OUTLINING AN ALTERNATE ECONOMIC PARADIGM.

Index Page

PREAMBLE 1
AXIOMS and some DERIVATIVE TENETS ... 3
UTILITY and the PRICE SYSTEM 8
SAVINGS 13
ENTREPRENEURSHIP and GROWTH 18
CAPITAL 24
GOVERNMENT and the DEFICIT 30
EPILOGUE 36

PREAMBLE.

We will discover soon, that 'the economy' of our consideration is not the one of orthodoxy, wherein Nature is just another subsystem. But that instead, our economy by itself is only a subset of human existence, all within Nature. Furthermore, because within the bounded totality of a set or a subset, everything depends on everything else; tracing its delineation, without interference of one's own unwittingly formed biases about the functioning of our economy, is not exactly easy; as many of those preconceptions may not be relevant to the overall *alternate* picture that's being presented here. Since this makes it virtually impossible, to try to tackle any economic topic head on, and then proceed to clear it up before moving on to the next one; I have chosen the only method I feel is effective, which is to make the whole progressively less 'fuzzy'. Thus to further familiarize the reader with the overall concept, this outline is presented free of charge before the main work is published.

Having to admit that even after well over a decade of trying, I am still not totally free myself from the inundation of nonsensical, paradoxical, and potentially disastrous posterings of economic orthodoxy; it would thus be quite unrealistic to expect anyone to fall for these new propositions, hook, line and sinker, at first sight. And since I have done my best to ease you as slowly as possible into these new propositions, and we can't possibly deal with everything all at once, you probably also will get the feeling of being left 'hanging' from time to time. Yet I hope that when you do run into any correlation difficulties, you don't immediately give up on me, but will try to read this introduction to its end. The overall picture at that point, no doubt after a mere 18,000 words or so, still won't be sharply defined. But my goal is to get you to realize by then, that this *shift in paradigm* has turned upside down some of the most crucial economic concepts, now being taken for granted. And that what we have all been made to believe as 'right', in terms of this new proposition just became a combination of a couple of 'wrong' notions; so that bringing any of these by themselves up as an argument in a critique, no longer is a valid response. As an approach however, this book remains a work in progress. Thus if you should discover internal inconsistencies, and/or indications that I'm still confused about certain aspects of this

alternative proposition myself, please let me know; it would be much appreciated. Also questions are more than welcome and can be directed to me by direct email, or through my website.

My presupposition, and the basis of trying to establish a different set of axioms, is that economic 'science' as it exists today, by having turned man into 'economic man', has been unduly limiting man's power to recognize the economy for what it is. Economic man, by definition, cannot step outside the system he forms a part of; and this makes it very difficult, probably even impossible, for him to definitively determine where the means to the end stops and the end itself starts. This confusion invariably turns up whenever capital and money play a part in the argument; and usually, this boils down to: ...but surely by increasing the means (read: capital goods and/or finances), the end is bound to increase beneficially as well, isn't it?
That may indeed well be so, but it is no automatic certainty; and in order to reach a systematic answer and thereby render it 'true': it becomes an imperative for its theoreticians, to define the meaning of capital and money in terms of some axioms that everyone can be comfortable with. And then as postulates these will be deemed to hold true, at least initially, or, until through a further delineation and integration with the world as we know it, they lose their validity.

This is where probably the greatest failure of orthodox economics comes into the picture. You may find this hard to believe, but after untold thousands if not millions of manhours of economic research, neither a comprehensive monetary theory, nor a theory of capital has yet been formulated, that could as such be falsifiable.
The only thing to show for in this respect, has been the uncovering of paradoxes, one after the other; which should have given those researchers a clue that perhaps a different set of axioms, from the ones they had chosen to work with, was required. And that their axiomatic Marginalist underpinning, while claiming to elucidate growth at the margin, was unable to define the margin of what; the factuality of the latter being obliterated, by their postulated set of 'givens', from all arguments.

In spite of the fundamental uncertainty that argumentation from the position of a null-set (i.e. one that contains paradoxes) denotes, virtually everyone with an opinion regarding economics, from the government on down to the man in the street, has yet been convinced by the all pervasive orthodoxy; which claims that producing a 'surplus', attracting 'new capital' and inducing 'investments' leads to growth. And that these key components are essential to future prosperity. Non are apparently aware of the well-kept dark secret, that their underlying economic justification is based on a set of beliefs. A dogma that ultimately could be exposed to be as absurd as the belief, that legislating the value of pi as being exactly three from now on is going to make a difference in reality.

Moreover, whenever somebody did make a serious attempt to get to the bottom of this, they were invariably answered by: "hey, we all *know* what capital is"; as if some 'truth' as expounded in the bible is at stake here. But while the unadulterated faith of religious fundamentalists is acknowledged as such; economists have the hubris to proclaim their system of equations, stationed on vacuous beliefs, a science. The logic of this alternative approach however, is strong enough to stand on its own merit, and it doesn't need to denigrate any system of beliefs. Its edification goes much further than the Keynesian critique of the "classical" theory, by rejecting the overlapping given endowments of both; for in these 'givens', the complexities that enter the system as a result of adding a return seeking profit to set costs in terms of the unit of account in a naturally growing economy, are defined away at the beginning of all arguments. Both orthodoxy and currently existing heterodox thought therefore, have no tools to deal with the two numerically intertwined but separate determinant streams of costs and profits*, that give the system its inherent complexity and supplementary indeterminacy at any time.
A starting idea of how this alternative approach is build up and what it stands for, will be in the next section.

*) Essentially already put as such by Sismondi [1827] in his N.P. BkII,Ch6,p1; (see also the epilogue of this paper).

AXIOMS and some DERIVATIVE TENETS

It should in no way be construed that, in further development of this approach, additional axioms to the three specified below are denied validity. But the broad extent of their applicability will become obvious soon, and so far I have not come across any situation that required an additional axiom. Although economic effects will be detected that do not find their ultimate cause in those three axioms, like certain propensities and "expectations"; these causes, also situated outside the economy as such, are all to be considered antithetical to the basic thesis. They are clues that fitting non-utopian human behaviour within a chosen axiomatic composition, requires an ultimate synthesis from the thesis and its collective antinomies. A priori turning them all into axioms would critically disintegrate the chosen edifice, before any realistic depiction could be achieved. Or in other words, to paraphrase Keynes's opinion regarding the limitation of pure deduction: an economic theory is only an intellectual tool to help us draw conclusions, but cannot contain any conclusion itself.
And finally, the corollaries from the three fundamental axioms below although quite significant are somewhat arbitrary; in that many more could be thought of to fit in between, not to mention to come after, the ones shown. So here goes...

1. The economy is a man-made structure with boundaries that are open to Nature.

2. Its sole purpose is to provide *additional* benefits to the natural human condition in perpetuity.

3. Every already basically sustained individual, longing to be useful and gain experience, is entitled to participate and receive its benefits, but retains the freedom to spurn any or all of them.

4. Because of 1, man can step outside it and look *objectively* upon its totality.

If upon further investigation no clear detrimental consequences do appear, being able to look objectively on our subject of inquiry is no doubt immensely powerful. Orthodoxy of course claims being able to do the same thing, but their economy by most accounts is closed. Looking objectively on a closed system existing in a void and thus not being able to step outside it is meaningless however, and is unable to provide any useful explanations at all; unless, or so it seems, a critical mass of 'scientists' believes otherwise.

5. Because of 2: it is, as a whole, a perpetual means to an end and never an end in itself.

First off, the sustainability of natural resources is a matter of course. Second, reproduction is a paramount objective; and finally no economist, when pressed to answer the question, to my knowledge ever denied the economy to be a means to an end. But as with so many incongruities that the orthodox paradigm cannot explain, it simply is always left hanging. So in effect, all they have been doing is playing lip-service to the principle. And, on the whole, heterodox economists haven't done much better either. (e.g.) There cannot be any "final" investment goods in such an economy, and setting up an independent chain of causality to explain their determinate own-values and existence is invalid; for it makes the system as a whole overdeterminate, and thus is bound to result in the appearance of paradoxes.

6. Because of 3: Net experience gained equals net potential growth.

This means not only that a labour force increase equates to growth, but that a stable work force remunerated in previous output effects growth in subsequent output, through "learning by doing"; which is what "gaining experience" is all about. Note that all growth is a potentiality only, since its output may be spurned and reproduction thwarted.

7. Because of 1, and 5: it takes natural resources from outside the economy, transforms them inside the economic sphere and then dissipates them again into exogeneity, for consumption.

Again, very different from orthodoxy where all natural resources are considered to belong to a subset of the economy. The hubris emanating from that idea is truly staggering.

8. Because of 7: Consumption, and the decision making process to do so (or not), are 'extra-economic' or exogenous activities.

So much for "economic man", R.I.P. This, by the way, not only is the most basic reason why the economy by itself is indeterminate; but exogenously originating "expectations" may give a totally out-of-whack economy the appearance of being in perfect equilibrium.

9. Because of 8: the value of an "end" (also known as use-value or utility) is economy exogenous; it thus has zero 'economic value', and it is valued strictly in terms of preference.

The idea that utility transcends economic values does not originate with me. For after it appeared, rolling out of my axioms, I became aware of Adolph Lowe's work "On Economic Knowledge". Unfortunately, he never accorded it the significance it deserves by expounding its consequences in greater detail; and like so many other ideas it bit the dust and disappeared from economic cognisance.

10. Because of 4, and 9: the value of all economic factors implicated with the final dissipation of an end product, necessarily resolved to zero.

Although there is nothing in the above to infer economic values from, when both their beginnings and ends are zero and we know of their existence at some time, a resolution process must have taken place.

11. Because of 3, 7, and 10: an accounting system with units of account (money) is imperative to keep track of the accrual of collective costs (and benefits) during the transformation of natural resources into items for consumption; while upon a successful dissipation, the self-cancellation of costs and benefits validates an ongoing account renewal to allow for an unencumbered reproduction.

There is enough potential material in the above to warrant writing at least a couple of chapters. Aside from pointing out a time constrained free-enterprise inevitability, suffice to say for now, that what economists have collectively spent millions of hours trying to do, but without any success so far, i.e. formulate a coherent theory of money, simply rolls out of my axioms; money is fundamentally the unit of account in an economic system defined by accounts, and any monetary phenomenon upsetting this "trueness" is disequilibrating. R.I.P. quantity theories of money; money is a 'store of value'; the 'velocity' concept, etc., etc.. And thus the function of economists, following this paradigm, will take the form of becoming macro-accountants; operatively, somewhat inline with Keynes's proverbial dentists.

12. Because of 2, and 11: the entire charged cost/fee structure of output, including depreciation allowances on existing means of production, profits, taxes, etc., constitute founded claims to currently available standard of living; to either be realized by those accounted for as beneficiaries, proxied to others less satiated, or wasted. There are no other logical attributives like 'productive capital' or 'dead labour'.

Meaning, that from beginning to end, our economy is a characterization of debt. Any and all additions to its extent start off with a debt. Although this debt potentially remains resolvable, whether this actually occurs depends on time limits for returns set by financial creditors. Furthermore, no appropriatable "surplus" attributable to capital is created; and thus its free enterprise will be non-capitalist.

13. Because of 3 and 12: the potential scope of production, at any level of development, is limited only to the availability of free natural resources, already existing sustenance, and man's inherent eagerness to use his skills.

Notice that a "lack of money" is missing from the above. Hence, the necessity of savings to instigate growth inducing investments is a myth. This and a "lack of capital" will all be dealt with later.

14. Because of 13: "wasting" claims to final output; meaning to relinquish inherent command value by turning disbursed benefits (personal income) into 'value' changes of both "accounted for productive assets" and "marketed real estate", suspends the system's reproduction process; and potentially thereby induces involuntary unemployment.

No longer any pussyfooting around the loaded term "investment", the proposed new paradigm tells it like it is in terms of its axioms. However investment (defined as meaning: employing unused human resources, so that they can consume the final output spurned by the satiated) remains of course valid; at least for as long as natural resources remain abundant, inclusive of newly employables, world- wide.

15. Because of 13: newly made available credit for additional means of production, redistributes already existing and accounted for final output; it thereby alters the value of the unit of account, and has no causative attributes to the to be created means of production.

Whereafter the repossession of means of production/inventory by creditors having pulled the plug, because set time limits on repayments were not met, is legalized theft. This preliminary conclusion will be further reinforced later, when it becomes clear not only that the creditor/rentier group as a whole is solely responsible to resolve the "interest" part of the cost structure (no one else in the aggregate can!); but that far from starting the economy back on a clean slate, the power to repossess puts it ever deeper in the quagmire of irredeemable debt.

For those well versed in currently taught economics; from the few if any similarities between the tenets of the theoretical branch you happen to adhere to, and the above; it should be fairly obvious that indeed an alternate paradigm, with all the consequences that this would entail, is at stake here. Apart from having open boundaries, instead of being fully enclosed like orthodox economic theory, and thereby acquiring an immense power to define and clarify things; this alternative approach basically confers the notion that money is neither inherently neutral (the neoclassical position), nor inherently non-

neutral (the post-Keynesian position), but that in order to maintain a *dynamic* equilibrium: money (in an unorthodox way!) *must* be *made* neutral. For if *we* don't do it intentionally, the economy will do it for us; with us all the while remaining clueless as to when and why.
Unfortunately, due to institutionally established prerogatives, the only way the economy can do this is through crises; and if that doesn't do it, its final solution is a full-fledged collapse.

This assault on orthodox economics, is thus not the one of most modern critics; who hold that economics, bereft of the socio-political and ecological realities of our world, is fiction at best and possibly harmful at worst. But that instead, it levels a potentially even more serious charge, namely: that any scientific field of endeavour with quantifiable elements is bound to degenerate into nonsense, when the scala of those internal measurements is taken as able to determine the full meaning of the system as a whole.
For if the economy is indeed a system that man devised in order to *add* to the naturally available utilities all around him, (which, as you will recall, was put as an axiom) then not only is it a self-contained entity with its own inherent means and ends, but its end as a whole can only find its meaning in terms of those same exogenous utilities. Individual 'economic' ends, even when all grouped together, thus have to be of a very different nature than its systematic end as a whole, at least from the perspective of those who depend on those final ends of the system for their benefit.

This is a general principle that holds for all *systems*. There is nothing in a systematic end, that: either is derivable from the cause and effect of the elements contained within the system bringing it about, or in any way can be used to identify those same elements. To give you an example: the *end* of a very intricate car and highway system, is to allow you to get from point A to point B; to be able to do something at B, that what you cannot (or won't) do at A. The causation of the critical path enabling that system to function, has nothing whatsoever to do with that *something* you use the systematic end for. Economic 'science' therefore, having invented 'economic man' as an entity constrained within a system, cannot help but be befuddled whenever it tries to evaluate the effect of all pertinent economic elements, in terms of axiomatically set determinate utility functions.

The economic end of all production is the sale of the product. The means (money) to do this, is thereby being returned to those in charge of that production and so becomes its end. Economic means and ends thus follow one another in an endless linear procession; and from the inside, at least for as long as things go according to plan, this gives the appearance of a continuously growing set of assets. When we look at it from outside the system however, any phase is not completed unless the produced elements have been resolved; and the system has thereby been readied for an unencumbered rebirth. But if, on the other hand, we get stuck in linear appearances;

and dismiss the 'known' non-linearity of utility, as an unnecessary complication of a straight forward economic outcome; then we can't help but substitute economic ends, (money, or capital) for what *ought* to be (having been deduced from its axioms!) the end of the system as a whole, namely: its emergeable standard of living.

Now if you happen to be quite content with the status quo of I don't know how many paradoxes, forever coming to the fore through the orthodox interpretation of money and/or capital; and if your faith remains unshakeable, that overt tautologies still impart the necessary meaning to your postulates; then so be it, the following is obviously not for you. But if you are not at all sure that orthodox economics is still firmly anchored*, or perhaps you are even questioning its ability to really influence our economic condition in a positive way; and you are also willing to take a closer look at a totally different method to determine economic well-being, then continue on. It's implicit conclusion however; that non-capitalist *free* enterprise, is the only economically sustainable system possible; no doubt is going to be hard to swallow for both the 'right-' and the 'left-wing' ideologues amongst you.

*)It may be of interest to know that according to a poll, conducted already a generation ago in the late seventies at fifty-five major North American universities, fully two-thirds of professors in economics, no longer believed this to be so!

UTILITY and the PRICE SYSTEM.

As a corollary to our axioms, utility is economy exogenous. This means that instead of utility determining economic health, as is held by orthodox economics; this approach holds that the well-being of the economy resulting from anyone's personal involvement in it, and any individually obtained utility, each form a part of two very different sets of identities.
While to most people, thieves and tax evaders are obviously scourges on the economy; the personal utility that can be extracted through economic misappropriation is substantial, otherwise, there would not be so many thieves and crooks engaged in those pursuits. Not all activities carried out in the economy however, are quite so obviously 'bad', or for that matter 'good'. Take for instance the attribute of property, or economic assets in general, to rightfully appreciate in value, and inflation with its prevailing counter methods. What if any relationship is there between the two; meaning: is the realization of the first autonomous, or achieved at the cost of losses elsewhere? So that the whole idea behind this exercise becomes to logically establish, well-defined causes and effects. This would enable us to make up our mind definitively, how both positive and negative 'economic' health is brought about.

"Maximizing personal utility", this slogan in one form or another, has been around since time immemorial; and also this

alternative approach will consider it to be: 'the' prime objective of our economic structure. But by recognizing that the human experience of the all encompassing 'free' natural environment, even in modern times remains at least as important as economically derived utility; also rather limiting thereby the significance of this particular kind of utility, in terms of the contended betterment of society as a whole.

In further contrast to orthodoxy, this theory will determine that its emergeable personal utility will only be maximized *in the long run*, when our economic well-being remains assured at the same time as well. It will do this by making a clear distinction between the eventual emergeability of additional to anterior..., and overriding existing utility. And although the latter is not necessarily 'bad' for the economy in the short run; its nature as being apparently good for some, but often at the cost of being bad for *all* in the long run, should still be understood; so that the economy's controlling financial system can make informed decisions, that do not deviate from an overall expedient neutrality of its means of exchange. This neutrality will then substantially become the 'automatic pilot', (or Adam Smith's 'invisible hand', if you like) of a continually maximized, beneficial economic development.

Even though the latter is a good indication of the rather subtle difference between the outcome of neoclassically guided economic activity, and how the economy would function under the rules of the alternate paradigm; an economy exogenous utility and non-automatic neutrality of money, would dismiss virtually all current micro-economic understanding as being irrelevant. That is to say, in no way should it be construed that the object of this inquiry is to fundamentally change the economy; only the understanding of it is at stake. And the fact that the economy, at least for most of us, has yet been performing reasonably well during these past couple of generations or so; would thus be in spite of reigning economic theory, and not because of it.

By the same token: the seemingly unbridled wealth of the elite in our society, is not be mistaken to mean that money is necessarily 'powerful'; which the post-Keynesian version of the non-neutrality of money seems to imply. As we will discover later on, the 'real' convertibility of economic assets into standard of living, is not fixed in terms of the current price level. And since overall expectations are able to sustain the appearance of successful resolutions, well beyond the point of no return; the 'long run' remains important in economic analysis.

The key to obtaining 'economically' produced utility is through income. Utility itself can be obtained and enjoyed without any economic involvement whatsoever. One could live off the land and barter with others for instance, and enjoy nature for free. An economy, on the other hand, functions only thanks to *income*. And indeed income (in monetary terms), is what sets an economy *as a bounded totality* apart from primitive self-sufficiency, and/or straight bartering for goods and services.

Through potentially being able to *add* to our freely available natural utilities, by spending income; something rather ill understood, but at least theoretically quite beneficial at the same time, can now happen.

We can 'save'! No longer it is necessary to consume the products of one's own making, respectively those produced by our partners in barter, all within their own inherent time frame. But now, through these 'savings', some sort of account is kept that will enable both the savers and those employed through savings, to be rewarded over a much extended period in time. It should be pointed out right away however, that one of the most significant theoretical differences between orthodoxy and this new approach, is that in order to maximize economic viability: *there cannot be an indefinite postponement of direct spending*. Meaning that according to the latter, at least in the aggregate sense, a distinct time limit exists for savers to fulfil their economic claims. And that waiting for gratification beyond that time frame, not only is detrimental for the economy as a whole, but in the long run this is bound to destroy emergeable utility for savers as well.

Another crucial aspect of any free enterprise system, is that only through income the production process can rise above a single level, and develop in a vertical way. By this I mean: a resource level -- mining, forestry, energy exploration and agriculture; primary manufacturing -- smelters, sawmills, refineries, etc.; secondary manufacturing -- heavy and light machinery and equipment fabrication of all kinds; tertiary manufacturing -- construction, the car industry, etc.; and finally, the provision of retail or consumer goods.
The above five levels, by the way, are listed for illustrative purposes only. They can be further broken down and amount in fact to dozens, if not hundreds of separate levels. All these existing industries however, are integrated in a vertical way. Furthermore their outputs are used, not only as inputs to a level below their own (as in a simple one-way vertical integration), but also to levels that in the overall picture would be considered, as being above their own level of operation. Such 'looping' of produced output however, does not at all mystify the functioning of our economy; as the universality of passing along incurred and embodied costs through the sale of output, keeps it all fair and straight.

An 'economy' is synonymous with the minimization of output, that either is unnecessary or is unwanted as an input by others; the latter being known as economic 'waste'. And by extension; given that hardly anyone is still in the position to be totally self-sufficient, and thus able to survive outside modern economic influences; include all those who are able and willing to do so, in that production process. This turns the 'economic question' into: is there anything that we, as the economy's only reason for being, can do to minimize waste and maximize participation; so that through a healthy economy, the maximum inherent benefit eventually will emerge. And the answer is... (well, let's see how far we can get)

Under the assumption of a balanced budget and a closed economy (in the orthodox sense, thus without any imports, or exports), at any point of departure; and it does not matter how far back in time we go, if at all; any existing economy will allow all of its human collaborators a certain given standard of living. The allocation of the then individually obtainable living standards, is set through the price system; herein workers are hiring themselves out at a price, and the price of their labour became thus *embodied* in the cost of output. This in turn will allow 'labour' (as management inclusive) to command its embodied share of the produced output.

Labour is not the only 'factor of production' though, that, at any particular level, through price is being embodied in output. The next most important factors are the already incurred cost embodiments of raw materials, and that portion of 'the means of production' that through ongoing depreciation is used up in the process of producing output. Other factors are: rents, the costs of any borrowing, service fees, taxes, and a profit for those in charge of the operation. In short, prices are set according to a 'cost plus' formula; and these 'factors of production', which *all* transpose into disbursed income at its price (there is nothing else 'economically' involved!), are giving its final receivers (through wages, rents, interest, transfer payments, and profits) the proportional command over that output. And only if this command is mutually exercised in total, will all those in charge of production be enabled to recommence their enterprise in an unencumbered way; as not only their build-up stock will by then have been cleared off the market at its 'cost plus' price, but a *growth enabling* replacement of the existing means will remain an ongoing concern as well. (The latter will be taken up and further explained in a little while.)

In a hypothetical economy without any economic 'waste' whatsoever, all the companies involved (from the resource level down to retail) will be able to pass along their incurred costs with respect to output, to a level below their own; so that *the totality of retail goods ends up being embodied, with all the incurred 'cost plus' pricing throughout the economy*. And since everyone obtains their individual standard of living through the purchasing of retail goods, a maximized standard of living (at any point in time) is obtained when all received personal income is thus spent on the available retail output.

But does this mean we can't 'save' after all? How do we progress? What about capital investments into new and exciting ventures? Why should all existing enterprise be guaranteed their set returns, and grow fat and inefficient in the process? No doubt these most valid questions have come up in the mind of the diligent reader, and they will all be dealt with in due time. But for now the most important thing to realize, is that all those who in one form or another received an income through the system, did this in accordance with the economy's controlling system of accounts; in other words, as part of the 'price' of something that was in the process of being produced.

Economic 'income' is thus intrinsically connected to *already* produced output; and it is not necessarily free and clear to withdraw and/or reinvest (serve as a store of value). And neither does retail level profit income escape from this direct spending obligation. The setting of prices above costs means that unless such re-spending does indeed take place, profits by some will turn into losses by others. And given the usual 'set' levels of profit in our economy, the upshot it is that even 'profitable' enterprise will most likely be stuck with 'unsaleable' merchandise; as due to an insufficient aggregate income, which we cannot get into for the time being, the market could not possibly be cleared, even upon a subsequent lowering in sale price.
This would of course mean an enormous 'waste' of the emergeable utility. And indeed the most significant 'surplus' that this approach acknowledges, is the well known 'impossibility' of economic orthodoxy, namely: a *general* glut on the market.

Although the process of allocating an economy wide command over the produced output is not quite as straightforward as outlined above; all its details can arithmetically be shown as being correct, so that a dynamic equilibrium does indeed potentially exist. And as promised, we will return to this later on in this introduction. But first, we have to at least mention a substantial part of the economy, that has not been considered so far.

While at first sight the above may appear to encompass the economy in its entirety, there is another side to it. Its size is probably somewhere between one-third and one-half of the economy as already outlined, (if one were to include financial derivatives, it could even be said to be several times larger than the economy proper!) and its relationship with the latter may range anywhere from being pure symbiotic to pathologically parasitic. It basically is the non previously embodied retail services sector, and also contains the second-hand market, including for instance: private real-estate up for resale.
This retail subsector is totally dependent on the stability of the economy proper, and it could not possibly survive without the latter being healthy. Although again the whole story is rather involved; the short explanation is, that to the extent that this subsector absorbs more income from the main retail sector (all within a certain period of time), than is being released back into the latter; it feeds off its host, causing economic stagnation, and potentially thereby destroying the economy as a whole. This should give you some starting indication, how this approach regards the orthodox argument that: rising, or high property 'values', are a measure of economic success. Let's next consider savings, in our quest for a 'realistic' economic alternative.

SAVINGS.

The conditions for valid personal savings are basically twofold. First there is the potential transfer of income, to those who feel that their current income is inadequate to foresee in their current needs. These individuals are willing to trade some of their future income, for a discounted share in the current income of others. Neither any current, nor its potential continuation into a future equilibrium is upset through these types of transactions; whether it eventually turns out to really have been an advantageous sharing for all concerned, or not. Second, it is a way to include the unemployed in the production process; but even though this happens through the borrowing process of entrepreneurs, its overall causation is somewhat different than it is understood to be in the orthodox sense of 'investments'.

Remember that according to the above, the 'ends' of economic endeavour are the living standards of all its participants; and that all income has to necessarily be spent, in order to clear the market of its economic output and transform it into utility. What first of all is accomplished through 'savings', is thus not really the potential creation of additional economic output, but only the renunciation of an already allocated standard of living. For what savers relinquish, can now be appropriated by those new employees, whose assumed low(er) standard of living, used to be taken care of by means of levied taxes on all received 'prices' throughout the economy; which is how any civilized price system allows for the provision of transfer payments, to the less fortunate in our society. So far so good, still no assault on any equilibrium condition; only a redistribution of the existing output may be assumed to take place.

What happens next is that savers/investors, whenever this happens through the banking system, establish a claim against the assets of all borrowing entrepreneurs. The latter will then add the resolution of this claim, as a 'cost of borrowing' to the price of output for sale; and this is where a potential problem might crop up. If savers as a group remain quite content with whatever standard of living the economy had been providing them with, an additional matter needs to be dealt with now. First, the original source of those savings still exist and thus requires still more unemployed, to take up the slack of demand for already produced output.
This in itself is usually no problem. The 'reserve army' of the rather employed, is large enough; and also, there is hardly a shortage of any would-be entrepreneurs. But if savers/investors have no 'need' to directly spend any additional investment income, that is being generated through the price system; this will cause entrepreneurs on the retail level to go broke, as the investment income of the former, is the *only* kind of income available, that can complement the total resolution of all the at the retail level assumed 'cost plus' embodiments, and draw the system back towards an equilibrium approach. All other kinds of income, whether they already existed, or were just brought about through these new investments, will have their own particular command to contend with.

And if, on the other hand, we imagine that the latter command *replaces* the command of investors; then investors over time will end up with accumulated 'funds', that are worthless in real terms; as the maximum realizable 'worth', is the at any time existing *income* embodiment of the then current retail level output; and the perceived additional worth, as tied up in existing multi-billion dollar investment funds, can then only be 'realized' in useless inflationary terms. This too, will be further dealt with later on. It is thus totally irrelevant to state that society's aggregate wants are insatiable, when the individuals whom the (price) system is allocating a command to, are not interested in its fulfilment.

Not only is this indicating the fallaciousness of the argument that supply creates its own demand (Say's Law); but also, as society grows more affluent, that the tendency for a permanently growing disequilibrium and rising debt load to take hold, is almost self-assured. Although I should again remind you that the whole argument, diametrically opposing orthodoxy with its thousands of books written on the subject, is far too involved to be completed in this short introduction, the espoused principle stands out quite clearly already. Since the system's investors are not willing to wait indefinitely for their returns on investment, but all the costs of borrowing take only a finite amount of time to become embodied in derivative retail output; neither can borrowing entrepreneurs at the retail level afford to wait forever, for investors to finally decide to directly spend their investment income.

As far as the overwhelming majority of savers is concerned however, this does not really present a problem. Their interest income will amount to an almost negligible portion of their income proper. And the lag between savings and dissavings, gives the system the necessary wait for incurred costs higher up, to work themselves down to the retail level where they can be resolved. But what should be kept in mind, is that money income's 'store of value' connotation, is ultimately determined not by individual savers exercising their own option to save, but by savers as a group in combination with their partners as financial controllers; namely, through the setting of a time frame for returns on investment. Later on I hope to make clear, that the power of the financial establishment to recover the 'value' of these investments, upon default; instead of wiping the slate clean and starting afresh, is putting all of society (including themselves!) ever deeper in the quagmire of irredeemable debt.

This situation, wherein nobody has any direct control over anyone's own economic destiny, but that in the final analysis everyone's return on the economic effort one puts in, depends on an offsetting reaction by countless others towards any particular effort, will reoccur time and again in this approach. The economy not only is statically indeterminate, thus remaining at all times a dynamically evolving entity, but also works in a non-linear way. Virtually all orthodox reasoning therefore, regarding the cause and effect of economic activities,

no longer applies. Without digging too deeply for now, into the very complicated matter of reciprocality; perhaps this non-linearity principle can yet be made somewhat clearer, at least where the realization of common business profit is concerned, by pointing out that no 'singular fund' is ever able to bring about its own 'profitable' return.

The materialization of the latter, requires the existence of at least one other and also totally unrelated 'fund'. In that case the first fund provides the income for one-half of society, and the second one takes care of the other half. After 'cost plus' prices are set, those who obtained their income through 'costs', mutually exchange their income for one another's produced output; with as maximum pertinent effect, an overall 'break-even' potential. The ability of actually 'making' a profit by those owning the means of production however, does not directly ensue from their own carried out production activities; it can namely occur *only* if their economic colleagues on the other side, decide to start spending an emerging profit income, while yet a portion of their own stock remains unsold. Otherwise neither any profit, nor a clearing of the market could ever come about; thereby critically encumbering the system in its reproduction process. Although, as we saw above, in the short term this spending may be indirect, in the form of new investments; in the long term, (as set by their own willingness to put up with temporary deficits!) direct spending remains essential to systemic economic health.

The 'value' of all capital, insofar it can extract profits from the economy, is thus not inherent in the capital items themselves; for in that case, the conjectural extension to a single owner of all capital, would not represent the discontinuity of a possible 'profitable' return. Instead it indicates that all capital is only valuable in those terms, as long as other capitalists are willing to directly spend their profit income on the output of capital that is not owned by them. Of course an economy reduced to only two 'funds' as postulated above, is highly unrealistic; but as a way to point out this fundamental economic non-linearity, it does seem to serve its purpose.

Another concise but illustrative model, to further 'prove' by reductio ad absurdum that only profits can generate profits and are totally independent from the remuneration of costs, is by imagining a society of only slaves and their owners. Since the 'costs' of any society cannot fall below the upkeep of slaves; and the owners, as the only spenders in the system, would be doing their best to keep all those costs as low as possible; imagine the level of profits that would be achievable in such a state of affairs!...
If the problems, that orthodox (micro-)economic reasoning has been creating for all those affected by downsizing and/or the rollback of wages, were not so perilous; 'economics' would be too laughable to take seriously.

Staying on the only level, realistically able to explain the workings of our economy (the macro one): when orthodox

economics does get around to contemplate the dilemma of a possible shortfall in available aggregate income, (and thus not defines away liquidity preferences at the start of all arguments), the 'velocity' in the circulation of money (according to the IS-LM equational system*), supposedly will straighten it all out. Without putting orthodoxy on the spot and asking them to define their 'money'; this new approach, (apart from where it concerns, respent retail level profit income!) simply takes the position that the 'circulation' of money is a myth, or perhaps better said a red herring, as far as its economics is concerned.

*)It's interesting to note in this respect, that the inventor of this equation: the Nobel Prize winning economist J. R. Hicks, late in his career, completely disavowed its effectiveness in economic understanding. This in turn left a whole slough of so-called New Keynesian economists, with virtually nothing to hang their macro-economic hat on. A situation that relegated an already most questionable micro-economics, taking on additional functionality by becoming macro extended to rational expectations; and to as such rule the mindset of our socio-economic managers.

The economy is ruled by effective demand, (or the ability to pay) and the 'velocity of circulation', as we will see later, could be seen to affect the economy only through the direct spending of profit income; and even as such it is quite open to a distinctly different interpretation. The spending in full of one's bi-weekly income on the same day it's received, and being broke until next payday, neither helps nor diminishes economic well-being. And if we imagine an economy wherein everyone pays only by credit (or debit)card, it becomes even more obvious that money, in our current setup, is just the physical representation of a line on a balance sheet. Every enterprise that has money coming in, has costs going out; and the two simply cancel one another out, thereby coming to a dead stop. Money is thus no 'wealth', which is floating around society and that as such can be passed on to others, but only a means to distribute produced output and enable an unencumbered reproduction process to take place.

The above mentioned 'claim' by savers/investors towards the assets of a borrowing entrepreneur, by no means is the only economic claim around. In fact the economy's means of exchange (income) being utilized towards a transcendental end, can only be explained as an established claim that sooner or later requires a resolution in terms of the mutually produced output. Any interpretation of money, or its ephemeral alter ego 'financial power', as a positive value, would to the same extent be double counting the value of economic assets. And as long as orthodox economics is unable to perceive that not only money, but in fact all economic assets never rise above being claims to standard of living, it will be incapable of formulating 'true' theories both of money and capital.

All of this means that the economy, as a continuously evolving entity, cannot help but be: *forever in debt to itself*. And the only

way the latter makes sense, is by portraying its totality as an inherently neutral situation over time. These suppositions are quite far-reaching however, for if we make obtaining the utility providing, derivative output at the retail level, the 'positive' economic determinant; and in the final analysis, money, a strictly neutral means of exchange; *then the entire capital stock becomes the 'negative' in that equation*. The term 'negative' in this case, of course does not connote something detrimental. But its counterintuitiveness, and indeed the immense assault that this conclusion is bringing to bear on our common sense, no doubt has been a significant reason why a number of classical economists, quite a few intelligent lay people and to some extent the post-Keynesian theoreticians as well, all with rather similar ideas to the ones expressed so far, were not able to take this one extra step and 'close' their system. The idea of a *positively* valued 'stock' of capital, simply proved too deeply engrained to be mentally supplanted in full, by just a *potential* enabling 'flow'. Furthermore this conceptual resolution of economic flows, will also require a re-examination of the notion, that economic debt is identical with having lived too high off the hock.

It has already been mentioned that savers willingly relinquish a part of economic output, that their economic condition had entitled them to consume. And indeed as long as unemployment continues to remain a problem, and/or others are willing to do the consuming for them, this does not necessarily upset economic equilibrium in terms of its dynamic condition, right away. Spenders on the other hand, by definition, fulfil their economic obligation immediately. There is nothing more that 'economically' can be had from the latter. They clear the market to the best of their ability, and those who dip into their credit, do the same and then some. Any build-up of economic debt has thus been the result of an allocation of spending power, to those quite willing to do some direct spending, from those who are reluctant or unable to make use of it all. But this also means that the reverse, or lowering of the debt level, can only take place when those former lenders do change their position and start spending *more* than before.

It is the accumulated funds of savers/investors, that, as presumed capital, constitutes the systems debt! And even though it readily appears, as if the economy's controlling system of accounts is showing net positive values (or equity!); in terms of its eventual, aggregate resolvability into economy exogenous utility, or debt liquidation, such a 'corruption' is a systematic impossibility. This would also mean of course that upon the liquidation of all economic debt, there no longer is any so-called economic 'wealth', purchasing power, or money if you like, left, to in one way or another add to our standard of living in real terms. Resolvable debt *is* the economy's identity.

At this point in our argumentation, it would be a good idea to show that governmental debt cannot possibly escape this all encompassing equation either. And that the only way to liquidate governmental debt, without saddling the private sector

with an identical quantity of additionally to be resolved debt, is for the (former) bondholders to *directly* spend their recovered income. Thus in case of a debt reduction through cutbacks, these money lenders thereby take the place of those who now will be finding themselves off the government payroll; but that's for a little later in this outline. Instead for now, let's look a little closer up at the aspects of economic growth. And I thereby hope to make a bit clearer as well, the under current economic directives, nearly impossible task to resolve society's accumulated debt in real terms.

ENTREPRENEURSHIP and GROWTH.

So if the personal 'sacrifices' of investors only redistributes already produced output; and the newly undertaken output is only growth producing, when those same investors partake in an, against the grain going and therefore having been substantially spurned, full retrieval of their embodied share; what exactly has been producing the obviously enormous flight of expansion, that our economy took during these last couple of generations or so?

The answer, by enlarge, lies again with the economy's price system. As you will remember, one of the factors of production being embodied in output, is the 'used up' means of production. This is the capital infrastructure of buildings, machinery, equipment, tools, and furniture in the possession of a manufacturer; and with the help of which, the latter's employees produce output.
As physical inputs however, these capital items are continually subject to depreciation. And as an expense of doing business, some systematic arrangements must be made to enable manufacturers to replace whatever portion is worn out, so that production can continue indefinitely. A part of any entrepreneur's return, thus has to include allowances for the replacement of their means of production.

Although it is totally up to those in charge of setting prices, to what extent depreciation allowances are reflected in the price of individual output; the overall resulting corporate income, as shows up through the banking system, still has that definitive purpose. This not only entails that a certain portion of entrepreneurs throughout the economy, is able to call on that general return by means of loans, to put those higher up in their particular sector to work, thereby replacing their means of production at any time, while rolling over the debt held at levels above their own; but also thereby allowing a share of current final output to accrue to all those involved at higher economic levels. It should of course not be forgotten that this pertinent portion of the returns, has to be in addition to covering the costs of borrowing, regarding the original acquisition of those means.

In a great many cases where worn-out means of production is being replaced however, the new replacement item has a higher level of efficiency than its predecessor. This implies that

as a result of 'a learning-by-doing' process that at all times exist in any developing economy, more output with the same cost per unit of input is achievable. The replacement cost of current productive means in terms of growth producing means of production during times to come, is, through depreciation allowances on these contemporary productive means, automatically factored into the cost of current retail production output; which by the way is happening, regardless of anyone being cognizant of this or not.

A major question that had been bothering a number of classical economists, is how this experience induced ongoing growth in output could be distributed, since the income that brought it into being is obviously insufficient. Or in other words, we are dealing with a classic case of deflation, were too little money is chasing too many goods. Although these early economists recognized the primordiality of *embodiments*; and, in contrast to their modern counterparts, were not about to let go of this vital principle; they never had been able to satisfactorily explain it either. To do this, we have to examine both the scope and the limitations of the crucial *profit* seeking free enterprise system; starting by almost solely considering, the all embodied retail sector for now.

It has already been mentioned that as far as 'costs' are concerned, the economic means of exchange doesn't circulate, but right away comes to an abrupt stop at the level of the firm; where it then, through the cancellation of previously assumed costs, enables the firm to recommence its production in perpetuity. Retail level *profit* income however, has no such limitations. When the latter is respent directly, during subsequent periods in ever diminishing effect, it engenders all the characteristics of the Keynesian multiplier, providing in effect income upon income. But although theoretically at least, this could stretch far enough to potentially allow a market clearing, even of *expertise* induced growth; in practice it has been falling far short of that, and not only because profit income earners refuse to spend it directly, or hire additional employees to do the direct spending for them.

Since (based on past realized returns), the higher the levels of profit are set, the greater number of profit income turnovers are required to clear the retail market and provide all entrepreneurs with their 'cost plus' returns; the system cannot afford to lose too much multiplying profit income, too soon in the process.
Simplified period analysis of systematic income earning and spending, together with numerical examples to take care of the respending of realized profit income (which is as far as I've been able to formalize my model, and I doubt that a substantially more complete formalization is possible), shows that the only sure way to clear the market inclusive of expertise induced growth; is, for those with the greatest numerical returns, to respend those returns on the output of those who have the least amount of stock left to sell, (i.e. low profit setting firms, who cleared the bulk of their stock through the straight exchange of 'cost' income) and this regardless of how much

stock the former may still possess. For the direct spending of profit income earners on produced luxury items only, cuts the number of turnovers below what is required and leaves the lower profit setting firms with unsaleable merchandise; in other words, the market fails to clear and reproduction is thwarted.

Although the real world can obviously not totally conform to a limitation like that; as nobody is: either in the position to know the economic circumstances of their fellow entrepreneurs, or at all interested in taking any particular stock off the market first; the potential to rectify a disequilibrium situation does exist. It would however, require a universal profit sharing plan; not only to negate the likely satiation problems of rentiers, entrepreneurs and upper managerial staff, but to secure for the aggregate of low profit setting firms, a profit as well. Only in that case could the system come quite close to approaching that ideal, with only a minimal number of entrepreneurs, whose output is least in demand, succumbing to market forces; and also thereby able to readjust, over time, the demand proven level of 'cost' remuneration.

This substantially is the mechanism that underlays all economic progression and it is of immense import. Because growth, whether always induced exogenously and at least partly out of our own control as argued here, or being endogenously controlled as argued conventionally, it needs to have a logic distributional path. Although the pioneering classical economists remained slightly shy of explaining it fully within their own set of axioms; the neo-classical simultaneous determination presupposition of both supply and demand, not only hasn't improved on the generality of its applicability; because it has to add an additional axiom to the ones of classicals, it diminishes it. Thus unless there is an apparent fault in their logic, the classicals must prevail.

The above shows that the causality runs from the demand side for output. It gives price-setters the confidence to apply a certain markup, in spite of being clueless that in the aggregate and lacking the launching of new ventures, this markup is realizable only from the level of directly spent profit income, being applied towards their particular operation. There is therefore not just a single causal factor involved in the realization of value, but an interlocking circular process with feedback over time is providing the complementary closings of that value. This means that neat econometric models with fixed coefficients, by definition are ruled out. In addition to that, it exposes how the 'money velocity' notion and the markup could be seen to be related; even though from this alternative perspective no tangible difference exists, between the 'creation' of money through the setting of markups and the 'money velocity' concept of conventional economics.

Profit income, it should be understood, is just another form of our hierarchical way of rewarding input; as if with perfect foresight, all remunerations were continually adjusted, to always bring about a 'break-even' situation, according to the mutual

demand for output at its price. This ex ante dipping into their credit to increase wages by entrepreneurs with perfect foresight, is just as much 'money creating' as the setting of a mark up over cost. And though profit income does deserve its magical connotation, as the sole enabling manner by which the system can continuously progress; it is not through the reinvestment of those profits but thanks to the direct spending of those profits, that exogenously induced and already in pipeline growth becomes realized. Because without any 'after the fact' reallocation of that output, what is bound to happen, and indeed has been happening throughout economic history, is an oversaturated market most of the time. Given that neither established entrepreneurs, nor investors are willing to fulfil their command over the produced output; the only way to clear the existing market, is by relentlessly sacrificing (new) entrepreneurs instead.

When an aspiring entrepreneur; with a bright idea for a business venture, (in an area that she has some build-up expertise in) and say a house free and clear for collateral; steps to her friendly banker, signs away the title to her home and sets up shop; additional income that in no way is connected to already produced output, in short order appears on the retail market, through the newly having to be undertaken expenditures of all kinds. Such activity is thus bound to save the hide of some already established entrepreneurs. But don't forget that all these new funds are a one shot deal only. The structural iniquity of insufficiently exercised command over the aggregate produced output, doesn't change; and this cannot help but lead to the failure of as many new entrepreneurs, as are able to hang in there, somewhat longer.

Now remember that, deduced from our axioms, the entrepreneur's home is an 'end' that was obtained through economic 'means'; so that anyone's bought and paid for house is situated outside the economy as such. Upon signing away title however, the house re-enters the economic domain again and now becomes 'capital'; the underlying 'asset' of the assumed economic venture. Through this newly undertaken enterprise, more income as economic means is thus made available, and this shows up as an increase not only in G.D.P., but also in a to be resolved debt. While it generally is held that G.D.P. stands for achieved welfare, this new approach would characterize it only as the accumulated systematic costs.

One of the great failures of national income accounting, is while it without question determines that this from outside the current economy created income, is growth producing; any subsequential failures of those expectant entrepreneurs, do not directly show up in a lowering of that growth. And yet only when upon insolvencies, the recovered income by financial institutions through its share holders, mutually commands the equivalence of the derivative output of those assets at the retail level, would an overall growth indeed have taken place. It doesn't take any great genius to realize however, that about the least likely thing to happen at any time and in any economy, is

this kind of direct spending of the often stupendous profit incomes of the financial establishment.

The situation so far, is thus whoever acquired these liquidated assets, thereby enabling the financial institutions to recover their 'investments', will still be seeking a return from their new acquisitions; while the only unencumbered 'funds' to accomplish that, is the interest/profit portion of the recovered income by the financial institution. The bulk of it as original principal having disappeared from the economy altogether. A substantial portion of our so-called 'growth', is thus nothing but accumulated debt; still waiting (and in the aggregate in vain!) to be resolved into emergeable utility. And the same reasoning applies to the failed entrepreneur's home; it too requires an income from the economy at large, to once again be resolved and disappear into economic exogeneity. Furthermore, few would argue that such a shift in home ownership, somehow could be said to represent an overall increase in utility.

Nobody is holding a gun to the heads of would-be entrepreneurs, and force any of them to start a business; so why should we worry about the losers?
The problem is that the system encourages entrepreneurship, but without acknowledgement that the deck it's playing with is stacked. An entrepreneur is made to believe that if one works hard enough, one is bound to succeed; as supply creates its own demand! Orthodox economics does not tell entrepreneurs that the newly created supply, provides demand for the new output only if the mutual command of all embodied inputs is indeed acted upon. Moreover, if the game were fair, the interest charged on business loans would be in the order of the rate of economic growth; and not at triple or quadruple the latter. Entrepreneurs in that case, (together with the rest of us, suckers) would not be conned into believing, that such high interest rates are a way of keeping down inflation for the betterment of all concerned. Instead they would be made aware that since income revolves in a closed circle, such high interest rates are just another way of shifting income from those who attempt to increase the living standards of society, to those who for the greater part have shown, to have no real use for such increases at all. The latter, perceiving that their standard of living already is high enough as it is, (by doing us all a favour!) end up throwing society's true saviours to the wolves, over and over again.

The augmentation of our overall standard of living, has indeed been achieved through entrepreneurial investments. But to the extent that 'successful' investments are still equated in 'funds', and not in an economy exogenous standard of living; it has been the investments of others as well as the economically failed, and not anyone's own investment savvy (including banking!), which accomplished that. The funds of the latter are still a debt that needs to be resolved before utility can enter the picture; and this at all times is limited to the availability of retail goods on the market. And if indeed attempts were made, to quickly 'realize' the totality of those funds into utility, which is the

undisputed *end* of all economic endeavour; then I'm afraid that its only result would be a sudden onset of hyperinflation; *and this by the way, without any help of the government's money printing presses.*

Even though we are still some distance away from being able to close our argument, the above exposition (from our set axioms) strongly suggests that the imprudent orthodox emphasis on growth through thriftiness and thereby imploring people to save; not only has been pillaging the collateral of literally millions of hard working entrepreneurs and put their employees out of work in our so-called 'free enterprise' society, but also has been turning a substantial portion of that collateral, into 'worthless' still outstanding funds. In aggregate real, or non-inflationary, terms, all 'equity' is bogus. As a bounded totality that nets to zero over time, the system cannot exaggerate its worth beyond its resolvement capability; and those who are refusing to play a part in the latter, will sooner or later be forced into paying anyway. But then they won't be able to show anything for it.

Now for as long as the system is able to provide a return on those funds; the idea that one's savings constitute a 'real' wealth, no doubt will continue to persist. Every upswing in economic activity will thus be seen as proof, that all it takes is just some renewed confidence in a fundamental economic well-being, to put the system back on a healthy footing. No one is aware that the only thing happened, is that those extracted savings, under the reigning bliss of ignorance, once more took the plunge and were reinvested; with as result that the overall already stupendous debt, just made another leap.

For what in fact is the state of the economy, now or at any time in the future, that our depiction has been showing us so far? On the one hand, we have a quantity of current income that if all spent directly is basically sufficient to clear the market in full, enable it to grow according to the acquired expertise and thereby maximize emergeable utility in perpetuity; and on the other we have a quantity of 'saved funds', which by being invested will already be a part of the above income over time. But in addition, funds by definition are recallable; so that the latter too, always remain available and in the final analysis have no other purpose than procuring that same quantity of already claimed retail goods, *all over again*.

The expectation of at any time being able to realize the 'worth' of one's accumulations in real terms, has thus been fostering a hidden inflation; as all the underlying goods that the extracted funds would have been able to resolve, have long since disappeared off the market by having been sold at a loss. There is no 'real' value acquirable with those savings! All it has led to is about as horrible a financial mess, as there ever was one; early twenties' Germany included.
Instead of a having created a system tending towards equilibrium, bestowing ever greater benefits upon its participators; the orthodoxly sanctioned lean and mean attitude of the business community, together with the obtuse attempts

by individuals trying to get something for nothing, has been having the exact diametrical effect: an ever increasing 'wealth' that not only is unrealizable for its claimholders, but is acquired at the cost of stagnating, if not outright lowering, the well-being of society as a whole. Not to more than mention at this time, the exacerbation of the whole situation caused by counterproductive interest rate policies from misguided Central Bank authorities.

There is no definitive resting place for funds in the aggregate; and all the catering to the powers that be, as if such indefinite saving/investing were a viable option, is an economic antithesis. The thus created wealth is nothing but a chimera. But one that unfortunately, also has all the portents of being ready to turn into a real-life calamity; with orthodox laissez-faire economics not only lacking all tools to prevent that disaster waiting to happen, but, by having capital endowed with a positive value, in fact clueless as to why such a crisis was able to develop in the first place.
Nothing short of a process of systematic dissavings, perhaps through negative interest rates (i.e. fees, that are taxed away to turn into transfer payments to the needy) on large accounts, to slowly compensate for the already inherent inflation, might avert an otherwise inevitable crunch; bound to happen, whenever the interest charges on a continuously increasing debt load are finally no longer feasibly redeemed. And by that time it will be too late to do anything about it, as all 'accumulations' will be wiped out in no time flat. So much for the ultimate success of vain greed. By the way, a legislated end to the 'casino' aspect of our financial system (derivatives, et. al.), wouldn't hurt the cause either.

Does all this mean that we cannot 'build up' a nest egg for our retirement? Yes, I'm afraid that; given the fundamental condition of a demographically stationary society, over the long run in question; the above does indicate that building up a nest egg *and* economic maximization, are not commensurate. But the whole idea of *needing* to build up a fund, either to 'finance' economic growth, or to provide for the time when one no longer is productive, itself may be based on totally fallacious orthodox economic premises. This I hope to start clarifying in the next section.

CAPITAL.

Apart from calling it the physical embodiment of disbursed income that we owe to ourselves to mutually resolve; thereby extracting utility from its related output, and/or (re)claim its ownership from a value sanctioning agency; what else is there to say about the nature of capital? Perhaps the most important considerations we haven't yet dealt with, are: (1), what is the effect of the corporate reinvestment of retained profits; and (2), what about the potential to create additional wealth from any already paid for itself means of production?

The portion of corporate profit income that is not distributed to its share holders, but instead is reinvested immediately, has the same economic effect as if private individuals had forgone their direct spending obligation, and reinvested their investment income themselves. Although, as was indicated above, this may not be immediately detrimental; corporations, as opposed to retail goods procuring individuals, are never in the position to actually resolve any of the embodiments, while they are on their way down to the retail level. Because the totality of goods and services available on the retail level, embodies all economic factors of production in terms of disbursed income; much of the foregoing discussion, dealt almost exclusively with that particular level only. This means that implicitly so far, the acquisition by enterprise of any already produced means of production, would just replace one set of creditor/debtors, with another one; rolling-over, as it were, a portion of society's acquired debt, so that the confidence of investors in the 'valuability' of their capital is generally kept up. But if in the case of reinvested corporate income and already paid for itself means of production, there are no creditor/debtors as such; doesn't that falsify our proposition and throw out much of the foregoing, as a bad joke?... No, not at all.

Just because there are no separate creditor/debtor identities involved in the creation of output with this kind of 'freehold' capital, that doesn't mean the economy is thereby escaping its overall non-linear flow condition. Production still takes place for the sake of eventual consumption by others; with the owners of those means, seeking a return. Only if these particular shareholders were to spend their subsequently distributed profit income, on the equivalent of the derivative retail output produced with each other's freely held means of production, would a general equilibrium yet be maintained; and could it thus be said that the realized profit income and extracted utility was 'derived', be it in a roundabout or non-linear way, from those freehold parcels of capital.

In all other cases, meaning in general, neither the production capacity of written-off capital, nor the ongoing retention of corporate profits could ever lead to an aggregate growth in the emergeable utility. The enabling reproduction upon its received income, takes away from the resolution of existing output. And any subsequent growth, resulting from reinvestments, negates all the advancements that were already in-pipeline for deliverance.

The effects of the above could thus at most amount to a lateral growth, or a growing at the cost of a loss somewhere else in the system. And while this 'growth' may not be directly harmful in the overall picture, not only is it far from an unmitigated blessing, but if my understanding of Pareto's optimality principle is correct, it also goes against one of orthodoxy's holy tenets.

Profits at higher economic levels can only occur in the first place, when their outputs are accepted at their price lower down. This presumes a healthy economy all the way down to the retail level. But retail level entrepreneurs depend on *all* embodied income, regardless of its distribution in costs or

profits higher up, for the resolvement of their own output. If this already embodied income doesn't reach the retail level, but keeps on adding more and more newly to be resolved cost embodiments; all income recycling corporations will be killing the goose of golden eggs' fame.

Such a condition can again be demonstrated by reductio ad absurdum argumentation of direct, versus indirect spending. Imagine that everyone of us would start living off one's own backyard produced foodstuffs, and barter with others for the goods and services that each cannot produce individually themselves. This would free up all income to be invested, and one could imagine an immediate zero percent rate of unemployment. But then what? All newly hired employees would also be investing their income; and instead of creating prosperity for all, this would lead to a total collapse. In short order, investors at the retail level would see the 'value' of their investments shrink as all demand for retail output dries up. And then, unable to pass on to the retail level, the costs of the next higher level, investors thereon too will soon find themselves in the same boat. So after a short period wherein all means of production is snapped up by investors, the enormous pent-up supply of goods just above the retail level will cause the 'value' of all capital to fall; and then become 'scrap', or of zero value, when profits are no longer 'derivable' from it. The economy's bootstraps cannot be pulled up by investments. In no way are they the equivalent of a perpetual motion machine!

All personal income floating around society at any particular time; with the possible exception of that from incremental attempted growth, with *new* (or not previously extracted) money at higher economic levels; is necessary for the emergeability of utility, through its direct spending at the retail level. Now if the multiplying effect of respent retail level profit income is yet insufficient to fully clear the market, and thereby cause some of the least efficient entrepreneurs to fall by the wayside, so be it. There will always be a need to get rid of deadwood, so that success and failure remain both crucial to any free enterprise system. The economically most successful, should, based on their returns and not on their 'capital', have no problem at all to raise their line of credit; thereby absorbing, both those who didn't make it and those who are entering the labour market for the first time.

The orthodox micro-economic argument, that reinvestable profits are a necessity for business to survive and prosper in an evermore cut-throat competitive environment, stops being valid. And the only sound reasons for profit setting become: (1), setting a cushion to absorb the unpredictable quirkiness of economic returns; (2), being able to adjust over time, the demand proven level of initial cost remuneration; (3), to accommodate the distribution of ongoing experience induced growth; and (4), create a return potential to account for depreciation allowances. Margins set above these basic requirements are simply inflationary. Nobody can at any time be sure, how others will value their input into available output;

and a 'groping' for the right level of return will always be necessary. But in order to maximize emergeable utility, the validity of profits will have to remain confined to a respending potential as outlined above. This means by extension, not only that the corporate retention of profits should go the way of the robber barons and their practices, but also that all business income taxes be abolished, so that such taxes would fall on shareholders only. And if this would mean a total restructuring of the tax system in order to keep government revenues at the same level, so be it.

Furthermore by saying thanks but no thanks, to any savings over and above the level of requested transfers for already produced output; and effectively meeting that objective through the setting of interest rates, potentially ranging well into the negative through fee schedules; money would automatically retain its neutrality and thereby bring about a maximized economic development. A neutral money (market) economy is simply the most efficient form of barter economy, nothing more, nothing less; as aside from transfer payments to the 'unproductive' faction of society, everyone's share in output is set according to what others, from the perspective of their demand for the output of the former, determine it to be.

Income reinvestment, on the other hand, has been 'the' cause for economic recessions. If no income is ever reinvested, the economy can't help but yet grow at the rate of the 'learning by doing' process as mentioned before; subject only to possible changing demographics of its population. And if because of socio-geographic reasons, certain regions are not benefitting proportionally; there is no reason why the latter couldn't be handled with the creation of more or less 'free' money, made available there to entrepreneurs with promising ideas for additional output.

The fundamentally necessary condition to bring (additional) capital goods into an economy, is the availability of: (1), a workforce that does not have to be totally engaged in providing for the daily sustenance of all; (2), the pertinent expertise for its creation; and (3), the existence of material resources, like minerals and energy. The magnanimity of the financial establishment to at any time make (new) investment funds available, plays no part in this at all. Money, as purely a means of exchange, can be created by some computer entries, through the banking system, out of thin air; just as it is happening at present, in spite of it now being subject to a vastly different set of considerations.

You may have recognized that the above three conditions, are all basically non-economic entities; as they could exist in any society that so far is only involved in bartering. And given that our own society has long since progressed, beyond not being able to provide for our minimal food, clothing, and shelter requirements; we may assume that these conditions are present at all times. From that point on, it becomes a question to decide whether we actually want to raise our standard of

living ever higher, or if the First World as a whole already appropriates too much of the world's resources; so that a more equitable distribution, coupled to more leisure time is perhaps a better way to proceed. Leaving the latter outside the present consideration; there is no reason at all to succumb to the urges of a powerful financial sector, whose *entire* share of income comes from *attempted* growth as we shall see shortly, and forever undertake to raise new 'capital'.

The evaluation of the means of production; produced from the three fundamental capital raising methods, namely: (1), through the saving of existing income, (2), putting economy exogenous property up for collateral, and (3), putting paid for itself, or fully depreciated means of production still part of the production process up for collateral; also in orthodox terms, remains subject to hypothetical interpretations. Only when the expected returns are indeed materializing as time goes on, a possibility inherently existing in any new venture, will the value of the invested capital *have been* equal to the profit portion of those returns. We have seen before however, that this depends not on anyone's own capital, but on the respending of the return on capital by countless others in society. What is really valuable to any capitalist, and whether they do realize that or not is immaterial, is thus whatever fractions of some other capital altogether, enables a profitable return to come about. And anyone's own capital in turn, is not valuable in and of itself; but again in countless fractions to others, insofar to them a realized profit will be the final result of its existence.

This has profound implications. If the return on capital at any point in time is not inherent in its own existence, then why does our set-up reward its holders with the means; that if used to keep on creating additional capital, not only isn't this adding one iota to economic well-being, but also thereby is diluting the utility from the aggregate retail output, by having to share the latter with those who apparently are only providing superfluous financial 'inputs'? The answer is that except for maintaining an enormously bloated financial sector; at our stage of development, there is no reason in the world why capital should be 'raised' at all.
Empirical studies have proved beyond a shadow of a doubt, that additional capital can only *at most* account for some fifteen percent of the overall rate of growth. A figure that could very well be imagined to have been the result of: directly spent investment income!

Moreover, in spite of strong competitive forces compelling most companies to do otherwise, there still has been the odd industrial sector that without any additional investments whatsoever, has yet been able to increase its output by approximately two percent, year after year. The Swedish steel industry during an extended post-war period, is a good example of the latter situation. If we add to this the data from the "US Abstracts", showing that over the last generation or so an effective doubling of output has been accomplished; and that the difference between the yearly compounded three percent

this works out to be and the *learning by doing* two percent growth figure from above, may very well comprise a portion of the in real terms unresolvable economic costs that are yet tied up; then this in my estimation indicates that investments by enlarge have been doing a great job in keeping an unduly dominant (re-)distributional financial sector in operation, but with in effect *negative* influences on growth.

For even if these non-disputed orthodox figures of investments leading to growth, would have been producing an effective return of between one-quarter to one-half of one percent (eight to fifteen percent of capital's influence, in the three percent achieved rate of growth); how then could we possibly justify the over sixteen percent of yearly averaged G.D.P., dedicated to gross private domestic investments? A figure which just happens to coincide with the income of all those employed in the financial sector. Talking about wasted transfer payments, to those who could have been creating productive output! The so-called 'efficient' financial market is a deceptive myth of the highest order. Yet, in spite of virtually all the references in the above argumentation being common knowledge; apparently nobody with enough cloud, thinks it's in their best interest to speak up, and the orthodox exculpators of capitalism remain prancing about without any clothes on.

Now if this situation had only lead to providing a sixteen percent share or so of G.D.P., to those getting their income from banking and related activities; this spurious quest for ever more growth could still be thought as excusable. After all it is not their income, as long as it's being spent, that we need to worry about; and putting the bulk of them on the unemployment rolls, wouldn't be doing anybody any good either. But if their provided economic inputs, having turned into the creation of virtually 'worthless' billion dollar investment funds, has indeed been robbing millions of people from their god-given right to be productive members of society, as the above alleges; then the power of the financial establishment, to cause a despondency on that scale, whilst their own output cannot help but be for nought, is an obscene crime against humanity.

If the 'learning by doing' process, which as we saw before being fully maintained by *direct spending*, is by itself quite capable of just about doubling the standard of living over a generation or so; how much more growth do we need anyway? Even without bringing up some quite valid ecological considerations, the answer is clearly: None. Any economy is at all times capable of paying for itself as it goes along. And as long as the rate of those reaching retirement, is not exceeding the rate of 'natural' economic growth; the aggregate standard of living is thereby bound to increase as well. The only 'problem' is one of distribution; and there is no reason why the brightest and proven to have been most productive in their working lives, cannot continue to reap that same comparative advantage during their retirement years and continue the standard of living they have been accustomed to. As far as I'm aware, that is the

one and only goal anyway, for those who at present are putting a large share of their income into retirement savings' plans.

Now even though the relative uselessness of any 'funds' to create additional wealth, above the simple making available of new means of exchange as the economy is expanding, should be fairly clear by now; just for establishing a share in the distribution of future income, they may yet be thought to be about as good as any other. But whether or not their 'values' will survive, the more than likely turbulent times in store for the financial community; the reasoning of the above paragraph still holds and the government, at least from a balanced budget point of departure, should always be able to take care of a judicious distribution; as regardless the severity of economic upheaval, no existing means of production can ever be physically destroyed.

All this is pointing towards an imperative role of government, in securing the neutrality of money; so that it no longer runs away from being a true unit of account, despite delusional expectations to the contrary. The above seems too strong an indication, that if the government would stay out of the economy altogether and thereby follow the advice of the libertarians amongst us; the fallacious 'powerful capital' of orthodoxy, together with the egocentrical economic might of the financial sector, would just cause the whole thing to eventually collapse in chaos.

GOVERNMENT and the DEFICIT.

The nature of governmentally initiated output, by enlarge is quite different from having embarked on similar 'investments' in that respect, by the private sector. While the latter's output exists 'economically' over a long period and becomes resolved through the demand for derivative outputs at the retail level; the former, with some minor exceptions, disappears right away into personal utility as civic services. On an ongoing basis this is being paid for through taxes, that are collected at all economic levels and as costs become embodied in private sector output. Indistinguishable from all other costs they are passed down all the way to the retail level, where they are added to the personal taxes forming a part of the income supplied to those employed in the provision of final consumer goods and services. Retailers thus, though of course quite unaware of the totality of embodied taxes inherent in their input costs, advance them on the assumption that a return covering those costs through the sale of their output remains a systematic plausibility.

The direct or indirect hiring of the unemployed and private sector employed by government, results in a production of output that the powers that be, deemed a desirable addition to our private sector provided standard of living. It is most important to realize however that in virtually all cases, governmental employees are 'surplus'; as they are not required by the private sector at the time, to provide society with its

currently enjoyed standard of living. And when taxes cover governmental expenditures and through the price system become reflected in the cost of private sector output; the total available income is always sufficient to resolve all the incurred costs, clear the market in a state of dynamic equilibrium, provide a profit to its entrepreneurs; and most importantly as we have seen before, remain poised for a natural, expertise induced, growth.

This no doubt is also the reason, for the quite close comparable living standards of most of the developed world's nations; in spite of great variances, of twenty-five percent and more, in their individual levels of taxation. In other words, the only palpable advantage of living in a country with lower taxes, lies in having the choice in how one spends one's (gross) income. And though, for efficiency sake, it is probably better to be able to exercise such choice, the operative verb remains: *spending*. The purpose of income is to spend it; and when the private sector no longer is up to the task of providing full employment, because income earners refuse to spend directly; it doesn't 'cost' any more for the government to step into the fray. The real reason for our current mess of suffocating debt, is not an out-of-control spending by government; but the inability of privately run enterprise to provide society with the required employment, because savers/investors have been 'brainwashed' into postponing any direct spending for as long as possible. Orthodoxy not only condones, but even encourages aggregate savings; and under it's institutionalized guidance, government follows suit with all sorts of incentives of its own. In "normal" times, with adequate direct spending taking place, governmental expenditures have no economic reason to grow; thus neither do taxes need to be increased, nor is there a need for governmental borrowing.

When, for the above mentioned reason in combination with its civic duty, a government can no longer balance its budget, it doesn't just print money, it floats bonds that ultimately end up in the hands of 'savers'. The personal income provided through those additional governmental initiatives, in a first instance will have the exact same effect again, as if savers/investors had placed their 'funds' into new ventures in the private sector; which as we saw above is just a redistribution of already produced emergeable utility, from those having saved, to (this time) the new direct and/or possibly indirect governmental employees. The non-lenders in society, although so far not being affected in the private sector provided portion of their standard of living; may be assumed to have bettered their condition somewhat, insofar 'free' additional governmental output (say in the form of renewed or additional utilities) is now becoming available.

In following the borrowed income by government, we find that it is put back into society through salaries and transfer payments of all kinds; and there again is available to the retail sector, which had already assumed that income as embodied costs, with a plausible return; not only in the form of the personal

income of the now additional government employees, but also in interest payments to bond-holders. The question is: where is all that repaid interest income coming from? Or perhaps what's more relevant, what exactly is involved in fulfilling the motives of those lending to the government; and will society as a whole be better or worse off because of it?

If the government doesn't take any additional measures, like raising taxes afterall, it will fall into the inescapable trap of having to borrow in the future to cover just the repayment of interest; which means that paying off their loans, has to fall on additional bond-holders in perpetuity; the later one's paying off those who came before, but with an ever increasing governmental debt! Although such a state of affairs is a ponzi scheme or an out-of-equilibrium condition, only when insufficient bond-holders avail themselves as time goes on, bound to collapse in default; which is a pitfall one should remain aware of. In the mean time, for society as a whole, a potential reallocation of spending power, over the not having changed private sector output, takes place. As a larger amount of money is being put into circulation and the non-lenders, by being in competition for that derivative retail output with the bond-holders over time, will induce retailers to raise prices; the non-lenders will end up with less of the private sector generated bang for their same (gross) buck.

When, in the aggregate, bond-holders do indeed exercise their additional command; these lenders not only aren't negatively affected by such inflation, but their income, consisting of interest payments and the eventual recoupment of principal, recovers for them all the spending power that the rest of society lost through inflation. As far as society as a whole is concerned: inflation and deflation cancel one another out; but even though, in its allocation of private sector output, a substantial faction becomes somewhat worse of, at least a continuation of equilibrium would be the result. It is important to realize however, that even in this outlined scenario, borrowing personal income by government represents a cost to most taxpayers that would not have to be born if no net aggregate savings turned into bonds were to occur.

A more likely and potentially more damaging outcome, arises when bond-holders do not make good on their direct spending command; as this is another condition, whereby the system conceivably could break down. When a government embarks on deficit spending and thereby allocates a larger share of private sector output to bond-holders; an ever deteriorating hidden inflation problem will be theresult of any non-resolution by the (former) bond-holders. Unless, and this is the critical point, all those with accumulated funds remain convinced of at some time being able to convert those funds into standard of living provisions at the current pricelevel, while in the meantime either holding on to them, or sink them into a form of asset inflation. Otherwise, a 'cathartic' period of hyper-inflation, wiping out some of society's irredeemable debt in the process, will inevitably occur at some time.

If in response to rising expenditures, government decides to raise taxes instead of floating additional bonds; the inflationary aspect of being able to receive less bang for the same (gross) buck, can again be regarded as ameliorated by the free additional output of public services. Thus initially raising taxes or floating bonds has the same effect; a retail sector that remains healthy and poised for growth, to soon alleviate any decline in buying power. Whether society eventually will be better or worse off, depends on what bond-holders do with their income; as there is a cost to asset inflation too. (e.g. in a short digression) Many first time home buyers no longer will be in a position to resolve their former share of retail output. They are now house-poor, thus the retail sector will suffer as a result; and what's bad for retail is bad for the economy as a whole, i.e. its employment opportunities.
Moreover it should be obvious, that the increase in house prices by an order of magnitude over the last generation or so, in a great many localities in the developed world, can have no effect on the standard of living for its owners in terms of its derivable utility.

So, given it's axiomatically deduced definition of money as having to remain as close to being a true unit of account as possible, what are the real options for government to tackle the current mess of accumulated debt and the ongoing deficit? We all know that it raised taxes, and we also know from European experience that the absolute level of taxation is no hindrance to affluence. It's also been indicated moreover, that the raising of taxes is a proper way to regain equilibrium after any deficit spending. Government, as long as it fulfills its axiomatically derived mandate of making its people useful, is staying on the right track. And furthermore, we do have a pretty good idea by now, why its debt kept on increasing, regardless of the raised taxes.

Reducing taxes while cutting back on expenditures, in accordance with the wishes of society's right wing, and hope and pray that the private sector will be stimulated to grow, will be worse than useless. The private sector will only grow in response to an increased demand for derivative retail output, and an increased personal net income is known to transpose into an increased propensity to save. So this, added to the decrease in aggregate income from governmental sources, will clearly result in negative growth for the private sector. Though the deficit might initially fall; so would societal income and with it, the base from which future governmental revenue is taken. The difference between what a government would gain, because of lesser transfer payments of all kinds, and what it loses out on, in the direct taxation of both its former employees and of the remaining 'net', becoming the gross income of others upon spending; as well as the overall lower revenue obtained through indirect taxation; cannot help but be a negative as well. So both the government and the private sector lose. Moreover, as government's role as employer of last resort tapers off, society's dog-eat-dog drive towards self-destruction will only

increase. And as leaner and meaner translates into less societal input, a *lower* aggregate standard of living will be the result. Thus not only are governmental cutbacks devoid of any merit whatsoever, they actually would make the situation worse for society as a whole.

All the costs of governmental involvement, comprise the closed circle of income provided to, and income extracted from, the economy as a whole. The costs of government are no different from the costs of private enterprise; as in the final analysis, they are all self-cancelling through the direct spending of personal income at the retail level. This means that both governmental employees and private sector employees all 'pay' for their own upkeep. No deficit can remain a deficit when all embodied costs (the totality of disbursed personal income) are resolved through the acquisition of private sector retail output. The affordability of those costs, in terms of the perspective of our alternative approach, never even enters the picture. For the economy as a whole, it's only a question of achieving a full distribution; whereby it can afford whatever it is able to produce. In other words: is everyone willing to retrieve their allocated share of retail output?!

If the government is bend on reducing its deficit and decides on increased taxation, as the means to pay the interest on currently outstanding bonds, and forego the floating of additional ones, the living standards of the non-lenders will drop. In real terms this could be compared to living for a while at say, the standard of a generation or so ago; so perhaps this is not exactly an insuperable condition. But by having identified the direct spending of bond income, as nothing more or less than simply inflationary; and all 'funds', in the reality of this new approach, as to be resolved debts; the real 'value' of those existing funds will be sought to be regenerated through new private sector investments. And as we have already discovered, the last thing our economy needs is yet more unresolvable useless private funds; which by the way has indeed been happening these last couple of decades or so, in ever increasing measure.

So again we are being pushed into the only solution that not only is more or less painless, but also by far is the most sensible: drastically reduce the rate of interest, so that our money truly becomes neutral. But all capital will be fleeing the country, the floor will drop out from under our currency, how could we possibly survive? Well let it flee! All this so-called powerful capital is nothing but accumulated debt, which has grown to such gigantic proportions that it no longer is resolvable in its countries of origin. Anybody who wants it should be more than welcome to it.
Please take it away and the more the merrier. Moreover, it's high time that government realizes, that given free trade: none of its own measures could be more effective for the well-being of its internal economic structure, than a devaluation of its currency by those outside the country; and that propping up

one's currency by buying it, is insanity. But I'm afraid that too, is a whole other story.

All any country needs, are the three fundamental capital forming conditions as listed before. The gigantic Marshall plan is dwarfed against the accomplishments of the modern powerhouses of economic development right after WW II; and this should prove beyond a shadow of a doubt that indestructible knowledge, and the drive to apply one's skills to naturally existing *free* resources, is what creates affluence. As soon as the emperor is told that he is naked, nobody will any longer be interested in that wonderful cloth, called 'financial power'.

In order to help the government not only escape, but also from ever getting into this same hole again; it could encourage sufficient direct spending, by threatening to start taxing all kinds of personal investments at least on par with such direct spending. If it doesn't want to tamper with the freedom to potentially spend indirectly, which is fair enough, this should at least drastically curtail the practice. As part of that, preferential tax measures on private real-estate sales, given its effect on asset inflation, being much more harmful than helpful to a full-employment policy, should therefore be abandoned also. For, although investments in general do play a decisive role in potential distribution, they are totally unnecessary in the achievement of prosperity, with or without any physical growth.

Furthermore as income reinvestment opportunities thus decline and direct spending picks up, the business climate will improve; enabling its entrepreneurs to survive without shovelling their profits over to middlemen financiers. True growth will skyrocket and replace the debt-ridden/superfluous funds present condition, by benefitting all those who currently have to curtail their luxury expenditures, for the sake of just simple survival. Pretty soon, we should be able to drastically cut down on the hours worked, without a significant drop in our standard of living; and spend that time instead on a quality upbringing of the generation to come. Utopia? Not likely, just a darn better prospect than what's in store for us if we don't mend our ways, and continue to follow the "utopic" path laid out for us by present orthodoxy.

So much for our short and of course far from complete foray, into the affairs of government. Even though the constraints of a summary like this, forced us into riding roughshod over much of its argumentation, and quite possibly even raised more questions than it answered; it does project I believe where, from this alternative perspective, answers to the deficit problem must be sought. Thus notwithstanding our at this stage still very fuzzy understanding of what the economy is all about, the domain wherein solutions are to be found seems clear enough already: have macro-accountants advise governmental authority, how their power of taxation should be aimed to preserve a happy norm and healthy economy. We are back to

the sagacity of our protagonist Sismondi who wrote over 180 years ago:
"The government needs to be regarded as the protector of those who are unable to defend themselves against the excesses of the powerful; in the interest of an impartial but enduring stability for all, and to countervail the often passionately fought for, but just temporal advantage to the few... Only [this authority], from beyond productive gain calculations, can correlate these ample individual motivations with the augmentation of living standard and happiness for all; which ought to be the goal and disposition of society."
Nouveaux Principes... I:52,53 (2e éd. 1827) [my translation]

EPILOGUE.

Well, there you have it folks, for whatever it's worth, a totally different way of looking at economics. Of course aside from some possible inaccuracies here and there, I could be seriously wrong in that my chosen axioms would prove to be untenable; even though its applicability could yet outweigh its chosen presuppositions. But in any case, the chance that the above outlined theory will indeed supplant economic orthodoxy, before some catastrophic development will render it all academic, must be considered as extremely slim to none. As far as I have been able to determine it however, it is coherent; and I hope that as such, it should gather at least some interest. Logical economic theories, after all, are not exactly a dime a dozen.

Having said all that, it may surprise some of you that very little of the above actually originated with me. The bulk of the theory was introduced by the eminent Swiss economist J. C. L. Simonde de Sismondi, more than 185 years ago now. And a partial translation of his immortal work "Nouveaux Principes d'Économie Politique" (2e éd. Paris 1827) is available for a free download at my website. Even what I for a long time held as original: the crucial principle that personal utility is economy exogenous was, as already mentioned in the axioms section, well before my time (but unbeknownst to me) conceived by Adolph Lowe.

So you may say that my only contribution, aside from throwing in an altered version of the multiplier, has been a careful pick and choosing, straightening, and further working out of classical economic concepts. But I haven't given up hope yet that some time soon now, this will indeed lead to a definitive closing of those early lines of thought; which so impudently were abrogated by the Marginalists, some 135 years ago. And whether the orthodoxy that replaced it is either wholly fallacious, perhaps equally valid, or remains gospel and is able to repudiate the above; I will leave to others to decide.

John S. Vertegaal vertegaa@vcn.bc.ca
http://www.vcn.bc.ca/~vertegaa

The art of governance, is to facilitate people to be useful.
F.Quesnay