

1

00:00:04,870 --> 00:00:10,410

Hello can you hear me alright great it's
exciting to be here being the first

2

00:00:10,410 --> 00:00:16,720

presenter is good you can never be doing
worse than the person before you so I'm

3

00:00:16,720 --> 00:00:21,029

going to present on the discourse of
social costs from historical perspective

4

00:00:21,029 --> 00:00:28,829

and a theoretical perspective and I've
subtitled this talk heterodox versus

5

00:00:28,829 --> 00:00:36,600

neoliberal arguments on social cost and
so I've prepared three C theses for this

6

00:00:36,600 --> 00:00:41,699

talk the first one being a variety of
theories of social costs form the

7

00:00:41,699 --> 00:00:46,800

discourse on social cost obviously these
can be grouped into two categories

8

00:00:46,800 --> 00:00:48,660

heterodox and neoliberal.

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00:00:48,660 --> 00:00:52,920

I'll explain

why I think that is possible to do that

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00:00:52,920 --> 00:00:58,039

and also the purpose of this
classification for me today is to show

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00:00:58,039 --> 00:01:03,699

that the heterodox theory of social
costs provides a fuller understanding as

12

00:01:03,699 --> 00:01:09,360

well as more viable and socially just
policy proposals than the nearly

13

00:01:09,360 --> 00:01:10,930

neoliberal theories.

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00:01:10,930 --> 00:01:15,370

Okay just very

briefly in interest of time obviously

15

00:01:15,370 --> 00:01:19,820

the heterodox theory stands on the
shoulders of giants and history of

16

00:01:19,820 --> 00:01:22,720

economic thought I'm not going to go
through all of them just to mention Karl

17

00:01:22,720 --> 00:01:30,100

Marx and Thorstein Veblen is perhaps the
most important ones.

18

00:01:30,100 --> 00:01:31,100

Karl Marx introduced

19

00:01:31,100 --> 00:01:34,290

the concept of the labor theory of value
and this contains the idea of

20

00:01:34,290 --> 00:01:39,390

exploitation that wages are smaller than
the laborers contribution to the total

21

00:01:39,390 --> 00:01:43,630

product so that there is a difference
between what is being received, what is

22

00:01:43,630 --> 00:01:47,210

being produced, and what is being
received and also the notion that

23

00:01:47,210 --> 00:01:52,750

profits are losses to society that there
is no net gain and this is sort of the

24

00:01:52,750 --> 00:01:57,350

opposite hypothesis to the invisible
hand and Karl Marx formulates it the

25

00:01:57,350 --> 00:02:01,820

following way he says no matter how
economical capitalist production may be

26

00:02:01,820 --> 00:02:07,250

in other respects it is utterly
prodigal to human life capitalism losses

27

00:02:07,250 --> 00:02:12,530

on the one side for society what it
gains on another for the individual

28

00:02:12,530 --> 00:02:14,250

capitalists.

29

00:02:14,250 --> 00:02:16,050

Karl Marx also extends his analysis to

30

00:02:16,050 --> 00:02:21,959

ecological issues he says all progress
in capitalist agriculture is a progress

31

00:02:21,959 --> 00:02:27,230

in the art not only of robbing the
laborer but also of robbing the soil all

32

00:02:27,230 --> 00:02:32,090

progress in increasing the fertility of
the soil for a given time is progress

33

00:02:32,090 --> 00:02:36,450

towards ruining the lasting sources of
that fertility.

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00:02:36,450 --> 00:02:37,450

Capitalist production

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00:02:37,450 --> 00:02:41,549

zaps the original sources of all wealth
the soil and the laborers so you have

36

00:02:41,549 --> 00:02:45,650

this idea here that there are losses
Karl Marx doesn't call it social cost

37

00:02:45,650 --> 00:02:48,790

that is later now I'll say a little bit
about that too

38

00:02:48,790 --> 00:02:52,090

but I do want to mention that the
heterodox theory draws on some of these

39

00:02:52,090 --> 00:02:57,620

ideas obviously that there are losses
that this is not a zero-sum game or like

40

00:02:57,620 --> 00:03:01,849

an invisible hand idea that the
maximization of the individual interest

41

00:03:01,849 --> 00:03:06,930

maximizes societal well-being like Adam
Smith put that forth.

42

00:03:06,930 --> 00:03:08,060

And then Thorstein

43

00:03:08,060 --> 00:03:11,959

Veblen in the theory of business
enterprise talks a lot about social

44

00:03:11,959 --> 00:03:17,859

waste resulting from pecuniar principles
he analyzes empirical cases of

45

00:03:17,859 --> 00:03:22,810

industrial sabotage planned obsolescence
degradation of existing product values

46

00:03:22,810 --> 00:03:28,349

and interestingly he also notes the
depletion of natural resources, that's an

47

00:03:28,349 --> 00:03:32,980

absentee ownership,
he says business enterprise has run

48

00:03:32,980 --> 00:03:37,579

through that range of natural resources
the fur bearing animals with exemplary

49

00:03:37,579 --> 00:03:41,170

thoroughness and expedition and has left
the place of it bare.

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00:03:41,170 --> 00:03:42,170

It is a concluded

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00:03:42,170 --> 00:03:46,719

chapter of American enterprise this
American plan or policy is very simply a

52

00:03:46,719 --> 00:03:51,519

settled practice of converting all
public wealth to private gain on a plane

53

00:03:51,519 --> 00:03:53,139

of legalized seizure.

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00:03:53,139 --> 00:03:56,379

So again here this
idea that something in this process is

55

00:03:56,379 --> 00:04:01,569

there's waste, there's a loss, there's
benefits obviously to some people but

56

00:04:01,569 --> 00:04:07,430

there's also these losses and Veblen's
analyses point us to focusing on this

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00:04:07,430 --> 00:04:11,829

question are the losses perhaps greater
than the benefits and how do we know if

58

00:04:11,829 --> 00:04:16,220

we don't account for the losses how do
we know that the system we're running is

59

00:04:16,220 --> 00:04:21,459

on the whole on the aggregate beneficial
to society rather than perhaps an

60

00:04:21,459 --> 00:04:24,490

overall loss.

61

00:04:24,490 --> 00:04:26,990

So I'm taking these ideas then the

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00:04:26,990 --> 00:04:31,440

heterodox theory of social cost emerges

and that helps in 1950 in particular

63

00:04:31,440 --> 00:04:35,990

here with Kapp's famous book the Social

Costs of Private Enterprise which

64

00:04:35,990 --> 00:04:40,660

integrates these insights into

coherent theory of social costs and he

65

00:04:40,660 --> 00:04:46,870

defines it as follows social costs are

those harmful consequences and damages

66

00:04:46,870 --> 00:04:50,930

which other persons or the community

sustained as a result of productive

67

00:04:50,930 --> 00:04:58,220

processes and for which private en...
entrepreneurs are not held accountable.

68

00:04:58,220 --> 00:05:03,020

And he adds two preconditions also for
something to be social costs it must be

69

00:05:03,020 --> 00:05:08,319

avoidable and it must be the result of
human man-made economic activity.

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00:05:08,319 --> 00:05:09,319

So a

71

00:05:09,319 --> 00:05:15,379

natural disaster such as an earthquake
would not be a social cause for Kapp.

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00:05:15,379 --> 00:05:16,379

I

73

00:05:16,379 --> 00:05:22,389

will also distinguish this a bit later
from Pigou because, because for Pigou

74

00:05:22,389 --> 00:05:27,080

social costs a total cost the sum total
of external marginal external cost and

75

00:05:27,080 --> 00:05:32,121

private cost, but Kapp goes chooses this
terminology to differentiate social cost

76

00:05:32,121 --> 00:05:33,480

from private costs.

77

00:05:33,480 --> 00:05:36,960

He says social costs
are the costs that are borne by society

78

00:05:36,960 --> 00:05:41,419

and private costs are the costs that are
borne by the private entrepreneur.

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00:05:41,419 --> 00:05:42,419

So the

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00:05:42,419 --> 00:05:45,669

key idea is this, and this is, everybody
should write this down, these are very

81

00:05:45,669 --> 00:05:51,770

valuable key ideas that have been
underrated in history of economic ideas.

82

00:05:51,770 --> 00:05:53,810

The key idea is cost shifting.

83

00:05:53,810 --> 00:05:57,819

So costs
entrepreneurs don't make profits out of

84

00:05:57,819 --> 00:06:02,210

thin air they make profits by shifting
costs to society.

85

00:06:02,210 --> 00:06:03,460

They socialize costs as

86

00:06:03,460 --> 00:06:08,560

many as they can by shifting them to
society to privatize increasing amounts

87

00:06:08,560 --> 00:06:14,270

of profits and Kapp also comes up with
with a countervailing impossibility

88

00:06:14,270 --> 00:06:20,520

thesis to Mises's famous anti socialists
impossibility thesis and Kapp states

89

00:06:20,520 --> 00:06:25,470

simply in a pure market economy social
costs are not accounted for in exchanges

90

00:06:25,470 --> 00:06:31,210

between isolated individuals
hence prices do not reflect total costs

91

00:06:31,210 --> 00:06:34,530

and allocation cannot be rational.

92

00:06:34,530 --> 00:06:36,639

Well obviously maybe, you know, if the

93

00:06:36,639 --> 00:06:39,220

cost that

exists if the prices exist in markets

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00:06:39,220 --> 00:06:44,939

only reflect 10% of the true costs what

does that tell us maybe not very much

95

00:06:44,939 --> 00:06:49,879

and if we organize allocation based on

an information that may only contain 10%

96

00:06:49,879 --> 00:06:56,449

of the actual cost then allocation

through markets may be highly irrational.

97

00:06:56,449 --> 00:07:00,430

What is rational and good for the

individual businessman, which is cost

98

00:07:00,430 --> 00:07:06,159

minimization, is often irrational or bad
for society as a whole.

99

00:07:06,159 --> 00:07:07,159

In other words

100

00:07:07,159 --> 00:07:11,710

what Kapp is here attacking is the
classical neoclassical and neoliberal

101

00:07:11,710 --> 00:07:18,379

notion or theory of the invisible hand.

102

00:07:18,379 --> 00:07:22,129

He also talks about the social cost of
government.

103

00:07:22,129 --> 00:07:23,349

Kapp explore social cost of

104

00:07:23,349 --> 00:07:28,419

ineffective government when social use values such as environmental or social

105

00:07:28,419 --> 00:07:32,980

justice are neglected thus based on the heterodox theory of social cost

106

00:07:32,980 --> 00:07:36,639

government can also be responsible for social costs.

107

00:07:36,639 --> 00:07:37,639

This has recently been

108

00:07:37,639 --> 00:07:42,349

elaborated by Jaime Galbraith's book the Predator State and Naomi Klein's book the

109

00:07:42,349 --> 00:07:47,080

Shock Doctrine, however the important thing here to note is that the cause of

110

00:07:47,080 --> 00:07:51,710

social costs of government is not
government per se or democratic

111

00:07:51,710 --> 00:07:54,819

government per se but the fact that
government has been taken over by

112

00:07:54,819 --> 00:08:03,669

private enterprise led by a plutocracy
of vested interests.

113

00:08:03,669 --> 00:08:04,669

Also one thing that

114

00:08:04,669 --> 00:08:08,499

Kapp didn't talk about though, he does
talk about it but not explicitly, but I

115

00:08:08,499 --> 00:08:11,389

want to talk about it because it's been
part of the discourse in the last three

116

00:08:11,389 --> 00:08:16,210

years that there are social costs of
economic ideas

117

00:08:16,210 --> 00:08:19,580

many modern heterodox economists view
the current financial economic

118

00:08:19,580 --> 00:08:24,530

ecological and social crises as a direct
social costs of the breakthrough of

119

00:08:24,530 --> 00:08:31,099

neoliberal economic ideas since the

120

00:08:31,099 --> 00:08:35,920

book Econned on that very good read
also research into the neoliberal

121

00:08:35,920 --> 00:08:41,320

thought collective suggested several
leading protagonists of this neoliberal

122

00:08:41,320 --> 00:08:45,630

movement were mouthpieces for very
wealthy corporate donors.

123

00:08:45,630 --> 00:08:46,630

If you want to

124

00:08:46,630 --> 00:08:49,930

read Mirowski's in the lead and all
this research if you want to read The

125

00:08:49,930 --> 00:08:55,850

Road from Mont Pelerin, Building Chicago
Economics those are two recent books and

126

00:08:55,850 --> 00:08:58,779

also the movie obviously, The Inside Job.

127

00:08:58,779 --> 00:09:01,680

Ev... evidence, there's evidence that

128

00:09:01,680 --> 00:09:05,480

suggests that economists are businessmen
trying to profit by promoting

129

00:09:05,480 --> 00:09:10,240

pro-corporate ideas and obviously that
then exacerbates the problem of social

130

00:09:10,240 --> 00:09:14,820

costs that we talked about earlier.

131

00:09:14,820 --> 00:09:16,820

So

some of the policy principles that Kapp

132

00:09:16,820 --> 00:09:23,630

promotes, he promotes the thinking in
terms of ex ante precautionary measures

133

00:09:23,630 --> 00:09:28,370

rather than expose remedies that would
mean social controls of allocation

134

00:09:28,370 --> 00:09:32,760

investment location decisions before the
damage occurs so an ex ante principle

135

00:09:32,760 --> 00:09:36,750

rather than waiting for it to happen in
the marketplace and then trying to fix

136

00:09:36,750 --> 00:09:39,180

it with some money payments.

137

00:09:39,180 --> 00:09:40,880

Safety

standards should be implemented in all

138

00:09:40,880 --> 00:09:48,390

areas which is a fundamental break with
the neoclassical utilitarianism.

139

00:09:48,390 --> 00:09:49,680

So what is morally

140

00:09:49,680 --> 00:09:53,480

good desirable and useful is no longer

left to the individual or the market to

141

00:09:53,480 --> 00:09:59,860

decide but it is embedded in safety in
the safety net and can function within

142

00:09:59,860 --> 00:10:04,170

that safety net of safety standards and
actually this is interesting some

143

00:10:04,170 --> 00:10:07,470

neoliberal writers
agree with that.

144

00:10:07,470 --> 00:10:08,470

So if you read the

145

00:10:08,470 --> 00:10:12,760

literature from the 1940s and 50s when
the Mont Pelerin Society was formed

146

00:10:12,760 --> 00:10:17,300

there were people who said while

neoliberalism or libertarianism is

147

00:10:17,300 --> 00:10:20,769

actually compatible with this idea of
safety standards and having the market

148

00:10:20,769 --> 00:10:28,490

work within the limits of specific
floors that I put in.

149

00:10:28,490 --> 00:10:29,870

Also Kapp promotes

150

00:10:29,870 --> 00:10:35,800

the reversal of the principle of proof
the producers should bear the burden of

151

00:10:35,800 --> 00:10:41,680

proving the harmlessness of the
activities beforehand not regulators or

152

00:10:41,680 --> 00:10:46,440

the victims after the damage occurred

and after the damage has done you have

153

00:10:46,440 --> 00:10:51,100

to prove causality that that corporation
harmed you or who was at fault but it

154

00:10:51,100 --> 00:10:58,310

should be reversed and it should be ex
ante before the activity takes place.

155

00:10:58,310 --> 00:11:01,800

Also obviously as an institutional
economists Kapp, you know, heterodox

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00:11:01,800 --> 00:11:03,940

economists many of them are
institutional economist

157

00:11:03,940 --> 00:11:07,690

so rather than on the price mechanism
and the market they focus on things that

158

00:11:07,690 --> 00:11:13,630

you can do through institutional change,
changing education, changing prohibitions,

159

00:11:13,630 --> 00:11:17,329

regulations more regulations democratic
governance of science and technology in

160

00:11:17,329 --> 00:11:22,300

particular so that science and
technology no longer are left to private

161

00:11:22,300 --> 00:11:25,699

cost-shifting entities that only have an
interest in short-term profit

162

00:11:25,699 --> 00:11:30,550

maximization at the expense of society
that twenty years down the line ends up

163

00:11:30,550 --> 00:11:34,880

with high cancer rates, etc. and oh gosh
where were all these cancer rates coming

164

00:11:34,880 --> 00:11:38,480

from well maybe science and technology
was introduced that was fundamentally

165

00:11:38,480 --> 00:11:45,459

unsafe and leads to tremendous social
cost.

166

00:11:45,459 --> 00:11:47,600

So just a quote here of the of this

167

00:11:47,600 --> 00:11:52,470

if I find this sums it up nicely caps
ideas social costs are damages which

168

00:11:52,470 --> 00:11:56,649

under different institutional conditions
could be avoided for obviously if these

169

00:11:56,649 --> 00:12:01,339

costs were inevitable under any kind of
institutional arrangement they would not

170

00:12:01,339 --> 00:12:05,190

really present a special theoretical
problem.

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00:12:05,190 --> 00:12:06,649

To reveal their origin the study

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00:12:06,649 --> 00:12:10,420

of social cost must always be an
institutional analysis.

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00:12:10,420 --> 00:12:11,420

Such an analysis

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00:12:11,420 --> 00:12:15,790

raises inevitably the question of
institutional reform and economic policy

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00:12:15,790 --> 00:12:21,770

which may eliminate or minimize the
social diseconomies on a discussion.

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00:12:21,770 --> 00:12:26,040

Alright, now historical background how did
all this come?

177

00:12:26,040 --> 00:12:27,350

About so this entire

178

00:12:27,350 --> 00:12:32,290

discussion of discourse emerges mainly
in in the interwar period but then

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00:12:32,290 --> 00:12:36,649

really after World War Two free market
versus intervention is more of

180

00:12:36,649 --> 00:12:38,940

free-market versus collectivism.

181

00:12:38,940 --> 00:12:44,630

Kapps

book is the reply to Mises and Hayek and

182

00:12:44,630 --> 00:12:48,880

also to Pigou so the heterodox people get

together and then formulate after World

183

00:12:48,880 --> 00:12:54,370

War two a response a theoretical
response to the neoliberal ideas of how

184

00:12:54,370 --> 00:12:59,850

to handle social costs and they were
quite successful and in 20 years after

185

00:12:59,850 --> 00:13:03,540

the Second World War
these ideas were the leading ideas the

186

00:13:03,540 --> 00:13:07,501

heterodox ideas and this is reflected
for instance this is just one of the

187

00:13:07,501 --> 00:13:12,410

examples that the United Nations called
a conference on the environment and Kapp

188

00:13:12,410 --> 00:13:16,529

was in the leading role in preparing
that conference in Geneva the

189

00:13:16,529 --> 00:13:20,269

preparation took place in Geneva and
then leading up to Stockholm so this

190

00:13:20,269 --> 00:13:25,660

entire United Nations movement into that
direction reflects actually success of

191

00:13:25,660 --> 00:13:30,441

heterodox economics ideas but all that
flips in the 70s when the neoliberal

192

00:13:30,441 --> 00:13:36,400

counter-revolution takes place here they
took about 30 years to progeny so it

193

00:13:36,400 --> 00:13:37,570

started in 1940.

194

00:13:37,570 --> 00:13:41,089

It really started into
more period 1930s but then they got

195

00:13:41,089 --> 00:13:48,020

together 1947 and by the 1970s there
their ideas take over.

196

00:13:48,020 --> 00:13:49,020

What are the

197

00:13:49,020 --> 00:13:51,769

neoclassical and neoliberal ideas?

198

00:13:51,769 --> 00:13:54,269

Just a

brief table here to distinguish that

199

00:13:54,269 --> 00:13:58,730

neoclassical and neoliberal ideas are
very similar in many respects but they

200

00:13:58,730 --> 00:14:04,120

also been different, so the view of the

problem is a micro-level individualist

201

00:14:04,120 --> 00:14:09,180

view as opposed to a macro level social
structure view in the institutional case

202

00:14:09,180 --> 00:14:13,100

or heterodox case.

203

00:14:13,100 --> 00:14:15,660

Neoliberals and Neoclassical's view the cause
of social

204

00:14:15,660 --> 00:14:19,899

costs as either accidental or they don't
provide an analysis at all it just

205

00:14:19,899 --> 00:14:22,480

happens and now let's try to deal with
it.

206

00:14:22,480 --> 00:14:25,230

The social costs have market value,

207

00:14:25,230 --> 00:14:30,449

their market value is all that we can
say about those social costs and

208

00:14:30,449 --> 00:14:35,220

oftentimes the nature of the remedies is
ad hoc and ex post not ex ante and

209

00:14:35,220 --> 00:14:42,160

systematic scientific, but ex post and ad
hoc and so the neoclassical is here in

210

00:14:42,160 --> 00:14:45,221

the tradition of Pigou ,I'm just going to
say a few things about, Pigou in in a

211

00:14:45,221 --> 00:14:48,649

second proposed taxes worse the
neoliberal it's proposed bargaining

212

00:14:48,649 --> 00:14:53,199

solutions or just playing economic

growth and lawsuits so I want to just

213

00:14:53,199 --> 00:14:57,480

shift it all to the legal system and the
courts, no politics don't get democracy

214

00:14:57,480 --> 00:15:01,319

involved, that's dangerous you know Hayek
has this whole thing about how democracy

215

00:15:01,319 --> 00:15:07,180

is the first step into the road to
serfdom and so.

216

00:15:07,180 --> 00:15:09,040

So the heterodox,

217

00:15:09,040 --> 00:15:13,060

heterodox theory focuses more on social
control safety standards and the

218

00:15:13,060 --> 00:15:15,779

precautionary principle as I stated

earlier.

219

00:15:15,779 --> 00:15:18,660

And so the classification here

220

00:15:18,660 --> 00:15:22,950

is the last so what's the political
economy underlying all of this the

221

00:15:22,950 --> 00:15:26,449

neoclassical I would call them still the
conservative liberals because they're

222

00:15:26,449 --> 00:15:29,700

slightly interventionist it they want to
tweak a little bit to market

223

00:15:29,700 --> 00:15:33,040

mechanism with taxes and so on but
they're not as radical as the

224

00:15:33,040 --> 00:15:38,170

neoliberals because the neoliberal are

really trying to find mechanisms that

225

00:15:38,170 --> 00:15:42,629

would shift the power to the main
property owners and the ones that have

226

00:15:42,629 --> 00:15:48,190

the largest capacity to pay off the poor
in those bargaining's over environmental

227

00:15:48,190 --> 00:15:50,030

damage.

228

00:15:50,030 --> 00:15:53,610

And the heterodox institutional
theory is really the one that is

229

00:15:53,610 --> 00:15:57,319

thoroughly in the tradition of social
democratic policies and strongly

230

00:15:57,319 --> 00:16:01,810

affecting the mechanism of allocation

and shifting the power back to those who

231

00:16:01,810 --> 00:16:07,190

are most affected and damaged victims of these social cost relationships.

232

00:16:07,190 --> 00:16:08,190

So

233

00:16:08,190 --> 00:16:10,530

neoclassical arguments I'm not going to bore you all of you are somehow probably

234

00:16:10,530 --> 00:16:16,560

related to economics so you know Pigou and Pigou's argument coming out of 1920

235

00:16:16,560 --> 00:16:21,620

he tried to reconcile this idea of unaccounted damages with neoclassical

236

00:16:21,620 --> 00:16:23,330

economics.

237

00:16:23,330 --> 00:16:27,370

He used Marshall's concept of
external external economies for that

238

00:16:27,370 --> 00:16:33,000

then he dubbed it external costs but
these external costs or externalities

239

00:16:33,000 --> 00:16:38,269

are really portrayed as exceptional
occurrences of an otherwise harmonious

240

00:16:38,269 --> 00:16:43,580

system you can see how this natural law
philosophy of neoclassicism is still in

241

00:16:43,580 --> 00:16:46,649

full, full sway here.

242

00:16:46,649 --> 00:16:49,230

So he for him it's
all an accident it's an accidental

243

00:16:49,230 --> 00:16:52,660

divergence of the private and social
product.

244

00:16:52,660 --> 00:16:57,070

There's no institutional analysis of why
this happens.

245

00:16:57,070 --> 00:16:58,070

Then he values these

246

00:16:58,070 --> 00:17:05,420

damages in a monetary fashion and wants
to internalize them with taxation, but

247

00:17:05,420 --> 00:17:09,270

you know Pigou radicalizes by the 40s
he's pretty much a socialist.

248

00:17:09,270 --> 00:17:13,060

In the late

249

00:17:13,060 --> 00:17:15,351

stuff and you find quotes like this, we

250

00:17:15,351 --> 00:17:19,089

may be confronted with evidence of the
bankruptcy of capitalism and a case for

251

00:17:19,089 --> 00:17:23,309

extending the range of public ownership
and public operation to industries in

252

00:17:23,309 --> 00:17:25,539

which they have not yet been involved.

253

00:17:25,539 --> 00:17:26,880

You don't find that in the intro

254

00:17:26,880 --> 00:17:31,290

textbook you just find the standard Pigou
the the conservative Pigou, the

255

00:17:31,290 --> 00:17:38,090

socialist Pigou, is shut down you know
it's kind of interesting to Pigou

256

00:17:38,090 --> 00:17:41,870

radicalized later but you don't find
that too much in the books that

257

00:17:41,870 --> 00:17:47,409

I use here in higher education, I guess.

258

00:17:47,409 --> 00:17:50,070

Alright so what happens now you have Pigou
as,

259

00:17:50,070 --> 00:17:53,429

are still slightly interventionist
guy and that's obviously very bad from a

260

00:17:53,429 --> 00:17:58,630

libertarian point of view and so the
neoliberal arguments really start to

261

00:17:58,630 --> 00:18:04,240

grow rapidly in the 1960s with Coase and Stigler and they transform this entire

262

00:18:04,240 --> 00:18:09,680

discourse from interventionism to non-interventionism and they're very

263

00:18:09,680 --> 00:18:13,140

dissatisfied with Pigou's ideas and with Kapps' ideas and they try to get

264

00:18:13,140 --> 00:18:16,611

fundamentally away from that they say that's the first step into the road, road

265

00:18:16,611 --> 00:18:17,611

to serfdom.

266

00:18:17,611 --> 00:18:23,000

Hayek is very influential as a as an idea giver and heterodox

267

00:18:23,000 --> 00:18:28,530

arguments are deemed too costly,
ineffective, anti-growth, or anti freedom.

268

00:18:28,530 --> 00:18:32,330

So you find a variety of arguments why
Kapp and Pigou get it wrong and they're

269

00:18:32,330 --> 00:18:36,059

dangerous and they should be ignored.

270

00:18:36,059 --> 00:18:38,290

So

for instance, Knight, Frank Knight Chicago

271

00:18:38,290 --> 00:18:43,480

School economist writes a book review of
Kapps' book 1951 he calls this socialist

272

00:18:43,480 --> 00:18:44,679

propaganda.

273

00:18:44,679 --> 00:18:47,630

He says Kapp doesn't mention freedom, he

274

00:18:47,630 --> 00:18:52,200

doesn't talk about the costs of
eliminating costs talking about waste

275

00:18:52,200 --> 00:18:56,390

is problematic because waste can only be
defined in reference to costs of

276

00:18:56,390 --> 00:18:57,390

conservation.

277

00:18:57,390 --> 00:19:00,430

So you see here a
collective attempt coming out of 50s

278

00:19:00,430 --> 00:19:05,960

into the 60s to discredit all these
social democratic ideas of well we have

279

00:19:05,960 --> 00:19:10,660

victims we have losers in the system and
we need to we need to you know protect

280

00:19:10,660 --> 00:19:14,880

these people from these harms these
social costs and so we see here in

281

00:19:14,880 --> 00:19:19,130

attempt by this, what I call the
neoliberal thought collective, based on

282

00:19:19,130 --> 00:19:25,220

Marowski's work on this to undermine
this I this interventionist view so you

283

00:19:25,220 --> 00:19:30,000

get Coase and Stigler there they did
probably the greatest damage they you

284

00:19:30,000 --> 00:19:35,020

know Stigler you know is overtly hating
institutional economists he, he's, he

285

00:19:35,020 --> 00:19:38,100

actually says you know I'm running

demolition derbys against

286

00:19:38,100 --> 00:19:41,020

institutionalism, institutionalism is
dying out at a great at a fast rate but

287

00:19:41,020 --> 00:19:46,450

it's not fast enough for me and this is
really an attempt now to to do away with

288

00:19:46,450 --> 00:19:51,180

that and so they say damages and social
costs are justified when they are

289

00:19:51,180 --> 00:19:55,520

smaller than the benefits that come from
that productive activity so let it

290

00:19:55,520 --> 00:19:58,429

happen
as long as the profits are great enough

291

00:19:58,429 --> 00:20:02,530

and the benefits are high enough let the
social costs happen it's it's not a

292

00:20:02,530 --> 00:20:03,640

problem.

293

00:20:03,640 --> 00:20:08,510

Coase also promotes this idea of
well maybe you don't do anything about

294

00:20:08,510 --> 00:20:13,410

social costs or you promote bargaining
if you have clear property rights that

295

00:20:13,410 --> 00:20:17,820

that can be assigned between the parties
the polluter and the victim then maybe

296

00:20:17,820 --> 00:20:21,970

we can find a way to find bargaining
solutions but market individual not

297

00:20:21,970 --> 00:20:23,980

government based solutions.

298

00:20:23,980 --> 00:20:26,620

So they call

it the reciprocal nature of the problem

299

00:20:26,620 --> 00:20:31,620

they want us to believe social costs are
a thing between neighbors my neighbor

300

00:20:31,620 --> 00:20:36,500

you know does harm to my property and so
now we should bargain

301

00:20:36,500 --> 00:20:39,960

it's an individualist view of social
cost and they get it they want to get us

302

00:20:39,960 --> 00:20:44,630

to believe that all cases of social cost
can somehow perceived, be perceived in

303

00:20:44,630 --> 00:20:52,020

that way so that we don't need
government to do anything about it.

304

00:20:52,020 --> 00:20:53,020

Again

305

00:20:53,020 --> 00:20:56,919

no analysis of institutional causes they
never talk about why does this happen of

306

00:20:56,919 --> 00:20:59,960

course we know why they don't talk about
it because they don't want to talk about

307

00:20:59,960 --> 00:21:04,230

cost-shifting they want to talk about
how the businessmen actually

308

00:21:04,230 --> 00:21:09,650

intentionally harmed their communities
to maximize profits.

309

00:21:09,650 --> 00:21:10,650

And also they have

310

00:21:10,650 --> 00:21:16,410

an ex post compensation principal rather
than ex ante precautionary philosophy.

311

00:21:16,410 --> 00:21:21,610

James Buchanan also very famous
neoliberal economists calls Kapp's book a

312

00:21:21,610 --> 00:21:28,360

failure for for calling attention to
similar for failing to call attention to

313

00:21:28,360 --> 00:21:35,179

similar imperfection in realistic and
attainable alternative solutions cause

314

00:21:35,179 --> 00:21:38,590

the analysis itself to take on
implications for institutional change

315

00:21:38,590 --> 00:21:43,150

that are at best highly misleading any
attempt to replace or to modify an

316

00:21:43,150 --> 00:21:48,539

existing market situation admitted to be
characterized by serious externalities

317

00:21:48,539 --> 00:21:52,050

will produce solutions that embody
externalities which are different but

318

00:21:52,050 --> 00:21:55,010

precisely analogous to those previously
existing.

319

00:21:55,010 --> 00:21:56,570

So he's telling us you we can't

320

00:21:56,570 --> 00:21:58,510

we can't do anything about it.

321

00:21:58,510 --> 00:22:00,690

You know if we fix one externality some

322

00:22:00,690 --> 00:22:05,250

other externality comes from that and so
you know we didn't gain anything so it's

323

00:22:05,250 --> 00:22:10,250

it's sort of this this we're helpless
externalities simply exist and

324

00:22:10,250 --> 00:22:12,720

we can't or shouldn't try to do anything
about it.

325

00:22:12,720 --> 00:22:13,779

Then you get people like

326

00:22:13,779 --> 00:22:16,750

Calabrese, Calabrese he was very
influential in the new law and economics

327

00:22:16,750 --> 00:22:20,809

movement he acknowledged that Kapp was
probably correct and projecting a vast

328

00:22:20,809 --> 00:22:26,140

web of unpaid social costs but took the position that it would be too costly for

329

00:22:26,140 --> 00:22:31,820

our society to determine the social cost and even more costly to attempt to

330

00:22:31,820 --> 00:22:35,910

redistribute to attempt a redistributive remedy.

331

00:22:35,910 --> 00:22:38,360

Mises obviously may be like the

332

00:22:38,360 --> 00:22:44,660

father of this entire movement as Pigou Mont Pelerin movement he simply said do

333

00:22:44,660 --> 00:22:48,470

nothing about social costs as soon as you start tinkering with social costs

334

00:22:48,470 --> 00:22:50,270

you and the road to serfdom.

335

00:22:50,270 --> 00:22:52,510

The road to totalitarianism because once

336

00:22:52,510 --> 00:22:55,809

you start tweaking with the market

system one tweaking leads to another

337

00:22:55,809 --> 00:22:58,539

tweaking leads to another tweaking you

always trying to fix more and more and

338

00:22:58,539 --> 00:23:02,490

more until you are in a full-fledged

totalitarian state.

339

00:23:02,490 --> 00:23:03,490

Hayek interestingly

340

00:23:03,490 --> 00:23:11,640

in his 1944 book famous book Road to
Serfdom is mildly interventionist pages

341

00:23:11,640 --> 00:23:13,740

lot of compromise with Pigou and say well

342

00:23:13,740 --> 00:23:18,610

you know when they're severe social cost
government has a reason to step in in

343

00:23:18,610 --> 00:23:22,740

the 70s he recants and says that was bad
he should have never compromised with

344

00:23:22,740 --> 00:23:28,559

Pigou on this and he says just economic
growth will fix it no intervention at

345

00:23:28,559 --> 00:23:31,990

all in the case of social costs.

346

00:23:31,990 --> 00:23:34,470

And Cordato he's a modern famous modern

347

00:23:34,470 --> 00:23:39,210

Austrian economist he comes out with
really crass statements but there's

348

00:23:39,210 --> 00:23:41,340

there I like them because they're so
crass.

349

00:23:41,340 --> 00:23:43,710

He says social costs do not exist,

350

00:23:43,710 --> 00:23:48,840

either in reality or as a concept
because market failure does not exist

351

00:23:48,840 --> 00:23:51,860

only the violation of property rights is
real.

352

00:23:51,860 --> 00:23:53,990

And you know this is fundamentally

353

00:23:53,990 --> 00:23:57,100

in line with the tradition of Mises and
Hayek

354

00:23:57,100 --> 00:24:03,029

and this is a fundamental alternative to
the heterodox views.

355

00:24:03,029 --> 00:24:04,289

So now what's the

356

00:24:04,289 --> 00:24:08,990

critique now that asked the heterodox
community in particular Kapp did a lot of

357

00:24:08,990 --> 00:24:13,309

work on that now responding to the
neoliberal is now responding to

358

00:24:13,309 --> 00:24:20,600

neoclassical ideas and so some of the
critiques have to do with unwarranted

359

00:24:20,600 --> 00:24:24,909

pre-analytical notions that
you know that we live in a beneficial

360

00:24:24,909 --> 00:24:28,960

and rational system of business
enterprise and that government is evil

361

00:24:28,960 --> 00:24:36,240

per se so these a priori value judgments
made by many of these neoliberal and

362

00:24:36,240 --> 00:24:40,820

neoclassical economists are rejected and
are you know exposed as being

363

00:24:40,820 --> 00:24:47,179

unscientific because they're simply a
priori value statements.

364

00:24:47,179 --> 00:24:48,179

Also are

365

00:24:48,179 --> 00:24:52,669

treating damages as exceptional is is
considered inappropriate downplaying

366

00:24:52,669 --> 00:24:56,320

empirical evidence of the inherit
irrationalities and destructiveness of

367

00:24:56,320 --> 00:25:00,580

the system is is considered
inappropriate.

368

00:25:00,580 --> 00:25:02,950

And a lot of it now also

369

00:25:02,950 --> 00:25:07,520

in this critique revolves around the
value problems Kapp basis a lot of his

370

00:25:07,520 --> 00:25:12,679

value critique on Kant on Kant's
metaphysics of ethics.

371

00:25:12,679 --> 00:25:13,679

Kant stated that

372

00:25:13,679 --> 00:25:18,059

that which cannot be exchanged has no
exchange value and human life and health

373

00:25:18,059 --> 00:25:22,050

cannot be exchanged and hence they have
no exchange value so when you when your

374

00:25:22,050 --> 00:25:26,750

health is damaged any scheme that
pretends that there's a market value to

375

00:25:26,750 --> 00:25:32,630

that and that can fix this problem or
reverse it is based on this value theory

376

00:25:32,630 --> 00:25:34,850

in appropriate.

377

00:25:34,850 --> 00:25:37,490

So transforming original

human needs for clean air and clean

378

00:25:37,490 --> 00:25:42,350

water but you can also use any other

thing you know social safety net into a

379

00:25:42,350 --> 00:25:48,100

desire for money falsifies original

needs human needs lay outside the market

380

00:25:48,100 --> 00:25:52,190

hence environmental environmental

problems or problems of social costs

381

00:25:52,190 --> 00:25:56,730

cannot be adequately solved with

policies relying on market principles

382

00:25:56,730 --> 00:26:00,020

prices and values.

383

00:26:00,020 --> 00:26:03,040

Another thing that is
really damaging on a logical level and

384

00:26:03,040 --> 00:26:06,880

Georges Corrigan? was the main guy to
point this out really damaging to the

385

00:26:06,880 --> 00:26:11,649

entire neoclassical framework it's this
issue of complexity and reversibility

386

00:26:11,649 --> 00:26:15,220

because the neoclassical economics as
you know it's based on mechanics

387

00:26:15,220 --> 00:26:17,990

everything is based on reversibility.

388

00:26:17,990 --> 00:26:19,980

The
system is perfectly reversible, however

389

00:26:19,980 --> 00:26:25,370

in reality most problems of social cost,
resource degradation, people getting sick,

390

00:26:25,370 --> 00:26:29,060

things being destroyed they're not
reversible just because you pay somebody

391

00:26:29,060 --> 00:26:32,610

money you can't bring back some of the
things that were destroyed.

392

00:26:32,610 --> 00:26:35,980

So damage is

393

00:26:35,980 --> 00:26:39,390

often arise
from synergetic and cumulative effects

394

00:26:39,390 --> 00:26:45,020

they may be hidden with time lags as
well and are not transparent to the

395

00:26:45,020 --> 00:26:50,090

individuals involved difficult there's
also huge difficulties improving ex post

396

00:26:50,090 --> 00:26:53,760

often times the causality you know trace
if you want to sue somebody

397

00:26:53,760 --> 00:26:57,350

you have to trace it back to that person
you know how do you know if there's a

398

00:26:57,350 --> 00:27:02,830

there's five plants in this area and you
get cancer or how do you know who caused it?

399

00:27:02,830 --> 00:27:05,830

How do you you know differentiate
between the different sources of

400

00:27:05,830 --> 00:27:10,740

pollution and prove who did it to have a
claim that your property, you're priv.,

401

00:27:10,740 --> 00:27:14,360

your health was damaged?

402

00:27:14,360 --> 00:27:19,450

In all these

cases really this principle of the

403

00:27:19,450 --> 00:27:25,010

willingness to pay the monetary value

can really not be established as nicely,

404

00:27:25,010 --> 00:27:29,929

maybe not at all,

and so there's any, any attempt to solve

405

00:27:29,929 --> 00:27:34,320

this through market mechanisms falls

short.

406

00:27:34,320 --> 00:27:36,000

And here at the very latest, I

407

00:27:36,000 --> 00:27:40,580

already said it, the irreversibility
issue is perhaps the strongest in the

408

00:27:40,580 --> 00:27:44,120

terms of the theory because most of this
stuff can't be reversed no matter what

409

00:27:44,120 --> 00:27:45,120

you do afterwards.

410

00:27:45,120 --> 00:27:48,779

You want to focus on
preventing it.

411

00:27:48,779 --> 00:27:49,779

Another thing that they

412

00:27:49,779 --> 00:27:53,850

love these neoliberal and neoclassical
is to obscure the power issues involved

413

00:27:53,850 --> 00:27:58,299

because we simply don't all have the
same power and social costs are in

414

00:27:58,299 --> 00:28:01,920

reality and I'm convinced that that's
right what Kapp is saying here in reality

415

00:28:01,920 --> 00:28:06,590

social costs are a forced one-sided
relationship which the individual

416

00:28:06,590 --> 00:28:12,620

usually cannot escape they happen behind
the back of the individual and when the

417

00:28:12,620 --> 00:28:16,110

individual tries to make a fuss if he
has even the courage to make a fuss

418

00:28:16,110 --> 00:28:22,789

about it usually it's very hard to get
the the person that damaged to even

419

00:28:22,789 --> 00:28:24,420

start to communicate with you about it.

420

00:28:24,420 --> 00:28:26,549

You know to even get it to stake a claim

421

00:28:26,549 --> 00:28:31,370

so corporations pass ,you know you see
this with this Pigouvian tax notion,

422

00:28:31,370 --> 00:28:35,940

corporations simply pass on the tax to
the low-income consumers who have who

423

00:28:35,940 --> 00:28:41,010

are harmed in the first place so it is
the victims actually paying the tax that

424

00:28:41,010 --> 00:28:44,390

was supposed to get rid of the
externality.

425

00:28:44,390 --> 00:28:48,029

Yeah, so, and then this I

426

00:28:48,029 --> 00:28:53,529

steal from Mirowski,

I hope he doesn't mind this is what he

427

00:28:53,529 --> 00:28:57,529

calls the neoliberal double truth

neoliberals argued that heterodox

428

00:28:57,529 --> 00:29:01,500

proposals for intervention are too

expensive while completely obscuring the

429

00:29:01,500 --> 00:29:06,180

cost of defining and enforcing property

rights neoliberals argued that calls for

430

00:29:06,180 --> 00:29:10,910

social democratic controls of the

economy are anti freedom, but do not

431

00:29:10,910 --> 00:29:15,090

discuss the dangers for human freedoms
that come from their doctrine of the

432

00:29:15,090 --> 00:29:16,090

poor sell cheap.

433

00:29:16,090 --> 00:29:18,650

You know this Larry

Summers he actually used some of these

434

00:29:18,650 --> 00:29:22,200

ideas coming out of the neoliberal
thought collective and he was actually

435

00:29:22,200 --> 00:29:25,840

honest and he boiled it down to if we
fix it all through the market then we'll

436

00:29:25,840 --> 00:29:30,659

just pay off the poors with as little as
we can get away with for the damages

437

00:29:30,659 --> 00:29:33,090

that they that they had.

438

00:29:33,090 --> 00:29:34,469

Thank you.