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Beyond Both Red Socialism Thinking and Traditional Market Thinking: What is the Structure of the Perfect Red Market?

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Abstract

When there is paradigm death and shift the issue underlying the sustainability gap that led to the death of this paradigm must be internalized in the price mechanism to arrive to a new higher level perfect market. Otherwise paradigm death and shift takes place, but they shift towards dwarf markets or non-perfect markets. And when you are in a non-perfect market world you are operating outside the scientific method as the externality has not been fully internalized yet in the price mechanism, which is the reason why you need to tax your way out towards perfect markets. Under perfect markets you do not need government intervention.

When Karl Marx's red socialism model died in 1991 and shifted towards socially friendly capitalism or red markets they internalized an economic margin plus profits in the price mechanism of the red socialism model to produce at the level of the perfect red market, they internalized capitalism. When Adam Smith's model died in 2012 and shifted towards environmentally friendly capitalism or green markets, they did not internalize a green margin in the price mechanism of traditional markets to produce at the level of the perfect green market. And because of this they are operating at prices lower than green market prices in the form of dwarf green markets such a low carbon or carbon pricing based markets. Because dwarf green markets are not green markets they require heavy ongoing government intervention through an array of green taxes. In other words, green markets work under perfect free market thinking, dwarf green markets do not. Under perfect markets you do not need government intervention; under dwarf markets you do.

But Adam Smith's model could have shifted towards perfect red markets too in 2012 had mainstream economists and policy makers wanted so by internalizing social issues in the price

mechanism of perfect traditional markets to produce at the level of perfect red markets. Hence, there are two possible ways to shift towards perfect red markets: a) correcting the red socialist model of Karl Marx to reflect economic concerns; and b) correcting Adam Smith's model to reflect social concerns, both corrections leading to the same perfect red market and its perfect red market price. The above highlights the duality of red markets. However, nothing seems to be written about red markets neither in the former socialist countries from the red socialism's point of view or in all the old capitalist countries from the economic point of view, which raises the question, what is the structure and implications of the perfect red market? Among the goals of this papers is to provide an answer to this question.

Key concepts

Traditional market, perfect market, green markets, perfect green market, paradigm shift, red market knowledge gap, green margin, traditional market price, red price, red market, perfect red market, red socialism, red socialism price, dwarf market, Karl Marx, Adam Smith.

A) Introduction

When there is paradigm death and shift the issue underlying the sustainability gap that led to the death of this paradigm must be internalized in the price mechanism of the previous model to arrive to the new perfect market. Otherwise paradigm death and shift takes place, but they shift towards dwarf markets or markets operating outside the scientific method and requiring heavy ongoing government intervention through an array of taxes related to the type of dwarf market. Under perfect markets you do not need government intervention. Below is a general description of the nature of the red socialism model of Karl Marx(K1) and of the pure capitalism model of Adam Smith(TM) as implemented; and presented in a way linked to what needs to be done to each of them to shift them towards perfect red markets.

A1) The red socialism model (K1)

i) The model

When only the society(A) matters we have the red socialist model(K1), which can be expressed as follows:

1) $K1 = A b c$

The expression above says that in the red socialism model (K1), the economy (b) and the environment(c) exist only to meet the needs of the red socialist model (K1) as both economic

issues (b) and environmental issues(c) are considered externalities or factors exogenous to the red socialism model(K1); and hence only society(A) is the dominant and endogenous component here. Development only needs to be socially friendly to be implemented.

In other words, the red socialism model(K1) above is a deep paradigm based model, where social production goals are achieved outside economic concerns creating in the process an ongoing accumulation of capitalism deficits. It was because of these capitalism deficits that the world of Karl Marx died in 1991 with the fall of the soviet bloc(Muñoz 2010) and shifted towards socially friendly capitalism or red capitalism(Muñoz 2016a). Notice that micro-economic theory and macro-economic theory and growth theory are not the proper tools to deal with red socialism model issues.

And therefore, red socialism is the world of the red man making decisions putting society first and setting up production schedules to meet only social goals. It can be said that the red socialism period went from 1848 when Marx and Engels published “The Communist Manifesto”(Marx and Engels 1848) to 1991 when the soviet bloc fell(Muñoz 2016b).

ii) The price structure of the red socialist model(K1P)

Since the red socialism model produced to meet social goals at social costs only, then its price structure can be stated as follows:

2) $K1P = SM$

Formula 2) above tells us that only social costs(SM) determine the red socialism production price K1P.

iii) The nature of the red socialism model

Therefore, red socialism model(K1) is a deep development model that operates at below zero profits or at a full economic loss as it only covers the social cost of production(SM).

A2) The traditional market(TM)

i) The model

When only the economy(B) matters we have the traditional market of Adam Smith(TM), which can be expressed as follows:

3) $TM = aBc$

The expression above says that in the traditional market(TM), the society(a) and environment(c) exist only to meet the needs of the traditional market(TM) as both social issues(a) and environmental issues(c) are considered externalities or factors exogenous to the

traditional market model(TM); and therefore, only the economy(B) is the dominant and endogenous component here. Development only needs to be economy friendly to be implemented.

In other words, the traditional market(TM) is a deep paradigm based model too that operates under social and environmental neutrality assumptions and which works under independent preference or choice structures. Here microeconomics theory and macroeconomic theory and growth theory are the proper tools to deal with traditional market issues. And therefore, this is the world of the economic man, the invisible hand, and economic growth. Muñoz (2015) indicated that the traditional market model went unchallenged since 1776 when Adam Smith proposed it in “The Wealth of Nations” to 1987 when the Bruntland Commission published “Our Common Future” and criticized it. And this started the process that led to 2012 paradigm shift from traditional markets to green markets(UNCSD 2012a; 2012b). So the traditional market period went unofficially from 1776 to 1987 and officially from 1776 to 2012.

ii) The production price structure of the traditional market(TM)

Since the traditional market(TM) is a for profit model where only the economic costs (ECM) at profits matters, then its price structure can be expressed as follows:

$$4) \text{ TMP} = P = \text{ECM} + i$$

Where P = the traditional market price(TMP), ECM = the economic margin, and i = profits.

Formula 4) above simply says that the economic cost margin(ECM) at a profit(i) only determines the traditional market price(P).

iii) The nature of the traditional market model

Hence the traditional market model(TM) is a deep development model too, but it is a for profit economy only model as it covers only the economic cost of production at a profit.

A3) The world of red markets(RM)

i) The model

Whether red markets(RM) come from a shift from red socialism thinking(K1) or from a shift from the traditional market thinking(TM), it leads to a world ruled by the partnership between the economy and the society. Analytically the red market(RM) world can be expressed as follows:

$$5) \text{ RM} = \text{ABc}$$

The expression above says that in the red market(RM), the environment(c) exists only to meet the needs of the red market(RM) as environmental issues(c) are considered externalities or factors exogenous to the red market model; and only the economy(B) and the society(A) are dominant and endogenous components. In other words, red markets(RM) are partial partnership based models that work under partial codependent choice structure: development needs to be both socially and economically friendly at the same time to be implemented.

Here red microeconomic theory, red macroeconomic theory, and red growth theory are the proper tools to deal with red market issues. And therefore, this is the world of the red economic man, the red invisible hand, and red economic growth. Muñoz(2016d) recently pointed out that paradigms shift from less sustainable positions to more sustainable ones; and red markets are more sustainable structures than either the red socialist model(K1) or Adam Smith's traditional market model(TM).

ii) The production price structure of red markets

Since red markets(RM) are for profits markets that reflect both the social(SM) and economic cost(ECM) cost of production at a profit(i) its price structure can be indicated as follows:

6) $RMP = SM + ECM + i$

Notice that since the traditional market price is $P = ECM + i$ the following is true:

7) $RMP = SM + P$

Notice that Formula 7 help us to link red market prices the red socialism market(K1) and to the traditional market(TM) as follows:

a) Correcting the red socialism production price(K1P) to make it for profit economy friendly requires then to internalize the traditional market price "P"; and then the following is true:

8) $RMP = K1P + P = SM + P$ since $K1P = SM$

You can see that the price structure above is the price structure of the for profit economy friendly red socialism

Therefore, the following is true with respect to linking the red socialism production price(K1P) with the red market price(RMP)::

9) $K1P = RMP - P$

So the red socialist production price K1P is the for profit economy unfriendly price as it is a below zero profit production price

b) Correcting the traditional market model(TM) to make it socially friendly requires then to internalize the social margin(SM); and then the following is true:

10) $RMP = TMP + SM = P + SM$ since the $TMP = P$

You can see that the price structure above is the price structure of the socially friendly economy.

Hence, the following is true with respect to linking the traditional price(TMP) with the red market price(RMP):

11) $TMP = RMP - SM$

The formula above simply says that the traditional market price(TMP) is not a socially friendly price as it assumes social externality neutrality as social issues are exogenous issues.

iii) The nature of the red market model

Hence, red markets(RM) are for profit society-economy partnership models that accounts for the social and economic cost of production at a profit

iv) Dwarf red markets

Any market placed below the red market price(RMP), be it red socialism based or traditional market based, is a dwarf red market(DRM) cleared by a dwarf market price(DRMP) as either the social margin or the for profit price has not been fully internalized.

12) $DRMP = DMP < RMP$

Formula 12) above highlights that dwarf red markets(DRM) have production prices(DRMP) below perfect red market prices(RMP).

A4) The paradigm shifts to red markets(RM)

There was a paradigm shift in 1991 from red socialism(K1) to red markets(RM); and there could have been a paradigm shift in 2012 from traditional markets(TM) to red markets(RM) too, and their structures and implications are highlighted below:

i) The 1991 shift from red socialism to red markets or to for profit economy friendly red socialism or to socially friendly capitalism

a) The structure of the shift

The shift can be appreciated from its model structure, its price structure, and its choice structure as all of them happen at the same time:

a1) The model structure shift

We know that the red socialist model(K1) has a society only friendly structure; and that the red market(RM) has a society and economy friendly structure so the paradigm shift in term of model structure can be stated as:

13) K1 = Abc-----→ RM = ABc

Formula 13) above tells us that the structure of red socialism(K1) shifted from a society only model to a society and economy model(RM). In other words the shift from red socialism(K1) to red markets(RM) is shift from a dominant to a partnership based model.

a2) The price structure shift

We know that the red socialist model(K1) produces at social cost only; and that the red markets(RM) produce covering social and economic costs at a profit so the paradigm shift in terms of price structure can be stated as:

14) K1P = SM-----→ RMP = SM + ECM + i = SM + P

Formula 14) above indicates that the price structure of red socialism(K1) shifted from a social margin only price(K1P) to a social margin plus economic margin at a profit price(RMP).

In other words the price structure of the red socialist model(K1) shifted from below zero profits or from only socially responsible to a for profit price or to a society and for profit economy friendly price in the red market model(RM). Notice that in red markets for profit economic issues are now endogenous issues while in the red socialism model they were exogenous issues.

a3) The choice structure shift

We know that the red socialist model(K1) was based on state based independent choice(IC); and that the red market(RM) is based on codependent choice(CD) so the paradigm shift in terms of choice structure can be stated as:

15) K1[IC] -----→ RM[CD]

Expression 15) above highlights that the choice structure of red socialism(K1) shifted from an independent social state based choice(IC) to a codependent society-economy choice(CD). In other words the choice structure of the red socialist model(K1) shifted from dominant action to co-dominant action as in red markets(RM) only socialist plans that are for profit economy friendly are implemented.

b) The implications of the 1991 shift from red socialism to red markets

This paradigm shift takes us beyond red socialism thinking to a place where traditional red socialist ideas no longer work. When red socialism died in 1991, it shifted towards socially friendly capitalism or for profit economy friendly red socialism by closing its economic sustainability gap(ECSG) and creating in the process a society and economy partnership. And when doing this a red market was created where the red market price internalizes economic concerns by adding the economic margin plus profits which the previous red socialism model assumed irrelevant. This assumption that you can leave economic margins and profits out of the model is the reason why red socialism as practiced by China and former soviet bloc countries before 1991 was implementing social production programs at a total economic loss to meet the needs of their populations, which is also the reason behind the fall of red socialism.

In summary, when the red socialism model died in 1991 it shifted towards socially friendly capitalism or red markets as it internalized an economic margin and profits in the price mechanism of the red socialism model to produce at the level of the perfect red market. Some countries like China internalized capitalism slowly(Muñoz 2010), other red socialist countries internalized capitalism very fast(Shleifer and Treisman, 2014). Now China and Russia are major players in the capitalist world(VOA 2016) and countries like China are now worry about high productions costs(USDA 2015) something that seemed not to be a problem under red socialism.

c) Red socialism based dwarf red markets

If red socialism does not fully internalize economic costs plus profits or moves away from social responsibility to produce at a lower price, then it would be producing at a price lower than the red market price(RMP) and such a market would be a dwarf red market with a dwarf red price.

ii) The missed 2012 shift from the traditional market to the red market

If instead of going green the UNCSD/Rio + 20 would have gone red in 2012 then old capitalist countries would have moved to close their social sustainability gap(SSG) by internalizing a social margin(SM) in the price mechanism of the traditional market to shift it to red markets as going green was not the only option available then(Muñoz 2016).

a) The structure of the shift

Again this paradigm shift can be seen from its model structure, its price structure, and its choice structure as all of them take place at the same time

a1) The model structure shift

We know that the traditional market(TM) has an economy only friendly structure; and that the red market(RM) has a society and economy friendly structure so the paradigm shift in terms of model structure can be stated as:

16) $TM = aBc$ -----→ $RM = ABc$

Formula 16) above tells us that the structure of the traditional market(TM) shifts from an economy only model to a society and economy model(RM). In other words the shift from bare capitalism(TM) to red markets(RM) is shift from a dominant to a partnership based model.

a2) The price structure shift

We know that the traditional market model(TM) produces at pure profits only; and that the red market(RM) a produce covering social and economic costs at a profit so the paradigm shift in terms of price structure can be stated as:

17) $TMP = P = ECM + i$ -----→ $RMP = ECM + i + SM = P + SM$

Formula 17) above shows that the price structure of the traditional market(TM) shifts from a pure profit only economic price(P) to a socially friendly for profit price(RMP). In other words the price structure of the traditional market(TM) shifts from pure profits price to a socially responsible for profits price or to a socially friendly traditional market price in the red market model(RM). Notice that in red markets(RM) social issues are now endogenous issues while in the traditional market(TM) they were exogenous issues.

a3) the choice structure shift

We know that the traditional market(TM) is based on individual independent choice(IC); and that the red market(RM) is based on codependent choice(CD) so the paradigm shift in terms of choice structure can be stated as:

18) $TM[IC]$ -----→ $RM[CD]$

Expression 18) above indicates that the choice structure of the traditional market(TM) shifts from an independent economic choice(IC) to a codependent society-economy choice(CD). In other words the choice structure of the traditional market(TM) shifts from dominant action to co-dominant as only economic plans that are socially friendly are implemented.

b) The implications of the missed 2012 shift from traditional markets to red markets

Notice that if this shift would have taken place in 2012 it would have taken us to a world beyond traditional market thinking as in red markets traditional market or economic thinking

does not work. We know that in 1987 the Bruntland Commission highlighted the need to internalize both social and environmental concerns in our development models(WCED 1987), but in 2012 Rio +20 as mentioned before the need to internalize environmental issues only was formally undertaken to transition to green markets, green growth, and green economy approaches(UNCSD 2012a; 2012b). Had the UNCSD decided to go red markets then they could have internalized social margin(SM) in the traditional market price mechanism to shift it to perfect red markets, red growth and the red economy.

In summary, when Adam Smith's model died in 2012 it shifted towards environmentally friendly capitalism or green markets(GM) as that was the choice made by UNCSD Rio +20, but Adam Smith's model could have shifted towards perfect red markets(RM) then instead of green markets(GM) had mainstream economists and policy makers wanted it that way by internalizing social issues or adding a social margin(SM) in the price mechanism of perfect traditional(TM) to produce at the level of perfect red markets(RM).

c) Traditional market based dwarf red markets

If the traditional market does not fully internalizes social costs or moves away from economic responsibility to produce at a lower price, then it would be producing at a price lower than the red market price(RMP); and such a market would be a dwarf red market with a dwarf red price.

A5) The red market knowledge gap(RMKG)

A shift from red socialism(K1) to red markets(RM) and a shift from traditional market(TM) to red markets(RM) both create specific and general red market paradigm shift knowledge gap, the structure of which is indicated below:

a) The red socialism based red market knowledge gap(RSBRMKG)

To highlight the nature of the red socialism based red market knowledge gap(RSBRMKG) we need to contrast the structure of the red socialist model(K1) with the structure of the red market(RM) as shown below:

$$19) \text{RSBRMKG} = \text{K1.RM} = (\text{Abc})(\text{ABc}) = (\text{AA})(\text{bB})(\text{cc}) = \text{A}(\text{bB})\text{c}$$

If we make the environmental sustainability gap ECSG = bB, then the following is true:

$$20) \text{RSBRMKG} = \text{K1.RM} = \text{A}(\text{ECSG})\text{c}$$

Since there is not theory of the economy friendly red socialism then red socialism thinking cannot deal with the economic sustainability gap(ECSG); and therefore, the knowledge base of red socialism does not work under red market thinking as there is a red socialism

economy knowledge gap. You need red socialism ideas consistent with red microeconomics and red macroeconomics, but they do not exist to my knowledge.

b) The traditional market based red market knowledge gap(TMBRMKG)

To indicate the nature of the traditional market based red market knowledge gap(TMBRMKG) we need to contrast the structure of the traditional market model(TM) with the structure of the red market(RM) as shown done below:

$$21) \text{ TMBRMKG} = \text{TM.RM} = (\mathbf{aBc})(\mathbf{ABc}) = (\mathbf{aA})(\mathbf{BB})(\mathbf{cc}) = (\mathbf{aA})\mathbf{Bc}$$

If we make the social sustainability gap $\text{SSG} = \mathbf{aA}$, then formula 21) becomes:

$$22) \text{ TMBRMKG} = \text{TM.RM} = (\mathbf{SSG})\mathbf{Bc}$$

Since there is no theory of the socially friendly economy then traditional market thinking cannot deal with the social sustainability gap(SSG); and therefore, the knowledge base of the traditional market, micro-economics and macro-economics does not work under red market thinking to deal with the social sustainability gap, you need traditional market ideas consistent with red micro-economics and red macro-economics, but they do not exist to my knowledge.

c) The general red market knowledge gap(GRMKG)

To highlight the nature of the general red market knowledge gap(GRMKG) we need to contrast the structure of the traditional market model(TM) with the structure of the red socialism model(K1) as stressed below:

$$23) \text{ GRMKG} = \text{TM.K1} = (\mathbf{aBc})(\mathbf{Abc}) = (\mathbf{aA})(\mathbf{Bb})(\mathbf{cc}) = (\mathbf{aA})(\mathbf{Bb})\mathbf{c}$$

If we make the social sustainability gap $\text{SSG} = \mathbf{aA}$ and the environmental sustainability gap $\text{ECSG} = \mathbf{Bb}$, then we have:

$$24) \text{ GRMKG} = \text{TM.K1} = (\mathbf{aBc})(\mathbf{Abc}) = (\mathbf{aA})(\mathbf{Bb})(\mathbf{cc}) = (\mathbf{SSG})(\mathbf{ECSG})\mathbf{c}$$

Formula 24) above tells us that the general red market knowledge gap(GRMKG) has two components, a social sustainability gap(SSG) which the traditional market knowledge cannot handle; and an economic sustainability gap(ECSG) which the red socialism model cannot address.

Therefore to internalize social externalities in the traditional market model(TM) we need to close the social sustainability gap($\text{SSG} = \mathbf{aA}$) by making social issues endogenous issues or adding a social margin(SM) to the price mechanism of the traditional market; and when doing this, we are creating red markets. In other words, when creating red markets we create the traditional market based red market knowledge gap(TMBRMKG) as traditional micro-economics and macro-economics do not work under red markets since they cannot deal with the

social sustainability gap. On the other hand to internalize economic externalities in the red socialism model(K1) we need to close the economic sustainability gap(ECSG = Bb) by making economic issues endogenous issues or adding a economic margin(ECM) plus profit(i) in the price mechanism of the red socialist model; and when doing this, we are creating too red markets as well as creating the red socialism based red market knowledge gap(RSBRMKG)..

In summary: The internalization of social issues to correct the traditional market(TM) changes everything about the idea of perfect traditional market as we know it creating one type of red market knowledge gap. On the other hand, the internalization of economic issues to correct the red socialism model or Karl Marx's model(K1) changes too everything about the idea of red socialism as we know it creating that way another type of red market knowledge gap.

A6) The road towards perfect red markets

Therefore, consistent with the discussion above there are two possible ways to shift towards perfect red markets(RM): i) correcting the red socialist model(K1) to reflect economic concerns by internalizing them in the price mechanism of the red socialism model to shift it towards perfect red markets; and b) correcting Adam Smith's model(TM) to reflect social concerns by internalizing them in the price mechanism of perfect markets to shift it towards perfect red markets. See that both corrections lead to the same perfect red market and its perfect red market price. This is important especially for former red socialist countries as they shifted in 1991 towards red markets without a perfect red market theory to guide them. However, nothing seems to be written in the former socialist countries from the red socialism point of view or in the old the capitalist countries from the economic point of view about the structure of red markets, which raises the question, what is the structure of the perfect red market and its implications?. Among the goals of this papers is to provide an answer to this question.

B) Objectives

a) To highlight analytically and graphically the structure and main aspects of the perfect traditional market; b) To stress analytically and graphically the structure of the paradigm shift from the traditional market to red markets; c) To show analytically and graphically the structure and main aspects of the red socialism model and its social production; d) To indicate analytically and graphically the structure of the paradigm shift from the red socialism model to red markets; e) To highlight analytically and graphically the fact that red socialism kept social production at an ongoing economic loss all the time accumulating capitalism deficits through its economic sustainability gap; f) to use the discussion above to state analytically and graphically the structure and implications of the perfect red market and its perfect red market price; and g) to

show how the market structure of red socialist markets, the traditional market and red markets can be linked graphically and analytically.

C) Methodology

First, the terminology used in this paper is listed. Second, some operational concepts are provided. Third, the structure of the traditional perfect market is highlighted. Fourth, the structure of the paradigm shift to red markets is shared. Fifth, the structure of the red socialism model of production is pointed out. Sixth, the structure of the paradigm shift from red socialism to red markets is shown. Seventh, the structure of the red socialism's production program under capitalism deficits is documented. Eighth, the structure of the perfect red market is outlined. Ninth, the figure showing how red socialist markets, traditional markets and red markets can be linked through their pricing mechanism. And finally some food for thoughts and conclusions are given.

D) Terminology

A = Dominant/active society	a = Dominated/passive society
B = Dominant/active economy	b = Dominated/passive economy
C = Dominant/active environment	c = Dominated/passive environment
S = Traditional supply	D = Traditional demand
P = Traditional market price	Q = Traditional market quantity
RP = Red market price	RS = Red market supply
RD = Red market demand	RQ = Red market quantity
KP = Red socialism price	KS = Red socialism supply
KD = Red socialism demand	KQ = Red socialism quantity
SSG = Social sustainability gap	SM = Social margin
ECSG = Economic sustainability gap	ECM = Economic margin
PRMP = Perfect red market price	PTMP = Perfect traditional market price

i = Profits

DM = Dwarf market

E) Operational concepts

i) Traditional market, *the economy only market*

ii) Green market, *the environmentally friendly market*

iii) Red market, *the socially friendly market*

iv) Sustainability market, *the socially and environmentally friendly market*

v) Environmental or green margin, *to cover the extra cost of making the business environmentally friendly or to cover only the environmental cost of environmentally friendly production or to cover the environmental cost of red market production*

vi) Social margin, *to cover the extra cost of making the business socially friendly or to cover only the social cost of socially friendly production or to cover the cost of making green markets socially friendly or to cover the cost of making environment only models socially friendly.*

vii) Economic margin, *to cover only the economic cost of production*

viii) Economic profit(i), *the incentive to encourage economic activity*

ix) Traditional market price, *general market for profit price*($TMP = ECM + i = P$)

x) Green market price, *the for profit price that reflects both the economic and the environmental cost of production or the price that covers the cost of environmentally friendly production at a profit*($GP = ECM + i + EM = P + EM$)

xi) Red market price, *the for profit price that reflects both the economic and the social cost of production or price that covers the cost of socially friendly production at a profit*($RP = ECM + i + SM = P + SM$)

xii) Sustainability market price, *the for profit price that reflects the economic, social, and the environmental cost of production or the price that covers the cost of socially and environmentally friendly production at a profit*($SP = ECM + i + SM + EM = P + SM + EM$)

xiii) Green market knowledge gap, *the knowledge gap created by the paradigm shift from traditional markets to green markets or when correcting Adam Smith's model to reflect environmental concerns..*

xiv) Red market knowledge gap, *the knowledge gap created by the paradigm shift from red socialism to red markets or the knowledge gap created by correcting Adam Smith's traditional market to reflect social concerns*

xv) Sustainability market knowledge gap, *the knowledge gap created when any paradigm shifts towards sustainability, at once or step by step.*

xvi) Micro-economics, *the theory of the traditional firm and consumer.*

xvii) Macro-economics, *the theory of the traditional economy.*

xviii) Green micro-economics, *the theory of the environmentally responsible firm and consumer.*

xix) Green macroeconomics, *the theory of the environmentally responsible economy.*

xx) Red micro-economics, *the theory of the socially responsible firm and consumer*

xxi) Red macro-economics, *the theory of the socially responsible economy.*

xxii) Sustainability market based micro-economics, *the theory of the socially and environmentally responsible firm and consumer.*

xxiii) Sustainability based macro-economics, *the theory of the socially and environmentally responsible economy*

xxiv) Trickle-down effect, *the expectation that traditional markets and growth will sooner or later benefit the poor*

xxv) Green trickle-down effect, *the expectation that green markets and green growth will sooner or later benefit the poor.*

xxvi) Red trickle-down effect, *the expectation that red markets and red growth will sooner or later benefit the environment*

xxvii) Deep paradigm, *a fully exclusive model(e.g. the traditional market).*

xxviii) Partial partnership paradigm, *a partially inclusive model(e.g. the green market, the red market).*

xxix) Full partnership paradigms, *a fully inclusive model(e.g. the sustainability market).*

xxx) Externalities, *factors assumed exogenous to a model*

xxxi) Full externality assumption, *only one factor is the endogenous factor in the model, the others are exogenous factors.*

xxxii) Partial externality assumption, *not all factors are endogenous factors at the same time in the model.*

xxxiii) No externality assumption, *all factors are endogenous factors at the same time in the model.*

xxxiv) Sustainability market cost margin(SMCM), *the sum of all cost margins in the sustainability market \price*

xxxv) Red market cost margin(RMCM), *the sum of all margins in the red market price*

xxxvi) Green market cost margin(GMCM), *the sum of all margins in the green market price*

xxxvii) Socio-environmental model cost margin(SENCM), *the sum of all margins in the socio-environmental model price*

F) The structure of the perfect traditional market

We know the traditional market price(TMP) is determined by the interaction of traditional supply(S) and traditional demand(D), which can be represented as follows:

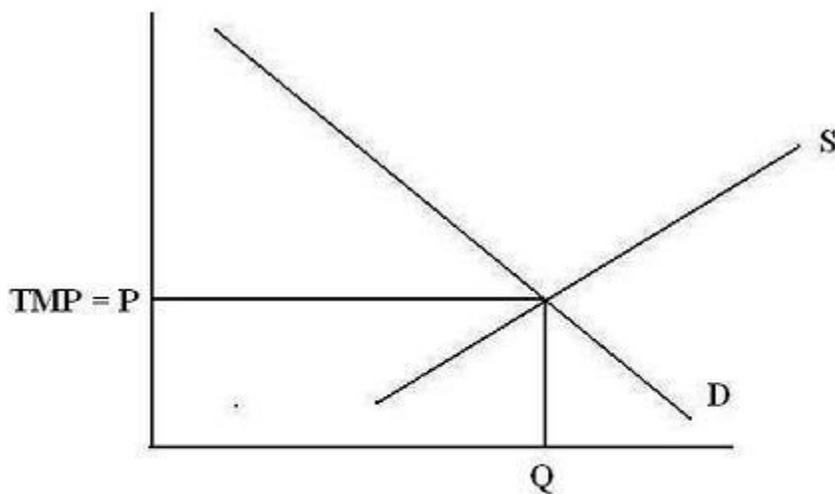


Figure 1 The structure of the perfect traditional market (TM)
The traditional supply(S) and the traditional demand(D) are cleared by the traditional price(P) at the traditional quantity(Q).

Figure 1 above tells us that the traditional quantity(Q) produced and consumed is the one at the traditional market price P.

G) The structure of the paradigm shift from traditional markets(TM) to red markets(RM)

When the traditional market(TM) is corrected by adding a social margin(SM) to the traditional market price(TMP) to close the social sustainability gap(SSG) it shifts to red markets(RM) as indicated below:

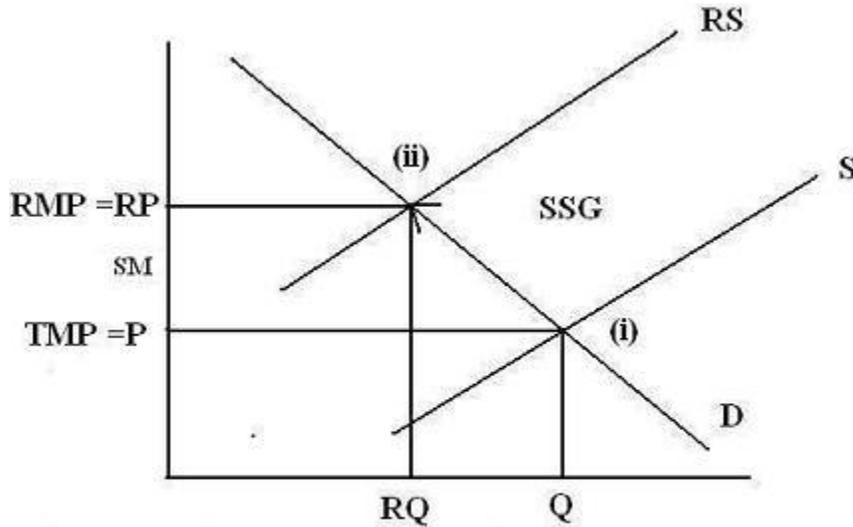


Figure 2 The shift from the traditional market(TM) to the red market(RM): The traditional supply(S) shifts left from point (i) to point (ii) when the social margin(SM) is added to the traditional price P. So $RP = P + SM$

Figure 2 above simply says that to close the social sustainability gap(SSG) affecting the traditional market we need to add a social margin(SM) to the traditional market price to shift the traditional supply(S) to the left from point (i) to point (ii) and transform it into the red market supply(RS) cleared at the red market price RP. Notice that the gap between supply S and RS is equal to the social sustainability gap(SSG); and the gap between P and RP is the social margin(SM).

H) The structure of the red socialism model of production(K1)

We know the red socialist production price(K1P) is determined by the interaction of the red socialist supply(K1S) and red socialist (K1D), which can be represented as follows:

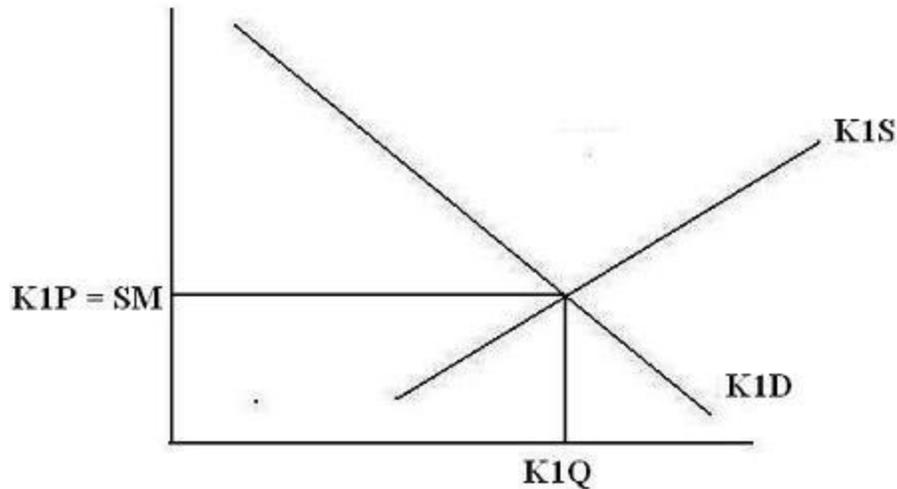


Figure 3 The structure of the red socialist model(K1)
 The red socialist supply(K1S) and the red socialist demand(K1D) are cleared by the red socialist price(K1P) which is set equal to the social margin(SM) to meet red socialism's production goals(K1Q)

Figure 3 above indicates to us that the red socialism quantity(K1Q) produced and consumed is the one determined at the socialism production price of $K1P = SM$ as only social costs are reflected in the cost of production..

I) The structure of the paradigm shift from red socialism(K1) to red capitalism or red markets(RM)

When the red socialist model(K1) is corrected by adding an economic margin(ECM) plus profits(i) to internalize the traditional market price P in the red socialism price(K1P) to close the economic sustainability gap(ECSG) it shifts to red markets(RM) as indicated below:

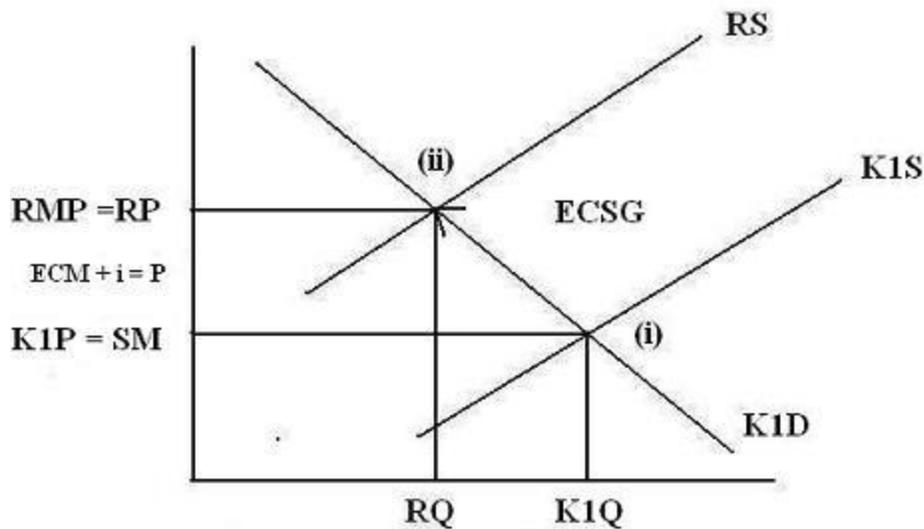


Figure 4 The shift from the red socialist model(K1) to the red market model(RM): The red socialist supply(K1S) shifts left from point (i) to point (ii) when the economic margin plus profits(ECM + i) is added to the red socialist price(K1P) so $RP = K1P + ECM + i = SM + P$ since $K1P = SM$ and $P = ECM + i$

Figure 4 above simply tells us that to close the economic sustainability gap(ECSG) affecting the red socialism model we need to add an economic margin(ECM) plus profits(i) or the traditional market price P to the red socialist production price(K1P) to shift the red socialism supply(K1S) to the left from point (i) to point (ii) and transform it into the red market supply(RS) cleared at the red market price RP. Notice that the gap between supply K1S and RS is equal to the economic sustainability gap(ECSG); and the gap between K1P and RP is the traditional market price $P = ECM + i$.

J) The structure of red socialism production(K1) under capitalism deficits

The fact that red socialist countries under red socialism(K1) were producing at a total economic loss from the beginning until the 1991 fall can be represented as in Figure 5 below:

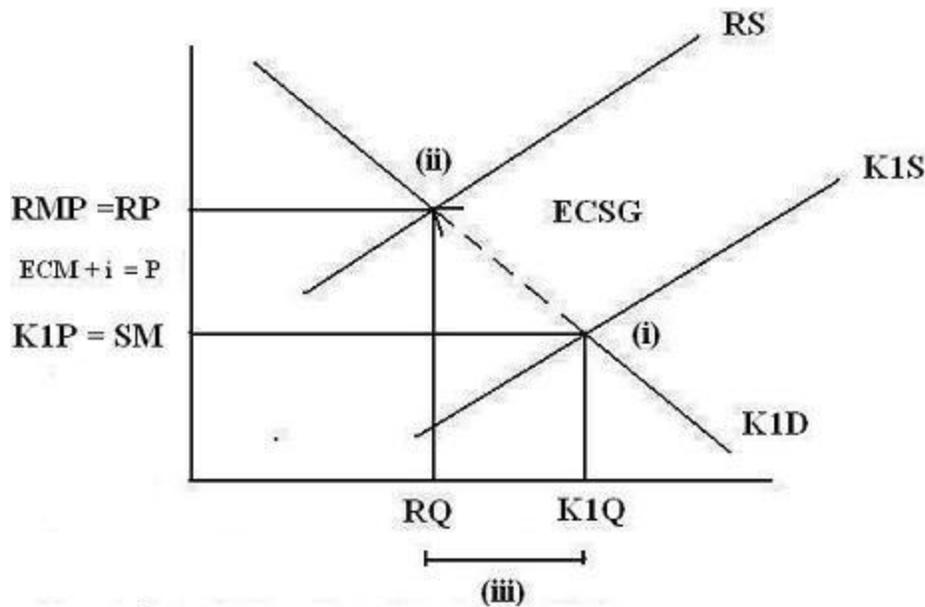


Figure 5 Red socialism and total economic loss
 Red socialism(KI) operating at a total economic loss as indicated by the broken demand to meet socialist production goals(K1Q). In other words, red socialism operated production K1Q at a total economic loss from point (ii) to point (i)

Figure 5 above can be used to highlight the following: a) at point (i) red socialism was able to meet the social production goal of K1Q at the price K1P = SM, but it did so at a total economic loss, the distance from point (i) to point (ii) or the difference between the red market price(RMP) and the red socialism price(K1P) which is $ECM + i = P$; and b) at point (ii) red socialism would have been able to meet its social production goals(RQ), but at a profit.

K) The structure of the perfect red market

The price structure of the perfect red market(RM) is found at the point where red market demand(RD) clears red market supply(RS) as shown in Figure 6 below:

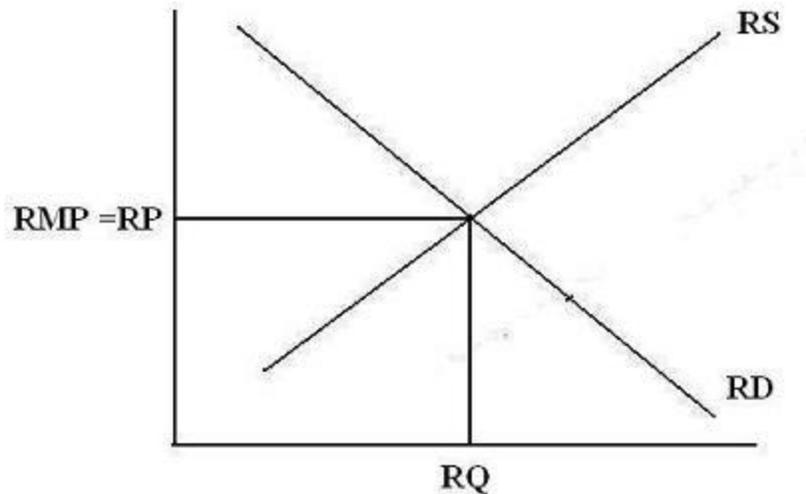


Figure 6 The structure of the perfect red market(RM): The red supply(RS) and the red demand(RD) meet at the red price(RP) to clear the market at the red quantity(RQ).
 Notice that the red market price(RP) of the perfect red market is the same as the red price(RP) in the corrected Adam Smith's market and in the corrected red socialism model since $RMP = RP = P + SM = SM + P$

Figure 6 above clearly shows that the red market price(RP) is found at the point where red market supply(RS) meets red market demand(RD) and the efficient red market quantity consumed is RQ. Therefore, the perfect red market(RM) is the one where red market supply(RS) and red market demand(RD) determine the production price RP and the red market quantity RQ to be produced and consumed.

Analytically the price structure of the perfect red market(RM) in Figure 6 above can be stated as follows:

$$RP = P + SM$$

Therefore, social costs(SM) plus the for profit price(P) determine the red market price(RP).

Notice that since $P = ECM + i$; then the following is true:

$$RP = ECM + i + SM$$

The expression above says that the red market price(RP) reflects an economic margin(ECM) plus a social margin(SM) at a profit(i).

In summary: The perfect red market(RM) is the market where red market supply(RS) and red market demand(RD) are cleared at red market price RP. It is a world driven by red growth, red trickledown expectations, and red invisible hands. . Here red micro-economics and

red macro-economics are the appropriate tools. And therefore, a red market is a world beyond red socialism thinking and beyond traditional market thinking at the same time.

L) Linking all models through the market price mechanism

It is possible to link the price mechanism of the red socialist model(K1), the traditional market model(TM) and of the red market model(RM) as indicated in Figure 7 below:

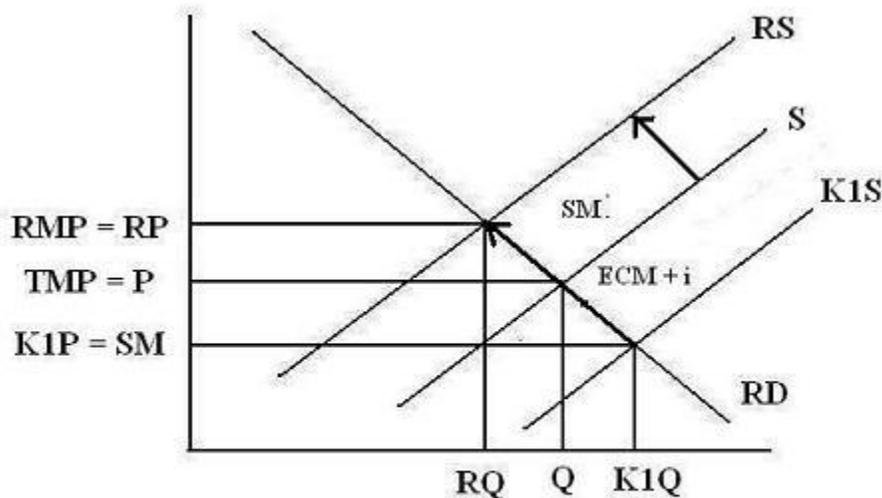


Figure 7 Linking the price structure of the red socialist model(K1), the traditional market model(TM) and the red market model(RM)

Figure 7 above can be used to highlight the following aspects: a) To shift the red socialist model(K1) to red markets(RM) we add $P = ECM + i$ to the red socialist production price K1P; b) To shift the traditional market(TM) to red markets(RM) we add a social margin(SM) to the traditional market price P; c) notice that $K1P + TMP = RMP = SM + P = RP$; and d) Notice that production and consumption levels in red markets are lower than those in the other markets as red markets are cleared at a higher price.

M) Food for thoughts

a) Is the price structure of red markets($RP = P + SM$) consistent with the production price structure of Karl Marx($KMP = C + i$)?. I think yes, what do you think?

b) Did the 1991 paradigm shift from red socialism to red markets means China missed the second stage towards sustainable for profit red socialism?. I think yes, what do you think?

c) Does the shift from the traditional market to green markets in old capitalist countries in 2012 mean the end of for profit only capitalism?. I think yes, what do you think?

d) Does the use of dwarf green markets like carbon pricing or low carbon based markets to deal with the environmental issues mean the end of free market thinking?. I think yes, what do you think?

O) Conclusions

First, it was pointed out that the 1991 paradigm shift from red socialism to red markets brought red socialist countries into a world where socialist ideas/knowledge no longer works as they were left behind; and a red market knowledge gap was created due to the inability of red socialism thinking to deal with economic sustainability gaps. Second, it was highlighted that the missed 2012 paradigm shift from the traditional market to red markets would have taken old capitalist countries into a world where traditional market ideas/knowledge no longer works as they are left behind; and a red market knowledge gap is created due to the inability of traditional market thinking to deal with social sustainability gaps. Third, it was shown analytically and graphically that red socialist countries produced to meet social production goals at a total economic loss. Fourth, it was stressed analytically and graphically that in the perfect red markets the red market price and the red market quantity are determined by the interaction of the red market supply and the red market demand. And finally it was indicated analytically and graphically how the price structure of the red socialist model, the traditional market model and of the red market model can be linked.

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