Pie Economics

Enjoyment

'The Economy' is our system of production of enjoyments, otherwise known as goods and services for consumption. Enjoyments, and the 'capitals' used to produce enjoyment (ie the capacity to produce enjoyments), constitute economic wealth.

The economy can be represented by a pie chart, with each section of the pie being particular goods or services – such as 'hats' or 'haircuts' or 'potatoes'. Each item has to be valued; thus an economic pie chart might show $500 worth of hats, $300 of haircuts, $200 of potatoes, plus many other items.

example

The pie chart is limited by the need for all the represented items to have positive values. A pie table may remove bias from pie chart, because it allows for items either not consumed or without an attributed value. An example might be fruit (such as plums) that grows on trees in people's gardens. The pie table might show $500 worth of hats, $300 of haircuts, $200 of potatoes, $0 of plums, plus many other items.

example

Consumption takes place in people's free time, meaning that free time is the context for most of our enjoyment. Enjoyment may also occur in people's unfree time – time that for the most part is contracted out to other people, usually as an employment or business contract; such enjoyment is the 'fun' component of 'work'.

In the economy, consumers (otherwise known as 'households') are the 'first party', the beneficiaries of the economy, the 'demanders'.

The central core of the economy – though not the entire productive economy – is the capitalist market economy. The other part is home production – where goods or (mainly) services are produced at home for one's own enjoyment, or for the enjoyment of others such as family members. Home production includes 'self-service' and 'shared-service', such as journeys taken by private transport rather than by bus or taxi. And it includes potatoes grown at home instead of purchased at a shop or market.

Synonyms of 'enjoyment' include 'utility', 'happiness', 'pleasure' and 'standard of living'. Indeed, the economy can be understood as a 'pleasure machine'. Of these other words, 'utility' – while prosaic – has one advantage in language; it has a convenient opposite – 'disutility'. We may deploy the word 'unenjoyment', however, in order to better to retain the sense that economies are about the facilitation of enjoyment.

The word most used by economists is 'consumption', which is used to indicate the enjoyment that takes place in free time and is facilitated by goods or services. Consumption is valued at market prices, including the consumption of home produced enjoyments. Home-grown potatoes can be attributed the same market values as shop-purchased potatoes.

Another important happiness concept is that of 'leisure'. Leisure is *enjoyment that takes place in free time*. Much – but not all – leisure is facilitated by the consumption of goods or services. 'Pure leisure' – such as sunbathing naked on a beach – is surprisingly rare. (Clothing is a consumption good.) Leisure may be intensive in goods and services (higher footprint leisure) or not intensive in goods and services (lower footprint leisure). The leisure spectrum becomes important when considering green capitalism [last chapter].

While the economy is an artifice – a pleasure machine – that 'produces' enjoyments as outputs, not all enjoyment is produced as an economic output. Economic optimisation is about all forms of enjoyment. It balances utility against disutility, benefit against cost.

There are first-party costs as well as enjoyments; these are unintended consequences, or the outcome of miscalculation. Or certain (adventurous) enjoyments contain risks, which on average lead to a certain amount of enjoyment, but at times result in unenjoyment.

Overall, the economy produces 'enjoyment', for want of a better word; and the three main sources of enjoyment are market production (of services and goods), household production (much of which is self-service), and free time. Much of our enjoyment, as human beings, arises from the 'consumption' of combinations of these – in concert, in balance, and usually in the company of others as shared consumption. (We may also gain enjoyment – or utility – in other ways, such as through enjoyment of our unfree time, through altruism, through the attention of others, and through 'winning'; though in the later two cases this enjoyment is offset by disutility experienced by others.) Disutility may also arise from 'externalities' in the production process, or in the misuse of consumer goods.

In the economy, producers – firms – are the 'second party', the 'suppliers' of the economy.

The economy incurs costs – disutility – in order to create enjoyments. The most familiar cost is contracted 'work' – employment – which is both the loss of free time (loss of leisure) and forms of disutility (such as 'effort', or 'grime') that may require some compensatory enjoyment (such as extra eating or washing).

Work and worktime are generally characterised as a mix of lost enjoyment and unenjoyment, compensated for by 'income', which is an entitlement to purchase produced enjoyments. Not everything about our work and worktime can be characterised as loss of enjoyment. Some aspects of our work tasks and our experience of work time give enjoyment; examples are socialisation in the workplace, and the fact that – where possible – we choose to work in places where we can do things that we enjoy doing. A useful word for work without any accompanying enjoyment is 'toil'; it conveys the sense of drudgery in work – or in attempting to access work – that remains too true for too many people in the world.

Work – employment – is an economic cost; but – as a package deal – employment is a bigger net cost for some than for others.

Work – or at least the production process – is inherently a cost. In addition to its inherent 'second party' costs, production may have other forms of disutility; in particular there are 'third party' environmental costs.

It can be useful to create a pie table which includes both enjoyments (with positive values) and unenjoyments (with negative values). As is the case with many pie charts – the precise values are not important. Rather it's the acknowledgement of each item that matters most.

Pie table that shows household-related (first and third party) and firm-related (second and third party) enjoyments and costs. Third party costs – unlike second-party costs – tend not to be compensated.

'Negative' is a loaded word – commonly taken to mean 'bad' – as indeed it does in the context of 'disutility'. But in other contexts (eg latitude) it can mean 'south'; or – in the context of longitude – it can mean 'west'. In temperature it means 'cold', which may be bad or good, depending on the context.

In accounting negative values can mean various things, the most important being 'deficits'. In some contexts the word 'deficit' does mean something bad (eg it may mean a 'shortfall'); but not all contexts. In our context – as we shall see – deficit means 'enjoyment in excess of entitlement'. And a person currently experiencing 'enjoyment in excess of entitlements' is not necessarily a bad thing; indeed this form of negativity becomes a necessary thing in a context where some other persons (or organisations) are experiencing 'entitlements in excess of enjoyment'.

But for now, a pie table – but not a pie chart – can show negative enjoyments alongside positive enjoyments. Consumption (eg of alcoholic beverages) can be excessive, creating disutility to both the consumer and other people nearly. And lying on a beach can incur disutility – for example, sunburn.

The pie is made up only of enjoyments and investments. Economists call these consumer goods and capital goods. Here, I need another word for 'investments', because in finance the word 'investment' is used as a form of saving rather than a form of spending. My word is 'machinery'. Thus the GDP pie consists of 'enjoyments' and 'machinery'.

The Market Production of Enjoyment

Human enjoyment is the criterion for economic success, and the production of enjoyment is the economy. Within that, the *market production of enjoyment* is the 'market economy'; capitalism is the market economic system that economics describes, and represents the monetised part of the production of enjoyment. In the market economy, production takes place in firms and consumption takes place in households.

While there may be trade-offs between non-market and market production, historical development shows mainly the giving-up of non-market production in favour of market production. Having noted that, however, there has also been the rise of the self-service economy.

Our focus here will be on capitalism – the market economy – and how we decide what gets produced, who is entitled to the enjoyment produced by the market economy, who – through 'spending' – actually gets to enjoy these enjoyments, and how these spending patterns in turn determine what gets produced.

We may note that the capitalist economy is not about 'making money'; it's about making enjoyment. But it is about earning entitlements to the diverse produced enjoyments that make up the capitalist economic pie – this it is about 'income' and people's incomes. It is also about options to defer or bring forward the enjoyment of enjoyments produced for sale.

Every currently produced enjoyment deferred by a person or organisation must be enjoyed by somebody else; for example, as an enjoyment brought forward.

Three Divisions ('Cuts') of the Capitalist Market Economy

Economics, as a social science, is about 'housekeeping' outside of the house. In capitalist economies, that takes place in the marketplace. It's about the allocation of resources for production of goods and services which people and organisations can purchase to enjoy.

As well as producing consumer ('enjoyment') goods (and services) for sale, the capitalist economy produces machinery ('capital goods'), which produce deferred enjoyment. Our main image of capital goods is as construction goods, such as buildings, and as machinery. But capital goods can also include services such as vocational education; education of the type that aims to make businesses and their workers more 'productive'.

The capitalist economy – the subject of economics – can be summarised in three 'pie charts' (or 'pie tables'*) which depict the same thing, but in different ways. The best known of these representations is called 'gross domestic product' (GDP) for a particular country or territory. For the world as a whole, it is 'gross world product', which could be shortened to GWP, but which I will call 'World GDP'. World GDP represents a 'closed economy', meaning that it has no interactions with other economies. Indeed, in a globalised world, there really is only one economy. Individual nations represent 'polities', not economies – political regions with well-defined borders.

Capitalism – and economics as a description of capitalism – represents the market component of human happiness. While it is far from being everything, the capitalist marketplace is nevertheless a very important source of the enjoyments that comprise wellbeing. Here, we may call it simply 'the economy'.

The First Cut – World GDP Pie – The Commodity Pie

The basics of market economies are most practically simplified as one single global economy – 'the economy'; the economic relations between nation states constitute a complexity that obscures the essential capitalist edifice. Indeed, to grasp the simple essence of market economics, it is best to disregard nation states altogether. National economies are a complication that can be attended to later.

World GDP is a measure of the total amount of goods and services produced for final sale, in the world, in one year. It is the global market economic pie. Easily presented as a pie chart of many items – each good or service offered for sale represents a piece of the pie – it is a representation of produced enjoyments (current goods) and deferred enjoyments (capital goods). We may call the different outputs that make up this pie 'commodities'.

The word 'sale' indicates that this is production that takes place within the market economy; distinct from goods or services provided by people within their homes for to be consumed within their homes.

The word 'final' indicates that what has been produced by a firm has not itself been 'consumed', as materials or services, by other firms. For example, bricks used by builders cease to be final goods once builders have sold the houses that used those bricks. Likewise, this is true of the services provided by builders' accountants. The values of such services are incorporated into the values of the houses built and sold.

For convenience, we typically use a timeframe of one year when considering World GDP. We could, however, be thinking of production in one week, or one day. While, in reality, production – and the enjoyment of production – occur in continuously, it is a practical and useful simplification to consider production and enjoyment as taking place in discrete annual portions.

The GDP measure has its limitations. The pie metaphor allows easily for produced enjoyments, but not easily for unenjoyments. By extending the metaphor from a pie-looking chart to a pie-table that looks nothing like a pie, we may include all capitalist enjoyments and unenjoyments.

World GDP, then, can be represented as a huge pie chart that contains many different items – services as well as goods – in many different quantities. To measure the size of this pie, we need a concept of monetary value that we can apply to each item in the pie; then, to calculate GDP, we simply add up these values. Fortunately, within the marketplace, we have an objective (though not perfect) measure of value; it is the prices which items are sold for.

So we can assign a number to the size of World GDP in any given year. And if World GDP increases year-by-year, we have a process of market economic growth. Economic growth, however, is not, as such, an important feature of market economics. What matters is how firms decide what to produce, and how much of each item. And what then matters is how World GDP is distributed; in particular, how much of that pie each person (or household) is entitled to, and about how much each person actually gets.

The Second Cut – World Income Pie (GWI) – The Entitlement Pie

As a measure, Gross World Income (GWI, or World GNI*) is identical to World GDP. It's another name for the same annual economic pie. It's important because, unlike World GDP, Gross World Income is divided, not into commodities, but into a set of ***entitlements***; entitlements that we know as 'personal income'.

At this point we need to note that the human world is made up of adults and children. Adults, by definition, are 'economically responsible'. Children, on the other hand, are 'minors' who are economically 'dependent' on adults. For our purposes of getting at the simple essence of market economies, 'personal income' only applies to adults. Or to households which, by definition, each contain at least one adult.

Market income entitlements are determined by rules, the most important of which is selling prices. The incomes of proprietors of firms are understood as their profits; determined essentially by the quantities and prices of goods/services sold, the prices of materials and services purchased, and the 'factor costs' such as wages and rents. For wage and salary workers, we understand our personal incomes as the (wage) prices paid by employers for their labour services; that is, the prices for which employees sell their labour. While employees able to sell their labour services to an employer for a high price – a high wage or salary – receive a high entitlement, the highest entitlements generally go to the owners of capital rather than to those who only own their labour. The largest entitlements are gained as profits or rents or royalties, not as wages or salaries. These entitlements arise from property rights; in capitalism as we know it, these property rights are generally 'private' property rights. Firms' profits are distributed on the basis of the 'equity' of firms' owners; that is, firms' shareholders. Capitalism is a system of property rights.

These market prices are set, as economists say, by the interaction of supply and demand, and also by the extent that the market for a good or service is 'competitive'; ie subject to 'competitive supply'. As such, there is no fairness – no sense of justice – in this market process of setting entitlements. There is market 'power' however, especially on the 'supply side' of the market price-setting process. In practice, market power accentuates inequalities in the determination of income entitlements.

To offset market unfairnesses, we look to governments to provide a complementary set of rules, in particular through progressive taxation and social welfare benefits; also implicit entitlements in the form of subsidies. Or we may look to national governments to assert public property rights, in the form of public equity. More about the economic roles of governments later.

The overall effect – albeit simplified – is of a global income pie, divided unevenly between the world's households.

To reform capitalism – indeed to save capitalism – among other things we need to restate and reinforce the rules that determine this income division (GWI) of World GDP.

The Third Cut – the World Spending Pie (GWE) – the Enjoyment Pie

(This is the enjoyment representation of the pie.)

Gross World Expenditure (GWE) represents a negotiated departure from Gross World Income. Money, capitalism's pre-eminent social technology, facilitates this negotiation. The result is a distribution of current enjoyment that is very different from the distribution of income, accounted for as a set of financial surpluses and deficits. A 'deficit' is a negative 'surplus'. These surpluses and deficits must, by definition, add to zero. GWE represents a practical redrawing of GWI. We now have three representations, three divisions on the world economic pie: a commodity perspective, an entitlement perspective, and an enjoyment perspective.

This negotiation process is essentially the trading of income entitlements. A person may defer part of their entitlement to enjoyments from this year's economic pie, in a process economists call 'saving'. Such a person runs a financial surplus this year. They may leave some of their income as money in a bank account, buy some other financial asset (eg shares in a firm, traded on the stock exchange), or repay a debt. A debt represents a previously incurred financial deficit.

Another person may wish to consume (that is, enjoy) more than their income this year entitles them to. They do so by withdrawing past savings, selling a financial asset, or borrowing an entitlement. This person – if successful – runs a financial deficit this year. If their deficit is 'financed' by borrowing, then this person incurs a debt, meaning they contract an obligation to run a surplus some time in the future.

Financial surpluses and deficits may be run by households, firms, or governments. Firms may wish to acquire capital goods – a process that economists call 'investment' – and need to incur financial deficits to do so. Such firms borrow current entitlements, and contract to run future surpluses.

A debtor – or a saver – may be an individual, a firm, or some other organisation such as a government. For now we may consider them all as 'persons'; indeed a 'company' – a firm – has the legal status of a person.

As a result of renegotiation – essentially deferral – of income entitlements, the distribution of spending (Pie 3) is more equal than the distribution of income (Pie 2). The cost of this equalisation process is financial debt. And if the same people who (choose to) run surpluses this year also want to run surpluses in future years, then it will also be the same people who run deficits this year who run deficits in future years.

While this ongoing process of burgeoning credits and burgeoning debts makes most of us uncomfortable, it is necessarily perpetuated as an immediate fix for the inequality of income; the inequality of Pie 2. To avert a reliance on this process – and to avert unacceptable income inequalities – we have to reform capitalism, as mentioned above (at the end of the previous section).

Spending 'brings forth' Production

The spending pie forms the basis for 'demand', which in turn determines the composition – and sometimes the size – of World GDP.

Pie 3 – the enjoyment pie – forms the critical 'feedback' mechanism that determines changes in the composition of future commodity pies (especially next year's Pie 1). The spending pie constitutes what are known as 'market forces' that drive the commodity version of the pie.

Despite the vague talk of post-industrial capitalism – talk that dates back even to the 1960s – we live in an industrial world of mass production. It's a version of capitalism that depends on large scale industrial capital – factories, warehouses, infrastructure, and machinery – and economies of scale. ***Industrial capitalism*** requires mass markets; it requires a relatively equal distribution of spending. The problem is that industrial capitalism as presently constituted generates a highly unequal distribution of entitlements. (Historically, the only real exception to this truth is the period from 1940 to 1975. Though some would argue that, in more recent times, increased inequality within countries has been offset by increased equality between countries.) Thus, in present times, the creditor/debtor negotiation that takes place, that converts unequal entitlements into much less unequal enjoyments, is critical to avoiding systemic collapse. Further, this happens in a rhetorical social environment which is increasingly debt-averse.

Equilibrium and Dis-Equilibrium

When production and spending – output and enjoyment – are in balance, the economy is in 'equilibrium'. And when deficits and surpluses are in balance. And when savings (deferrals) and investment (goods for deferred enjoyment) are in balance.

It is possible to have a desirable equilibrium (optimised enjoyment), or an undesirable equilibrium. [The latter is a matter for the last chapter.]

If the economy is not in equilibrium, then certain 'forces' for change may be unleashed.

The form of dis-equilibrium we are most familiar with is that in which there is not enough 'planned' spending to purchase the entire pie; it means that there is insufficient willingness by players to run financial deficits. It means that some parts of the pie may be wasted, unsold, still in the hands of producers rather than the consumers those items were produced to give enjoyment to. It means that, next year (Year 1), some firms may choose to produce less, meaning a smaller pie next year. That in turn means that fewer wage workers will be required, so that the total income paid as wages will be less. And that in turn is likely to lead to even less spending next year, forcing the economy to 'contract' – get smaller – once again (ie in Year 2). This represents economics' unemployment scenario. The best way to avoid the perpetuation of this scenario is for governments to act as 'spenders of last resort'. In addition, allowing interest rates to fall encourages players to spend more.

The other form of dis-equilibrium is when there is too much spending, meaning that some spending plans well go unsatisfied, or meaning that most spending plans will be *slightly* unsatisfied. This represents economics' inflation scenario: too many wants expecting to be satisfied but not fully able to be satisfied. This situation leads, *if possible*, to increased production plans next year (Year 1). But, if more production is not possible, it may lead to widespread agitation for compensation – eg in the form of wage increases – which may lead to further (eg Year 2) excesses of spending. To avoid the perpetuation of this scenario is to, at least some spending plans need to be scaled back; in essence, there will be some forms of spending that should be deprioritised – economic liberals insist that it is generally government spending that needs to be deprioritised. Rising interest rates can lead to the deprioritisation of some spending.

Happiness/Enjoyment Pie Table

some negative items – especially disutility arising from production and consumption

the disutility items in the pie table may be growing faster than the enjoyment items

The Growth of the Pie

Supply plus demand failure.

Labour and 'machinery' (for capital).

Growth is not the way out of the conundrum of industrial capitalism.

Too many capital goods reduces the enjoyment share of the commodity pie, and may aggravate the growth if income inequality and pie table disutility.

Self-Service Capitalism

Consumer goods tend to be 'home machinery'. While they are consumables, the enjoyments arise from their use; from the services that arise from their use. Foods are an obvious exception, because they are directly consumed, though at least some of the enjoyment of foods (eg broccoli) arises from the ongoing health benefits rather than from the enjoyment arising from eating them.