

**Economic illusions**

**Choices Between Prosperity and Social Justice**

Prof. Dr. Moustafa El-Abdallah Al Kafry

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## **Economic illusions**

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In his book *The Economic Illusion*, Robert Kuttner refuted the traditional view that the most equal distribution of income and services can only be achieved at the expense of prosperous and growing capitalism.<sup>1</sup>

By carefully examining the issues in which economic growth and social justice appear to be mutually relevant-issues such as social security, protectionism, income harm, and welfare-he convincingly argues that equality and economic prosperity are not incompatible.

1 - Kuttner advocates economic policies that would reduce the importance of private markets:

As a means of reconciling equality and efficiency – that is, prosperity – Kuttner advocates economic policies that would reduce the importance of private markets, in order to further protect trade, and for an adapted version of the technical approaches of countries such as Sweden, Germany, Austria and Japan.

Kuttner concludes his arguments by pointing out that injustice is not necessarily an economic issue and that practical social alternatives are possible.<sup>2</sup>

The more difficult the economic situation, the more vital the discussions and disagreements on economic issues, and if the situation becomes very difficult, any crisis, almost everyone talks about economic policy. This is understandable. The danger appears

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<sup>1</sup> - Robert L. Kutner is an American journalist and writer whose work advances a liberal/progressive viewpoint. Kutner is the co-founder and current co-editor of *The American Prospect*, which was established in 1990 as an "official journal of liberal ideas."

<sup>2</sup> - Robert Kuttner, *The Economic Illusion: Wrong Choices Between Prosperity and Social Justice*,  
[https://www.goodreads.com/book/show/1138038.Economic\\_Illusion](https://www.goodreads.com/book/show/1138038.Economic_Illusion)

in the appearance of healers, who apply recommendations to the principle of economic quackery, or people who are tired of the ongoing discussions and their negligible effectiveness.

2 - The desire for an economic miracle increases as the phenomenon of crisis expands:

The first advise to use their "miracle" anti-crisis treatments, and the desire for an economic miracle increases as the phenomenon of crisis expands. No wonder, then, that the demand for economic miracles is great in the Arab countries. Other's demand... Economists, by blaming everything, more than their economic influence. They demand that economists be kept away from economic policy, because it should be the domain of common sense for peasants. I'm not sure about the peasants, but it's undeniable that common sense is at stake here. It is not always enough for everyone, including some economists.

The problem, then, is not the lack of common sense as a property inherent in economists; it's a point of view, but what to do and how to do it must be decided by those who are right. This does not mean removing differences on economic issues, but only drawing the right conclusions from them. This is not easy for many plausible concepts, especially in the midst of political disagreements, which move directly into the economic sphere, sometimes criticized from the left, sometimes from the right, and often against common sense.

New macroeconomic realities show that the days of stimulation of mindless demand, guaranteed bailouts, and active climate policies must now be left behind.

3 - Many governments are responding to inflation by borrowing or printing more money:

Unfortunately, many governments are responding to inflation by borrowing or printing more money to subsidize energy, housing, childcare, and other costs, or to distribute more money to mitigate

inflation – for example, waiving student loans, these policies will lead to further inflation.

Expanded social programs and transfers must be financed from stable, long-term tax revenues, from taxes that do not impose unnecessary costs on the economy. These facts will make it difficult for policymakers to continue to ignore the budgets and disincentives found in many social programs.

4 - The demand has hit the wall of supply:

The return of inflation marks a turning point. The demand has hit the wall of supply. Our economies are now producing everything they can. Moreover, this inflation is clearly rooted in excessively expansionary fiscal policies. While supply shocks can raise the price of one thing for others, they don't raise all prices and wages together.

Much of the wishful thinking should be abandoned, starting with the idea that governments can borrow or print as much money as possible that they need to solve every problem. Government spending must now come from current tax revenues or from reliable future tax revenues, to support non-inflationary borrowing.

The rescue vehicle will end. The 2008 financial crisis was met with a flood of borrowed and printed funds to stimulate the economy and bail out banks and their creditors. The COVID-19 recession was met with a tidal wave. Again, government funds went to bail out creditors, support asset prices, and provide more incentives.

Incentive spending is over. Governments must start spending wisely. Spending for "job creation" is nonsense when there is a widespread shortage of labour.<sup>3</sup>

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<sup>3</sup> - John H. Cochran, The End of the Economic Illusion, April 2022, <https://www.project-syndicate.org/commentary/inflation-puts-end-to-demand-stimulus-bailouts-climate-activism-by-john-h-cochrane-2022-04>

Given these precedents, our financial system is now fully confident that the government will borrow or print money in the event of any future crisis. But once fiscal space runs out and inflation is made available, the government's ability to stop the next crisis may evaporate. When people don't have confidence that the borrowed money will be repaid, or that the printed money will be absorbed again, they won't lend more. Small inflation (so far) today is a bait for this fundamental change.

5 - Systemic transformation from a bureaucratic blueprint economy to a capitalist-type:

Arab economies are involved in a very complex process of systemic transformation from a bureaucratic blueprint economy to a capitalist-type market economy. This transformation covers three levels that must be clearly recognized and distinguished from the very beginning.

**The first level** - is macroeconomic stability.

**The second level** - institutional changes, by their very nature remain crucial to the reconstruction of the economic system and require more time to be introduced.

**The third level** - microeconomic restructuring, especially in the long term, economically costly, and socially severe.

Perceived economic changes are closely related to political changes and social changes, because it is difficult to find appropriate solutions to economic dilemmas on the basis of political arguments and compromises.

The success of economic reforms affects not only the political situation, but also depends on it. The systematic shift in the Arab countries from economic planning to a market economy began at the beginning of the twenty-first century. It is easy to see that some economic and political problems, which are difficult to measure by a single measure, have been solved (such as the elimination of the

deficit). Others have just appeared (such as unemployment). Therefore, far-reaching differences in the evaluation of this period should not be surprising; it would be surprising that there are no such differences.

6 - Strategy to shut down fossil fuel development in the United States and Europe:

The return of inflation and Russia's war in Ukraine signal the end of energy and climate policies with enormous adverse consequences. The governments were pursuing a dangerous short-sighted strategy to shut down fossil fuel development in the United States and Europe before alternatives to this fuel were widely available, stifling nuclear power, and supporting highly inefficient (and often carbon-intensive) projects such as the California high-speed train to nowhere.

The folly of this approach is now clearly visible. After shutting down the Keystone XL pipeline and curbing oil exploration, the administration of US President Joe Biden has now turned to Venezuela and Iran to make up for the shortages in energy supplies. The Germans are still unable to allow the use of nuclear energy or natural gas fracking. Efforts to stifle local fossil fuel companies through financial regulation continue unabated. For example, on March 21, when Russia's attack on Ukraine led to a sharp rise in gas prices, the U.S. Securities and Exchange Commission decided to announce new expanded climate-related disclosure rules designed to discourage investment in fossil fuels.

7 - When supply is restricted, the price (and profits) rises and does not fall:

For years, climate regulators have repeated the mantra that fossil fuel companies will soon go bankrupt - stuck in possession of "stranded assets" - because of such regulation, and that these measures justify forcing banks to stop lending to them. But now we

must remind everyone of a lesson from economics books: when supply is restricted, the price (and profits) rises and does not fall. Those who have insisted that climate change is the greatest threat to civilization or financial markets must now admit that there are other near-term threats, such as the pandemic, military aggression and perhaps even nuclear war now.

However, the rotation continues. One still hears that inflation comes from fragile supply chains, nefarious manipulation of prices, profit, monopoly, and greed. Inflation has been widespread and has been rising for a year, while Russian President Vladimir Putin wants nothing more than to sell a lot of oil to fund his military.

Disputes between economists often relate to issues that seem to have to be clear, such as the magnitude of the increase or decrease in production. It turns out that there are economists who can claim that there is no decline in production at all, because flawed statistics do not reflect growth elsewhere, which allegedly offset recorded losses. More powerfully, the differentiation of opinions is about the interpretation of facts. These differences that can be understood in another way result either from the use of different theoretical approaches to the issue or from the presentation of different interests.

The era of wishful thinking is over. Those who deal with this fact now will seem less foolish in the future.

Prof. Dr. Moustafa El-Abdallah Al Kafry

Faculty of Economics - Damascus University

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