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Economic Theory of Top One Percent: Blindfolds Created by Economics

ABSTRACT

Conventional economics theory against poor and works very well for top 1%. Discussion of some central concepts reveals how this theory gives an appearance of objectivity, fairness and equity, but conceals strong bias in favor of the rich. Negative outcomes of this theory are observed at global level particularly during Global Financial Crisis (GFC) 2007-08. Frequent empirical failure of economics requires studying the real world issues and actual behavior of human beings. But economists continue to bring arguments and justifications to systematic failures. It highlights their conscious theoretical support to the narratives of top 1% at expense of the bottom 90%. It blindfolds economists towards reality, and let them consider natural human traits of cooperation, generosity and social responsibility as anomalies. On the other hand, Islamic economics defends the cause of bottom 90%. This study briefly illustrates the deceptions of ET1% in some core concepts and its contrast with ET90%. It provides sufficient evidence to recognize the hidden objectives of current economic theory.

AUTHORS

Asad Zaman
Monetary Policy Committee, State Bank of Pakistan
asadzaman@alum.mit.edu.pk

Nadia Hassan
International Institute of Islamic Economics, International Islamic University, Islamabad
nadia.hassan.economist@gmail.com

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1. ECONOMIC THEORIES ACT AS BLINDFOLD

Failure of conventional economics in several historical and empirical observations has exposed deep flaws in economic theory. Real experiments expose that deviations in human behaviour from economic axioms are far and wide. For a very long time, economists refused to take experimental results seriously, because these were in direct conflict with axioms at the heart of economic theories. However, spectacular evidence of GFC of 2007-08 make them realize this strong conflict in reality and economic theory. The failure of economic theory to provide a warning, explanation, or solution, was noted widely. Prominent economists – heads of institutions responsible for policy, such as the World Bank, International Monetary Fund (IMF), Federal Reserve Bank, Bank of England and others – said that theories currently forming the basis for policy had failed completely. This study attempts to explain how economic theories act as blindfolds, why wrong ideological commitments are persistent and what alternates from Islamic economic theory should be preferred.

Modern economic theories are based on ideology of objectivity and rationalism. They claim the axioms are self-evident, therefore; no support of empirical evidence is needed. Yet the evidence from vast empirical literature is in stark conflict with economic theories (Zaman, 2016b). In fact, these theories keep economists ignorant of the real world. As Zaman & Karacuka (2012) have argued that economic theories act as a blindfold, preventing economists from seeing basic facts about human behavior, obvious to all others. For instance, economists consider cooperation, generosity, integrity (commitments), and socially responsible behavior, as anomalies requiring explanation, while all others consider these as natural aspects of human behavior. As Sen (1977) argues rational behaviour as per economic theory is indeed very foolish.

The empirical failure of economics require studying the real world and actual behavior of human beings. In any scientific field, this approach would be the center of attention, since it matches the observational evidence about reality and human behaviour. Furthermore, the axiomatic theory, which is contradicted by the empirical evidence, would be a long forgotten idea belonging to the primitive history of economic science. Surprisingly, mainstream economic textbooks, used all over the planet, continue to teach axiomatic theories of human behavior as if they are true, while behavioral and empirical economics remain neglected and ignored. Ideological beliefs in wrong economic ideas blind economists to the facts and prevent learning which is essential to progress.

In effort to “thinking like an economist”, people are trained to behave immorally without any concern. It is supposed that rationality is good for interest of everyone and society, but outcomes are opposite in reality. For instance, rational behavior for profit maximization requires firms to produce without taking any notice of environmental damage by their production process. According to Nobel Laureate Milton Friedman (2007), it is rational for corporates to pursue gains without any social responsibility for the poor. Given this license, multinational corporations have gone on a rampage, exploiting natural resources by using methods which threaten to destroy the planet. The easiest way to make a profit is to appropriate a priceless natural treasure, like a rainforest, and chop it down for timber. Governments focus more growth without any concern to whom its benefits actually go.

Given these failures, there is urgency to reconsider and reshape the fundamental economic models and theories. But field of economics has an overall challenge of intellectual handicap. It happens if naïve observers can more easily see the obvious and important issues than the specialists (Margolis, 1982). Here we focus on how economic theory creates blind folds to the reality are created for economists.

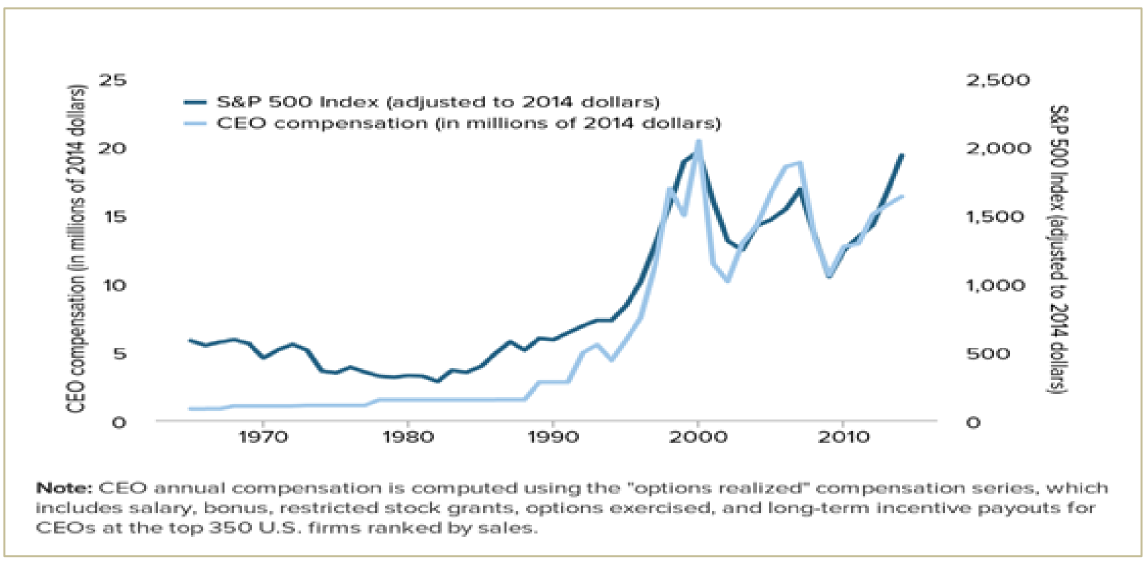
2. IDEOLOGICAL COMMITMENTS CREATE SYSTEMATIC ERRORS

Far deeper insight into the blindfolds created by economic theory is obtained when we realize that these are not random mistakes, made due to defective reasoning or neglect of empirical evidence. If the shopkeeper systematically makes mistakes which always increase the total bill, we can conclude that the mistakes are purposeful. Similarly, strong and repeated commitment of exactly the same mistakes, flying in face of all empirical evidence, reveals the deep ideological commitments which create these systematic errors. We must know why do economists maintain ideological commitments to patently false theories of human behaviour and real world? Certainly, it is not because these theories are noble and elevating but the faithfulness to undisclosed ideological motives.

Economic ideologies at macro and micro levels are meant to create inequalities. At micro level, losses from industrial waste are radically transforming the natural environment like oceans, lakes, rivers and atmosphere. It imposes cost to entire humanity by making profits for corporate coffers (Zaman, 2015). This strategy is called 'socializing the losses and privatizing the gains' with massive profits for few. For corporates it is more desirable to buy politicians to prevent environmental concerns from getting in the way. Oreskes & Conway (2010) documents a well funded campaign to create doubt about climate change, so that corporations can continue to make profits while destroying the planet (Zaman, 2018a).

Ideological problems in macro theory also create deep and increasing inequalities. Researchers (Cassidy, 2014; Stiglitz, 2016; Zaman, 2018b) and personal experiences for significant divide of 1% and 99% (Treanor, 2015) have identified that modern capital economies are characterized with rising levels of inequalities. For instance, after 1970s a rise of more than 1000% in corporate salaries compared to mere 11% increase in average workers' salaries is observed (Mishel & Davis, 2015).

Figure 1: CEO Compensation and the S&P 500 Index (in 2014 dollars), 1965-2014



Source: (Mishel & Davis, 2015)

This is closely associated with theoretical revolution happened in the field of macroeconomics during 1970s and 1980s (Zaman, 2016a). When consensus on Keynesian economics dissolved following the oil price crisis, and paved way to exploit the opportunities in favour of ideologies with concealed foundations for inequalities. This intellectual revolution was the outcome of coordinated efforts (Alkire & Ritchie, 2007) of free market proponents like Lucas and Sargent. Lucas has made several bizarre arguments using mathematical models (Krugman, 2009) such as misery of unemployment is characterized a free choice of workers to enjoy leisure. Economic theories by Chicago School focus justifying the policies that cause massive losses to general public to enrich the wealthy.

The persistence of economic theories which celebrate and glorify the poisonous ideologies of personal greed and social irresponsibility can be well traced to corporate funding of think-tanks and research which promote “free markets”[21]. The charms of “freedom” propagated by economic ideologies conceal the ugly reality of corporate freedom and wage slavery of the masses. Resolving these deep rooted issues requires to recognize the economic theory in its actual form.

3. RECOGNIZING ECONOMIC THEORY FOR WHAT IT IS: ET1%

In particular, we show that modern economics is not what it claims and pretends to be: an objective, factual and scientific description of the laws governing capitalist economies. Instead, it is actually a branch of moral philosophy, and provides a justification for the inequality and injustice built into the system, by “showing” that these are necessary for the functioning of the system, and the system itself is fair for all participants, and leads to the best possible outcomes.

Contrary to the Shakespearean claim that names do not matter, research shows that desert-dwellers recognize different types of sand using more than seventeen different names, while those who do not have these names in their language also cannot recognize these differences. Similarly, to highlight the difference among economic theories, and help recognize the one that creates these huge inequalities to favour top 1%, we label conventional economics as ET1% — *the Economic Theory of the top 1%.*

We argue that economics does perfectly what it is designed for. So, it is a mistake to think that conventional economic theory is misunderstood or wrong. Before discussing the ET1% we consider some essential roles of economic theories. Every economic policy favors some group and hurts some others. But none of the groups is powerful enough to enforce policies of their interest. Therefore, powerful groups by some means must create majority consensus to adopt policies favourable to them. Otherwise they will have to follow policies against their interest. People support a policy according to their judgments about its theoretical impact. Impact of policies is not judged according to their good and bad aspects in reality as future is unforeseen, but it is judged by the predictions of widely accepted theories (for a vivid example, consider BREXIT). Thus, the powerful elite, the top 1% are faced with the necessity of creating theories which show that policies which favor their interests are actually beneficial for all, or for a majority. Therefore, a theory is labelled to be ET1% if it shows a policy to be favorable for the majority, when in fact the policy actually favors the top 1%. Now if we consider conventional economic theory, it is easy to show that nearly all of it is ET1%. It is designed to prove that policies which favor the top 1% are beneficial for all.

Now let us consider dominant economic theories and models in the light of this analysis.

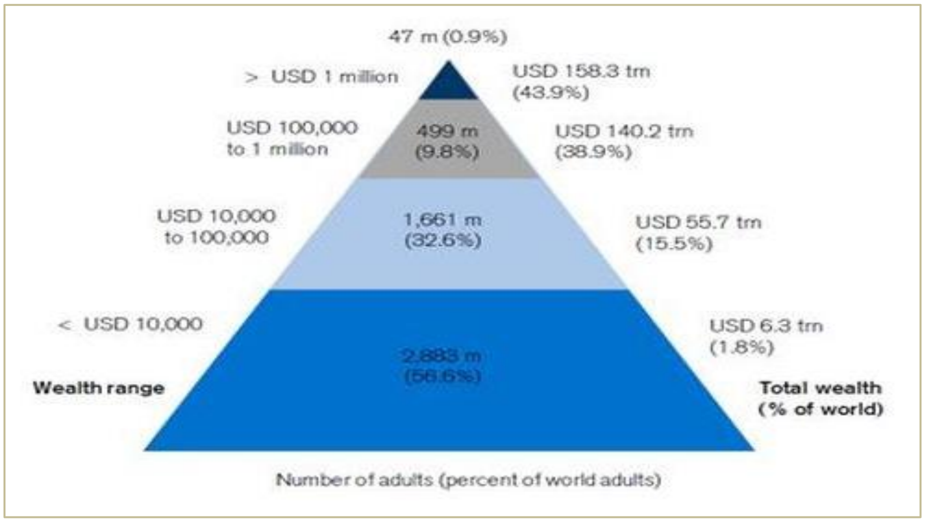
A. Consider the DSGE model, which has only ONE actor. By aggregating over all agents, we ensure that policies which favor the top 1% will appear to favor the whole nation.
B. Consider the use of GNP per capita. It has exactly this feature — a policy which creates more wealth for the wealthy will appear as beneficial for the whole nation.
C. Consider the principle of methodological individualism. By methodologically failing to consider the group of wealth owners, laborers, and other social groups, we make it impossible to discover what is happening to the economy.
D. Consider the QTM quantity theory of money. By declaring money to be a veil, we make it impossible to think about the power of money creation, and how it enriches the wealthy, at the expense of the rest.
E. Consider the Solow Growth model. It says that the best route to highest growth is by reducing consumption and increasing capital. What will happen as a result? Laborers will be starved, and surplus will be channelled into the hands of the capitalists. All this is done in the name of HELPING THE POOR, since high growth will result in enough product to enable the feeding of the poor — of course this always remains a distant goal to be achieved in the future.

[21] For more details see (Zaman, 2017a)

Many more examples can be observed. It is clear that ET1% does extremely well what it is designed to do: to deceive the majority into agreeing with, accepting, and voting for policies which actually harm their own interests, and help the top 1% get even richer.

Global enactment of defected economic policies on free market ideologies has concentrated the wealth in hands of top 1% by limiting the fortunes of bottom 90%. In existing economic structure bottom 90% face reduced income and employment opportunities with increasing cost of necessities like health, education and living conditions. At global level more than half of total wealth belongs to only 1% of the total population (Treanor, 2015).

Figure 2: Global Wealth Pyramid 2019



Source: Shorrocks, Davies, & Lluberas, *Global Wealth Databook 2019*

Seeing the unjust outcomes of economic system in place has created discontent in bottom 90% and they desire to bring radical change in form of Brexit and Trump. However, fundamental change requires to address the root cause of the problem, replacing defective ideology based economic theories with more empirical and evidence based theories.

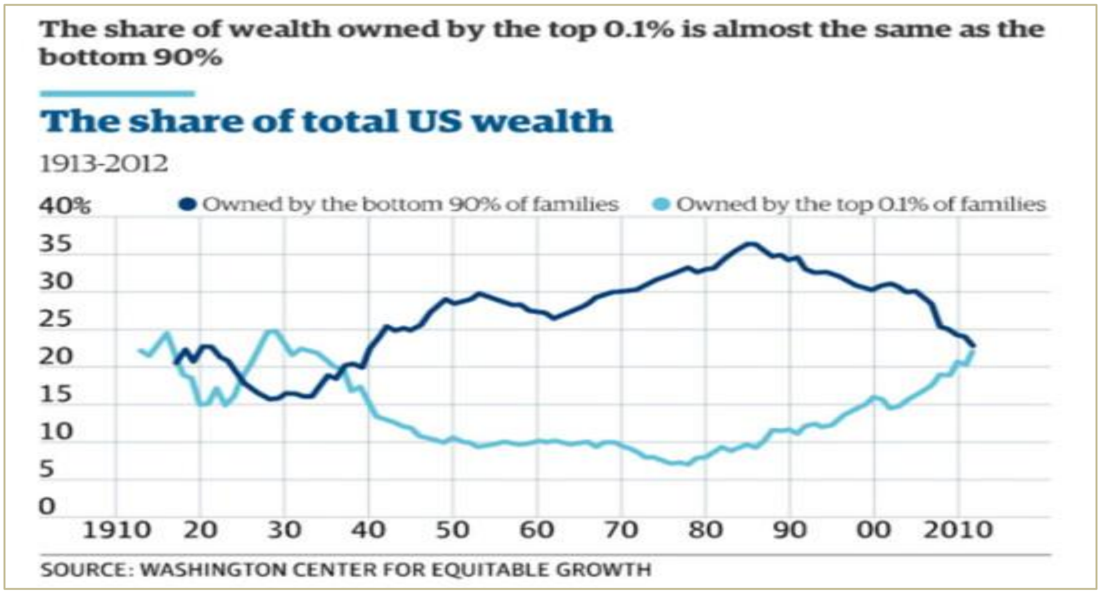
4. DECEPTIONS OF MODERN ECONOMICS

We have highlighted the basic principles for using economic theories to develop policies. That shows how general public is deceived by the top 1%. Note that the number 1% is sued metaphorically; the actual number of people who benefit massively from capitalism is far less. According to recent OXFAM (2016) statistics, about 60 people own more than half of the total wealth on this planet.

If focus on policy eras, inequality between bottom 90% and top 0.1% is continuously rising in the periods of free market regimes. Top 0.1% owns as much wealth as owned by the bottom 90%. There are many more cases to witness these gaps[22].

[22] See Treanor (2015) for details.

Figure 3: Share of wealth by top 0.1% and bottom 90%



In any case, the number of people at the top is too small to enable them to establish favorable political and economic systems by force. Instead, they rely on persuasion and adopt strategy to create theories which become widely accepted by the vast majority, which present the economic system as necessary, just, and efficient. As Marx (1902) recognized, capitalism works not by force, but by persuading the laborers of the necessity and fairness of their own exploitation. In this process of persuasion, the middle 9%, including especially the intellectuals and the academia, play a crucial role. The educational institutions train and tame the populace into accepting injustice as a natural part of the system. Those who participate in this process of indoctrination are duly rewarded by being allowed the perks and privileges of managing the entire system on behalf of the elite 1%.

Mazdak was an ancient Persian prophet/philosopher who preached against private property and argued in favor of communal ownership of all resources. This would obviously appeal to the poor, who would thereby acquire a share of ownership in the palaces, wealth, and luxuries of the rich. However, the practical effect of the philosophy was the opposite of this egalitarian dream. The rich and powerful were able to defend their properties, and also were able to occupy and take over the property – including wives and children – of the poor, because they had the power to enforce their will upon others. The philosophy provided a cover for their actions because it deprived the poor of their rights to their own property. This is exactly how ET1% works: by appealing to the poor, while working against their interests.

One implication of this is that ET1% must have the appearance of fairness and objectivity – that is the only way it can be persuasive to the bottom 90%. However, hidden beneath this appearance must be the reality that the theory is extremely favorable to the interests of the super-rich. Thus, by definition, ET1% is deceptive.

5. ET1% VERSUS ISLAMIC ECONOMIC THEORY—ET90%

In contrast to ET1%, Islamic Economics champions the cause of the poor, and can be called as ET90% — the economic theory of the bottom 90%. Below, we illustrate how these two theories are diametrically opposed to each other in the context of some core concepts of modern economics. We do not claim that this list of deceptions is complete – there are many more ideas which are misleading. However, an understanding of how these concepts, listed below, are used to deceive the public will provide sufficient evidence for our central thesis that economic theory should be recognized for what it is: ET1%.

We now discuss briefly, how each of the concepts listed here satisfy these criteria, concealing a strong bias towards the rich hidden within an attractive framework which would appeal to all.

5.1. Scarcity

One of the tactics to create mass deception about theories is to separate different elements of knowledge and create illusions. One such element is binary theory of knowledge that requires a theory either to be true or false. This approach excludes historical context of theories and their functions. Hiding this context in social disciplines work as Weapon of Mass Deception (WMD). Here we briefly analyse the one such concept, scarcity that is at the heart of conventional economic theory.

Scarcity was made central to economics by Robbins (1932), who argued that resources are limited to fulfil the needs and wants of all humans. Therefore, we must look to expand our resources and pursue economic growth. This apparently simple factual statement have hidden beneath the interests for top 1%. In fact, three separate normative principles are built into the hidden foundations of scarcity. We bring out these hidden foundations here.

5.2. No Distinction in Need and Wants

First, ET1% eliminates needs and wants distinction. It treats needs and wants as being on par; for example, Samuelson and Nordhaus state the economists must strive to satisfy all needs and wants, whether they are genuine or artificial. This means that the desire of the millionaire for an alligator skin briefcase worth $10,000 dollars takes precedence over the demand of poor hungry children for milk and bread, since there is no money backing the latter demand.

Global data shows steady increase in food supplies per capita, that rejects Malthusian argument of higher population growth than food supplies. As Gandhi quotes, “There is enough for everyone’s need, but not enough for everyone’s greed”. Currently sufficient resources are available on the Planet to amply care of everyone’s necessities of food, clothing, housing, education and health. But concentration of wealth and resources by some is creating scarcity for others. Expenditures to treat scarcity are enough to provide for all the hungry on the planet. This illustrates that scarcity is not due to lack of resources but due to excessive spending and concentration by others. So, growth is not the solution to this deception. Furthermore, while genuine needs are satiable, and there is no shortage of resources to provide for all needs, wants are unlimited, and expand as they are fulfilled.

ET90% is guided by Islamic principles and prohibits fulfilment of idle desires. According to this, genuine needs must be distinguished from, and given priority over, artificial wants. Thus, the fundamental problem of economics should be: how can we fulfil the (finite, satiable) basic needs of the entire population, rather than attempting the impossible task of trying to fulfil the insatiable wants of those with wealth, especially since these wants keep increasing as they are met.

5.3. Focus on Growth Rather than Distribution

Second, problem about scarcity theory is focus on growth rather than distribution. By pointing to shortage rather than excess wealth in the hands of the top 1%, scarcity points us in the wrong direction regarding how to solve the economic problem. It suggests that we need to have additional resources, in order to be able to feed the poor. This ignores the fact the we currently already have enough resources to feed the poor, so the solution must lie elsewhere. It also ignores the fact that amazing growth has taken place over the past century, but the number of the poor has only increased, rather than decreasing. This is because the majority of the fruits of growth are captured by the rich and powerful, rather than going to the poor. For instance, recent research shows that 85% of the gains in growth have been captured by the top 1% over the past decade, while the bottom 50% have not gained anything (OXFAM, 2018). Sen's (1982) analysis reveals that famines are caused by lack of “entitlement” of the poor to food, rather than lack of food. Hickel (2019) argues that capitalism must massively overproduce, and to sell this excess production, it must create the feelings of scarcity using advertising and other techniques to make people unsatisfied with what they have, so that they are persuaded to buy more goods. Thus, SCARCITY is created by capitalism.

Thus, it is not scarcity, but the libertarian social norms of absolute rights to property, which need to be changed, to solve the problem of poverty. The fundamental normative choice which must be made is the following: which of the two takes precedence, the right to property or the right to food and basic needs? Economists have sanctified the right to property over the right to food in the form of the Pareto Principle, and assert that we cannot say whether welfare would be improved if we take wealth away from the ultra-rich in order to feed the hungry. However, there are many ways to argue that the right of the poor takes precedence. For example, Cooter & Rappoport (1984) argue that we can use objective measures of well-being to show that transfers of superfluous wealth of the super-rich to those who need it would lead to increased social welfare. Cardinal utility allowed for this type of reasoning, but ordinal measurement led to the idea that we could not compare welfare across persons, which violates both intuition and social consensus to the contrary. We base a counter to ET1% on this idea.

According to ET90% the responsibility of society to take care of basic needs of all members takes precedence over the right to property of the wealthy. This principle is firmly endorsed by Islamic Economics. The Quran states that the poor have a right in the wealth of the rich, creating the "entitlement" that is identified as the key to prevention of famines by Amartya Sen. The cause of scarcity is the "stoppage" of the circulation of wealth, as commanded in the Quran. When the wealthy concentrate wealth in their banks, instead of allowing its free circulation, they prevent it from reaching the hands and mouths which need it. Islam offers a two pronged carrot and stick approach to the root problem which creates scarcity:

1. The compulsory payment of zakah at the rate of 2.5% ensures that a small part of the wealth concentrated in hands of the rich should reach the poor.
2. In addition, generosity is recognized and praised as a virtue, and the rich are encouraged to spend excess wealth on others who are needy.

It is well known that human behavior is strongly motivated by social recognition (C. F. Camerer, 2011), and so recognition and praise for generosity create such behavior, which is an essential component of the solution to our economic problem. In fact, as explicitly recognized by Polanyi (2001) and Himmelfarb (1984), the market society creates poverty as a social problem by removing the entitlement of the poor to social support, so as to create a labor market. This requires changing social norms so that selfishness and greed become praiseworthy, while generosity become irrational sentimentality. Solutions to problems of poverty require recognition of the subtle inculcation of pro-property and anti-poverty norms, without explicit mention, in ET1%. This conforms exactly to the necessity of deception to fool the poor into supporting ideas which favor the wealthy, which is the hallmark of ET1%.

5.4. Scarcity Versus Abundance Thinking

A diverse literature has emerged from different sources which identifies scarcity as a way of thinking, rather than an objective condition. This is the familiar issue of whether the glass is half full or half empty. The insights from this literature conform to the Islamic view that "True richness is the contentment of the heart". A rigorous analysis of how the psychology of scarcity affects our behavior and decisions, is given by Mullainathan & Shafir (2014).

A conscious decision was made in Western societies to encourage greed, so as to create the accumulation of wealth. For instance, Keynes said that:

"*—For at least another hundred years we must pretend to ourselves and to everyone that fair is foul, and foul is fair; for foul is useful and fair is not. Avarice and usury and precaution must be our gods for a little longer still. For only they can lead us out of the tunnel of economic necessity into daylight".*

Keynes believed that sufficient would remove the problem of economic necessity, and lead to economic bliss. However, both empirical evidence and Islamic teachings show that this is not true. Surveys of millionaires show that they do not feel they have sufficient money for economic security. The Easterlin (1995) paradox shows that massive amounts of growth has not led to increased happiness. The reasons are simple. As wants are fulfilled, more are generated, since people seek to improve upon the average level of consumption. As stated in Islamic teachings, if you give a man a valley of gold, he will desire another one. Nothing will fill his stomach except the dust of the grave.

Once the psychological nature of scarcity is understood, the remedies for the problem take a radically different shape from those currently being pursued all over the globe. The following measures to handle scarcity are all in harmony with Islamic teachings and would form the basis of an ET90% designed to oppose ET1%.[23]

1. Encourage Abundance thinking. For example, the Quran says that the Lord has provided bountifully for all.
2. Prohibit envy, and prohibit conspicuous consumption — both of these steps are contained in Islamic teachings.
3. Prevent excessive consumption (called israf and tabzeer in Islamic teachings) and encourage simple standards of living. This will prevent the rat-race for ever increasing living standrads, wihch causes harm to all.
4. Encourage gratitude for the blessings we enjoy, and the feeling of contentment. Encourage generosity, which creates the feeling of abundance.
5. Encourage social responsibility for each other, fostering cooperation and community, which creates social networks which are the source of comfort and support, creating psychological security.

5.5. Pareto Efficiency

We call the concept of "Pareto Efficiency" a swindle because it encapsulates a normative principle that property rights of the wealthy take precedence over the right to basic needs of the poor. However, it is disguised to have an appearance of scientific objectivity, while the opposite normative preference, which most people have, is said to depend on subjective and unreliable value judgments.

The principle of Pareto efficiency has a harmless and innocuous appearance. Who could object to the idea that if we give more material goods to everyone, then the society as a whole would be better off? However, we will show that Pareto Efficiency is deceptive and fully qualifies for the label ET1%. It appeals to everyone when we say that increasing social welfare requires giving more goods to all. But the hidden consequence of accepting this principle is that you cannot take wealth away from the super-rich to give to the hungry, because that would decrease the wealth of the super-rich. It also provides moral cover for increasing inequality, as we shall see. It also protects property rights against the taxation required to fulfil social needs of the poor.

5.6. Protecting the Rich from Re-distribution

Like the dog who did not bark, the Pareto principle protects wealthy not by what it says, but by what it refuses to say. While increasing wealth of everyone increases social welfare, assessing welfare impacts of redistribution requires interpersonal comparisons of utilities, which is stated to be unscientific. Without explicit mention, this legitimizes status quo (existing property rights), and puts them out of reach of any questions.

[23] For a more detailed discussion of Scarcity from an Islamic perspective see (Zaman, 2010). For a secular discussion of how the concept of scarcity appears objective, but conceals within its framework three different questionable normative judgments, see (Zaman, 2012b).

A key element of the Pareto principle is that utilities cannot be compared across people – interpersonal comparison of utilities is ruled out. Earlier, using the principle of diminishing marginal utilities, it was possible to argue the wealthy derived less pleasure from their last dollar, while the poor would derive much more, justifying re-distribution. Against this, Pareto (1971) argues that we cannot compare the utility/pleasure derived by aristocrats with refined tastes, and the utility derived by the coarse and crude peasants. Of course, this apparently fair, objective and neutral refusal to compare, conceals a preference for the wealthy. Clearly, the Pareto principle can be, and was used to prevent taxation of the rich to support the poor. When the status quo is one where the aristocrats have five course meals, while peasants eat coarse bread, refusal to compare amounts to supporting the status quo, and arguing that social welfare would decline if we took from rich to give to the poor. The Pareto Principle is used by economists today in the same way – to prevent moves to re-distribute wealth in an equitable way. It does not allow us to take away luxuries from the rich to distribute food to the starving. Thus, it serves as an ideology which favors the wealthy. This is the general characteristic of ET1%, that these theories appear to be fair and equitable, but conceal strong support for the wealthy. We can oppose this principle by an alternative which would be part of an ET90% – an economic theory for the public.

ET90%: *A transfer which does not reduce access to comforts for the wealthy, while creating access to essential needs for the poor, improves social welfare.*

As stated, the principle is somewhat vague and imprecise. There are many ways to sharpen it so that it would command greater consensus. Taking the usual classification of consumption into necessities, comforts, and luxuries, we could argue that taking luxuries away from someone to provide life-saving medical treatments, or to meet essential minimal nutritional requirements, would improve social welfare. This involves accepting the normative principle that the right to live takes precedence over the right to property. It should be obvious from the discussion that the Pareto Principle upholds the reverse normative principle: the right to property of the wealthy takes precedence over the right to live of the poor. However, more important is the fact that this normative position is hidden within an apparently objective framework. This concealment prevents and open debate and dialog which could generate consensus on the relative importance of property rights over the basic needs of the population. Such a consensus would undoubtedly be harmful to the interests of the wealthy, so the Pareto Principle creates an obstacle to open dialog about this by creating a false impression that the matter has already been settled in a scientific and objective manner, without any need for social consensus.

Islamic ideas of social responsibility strongly advocate the principle that wealth may be taken away from those who have an excess and given to those in need. Islamic principles regarding re-distribution work at three levels. Compulsory re-distribution in the form of Zakat is mandated at 2.5% of wealth over a specified minimum. This is specifically meant for the poor. Additionally, the Quran (70:24,25) states that the poor have a right in the wealth of rich. Islamic scholars have traditionally understood this to mean that if Zakat is insufficient to provide for basic needs of the poor, additional redistribution must be done, to the extent required. In addition to these compulsory, and semi-compulsory measures for re-distribution, Islamic teachings are full of encouragements and exhortations for the wealthy to spend on the poor. Historically, this has been effective in generating large amounts of charitable spending among the Muslims. Many recent studies show that even today, Muslims are more generous than others in same income group. We can encapsulate this discussion in the form of three principles which would be part of Islamic Economics, viewed as ET90% — the economic theory of the people:

1. A small percentage (2.5%) of the wealth is the right of the poor, and must be redistributed.
2. When the basic needs of the poor exceed the resources available, additional levies can be made on the wealthy to ensure that all such needs are met.
3. Social norms of generosity, and collective responsibility for the needs of all, are encouraged to create an atmosphere of cooperation, community and charity, leading to large scale voluntary expenditures by the wealthy on those who are needy.

5.7. **Power Corrupts**

Contrary to the Pareto Principle, Islam teaches us that increase in wealth is not always a good thing.

And as for man, when his Lord tries him and [thus] is generous to him and favors him, he says, "My Lord has honored me." (Quran, 89:15)

Wealth in excess of our needs is perceived as a gift and an honor, but it is actually a trial. If excess wealth is used in good ways, then it becomes a blessing. But excess wealth creates power, and the potential for abuse of power. For example, the Quran (42:27) states that

And if Allah were to enlarge the provision for His servants, they would surely rebel in the earth.

The Quran gives many examples of people, like Qaroon, and nations, like the 'Ad, who abused the power created by wealth, using this power to exploit, oppress, and cheat others. As a nation, the Muslims are also warned against the soul-destroying effects of wealth:

Amr ibn Awf reported: The Messenger of Allah, peace and blessings be upon him, said, "*By Allah, it is not poverty I fear for you, but rather I fear you will be given the wealth of the world just as it was given to those before you. You will compete for it just as they competed for it and it will destroy you just as it destroyed them."* (Ṣaḥīḥ al-Bukhārī, 2988)

According to conventional economics, more money and more consumption always increases welfare, and this is the basis for the Pareto principle. However, Islam has a far more sophisticated and complex view of this matter. Excessive wealth can be beneficial if it is used correctly, and can be harmful if used incorrectly. There are many ways to abuse excessive wealth which are actively discouraged in the Quran. The following principles form part of Islamic Economics (ET90%), which prohibit use of wealth in ways that cause harm to the general public:

1. Excess, wasteful and prodigal consumption – called Israf and Tabzeer – is prohibited.
2. Conspicuous consumption, designed to cause envy in others, is prohibited.
3. Wealth creates power. This power is to be used to help the oppressed, rather than to oppress. Wealth in excess of needs should, voluntarily, be given to those who are in need.
4. Spiritually, we are required to understand that the wealth we have is a gift and a trial from our Lord, rather than something we have earned due to our own intelligence and struggle.

5.8. Supporting Increasing Inequality

The Pareto Principle can also be used to argue that increases in inequality and concentration of wealth are socially beneficial. While typical economists shy away from examining this implication, Feldstein (1999:34) has no qualms about spelling it out: "I am interested only in evaluating changes that increase the incomes of high income individuals without decreasing the incomes of others. Such a change clearly satisfies the common-sense Pareto principle: It is good because it makes some people better off without making anyone else worse off. I think such a change should be regarded as good even though it increases inequality."

Whereas the Pareto Principles supports increasing inequality by increasing the wealth of the already wealthy, the Quran tells us otherwise. The Quran (59:7) informs us that wealth should not be allowed to concentrate in the hands of the rich; instead, we should distribute it to the deserving parties, including the orphans, the needy, and the travellers:

Whatever Allah has bestowed on His Messenger belongs to Allah, and to the Messenger, and to his kinsfolk, and to the orphans, and to the needy, and to the wayfarer; so that it may not merely circulate between the rich among you.

The reason for this caution has already been explained in verse (42:7) cited earlier: if we increase the wealth of the already wealthy, they will have greater power and will cause greater damage – for instance, increased corporate profits have enabled them to buy politicians, and pass laws enabling them to destroy the planet for a profit. The mass hallucinations created by modern economics depends on preventing the public from realizing the obvious connections between wealth and power. Because economists are not allowed to look at politics, the primary cause of the increasing inequality today cannot be understood, leading to a large, confusing, and misleading literature on the topic of increasing inequalities in wealth and income. For instance, see Piketty's famous book, Capital In the 21st Century, which focuses on technical details of how the wealth of the wealthy increases faster, without coming to grips with the underlying structures of power which enable this.

To oppose increasing inequality and concentration of wealth, an Islamic Economic system could incorporate the following principle, based on verse 59:7 above

1. Wealth should circulate freely from those with excess to those in need, using the mechanisms (both compulsory and voluntary) indicated above. This is to be achieved by regulations targeted at institutional, social, and personal levels.

As we have seen, the Pareto Efficiency principle hides within an apparently objective framework, a strong bias towards the wealthy. This is built on the idea that more wealth is always better. The objection that the additional wealth may only be better for the wealthy is handled by an indifference/preference for inequality, coupled with an appeal to the trickle-down effect. All of these ideas are strongly in conflict with many Islamic teachings to the contrary.

5.9. The Invisible Hand

Amir-ud-Din & Zaman (2016) has quoted and refuted Mankiw's argument that: "The reason for excellent functioning of decentralized market economies is that all participants are motivated by self-interest. This self-interest works better than love and kindness in terms of promoting social welfare."

What a monstrous statement! How can any human being think such thoughts? This is what comes from cutting off human experience as a source of knowledge (Zaman, 2018d), removing hearts from bodies, and leaving only brains floating in vats as a the sole source of knowledge. Our hearts — in their pure states –would revolt at the oxymoron of a *society* based on selfishness. However, contamination by the poisons of economic theory[24] and positivism[25] leads to the blindness to sources of human welfare[26] displayed in the Mankiw quote. In earlier times, *A Christmas Carol* of Dickens (1843) was sufficient as a reminder the wealth is not a measure of welfare. However, modern times reflect modern mindsets, which convert greed and wealth to desirable virtues, as reflected in the Disney version of Uncle Scrooge. So, sadly, it becomes necessary to argue on logical grounds, appealing to brains in vats, instead of appealing to the heart.

First, let us note that "excellent functioning" just means maximization of wealth, and "social welfare" is also measured by the amount of wealth owned by society. At the individual level, the end-of-life psychiatric disorders of Howard Hughes have been the subject of numerous books and articles (Dittmann, 2005). Would anyone consider that the billions he made pursuing profits in a market economy created greater social welfare for him than love and kindness would have? What is true at an individual level is also true at a social level, the Easterlin Paradox shows that massive gains in wealth in societies have not caused corresponding increases in happiness (Easterlin, 1974;1995). This is true both in time series for

[24] See Zaman (2016).
[25] See Zaman (2015)
[26] See Zaman (2018)

single countries, and for cross sectional studies across countries. As detailed and careful studies show — there is no long run relationship between happiness and increases in GNP per capita. Because this finding threatens the foundations of economic theory, economists have challenged it on many different grounds. In a review of these critiques which re-affirms their original findings, Easterlin et al. (2010) have shown that, they do not differentiate between short and long run. The Easterlin Paradox is more accurately stated as – money does buy happiness in the short run, but not in the long run. This is exactly in accordance with what I attribute as "*The Coca-Cola Theory of Happiness*" — Coca-Cola does buy happiness in the short run, but is not the formula for long run happiness (Zaman, 2018b).

Evolutionary biology has now discredited the idea that the survival of the fittest requires selfishness and competition; cooperation and generosity leads to evolutionary success (University of Pennsylvania, 2013). It is almost obvious that groups would be strengthened by cooperation and generosity. There is no question that we would all prefer to live in a society based on love and kindness, instead of living in jungle ruled by survival of the fittest. If "social welfare" is understand properly, instead of being reduced to a quantity of money in the bank, it is clear that love and kindness would work much better at promoting social welfare.

Why then have economists in the twentieth century insisted on attributing a mis-interpretation of the invisible hand to Adam Smith (Zaman, 2017b) and have made this the central pillar of modern economic theory? The answer lies in ET1%: the necessity for the top 1% in democratic societies, to invent theories which appeal to the bottom 90%, while actually favoring the rich and powerful. The Invisible Hand asks us to let everyone do whatever they want, since it will all work out to the best for the entire society. Even if the rich and wealthy appear to be exploiting others, the invisible hand will make sure that their greed is harnessed for the welfare of the society. The only way to make sense of this nonsensical message is to understand it as a clever piece of propaganda which supports the interests of the rich and the powerful, by identifying these interests with those of the society as a whole. This is very similar to the "trickle-down" theory, according to which enriching the wealthy will (eventually) bring benefit to the entire society. Even though it is easy to demonstrate the failures of the invisible hand both empirically and theoretically, this theory dominates the pages of the modern economics textbooks. This demonstrates the main theme of current study; modern economic theory is meant to blindfold students to the tremendous advantages the capitalist system confers on the tiny minority of the rich and wealthy, the 1%. It systematically distorts our vision and mindset to cause the tremendous inequities of the system disappear. See Zaman (2012), for further explanation for how, with repeated use, a metaphorical usage becomes conflated with reality in the public mind. This is extremely beneficial for the 1% as it allows them to create myths which protect their interests and have them accepted as truths in the form of modern economics. This illustrates the Power/Knowledge thesis of Foucault (1980).

5.10. GNP per Capita

Observations of the real world massively contradict trickle-down theories, so economists generally do not admit to believing this idea that further enrichment of the wealthy will lead to prosperity for all. Nonetheless, trickle down is built deeply into the foundations of modern economics. The greatest illusion fostered on the un-suspecting public is that GNP per capita is the best measure of economic growth. The use of GNP per capita as a measure of growth is equivalent to the assumption of a trickle-down effect. The "per capita" means that this statistic is calculated by dividing total national income produced equally among all the people in the country. Unfortunately, the reality is starkly different from this fairy tale statistic, which assumes equal distribution of income. Since the 1980's, an increasing share of all the income produced in the world has been going to a small elite minority within the top 1%. The starkest demonstration of this inequality is furnished by the recent research which shows a fifteen year gap in life expectancy between the richest 1% and the poorest 1% in the USA. Similarly, OXFAM (2016) published statistics showing that the bottom half of the world lost a trillion dollars, while the top 62 people, who own more than half the planetary wealth, gained half a trillion. The statistics furnish strong evidence for a vacuum cleaner effect: a powerful suction of wealth from the bottom to the top. This vacuum cleaner effect means that the GNP per capita furnishes an excellent demonstration of the famous aphorism: “Lies, Damned Lies, and Statistics.” This statistic is not just misleading, it is deliberately deceptive, and directs attention away from issues which are essential to progress and development. It is a brilliantly crafted piece of propaganda in that it misleads people by measuring a fairy tale number: what would happen if we took all the national income and divided it equally?

Famous economist Robinson (1955) said that “The purpose of studying economics is not to acquire a set of ready-made answers to economic questions, but to learn how to avoid being deceived by economists.” One of the major weapons of mass deception in the arsenal of the economists is the GNP per capita measure. In the battle of ideas, achieving widespread acceptance of the idea that GNP per capita is the main measure economic progress has been a major victory for the wealthy. One cannot oppress the majority of the population without achieving their consent in some measure. False measures of progress are a key to victory. Today, governments all over the world are measured by their achievements in rate of growth. A thousand crimes are forgiven at the altar of growth, while tremendous accomplishments are ignored if growth is slow. Making GNP per capita the center of attention ensures that no one pays attention to where all this growth is going, which is in the coffers of the already wealthy.

It is very worthwhile studying the propaganda tactics used by economics textbooks to get innocent students to believe in absolutely incredible myths about how the economy works. In the entering class of graduate students in the Ph.D. Economics program at Stanford, most of us were motivated to study economics in order to solve the major economic problems we could see around the globe. We wanted to help solve problems of poverty and create better lives and prosperity. During the course of our studies, we were taught to believe that free markets solve all economic problems automatically, and the main economic problem is do-gooders (like us) and governments, who wish to help. If everyone would pursue their self-interest, it would automatically lead to the best economic outcomes for all. The ideals of serving humanity were washed out of us and replaced by the pursuit of personal ambitions. Nelson (2012) has beautifully captured this brainwashing process. She states people would act in socially responsible ways but are pushed by the economic theory of self-interested utility maximization to believe that it is permissible to be irresponsible, opportunistic, and selfish in when participating in markets. She describes the large number of ways that economic theory counters natural moral instincts, and the tremendous harm that has resulted to societies as a result of this immorality taught by economics.

Among the propaganda tactics used for this brainwashing, of the most powerful ones is the creation of a single minded focus on GNP per capita as the primary goal of economics. Every effort is made to ensure that economics students do not pay attention to distribution, so that the rapid and increasing income inequality, and the vacuum cleaner effect created by blind pursuit of growth, does not come to their attention. For example, Nobel Laureate Robert Lucas (2004) writes that: “of the tendencies that are harmful to sound economics, the most seductive, and in my opinion, the most poisonous, is to focus on questions of distribution.” Students can go through entire courses with the deceptive titles relating to Income Distribution, Inequality and Poverty. These courses go through a lot of mathematical material on how to measure inequality, and descriptive empirical material, but implicitly teach students to regard these as natural features of an economy. There is underlying message of indifference: inequality does not matter, and the best way to combat poverty is through economic growth. The use of the GNP per capita measure helps sustain these myths. The rapid transfer of trillions from the bottom billion to the top 100 people will not show up in the GNP per capita statistics.

It would be a critical victory for the bottom billions if we could shift the focus of the debate from GNP per capita to measures of poverty and employment. Before the well was poisoned by economic theories, it was clearly understood by all that it is our collective social responsibility to provide for education, health, jobs and social welfare needs of all members of society. If these statistics made the headlines, and governments were held responsible for improvements in the incomes earned by the bottom 25%, instead of the top 1%, there would be a significant change in policies. However, such changes will be strongly resisted by the wealthy, who benefit from widespread poverty in many different ways. This creates a wide pool of labor available for ready purchase to those who have the money. It is this money of the wealthy which drives think-tanks, research organizations, and universities to produce tons of research supporting the use of GNP per capita as the primary target of economic policies. Many have recently raised voices against the numerous deficiencies of this measure, most notably the Stiglitz, Sen, & Fitoussi (2009) report which includes two Nobel Laureates among its authors. Deficiencies include neglect of damage to the environment, society, and many other issues which directly affect well-being of all members of the society.

Unfortunately, while the gears of the statistical machinery are well-adapted to measuring GNP per capita, they have not been designed to measure the things which matter. One can only get shoddy and incomplete data on measures of inequality, unemployment, education and health which are of critical importance in assessing the welfare of nation. This is actually important to conceal the realities which would lead to revolt against the exceedingly unfair system. For instance, recently researchers stumbled across an amazing statistic related to white US Middle class (John Cassidy, 2015). In contrast with nearly every other social group, the life expectancy of this group has been rapidly decreasing. Why? It seems that the primary cause is suicide, either direct, or indirect by means of alcohol and drugs. As somebody remarked it is depressing and sad statistic. The question, why was this discovery accidental? A good set of statistical indicators would have picked it up right away, so that steps could be taken to cure the problem The answer is that inequality, misery, poverty are actually beneficial to a small number, who have learned to enjoy the benefits of creating crises which leave millions homeless while the financial elites reap trillions from the catastrophe. For them to create the consensus necessary to implement these cruel policies requires projecting certain types of statistics while hiding others from common view. Deaton (2015) remarked that all statistics are political. Simply a display of the statistics related to social welfare of the public would be remarkably useful in the battle for justice. But it hard to prevail against status quo and ignorance.

5.11. Private Property

There is almost no meaningful discussion in current economics textbooks on the institution of private property and its alternatives. This system is based on neoclassical theory that assumes possession of certain endowments by all agents in the economy. Shared resources and common properties are supposed to create externalities and distortions in the system. These were already ruled out for consideration in the models even in the simpler form. But this theory does not explain how the agents acquire the possession to their endowments. Neither it discusses if the society can and should explore solutions to economic issues by pooling the resources. Recently, interest of economist in this institution is renewed after extension of private property beyond its typical form, ‘land’. On this Dragun's (1987) survey provides useful insights. It is obvious that no social science theory is possible to understand out of its historical context. So, we overview some of the crucial historical changes that developed the current social norms of private property.

Locke (1690) is leading architect of modern theories of property rights. These theories are his major contribution to modern political thought and used to provide philosophical foundations for capitalists even today. He argues that property rights are included in basic human rights. Governments are formed by majority support and are compelled to protect the rights of its citizens. For instance, he asserts: “The reason why men enter into society is the preservation of their property”. Secular political ideology aims to provide common rule of law for peaceful existence of people with different religions and individual freedom is central to achieve this goal. This system provides maximum religious freedom to diverse rules after ensuring their compatibility with social order. There is no initial constraints faced for development of a social contract, consensus of people for any set of rules is sufficient to serve them. So, it is odd to keep property out of subject of social contract. Our negotiations about common rules usually do not include the idea of private property. Locke (1690) states that people in social contract "cannot intend to give any one or more an absolute arbitrary power over their persons and estates, and put a force into the magistrate's hand to execute his unlimited will arbitrarily upon them". He emphasized that "persons and states" must be protected from the power of legislators and their will. Any resistance against estate is as justified as it is against other persons.

It is important to consider the historical events that led Locke's theory to become most dominant and remove all alternative views in England. Back then, wars among rulers on conflicts were common and frequent, winners used to award properties of losers to their supporters. This system had a turning point after Cromwell's rebellion that founded a continuously increasing power of elites in the society against monarchs. They secured property rights of owners from abstract award of lands by their rulers. Power structure of private land rights made it the leading theory of property rights. Religious and political conflicts in post Cromwell times brought social revolution for 'enclosures' and privatization of estate owned properties (Tawney, 1926). Modern theories of private properties have emerged from the 'enclosures' of common lands (Kogl, 2005). History indicates conscious political commitment to private properties that eventually leads to scarcity and deprives bottom 90% of public and common resources (Zaman, 2012b). Polanyi (1944) describes Enclosures as revolution of the rich, against the poor that turned decent people into beggars and thieves.

Cultural norms play an important role in defining property rights, even the private property theory is normative, not completely positive as it appears to be. Here we explore some alternates to private property and potential solution to ET 1%.

The notion of common properties is one such alternative. For example, Cherokee constitution declared to keep their lands as common property. Societies that follow the norms of sharing public resources have no or much less frequent scarcity. Anthropologists also validate this stance and find almost no evidence of starvation in subsistence societies with strong sharing norms. It is argued that society as a whole has sufficient resources and able to feed and provide for basic necessities to everyone (Kogl, 2005). This view is completely opposite to norms of current economic theory for private property. It follows the idea of Pareto principle that considers right of a property is superior to the right of life. If a poor is dying of starvation, the rich has no obligation to provide him food from his private property (Zaman, 2012b).

In communist societies means of production are in public ownership and providing everybody according to their needs is an ethical obligation. In such societies, central economic problem is not to earn more but to incentivize workers and ensure high productivity. Recent literature also confirms that labor productivity is improved far more by non-monetary incentives (Ariely, 2008).

ET90% has a more balanced approach to define the private property rights. It discusses how it is endowed to individuals, what is the nature of ownership and what are the rights of poor people. The ultimate ownership of all properties belongs to Allah (Quran, 11:284). Individual is granted as a gift from Allah, but the ownership is like trust and management. ET90% accepts and respects the individual rights to keep ownership of property individually and benefit from it only by lawful means. Under this condition, owner is encouraged to extract benefit for himself, his family and society from the property. Islamic theory gives right to poor and deprived in the properties and wealth of the rich. As described in Quran (70:24–25):

"And those in whose wealth are a recognized right for the needy who asks and him who is prevented for some reason from asking."

It encourages spending on poor and declares it a moral duty to care for the needs of others in the society. An individual is accountable if he accumulates wealth while people are starving. In this theory extraction of maximum benefits from properties and its distribution according to needs of everyone is centre of economic problems. That is resolved by generosity and providing for needy and poor.

5.12. Utility Maximization

Modern economics defines theory of consumer behaviour on the basis of utility maximization principle that is derived from views of Lionel Robbins. According to him a theory is logically deduced from simple hypotheses about indisputable facts. These facts are observed from our experiences in the real world. However, significant evidence is found in literature against the idea of simple and indisputable facts (Soman, 2004). Real experiences reveal that human behaviour is in conflict with these facts. Though economists continue bringing arguments to explain and resolve these conflicts. Here we discuss few such narratives created by ET1%.

Current economic theory presents a ridiculously strange purpose of life i.e. to maximize the pleasure from consumption. It is argued that higher level of welfare is obtained by more consumption. Although this illusion is exposed by Esterline, economists struggle to counter the paradox and justify theory. In fact, consumption is means to maintain the life not the purpose of life neither it gives lasting pleasure. Happiness and fulfilment are attained by pursuits higher than consumption. This was realized by Haq (1995) and Sen (2000) and they proposed alternate theories of human development and happiness.

Utility maximization predicts selfish behaviour of humans. Game theoretic solutions derived from rationality assumption are claimed obvious in many situations. For example, betrayal is dominant strategy irrespective of what others do in games like Prisoner's Dilemma and Ultimatum game. But intuitively it doesn't seem sensible for all players to betray and get low pay offs or nothing. Evidence from experimental studies approve this intuition and confirms more cooperative behaviors (Camerer, Loewenstein, & Rabin, 2004; Kagel & Roth, 1995). Cooperation increases with communication and people get far higher payoffs even with strangers. These facts are startling for economists but better understood by untrained individuals. That is why economists are less likely to develop cooperation like others (Frank, Gilovich, & Regan, 1993). These results have important implication about externalities in public good. In shared resources individuals make profit at others expense. Therefore, ET1% focuses on finding solutions to free rider problem by completely ignoring the social norms and cooperative behaviors. Economic models in this theory assume these factors do not exist and are of no value in scientific analysis. However, behavioral research gives the narrative of bottom 90% and reveals that inducing cooperative behaviours is most important factor to deal the issue of public goods. Humans are social from early age and by default encouraged to follow the mechanism of cooperative norms. But this perspective is out of the scope of modern economic theory. Behavioural researchers disclose that public good problem can be solved only when we drop rational pursuit of utility maximization theory and consider observing real human behaviors.

It is observed that people usually do not maximize their consumption utility, they just satisfice (Simon, 1957). It is argued that maximization involves complex computations people are really not very efficient in. So, they use approximations and heuristics for decision making (Gigerenzer & Todd, 1999). Therefore, utility maximization is systematically failed given the logical impossibility of individuals to find the optimal strategy (Koppl & Rosser, 2002).

6. CONCLUSION

In this study we establish that economic theories create blindfolds to prevent economists from observing the obvious facts and real behaviors. It does not happen due to misunderstanding but by the conscious commitment to serve the interests of top 1%. It is observed that following capitalist theories have created massive global inequalities. But economist keep supporting this theory. This paper explains deep theoretical flaws that require a paradigm shift to solve the problems and reduce sufferings of bottom 90%. Discussion of few not all deceptions provide startling revelations. Modern economics has concealed aim to make people selfish and pursue their short-sighted benefits that create inequality, scarcity and deprive majority from their basic necessities. We observe how ET1% works by appealing to the poor, while working against their interests. On the other hand, ET 90% is defined by Islamic theory of economics. It shows that progress is achieved by means of cooperation, generosity and social responsibilities towards poor. This discussion is not complete but sufficient to provide evidence against the concealed objective of current economic theory to favour the rich and recognize it as ET1%.

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