

Why neoclassical economics is attractive

It is beneficial for the economical and political powerful

It has skillful PR-advocates who delivers good (but twisted) arguments to the followers, so that they don't start to doubt

The have a past record of delivering material welfare

There message is more tempting than the doomsday prophets of neo-malthusian economics

The advocates present selective information that make there world-view very believable and which complement there more twisted opinions.

It presents very complex but correct math equations, which make the theory look very scientific

Adam Smith

The constructs Smith set forth and later developed by his successors largely define how we meet “needs” and what we value and discount. Of all the constructs we use in the course of our work, this economic model is clearly the most powerful. We create products and yield a profit through the management of Smith’s capital (physical capital), labor (human capital), and land (natural capital). **Smith suggests that capital is best employed for production and distribution of wealth under conditions of laissez-faire (governmental noninterference) and free trade.** In a linear and deliberate expansion of our capacities, **we have learned to ply Smith’s model and exploit it to create wealth as measured by another construct, “financial capital”.**

- Kusz, J. (2003) *Living out of the Box*.
<http://sites.google.com/site/johnpaulkusz/Select-Publications>

Smith's world-view

People of the same trade seldom meet together, even for merriment and diversion, but the conversation ends in a conspiracy against the public, or in some contrivance to raise prices. But though the law cannot hinder people of the same trade from sometimes assembling together, it ought to do nothing to facilitate such assemblies, much less to render them necessary. A regulation which obliges all those of the same trade in a particular town to enter their names and places of abode in a public register, facilitates such assemblies.

The pretense that corporations are necessary for the better government of the trade, is without any foundation. The real and effectual discipline which is exercised over a workman, is not that of his corporation, but that of his customers.

- Smith, A. (1776) *Wealth of Nation*. Book I Part II §§ 27-31

Smith's competition

To widen the market, and to narrow the competition, is always the interest of the dealers. To widen the market may frequently be agreeable enough to the interest of the public; but to narrow the competition must always be against it, and can only serve to enable the dealers, by raising their profits above what they naturally would be, to levy, for their own benefit, an absurd tax upon the rest of their fellow-citizens.

The proposal of any new law or regulation of commerce which comes from this order, ought always to be listened to with great precaution, and ought never to be adopted till after having been long and carefully examined, not only with the most scrupulous, but with the most suspicious attention. It comes from an order of men, whose interest is never exactly the same with that of the public, who have generally an interest to deceive and even to oppress the public

- Smith, A. (1776) *Wealth of Nation*. Book I Part III § 10

Smith's institutions

If **bankers** are restrained from issuing any circulating bank notes, or notes payable to the bearer, for less than a certain sum; and **if they are subjected to the obligation of an immediate and unconditional payment of such bank notes as soon as presented, their trade may, with safety to the public,** be rendered in all other respects perfectly free. It obliges all of them to be more circumspect in their conduct, and, by not extending their currency beyond its due proportion to their cash, to guard themselves against those malicious runs, which the rivalship of so many competitors is always ready to bring upon them. By dividing the whole circulation into a greater number of parts, the failure of any one company, an accident which, in the course of things, must sometimes happen, becomes of less consequence to the public. This free competition, too, obliges all bankers to be more liberal in their dealings with their customers, lest their rivals should carry them away. **In general, if any branch of trade, or any division of labour, be advantageous to the public, the freer and more general the competition, it will always be the more so.**

Smith, A. (1776) *Wealth of Nation*. Book 11 Chapter III § 106

Math I

Substitution equation

$$\sigma = \frac{\frac{d(T/N)}{T/N}}{\frac{d(X_T/X_N)}{X_T/X_N}}$$

This is the equation for substitution between the two resources T and N . If $\sigma = 0$ then there is no substitution and if $\sigma = 1$ it is totally interchangeable

Math II (naked)

Let Y stand for national income (or output) and P , R , T , and X for population, resources, technology, and social institutions (the “great unknown”), respectively. Then

$$Y = f(P, R, T, X)$$

And the rate of change through time is

$$\frac{dy}{dt} = \frac{df}{dt}$$

For reasons noted in the text, the equation cannot be written in operational form.

- Cameron, R (1993) *A concise economic history of the world*. 2nd ed. Oxford University Press, p 19

Math III (bare)

$$W = \sum \frac{U_i}{(1 + r_i)^i}$$

The big problem is of course how we in practice may price net investments; in this context, the most interesting assets lacks in addition price. Furthermore, there remains the question of today's market prices actually gives accurate information. (ITPS p 27 my translation)

Math IV (my favorite)

If $\#K_j(t+s) < \#K_i(t)$ and $f(K_j(t+s)) \succ f(K_i(t))$ there exists an opportunity set $K_i'(t)$ such that $\#K_j(t+s) = \#K_i'(t)$, with $f(K_i(t)) \in K_i'(t)$. By the axiom of weak independence $f(K_j(t+s)) \square K_i'(t) \setminus f(K_i(t)) \succ f(K_i(t)) \square K_i'(t) \setminus f(K_i(t))$, and by the axiom of focus, $f(K_j(t+s)) \square K_i'(t) \setminus f(K_i(t)) \sim f(K_j(t+s)) \square K_j(t+s) \setminus f(K_j(t+s))$. It follows that $f(K_j(t+s)) \square K_i'(t) \setminus f(K_i(t)) \sim K_j(t+s)$, and by transitivity of \succ $K_j(t+s) \succ f(K_i(t)) \square K_i'(t) \setminus f(K_i(t))$. Let $K_i''(t) = K_i(t) \setminus K_i'(t)$. If there exists $K_h(t+s) \sim K_i''(t)$, then by the axiom of focus $K_j(t+s) \square K_h(t+s) \succ f(K_i(t)) \square K_i'(t) \setminus f(K_i(t)) \square K_i''(t)$. Hence, $K_j(t+s) \square K_h(t+s) \succ (K_i(t))$. The proposition states that a sufficient condition for sustainability of a reachable opportunity set that does not offer the same freedom of choice as the current opportunity set is for that set to be augmented by a range of choice of equal size and (present) value to that lost from the current opportunity set. (p 108)

- Perrings, C. (1989) Environmental bonds and environmental research in innovative activities. *Ecological economics* 1(1989) 95-110