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The Capitalist Perspective

Economics: macro or micro?

by Raymond Hodgdon[*]

There are two broad fields of economics — microeconomics and macroeconomics. These two fields have nothing in common. They are complete opposites. In fact, macroeconomics is not about economics. One way to express these differences is: change, competition, and reality *versus* stagnation, protectionism, and illusion.

Microeconomics is about individual human beings, competition, free-markets, innovation, price discovery, dynamism, and reality. It is about small things much like quantum physics. Microeconomics is nonlinear and unpredictable. It's about the allocation of scarce resources by free markets. The father of microeconomics was Adam Smith (1776).

Macroeconomics is about aggregation and bigness. It is about government control and management of the economy. It's about the government's allocation of scarce resources to favored groups and is based on the *General Theory* (1936) by mathematician John Maynard Keynes. Macroeconomics (Keynesianism) assumes the world is static and linear, which is what you would expect from a mathematician.

It is obvious that microeconomics and macroeconomics lead to different outcomes. Two other widely accepted theories that can explain the differences between microeconomics and macroeconomics better than I can are public choice theory and chaos theory.

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Public choice theory. Public choice theory explains how "corporatism" (the merger of state and corporate power) and macroeconomics have captured government and taken control of the country. Public choice theory is a field of economics, which applies economic theory and scientific methodology to the analysis of political behavior. It has been developed over time by a long list of Nobel prize winners and other notable economists. The Nobel Laureates include Kenneth Arrow, Gary Becker, James Buchanan, Milton Friedman, George Stigler and Gordon Tullock. Public choice theory explains how macroeconomics advances the cause of corporatism.

It's fundamental to economics that people act in their own self- interest. Public choice theory says that politicians and other public officials who are charged with working in the "public interest" will in fact work in their self-interest rather than the public interest if there is a conflict between the two, not because they are bad people but because they are human beings.

You may rightly ask when is there a conflict between "self-interest" and "public-interest" in the public sector? It occurs when special interest groups offer politicians money (campaign contributions) to support special interests instead of the public interest. It is in the self-interest of politicians to take the money.

Public choice theory says that legislative bodies respond to small well-organized groups (cartels) at the expense of the majority because the minority is well organized and has lots of money and lobbyists. In public choice theory this is called the "tyranny of the minority."

In this way, corporatism has been able to take control of government and secure protection from the rigors of microeconomics (competition and innovation), while gaining the financial benefits of corruption. As an intellectual partner and member of corporatism, macroeconomics is also corrupt. For this reason microeconomists hold macroeconomists in contempt.

There are always exceptions to anything but in public choice theory these are one in a million. These rare exceptions are called "angels." Brooksley Born was such an "angel." As chair of the Commodities Futures Trading Commission (CFTC), she fought against corporatism's efforts in 2000 to

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repeal the Commodity Exchange Act of 1936 with respect to derivatives. Don't expect to see another angel any time soon, because Born suffered greatly for being one.

On the other side, Alan Greenspan, chairman of the Federal Reserve, and Robert Rubin, secretary of the Treasury, joined forces with corporatism to help repeal the Commodity Exchange Act as well as the Glass-Steagall Act in 1999. Both were rewarded handsomely for their efforts as public choice theory suggests.

One key conclusion of "Public Choice" is that changing the people who hold public office will not produce major changes in policy outcomes. This explains why the Obama Administration continued the Bush Administration's cover-up of the cause of the Financial Crisis of 2008, and adopted the Bush Administration's proposal for financial regulatory reform, which was essentially the *status quo*. Economic structure also explains how corporatism has captured government. Macroeconomics supports anti-competitive and corrupt economic structures like cartels, duopolies, and oligopolies, which are essential features of corporatism.

The key to public choice theory is the creation of small well-organized, well-funded groups. In theory, such groups are inconsistent with free markets, competitive markets, and anti-trust laws. Where these small groups exist, many markets are not free and not competitive, because of their economic structure. The financial industry is an example of such a market because it is made up largely of monopolies, duopolies, oligopolies, and cartels. Anti-trust laws are ignored because of public choice theory.

Most of these illegal economic formations are unregulated. Where they are regulated, "Public choice" says the decisions of regulatory agencies will be influenced by special interest groups in the same way politicians are. This is called "regulatory capture."

The unregulated investment-banking cartel (the Cartel) is the most powerful, well organized, and well funded of these financial sector groups. Every election year the Cartel ranks first in money given to congressional and presidential candidates.

As far as the laws of mathematics refer to reality, they are not certain, and as far as they are certain, they do not refer to reality.

~ Albert Einstein

Chaos theory. Chaos theory is a field of study in mathematics, and it supports microeconomics. Chaos studies the behavior of dynamic systems like microeconomics, physics, and engineering that are highly complex and sensitive to change. Chaos theory is the science of surprises, the nonlinear, and the unpredictable. It deals with nonlinear things that are impossible to predict or control like the stock market and human emotions and brain states. These phenomena are often described by fractal mathematics, which captures the infinite complexity of nature. Chaos theory reinforces, enhances, and supports microeconomics, while refuting macroeconomics.

Here are several characteristics of chaos theory that support micro and undercut macro:

Butterfly Effect: The "Butterfly Effect" says that small changes in initial conditions can lead to drastic changes in results. Our lives are an ongoing demonstration of this principle. It is an aspect of the law of unintended consequences.

Unpredictability: Humans are unpredictable. Together they make a complex dynamic system the state of which cannot be predicted.

Disorder: Chaos theory explores the transitions between order and disorder, which often occur in surprising ways.

Feedback loop: Complex, dynamic systems (people) become chaotic when feedback is present. The stock market is a perfect example.

Fractals: A fractal is a never-ending, infinitely complex pattern that is created by repeating a simple process over and over in an ongoing feedback loop. The never-ending financial crisis is a perfect example.

All this explains what is wrong with Keynesian macro-economics. It treats a dynamic system as if it were static and predictable. Macroeconomics measures the economy with linear models that are illusion based, not reality based, but operates as if its results are certain.

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