

Economic Perspective

Macroeconomics I

ECON 309

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Methodological Individualism

- Classical liberalism, classical economics and neoclassical economics are based on the conception that society is the sum of the individuals. People are whatever they are and their individual preferences, feelings, moral outlooks, etc. All aggregate to the perceived identity of the collective.
- “Society” is a fiction; Society does not shape individuals, individuals are shaped independently of the social structure.
- When adopted as a methodology in analysis, this is referred to as *methodological individualism*. Every analysis must begin with the individual, deal with individual choices and experiences, with collectives formed as aggregates.

Counterpoint

Marx argues that society shapes the individual, and that individuals have great difficulty in separating themselves from the influence of those around themselves to make independent decisions. In fact, society is the principle factor shaping individuals.

To change the world toward a better one, one cannot rely on individual actions since individuals are perverted by the corrupt (capitalist) society in which they live and cannot be expected to see clearly enough to make personal choices.

Therefore, the state (the collective) must make decisions for the common good. *The collective is more important than the individual.*

Private Property

- Rousseau sees all things as belonging collectively to society, whereas Locke sees things, not previously claimed, belonging to those incorporate their labor to do something with it. Locke defends property rights and process justice.
- To Locke private property is a “good.”
- Marx, following Rousseau and Plato, sees private property as the root of much evil in the world.
- Adam Smith accepts Locke’s vision of a free society based on individual choice, property rights, and process justice, and attempts to show that this yields “just” and optimal outcomes.

Distributive Justice

John Rawls

- ***A Theory of Justice* (1971). Called the most important work on ethics in over 100 years.**
- **Tries to find a middle ground between the “fully” end-state approach of the utilitarians and the process approach of the property rights advocates. Compromise between process and consequences as the focus of justice.**
- **Cannot consider what is “good”, but rather what is “fair”. Hence, this is referred to as *Justice as Fairness* (JAF).**

Distributive Justice

John Rawls (Continued)

Approach:

- **Original position:** Imagine a group of people setting up a government and economic system. They must choose
 - principle of justice
 - principle of difference
 - rules about the priority of ranking of these principles
- **“Original Position” approach is meant to embody “contractarianism,”** a theory that has its roots in the social contract of Rousseau, Locke, and Kant. Leads to a result that some think is **“Communitarian.”**
 - People in the original position choose the principles
 - The choice reflects a contract
 - The way of constructing the contract is **“just”**

Distributive Justice

John Rawls (Continued)

Assumes:

- These people are self-interested
 - Equal to each other in their freedom to advance principles and bases for the construction of their society
 - They are rational. That is:
 - They choose effective means to ends
 - They don't make choices that are self-defeating
 - They know many things about people, society, politics and economics
 - They are absolutely ignorant of their own individual futures in the society that they are forming.
 - No one knows if he/she will be intelligent or stupid, rich or poor, what race or sex, healthy or sick, *or even their moral outlook.*
- Argues that this would be a fair circumstance for agreeing on the principles of a society.

Distributive Justice

John Rawls (Continued)

Rawls believes that under these circumstances, people would choose two principles—a principle of liberty, and a principle of difference:

- **Principle of Liberty:**
 - ✓ **Maximize the amount of individual liberties consistent with everyone having them.**
- **Principle of Difference (when inequalities justified?):**
 - ✓ **It is acceptable and also obligatory to have only and all those inequalities in a society which make the worst off people better off than they would be without the inequalities.**
 - ✓ **There must be equal opportunity for anyone to get into any of the positions of favorable inequality.**

Distributive Justice

Robert Nozick

- **Robert Nozick: Anarchy, State, and Utopia (1974).**
- **Begins by challenging the very notion of distribution:**
 - **It is an open question.**
 - **“There is no central distribution, no person or group entitled to control all the resources...”**
 - **“In a free society, diverse persons control different resources, and new holdings arise out of voluntary exchanges and actions of persons.”**

Distributive Justice

Robert Nozick (Continued)

- **In the Entitlement theory, the subject of justice in holdings involves three major topics:**
 - **Principle of justice in acquisition**
 - **Principle of justice in transfer**
 - **A person who acquires a holding in accordance with the principle of acquisition is entitled to that holding**
 - **A person who acquires a holding in accordance with the principle of justice in transfer, from someone who entitled to the holding, is entitled to that holding.**
 - **No one is entitled to a holding under any other circumstances.**
 - **Principle of rectification of injustice in holdings**

Distributive Justice

Robert Nozick (Continued)

- Ownership must be honored if it was justly acquired, traced back until it was possessed by no one, and carried forward to the present when it was acquired by just transfer.
- Just transfers are those that are uncoerced and voluntary trades.
- Nozick does not see any place for redistributing goods or satisfactions, no central social control over distribution.
- What is right and just is what has come about through just acquisition.
- Nozick argues that when and where there has been a free society, people have always upset the distribution of goods called for by any other theory of justice other than entitlement theory.
- **Entitlement theory is the only theory of distribution that does not have to be enforced, and it always aligns with individual liberty.**

Distributive Justice

Robert Nozick (Continued)

- The **entitlement theory of justice** is historical—whether a distribution is just depends upon how it came about.
- **Current time-slice principles** of justice hold that justice is determined by how things are distributed, according to some structural principle(s) of just distribution.
 - Example: Utilitarian theory
- To further clarify, Nozick suggests referring to the latter as **end-state or end-result principles**.

Distributive Justice

Robert Nozick (Continued)

- **There are other historical principles of distribution besides the entitlement principle.**
- **We call a distribution “patterned” if it specifies that the distribution vary according to some natural dimension or lexicographic ordering of natural dimensions.**
 - **Examples: moral merit, intelligence, need, marginal product, usefulness to society.**
- **Patterned principles focus on the justice of the recipient, not the justice of the giving.**

Distributive Justice

Robert Nozick (Continued)

- **Historical principles and end-state principles may converge when under a patterned principle.**
- **Would people accept a distribution that they felt was unjust?**
 - **More likely accept an entitlement principle if they thought the transfers were purposeful (e.g., for gain).**

Distributive Justice

Robert Nozick (Continued)

- **“To maintain a pattern, one must either must continually interfere to stop people from transferring as they wish to, or continually (or periodically) interfere to [redistribute the resources].”**
- **Patterned principles require (forced) redistribution to succeed. They are unnatural in this sense.**
- **The entitlement principle is the only principle that does not require force to maintain.**

Distributive Justice

Robert Nozick (Continued)

- Taxation of labor earnings amounts to forced labor—the person taxes is effectively being forced to work for another person.
- This case is easier to make when the taxes are simply redistributed and not used to purchase public goods.
- Redistribution also interferes with the usefulness of property rights in profit and utility maximization, and incentive structures.
- “End-state and most patterned principles of distributive justice institute (partial) ownership by others of people and their actions and labor. These principles involve a shift from classical liberals’ notion of self ownership to a notion of (partial) property rights in *other* people.”

Defining Questions

- 1. What is your view of human nature (your opinion of people in society)?**
- 2. What is the relative importance of the individual and society? Of individual freedoms vs. collective interests?**
- 3. Is private property just? Does it make sense? Is private property in the best interests of the individual and society?**
- 4. What constitutes distributive justice?**
- 5. Do markets actually work? Does government actually work? Are government intervention and central planning appropriate?**
- 6. Should social processes be engineered?**

	CONSTRAINED VISION Conservative, Classical Liberal	UNCONSTRAINED VISION Reform (Modern) Liberal, Socialist
Human Nature	Cannot and should not be changed by others.	Can and sometimes should be changed.
Individual vs. Society	The individual and his/her freedom is more important than the collective. “Society” is nothing more than some total of the individuals who make it up.	The collective is more important than the individual. Society shapes the individual.
Private Property	Yes. Property rights are critical and must be enforced. It is a reasonable role for government to ensure property rights.	No. At least not complete private property rights.
Distributive Justice	Process justice must be preserved at all costs. It is the glue that holds society together and directs self-interest into social benefit. Focus on entitlement and process. Equality means “parity of privileges.” It is process equality.	Justice is tied to results. Therefore different standards may apply to different individuals. The focus must be on “end-states”. Equality means nothing outside of social outcomes. It is “end-state equality.”
Central Planning	De-centralize. Individual knowledge and judgment are imperfect. Uncoordinated processes are best. This maximizes freedom, flexibility, use of proximity. Use markets—they work.	Centralized. Some individuals are better able to decide for others. Coordinate processes. Why act without reason? Use government—it works.
Social Change	Is evolutionary. Follows from human progress. Allowing natural evolution provides stability.	Social engineering (direct design) by knowledgeable leaders is more efficient and leads to chosen outcomes.

Ideology

Government Intervention in Economic Affairs

		For	Against
Government Intervention in Social/Person Affairs	Against	Liberal	Libertarian (Classical Liberal)
	For	Totalitarian?	Conservative

Schools of Economic Thought

Liberals

- **Keynesians**
- **Marxists/Socialists**
- **Institutionalists**
- **New Keynesians**

Classical Liberals & Conservatives

- **Classicals**
- **Neoclassicals**
- **New Classicals**
- **Supply-siders**
- **Monetarists**
- **Austrians**