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Balancing the Economy (Getting Stuck) at Less than Full Employment

Ideally, a modern diverse economy should balance at full employment, minus a few people who are between jobs; and most people should have pretty good jobs. The real economy does not balance this way. Too many people are chronically unemployed or have bad jobs even while most people have fairly good jobs and while most of the economy runs fairly well. How can a real economy stay in balance with so many people unemployed and in bad jobs? Now in the modern world, it is hard for a person without a regular job to stay alive. Then why don't the people who can't find work starve?

Besides the regular economy with fairly good jobs, there is a non-regular economy of gardening, trading, odd jobs, seasonal agricultural work, construction work, crafts, crime, etc. In large modern countries, programs such as welfare, food stamps, and Social Security are part of the non-regular economy. The non-regular economy absorbs much of the chronic unemployment and bad employment of the regular economy so the regular economy can run better and can better serve people with regular jobs, regular businesses, and a regular economic life.

In a big diverse modern prosperous economy such as the United States, this situation would make only little difference. In the world economy, it can make a big difference. As the U.S. becomes more-and-more only one part of the world economy, this issue affects us domestically. Already since the 1970s, this situation has made a difference with rising chronic rates of unemployment and bad employment. Already this situation causes political turmoil.

Getting stuck at below full employment is important in the world economy where one country such as China, or a few together such as Europe, could make all the "stuff" that the whole world needs. If one region did that, the rest of the world would not have jobs to be able to pay for what the one region produced. Even now, it is hard to see how regions such as Africa could ever develop enough to be full players in the world economy. Staying stuck would be hard on world politics. Trying to bring the entire world to the affluence of some Americans, East Asians, or Europeans, would hurt the environment. It is useful to get the idea of getting stuck in a more limited arena such as the United States before thinking about the whole world. See other essays.

My argument goes against mainstream economic theory in which there is only one economy. (I do not discuss the relation of my ideas to Keynesian ideas.) The difference is not great but is enough to matter. I do not give formal argument (mathematics). I describe and explain. I do not take a simplistic position against mainstream economics such as from some anthropology.

Removing Two Misunderstandings.

First, the problem described in this essay is not “technological unemployment and under employment”. The problem here does not arise because technology takes jobs, then workers can’t find another similar job or can’t find a job at all. Technology is another problem. In the ideal, technology does not cause chronic unemployment. Every displaced worker can find a job, and, with retraining, find a comparable job. Technology should allow us to make more “stuff” at less cost and so all jobs effectively should get better. The real world is not like that. The fact that the real world does not live up to this ideal is another issue and is not the issue here. The issue here interacts with technological unemployment so they make each other worse. We have to separate them logically so we can see what is going on so we can do the right things.

Second, problems with employment arise due to “market structuring” or “imperfect competition”. The terms mean a market is not entirely free and fair. I can’t here describe how markets can deviate from full freeness and fairness. The deviation need not be in labor markets. A deviation in any market can cause the economy as a whole to shrink and so lead to problems with employment. If petroleum costs more than it should or is less available than it should be, the whole economy shrinks, and people lose jobs even if the market in which they work is free and fair. When the price of gasoline rises, milk cows, farmers, farm workers, grocery stores, milk drinkers, and ice cream lovers all lose. The unemployment due to market structuring is about 3% to 15% (of total workforce) in most economies. It accounts for most unemployment when the U.S. is not in a recession. In the U.S., unemployment due to structuring is 4% to 10% while it is more in countries such as Spain and England. The situation described here is NOT due to market structuring alone. The situation depends on unemployment problems that come from market structuring but it is not a simple manifestation of structuring. Market structuring and the situation described here interact and make each other worse in ways that I sketch. Again, we have to separate them logically so we can see what is going on so we can do the right things.

A Crash Course in Simple General Equilibrium.

Imagine an island with a population of 100,000 people. The island is rich and diverse. Everyone has a good education. People know science, industry, technology, and business. The island has machines including electronic machines. All people are smart enough to get a job, are able bodied, and have a good attitude. There is no reason why anybody should be unemployed.

All the property on the island is owned by 1000 people. For reasons that I don’t go into, the owners don’t make any income (profit) from rent and don’t make any profit except when an innovation occurs such as solar powered buses. We should think of owners more as managers. They use capital efficiently to bring benefit (utility, welfare). “Capital” includes natural resources, people, education, and human-made resources such as buildings, factories, dams, houses, and parks. The incomes of owners derive almost entirely from their ability as managers. Different ownership schemes yield different results than what I describe here but those are not worth going into here. The problems that I describe here are NOT

the result of private property alone, and could not be overcome simply by changing the rules for private property or by abolishing private property.

There are no employment problems due to market structuring. All markets work well enough, including all labor markets, so there are no labor problems from imperfect competition.

A “good” is: a material thing such as an apple; a service such as teaching algebra; or a condition such as being at the Super Bowl, studying at an elite school, or having a reliable best friend. For convenience, I call all of them “things” or “goods”.

At least to begin with, this economy is a closed system. The only way to make a living is to have a job. Jobs include unskilled manual workers, skilled manual workers, drivers, supervisors, managers, teachers, artists, writers, actors, accountants, and computer programmers. Because owners are really managers, needing a job to make a living includes owners as well. Nobody lives off just owning. The only way to get something is to buy it from someone who made it. The only way to sell something is to somebody who got the money to buy things from a job in the economy. The economy gets what it needs from within itself and consumes (sells) all of what it produces within itself. These conditions apply to natural resources such as coal and to waste such as car exhaust but I don’t explain here how that happens. I set this economy on an island to make this point clear about being self-contained and closed.

For convenience, assume that money is already in use so everything important here can be evaluated in terms of money. I leave out entirely such goods as romantic love, family love, patriotism, religion, and dedication to causes. Assume money is entirely a neutral medium of exchange and so we don’t have to consider effects from money in itself.

People get paid money for making goods and selling goods. With their pay, people buy goods. Owner-managers set up factories and shops to make things and sell things. With money that owner-managers get from selling things, they pay workers. With their wages, workers buy the goods that managers have arranged for workers to make.

People have jobs because people want goods. To get things, people will pay. To get money to pay for goods, people have to get a job making things that other people want. People have to make things that other people want to buy. Those other people buy the things that these people make; so these people make these things to sell to those other people; so these people can buy other things from those other people. Everybody is both a “these” person and a “those” person, both a maker to sell (usually through a job) and a worker to buy. People make, sell, and buy to each other.

(1) To help see this situation, assume there are two groups of people, A and B. “A” people make things that “B” people want to buy while B people make things that A people want to buy. With money that A gets from selling things to B, A buys things that B makes. With money that B gets from selling things to A, B buys the things that A makes.

(2) Assume there are four groups of people: A, B, C, and D. B likes to buy goods that A makes; C likes to buy goods that B makes; D likes to buy goods that C makes; and A likes to buy goods that D makes. With the goods that D makes and sells to A, D gets the money to buy C goods; with the goods that C makes and sells to D, C gets the money to buy B goods; with the goods that B makes and sells to C, B gets the money to buy A goods; with the goods that A makes and sells to B, A gets the money to buy D goods.

(3) This case is like (2) except all groups make goods that all other groups want, all groups buy from all other groups, and all groups use the money that they get from making and selling goods to buy from all other groups. A makes goods that he-she sells to B, C, and D. B makes goods that he-she sells to A, C, and D. C makes goods that he-she sells to A, B, and D. D makes goods that he-she sells to A, B, and C.

An economy like this works like a giant circular net in which all the parts connect to all the other parts, directly or indirectly. All modern economies work like this now.

A big issue looms over an economy like this: (1) Do A, B, C, and D (2) make just the right amount of goods, (3) at the right price, (4) so they can sell all the goods (4) that they make and (5) so have the money (6) to buy all the other goods (7) that all other people make? Do all groups sell all of their goods so that they can have the money to buy more resources to continue making and selling their goods? Do all groups together buy all the goods that together they make? Do all groups together sell all the goods that together they make? Is anything shorted? Is anything left over?

Briefly, nothing is shorted and nothing is left over. All groups (people) make and sell just the right amount of goods, at the right price, so they can buy what they need, including resources to keep going. All groups (people) can sell all they can make, at prevailing prices. All people (groups) can buy all that they want, at prevailing prices. All people (groups) buy just what they need and only what they need; and all the people (groups) together buy up exactly all of what all the groups (people) have made. Through buying what they need, all groups (people) insure that all other groups (people) have the money (resources) to make what all the other groups (people) need to make so that they can sell what they make so they can buy what they want. All the groups (people) support each other.

In economic terms, each market “clears”; the whole economy “clears”; and the economy is in “general equilibrium”. The market for goods from A clears: A can sell all its goods; and everybody who wants to buy A goods can buy all he-she wants; at prevailing prices. The market for B goods clears. And so on. When all the markets clear together, the whole economy clears and is in general equilibrium.

A useful way to understand this situation is through the price system. Prices are what help groups make and sell just what is needed to help each other out. Prices adjust so that just the right amount of each good is made to trade with just the right amount of all other goods. I do not pursue this line any more here but I bring it up so you can look for it in case you read more.

A special result of this condition is that the market(s) for labor clear as well. Labor is a good just like cell phones, peas, movies, and promoting movies. Anybody can find a job that pays enough to support him-

her. Employers can find somebody to fill any job as long as the job adds value to sellable goods. This happy result does not mean everybody can find a job that pays well, allows him-her to raise a family in style on the income of one parent alone, and send his-her children to an elite school. Exactly how much a particular job pays is not at issue. More important is that there are always enough jobs for everybody and all jobs are filled. Employment is full. There is no chronic involuntary unemployment.

People get jobs according to ability, training, and energy. People with more of those can make more of a difference in the economy, and so get paid more. There are no bad jobs unless the people who hold bad jobs have little ability, little training, or little energy, or have a bad attitude.

If the owner-managers start an innovation such as electric cars, all workers displaced from the old work, with suitable retraining, can find new work of equal or better pay within a reasonable time.

Of course, all this is the ideal. Still, it is important to see that modern economies come amazingly close to this ideal. They work well enough so people can rely on them and should rely on them. They work well enough so people of average ability, some training, moderate diligence, and the normal human jumble of attitudes, can look for a job with reasonable hope. An economy as in the United States comes up to about 90% of the ideal, sometimes more.

Economists can understand how a real economy works by looking at how it deviates from this ideal. A major source of deviations is market structuring, as mentioned above. The chronic unemployment of 5% to 15% that modern advanced economies suffer results largely from deviations from this ideal due to market structuring. Another source of deviation from the ideal is that too many people do not have the native ability and-or training to qualify for a job good enough to raise a family on, or have a bad attitude so they cannot get and hold a job.

Wise economists and wise politicians know that this scenario is only an ideal, the real falls short, and the shortfall can cause great hardship for some people. Wise economists and wise politicians do not urge us to follow the almost-free almost-fair market because they assume it will lead automatically and easily to this ideal but because almost all interference to make things better actually makes things worse. Wise economists and politicians do not tout the almost-free almost-fair market as a way to enable powerful and rich people. The best response is to accept the faults and bad results, and to do something about the bad results with minimum interference and without also making things worse. Politicians have not been adept at meeting this need.

Different Levels of Closure.

I support analysis based on these ideas. I appreciate the ideal. I appreciate that real economies come close to this ideal. I make a point of my generally orthodox stance because now I describe another view, and I don't want my ideas to be dismissed as the product of a wacko who discounts well-established theory and research.

One day, extraterrestrials investigate how Earth economies work. This island makes a good natural site for experiments. The population can be divided into As and Bs. The aliens put to sleep 20% of the As and 20% of the Bs, or 20% of the whole population. They leave awake and active in the economy 80% of the As and 80% of the Bs, or 80% of the population. What happens to the nice balance of the economy? Do all markets still clear? Does the economy still reach general equilibrium?

Yes. The economy finds general equilibrium again, with all its happy results. The economy won't be exactly the same but minor differences don't matter here. As long as removing 20% of the population does not mean the economy as a whole is much less efficient, as, for example people can't mine nearly as much in minerals, then everybody is as wealthy too. Every job is as good as before. (There are issues of non-linearity, proportion, and scale; but those are not important enough to go into here.)

Now the aliens remove another 20% so that A, B, and the entire population are at 60% of their original levels. Yes, the economy can still find general equilibrium.

Now the aliens remove another 10% so that A, B, and the entire population are at 50% of their original levels. Yes, the economy can still find general equilibrium although likely it will change in the ratios of goods, some jobs will get paid comparatively less and some will get paid comparatively more.

Now the aliens remove another 20% so that A, B, and the entire population are at 30% of their original levels. The same remarks as at 50% hold here.

Now the aliens remove another 20% so that A, B, and the entire population are at 10% of their original levels. The results here depend on how big, diverse, and rich the island is and how well nature stands up to being used in what ways. The results here depend on whether 10,000 people is enough to divide up labor, use most of the machines, and do it efficiently. Suppose 10,000 people (10% of 100,000) is still enough to have an economy diverse enough to find general equilibrium although we are pushing limits. What happens if we go beyond the limits into other kinds of end points is not relevant here.

What if the aliens go the other way? Start with the full population of 100,000 people and add 20% so that the new population is 120,000 people. Yes, the economy can still find general equilibrium but now it depends more on the ability of the island to sustain that many people. It depends on how big the island is in relation to the people. The constraints of nature really do come into play. When the number of people pushes up against the limits of nature to support us as we wish to live, the economy is more likely to deviate from almost-fair and almost-free, to structure, to suffer the bad effects of structuring, and to divide into sustained classes of have and have-not. This result is not the fault of the economy or economists; it is how the world works. If nature is rich enough, then the economy is still likely to reach beneficial general equilibrium even with increases in population.

Getting the Mechanics Clear.

The aliens see the handwriting on the wall and restore the economy to its level of 80% of A, B, and the whole population. I skip the intermediate steps back up to the level of 80%. The economy is once more in general equilibrium at the level of 80% of original capacity.

Now the aliens suddenly wake up the sleeping 20%. What happens?

If everybody in the 80% is happy just as it is now, then the people who already own shops and have jobs have little incentive to work with the people who just woke up. The 80% have nothing against former sleepers but they have little to gain by hiring them. This is NOT what standard theory says.

According to standard theory, this happens: (1) The former sleepers are not content to go back to sleep or to die of starvation. (2) Instead, workers in the 20% tell owners in the 80% that they (the former sleepers) will work the same jobs as present workers do now but for less in wages. Of course, owners among the 80% hurry to hire former sleepers at reduced wages. Owners compete to hire former sleepers. In competing to hire former sleepers, owners raise the wages for former sleepers almost to the level of workers in the 80%. (3) Former owners among the sleepers tell present owners among the 80% that they (sleepers) can use their management skills and will do so for less than current managers take now. Of course, the owners among the 80% are quick to hire old owners and compete to hire old owner-managers. As the current owners do so, the difference dwindles between the wages of current managers among the 80% versus the wages of former owner-managers among the 20% who are now new managers. (4) Using their expertise and wages, old owner-managers from among the former sleeping 20% do well and buy back property so that they become new owner-managers "once again" (like "Back to the Future"). (5) With all the new activity at somewhat lower wages, the economy perks up and begins to expand. (6) As the economy expands, owners hire back workers from among the 80% that had been displaced by former sleepers taking their jobs at lower wages. While hiring back workers to make and sell more products, owners raise wages even more. (6) Those re-hired workers want more goods, and the economy expands again. (7) Soon the economy is back to where it was before anybody was taken out, at 100% levels of everything. The economy makes the same goods in the same amounts. The same numbers of people are hired for the same wages. Each market clears and the economy as a whole is back again in general equilibrium. In fact, the economy is back again in almost the same general equilibrium as it was before the aliens put to sleep 20% of the population.

Competition between workers, and between owners, is necessary for this process to work well. That fact does not mean competition automatically solves all problems, competition is sacred, and we need only invoke competition to be in a state of grace. It only means that competition can be useful and we should accept its benefits when competition is useful.

Does this beneficial adjustment happen in real life? It happens almost as described but not as perfectly because of flaws in real economies such as market structuring. We can see something like this process after a recession when the economy rebounds. In that case, a real economy usually overshoots and we have other issues for other essays.

Keeping the Economy at 90%.

The economy tends back toward general equilibrium even after shocks. Then why do some people in a real economy have trouble with no jobs and bad jobs even while other people have good jobs? How can the economy stay below general equilibrium? How does a real economy split like that? Why do we stay at only 5% to 10% unemployment with an additional 15% to 25% in bad jobs?

Call a job “regular” if it is closely tied into the circular economy described above, it is part of the making, selling, and buying of goods that most people see in their working lives and home lives, or that we could see if we could get into factories, docks, shipyards, rail yards, board rooms, and financial offices. How does it happen that the economy splits into groups of people with regular jobs versus people who can’t get, or don’t want, a regular job? How does it happen that a real economy can create a slightly smaller version of itself, about 90% of itself, a version that is near general equilibrium, and, at the same time, leave the remaining 10% out?

(1) There have to be barriers to getting into the regular economy if you are out of the regular economy. Market structuring is itself a barrier. People (workers and business firms) erect more barriers to support market structuring because they (the ones with jobs and firms) benefit from structuring.

In the “out” group, we find many of the people who are not smart enough, don’t have the right training, have a bad attitude, or don’t have the right character to fit in even if they have a good attitude. They get pushed aside and held aside.

We see bias by age, race, gender, religion, speech, national origin, and schools.

It takes training and experience to get a regular job. Experience and training take money and time, or “initial capital”. If you are an adult, especially if you are over thirty, and you don’t already have a skill, it is hard to get a skill and to convince an employer that you have one. It costs too much to get a skill and then wait to convince an employer; and you don’t have the kind of work now that allows you to build up enough money to take the time off to go to school and then look for a better job.

Finding a regular job can also take personal connections and connections through organizations such as schools and churches – that is not necessarily evil, it is an issue not only in a modern capitalist economy, it is a normal part of human life, and it has been so for thousands of years. But the lack of connections can be too big a hurdle to get over.

Probably most important reason is simply the fact that there are too many applicants for each job because of market structuring. The jobs run out before the applications do.

(2) There have to be alternative ways, other than a regular job, to make a living. The alternatives have to pay less than a regular job but pay enough so people can get by even if people can’t flourish. If the alternatives did consistently pay as well as a regular job, then too many people would go after them for

them not to be regular jobs. The alternatives rarely can lead you into a regular job. If there were not some tolerable alternatives even if bad alternatives; if people had only getting a regular job or starving in plain sight on the streets; then we would have had massive political and economic change by now.

One alternative is living on low-grade agriculture, including some hunting, in “the boondocks”. Now in America, few people can do this without also getting a government (state) check. Many Americans did live this way not long ago, in the Great Depression (1930s) and as recently as the 1970s. In the Third World, many people still live by gardening, hunting a few rabbits, and carrying on low-grade agriculture for sale such as tapping rubber trees, tending coconut trees, raising peppers to sell in a local market, or catching fish to eat and to sell. Some people work construction, seasonally, at low pay, with little hope of a permanent good job or getting paid more. They go back to their family gardens in the off-season.

In the United States, people live outside the regular economy by odd jobs, especially when they are paid in cash. I have met a dozen families in the United States that make a good alternative living by growing big gardens and selling. Some sell out of their back yard and some sell at “farmers” markets that are now so chic. People live outside the regular economy by trading, usually petty trading, but sometimes they trade on a larger scale, also especially when their incomes are in cash. People go to garage sales, swap meets, thrift stores, second hand stores, junk yards, and gun meets; they buy stuff; and then they re-sell it, often in similar venues. I have had much fun talking to these people. People buy and sell cars. People live outside the regular economy through crime and vice, the details of which I don’t go into.

Increasingly after about the year 2000, people live with their parents and-or other kin, even if they have graduated from high school or college, and even if they have a job but a not-very-good job. I do not distinguish between “living with” versus “living off of”.

It is not easy to draw a sharp line between the “regular” economy and the “alternative” economy, and the two often overlap. There can be several paths as when some people make an alternative living by gardens, some by mining, some by construction work in the cities, and some by crime. Some jobs are in-between as with construction, seasonal agriculture, and trading. Some jobs change category. Hunting sometimes was a regular job in the United States but hasn’t been that way since the 1930s. Living with your parents until you got pretty far along in married life and career used to be considered normal, then was considered clingy, and now is being accepted again. Still, there really are two separate realms, and we would be wise to see them differently. Just because no sharp line divides the realms does not mean there are not two realms, that there is only one realm.

Seeing two separate realms does not mean the laws of human nature or social life change between the two realms. It only means the same laws can make different self-supporting results under different conditions, people in the two realms face different conditions, and the two different conditions are produced under one bigger system.

Some economists and anthropologists argue about the realms. These economists and anthropologists have incompatible views of human nature and social life. Both camps wish to subsume all realms under their view of human nature and social life, and both get it wrong. Below I say more.

Groups in the Non-Regular Economy.

(1) The regular economy creates some chronic inevitable unemployment even among people who are reasonably intelligent, trained, and have a good attitude. The main reason is market structuring (market imperfections). These people would be outside the regular economy even if there was no non-regular economy.

(2) Even if the regular economy could, in theory, give everybody a “halfway decent” job, still, because of personal temperament - not bad attitude - some people do not fit into the regular economy and prefer to live outside it. The “Maverick” TV-and-movie family is an example; they gambled for a living.

(3) Some people cannot find a regular well-paying job because they are not smart enough, have not had training, or have a bad attitude.

(4) A “bad” job has poor pay and has little or no benefits. Often it has irregular hours and not enough hours to make full time. Often people with bad jobs must take a month off every year so their false but official status as temporary or part-time is maintained.

(4 continued) The regular economy might or might not generate bad jobs in the same way it generates some chronic unemployment. I have discussed bad jobs in other essays, so I don’t go into the subject here. For here, assume that a lot of people in modern economies like the United States can only get bad jobs at best, at least 10% of the people, maybe as many as 20%.

(5) Recipients of welfare and other similar programs are effectively in the non-regular economy.

(6) Recipients of Social Security and other similar programs are effectively in the non-regular economy.

(7) I note, but gloss over crafts, people and artists, including musicians, because the Internal Revenue Service in the United States keeps close watch on them, and so keeps them in the regular economy. See below. Where crafts people and artists can work for cash, meals, lodging, and other compensation that they can keep “off the books”, then they can be in the non-regular economy.

(8) Some people outside the regular economy hardly make it at all. These are the homeless, hungry, physically sick, mentally sick, and poor children. Yes, people can go hungry, and can slowly starve to death, even in the United States. (People die of starvation not straight out but because malnutrition weakens them and they can’t fight off disease.) Children make up a big share of people who go hungry. These people don’t figure much in this essay but that doesn’t mean they don’t exist and are not

important. We need to find ways to help these people without enabling a bad system and other people who are bad.

If We Ignore the Non-Regular Economy, Is the Remaining Regular Economy in General Equilibrium?

We saw above that an economy already in ideal general equilibrium could find a new balance (new general equilibrium) if 20% of its people were taken out completely. In a real economy, at least 5% of the people are chronically unemployed and at least 15% of the people have only bad jobs. In effect, at least 5%, maybe 25%, of the people are out of a real regular economy. Say that 10% of the people are taken out of the real regular economy. Does the real regular economy then reach general equilibrium among the 90%?

If we overlook the people who are out of the real regular economy, the remainder of the real and well-running economy almost but not quite reaches general equilibrium. Both facts are important: (1) the remaining real regular economy almost does reach general equilibrium with all the benefits and the stability; and (2) it never does fully reach general equilibrium and cannot fully reach general equilibrium.

Suppose we took away the 5% of people who are chronically unemployed in a real economy. Would the remaining 95% find general equilibrium with all its benefits? Suppose the United States has 300,000,000 people, of whom 200,000,000 work. So $5\% \times 200,000,000 = 10,000,000$ people. If we vaporized them, would everyone else have a good job indefinitely into the future? No. Market structuring (imperfect competition) would still remain. Then 5% of the remaining 190,000,000 people would be out of work. If we, in turn, took them out, 5% of the remaining about 181,000,000 people would be out of work. And so on.

Only if a real economy has a way to remove “half-way” its unemployed etc. (10,000,000 people) without making more issues among the remaining people (190,000,000) can the real economy work almost as if it were in general equilibrium and can it provide the benefits of a well-run economy to remaining people (190,000,000). Only if an economy both removes and keeps some people can the (remaining) economy come close to stable general equilibrium, like the island.

When that happens, when a real economy removes some people half-way, and the removed people can make a living outside the regular economy, then the remaining economy can almost go into general equilibrium, much like the island economy above when 20% of the people were removed. Then the remaining people in the remaining economy can enjoy the benefits of general equilibrium including almost-full employment and fairly good jobs.

To an economist or politician who knows where to look, the left-over regular economy would not be in full general equilibrium well enough not to worry.

To most politicians and people, the left-over regular economy is close enough to general equilibrium so that they don't want to mess with it and they want it to work for them. This view is especially typical of

regular people who are just tired of trying to figure out why “help the poor” schemes and development schemes don’t work. “If you don’t fit in, it is your fault, and you should stay out so we regular people can keep the good thing that we do have. We did more than we can afford for you. Starve if you have to.” Politicians and regular people do not call it “general equilibrium”. They talk about regular jobs and regular hard-working people. But the idea of a well-working economy for people who fit into a regular economy is what they have in mind and what they want to keep. It is hard to blame non-economists, non-politicians, and regular people for this view. This view is close to the truth as long as people not in the regular economy find enough to get by and not to bother regular people in the regular economy.

It will be harder to keep this view as the United States becomes ever more a part of the world economy even if the regular economy continues to work almost as if in general equilibrium.

Comments on the Regular and Non-Regular Economies.

The following comments apply even if cause (1) (chronically unemployed people due to structuring) is the only cause for people outside the regular economy. They apply to other groups as well. I do not go into how the comments might apply more or less for each group. I say more about welfare and other similar programs below.

The non-regular economy impedes the competition among workers and firms that could lead to full general equilibrium in an ideal whole economy. The non-regular economy moves that competition out of the real regular economy. Competition does remain in the regular economy, and that competition is important in moving the remaining regular economy close to a smaller general equilibrium than it would have had in the all-inclusive ideal. The competition that remains in the regular economy is enough to approach general equilibrium in the remaining mostly regular economy. The competition that remains between the regular economy and the non-regular economy is not enough to force people in the non-regular economy back into the regular economy; it is not enough to overcome market structuring and imperfect competition of the economy as a whole. If people in the regular economy were forced to compete more directly with people in the non-regular economy, then the flaws of the regular economy, including imperfect competition and market structuring, would be more obvious.

If the non-regular economy did not exist to absorb people in groups one to seven above, those groups would stand out far more than they do. It would be obvious that: the regular economy is not perfect, not even during an economic boom; the real regular economy does not provide good job for everyone; and a real regular economy cannot provide good jobs for everyone.

If a real regular economy wants to be near general equilibrium despite the fact that it cannot provide good jobs for everyone, then it needs something like the non-regular economy. It needs a place it can put people while they are not in the regular economy, where it can put more people in down times, and from where it can take people in boom times.

People with regular jobs often wish other people would “just go away”. But they can’t. They are here already and they can’t be wished away. The non-regular economy allows people without regular jobs to go away enough most of the time.

People with regular jobs who have the economic, social, and political power can defend their good jobs by pushing other people into bad jobs. The non-regular economy makes a way to control some people and to defend against some people. The non-regular economy and non-regular people a way of control that does not require anything horrible such as ghettos, camps, or massive police presence.

In this way, bad jobs act like a part of the non-regular economy, and effectively become a part of the non-regular economy even when bad jobs are with business firms that are in the regular economy.

The non-regular economy lets people with regular jobs protect their children. People with a regular job already can make sure their children get the kind of education that prepares them for a regular job. They can also make sure that the children of people with only a regular job get access only to second-rate education, and so are not as likely to get a regular job, and so are not as likely to compete with their children.

The non-regular economy is positive in that it helps people who can’t get a regular job to survive when otherwise they might not. It is somewhat positive and somewhat negative in that it serves as a safety valve for the economy. It is negative in that it allows people with regular jobs to protect themselves and their children but only by making sure some other people never have access to regular education and jobs. The non-regular economy keeps people alive but it also enables prejudice and discrimination.

The non-regular economy is not the only sustainer of prejudice, bad jobs, and bad luck. People can have bad jobs, and be unemployed, because they are not smart, have little training, and have a bad attitude. We should be honest both about our individual situation and the situation of groups.

The non-regular economy is a way for people in the regular economy to put aside people who cannot be in the regular economy so people in the regular economy can get the benefits of being almost in general equilibrium. This sounds like the plot of a mad evil genius but it is not. It is a stable system that has grown over time as real capitalist economies and political societies adjusted their institutions to what really happens in them and around them. Once we have the regular economy and the non-regular economy, some people can use the situation as if they were mad evil geniuses, but they did not invent it. Sometimes stuff happens. Sometimes it is good stuff, sometimes bad stuff, and usually a mix.

Welfare.

“Welfare” includes not just the obvious programs of giving money directly to poor people but similar programs such as money to dependent children, food stamps, support for pregnant women, help with medical costs, Medicare, Medicaid, Social Security Disability, fosterage, etc.

The support given through welfare is enough for recipients to get by but it is not enough to compete with the middle class. People on welfare don't rise out of welfare as often as we wish they would. That situation is pretty much the situation of people in the non-regular economy. That is what people in the regular economy want. Welfare is the official non-regular economy, created by the regular economy. Welfare acts as a safety valve in the same way as the non-regular economy.

In modern nations with little land to spare, welfare has replaced subsistence gardening for people who are not in the regular economy. Welfare is the basis for the modern non-regular economy. Without welfare, we would easily see that a regular economy is not in perfect general equilibrium, the 5% are unemployed largely due to structuring, and many of the 15% have bad jobs due to structuring. Welfare is a pain but it is necessary in the modern economy just as subsistence gardening was necessary before we had welfare.

Welfare differs from the non-regular economy before welfare in that the income of recipients is not set by the rules of the non-regular economy, for example how adept you are at trading tools, but by whims of politicians, the electorate, courts, people who carry out the programs, accountants, lefty activists, and righty activists. To change the amount for welfare requires coordinating many programs with all those people contributing their opinions. To set the amount that is appropriate for welfare to function as the core of the non-regular economy and a protector of the regular economy depends on all those people and on non-economic processes. This shift changes the rules, especially because the shift involves the electorate often, and makes them angry. I don't here describe what all differences this shift makes. See other essays.

Similar comments apply to Social Security except that the opinion of the electorate etc. about Social Security differs, for reasons I can't go into much. Most electorate members know they will one day be on Social Security while most hope they will never be on welfare. Still, for Social Security to be a big part of the non-regular economy, the same people mentioned above for welfare have to set the amounts for recipients, and have to use non-economic (political and cultural) methods to do so. That shift changes the rules as well.

Heroes and Villains.

Before the rise of Social Security and welfare, to be an inventor or artist struggling on your own apart from the regular economy was somewhat heroic. Think of Pablo Picasso and Thomas Edison, or, more harshly, Vincent Van Gogh and Nikolas Tesla. If you made it big, the culture romanticized your hard times as quite heroic. Now, to be an inventor or artist on welfare and-or unemployment insurance, struggling to write the Great American novel (Huck Finn) or to invent sustainable cold fusion, is to be a parasitic leech – unless you sell a movie script or sound track, or create genes to cure baldness or make all children above average.

“Because the non-regular economy buffers the regular economy from the realities of market structuring, unemployment, and bad jobs, all the people in the non-regular economy are working-class heroes who

deserve our deep respect and full economic support, like the soldiers who give up a regular life so other people may have a regular life, like Frodo the Hobbit or the soldiers who saved Private Ryan.”

“Because the people in the non-regular economy can’t get a regular job, won’t get a regular job, and always want more handouts, they are all lazy bad attitude criminals; and the good people of society would all be better off if they would just go away, that is, die wholesale.”

The truth, as usual, is in-between. Some people in the non-regular economy are interesting. Some are not smart, untrained, or have a bad attitude. Often they are not nice.

Some people outside the regular economy are homeless, hungry, physically ill, or mentally ill. Some of these outside people are in the non-regular economy but some don’t even do that well.

Just because people in the non-regular economy might not be nice does not mean we may treat them badly. At the same time, just because people in the non-regular economy perform a service for people in the regular economy does not mean we have to give all the people in the non-regular economy the status of heroes and treat them all really well.

In their hearts, people in the regular economy know both that people in the non-regular economy do them a service and that many are not smart and not nice. Rather than deal with the full reality, people in the regular economy show hostility as a way to cover up how much they might owe to the people in the non-regular economy.

In their hearts, people who champion the downtrodden know that many of the downtrodden are not smart, are uneducated, untrained, have a bad attitude, cannot control themselves, and expect the state to support them and their reproduction. Rather than deal with reality, they put the downtrodden on a pedestal – as with women in days of yore. They put down hard working people in the regular economy, people who are struggling to protect their families, as selfish demons.

Giving people in the non-regular economy the respect due to every human seems about right. I don’t know what that means for how much we should give them in welfare or Social Security. Likely we are giving at about the right levels but the legal structure is so bad that we administer the support badly. (I don’t mean that the people who run the programs are inept; often they are heroes of patience, support, and realism; but the overall structure of the programs is ridiculous.) We do not owe them support for their reproduction. See other essays.

Likely the one best thing we could do for relations between members of the regular economy and non-regular economy is to end inflation. One comprehensive health care system would help a lot too but first we have to deal with obesity, smoking, non-exercise, and other similar problems. One and only one comprehensive retirement system (extended Social Security) for everybody would also help. See other essays.

Optional: Economists, Anthropologists, and the Non-Regular Economy.

I use this material in another longer essay.

For (some) Economists, all behavior is strategic and comes only out of individuals. Individuals deftly seek their self interest, their own individual benefit, their greatest benefit, and only that. Individuals strategize to maximize their personal benefit. In acting, individuals interact. Interacting individuals form chains and loops. The chains-and-loops of all interactions tie all individuals together into one big chain with some enclosed loops. When strategizing individuals interact, the result is only one big economy among all together. Economies do have sectors but sectors should not be seen as distinct economies. Economists don't define benefit, greatest benefit, or self-interest.

(Some) Anthropologists also see one arena but the one arena is within one society-culture with one set of culturally given values (I ignore any distinction between cultural versus social anthropology). All acts come from values, and all values come only from a particular society-culture. The regular and non-regular economies are one economy and it arises from people acting on culturally given values. People strategically seek greatest benefit only if culturally given values tell them to do so; they do so only in the particular arenas in which culture tells them to; and they do so only in ways that culture says. Culturally given values define self interest, benefit, and greatest benefit. While it can make sense to speak of self-interest, benefit, and greatest benefit within a particular set of culturally given values it does not make sense to speak of them any other way. What economists call "self interest", "benefit", and "greatest benefit" are only apparently those. Individual strategizing for apparent self-interest is clear evidence of culturally given values, not individual action apart from culturally given values.

I do not explain why some economists want to see only one economy and why a multiple economy would require expanding the standard economic theories. I do not explain why anthropologists want to see one unified culture-and-society, the idea of strategic individuals acting apart from culturally given values undermines the idea of a single determining culture-and-society, and why anthropologists too have to expand their standard theories.

Imagine a family which has a tradition of making pots and in which some of the members specialize in making pots. Other family members hunt, garden, trade, and work construction to contribute to the family living. The family sells pots for cash when it can, and trades pots for other goods when it can. Because now old cans hold water, measure, help bake, etc., the pots made by this family often are "artsy". The pots have unusual shapes and decorations, and are designed to appeal. Some pots still are made to be mostly useful. The family uses traditional designs from its culture but also has cultivated individual elaborations on traditional designs. The family pays little income tax. The grandfather of the family served in a war, and so gets a government check. The family is well organized and efficient in its efforts. By most standards, this family is in the non-regular economy.

Now the family hits a long run of success. The family opens a shop. The shop widens the clientele and breeds more success. The family makes pots for tourists. Tourists begin to come from far away. The

family changes its designs to accommodate the broadening tastes. The family sends its children to art school and technical school. Some grandchildren and great grandchildren leave the local area and take up careers elsewhere. Because of the shop, the family has to pay income tax on sales there. Because of the shop and tax, the state pays more attention to all aspects of family business. Now it makes more sense to say the family is in the regular economy.

An economist would say that the family always was in the one big regular economy even if the family did not do a cash business and did not pay tax. Family activities were always strategically organized. Who did what depended on who did what well. The family responded to opportunities to make more. The family interacted with other people, both in the regular economy and the non-regular economy; other people acted strategically; and the family acted strategically in its interactions with others. The family did not respond only to opportunities for cash. It also acted in other ways to increase the security and well-being of members. Whatever its goals, we can see what the family did by reference to strategic action to meet goals well. At first, staying away from the obvious commercial economy was in the best strategic interests of the family; that does not mean the family did not influence the greater commercial economy and was not influenced by the commercial economy. When it was in the best interests of the family, the family moved into the obvious commercial economy and did so strategically.

The actions of the family are part of the greater strategic economy even if not obviously commercial in the same way that the actions of a bank officer are obviously commercial. The non-regular economy differs from the regular economy only in the way that plumbers, electricians, computer programmers, and lawyers differ. Each is a different way of making a living but they are all ways of making a living that depend on links to other people and on the whole system. When the price of gasoline goes up, people trade for fewer pots or they buy fewer pots. When the economy booms, people trade for more pots or buy more pots. The non-regular economy and the regular economy differ only in the same way non-successful lawyers differ from successful lawyers. Some people do well and others do not. We do not group all non-successful people and make up distinct theories about them. There is only one economy, and we are all in it, but how we are in it varies according to particular situation.

Moonshiners are in the greater economy whether they pay tax or not. Moonshiners are strategic in how they seek a living, make booze, and avoid tax collectors. Tax collectors are strategic in how they chase moonshiners. Their mutual strategizing binds them together.

An anthropologist would say we understand the family better by not paying attention to the strategic form of its actions but by paying attention to the value substance of its actions. Those values are not simply making more money or getting more of anything. The values are cohesion, love, taking care of each other, making beautiful things, making useful things, making things that are appreciated, finding good spouses for the children, having good relations with neighbors, success, prestige, autonomy, etc., and anything else given by its particular culture. The fact that the family eventually has to pay taxes does show that the family never is totally isolated but does not mean the family is strategic in nature. In pre-shop days, the fact that the family ran by values is more obvious while in post-shop days it is less obvious, but it is true in both cases nonetheless. In the non-regular economy, values are more obvious

while in the regular economy strategic action seems more obvious. But, even in the regular economy, we can't understand strategic action unless we think what it is for, and it is always for values that cannot be understood in strategic terms alone.

We should see the values of the family as given to them by their culture (society). The importance of cultural values is evident when this family uses traditional styles for its art. The original separation between this family and the regular economy was due less to any strategic plan by the family as it was due to values of the family. Forced participation in the greater economy does not change basic values and is not the most important aspect of the family. Even the IRS operates ultimately by cultural values. Even the regular economy is a system of cultural values. If there is only one economy, it is because both the regular and non-regular economies are united under one system of culturally determined values. If apparently there are two economies, it is because people using the same cultural values are in slightly different situations, and those situations lead to apparently different outcomes. What is important are not the different outcomes but the similar culturally determined values across situations. "The more it changes, the more it stays the same".

Anthropologists recognize the split between the regular and non-regular economy but do not see that the split depends on issues in the regular economy. Instead, they see the non-regular economy as an arena in which values are still obvious while the regular economy is an arena in which industrialism, capitalism, materialism, or science have obscured the role of culturally given values. (I do not describe the status of capitalism, industrialism, materialism, or science as culturally given values.)

Moonshiners might be chased by "revenuers" but moonshiners do not do what they do from strategic desire for money but from the values-and-mythology around booze, intoxication, freedom, family, team, and individualism. Moonshiners are in one system, a cultural system, not an economic system. Much the same values that motivate good "shiners" also motivate good "revenuers", as evident in the classic movie "Thunder Road" by Robert Mitchum.

I do not decide between these two positions here. I appreciate individual strategizing for self-interest and I see how it often leads to one system. Yet I disagree that the modern American economy is all one coherent system fully united by individual self-interested strategizing. I appreciate the role of values. Some human action is best explained by values rather than strategic self interest. Yet I do not think all values come from particular societies-and-cultures only. Some values come from human nature. People make some values and then spread the values among their fellows. People interpret all values largely to suit their self interest and the welfare of their families. Interests and interpretations do not agree. Not everybody in a group shares the same values and to the same extent. Values change.

Even without inclusive theories, most thoughtful and experienced people can figure out what is going on in situations, well enough for most practical purposes, if not well enough for academia. People figure out what is going especially if they get help from ideas such as "self interest", "strategy", "economy", "regular", "non-regular", "values", and "culture" without being trapped by the ideas as dogma. Use ideas as tools rather than as dogmas. We can figure out what is going on without deciding the issue

between economists and anthropologists. I mention these issues in case you come across them in other readings, and so you don't get caught up in simplistic dogmas.