Book Review

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Tianhao Zhi

Christian Aspalter (2023), *Super Inequality: Theoretical Essays in Economics and Social Policy.* Springer Nature, 158 p. ISBN-13 978-9-81995-168-0 (Hardcover). $ 109.99.

This article reviews C. Aspalter's latest book Super Inequality. The book consists of a collection of Aspalter's essays in (i) public choice theory, (ii) a theory of social efficiency, and (iii) a theory of super inequality. Not only had it provided us with a timely and systematic explanation regarding the causes of super inequality, but also a myriad of other social issues such as persistent social divide, inflation, a lack of education, and Medicare for many people. The book starts from a foundation of behavioral economics, which attempts to explain why humans make inferior choices when better options are available, with an emphasis on the context of public choices. Aspalter further elaborates on a General Theory of Z-Efficiency. Mainstream economists often focus merely on economic and allocative inefficiency, while ignoring other forms of social inefficiency arising from non-economic factors such as environmental, managerial, and personal and social barriers. The realization of higher general efficiency requires sound social policy design beyond the conventional laissez-faire, neoliberal economic approach. The book continues to build a general theory of super inequality from the lens of the Z-inefficiency measure. In our current world of fast-changing technological progress, thanks to the development of AI, big data, and blockchain technology, it is never a better time to contemplate the ramifications of a technological paradigm shift and how it will affect social efficiency overall. To this end, Aspalter's General Theory of Z-Efficiency and Super Inequality laid a promising path for future research in this direction.

Keywords: *public choice theory, a general theory of Z-efficiency, super inequality*

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The *Laisse-Faire* Economics Fairytale Coming to Another End

Once upon a time, all students of economics were imparted with a profound fairytale, and when those economic students became economist adults, they were very often led to believe that the fairytale is how the world *actually* works. As the fairytale goes: somewhere on an island where people live and trade and prosper; there exists a platonic market that functions to its maximum economic efficiency only when it is not intervened by the authority: in such an economy, every player, consumers, and producers alike, behaves rationally and selfishly. They gather in a marketplace to fully realize their happiness and material wealth: consumers are the utility maximizers while producers are the profit squeezers. Competition ensures the best of goods and services being produced at the most efficient market price where the producers earn zero economic profit in the long-run equilibrium and maximum economic surplus is realized for both consumers and producers. The division of labor will not only allow the individuals to focus on what they are comparatively advantageous, but also give rise to international trade that enables nations to focus on their comparative advantage and benefit from higher economic well-being through the exchange of goods and services produced by other nations with their own distinct comparative advantages. Economic growth will be sustained by innovation that ensures the breaking of old equilibrium to the new and everyone will live happily ever after.

This well-told fairytale, as history had documented, had temporarily, or perhaps illusively aligned with the economic reality for a limited period until a full-blown financial or social crisis that caught people unprepared and devastated when their life savings were wiped out and billions of dollars evaporated in the frightening market stampede: from the 1929–1939 the Great Depression to the 1980 Japanese economic crisis, to the 1996 Asian financial crisis, up to the more recent 2007 Global Financial Crisis. Every crisis reminds us of an old French proverb: *"plus ça change, plus c'est la même chose (the more things change, the more they stay the same)"*, and every crisis serves as a timely reminder that the economic reality is far more complex than what the economic fairytale depicts.

We often associate the financial and social crises with a simple explanation of *market failure*, and we often solve the economic issues merely from economic toolkits: environmental pollution arises from negative externality, information asymmetry misled the market-clearing prices, people sometimes behave irrationally, etc. Amid the radical fear and uncertainty, we often apply sub-optimal economic remedies that may alleviate the issue in the short-run and sometimes worsen the situation in the long-run: be it an astronomical fiscal stimulus or a radical monetary expansion, or a combination of both. However, the reoccurring economic crises and social issues, combined with the inability of economic policy to eradicate the long-term issues, have left us to wonder: is it all but a simple ramification of market failures? Are there deeper causes of social imbalances that perpetuate and aggravate the pendulum of economic and social cycles from hundreds of years ago until now? Will it be an ultimate solution that would eternally end the crises and human sufferings, and ultimately project the economy in particular and the society in general on a long-term path of prosperity, equality, and sustainability?

Super Inequality: Going Beyond *Laisse-Faire* Economics to a Better Understanding of Economic and Social Crises

C. Aspalter's new book: *Super Inequality: Theoretical Essays in Economics and Social Policy* provides us with a timely reminder that the mal-functioning of *laisse-faire* market alone, neglects a deeper root cause of the social-economic crises aforementioned. Super inequality arises not merely as a result of market failures, but more importantly from an inherent imperfection of decision-making in radical uncertainty, combined with systemic institutional construct by political and social elitists.

Distorted Choices: A Perspective from Behavioural Economics

Aspalter starts his analysis with *a general theory of distorted choices*. The key question is: why do people make inferior choices when better options are available? It may sound a little cliché to claim that people are not always rational when making important decisions: there is already a plethora of literature in behavioral economics regarding bounded rationality of economic agents due to psychological factors, cognitive limits, emotions, greed, and fear, or may simply due to laziness (Akerlof & Shiller, 2009; Kahneman & Tversky, 1979). Yet it is less discussed about public choices, which differs from private choices of market behaviors. Some might argue that public choices are much less urgent for individuals (people have ample time to make choices and more information is available compared to private decisions, such as investment decisions when decisions have to be made in a small time frame with limited information), and public officials are often portraited in *laissez-faire economics* as possessing an *ideal-typical, Mahatma Gandhi element* of altruism, as Aspalter describes. Hence, the general law of rationality applies, implying that decision can be understood from the decision of a rational, representative individual, in other words, the macro phenomena is micro-founded. Yet there is plenty of evidence that defies this convenient thinking, particularly in the area of the social welfare system, as Aspalter observes:

> "This really explains why the vast majority of welfare state systems around the world still stick to horrible social policy choices, such as asset- and means-tests (AMTs), even though already a long-time ago economists and now also social policy scientists have come to see the poverty-exacerbating, poverty-spreading and poverty-cementing effects of any social program that is based on or uses asset- and means-tests, including proxy asset- and means-tests."
>
> (C.Aspalter, 2023, p. 29)

The distorted choice is not merely an outcome of bounded rationality of the masses but is often exacerbated by the systemic coercion and manipulation by political and corporate elites. More often than not, public officials, like private individuals, are self-interested too. Rent-seeking behavior arises when the self-interested public authorities intertwine with corporate interests (Holcombe, 2018).

With a foundation of behavioral economics and sociology of Holcombe and Foucault, Aspalter identifies six types of determining factors: (i) systems of cultural biases and cultural variance; (ii) aggregate historical factors; (iii) geographical factors; (iv) effects of cultural, social, societal, governmental, judicial, or economic discrimination and exclusion, (v) government interference in terms of availability of resources and opportunities, and (vi) judicial interference in terms of punishments. This serves as a foundation in the discussion of public policy efficiency that stems not only from an allocative factor of Leibenstein sense (X-efficiency) but also from managerial and environmental barriers, as well as from inferior choices of the masses, as is further elaborated in following sections.

Beyond Economic Efficiency: The Theory of Z-efficiency and Super Inequality

When we teach ECON101 class, the concept of economic efficiency is usually introduced right after the first lecture on supply and demand and market-clearing equilibrium. The shaded area of consumer and producer surplus becomes the golden rule to measure economic efficiency. The market functions at its optimum only when it is free from external distortion, such as the benevolent act of the government to set price ceilings and floors, or in a market where monopoly dominates the markets. The lack of competition or the presence of external policy intervention will result in a deadweight loss, thus lowering overall economic efficiency. Furthermore, Leibenstein (1966) expounds on the notion of X-inefficiency due to a lack of competition, which disables the firms to produce on its full production possibility frontier and raises the cost curve. Only later the concept of market failure was introduced in the form of information asymmetry and externality, combined with people's inability to make rational decisions that often lead to sub-optimal situations. The way we address these types of market inefficiency is usually by resorting back to the market force itself, such as pricing and marketizing externalities and information. The ultimate principle remains unchanged: *let the invisible hand to fix the problem of laissez-faire economy itself*. This principle is often easily, yet forcefully adopted for other non-economic social issues.

It is true that the economic system is a crucially important subset of a social system, yet they are not equivalent. It is misleading to gauge other types of social efficiency in the same way as we measure economic efficiency, such as the provision of public goods, the removal of social, cultural, and managerial barriers, and so on. Built from the theoretical foundation of the predecessors (Foucault, 1954; Holcombe, 2018; Luhmann, 1984), Aspalter proposed a general theory of efficiency taxonomized in four broad categories, namely the M-, N-, Y-, Z-efficiency, in addition to Leibenstein's X-efficiency aforementioned. M-inefficiency arises due to managerial barriers, N-efficiency due to environmental barriers, and Y- and Z-inefficiency from personal-level influences.

Sound policy ought to be judged by whether it brings forth the maximum social efficiency. From the renewed perspective in measuring efficiency from the four additional dimensions, it is tempting to do a thought experiment of a hypothetical society with the highest possible general efficiency, just like how classical economists describe the way an ideal *laissez-faire* economy works. We envision that in such a society with the highest general efficiency, not only does it possess a competitive market economy that yields the highest allocative efficiency and the Leibenstein X-efficiency, but also a full managerial/governance efficiency in the public sector, and a complete removal of natural, physical, social, cultural, and environmental barriers, thanks to the advancement of technology and effective governance (the maximum M- and N-efficiency). In such a society, every individual is fully capable of making the best decisions for themselves free of knowledge and physical constraints, thanks to viable social programs that make education and healthcare affordable and in line with the long-term interests of every member of the society (the maximum Y-efficiency and Z-efficiency). This ideal is perhaps still far-fetched, yet it can serve as an ultimate goal of setting optimal social policies.

In contrast to this ideal society, the real world is full of M-, N-, X-, Y-, and Z-type inefficiencies, which eventually contribute to, and also are contributed by the systemic, perennial problem of *super inequality*. It becomes clear that an effective design and implementation of social policy is far more complex than the *laissez-faire* approach. The general social efficiency measure beyond simple economic terms serves as a starting point of effective social policy design, which entails the effective provision of public goods such as free and affordable healthcare and education, and also an alignment of interests between the elitists and the rest so that they will not fall into a prisoner's dilemma. The hope is that with a sound understanding of the root causes of these social issues, it is possible to set a viable goal and find a long-term solution, as concluded by Aspalter toward the end of Chapter 3:

> "Every problem, every mental formation, every social problem can be overcome. The only downsides are time and efforts needed, i.e. the longer a problem lasted, or the more severe the repercussions (suffering and harm caused) were, the longer it may in general take to heal them, i.e. to soften them and in the end to dissolve them."
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> (C.Aspalter, 2023, p. 76)

Looking Ahead for a Better Future

> "Modern methods of production have given us the possibility of ease and security for all; we have chosen instead to have overwork for some and starvation for others."
>
> — Bertrand Russel, *In Praise of Idleness*

Toward the end of the book, we are well-equipped with an alternative lens to look at many prevailing social issues in the Western world today that *laissez-faire* economic fails to explain: high inflation, persistent social divide, myopic corporatism, lack of access to education, and healthcare resources for many due to financial barriers and suboptimal insurance scheme, and above all, the rise of super inequality.

Capitalism can be immensely creative: we constantly see new products emerging: from Ford's T-model nearly 100 years ago, to the modern-day smartphone and AI technology, and undoubtedly to a promising future of ever-increasing standard of living, thanks to the brave entrepreneurial pursuits of the creative, industrious individuals and social economic entities (Schumpeter, 1939). Capitalism can also be frighteningly destructive: the adoption of new technology often outpaces people's complacency. While new jobs were created, more traditional jobs were lost, leading to anger, frustration, fear, and riots. We benefit tremendously from the creative side of capitalism, yet we often downplay the dark side: myopic, selfish, speculative, unequal, predatory, and eventually self-destructive, as vindicated by countless financial and social crises in history.

Looking back, the profound lack of social efficiency consideration in policymaking in the heyday of neoliberalist optimism had led to a systemic neglect of many social issues, which planted the seeds for many subsequent social and economic crises later on. Not long ago, we had an illusion of *"The Great Moderation"*, and we were passionately teaching this illusion in macroeconomic lectures. With blind faith in the invisible hand, higher education, Medicare, along with many important public goods were privatized. Since then, education and healthcare have become increasingly unaffordable, pushing more people into lifelong debt and despair. Financial markets and financial institutions that ought to be under tight regulation and public scrutiny, thanks to the bitter experience of *the Great Depression* of 1929–1939, were once again deregulated and liberated. In the aftermath of the 2007 GFC, radical and unconventional *QE*,[1] which was meant to provide emergent liquidity to the troubled financial institutions in the hope of eventually alleviating long-term economic issues, had instead worsened the gap between the 1 percent of the financial elitists and the 99 percent of everyone else, aggravating the problem of super inequality.

The pendulum of the business cycle keeps swinging in its own course, and we are currently moving forward from the debris of one historical crisis to a brave new world of unprecedented challenges and opportunities, thanks to the development of AI, big data, and blockchain technology, along with many other emerging technologies. It is never a better time to contemplate the relationship between technological progress and super inequality from the lens of Aspalter's General Theory of Z-Efficiency, in the hope of preventing future crises. While we cannot retreat to the stinky and ignorant era of the Medieval old days, we need a proper

[1]Quantitative Easing.

understanding of the complex and intertwining relationship between technological progress and Z-efficiency to adapt to a better new world. Does technological progress benefit everyone, or just a small handful of a few elitists? Would automation and AI reshape our workforce and render it more productive, creative, and innovative, or will it lead to a mass unemployment issue and even a deeper social crisis? What kind of financial market and financial institutions would foster sustainable growth from technological innovation, while reducing Z-inefficiency and delivering higher social well-being? We do not have answers to these questions at the moment, but I am convinced that Aspalter's general theory of Z-efficiency and super inequality has laid a strong foundation and a promising theoretical framework to tackle these issues in future research endeavors.

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