

Will be concentrating on a new model of government

Models must be evolutionary to be realistic.

People learn by finding out what good people do and imitating  
 i.e. people copied Keynes because he was an authority

There is this psychological effect. People evolved utility for self worth, "Good people" do certain things. I want to feel good about myself, so I copy these things.

Everything will be based on social theory.

There is a view of man. People don't know what makes up a good person. Society trains you about what good people do.

That is, society exploits this psychological peculiarity.

• "Good people are self-reliant" - you become an individualist

• You evolve to be nice to the right people, strict to others, then you become a great leader, (ie you go to Harvard to learn a set of values.)

People do not know how good they are. They want to produce evidence for themselves. This allows them to be manipulable.

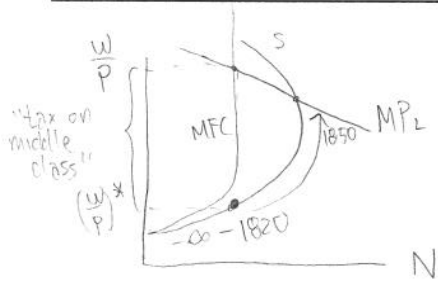
Uncertainty may be overvalued in economics. There are definitely informational differences, costly communication.

Uncertainty without risk aversion: collective disasters explain many financial puzzles.

The world changed when we reached the backward bending portion of our labor supply curve



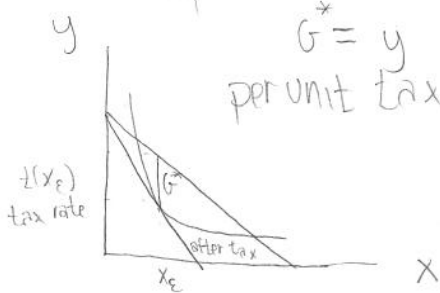
Social theory: government monopsonizes labor.



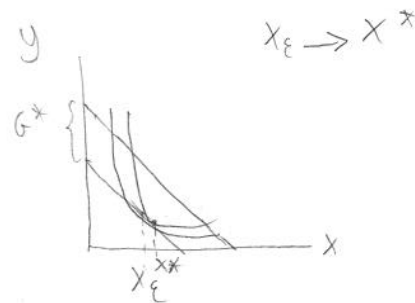
$(\frac{W}{P})^*$  is the real wage that monopsony countries would offer to maximize their profits.

The ruling elite always wants to monopsonize its people unless it must compete with countries.

Thompson is very empirically oriented.



Replace with lump-sum tax (head tax, neutral tax)



Clearly, lump-sum taxes are more efficient than per-unit. Why do we see persistence of per-unit taxes?

all you have to do is accept a potential externality, the defense externality. "The more capital in a society, the more capital society must defend"

When you work out the details, you end up mapping out our entire tax structure.

The rate of progression for taxes ends up being the return to capital. (since you are producing human capital.)

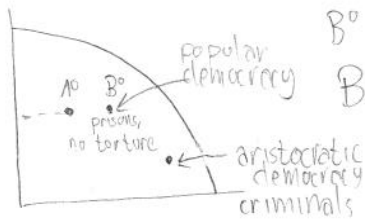
Hierarchies always evolve towards self interest of the hierarchy.

Welfare economics asks "what is good for society?"

Jeremy Bentham began with "Let's maximize sum of utilities"



everyone else  
no prisons  
but torture

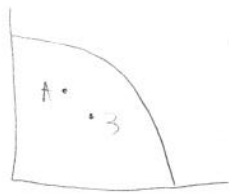


$B^0$  is preferred to  $A^0$  by society.  
Bentham suggested that free markets  
tend toward utilitarian outcomes.

J.S. Mill is just Bentham's clone. Mill is famous for declaring economics as having "already figured it out." Lots of free trade ideology.

Around 1860's, many European countries tend towards free trade, except Prussia. Later, Prussia "wipes the floor" with Austria and France. Economics then lost its favor. Then, Neoclassical economics came about (and still failed to implement the national defense externalities).

In the 1940's, we revise economics again and make it more mathematically beautiful. Those models still deliver the same results.



The "new welfare economics" tries to compare A and B.

If the gainers are willing to compensate the losers in B, then B is better than A.