ETHICAL ECONOMICS: An Alternative Perspective

Abstract:
This paper introduces the possibility that for an ethical dimension to the economics of society to exist logically, the conventionally accepted identification of economics, as being "the study of human activity as it relates to ends and scarce means which have alternative uses", will need to be abandoned and replaced by a definition of economics rolling out of a set of axioms that are entirely different than the ones underlying the above definition. Additionally, that by applying the philosophical methodology of thesis, antithesis, and synthesis the touted rigour of deductive orthodox theory not only would be surpassed, but also thereby establish that the economy will not equilibrate without the existence of an underlying morality. That is to say, by using a truth-finding methodology in combination with an alternative set of axioms, demonstrating by logic that economics without an ethical dimension isn't just amoral but immoral, because the universally applied utility principle sets the system up for an inevitable crash; while in the course of making its case, also rejecting both the latent Marxian and Keynesian approaches toward ethics in economics.

As apostates of the orthodox notion that economics is amoral and thus lacks all sense and possibility of having an ethical dimension, how can we possibly make a persuasive case that for the economy to equilibrate, its analysis has to show it to have one? For if we succeed in logically doing so, the consequences would be huge. No longer will it be a matter of just trying to convince our adversaries in thought, that there is a superior approach to grasping economic reality; but their amoral stance would then become an immoral one. Or more specifically, a justification for conviction would then become a possibility; way beyond what heterodox thought currently is capable of. Although the leaders in any scientific discipline, naturally being very smart people, are usually pretty good in coming up with all sorts of excuses why an existing theory held by the mainstream should be maintained, this being the one they're having a hand in formulating and benefiting from; once we do get our act together, I doubt that there will be much of a protracted struggle. Now if economics were indeed a science in the ordinary meaning of the word, i.e. a study using theoretical models and data from experiments or observation of the physical and natural world, then we probably would have to be in for a long wait. For, as far as that particular domain is concerned, things haven't changed very much since the times of Galileo. And as Max Planck observed over a century ago, sometimes it takes a die-off of a whole generation of scientists, before a revolutionary discovery can get a foothold and be generally accepted. But if instead economics is the study of a particular all human-made system, then the subject field becomes strictly limited to what we, and not the natural world, are capable of giving rise and reacting to. And even though a novel theory is involved, by now having acquired an objective viewpoint on our own-made system the prospect for a relatively quick resolution suddenly becomes much brighter.

So how can we, as mere mortals, conclude whether something is true or false? This may well be the most basic question that underlies our quest to establish that there is indeed an ethical dimension to economics in society. The short answer is that we can never be absolutely sure of anything. The very best we can do is to come up with a set of first principles, that appear promising enough to be a firm foundation upon which to build our conviction that the economy and thus the study of its workings has to have an ethical dimension. After that step is made, simply disagreeing with or for some or other reason disbelieving the stated assumptions, doesn't bear any weight on invalidating a subsequently reasoned out line of thought. Therefore in our particular case, and regardless of whether conventionally educated and currently reigning economists like it or not, if the chosen assumptions that are underpinning our theory remain unchallenged or are perhaps reluctantly agreed with, then the theoretical consequences when logically deduced become beyond question and will have to be accepted. Holdouts won't have a leg to stand on.

If somehow we can, in addition to its identity as a human-made system, in axiomatic terms set the purpose and scope of an economic structure and from those three basic assumptions derive a logically true thesis; then any dissenting point of view has to either show a contradiction in the derived reasoning and thus make the whole untrue, or show, in terms of yet more basic and thought to be unchallengeable assumptions, that the former ones are untrue or irrelevant. (i.e.) This is what will need to be done with respect to the conventionally accepted assumptions of economists now.

Yet the proposed form of deductive reasoning is not without drawbacks. First off, we cannot be sure that our axioms will stand the test of time; there always remains the possibility that at some future time, someone will come up with a more comprehensive set of them. Second, society, as a collective of free-thinking and accordingly acting human beings, doesn't neatly fit into a structured axiomatic setting. And third, isn't such a total commitment to deductive thinking exactly the kind of analysis we're up against, and are trying to discredit, already? But while especially the second one, at first blush, may seem to doom our quest to insert a rigorous ethical dimension into our economics, there is a way to effectively sidestep this hindrance.

The answer lies in applying the philosophical methodology of thesis, antithesis, and synthesis. Fully understanding that the thesis, the prime deductive part of our theory, is inherently incomplete; we place the uncertainty, becoming introduced by free-willed but not all-knowing human beings, in its totality into the antithesis. Then, after both the thesis and the antithesis are more or less fully developed; we'll let the synthesis, impossible to be based on any of the axioms pertaining to either the thesis or the antithesis, but with the axioms of Law and our sense of justice and equitability, sort it all out. So even though the ethical dimension to economics in society, rigorously approached, doesn't necessarily have to make an appearance until the synthesis is finally brought into the picture; if the seed of morality could already be planted within the purpose and/or the scope axiom, so much the better. But in any case, because free-willed human activity ensures uncertainty, economics, as purely a deductive science, dies a well-deserved death; and it becomes resurrected again as Political Economy. Whereby the discipline regains its meaning as a subset of Law, precisely as the classical economists already understood it to have.

If deemed valid however, the above described methodology no doubt will be too involved to be dealt with here within the bounds of this paper. For rounding out a logically constructed thesis and antithesis, in all likelihood, is going to take years; in no way will it be doable in a single discourse. There are of course several alternatives already out there. The Marxian doctrine for one, and to some extent left-leaning Keynesians as well, can probably argue that the sought answer is within their reach now and that the wheel doesn't need to be reinvented. But do all these existing approaches carry a similar potential of persuasive power? Marxians have been at it now for about a century and a half; and there is good reason, not explicable here, why they have been mired in controversy at every step of the way. Furthermore, how much credulity can be placed in the notion that by accentuating one or more assumptions of the Keynesian paradigm, an ethical dimension will indeed roll out of it as a result? For don't forget that for a theory to be potentially paradox free, all its assumptions have to derive from outside any particular field of study. Keynes himself originally didn't consider to heed this philosophical necessity in his money-is-a-store-of-value assumption. While seventy-five years later, the possibility that such is true by convention only, whereby society is allowed to act - as *if* money is a store of value, apparently never entered the consciousness of his followers. Now since with its paradoxes showing up, not only isn't Keynesianism all that conducive to a convincing line of argumentation, but it's the very proof that we get when a true theoretical path no longer is being followed. So is it any wonder that Keynesianism too remains subject to heated debates? Sticking it out with Keynes might just be confusing the principles of the antithesis with those of the thesis forever. And given our current troubles, isn't it high time to see if by tossing out the entire set of conventionally accepted axioms, and by substituting them with the ones above referred to; an ethical dimension to society's economy, instead of just being a desideratum, becomes persuasively true?

To that goal, first a revealing of this proposed alternative approach's second and third axioms; to wit: its sole purpose is to enhance, i.e. add to, humanity's natural living standards in perpetuity -- to which physical process no one can be denied the opportunity to partake in, on the supply side. Short of thwarting criminal behaviour toward the second axiom, there are no exceptions to the third one; it's a human right's issue. Dissenters will thus have to make a case that one or more axioms are untrue or irrelevant in terms of a more fundamental principle. What all this is going to mean in detail and what options are consequently left open for both the private and the government sector to act on, will have to comprise the bulk of the newly proposed economic theory. But if this set of axioms could indeed be agreed upon, an enormity in changed thinking will be required, going well beyond the thoughts of other progressive economists; yet by logic underpinning the lot they do get right.

Within the confines of this paper, meant to deal with economics' ethical dimension, it is of course impossible to convey the extent of that change in its entirety. But no doubt a few fundamental cases in point can still be highlighted; mainly to provide a provisional sense of what is involved, so that later we can return to the main theme. Starting with equilibrium, not it but disequilibrium will become the economy's natural state of being. Equilibrium can only be thought of as possibly existing in a dynamic sense; but for that most desirable situation to indeed prevail some very specific conditions, unheard of in orthodoxy and at best inductively derivable at by heterodoxy, will have to be met. Analytically at any and all particular points in time, even including hypothesized points of departure, and not dissimilar to a moving bicycle which is always in a falling motion and thus from the very get-go requires a never ending external corrective activity not to crash, the economy is in a state of disequilibrium. Thus all mathematical identities and equations, when these depict the economy as statically existing in time, are all fallacious. A most serious accusation indeed, as it would posit just about the entire economics profession as a bunch of incompetent mechanical engineers, who, by trying to work out the forces involved in keeping a bike upright, are doing so with a set of static equations; and worst of all not realizing that their methodology defines away the very reality of what they were setting out to show.

By having set the purpose of the system as providing all of us with a standard of living, that is far more enhanced than we could possibly achieve without its systematic help, as well as by in order to fulfill this objective while curtailing waste, quantitatively needing to continually keep track of its systemic activity in terms of a denominator or numeraire, a somewhat peculiar but very profound change in the nature of cause and effect takes place. For cause and effect, the relationship of which is known by the term of causality, no longer is straightforward as we commonly observe it to be in the natural world, but this now becomes an inverse relationship. Instead of anyone’s activity being the cause of its own reward or effect, this effect is now caused by activities of myriad others within the system, in causing the reward, to the extent of the original activity, to indeed materialize. Or simplified, within an economy of say ten active participants, the effect of anyone's daily causal input isn't its own output; but now becomes one-tenth's of everyone's causal input, as that's why motivationally anyone's own input becomes initiated; and therefore it is worth under the conditions of a dynamically reigning overall systemic equilibrium.

By approaching the principle of equilibrium along a form of causation that is entirely different and incompatible with the principle of individual action, the basis for a fundamental conflict in economics' reasoning is set. Try to mix them up, as the Keynesian paradigm unwittingly does, and paradoxes result. Understanding some process, means having figured out the underlying cause and effect of it. And as subjective observers of the natural world, we have all been conditioned to look for this cause and effect in a linear way. Altered individual values are formed by affecting existing individual values, singularly or in combination, these precepts exist objectively in our mind. Every instinct in our being tells us that's the way it works. We don't have the slightest reason to suspect that economic cause and effect is in any way different. And so, even though the motive of just about everyone partaking in economic activity is to increase one's standard of living, a sought effect that's impossible to be provided individually; it's a natural reaction not only to place a determinate value on all individual inputs, but also to construct a theoretical model along the principle of adding these up to measure the whole of supply.

Thanks to its nature as being the denominator of all economic activity, money is far more than just a veil that obscures unequivocal real-world economic activity, as orthodox theory wants you to have it; for, when it's generally accepted as a unit of accounting for one's output, in order to so acquire the output of others, it thereby alters economic causation. Or in other words, there can only be a determinable effect to all causal economic activity, if there is a demand for it by others; as, in the absence of a demand, all economic effort comes to nought in a void and there is no determinable value just in a supply. All supply therefore is indeterminate up until the point of demand nullifying it altogether. When the deduced truth becomes acknowledged that no one's economic output can directly provide, or is the cause of, that person's living standard, but that instead a unit of account is sought to acquire the output of others, as well as give that someone thereby the option to postpone such acquisition even indefinitely, then the tangible brunt of the all the consequences that this entails cannot be ignored. And one of those consequences is that no activity on the supply side, including (e.g.) the provision of loans as often being the starting point of much of conventional theorizing, can ever be said to have been the cause of having enhanced any living standard already in effect.

Accordingly, lending, specifically by financial institutions empowered to create (new) money, will now have to be explained very differently; more, soon.

But how fundamental is the observation of indeterminate supply values? Well, it certainly doesn't follow logically from the orthodox assumption that the economy is human activity as it relates to ends and scarce means which have alternative uses. There all the elements involved, both on the supply and the demand side, are given as real without an obscuring veil of money and thus are determinate. Instead, our conclusion that causation inverts in an enclosed human-made system, set up to provide returns, is factual in that it has to follow from an altogether different set of axioms. Moreover, by being the denominator of causal inverse relationships, between claimants and claim-providers that are to be renewed in perpetuity, money has no way to ever come onto its own as a stock of things. And with the value of all supply factors being indeterminate, that same principle has to hold for everything we consider to be capital. Capital isn't worth anything unless a return realizes it to the extent of what is sought to be its proceeds; in which terms it can't be real ex ante. Bringing it into existence requires expenditures that are made in the hope and expectation that returns will be in the offing later. But those returns originate as to be resolved expenditures also; they never escape their own debt-resolving identity and are just made by others with that same expectation of a return. The entire economy is always in a state of flux by accruing debts, with the simultaneous potential to resolve those debts; with neither the economic flow components nor the denominator of those flows ever being able to turn into a stock as having a positive value-in-exchange. The only place where depletable stocks exist is beyond the economy, where these either directly enhance our living standard in terms of just having a value-in-use; have a suspended value due to not being part of the current income-providing account system; or are a part of freely supplied natural resources not as yet having a value-in-exchange. Once (re-)entered, assets and debts appear coincidentally as a result of being entered into a system of accounts.

This would also mean that those who abide by the assumption that money is the thing that settles contracts by governmental decree, are setting themselves up for a woeful misinterpretation of how money works. For from this "fundamental" definition of money it becomes impossible to deduce the full spectre of its reality. One of the most important aspects being that, although it accounts for activity in its terms, it cannot do anything itself. The idea behind the popular expression "money doesn't stink" is that money is a free-and-clear entity, bereft of previously established encumbrances. So even when it had been obtained under questionable moral circumstances, any portion of it thereafter used for beneficial purposes by definition is good; which thereby assigns a direct causation and possible fictitious ethical dimension to economic activity. This "money is a thing" concept has consequently acquired roots that go deep inside the human psyche, from where it becomes almost impossible to eradicate. But eradicated it must be, because it represents an impenetrable barrier to understanding how the economy operates.

New money entering the economy anywhere above the retail level, as a function of attempted growth in means of production, will still shortly thereafter as personal income end up on the retail level to carry out its debt resolving purpose. But in this case there is nothing inherent in this income to resolve yet. The equilibrating return to the new claim providers will, through cost transferences down to the retail level, come about much later. So until this becomes effective, what happens is that those who, through booked costs (incl. taxes) and profit transferences, became allotted a distinct part of current retail output, now have to share that with newcomers. (i.e.) All growth attempts, through additional accounts, are thus borne by those with previous claims to output; which they either lose through inflation when retailers sense a quicker turnover of goods and raise prices, or end up with money unable to buy anything substantial with. Although a fully clearing up of the latter is beyond this paper, it ought to be clear-cut already that the supposed financial benefactors of society have no causal power to affect growth whatsoever.

The paradigm shattering conclusion that all capital on economic accounts is nothing but unresolved debt, that is validly foisted upon our society for a mutual resolution, brings us back to the point of the economy having to have an ethical dimension, so that a re-equilibration in a dynamic way *can* indeed take place. For a more or less thwarting of this resolution; both by those having the power to set up an economic cost-structure without the intention to ever redeem those imposed cost in terms of a standard of living exaction for themselves, and by continually "reinvesting" such economic income in the financial markets instead; irreparable economic harm is inflicted, whenever this action in no way redistributes existing final consumption goods. Retailers become denied the ability to make a go of it, when they assume the by necessity passed-on costs of reproducing intermediate, economy-deep, capital (variable as well as fixed) as a condition of obtaining their supplies; because now, the inherent profits on paper higher up won't be resolved by those who "earned" them. In addition to the above depicted modus operandi of investors will be the cost of consumer credit. For if the latter exceeds the direct-spending propensities of those in receipt of charged interest costs, it will again be the retail sector and so the economy at large that suffers accordingly. Reiterated: the entire economy resolves through the purchasing of final goods; and when these cross the economy's boundary, having lost their economic identity entirely, they can now become added to natural utilities in the same terms.

GDP thus calculated shows the extent of the double-counting currently going on; and while double-counting often is an honest mistake. Investment banking, on the other hand, is almost set up to do evil. Every undertaken investment dollar, whether in financial instruments, real-estate, or in means of production, is disequilibrating as either a to be passed-on cost, postponing economic resolution, or potentially being inflationary; and so requires someone else's income dollar to be spend directly for the purpose of enhancing an exogenously existing living standard, to indeed make the former good and regain a dynamic equilibrium within the economy. But the problem is that those "someone else's dollars" are already fully spoken for in their task to equilibrate. The ruling free market, operating under the false assumption of positively valued capital, has no way to recognize that the system cannot be pushed and be in equilibrium as a matter of course. Nor can it determine that excessive inequality is damaging to the entire economy; and so, ultimately, will even be most detrimental for its creditors as well. For, all financial assets being loans, the inability to repay those loans cannot keep them solvent either. Thus the vain pursuit of ever higher numbers on balance sheets by a few, for nothing more than bragging rights, has hijacked the ability of the rest of the population to enjoy recurrent economic output; insidiously unjust.

Even though firmly held beliefs by everyone involved, can keep an accumulation of "wealth-on-paper" going for quite a while; the inherent contradiction, between supply and demand for investment goods, as currently taken to be determinants in a fictitious statically equilibrated economy, and the existing real-world economy unable to shake its need to be equilibrated dynamically, is bound to lead to a disaster eventually. The impossibility of resolving the rising debt that is ongoingly inflicted upon the economy's income earners by the controlling financial sector without any concerns as to the level of despair, because of involuntary joblessness and even societal breakdown this callous charging of interest fees beyond possible growth achievability entails, should seriously be considered on the scale of a crime against humanity, and thus would require - a coordinated world-wide governmental intervention. The only possible mitigating circumstance of what has been going on could be, that those in power have been completely unaware of what they were doing; as conventional economic theory of all stripes, so far hasn't been able to go beyond strictly normative argumentation with respect to the question of fair wealth distribution. This novel analysis now has made it clear however that every economic activity starts off as a to be resolved debt, i.e. all financing is debt financing; and that the integral instability and elementary impotence of institutionalized banking privileges in particular and of capitalist "power" in general, were already in operation well before collateralization of debt obligations and credit default swaps came into full swing a decade or so ago. The latter only made reaching the critical point of a total collapse that much more imminent; and just ought to be outlawed, outright. While yesteryears' progressive taxation should go far in fixing our out-of-whack economy.

Before closing, a couple more important remarks about the nature of money could be helpful to further distinguish this new approach from other progressive ideas already out there. First, it is important to realize that the "money supply" does not shrink with the payback of any loans. The Banking School reflux, or "real-bill", principle is wrong. The only thing that will happen is that a particular bank's income beneficiaries, no longer are able to participate in the now achieved living-standard enhancement, that was underwritten to the extent of the previously floated loans. The books of those former borrowers will continue to show deb(i)ts at every attempt to reproduce at already attained growth levels, to be followed by the simultaneously created economy-wide credits returning at a later time; that is, if this attempt to reproduce again was indeed successful. Suggesting that paying off loans is in any way deflationary, and that continually requiring banks to extend new loans is the only way for the economy to prosper, is taking it for granted that money is a thing; and as a theory is seriously incoherent.

Money, according to this view, not only is endogenous; it is also nothing but credit. And credit, and thus money, cannot exist one-sidedly. It is a conditional relationship between two parties. Credit exists economy-wide, because production capacity, extending into the future, exists as such; banks don't create that. Banks can allow the legitimacy of keeping economic accounts, a privilege of income earning that was chartered to them by government, to be shared by newcomers and let them play the economy's game too, but this doesn't add one iota to a player's capability to directly or indirectly entice final output to be taken off the market by consumers; and so pay back the drawn loan under dynamic equilibrium conditions. Virtually all suppliers require a track record before extending credit, and so it becomes a catch-22 for just about all newcomers; but it's credit, or the belief that that someone will make good on their promise, that drives the economy. Money simply underwrites it and, apart from inverting economic causation, doesn't change anything for real. The only way for the so-called "money supply" to contract is through defaults; beliefs having been shattered, with all parties now taking a loss, as the legitimate production capacity of output has just shrunk. No one escapes this event scotfree, not the issuer of credit, nor savers of the unit of account. Institutionally acquired power isn't real in light of the newly proposed set of principles; where reality stands for the upkeep of a dynamic equilibrium to fulfill a set purpose. The "money supply" is in scare quotes, because it is basically a clueless misnomer. It's a static concept that is meaningless within the dynamic system, as it was theorized to exist.

As mentioned already a few times before, there is so much more to the economy as interpreted in this new light, as well as in critical need to be rejected from the conventional "wisdom" out there, far outstripping the possibility of it all being depicted here. But an exposé in full neither is the purpose now, nor is it all available as of yet. At this time I've tried to convey the idea that to establish an economics in society with an ethical dimension, and also make it stick without invoking the appearance of paradoxes, revolutionary changes in thinking will be required. It's up this conference to decide whether this alternative approach is indeed the path to follow; and thus deemed worthy of being completed by the heterodox community.

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