

SOCIALISM VERSUS CAPITALISM— ECONOMIC STABILITY AS A UNIFYING GOAL

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SUMMARY

A prominent quality of the natural sciences is the integration of formerly separate or distinct branches of investigative learning, and a similar unification is now underway in the human sciences. Socialism and capitalism may also be united, on the same foundation: While the canonical Gossen Equation directly accommodates and unites the human sciences (most prominently...psychology, economics, and social-psychology), this relation also allows an analysis and explanation of poverty, and shows how the essentially unstable capitalist market-economy may be stabilized by appropriate socialist policies and institutions. More to the point, the increasing or growing division of the population into rich versus poor may be arrested and reversed by: (1) damping the predictability/confidence-eroding surges of capital and goods across international boundaries; and (2) instituting programs to directly sustain and promote the capital-intensity of disadvantaged citizens by sponsoring/requiring health-care, education, training, business knowledge, etc. ...After briefly reviewing the emergence of the instant utility methodology over the past 150+ years, the discussion turns to a substantive or essential factor in socioeconomic dysfunction in the world today—the tendency of the poor to reasonably and rationally reduce investment (in education, skills, health, etc.), in accordance with their lower or secondary discretionary power, thereby falling behind in relative and (finally) absolute terms. It is then advanced that socialist measures (proactive governance for equality and well-being) will defeat market-economy instability, and open the way to a more just and beneficent global society. ...As an unusual but constructive adjunct or add-on to the paper, the paper-discussion offered by Professor Yongjiang He of Nankai University at the Beijing Pacific Rim Conference is provided in the appendix, with responses to his questions.

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INTRODUCTION

Ideologies should not of course be ends in themselves, but means for attaining the high plateau of universal justice, peace, and well being. We are now approaching the rim of this fertile and hopeful expanse, having progressed by way of two recent developments: (1) the dawn or beginning of a new age, where people generally, and their governments, recognize and accept that there can be no winners in military adventures between nuclear powers; and (2) completion of the conceptual and mathematical foundation of the instant-utility paradigm, in progress since the mid-nineteenth century, thereby deepening mainstream Neoclassical Economics to its neuropsychological foundation. The first has changed (i.e., stabilized or checked or disciplined) the relationship between the dominant (nuclear) powers—and, accordingly, how all nations interrelate. And the second provides the deeper understanding required to benefit from, or take-advantage of, this imposed, time-extended detente. We are ascending into a new world, and one direct benefit—already becoming apparent¹—is a joining or reconciliation of long-opposed idea-systems for achieving the good society.

Deep thought or extended analysis is not required to conclude that military confrontation between major powers could now be suicidal: In our world of thousands of nuclear-tipped missiles, at the ready in nation-states and on the seas², we have become reflective and analytic, and will no longer be propelled into the great wars of centuries past. But this historic condition cannot, in itself, provide for a stable and prosperous society—we need to deepen our understanding of economics in order to define and preserve the necessary policies and institutions.

Why is it only now, at the turn of the 21st Century, that deeper economic understanding has arrived? Well, the advance has been in progress for over 150 years, starting, most prominently, with Hermann Gossen's (solitary) work of 1854. His book was ignored, or overlooked, for almost twenty years, until after the incorrect formulation of standard utility (satisfaction) theory in the Marginal Revolution around 1870. This recognition came too late to place economic methodology on the correct road, and the deeper instant-utility approach, as the valid alternative to illegitimate mainstream utility-theory, was denied center-stage. But progress continued over the years and decades. In very recent time this work has addressed the etiology or cause of poverty (Chamberlain, 2003/4), and accordingly

¹ Mixed economies that innovatively combine productive and competitive capitalism with overarching socialist policies and institutions are now emerging—most prominently in Latin America.

² Here we may conclude that warheads should be separated from delivery vehicles, or partially disabled as appropriate, to minimize the “hair trigger” danger of an erroneous or “out-of-channels” release (which precautions, I understand, at least one nuclear power has already accomplished).

suggested governance measures to arrest and reverse our growing division into rich versus poor, thereby advancing toward a just and stable society.

And so the prospect or possibility of the *good society* is at hand. A new age has arrived, and with deeper understanding of economic function we may advance toward a more beneficent human community. ... By deepening our understanding we collect the branches or domains of given research departments into an overarching taxonomy—a process well-established in the natural sciences, and now begun in economics (Chamberlain, 2003c). And it may be expected that this conciliation would similarly influence higher order or more comprehensive idea systems: In the present work we seek to reconcile the seriously opposed capitalist and socialist ideological approaches to satisfying human needs.

INITIAL REFLECTIONS

Most of us may agree that the conciliation or unification of socialism and capitalism on a deeper and substantively-correct foundation would be beneficial to people generally. More to the point, a peaceful world, one more inclined to justice and well-being, could emerge. But while a number of nations have demonstrated important success over extended time along this line (most notably the Nordic communities of Northern Europe)³, the poor around the world have been largely restrained from participating. Yet this transition or shift is now at hand, and, as noted above, initial steps have been institutionalized in several (Latin American) nations.

While progress in understanding economic behavior has been sidetracked by the 1870s misstep, our 100+ year indirect journey has not been “lost time”—in the sense that we now proceed from where we left off. Indeed, besides the continuing development of the instant-utility approach throughout the twentieth century, the neoclassical paradigm has of course yielded valuable progress at all levels (micro through macro), and major analytic elements or parts of the new methodology have their origins in the discipline.

Basic Formulation—The Gossen Equation. It may be helpful to briefly recognize, or give-credit-to, the principal researchers who, over the decades, prepared the way for what is now called the

³ As was noted by Jeffrey D. Sachs in his essay “Welfare States, beyond Ideology” (2006): “Von Hayek was wrong. In strong and vibrant democracies, a generous social-welfare state is not the road to serfdom but rather to fairness, income equality, and competitiveness.” The Nordic countries provide real-world evidence that direct action against market-induced inequality can be beneficial: Average worker-income is higher than in English-speaking countries, and the poverty rate is less than half—unemployment, however, is higher. ...Of course, the Social Democratic countries benefit from being already prosperous—nevertheless further improvement can result from initiatives or steps to defeat uneven risk, and investment, due to uneven wealth and income.

Gossen Equation⁴—this equation being the essential or basic formulation of mathematical behavior (analogous, for examples, to the Schrödinger equation of Quantum Mechanics, or the field equations of General Relativity). Foremost is Hermann Gossen (1854), for his mathematical formulation of the expected (intertemporal) action-scheme accounting for the instant-utility (pleasure/pain—now “feeling state” [Dolan, 2002]) attending mental and physical activity. Gossen did not recognize rest or leisure in his single contribution—an omission resolved by Georgescu-Roegen in his introduction to the English translation of the book (1983). Additional contributors to the basic formulation include: Ehrenfels (1896) and Shackle (1958) [psychosomatic basis for decisions]; Bohm-Bawerk (1884) and Strotz (1956) [autonomic discount coefficient⁵]; and Jevons (1879), Savage (1954), and Lachmann (1977) [expected-occurrence probability⁶].

Modern advances in (empirical) neuropsychology have complemented or substantiated these contributions—for examples: expectation, (Fetz, 1997; Logothetis, 1999); anticipatory feeling-state (Price, 2000);⁷ intention (Wickelgren, 2004); uncertainty (Schultz, et. al., 1997); surprise (Barinaga, 1997);⁸ learning (Schultz, et. al., 1997);⁹ discounting (Damasio, 1994); activity feeling-state (Rolls, 1975; Rainville, et. al., 1997; Tataranni, et. al., 1999; Price, 2000); imaginary time (Snyder, 1997; Logothetis, 1999; Price, 2000); and constraints (Snyder, 1997).

It may be concluded that important progress over the decades and centuries has delivered us across the threshold to a deeper and more productive economic (behavioral) paradigm. Here we may observe that while investigative learning is valued in itself, we tend to require relevance or benefit, in

⁴ The Gossen equation and constraints may be written:

$$\underline{E}^i = \sum_{w=1, \infty} [f_w^i \int_t^\infty \lambda_w^i(\dots, t) P_w^i(\dots, t) dt]$$

with constraints $\Phi_w^{ic} = 0, \quad c(w) = 1, \infty.$

This formulation represents the essential or basic expectational action-plan of the individual agent. (See Chamberlain 1998a or 2003b)

⁵ This coefficient has been given the dimension [TIME]⁻¹ in my work, thereby converting expected (intertemporal) utility to the present, real-time psychosomatic feeling-state attending an expectational plan.

⁶ Probability studies have historically focused or concentrated on expected events, whereas, in the present work, the focus has been on expected action-schemes or scenarios. Each scenario, or “worldline,” infinite in number in the individual’s expectation, consists of an infinite sequence or continuum of events, extending from the decision “datum” to the intertemporal horizon.

⁷ According to Price, “Unlike pain and unpleasantness, secondary pain affect [anticipatory instant utility] is based more on elaborate reflection related to that which one remembers or imagines. This involves meanings such as perceived interference with one’s life, difficulties of enduring pain over time, and the implications for the future.” (Emphasis added; p. 1769)

⁸ Although surprise is, by definition, absent from planning.

⁹ This paper is strongly supportive of the present approach—in particular that (one form of) learning is due to the extinction of uncertainty as the plan is followed. As stated in the article: “Behavioral experiments suggest that learning is driven by changes in the expectations about future salient events such as rewards and punishments.” (Emphasis added.)

some sense, to preserving and advancing the good society. And the deeper *instant-utility* approach provides such benefit.

Analytic Benefit—Investigation of Poverty and Economic Instability. The Economic Problem—poverty, and its cure or elimination—is the essential/underlying challenge facing the modern world. Indeed, should we fail to solve this problem we cannot achieve a lasting solution to any other—be it environmental degradation or species/life extinction or nuclear proliferation.

Here it is of course true that deeper understanding serves to expand our vision, and range of opportunity. This is clearly evident in the natural sciences, and cannot be dismissed in the social sciences. By taking economics to its neuropsychological foundation—i.e., by identifying *feeling state* [Dolan, 2002] with all human mental and physical activity in economic modeling, joining production, consumption, and leisure (instant) utility within the same analytic framework—we may achieve this new and beneficial capability.

Solution of the Economic Problem is a necessary condition for securing the good society—and we should, in attaining this high plateau, be able to effectively address the threatening subsidiary or secondary problems before us. ...In our new, unprecedented age, along with our valued sense of justice, we may rein in, or suppress, the economic instability that divides and harms our communities.

CORRECTING A FATEFUL INSTABILITY

Yes, the market economy is essentially unstable—in that it tends to promote an increasingly uneven distribution of capital-intensity across the population, in the home- or domestic-society as well as around the world. The good news here is that in our new age, along with deeper understanding of market and socioeconomic function, we may all reach the high plateau of universal justice and well-being. ...There is no bad news—everybody should win. More to the point, the welfare of the poor everywhere will improve as government and private action increase their capital-intensity and health; their productivity (dependent thereon); and their (resulting) ability to compete in the market. And our advantaged citizens will win by continuing to earn greater benefits while helping to promote the common good—in fruitful relationships or associations with the previously excluded poor who enter all markets to work and consume. In other words...improving the health and capital intensity of the poor is good for business (in addition to being necessary to prevent eventual social and economic collapse). Here the overarching rule that unites us in a common purpose is:

There is no injustice in the greater benefits earned by the few provided that the *benefits and discretionary power* of those less fortunate are improved. (Chamberlain, 2003/4)

On this basis we may all progress into a steadily improving future.

Engine of the Good Society. Capitalism will certainly participate in this revolution.¹⁰ Here it is of course true that the capitalist approach is a powerful engine of progress and development, and it is accordingly ironic that capital—so prevalent and commonplace, and so absolutely necessary to our welfare since ancient times—could nevertheless be severely criticized and condemned by many in our own time. In this regard, even the elementary toothbrush, or a comb, is capital—as is the knowledge and skill to use these simple items to good effect. The fact is that in our ascent over hundreds of millennia, capital has always been immediately at hand and applied each day, in varied and important tasks. ...Even when capital “in the large” (i.e., industrial) is wholly state-owned, it is not functionally transformed—it is basically the same thing, subject to risks and mindful control.

So what happened—how did capital acquire this harsh judgment? Well, we may look to the market for the explanation—that is, more precisely, to the market in conjunction with human psychology that makes it work. Is the market a prime source of dysfunction? ...We are increasingly convinced that the market in its free and open, and essentially unrestrained, state is a grave source of instability—that it naturally promotes inequality in the distribution of capital (education, skills, and business-capability, along with tangible or material capital assets) across the population.

Ultimate Market Failure. Given the most essential definition of “market failure”—that it pertains to conditions where market-forces damage or undermine the general welfare—it might then be concluded that instability of capital-distribution (across the population) is the ultimate failure. Without exhausting the details we can identify the essential problem, and its consequences. The basic concern is that people do not come to the market with equal advantages—in particular, economic and political power, and, yes, military power at the international level, are unevenly distributed. It follows that discretionary power is correspondingly uneven: The relatively disadvantaged have a diminished spectrum of options, and their discretionary power—the ability to choose as they see fit—is correspondingly diminished. Why is this important? Because reduced discretionary power engenders greater investment risk. Over time the poor, investing proportionally less in their own capital-intensity than the rich, must lag further behind. And because uneven discretionary power increases as uneven wealth and income increases, the poorest of the poor must eventually fall in absolute measures, as investment fails to replace capital-loss (by accidental depletion, wear and tear, knowledge and skill loss/obsolescence, etc.). Great communities will fail, and the entire world-community is at growing risk.

Most of us I believe can agree that market instability, with the very serious harm it brings to economic well-being within developed and developing nations alike, is not acceptable. Whatever else we

¹⁰ Toward the end of the paper’s presentation at the Philadelphia IAES conference (on 8 October 2006), a discussant observed that my philosophy and recommendations are ideologically “centrist.” This may be judged a correct conclusion—in that the recommendations embrace neither broad government-control of the left nor individualistic, minimal-government of the right, but a middle ground with new ideas to “make capitalism work.”

may do, we must achieve stability. And this requires governance measures appropriate to the task—where the “one model fits all” approach is clearly inadequate in our economically and culturally diverse world. ...By completing capitalism through deeper economic understanding we may open the path to stabilize the market-economy, and here we can turn to the “proactive-government” philosophy and approach of socialism to define the stabilizing measures.

Socialist Stabilization.

The general tendency is to regard as socialistic any interference undertaken by society on behalf of the poor. --Encyc. Brit.

With reference to the quotation, many believe that overarching government influence or effect in social and economic life saps vitality, and entails the significant danger of social dysfunction and misdirection. But now we are concluding that the opposite extreme—withdrawal of government from proactive authority in the social and economic departments, and concerning the market in particular—allows increasing division into rich and poor. In this regard, all of us, individually and collectively, have a (psychological) relationship with the market that causes many—most prominently the over one billion extremely poor—to reasonably and rationally reduce investments (in themselves, their family, and community) due to discretionary disadvantage. And the remainder of the disadvantaged, who are not so desperately poor, are in growing danger of sliding back or failing as the discretionary advantage of the rich improves in our (substantially) free-wheeling market. This is, of course, a perilous condition that places the entire human community at risk, and one that must be addressed, and resolved, in our cooperative efforts. In so doing, no governmental extreme is appropriate—neither dominant government on the left nor disengaged or unresponsive government on the right; what is appropriate is governance that accommodates the strengths and virtues of both sides.

We may now address the stabilization-task from the socialist perspective—where the overriding concern has not been conservatism’s focus on efficiency and productivity to improve life on the average, but rather on egalitarian measures to achieve economic and social well-being for everyone. The task before us is to move toward equality and welfare for everyone while maintaining a stable and growing economy.

An analytic basis for governmental “interference” that arrests and reverses social and economic inequality has been available for nearly four years (Chamberlain, 2003/4). Two primary measures—one macro and the other micro—were recommended in this contribution. In both initiatives the continuing objective was to increase the discretionary power of impoverished individuals and nations thereby

improving investment.¹¹ At the macroeconomic level it is appropriate to damp or smooth or moderate trade and financial transfers across international borders—no longer should we permit the sudden rushes of capital and goods across borders, particularly regarding the smaller and poorer national economies, excesses that individuals and organizations at all levels sensibly guard against by curtailing investment-at-risk. This step increases predictability in the domestic (and international) economic/financial environment, and naturally stimulates a willingness to invest.

But damping transfers across national borders goes against one of the more strident idealisms of our time—that free and open markets everywhere are what is needed for a just and prosperous world. We need however to keep in mind that there is no true or substantive basis for this ideological belief: The fact is that the standard or mainstream neoclassical paradigm is fundamentally unsound and much of its policy and institutional prescriptions cannot be fully or confidently credited. Many prominent economists have stated the inadequacies of mainstream economics, but the response of others has frequently been—“what do you have that is better?” ...A deeper paradigm, one that accommodates much of standard economics, has satisfied this challenge.

The second adjustment of free-market capitalist ideology is to institutionalize conditional-transfer programs that promote capital-intensification of the disadvantaged (regarding health, education, skills, etc.)—an adjustment successfully underway in several Latin America countries (including Brazil and Mexico). As a specific example, the mothers of poor children receive monthly grants or stipends, provided their children are regularly taken for medical attention and kept in school. These programs, as well as other pro-active measures adopted by our southern neighbors, are now moving poor citizens out of poverty in large numbers.

PERMANENT UNIFICATION

The coming together of capitalism and socialism in pursuit of a common goal is more than a simple compromise between opposing ideologies—this synthesis is defined and prescribed on the basis of a deeper, more substantive, understanding, one that is potentially revolutionary in its consequences everywhere. The essential consideration here is that mainstream (neoclassical) economics, long believed to be unsound and unrealistic, has been discredited at the fundamental or basic level, and, further, its proper neuropsychology-based successor has *proven itself* by analyzing poverty and recommending workable countermeasures (Chamberlain, 2003/4): Orthodox free-market capitalism (or *neoliberalism*)

¹¹ As an introductory note to the following paragraphs, a discussant at the paper’s presentation during the IAES Philadelphia conference voiced the concern that the governance and policy recommendations could be unacceptably “open-ended” or costly in their implementation—in particular, “where do we draw the line” in the devoted or allocated resources. Here it is believed that resource allocation should not be excessively burdensome, and, furthermore, are of such nature or character as to “grow the economy.” ...And the adjustments (to the capitalist model) are already successfully applied in several Latin American countries.

has been conclusively undermined by this very recent development, and should no longer be embraced or promoted by any government around the world.

It may be beneficial to further reflect on this important point. Why, we could ask, should the continued hegemony or dominance of an ideology depend on the legitimacy of its elements or components? In answering this question we may think back a few centuries to a previous revolution—this one on the natural sciences side. The Earth-centered (Ptolemaic) model of the planetary system was of such ideological importance in the early seventeenth century that Galileo was sentenced to house arrest for the final 12 years of his life for publicly advocating the Copernican Sun-centered planetary system. Validation of Newton's theories by Halley's prediction, along with the utility or usefulness of the systemic moons-of-Jupiter as a navigational clock, further discredited the Earth-centered model, thereby accelerating the shift from medieval to modern society. ...The false Ptolemaic model could not endure.

Our earlier revolution in the natural sciences has its counterpart in the human sciences today: Neoclassical economics has been deeply and crucially challenged, and a more basic or fundamental paradigm promising significant socioeconomic benefits has moved onto the stage. And just as the ancient Earth-centered planetary model receded, so the market/commodity-centered economic model must similarly recede. ...This transition, epistemologically sound with its empirical basis, will not reverse—and we may conclude that not only should the productive power of the capitalist approach accommodate socialist ideals, but that this union (in our new age) will endure, over extended time.

CONCLUSION

Surely the coming-together or conciliation of the predominant socioeconomic ideologies—capitalism and socialism—may be judged a positive development, and today this prospect is emerging, on both evidentiary and analytic grounds. A necessary-condition for this historic transition is our new, unprecedented age, predicated or based on the shared and permanent nuclear danger.¹² The second necessary condition is recognition, in our universities and governments, of the more substantive understanding of economics that is now available, one that corrects and deepens the unsound nineteenth century neoclassical paradigm. Because of these developments ours is a remarkable time, opening the true possibility of the ascent of everyone to the high plateau of universal justice and well-being.

The validity or legitimacy of this transition will carry us onto the plateau, despite the opposition of those seeking to preserve the dominant ideology. After all, while some of us may point to the failure that can attend government “interference” in economic function, it is true that the free-market economy is subject to its own serious failure. Beyond these considerations, significant or prominent private-enterprise at all levels should remain in the modern mixed economy, along with a vital and robust market. And

¹² That is—permanent for our time, and probably many decades to come.

overarching all is the sobering and arresting nuclear danger. ...The world has changed in two crucial and fundamental ways, and our old modes of thinking must correspondingly adjust.

But new directions are often resisted—we have the tendency to “follow through,” when evidence and clarity recommend a new course. For example, we try to impose our way of life on people generally—as though the “end of history” has in fact arrived and it is accordingly a good idea to export (our form of) democracy, by coercive means if necessary (!). ---This notwithstanding the fact—as a particular—that democracy, without effective countermeasures to defeat market-economy instability, must ultimately bring dysfunction and conflict.

Here I suspect many of us believe that substantive understanding of economic behavior is not especially relevant or useful—all that really counts is political will, and on this basis alone the good society may be secured. Well, political action alone cannot succeed. After all, what political currents bring they can also remove. And so prudence, and the survival instinct, push back, and eventually arrest. ...No, it is necessary to understand—and I believe deeper insight, in addition to helping define our policies and institutions, does revise or alter feelings and attitudes: By moving away from absolute human greed of the prevailing neoclassical paradigm (in its first-principles formulation) to humanity restored from deeper knowledge, our natural tendency toward justice and benevolence is more deeply experienced and realized. ...We are changed.

An historic transition is underway—nearly everything will adjust. These revisions will be irreversible, as the paradigmatic shift from unsound neoclassical economics to its deeper foundation proceeds. ...And the well-being of everyone can improve from this deeper understanding in our new age.

APPENDIX. Professor Yongjiang He’s Discussion—With the Author’s Clarifications and Responses (As Underlined Entries)

Comments On

Dr. Chamberlain’s “Socialism versus Capitalism—Economic Stability as a Unifying Goal.”

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Dr. Chamberlain’s paper argues against the withdrawal of government role in intervening in the market (causing many people to reduce investment) and for a proactive government. It provides a theoretical argument that the unstable capitalist market economy can be stabilized by appropriate socialist policies and institutions and we can advance towards a more beneficent human society. Here, instability is referred to as a natural or automatic tendency toward an increasingly unequal distribution of physical capital and human capital (capital intensity) that is related to unequal wealth and income in the population. Two solutions have been suggested to reduce this market instability: first, to reduce the

fluctuation of capital and goods flow across international boundaries; and second to institute redistribution programs to enhance the capital intensity of the disadvantaged people. Both initiatives can increase the discretionary power of impoverished people and nations by improving investment and reducing investment risks.

Why should government support the poor by redistribution policies? Dr. Chamberlain argues that the poor tend to reduce investment in their education and health, and less personal investment will generate less employment and investment opportunities which result in a more unequal distribution of income. In other words, the instability of society comes from a lower investment by the poor resulting in an increasingly unequal distribution of investment. The mainstream utility approach of neoclassical economics and the market fundamentalism of neoliberalism with an emphasis on efficiency are arguably partially responsible for this socioeconomic dysfunction. Hence, on the theoretical side, Dr. Chamberlain suggests Gossen's deeper instant utility approach framework with its neuropsychological foundation as a valid alternative to mainstream utility theory.

The rationale for supporting the poor or social-welfare state is that “improving the health and capital intensity of the poor is “good for business”. This is the Rawlsian view of justice that an improvement of the welfare of the poor is a public good. Of course, there are some benefits associated with improvement of the welfare of the poor: (1) a reduction in unequal distribution of capital intensity will reduce the social risk of the poor in terms of war, violence, and crime, or “to prevent social and economic collapse”; (2) there may be some genius or innovative thinkers in the poor who could make great contributions to the society if society provides some opportunities for them, and (3) good labor force will generate higher labor productivity and more innovation, which contributes to economic growth. However, there are some costs in the redistribution program in the sense that (1) redistribution policies reduce the benefits of the rich and this dis-incentive effect will reduce investment and work effort by the rich with the result of lower economic growth, (2) an increase in the benefits of not working will lead to a reduction in work effort and labor force in the not rich people, (3) government policy is more interest-group centered and rent seeking is more prevalent, which will do harm to social justice and the rule of law. Put it differently, overarching government interference saps economic vitality and engenders dysfunction and misdirection. Therefore optimal social policies have to balance the costs and benefits of redistribution policies.

However, several problems merit classification. First, stability is traditionally related to production and the market itself in terms of business cycles, but this paper means/advocates extensive redistribution policies. In Musgrave's *Public Finance in Theory and Practice* (1959), government role is classified as production, redistribution and stabilization policy. In addition, stability is a psychological term and people's feeling about justice and equality evolves over time. If some uneven distribution of capital intensity is treated by society as a normal state, then only the uneven distribution of capital intensity beyond the accepted point is considered a social problem. Therefore, economic stability may not be a unifying goal for capitalism and socialism.

Multi-class socioeconomic systems have frequently been the norm—over most of recorded history. But overarching technological danger (nuclear weapons) plus deeper understanding of economic function now admits the true possibility of a stable or time-extended classless society...when and where such systems may be chosen or evolved.

Second, this paper recognizes that capitalism is a powerful engine of progress and development. This is what Adam Smith's theorem of the invisible hand states: under certain rules and laws, competition and profit motives would lead individuals with equal capability—in pursuing their own interest—to serve the public interest in terms of economic growth, moral perfection and improvement of laws. In this view, the government with a primary role in setting rules and laws should leave the private sector alone, and not attempt to intervene in the private market, including redistribution policies. However, Karl Marx argues that people in power do not do justice but exploit other people without power through government control

and other institutional powers in the free market system, which causes market instability. The short term primary objective of socialist revolutions and policies is to change capitalist institutional power, including stability policies, but fails to focus on the improvement of laws and rules. Therefore a unifying goal for socialism and capitalism should be to promote the rule of law, rather than redistribution policies.

Yes—the Rule of Law is vitally important and should be pursued, always. But it cannot by itself achieve economic stability and the good society—where capital redistribution and international-commerce damping or smoothing are required. Absolutely necessary are laws and institutions defined for this task. The Rule of law will help ensure such measures are followed over extended time.

Third, market instability is treated here as caused or promoted by inequality in the distribution of education, skill and other capital. It arises because people have unequal economic and political power. The relatively disadvantaged groups have lower discretionary power and fewer market options to choose, which engenders greater investment risks and lower investment. As a result, uneven distribution of wealth and income increases. This is the uneven wealth argument for growing inequality. ...Some substitution effects between investment and consumption may weaken the divergent accumulation of wealth in the society as the wealthy people may consume a larger share of capital and time in non-accumulative activities. While there is some downward mobility in the ladder of wealth by the poor, information and catch-up incentive may be important for investment by the poor, which causes some poor people to move upward the wealth ladder. These forces may generate a dynamic distribution of capital and wealth, with the empirical Kuznets curve describing the relationship between income distribution and income level in the current stage.

It should not, of course, be government policy to encourage luxury or excess in order to advance equality and stability. And yes, the economy is always churning, with some moving ahead and others falling behind. But an overarching psychological relationship between the individual and the (free and open) market naturally and increasingly divides us.

In addition, people with extraordinary capability may generate a more uneven distribution of wealth and income with unequal opportunities, as 1970-1990s sees an increasing inequality of income distribution accompanied by uneven investment in higher education, and a more uncertain world. In a world with unequal distribution of capability and opportunities, government can ensure social justice by maintaining the rule and law of process equality, rather than outcome equality.

...Where process equality is understood to mean equality in the socio-economic/market system. Here we may agree that the (free and open) market process is not just or fair—hence the need for pro-active government to define and administer appropriate stabilizing institutions and policies.

Fourth, government interference may include interference on behalf of the poor, the rich, a mixture of the rich and poor, and the society as a whole. As government has limited budget, there always exist some tradeoff between these activities. Government should allocate resources in the most efficient way in the sense that social welfare can be maximized and all people can benefit from it.

Of course this tradeoff is necessary and appropriate—in accordance with Rawls' critique for social justice, as modified:

“...there is no injustice in the greater benefits earned by the few provided that the benefits and discretionary-power of persons not so fortunate are thereby improved.” (See Chamberlain, 2003/4)

One additional question: In the neoclassical interpretation of history of economic thought, Hermann Gossen is treated as a precursor to the marginal revolution. So, what is the fundamental difference between Gossen's instant-utility approach and standard utility theory? If the instant utility approach

means taking economics to its neuropsychological foundation “with all human mental activities and physical activities in economic modeling, joining production, consumption, and leisure activities within the same analytic framework”, then there is no significant difference between the instant utility approach and the standard neoclassical approach.

But standard theory goes to the neuropsychological foundation only for work-activity and leisure, not consumption (a crucial and fateful error). This is the “fundamental difference.” (As a relevant aside, Gossen’s contribution was not recognized by the original marginalists [primarily Jevons and Walras] until *after* the Marginal Revolution.).

Postscript: I wish to thank Professor He for the significant time and effort applied in addressing the Beijing paper, and preparing his written comments. (TEC)

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