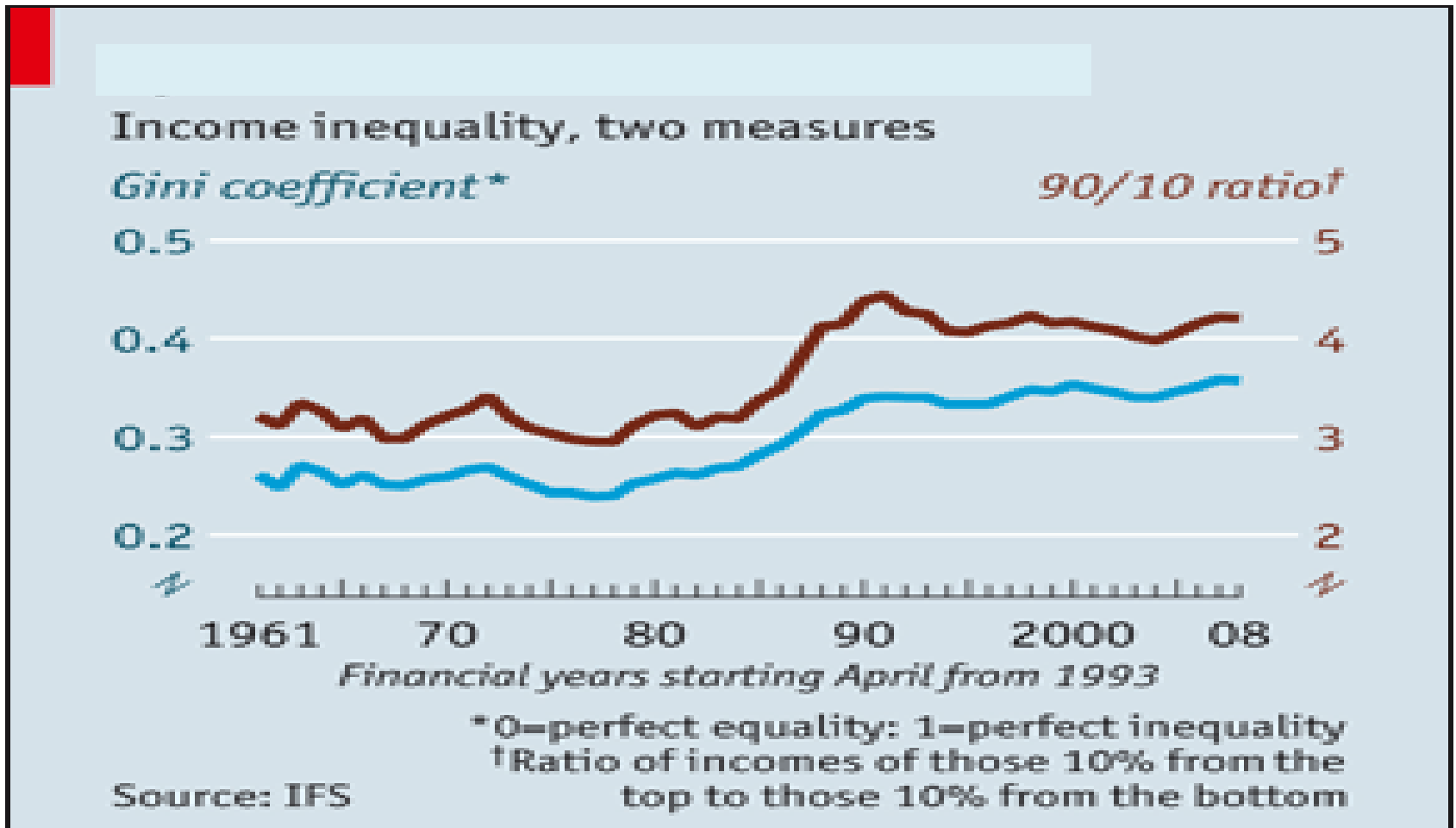
On the internal dynamics of a capitalist state

UK.- Distribution of real household disposable income 1981-2008 £ per week at 2007/08 prices

Adjusted to 2007/08 prices (in GBP) using the retail prices index less council tax/domestic rates.

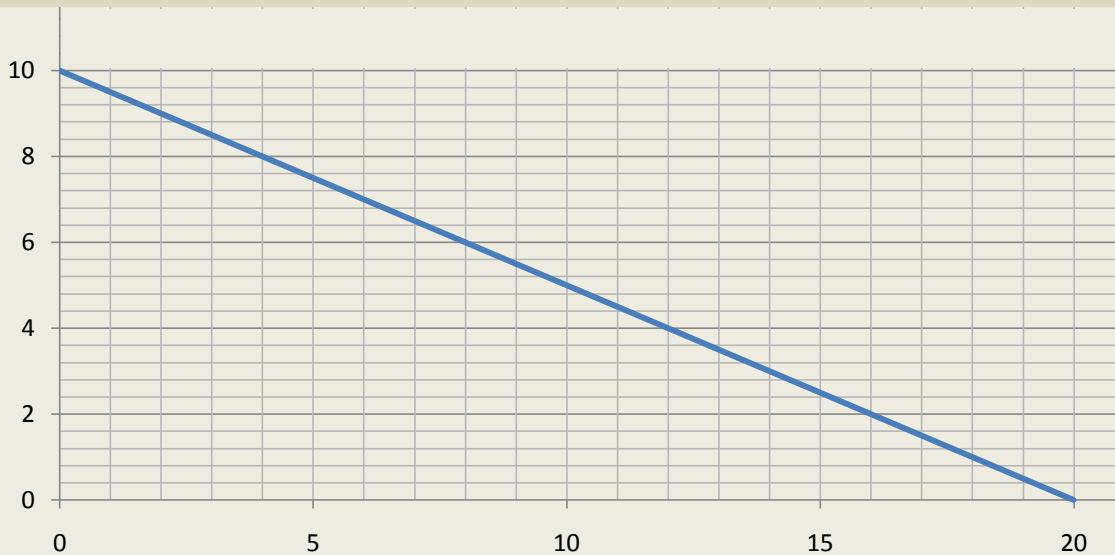


From The Economist, 7 August 2010



On the contradictions between social and economic efficiency in capitalist markets

X axis = quantity produced
Y axis = price per unit (cost per unit plus marked up price)

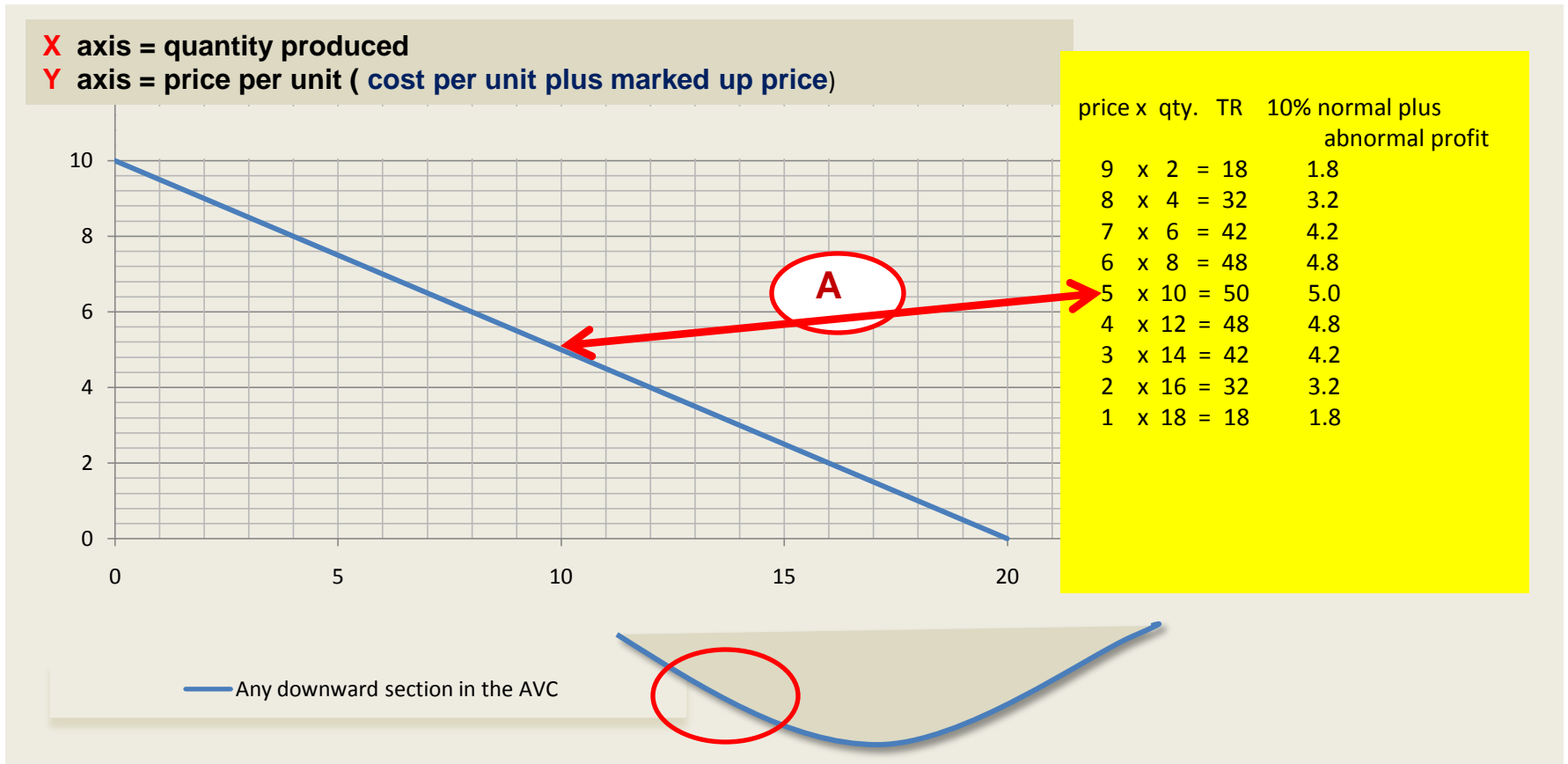


price x qty.	TR	10% normal plus abnormal profit
9 x 2	= 18	1.8
8 x 4	= 32	3.2
7 x 6	= 42	4.2
6 x 8	= 48	4.8
5 x 10	= 50	5.0
4 x 12	= 48	4.8
3 x 14	= 42	4.2
2 x 16	= 32	3.2
1 x 18	= 18	1.8



On the contradictions between social and economic efficiency in capitalist markets

Point **A**: This is the region of maximum profits, therefore “economic efficiency”

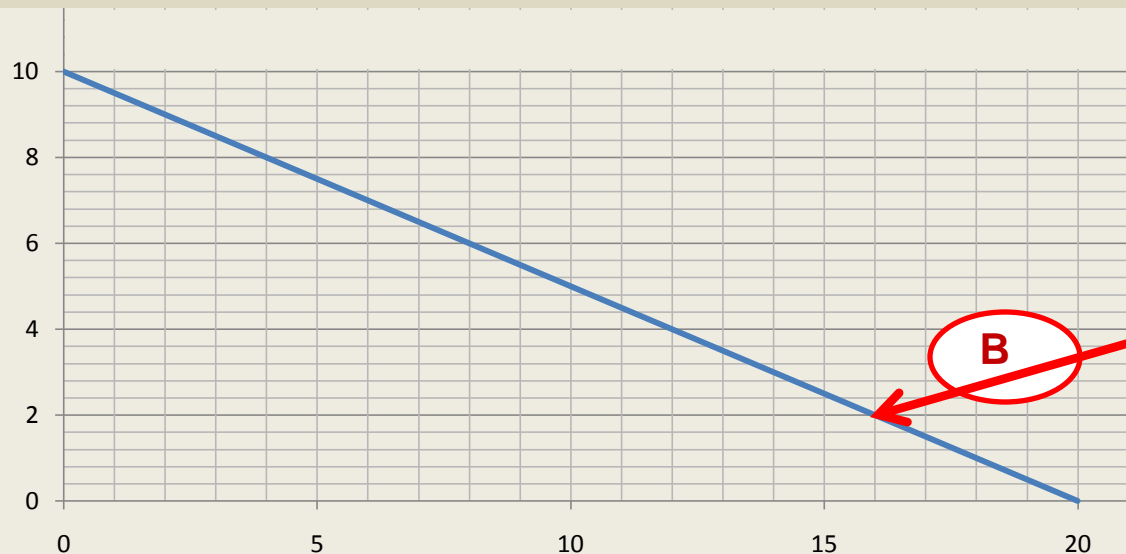


On the contradictions between social and economic efficiency in capitalist markets

Point **B**: This is a region of high social efficiency because output is 60% higher which means a higher level of employment, and prices are 40% lower

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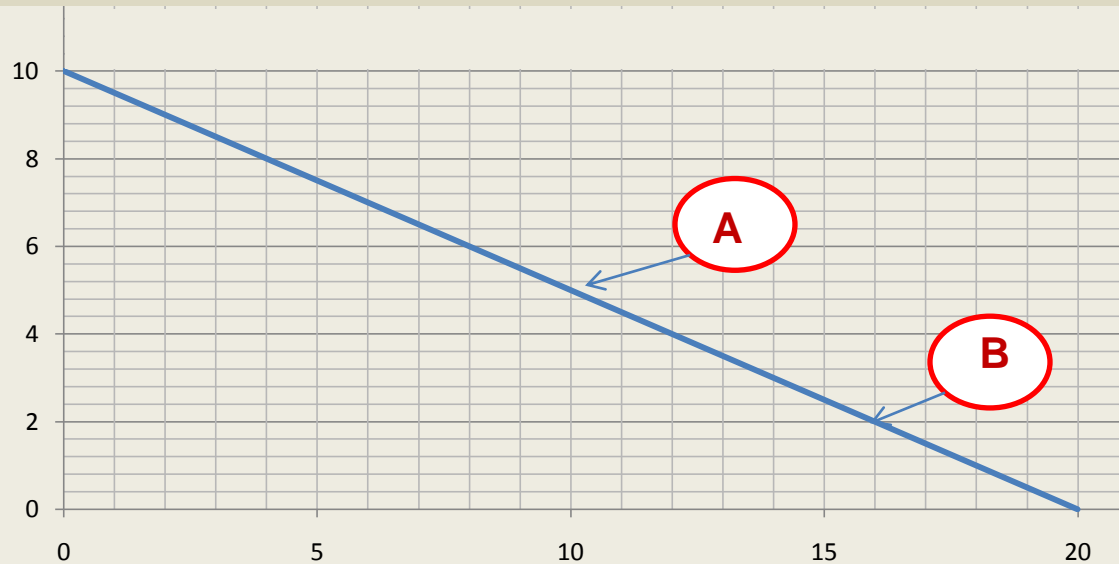
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— Any downward section in the AVC

On the contradictions between social and economic efficiency in capitalist markets

The distance between **A** and **B** is the region of conflict between social efficiency and economic efficiency, between little unemployment and massive unemployment, between social justice and social injustice

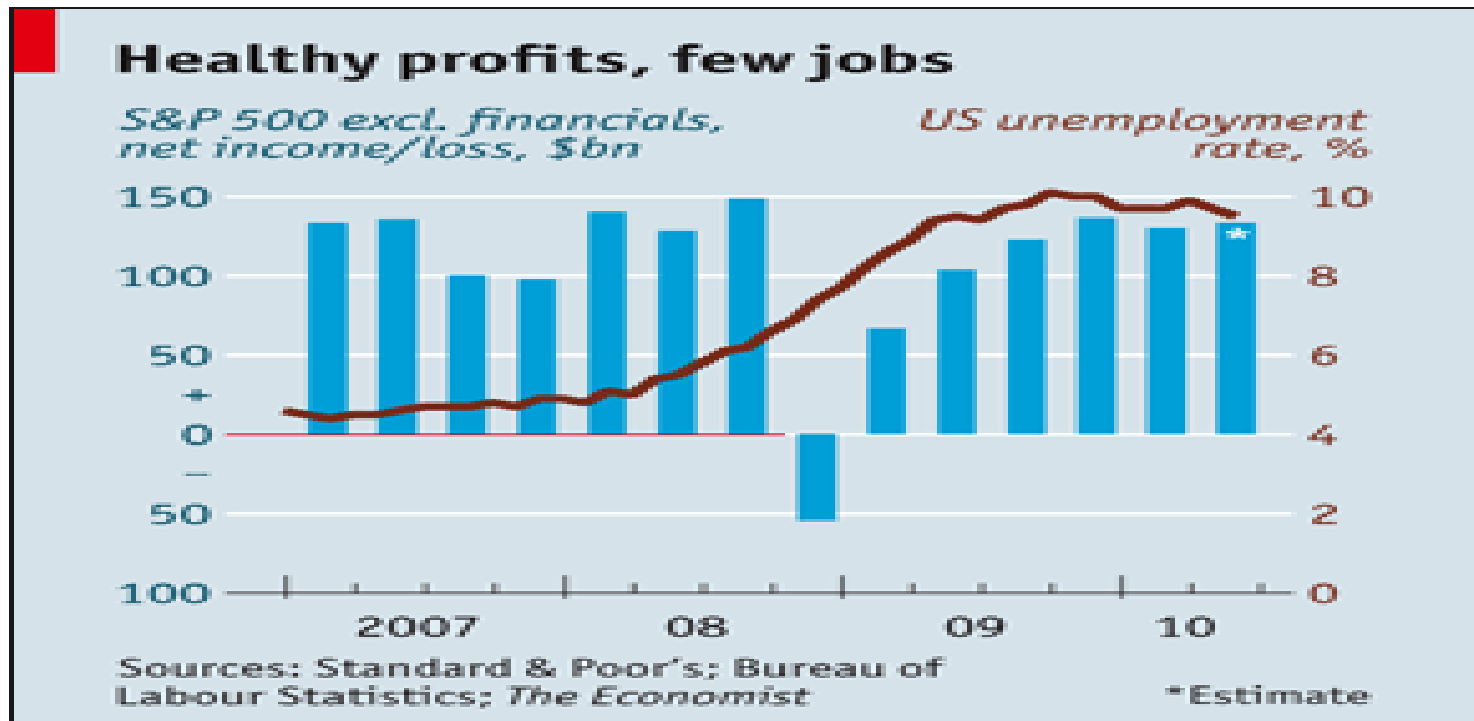
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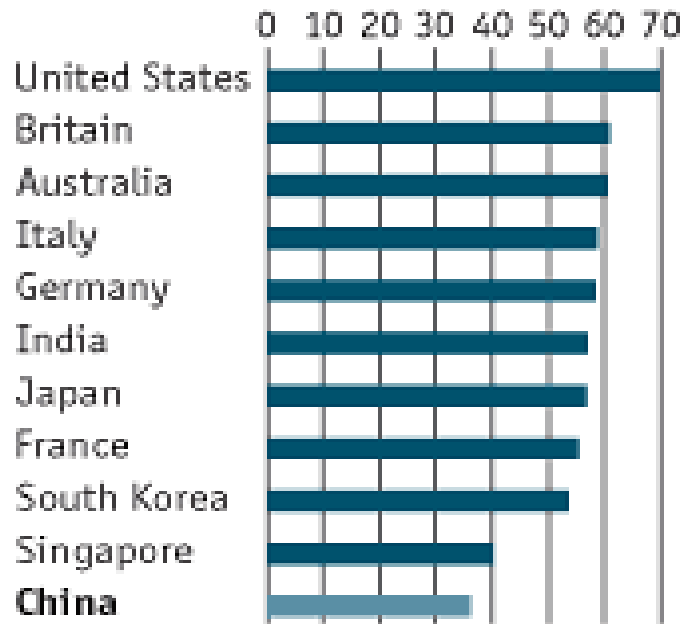
The economist 7th August 2010



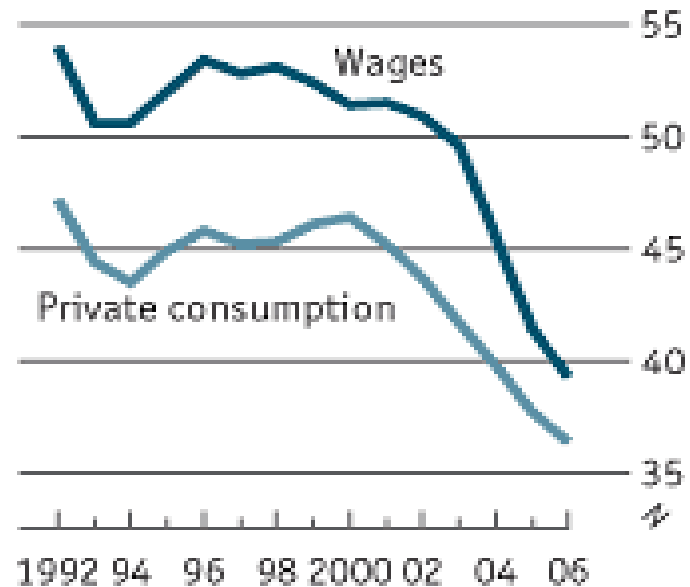
Private consumption and wages as % of GDP

Hey, small spender!

Private consumption as % of GDP
2006

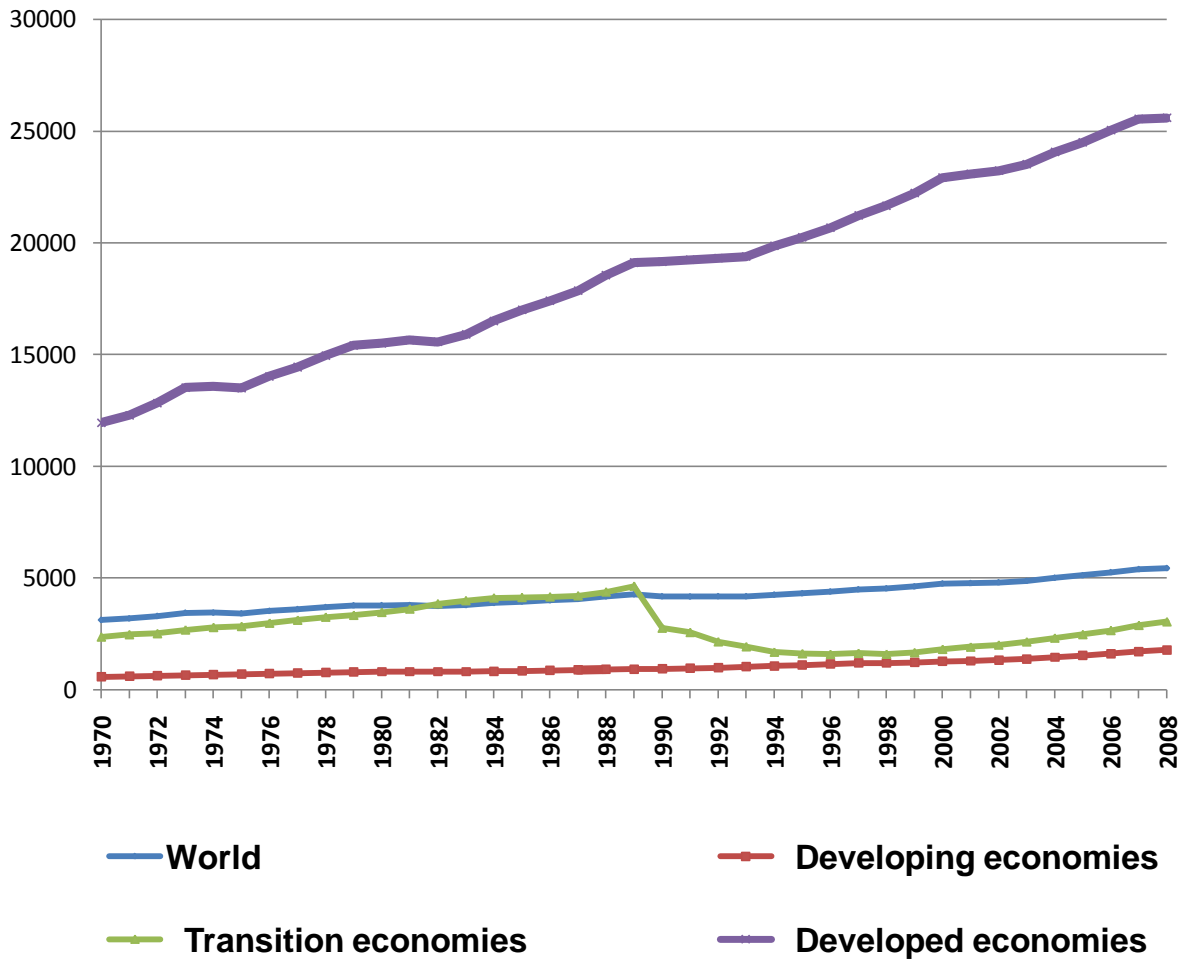


China's private consumption and wages as % of GDP



Sources: CEIC; OECD; World Bank; *The Economist* estimates

UNCTAD Handbook of Statistics 2009.- Income per capita - US\$ at constant price (1990) from 1970 to 2008



US dollars 1990		
1970	2008	
590	1797	dving.
2378	3054	
11963	25594	dvped.
(11373) (23797) diff.		
Avg. annual growth (%)		
World	-	1.46
Dving. econ.	-	2.97
Trans. econ.	-	0.66
Dvped. econ.	-	2.02

United States of America. Source: US Bureau Census
Data for years 1971, 2003 and 2006

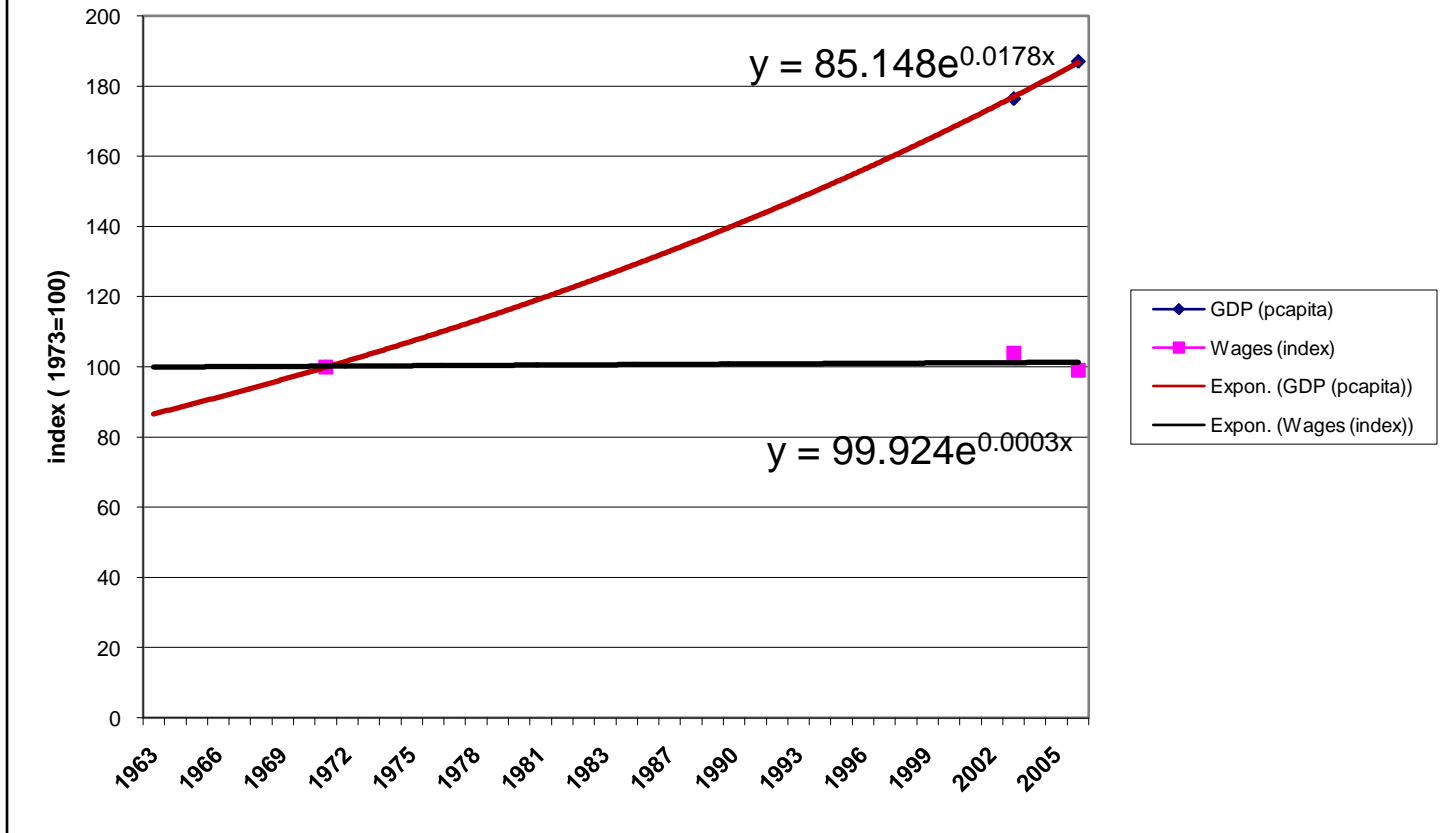
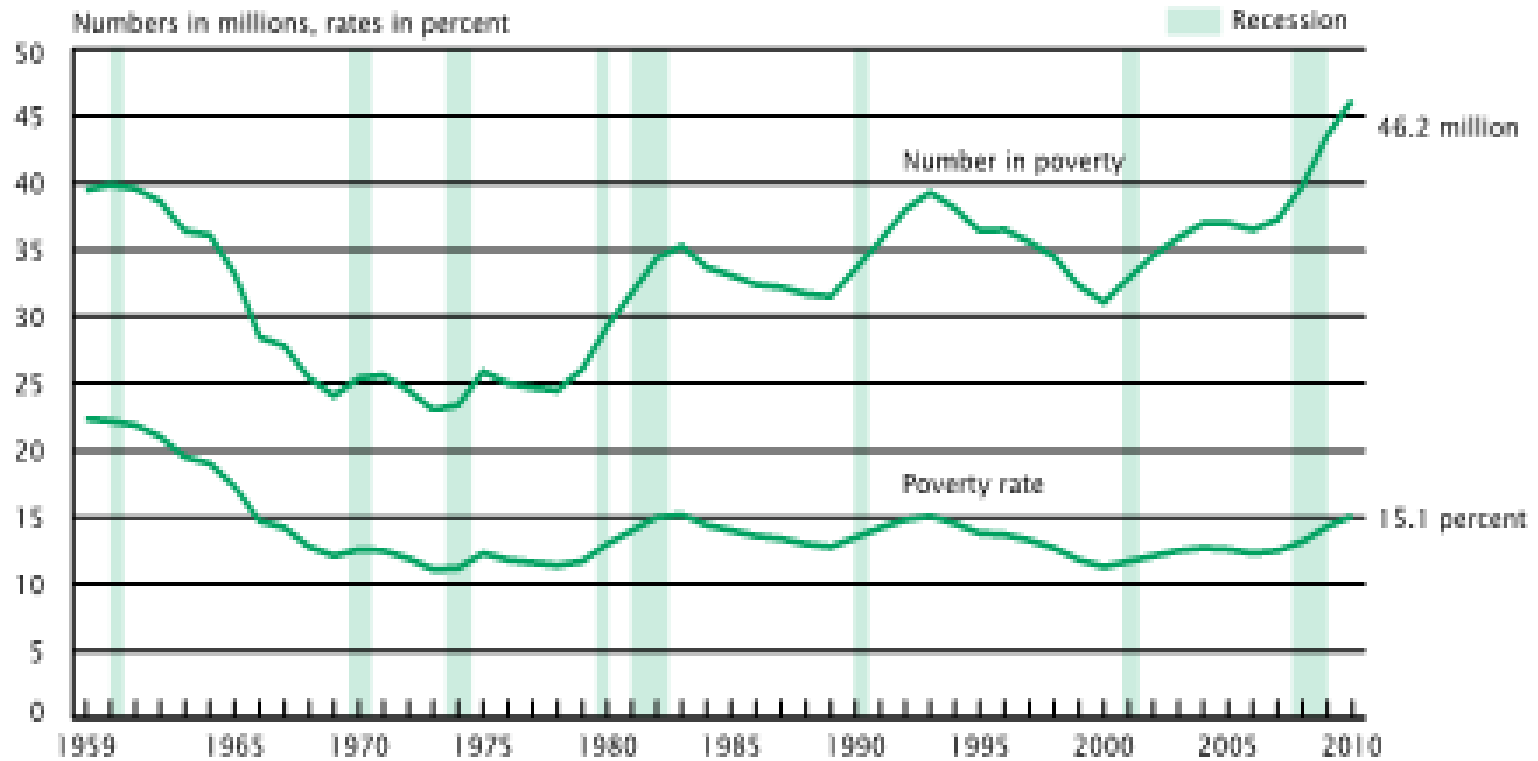
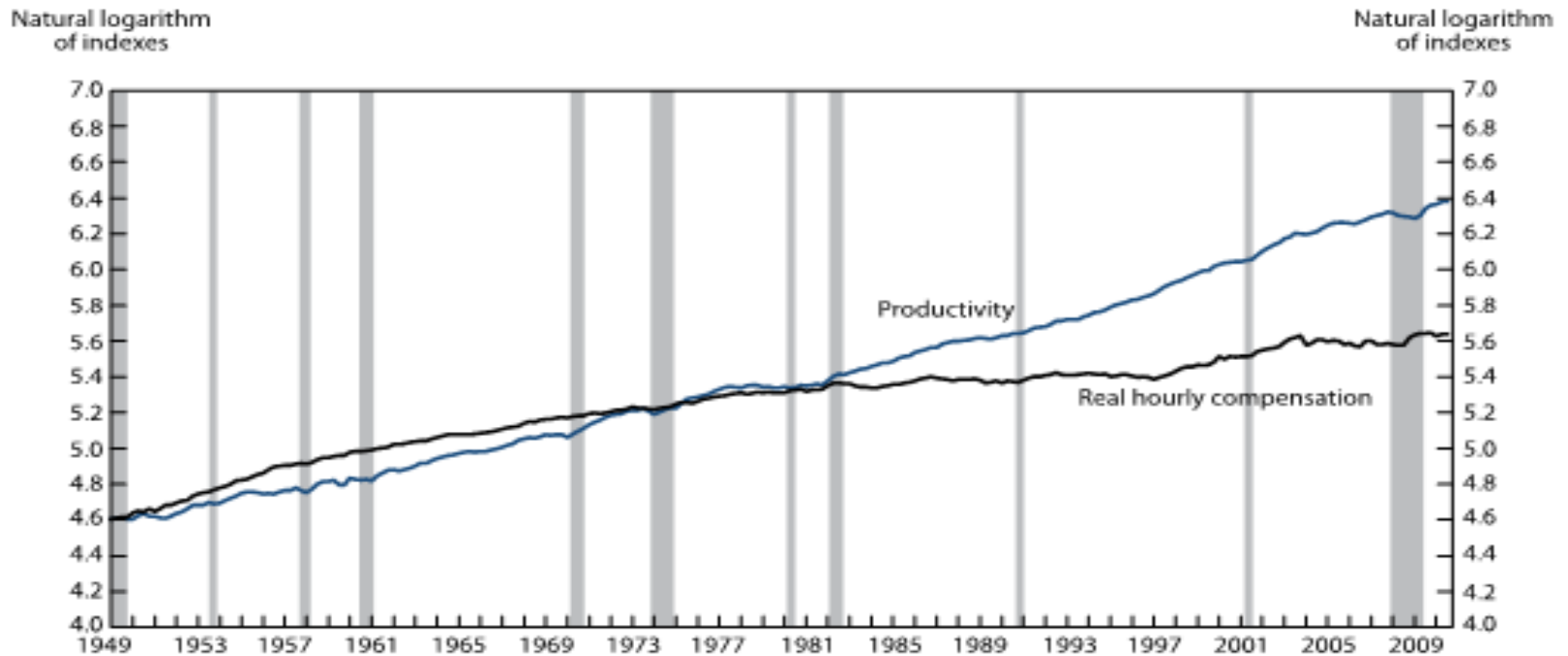


Figure 4.
Number in Poverty and Poverty Rate: 1959 to 2010



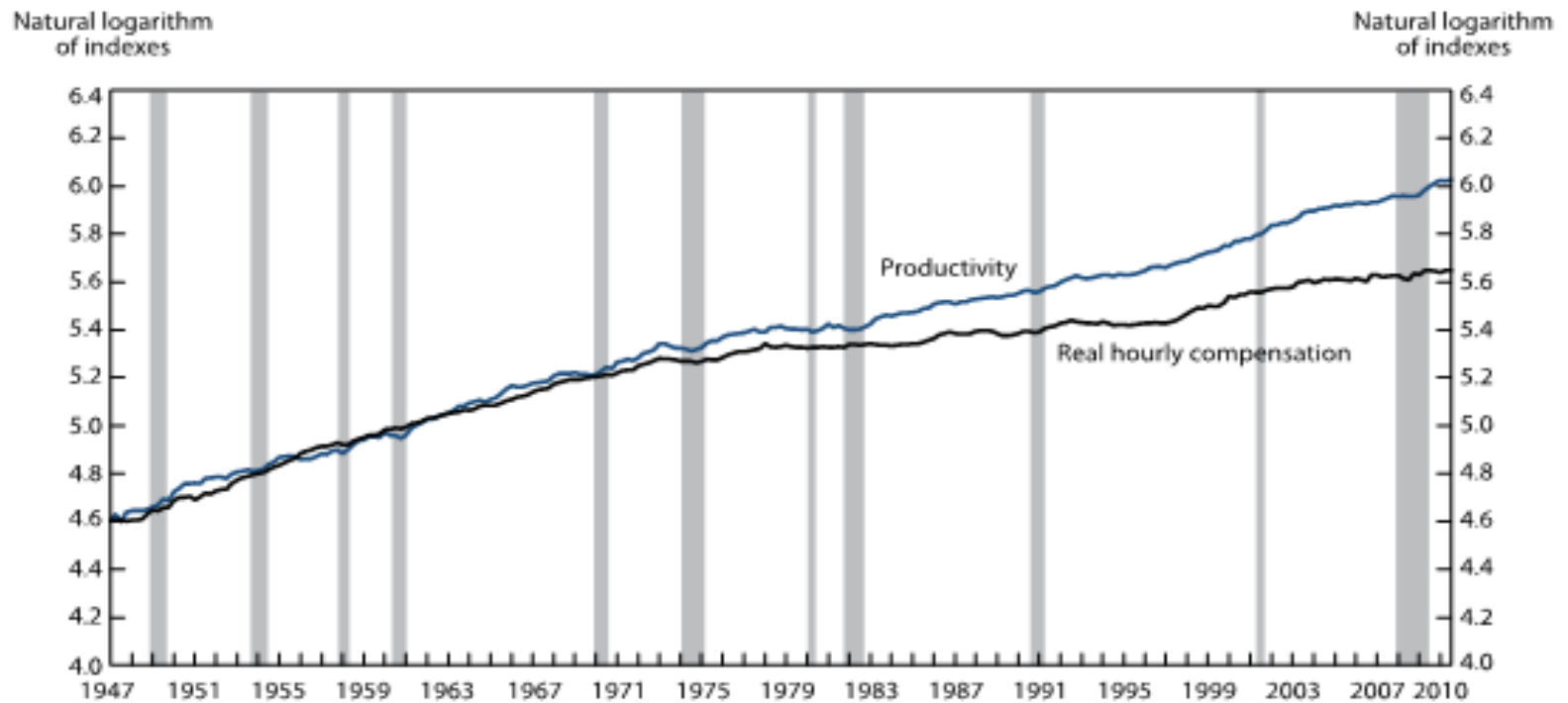
Note: The data points are placed at the midpoints of the respective years. For information on recessions, see Appendix A.
 Source: U.S. Census Bureau, Current Population Survey, 1960 to 2011 Annual Social and Economic Supplements.

6. Productivity and real hourly compensation, manufacturing sector, first quarter 1949–third quarter 2010

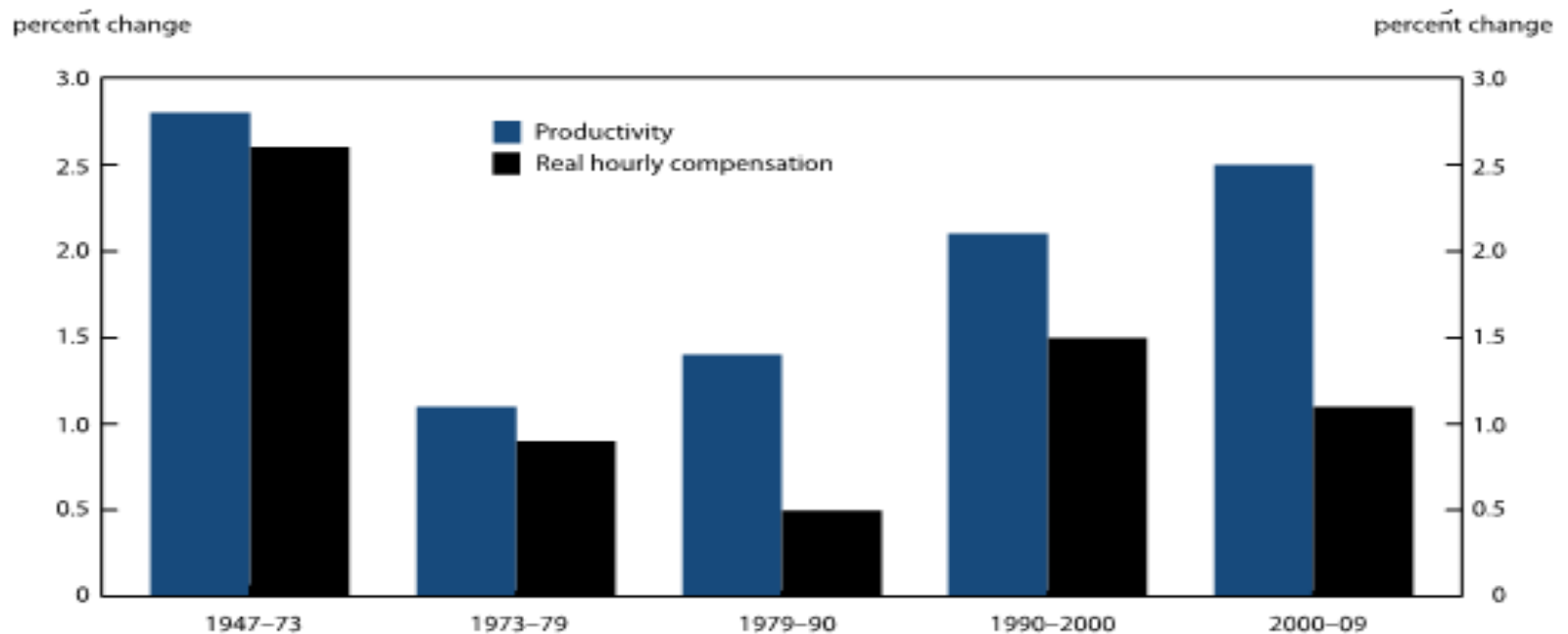


NOTE: The shaded bars denote National Bureau of Economic Research (NBER)-designated recessions.

1. Productivity and real hourly compensation, nonfarm business sector, first quarter 1947–third quarter 2010

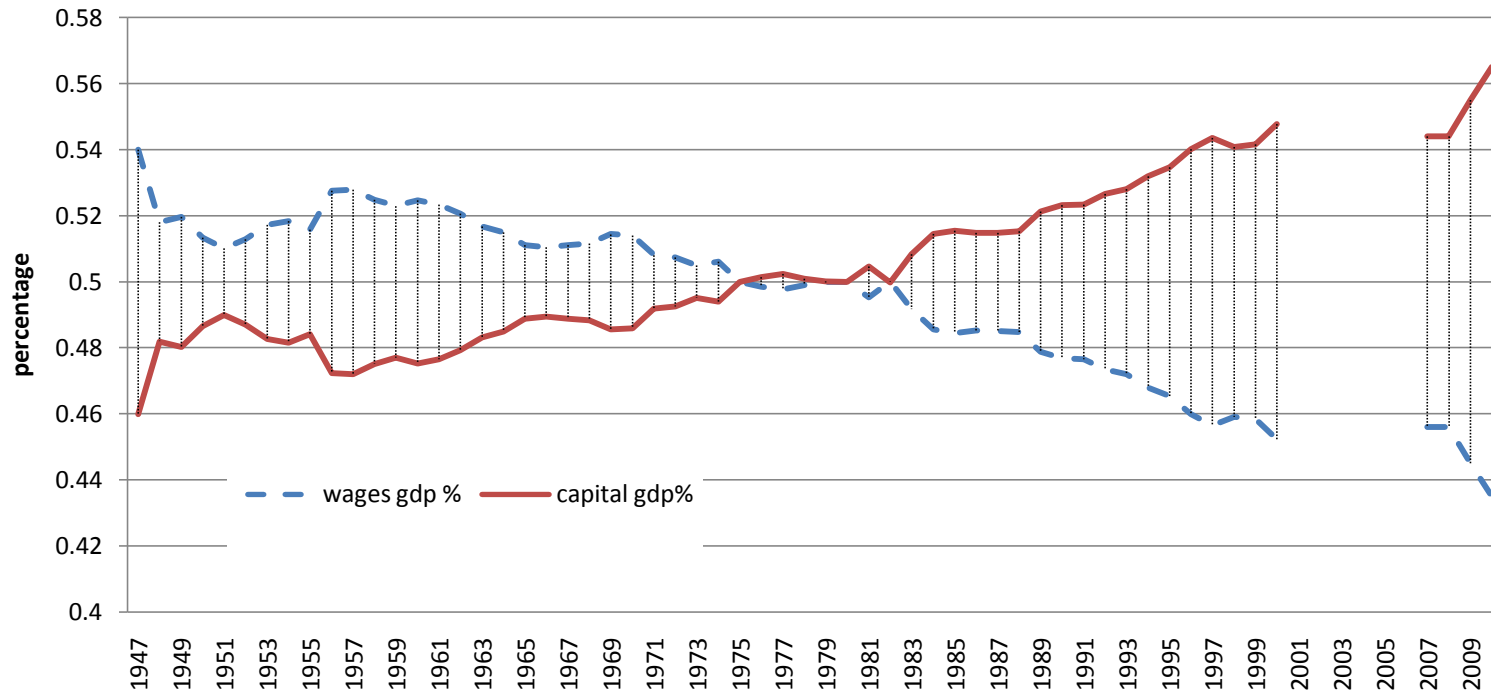


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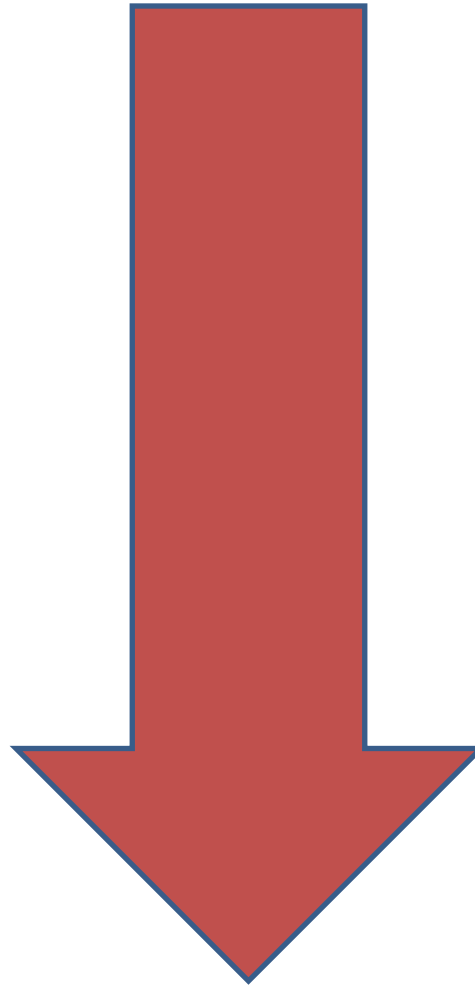


- Growth of productivity and real hourly compensation was robust until 1973, at which time growth slowed for both.
- Real hourly compensation growth failed to keep pace with accelerating productivity growth over the past three decades, and the gap between productivity growth and compensation growth widened.

Labour and capital share of GDP. 1947-2010

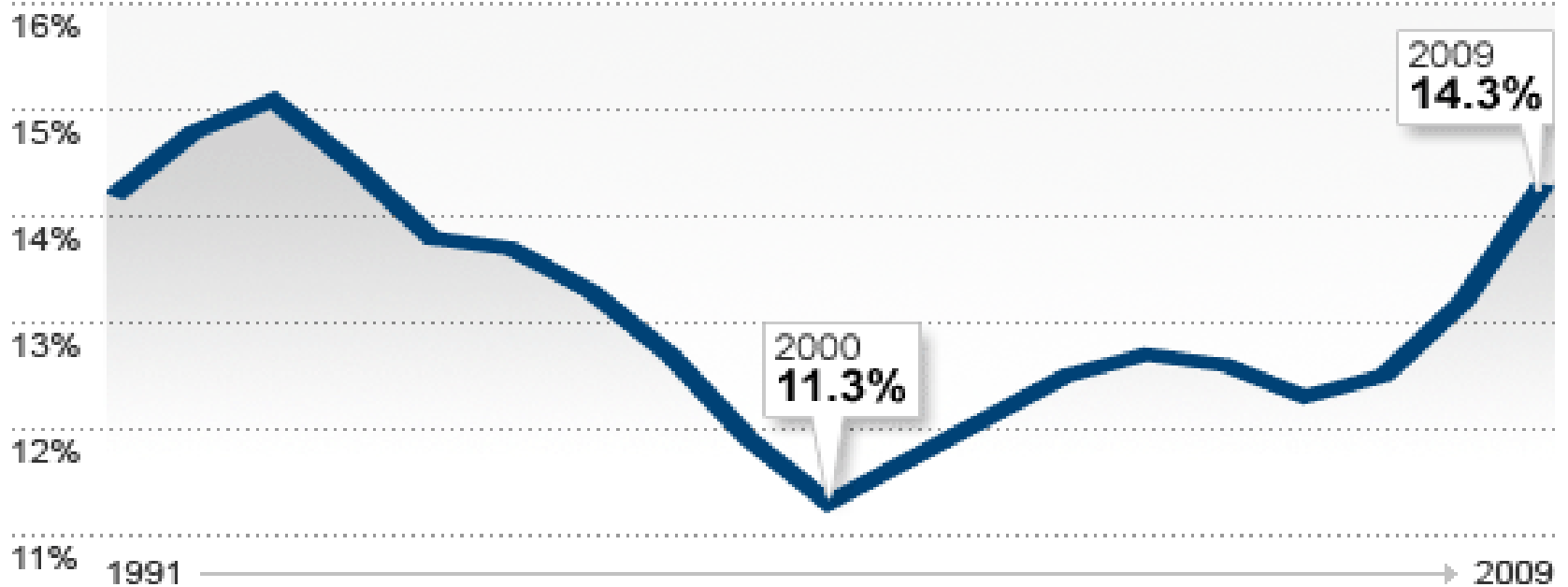


source: U.S. Department of Labor statistics



POVERTY RATE KEEPS CLIMBING

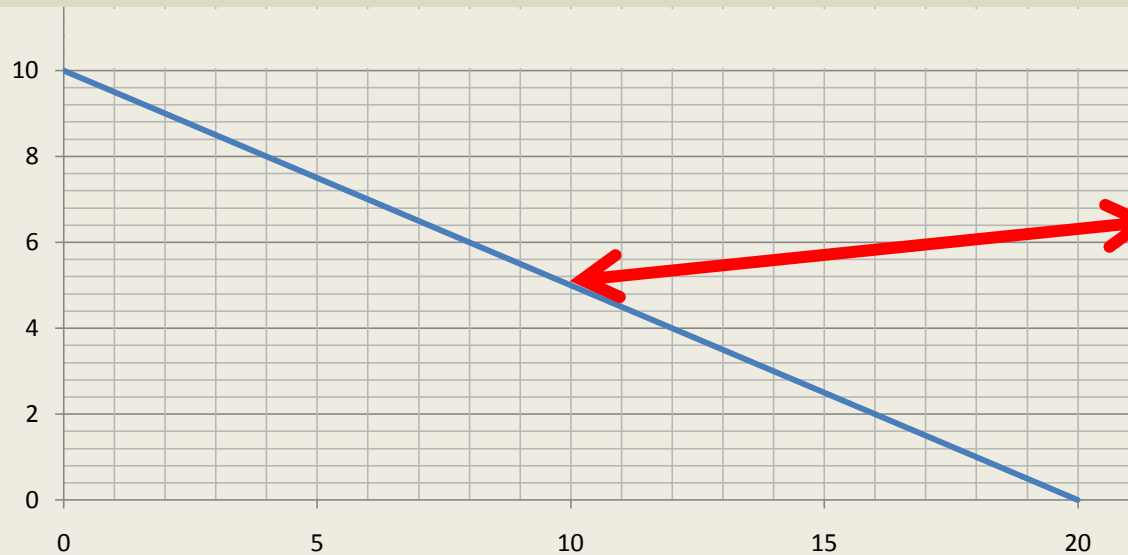
POVERTY LEVEL: \$21,954 FOR A FAMILY OF FOUR



SOURCE: U.S. CENSUS BUREAU

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