J. C. L. Simonde de Sismondi.

NOUVEAUX PRINCIPES D'ÉCONOMIE POLITIQUE:
Ou de la Richesse dans ses Rapports avec la Population.
2e éd. Paris, 1827

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PREAMBLE AND TRANSLATOR'S PREFACE TO SISMONDI'S NEW PRINCIPLES.

If, as a potential reader of this work, one happens to be convinced that the economy is a determinate structural entity, fully existing and thus measurable in terms of its individual physical components at any particular present, and/or there is nothing to be gained on any theoretical level if that were considered not to be so; one may as well stop reading it right now, as it would just be a waste of time. Moreover it should be made quite clear right from the outset, that nothing in my professional background would make this partial translation of Sismondi's "Nouveaux Principes" any more meritorious than Richard Hyse's, which after all is a complete work; that is again *if* the economy's existing values are determinate. Its only raison d'être therefore is the small but not totally to be dismissed chance, that scores of economists have been barking up the wrong tree for a couple of centuries now, while putting their faith in definitions that cannot be considered valid if the economic structure including all its physical elements are indeed indeterminate (i.e., in terms of monetary values as their solely possible indication of effectiveness, and at any particular time); according to at least some of the established rules of logic, where a sensible purpose is imparted from the existence of an exogeneity, meaningless tautologies result from the converse, and the appearance of paradoxes denotes an overdetermination caused by too many (perhaps hidden) premises. Thus only if the economy has a purpose *over* time, and is not the determinate physical structure *in* time that economists, with the singular exception of Sismondi, have axiomatically taken it to be, will this entirely different approach to its elucidation (by following Sismondi), have some reason to be undertaken; as the economy's ruling definitions and determinate theoretical points of departure no longer would be applicable. Intuition, with the infusion of a set of axioms having come from outside the field of study, existing prior to the latter and thus having no antecedent connection whatsoever to the body of knowledge to be subsequently arrived at through deduction within its domain, has now become the required key to unlock the economy's mysteries[1]. In other words, by intuiting the reason for an economy not being determinate in time because it is purposefully dynamic, with its first principles reflecting that premise, a new and substantially different paradigm from all existing persuasions of conventional economic thought is herewith proposed.

[1] This modus operandi would be in accordance with Schumpeter's 'Vision'. "In every scientific venture, the thing that comes first is Vision. That is to say, before embarking upon analytic work of any kind we must first single out the set of phenomena we wish to investigate, and acquire 'intuitively' a preliminary notion of how they hang together or, in other words, of what appear from our standpoint to be their fundamental properties." (J. A. Schumpeter, *History of Economic Analysis.* London: George Allen and Unwin, 1954. p. 561–2)

Through no particular merit of my own making, other than a dogged perseverance to do what I believe to be the "right" thing, I found myself in the possession of a potentially fitting key; with which I hope to be able to spin enough coherence into Sismondi's earlier gropings for economic truth, so as to turn it into a convincing alternative explanation of how the economy works in a paradox-free reality. How I got this key in the first place is a mystery that I will get to soon, and no doubt it will rub many readers the wrong way. But I'm not about to compromise the truth about what happened to me, just because it could provoke ridicule. Furthermore, in spite of perhaps being rare, it certainly isn’t without precedent either; Kepler, Gauss, Hamilton, Poincaré, are all said to have had a similar experience at least once. And the reason my own name would be in that list is not because I’m even close to those illustrious giants in intellect, but because the truth about an economy deep down is extremely simple; bringing it into conformation with our confounding daily existence within it, is the difficult part. Also keep in mind that from among the considerable number of highly intelligent economists, no one has yet emerged as having formulated a comprehensive unifying theory. Instead all those who tried to do so, usually have found themselves firmly ensconced either on one side of the fence (orthodoxy), or the other (heterodoxy). Could the reason for that not be because the integral point of departure they all hold in common, i.e. the economy being a determinate physical structure, does not permit such a ‘true’ formulation? I do believe the odds on this to be on my side of this issue, and I only ask from the reader the benefit of the doubt, at least until I have stated my case. For if one's point of departure is the wrong one, regardless its universal acceptance, intelligence or the speed by which one reaches conclusions from that is simply irrelevant; and thus a haughty disdain by the economic establishment's intelligentsia may just be impertinent.

And if the key I have is the wrong one too, or, perhaps because of practical inapplicability, this endeavour to unite economic thought is going to fail as well; the struggle no doubt will continue on a different front and nothing will be lost. In case I'm onto the right path however, this approach would be of particular interest to the general public at large. Because its modus operandi is so much easier to understand than how the economy supposedly works according to presently ensconced principles, the latter can now be evaluated by society with enough essential information to do so, without the need for an arduous study in economics. Thereafter, it almost becomes a given that public opinion will be strong enough to be able to sway the powers that be. Economists, by the same token, if they could not redirect their hard-earned expertise in accordance with these newly proposed precepts, would then indeed be finding themselves superfluous.

My interest in the "economy" or "economics" stems from way before I could have had any idea of even the existence of those words; as one of my earliest memories deals with that funny stuff called "money". I have no idea why, but there seemed to be something about it that was utterly mysterious, that I just had to figure the ins and outs of some day. This drive to understand money was rooted very deeply and because it started at such an extreme early age, it must have come from outside of my conscious self. Looking back on that now, it indicates to me the existence of a primordial body of intelligence that, to whatever tenuous degree, I was yet somehow tapping into. Yet from the time I was a preschooler till my plausible years of formal education, although I never forgot that early experience, it had never pushed me into studying economics either; which no doubt was a crucial unfolding of what was to be. For unless one is a genius of the highest order, an entirely different approach cannot tolerate contamination from existing (first) principles; and thus a formal education in the subject, would have presented an insurmountable hindrance for me. Later, as a young adult, frustrated with life's iniquities, it seemed to me that something essential was lacking from economic knowledge, and that perhaps this had something to do with economists' general (mis)understanding of money; whose nature also to me, after all those years, still appeared to be as mysterious as ever. So I started to read popular works on economics, slowly, over a number of years, giving myself an education on the subject; but it failed to really get me any satisfactory answers to what I was after.

And then, on a lazy Sunday morning, half awake, I had this dream... In a time span of perhaps a few seconds it revealed to me the crux[2] of what the economy was all about, but only in the "language" of pure knowledge, so doubtlessly again having its source outside of myself[3]; which I then felt obligated to translate and bring into conformation with all those surface phenomena of an economy that we are so familiar with. It was the exact converse of what scientist in general and economists in particular, are engaged in as a matter of course; which is to observe and quantify surface events and then try to find their fundamental underlying common cause. Although the latter is infinitely more difficult and no doubt does require substantial genius; the road I was able to take wasn't particularly easy either, especially since my intelligence is probably a lot closer to average than it is to genius. So this quest to make economics an open book, has already taken me over four decades and still isn't finished; but perhaps, in spite of its slow going, I was just the right guy to get it started, and now the time has come for intelligent outside help, to bring it to a successful close.

The journey started with yet a lot more reading of those heterodox authors whom I felt had at least some understanding of what the economy ought to be all about, and then do some writing myself to differentiate my thoughts from the ones of those writers; thus building platforms along the way, that could be used as mediate resting places from which to slowly proceed ever higher up the ladder of understanding. This fairly soon got me interested in what Sismondi had say, for his ideas seemed far closer to what I was looking for than anyone else in the subject's field. Although I knew from the very beginning that I was onto something rather novel, the very few economists I did try to enlist as soundboards, either considered me as just another Keynesian and very much doubted I had arrived at those ideas independently; or dismissed them out of hand altogether. I had never read Keynes directly and what I had come to discern indirectly, I often disagreed with. Sismondi, and not Keynes, was my protagonist; but how to proceed?

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[2] In the common language of words this could probably be translated as: money is subservient and not fundamentally causing anything, (for) in the final analysis everything is free. But while on a conscious level, seemingly devoid of any meaning, this sounds banal and in no way able to inspire anyone into trying to turn economics on its head; on the subconscious level of my dream, transcending by far any conceivable literal transposition, it was so powerful and infinitely more encompassing that it made me sit straight up in my bed and say to my wife: "something very strange just happened to me, but I now 'know' how the economy works". It took me well over a decade however to work out just how little I consciously 'knew' at that point.

[3] I seem to recall having read a long time ago about this primordial intelligence being endowed with a warped sense of humor. So I give it an odds on even chance that for the past 40 years or so I have been sent chasing wild geese, on my bare feet in the park. Although I cannot boast about actually having made a catch yet, I must also profess that surprisingly little if any sh*t, in the form of ridicule, ended up stuck onto the soles of my feet (sorry for this metaphor mixing, but it seems appropriate here), while being exposed for many years on internet forums concerned with heterodox economic thought.

My writings as they were, were not accepted. How, as non-economist, could I ever hope to gain a foothold from which to convince any of them of a potentially valid alternative approach? I felt I needed formerly submitted economic thought that could be used as its substructure, and Sismondi's was the obvious vehicle. But because the bulk of his work had never been translated into English, this was a first prerequisite. And it was started in the winter of '89-'90, blissfully unaware at the time that someone else had finally also decided, that what Sismondi had been saying almost two centuries ago, was far too compelling to leave by enlarge undiscovered to the English speaking world. For had I known that, in all likelihood it would have stopped my endeavour right then and there; convinced that the truth would now be bound to come out, and rather sooner than later. It would however, not only have been a serious underestimation with regards to the inertia of established economic thought, but also placed too great a confidence in the translation by someone who had to essentially approach this endeavour from a very different position than I.

Richard Hyse's effort, however literally correct, missed out on conveying the critically important meaning of Sismondi's central theme. He translated Sismondi's use of the word "revenue" with "income"; thereby losing, what Sismondi himself had called, its mysterious and inexplicable nature. For the static term income cannot depict anything else but a determinate quantity. Whenever we get confronted with the meaning of income, there is not the slightest insinuation whatsoever that any abstraction is involved. It is my contention however, that quantitatively speaking in terms of a determinate continuity of purpose, Sismondi's revenue is indeterminate. If this is indeed so, then his magnum opus needs to be translated and read in an entirely different context. For just like Keynes's "General Theory" was written in terms of the meaning of income, Sismondi's "Nouveaux Principes" had been written in terms of the meaning of revenue. And while it is all good and well and even quite interesting to point out the resulting similarities between the two authors; the differences, substantial as they could well be, are necessarily bound to remain submerged. Now the shortcoming of the Hyse translation in that respect, could well be said to hark right back to Sismondi himself; for, as pretty well all his reviewers agree on, and you'll be able to confirm later as well, he was most inconsistent in his definitions. But how could Sismondi have acted otherwise? How does one definitively state something (i.e. statically), that is inherently indeterminate *in* time? His pioneering effort to depict an economy as essentially dynamic at its very core had to be intuitively based; as, without the benefit of formally stated first principles, there was no possible alternative to a groping for the right meaning.

In translating this work it seemed to me therefore that whenever a potential indeterminacy was involved, the best approach would be to transpose his words into the higher level "language" of an emotional response and then transpose that back down again into words. The result, in those cases, is a translation that often isn't quite literal, but at least losses in apprehension seem minimized to me. Language in and of itself after all is indeterminate too, in that any present expression is always fit for a later improvement and thus never entirely complete, just as the subject of our inquiry is taken to be. I hope that this methodology does not elicit serious disapproval. This also means that the English text of his 1815 encyclopaedia article, generally considered to be a condensed version of the N.P. we're dealing with now, by enlarge has not played a role in this translation; again being in sharp contrast with the Hyse rendition, where that text takes precedence wherever possible. This in turn led to an added confusion, as "revenu(e)" remained untranslated in the article; which in his book shows up as a disorienting jumping back and forth between the terms income and revenue. Furthermore in my translation, Sismondi's specific examples are often put in more generic terms, in order to better impart the generality of their intention; and, by the same token, the term "periodical" is most often used instead of his more awkward "annual". From time to time too, one will encounter [words] in a sentence that are mine, to elucidate what I believe to be their just contextual meaning; at all times though welcoming a comparison in that respect with the much stricter Hyse translation.

It should be made clear as well, that this particular rendition deals only with enough of "Nouveaux Principes" that in my estimation is required to start giving its readers a sense of what the economy is all about. The original is a two-volume work, divided into seven books; four in the first, and three in the second volume. My translation only covers the first and second books of vol. I, and most of book five in vol. II. The first book covers economic history up to and including Adam Smith, while the second book covers Sismondi's own interpretation of the economy's nature. The fifth book's translation deals with his interpretation of money; less a few chapters that specifically deal with the quaint subjects of commercial bills of exchange, Sismondi's imagined advantage of a full-bodied coinage (currency) system and its converse that of "non-real" or paper money, as well as foregoing a few paragraphs here and there for similar reasons; the bulk of it however was included by way of subsections to his money chapter 8 in book two. But even though making for some interesting reading and, in spite of Sismondi's enamouredness with full-bodied coin, yet drawing some remarkable inferences; his interpretation of money, from the contemporary perspective of it being commodity-based and as such physically produced and existing, on the whole is not as helpful in elucidating the indeterminacy of economic reality as his book two proper; and so, apart from a general annotation of mine at the end of it, could even be skipped altogether.

Aside from the basic translation of what was outlined to be the scope of this work covered in the previous paragraph; one will also find lengthy, sometimes multi-page annotations that are intended to bridge Sismondi's thoughts with the principles of a proposed alternative economic paradigm. These added comments occur rather sparingly in book one, extensively only in book two, and again both in the beginning and at the end of book five. These strive to point out not just the obvious similarities and where further extensions of his line of thought could lead to, but also the limitations and what can only be considered as inconsistencies and outright errors from the proposed new perspective. Although I hope that readers will be pleasantly surprised by the multitude of economic topics broached, rather than be disappointed in how much has remained hidden; as annotations these are just scratching the surface of what needs to be done in order to overtake established economic thought. Proudhon in his time, writing on a similar wavelength, figured that it would take at least twenty Montesquieus to accomplish the latter. And my own guess is that a couple of hundred books, would go a very long way indeed to supplant the existing economics library, running in the many thousands; the latter all based however, on a determinate economic structure that is now taken to be incompatible with reality. Thus if, as economist or even as interested layperson, one finds this new approach as realistic and promising as I, and figuring oneself able to provide some input as well; there will yet be lots to do before economists, as macro-accountants, can assume the comfortable role of Keynes's proverbial dentists.

Enjoy,

BOOK I

THE OBJECTIVE AND ORIGIN OF POLITICAL ECONOMY.

Chapter 1.

The Twofold Goal of the Science of Governance.

The object of a government is, or ought[4] to be, the happiness of its citizens throughout society. It is seeking the means of securing to them the highest degree of felicity compatible with their nature, while at the same time allowing the greatest possible number of individuals to partake in that felicity. And in none of the sciences wherein politics is involved, should one ever loose sight of this twofold goal that a legislator has to accomplish. He must simultaneously strive for the highest degree to which an individual may become successful, as well as make sure that this equitably applies to all. He would fall short in accomplishing this task, when the attempt to ensure an equality of well-being, makes it impossible for [highly motivated] individuals to fully develop [their talents]; when thus nobody is allowed to rise above his fellow men, to serve as an example to mankind by coming up with innovations that could turn out to be most beneficial to all. But neither would he accomplish this, when his goal would be arranging special privileges for these few [talented] individuals; by putting them on a pedestal above their fellow citizens, at the cost of distress and degradation affecting the masses. A nation wherein nobody is really suffering, yet nobody has the chance to enjoy enough leisure time, nor would feel comfortable enough to act vigorously and think profoundly, is still only part civilized; even if it would be granting adequate opportunities for [the achievement of] happiness to its lower strata. And a nation, wherein by far the greatest majority is exposed to constant deprivations and cruel inequities [threatening] its existence; its [natural] drives to succeed subdued, its moral sentiments corrupted and its character stigmatized; [such a nation] is enslaved; even if it could count amongst its upper class citizens, successful people with the greatest moral standards, with minds developed to the highest degree, whose rights are perfectly guaranteed and whose happiness would be as assured [as possible].

When however, a [legislative assembly] does not confuse the development of some, to be more important than the well-being of society as a whole; when it succeeds in organizing a society, wherein all its individual members may reach for the highest qualifications that their mind and spirit will be able to achieve; thereby enabling the most profound sense of accomplishment anyone could experience, while at the same time being able to assure to all the protection, guidance and the development of their physical and moral well-being, then it will have succeeded in its purpose; which without a doubt is the most beautiful task that mankind could ever set for itself to accomplish on this earth. It is in the pursuance of this noble goal that the science of governance pre-eminently appears, as leading the way to happiness: both taking care of mankind in society and on the

[4] The justification of the term ‘ought’; in spite of having been so passionately detested throughout the economics' profession, whenever the economy's *modus operandi* were being questioned from outside the established orthodoxy; has, as I believe, been explained superbly some time ago by Subrito Roy, in: *The Philosophy of Economics.* Routledge; 1991.

individual level; and protecting those, who because of our imperfectly developed institutional set up, have grown unable to protect themselves. So that any inequality, at least stops being an injustice as well; and make those who are well disposed [by the system], turn into the new benefactors of society as a whole.

But in all the sciences where politics is involved, nothing seems to be as common as overlooking either one, or the other side of the aim to do well. One faction, while passionately advocating equality, strongly resists the making of any kind of distinction at all. In their reflections regarding the prosperity of a nation, they always compare the totality of its wealth, splendour and privileges, with the per capita share in those; concluding thereby, that the spread [in those factors] they encounter between: the strong and the feeble, the rich and the poor, the diligent and the lazy, the scholar and the illiterate; invariably are monstrosities caused by a viciously constructed social order. And the other faction, only considering the goal of humanity in the abstract, are finding the guaranteeing of various rights and the means of resistance, as exemplified in the classical republics of antiquity, to lie in a so-called libertarian order; [ignoring] that this itself was based on keeping the lower classes of society chained in slavery.

When a society has brought forth, a distinguished upper class, showing ingenious imagination, capable of an inquisitive philosophy, deep-going analysis and the creation of a brilliant literature, as for instance was the case in pre-revolutionary France; then they consider those the signs of civilization of the highest order, even if more than three quarters of their population is illiterate and entire provinces are mired in the utmost ignorance imaginable. When finding immense accumulations of private wealth, perfectly functioning agricultural areas, a prosperous commercial sector, a manufacturing industry incessantly turning out all the products that humanity needs and with a government disposing out of a nearly inexhaustible treasury, [a situation very much] like [the one currently experienced] in England; they will invariably call such a nation extremely fortunate, without for a moment pausing to consider, whether all those doing the manual work and having been instrumental in creating that wealth, might have been squeezed down to mere subsistence. With ten percent of them, year in year out, being forced to fall back on public assistance, and a full sixty percent of the inhabitants in that so-called rich country, are subject to iniquities far worse, than those of a comparable population sector of a nation, that they would [not hesitate to] call poverty stricken.

The association of individuals into political organizations, has never taken place and would not even be happening today; if this was not to the mutual benefit of those, who feel themselves drawn in [by the prospect]. Not a single by them ratified privilege in law would have come into being, if it was not based upon their general confidence of being rewarded in a reciprocal manner for attending to this set goal. The established order is thus maintained, because the overwhelming majority of those being party to its political power, consider this order to provide [the ticket to their own basic] security. And government [in such case] does not exist but for reasons of supplying its amenities, in the name of all [it represents], to all those forming a part of it.

The unequally distributed, various [individual capabilities] are indeed to be accepted by society; because this very inequality, results in an [overall] advantage to all. However, the manifold ways and means by which any number of individuals are enabled to achieve their greatest potential, thereby turning the [inevitably occurring] individual distinctions into a greater good enjoyable by all; the protection of all of its citizens in an equitable manner against hardship, and the prevention of malevolence towards one's fellow men, that is growing out of coercion and the [ruthless] pursuit of self-interest; all these constituents need to be equally dealt with by those with political power, for they all form essential parts in the pursuance of national happiness.

Chapter 2.

The Division of Government into Noble and Economic Spheres of Duty.

The science of governance divides itself into two large branches, according to the available means it can call upon, to accomplish its goal towards the general contentment of its citizens. Man, as a complex individual, is as much subject to morally just, as he is to pure physical conditions in his quest towards fulfillment; and as far as governmental influences play a role in this, man's happiness, regarding the former, is most decidedly connected to a perfecting of the noble side of governmental duty; as the latter supposedly, is to extend to all its citizens in an equal manner: freedom, aspirations, information, and virtue. Noble politics is thus obliged to provide through a constitution: freedom, which will enlighten the aspirations of its citizens; and an education, which will open the mind to knowledge and give power to the virtues... [both cardinal and theological alike]. It must pursue, not what is convenient for either one or the other, be they individual or group, but whatever can be done to make things happier and better for all those subjected to its laws.

The physical well-being of man, and again in so far as the work of the government may be involved, concerns the latter's political economic side. All of man's physical needs, for which he depends on his compatriots, are satisfied by means of wealth. It is wealth that commands labour power, purchases needful services, and procures man-accumulated provisions; both for common use and for pleasure. Because of wealth, one's health can be maintained, life is sustained and the needs arising from infancy until and including old age, can be taken care of through the provisioning of food, clothing and shelter. Wealth therefore, could be considered as representing all that man has been capable of doing, for the physical well-being of himself as well as for others. And the body of knowledge that allows government to put a truly effective administration of national wealth together is an important branch of the science concerned with national felicity.

Government has been instituted for the benefit of all those who are subjected to it; hence, it invariably has to keep the well-being of each and everyone of them into consideration. And just as it is bound to bestow through noble politics, the attributes of freedom, knowledge, and the virtues to all its citizens; so must it through political economy take care, that [the advantages arising from society's economic involvement or] the national fortune, benefit all. It must find the ways and means to assure that not only those well off, but the less fortunate as well, participate in the welfare, the niceties, and relaxation possibilities that life has to offer. [Government] thus has to establish an order that doesn't submit anyone to suffering, a foreboding future, or the unobtainability of work to provide for everyone with or without a family, its necessary food, clothing, and lodging; so that life becomes worth living and not just an unbearable drudgery. The accumulation of wealth within the State can never be the goal of governmental involvement in the abstract; but instead, that every citizen may participate in the niceties of physical life that [this material] wealth represents. The repository of society's human ingenuity and labour power is called upon to complement Providence's work, augmenting the totality of worldly felicity; and not, as subjugated to [authoritative civil] law, to propagate faster than its chances for happiness may be increased.

The total effect that national wealth, or its population, has on a country, is impossible to signify in any absolute terms; as this can only be done, in the way these relate to one another. Wealth is only beneficial, as long as it is being distributed to all its classes; [and the advantage to national wealth, provided by] a large population, is only so for as long as work, by which an honest existence can be built up, is assured to every individual; for a State could be in deep misery, in spite of a number its citizens having been able to amass great fortunes. And if a population, like the one in China, is continuously outgrowing its means of subsistence, if it is surviving to the detriment of all other animal life, if it is relentlessly subject to famine; then this immense populace, far from being in an enviable position, is a true calamity.

A social order that is functioning well, is to the general advantage of both poor and rich alike; and political economics endorses this order through conservation and correction and not by overturning it. The characterization of human nature by Divine benevolence, finds its expression in our needs and our sufferings; as being the imperative stimuli, that arouse our activities and push us to develop our entire existence. If we would succeed in banishing all distress in this world, we would also banish virtue; and similarly by chasing away all needs, we would chase away enterprise as well. Hence, it is not the equalization of all living conditions, but a decent living at any condition that the legislator must keep in view. In no way can the pursuit of happiness take place through the re-apportioning of private property, for this would destroy the ardour to work, which solely is responsible for the creation of wealth; and this incentive, through the very inequalities that labour constantly renews, would not be regained. On the contrary, by always guaranteeing, for any occupation, a decent wage; thereby underpinning aspiration; while in the accomplishments of their tasks, the poor just like the rich find themselves an assured existence and able to enjoy the niceties of life.

The title given by Adam Smith, to his immortal work: "The Nature and Causes of the Wealth of Nations", concerning this second branch of the science of governance, at the same time defines it about as perfectly as can be; for it conveys the underlying idea much more exactly, than the subsequently adopted term *political economy* does. Through this latter term, we have come to a modern understanding of the word *economy* as being synonymous with *savings*; rather than remaining true to its etymological meaning, as *the precepts of the household*. We nowadays understand *economy* to mean the conserving and managing strategy of existing fortunes; somewhat tautologically using the term *home economy* to describe the management of private interests, so as to be able to use *political economy*, as a descriptive for administering the nation's wealth.

Chapter 3.

The Administration of National Wealth, before the Theory of it became a Scientific Subject.

Ever since people have started to congregate within social communities, they have had to concern themselves with the communal interest regarding their supply of wealth; as since that time, a portion of the acquired wealth, has had to remain dedicated as being public property. The assessment and administration of revenue, that no longer belonged to anyone in particular but to the community as a whole, became an essential part of the office of statesmen; it is what we know as *finance*.

Private wealth on the other hand, complicated the interest of an individual citizen. It meant having to put up with accusations of greed and deception, and defending oneself in front of a public authority, to show that it didn't present a conflict with the fundamental raison d'être of any community; which is its bundling individual strengths, in order to protect all with its combined power. Establishing property rights, the division thereof, and the means of transference, became one of the most important branches of civil jurisprudence; while the adjudication regarding the distribution of the public wealth, emerged as one of the essential functions of the legislator.

Necessity tends to stimulate activity, and the latter, when carried out with systematic experience, has been responsible for the creation of a great diversity in riches. The more knowledge man acquired, the more this progress showed up in the items made to fulfill his needs. From an interpretation of common observable facts regarding the general laws of nature, [this knowledge] gradually became compiled into a body of scientific expertise. Agriculture had been supplying the primal needs of man, long before the development of any science. But by the time that it dissipated its riches onto the inhabitants of [classical] Greece and Italy; its compilation into a body of principles by ingenious men, about the means by which to increase that part of the national wealth, was already well under way. The industrial trades originated from domestic skills, that certain families developed; and over time the brightest of those men utilized the knowledge of naturalists, physicians and mathematicians, about the various physical properties of substances, and how to imitate or redirect the innate forces of nature. [This research had] as its goal to become knowledgeable regarding all types of natural movement, and an urban science became as established as the one already ruling agriculture. Trade, in its comparing of both the needs and the different types of wealth that exist among the various peoples, and through exchanges make this profitable to all involved, had a similar development; as it originated from various types of knowledge, including those about commodities, numbers, peoples and the law.

But while all the individual components, that make up the national wealth, do have a theoretical body of knowledge behind it, [the totality of this] wealth [as a definitive entity with its own unique set of characteristics as such] did not have one at all. The Greeks and Romans of antiquity considered the wealth of a nation to be a given fact. The nature and causes of which, they never saw any point in to investigate; thus leaving the effort to acquire wealth entirely up to each individual concerned. And in so far their lawmakers were in any way compelled to act on this, they would carry out their duty only with respect to individual consequences. It never even entered their minds how these financial effects could influence society as a whole. So that all those sciences, each concerned only with their own particular branch of the national wealth, could in no way be said to have a common point of origin, or to be corollaries of a more fundamental one, but instead have to be considered in total isolation as if they each had their own, equally valid and true principles to contend with. Thus with respect to the establishment of taxes, its collectors only took into consideration the more or less unrelenting opposition they would encounter; the equality of the assessments and the security of any confiscations. But they never investigated the possible effects, that a general increase or decrease in any of the different types of taxes would have, on the standard of living in the nation as a whole. Their lawyers would take great care in investigating all the established property rights, as well as the means by which they could be passed on from one generation to the next, thus whether they had to be revived and established anew, or if they could safely remain dormant, without losing any effect; but they would not have the slightest inkling as to whether, on account of any mortgages, real estate transactions, and the intricate distinctions between owning and usufruct, the overall wealth of the nation as a whole either increased or diminished in size. Nor for that matter, would they have been able to legitimize whether any overall wealth increase, as a result of those transactions, is in fact being split up in any way, or even suspended altogether. So also have agronomists, only defended the interests of the landed gentry and never the public one as such; [e.g.] as in [the ‘economic necessity’ of] a cruel slave culture. And neither has any legislation regarding agricultural, industrial or [fair] trade [practices] ever been determined, after a thorough investigation of the greatest possible positive effect on the development of society as a whole. Among the vast collection of Roman law for instance; wherein time and again one is able to detect a great sensitivity regarding the subtle philosophy behind those laws, and the enormous care taken in reflecting this, during the assembly of its rules and regulations; there is no hint at all, that the principles inherent in political economy, have ever been contemplated as such; which is an omission that has been continued right through time and includes our own laws as well. As far as the classic philosophers are concerned, they were most adamant in advocating to their disciples that wealth is entirely useless in the pursuit of happiness; rather than advising the governing body [at the time], about the type of laws through which the aggrandizement of wealth could either be promoted, or retarded. [Sismondi refers here to Socrates in a footnote.]

Although the investigative nature of classical Greek philosophy had, as its objective: reaching a full understanding of all the underlying sciences affecting mankind; only a very limited amount of their philosophical texts, contained anything relative to economic inquiry. Nevertheless this still should be given some moments' attention, even if it were only to find out why the principles regarding the acquisition of wealth, by enlarge have been so ignored by a people who otherwise reached such heights regarding the social nature of mankind; who, as a widely diverse society, managed to identify all those things that make human life worth while, develop the senses, and inspire its character.

Xenophon, in his "Economica" after having defined economics as the art leading to a betterment of the household, and making us understand that by household he means all the possessions one can turn to and make use of, in order to ameliorate one's existence; considers this economics much more from a philosophical perspective than that of the legislator. He insists upon the importance of establishing an order to rule the distribution of things, as well as of tasks; and considers the development of female characteristics to derive from having to manage this domestic order. This is followed by an advice on the keeping of slaves, and while referring to the training of the latter, as being closer to the domestication of animals, than what an education of people should be all about; he yet recommends that they be gently instructed to follow examples and be rewarded [for doing so]. Next, the two most important fields of endeavour that lead to the creation of life's necessities are compared, namely: the industrial trades and those of agriculture. He justifies the, in those days generally held, contempt for the first; on account that it is harmful to one's health, numbs the mind and makes one too nervous to be courageous [in war]. At the same time, he paints an idyllic picture of life in the countryside; a source of happiness to those that live there, and who are always ready to show the close affinity they have for physical prowess, courage, hospitality, generosity and all the other virtues. This literary work indeed inspires a love for beauty, honesty, kindheartedness, and a sincere and compassionate loyalty; but while as such rendering it rather attractive, it can in no way be considered as [conveying the essence of] the political economics that we are looking for.

Aristotle, in the first book of his "Treatise on the Republic" did devote four or five chapters (8 to 13) to the subject of our inquiry. Even designating it by a more suitable name than the one we have chosen to use, namely: *Chrematistics - The Science of Wealth*. His definition of wealth, being *the abundant output of domestic and public works*, is most appropriate; while his ideas regarding the invention of currency, are so as well. Its tenor, rich in definitions and their distinctions, classifies in a fair enough manner, the various methods of wealth acquisition in the agricultural and industrial sectors, as well as through the [demanded] interest on capital; emphasizing in that respect and in the same vein as all the other classical philosophers, his preference for agriculture. He continues by rejecting his *Chrematistics* as being a part of politics proper; by stating that only [wealth existing in] its material form should be subject to its laws, and not the objective drive towards it. After this last inference one would expect a great deal of further elucidation to appear in his 2-volume work: "On Economics". However, the original Greek text for the greater part is no longer extant, making the work rest on nothing more, than the uncertain reliability of a Latin translation by Léonard Arétin. The first of these books concerns people within a family, and the second is about material goods. The last one starts out by comparing the economic administration of kingdoms, colonies, cities, and individuals; and it seems to throw a very curious light on the acquisition of public wealth, as it is nothing but a collection of the most bizarre means, that autocrats, governors and the free cities utilized to collect money, during times of distress. There could not, in all likelihood, have been any institutionalized tax collecting; as that is not mentioned anywhere at all in the book. And what is most strange is that Aristotle, or some anonymous transcriber, reports these episodes without any disposition as to their overall effect, as being either good or bad; and even in some of their most violent and most extravagant manifestations, he neither ever lays any form of blame, nor points to any dangers.

Finally Plato, in his second book of "The Republic", by taking it upon himself to develop the origin of mankind's drive to form societies, exposes the workings of its economic system with such clarity and accuracy, that it in no way could be surpassed by [me as] a disciple of Adam Smith. Plato shows how the principle of mutual interests that makes individuals seek the company of others, and thereby yield a united power, solely is responsible for bringing about a division of labour; how everyone who specializes in a single task, gets better at it in its performance, and that this ends up as being advantageous to all. Commerce, according to him, is a consequence of the progress made in the agricultural and manufacturing sectors; with trade being fundamentally affirmed in the presence of total freedom regarding it. He compares, in this respect, the active or engaging pursuits of the merchant and the sedentary ones of the shopkeeper; the latter being limited to the making good of the accomplishments of the first. It is only through the progress of society as a whole that the prosperity by some of its members can have as its result: an indulgence in laziness, idle pleasures, or philosophical studies; exactly because there are others who are doing the work. The inequality of wealth distribution, unhealthy living conditions, applied justice, and the forever growing rivalry between the different communities; let him come to the conclusion, that a guardian force is a necessity and be maintained by the rest of society, through their work.

It is not with just a little bit of amazement, that one sees in his "Republic" the establishment of communal well-being; including the roles that women, and not to forget the guardian force, fulfill in this; while analyzing with a great feeling for justice, the pecuniary interests and the formation of society. Although these classical philosophers were sometimes misled by their vivid imagination and an inclination to indulge in quite speculative theories, on account of the practical experience they often lacked; they at least never lost sight of the fact, that the value of wealth is only meaningful, as a measure of the well-being of society. And it is precisely because they never did consider the acquisition of wealth in the abstract, that their perspective on this is an awful lot more righteous than ours.

As far as the Romans are concerned, even though they left us with a number of works dealing with rural economics; none of them in any way are of help, in pursuing the science that we are dealing with at this time. In conclusion: personal interests are never being stopped in their searching for wealth, until philosophers have succeeded in outlining the theory behind this endeavour; as the as yet detectable ruins of Greek as well as Roman civilization, prove to us that the wealth of nations may indeed be achieved in just about the maximum terms possible, without any science concerned with accelerating this process ever [needing] to be developed at all.

Chapter 4.

The First Revolutionary Developments in Political Economy, Taking Place in the Sixteenth Century as a Result of the Activities by the Ministers of Charles V.

If even the Greeks and Romans, having reached a peak in civilization, did not consider the national economy as a subject matter worthy of scientific investigation; they who, with their scrutinizing minds had been developing a great diversity of subjects, were [diligently] trying to hold all observable facts accountable to reason, and who thanks to enjoying a great freedom [without having to fear reprisals] were able to look at political issues from all conceivable angles, and thus bringing it to its highest attainable level of perfection; it would indeed be too much to expect that an economic science could have been developed say during the Middle Ages; as by then, not only had it become very difficult to [overcome the established prejudices and] take an entirely different road from the one already having been traced out by the philosophers of antiquity, but also because the notion of generalizing ideas seemed to have disappeared entirely from the consciousness of men. Actually it was not until a time all that far removed from ours, that speculative interests finally turned to the idea of a national wealth; from the perspective of governmental needs and the poverty of the population.

An enormous political change took place in 16th century Europe, which overturned public liberty nearly everywhere. It oppressed the smaller states, destroyed the privileges of cities and provinces, and conferred the rights to dispose of the national fortune to a small number of sovereigns; entirely ignorant of the industrial process by which wealth is provided and preserved. Until the reign of Charles V, perhaps one half of Europe lived under the influence of feudal landlords; having no freedom at all, no access to education, and of course no assets to speak of. But the other half already had achieved a relatively high degree of prosperity; and one that was growing by the day as a result of increased agricultural production, manufactured items, as well as commercial trade. These people were being governed by officials with some knowledge about economics; who, after having been successful in enlarging their own private fortune, applied those same principles with respect to that of the State. And who, as a new authority of an independent populace, thus with some responsibilities towards them, had to consider not only their private ambitions, but also, in the execution of any legislation, keep the general interest at heart. By the 15th century however, these signs of wealth and credit [worthiness] could as yet only be found in: the Italian Republics, those of the Hanseatic League, and other Free Cities in Germany, Belgium, and Spain, and maybe a few more in France and in England, all entitled to enjoy great municipal privileges. The magistrates of those cities, by having come up through the ranks of society, and without being able to reduce political economics into fundamental principles, had yet acquired both the sensibility and the practical experience, not only to best able to serve but also to know any potential pitfalls, that could harm the best interests of their fellow citizens.

The terrible wars beginning in the 16th century however, completely overturned the established order in Europe; raising the power of three or four of its monarchs to an absolute and omnipotent status and ruptured the fabric of civilization itself. Charles V, by managing to unite under a single empire, all those regions that until then had been celebrated for their achieved wealth and industrial knowledge, namely: Spain, nearly all of Italy, Flanders and Germany, only did so by a nearly unmitigated ruination; as the new administration overruled all those entrenched privileges, as well as stopped them from becoming re-established again.

These most absolute monarchs however, did not themselves domineer any more than those nowadays subjected to constitutional laws. They transferred those powers to a number of ministers of their own choice; rather than making use of the ones who would have been the chosen representatives of the people; and who thus, as a rule, were taken from a very different stratum than freely elected persons would be coming from. In the eyes of an absolute king, their primary endorsement was whether their status in society was high enough to have lived a life of noble indolence; never mind their more or less total ignorance of domestic economies. The ministers of Charles V, whatever qualities they may have had in the arts of debate and contravention, all were equally ignorant of pecuniary affairs. They caused the ruination of the public finances, agriculture, manufacturing, trade, and especially industrial development, from one end of the immense Austrian empire to the other; thereby making the population aware just how much of a difference there existed between the practical experiences of the republican magistrates they had grown used to, and the ignorance that was being displayed at present.

Charles V, his rival Francis I, and Henry VIII, with the latter one trying to strike a balance between the first two, were all spending way above their means of income. And the ambition of their successors; in combination with the obstinacy of the House of Austria, which continued for well over a century of ruinous wars; incessantly kept on adding to these expenditures, in spite of public poverty. The more widespread these miserable conditions became however, the more that some patrons of humanity also felt obligated to come to the rescue of the defenceless poor. So that the science of governmental finance came to bring about a political economic science; which is a turnaround from how the flow of ideas normally takes place. These philosophers were interested in protecting the people from the spoliations of absolute power, but also understood very well that to find a willing ear, it was imperative to approach those in power from the perspective of working entirely on the latter's behalf. And not by falling back on arguments of justice, or what ought to be done. So they researched to the best of their ability, what in effect constituted the wealth of a nation; its true nature and what caused it to come about; thus to show how it might be shared, without destroying it at the same time.

Chapter 5.

The Mercantile System.

During the 16th and 17th century there had been too little freedom in most of Europe, for those early philosophers occupying themselves with political economy, to make their views about it generally known to the public. And since also the financial affairs of government were shrouded in a cloak of secrecy; anyone not privy to those facts, could not possibly make use of them for a deduction of its general principles. It would thus be up to ministers to make a start in the study of economics; when by a lucky coincidence royally appointed ministers, heading the financial affairs department, combined talent with a concern for justice and that of the public interest.

Two great French ministers, Sully under Henri IV and Colbert under Louis XIV, were the first ones to shed some light on a subject that until then had been considered a State secret; where it as a mystery had bolstered and concealed monstrous errors. In spite however of all their ingenuity and energetic effort trying to put some order, clarity, and a certain uniformity, into the financial affairs of State, in the end it proved to be a task beyond their capabilities. For even though one after the other denounced the outright thievery that was going on among some tax collectors, and through their personal intervention secured the safety of a number of private estates; they each had only mere suspicions about the true sources of national prosperity, and just tried to create the most favourable circumstances for an abundant flow. Sully, in that respect, put his faith in agriculture; by declaring that *ranching and farming were the two breasts nurturing the State*. And Colbert; who as far as can be ascertained, since the vanity of the court of Louis XIV obligated him to conceal this, descended from a family engaged in the merchandising of cloth; on the other hand was always searching for means to let industry and trade prosper. He engaged in consultations with those in the business sector and called upon them for advice in times of crisis. Both of them thus opened up ways and tried to facilitate the means by which the different types of wealth were exchanged; through keeping the entrepreneurial drive [of those in the countryside] alive and encouraging industrial activity [in the urban centres]. So that all could disseminate their abundant output throughout the land.

Colbert, the more recent of the two, preceded the writers who considered political economics as a science and developed it into a theoretical body of knowledge, by quite a number of years. He nevertheless held a systematic view of national wealth; by not only recognizing it to consist of the total productive activity undertaken, but also clearly laying out how, according to him, the objective goal should be attained. This system probably had been suggested to him by the business leaders he consulted; and that most often is known by the name of *Mercantilism*, though sometimes also as *Colbertism*. Not because Colbert would have been its instigator, nor because he would have put this into words in one or another literary work. But he simply was by far the most illustrious person in his time to be associated with this drive towards economic understanding; and that in spite of all its theoretical errors, he still managed to extract some very useful applications from. Moreover, it so happened that among the numerous writers expressing similar ideas, there wasn't one with enough proven talent to definitively connect his name to the memory of economic historians.

It makes a lot of sense however, to conclusively separate the mercantilist system from the name of Colbert. This system was invented by merchants in a country where they were subjects and not [independent and free] citizens; where in spite of being kept in total ignorance of the affairs of state, they were yet compelled to offer advice regarding it; and thus, by only being able to relate that to their own petty interests, prejudiced the interests of all others. This also turned out to be the system that was adopted by all the ministers of absolute monarchies, at least in so far as they took the trouble to think about such matters. But the only connection between that system and Colbert, is that the latter happened to follow in the set tradition, without having been able to reform it.

After for a long time having regarded the commercial trades with a haughty disdain, governments finally had to come to the conclusion that they formed one of the most formidable sources of national wealth. For even though the large fortunes in the nation did not all belong to merchants; whenever the kings encountered financial problems and, within a short time, had to come up with considerable sums of money; it always were only the merchants who could be of any help. Landlords might have often had enormous revenues, and industrialists were indeed capable of carrying out tremendously large works; but the first just like the second, only had their periodical rents and profits to dispense with, while the merchants would have had their entire fortune to offer to a government in distress. Because the capital of the latter consisted entirely out of ready to be consumed commodities, destined to be sold on the market within the shortest periods of time; it thus, with a minimum of hardship to any other citizens, could be converted for whatever sums could be demanded. These merchants discovered thereby, that they had the means to a considerable amount of power; as their dealings in some form or another, involved virtually the total quantity of money that a country possessed. Moreover, they were at the same time less restricted by authoritarian rule than any other sector as well; for, at any given time, they could conceal substantial amounts of cash; and by hiding it on their person and so take it abroad, extract it from any local coercive activity.

Governments would willingly [however, even] increase the profits of the merchants; as long as they could obtain a share in them. Believing that, rather than upsetting trade a great deal, it would be a lot better if they both could get along, they thus offered the merchants the power of State protection. And since a profit in trade is always selling commodities at a higher price, than having had to buy them for; it was obvious to everyone, that trade would benefit enormously, if with governmental help it could secure buying even cheaper and selling dearer still. The merchants they contacted, eagerly took them up on their offer, and this is what formed the beginnings of the Mercantilist system. Antonio de Leyva, Fernando de Gonzago, the Duke of Alva, these avaricious viceroys of Charles V and his descendants, have all been the instigators of numerous monopolies; without having had any other notion of political economy. But when this, in effect systematic robbery of consumers, was attempted to be formalized through deliberations by the [legislative] assembly and [established on the basis of] Colbert's consultations with the business sector; and, with the general public bound to eventually wise up about these goings on, it became high time to come up with a more credible justification for these transactions. One that would not only show its obvious advantage to financiers and merchants, but also to the nation as a whole. For, as an egotistical scheme like this would not bear up to any scrutinizing calculations made in the light of day; such action was thought to be the best way to stop any [chance of] antagonistic public sentiments from cropping up in the first place. And it couldn't be denied, that the Mercantilist system did indeed become a plausible arrangement. For even during our own times, it continues to entice a majority of practical men; employed both in finance, as well as in the commercial professions.

Although Sismondi is of course referring here to a situation as it existed during his own lifetime; it is amazing how little things have changed, especially where it concerns the justification of self-indulgent human behaviour, that is either unable or unwilling to regard the greater good. Also, doesn't the sentence itself sound familiar? As in: "Practical men, who believe themselves to be quite exempt from any intellectual influences, are usually the slaves of some defunct economist". Although the resemblance of the above quote, appearing in the "Concluding Notes" chapter of Keynes's "General Theory" magnum opus, and the above sentence in combination with the final paragraph of this particular chapter, don't of course conclusively prove, that Keynes read Sismondi. Yet, given that Sismondi had such a pertinent point in relating the inclination of politicians and other persons in authority to act as such; while Keynes, at least in a first instance, did not; for in his foregoing 'Notes on Mercantilism' chapter, he uses Sismondi's terminology "practical men"[5], not in the mocking sense of the above, but somewhat in admiration of their ideas on the subject. Moreover, he extols in that same chapter the mercantilistic policy of domestic autonomous interest rate setting, and castigates those who promulgate a laissez-faire attitude regarding the latter. So the big question remains: who exactly are those "defunct economists" and "academic scribblers of a few years back" having exerted such a profound influence on practical men and contemporary policy-makers? And further to that, are they laissez-faire promulgators, "treasury viewists" or yet protectionists? In either case, there must be two fundamentally different kinds of "practical men" in Keynes's world; a muddled notion that just cannot be connoted with his astute mind. It therefore seems to me that Sismondi's brilliant rhetoric, in spite of the incongruity of Keynes's foregoing sentiments expressed in his "Notes on Mercantilism" chapter, may have looked just too good to Keynes to pass up.

With the possible exception of anything Marxist, Keynes showed no particular aversion at all, to

[5] Sismondi's own translation of "gents d'affairs" (used here in N.P.) in his 1815 encyclopedia article.

reading more or less obscure economic views. The list of names at the end of his "Essays in Biography", should provide ample proof of that, with a number of those mentioned, themselves having references to Sismondi. And especially, since he scrutinized J.S. Mill's "Principles" with its though not abundant, yet significant number of references to Sismondi; as well as having had a great affection for Malthus's work, whose polemics as well as similarities with Sismondi are also widely known; that for somebody with the inquisitive and eclectic mind of Keynes, who also knew French well, it seems almost out of the question, that although apparently having read Montesquieu, Marcet, Mandeville, Hobson, Gesell, and Major Douglas, he yet never would have come into contact with someone whose views, especially with respect to the portent of income and all that this entails, so closely resemble his own. The fact remains however, that nowhere in Keynes's "Collected Works", the name Sismondi turns up.

The cardinal point of all of this, as we will discover later on, is that Sismondi, in contrast to his contemporaries, as well as all later economists up until Keynes's own revolutionary model, made the concept of "income", a flow (as opposed to capital, a stock) central in determining economic progression; and thus the question: did Keynes come up with this radical conversion all by himself, or did he have some help with this from Sismondi? I am convinced of the latter, but have no proof beyond the foregoing. Furthermore it is quite interesting that Joan Robinson, second to none when it came to understanding Keynes, in written correspondence with the organizers of Sismondi's bicentenary in 1973, expressed the opinion that "in the General Theory, Keynes ought to have to referred not to Malthus but to Sismondi; because the sole precursor of Keynes, is Sismondi".[6]

According to these earliest economists, wealth is money; and these two words have indeed, in everyday language, generally become nearly synonymous; as hardly anyone would ever hesitate to confirm the identity of both notions. Money, they continued, commands the work of man and all this brings about. It is money that produces those fruits thereby sustaining all the industrial development within a country. It is thanks to money, that every individual is able to get his requirements and thus continue to live. Money is also very much a necessity, in the dealings of one nation with another. Money is the force behind successful armies, allowing it win wars; and people who own it, are able to command the services of those who don't. According to them therefore, the entire objective of political economics was to amass as much money as possible. But since any quantity that a country possessed could only be added to by extraction from mines if it had those, or otherwise import it from abroad; it was imperative for any country that had such mines, to arduously exploit them. And when it happened to be without those resources, produce commodities for the purpose of trade with those nations who could do such extraction from their mines instead.

The authors of the system asserted furthermore, that since all the purchases and sales taking place within a certain country, say England, could not add anything at all to the overall quantity of coin in existence there; all the internal profits made, not only in commerce but in industry as well, were just illusory. For, while particular individuals could very well enrich themselves, this happened at the expense of others whom they ruined. Whatever one gains, the other loses and the nation concerned, would neither be any wealthier, nor poorer off; as the diligence of some, was entirely nullified by the lavishness, or indolence, of others.

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[6] A. Parguez, "Sismondi et la théorie du déséquilibre macro-économique" Revue économique, 05, 1973. See the opening line.

The consequences of foreign trade however, were entirely different; since all its transactions, could only be accomplished by means of money, this had to have as its natural result: either the leaving from, or the entry of wealth into the country. Thus for the enrichment of a nation, so that its quantity of coin be increased; it was necessary to arrange its foreign trade in such a way, so as to maximize the selling to abroad and minimize the amount that was bought from elsewhere. Pushing this argument to its logical conclusion would of course mean that one should always sell and never buy; but since a prohibition on buying, would destroy all foreign trade, the theoreticians of the system, contended with the idea of a country not exceeding the buying over its selling; so that in the end, no money would be leaving the country. Because, so went their logic: just as much as a merchant having traded with his foreign counterpart, notices at the end of the year that he has sold more than he has bought and thus created a balance of payment surplus, that is solidified in moneys; so does the same apply to a country. Thus, after a country's total foreign purchases are compared to its total foreign sales, and a disparity having to be solidified in money is so detected; then a to be paid deficit, would inevitably make it poorer; while a surplus in receipts, on the other hand, could not help but be enriching.

A necessary consequence of this system is that it puts the government in the position to constantly having to pressure industry into the production for export purposes; so that it thereby is favouring the State, without this at the same time being advantageous to its own citizens. It thereby concludes, that the merchant who enriches himself thanks to internal dealings, not only in no way enriches his own country at all, but could even reduce its wealth through the buying of foreign merchandise. If, on the other hand however, he would ruin himself while having sold locally produced commodities on a foreign market; he still would have been beneficial to his compatriots, on account of having brought in at least a certain quantity of money. Everyone thus has to give in to regulations that supplant those supposedly unreliable individual interests. Industries are incessantly compelled to produce for export, and its borders will have to be watched by guards to prevent the importation of merchandise and the fleeing of money to abroad by those so inclined.

A further principle of this Mercantilist system is that it exhorts government, in order to get as much foreign money as possible, to not export any raw materials, but only those items that the domestic industries have been able to put an added value on; such as the doubling and often times even tenfold increase in price, that takes place whenever agricultural products are refined in urban centres. This kind of [value-added] manufacturing is therefore encouraged, with authority doing its utmost in preventing the exportation of raw resources; that, rather than being valuable to local industries, would let those added values accrue to foreign countries instead, on account of previously having been worth only a little money. The essence of the mercantilist system thereby took on the following characteristics: prohibition of the export of raw materials, while encouraging that of finished products; and as a result of being totally engrossed with the profits of foreign trade, securing for them the means of buying as low and selling as high as possible, in spite of this being obviously detrimental to the well-being of the rest of the population.

Now even though no economist today, still defends Mercantilism openly; it still has left deep impressions in the minds of all those concerned with government [policy]. These are coming to the fore in prejudicial expressions whenever, confronted with the abstractions of modern economic theories, they are scared to show confusion. By far the greatest part of the rules governing contemporary society are but systematic directives; and regardless of how many still attach a great significance to it, the balance of trade is critical only to those directly involved. It is therefore not at all unimportant, to be familiar with the origin of so many of those popularly held ideas [about economics]; in order to be able to explain to whomever believes to uphold some [scientifically proven economic] principle, that [their argument] is just one of the conclusions, drawn from another [by now fully discredited economic] theory altogether, and that as such makes it irrelevant to the present discussion.

Chapter 6.

The Physiocratic System, or that of the Economists

Mercantilism during one century, was 'the' generally accepted theory by governments all over; called upon by merchants and chambers of commerce, and generally expounded by theoreticians as it were, the beyond any shadow of a doubt proven truth, without anybody seriously questioning its fundamental principles at all. It took until the middle of the 18th century for this to finally happen, when it became opposed by Quesnay in his celebrated "Tableau Économique"; later explained by Mirabeau and the abbé de La Rivière, further developed by Dupont de Nemours, as well as analyzed by Turgot; and then accepted by a host of other followers, who in France generally became known as economists, and which also included a number of Italians. The theoreticians of this [second persuasion] have written more about the subject of our inquiry than those of any other branch [of economic theory]. But by acknowledging the principles exposed by Quesnay with such blind faith, and at least implicitly, remaining so close to his original ideas; it is very difficult indeed to detect any differences, or evolutionary progress, amongst all those subsequent writings.

Quesnay thus founded a second political economic theory, still being called the physiocratic system; or more to the point: the agricultural, or economist system. And he too was more than anything else concerned with discovering the true source of wealth. To him however it seemed a lot more sensible to consider gold and silver as only the [wealth] representative symbols of a means of exchange between people, and as such the price of all that had been produced for market; rather than solely having its abundance determining the prosperity of any particular nation. Thus he directed his attention to the different classes of people, in whose hands wealth could be seen to accumulate. He searched among those the one that could truly be considered the creator of the original wealth, that henceforward was passed on to others. The first ones he considered in this regard, did not seem to be doing anything except being involved in some sort of exchange; moving wealth around, but not creating it.

The merit of the merchants, he figured to lie in the trading of wealth that was created elsewhere; sometimes even at the other side of the world, and bringing it from there to their own home ports. Whereupon by selling the cargo, they usually ended up at least doubling the value of the investment cost of their departure; but all this, still seemed to Quesnay to be nothing but an activity of exchange. Also, if the selling of goods from Europe to the colonies, takes place at a price far above what they could be bought for locally; this in reality of course is advantageous. But in their selling price, one has to calculate in: the time spent and the care taken during the voyage, not to forget the means of subsistence for the captain and crew during the voyage, as well as the price paid overseas for the cotton, sugar or whatever the trade in return might have been. So if there happened to be a profit in the end, this simply is the reward for his business savvy and entrepreneurial spirit. The kind of income that such a trader ends up receiving, thanks to the eventual consumers of the imported goods, may indeed be an ample compensation for the undergone hardship and the initially expended disbursements. But this does not really change the basic fact that the nature of such income, dictates its spending in its entirety by whoever received it. Which after that has been done, would leave his entire life's work with zero contribution to the nation's wealth; because all the possessions that he ever acquired, were nothing but a righteous compensation for his contribution, in bringing foreign merchandise to the nation; embodying the income of himself and all those he employed in his commercial enterprise.

This explicit physiocratic notion that profits in trade as an income, and as we will see later on all other non-agriculturally achieved profits as well, are indistinguishable in effect from any other forms of monetary income is truly remarkable. Even though cloaking those gains here in the somewhat peculiar perception that national wealth remains unaltered in the process. It may be exactly because, while the noun "profit", in its meaning as a just reward for carried out activity dates from the middle ages, in its meaning of establishing pertinent returns exceeding expenditures proportional to the size of the employed capital and thus making it grow, didn't become identified as such before A. Smith; and only thereafter acquiring its foothold into everyday language (including English), that let them into perceiving those types of gains as devoid of a growth creating impetus. For this is indeed one of the fundamental concepts of the proposed alternate paradigm; where profit income, including this time of course those derived from agricultural enterprise as well, is having somewhat the same purport (i.e. monetary profits can realize growth by pulling, but not by pushing), as is being claimed above in its limiting connotation concerning trade by the physiocrats. For inexplicable reasons however, no one at a later date and this includes Sismondi, ever went back to the original physiocratic concept of profit being of indeterminate value in static terms (thus before any trade or exchange). Which in the latter's case is particularly tragic, because it may be the main reason why up until this time, Sismondi's (only implicitly dynamic) 'revenue' notion as expounded in Book II of this work, has been the subject of so much misapprehension, if not outright ridicule. Though he himself, no doubt at least subconsciously, held on to the physiocratically expressed dynamic meaning; as we will see later on, he never explicitly puts it in those terms again. And it therefore most likely was a major factor in causing him to miss out in bringing the classical understanding of economic reality to a successful close. In this elucidation of physiocratic philosophy however, Sismondi definitively marks the inherent nature of profit, in whatever form of gain this was obtained, as destined to be (re)spent; acquiring thereby its dynamic, instead of statically determinate, meaning.

By the way, the term income in the above as well as throughout this work, is never a translation of Sismondi's usual usage of the term 'revenue'; which, because of its almost invariable statically indeterminate implication, is always left untranslated. Instead, when income is encountered in the text, it almost always derives from the French 'salaire', usually meaning wages or salary, but sometimes contextually better translated as income.

Following this reasoning, the French philosopher coined the term *economical trade* to encompass this type of transportation, a name it still retains today. In no way should this be considered a fulfilment of the needs of the country that engages in it; but only as an intermediary agent, between two foreign countries. The initiating country, he contended, would not be enriched but for the income of an [already existing] economy, being sufficient to realize it all.

A rather roughshod explication of what is going on in reality, because Quesnay in my opinion reasoned axiomatically (and not at all as outlined by Sismondi in this chapter); and then subsequently moulded his observations to make them fit. In the beginning of the next chapter, Sismondi fully agrees with the latter interpretation. Yet, by enlarge, the above could be considered true also.

Quesnay, while next turning his attention to manufacturers, felt that this same principle of exchange, concerned them as well. Although instead of having a trade of two present values as its objective; the fundamental idea behind the latter, is the exchange of one present value against a future one. The output of any tradesman according to him, was nothing but the equivalence of the wages paid during its production. But during this accomplishment, the latter needs to consume an already existing output; which is an altogether different output, than the one he is currently working on.

Another most remarkable physiocratic notion, whose significance basically has been lost from economic conscience ever since Adam Smith led all his successors onto the wrong path (which at least to some degree includes Sismondi as well), by forever putting the "stock" of capital as the cardinal point of departure in economic progression. For a logical extension of the above puts all the at present so revered power of capital, raised through the financial services industry in order to effect a growth in output, at zero and nil causative value. Simply because this in virtually all cases played no part at all, in providing the already having to be existing (and most importantly already accounted for!) sustenance for those engaged in the creation of the means that will produce additional future wealth. In comprehensive economic (as opposed to material) terms any "stock" is indeterminate, and so is of course the part of it being regarded as "saved"; and as such can never be considered to be a (determinate) point of departure.

Furthermore, a manufacturer also needs to recuperate ...[all the earlier expenditures made] on behalf of the end product; which he therefore concluded, is nothing but a representation of those previously accumulated values.

Finally, the French economist turned his attention towards agriculture; where the peasant farmer seemed to him to fulfill exactly the same role as the merchant and the tradesman. For, like the latter, he fulfills in an exchange between previously produced sustenance and that becoming available in the future. The produce that his labour brings into existence, embodies the accumulated value of that work and this is paying him a wage to which he is entitled, just as much as tradesmen and merchants are; because it is the same kind of compensation, effecting a consumption of all types of previously accomplished output, as a reward for having created some to become newly available. After these wages are subtracted from the sale of the fresh produce however, there yet remains some sort of net revenue; one that didn't appear in manufacturing or commerce, which the peasant farmer ends up paying to his landlord, for the usage of his land.

It is this revenue to the landowner, that seemed to Quesnay to be of an entirely different nature than all the others; this was not a recompensation for previously made expenditures, nor the repayment of advances made to peasant farmers. This represented neither any wage, nor was the result of a trade; but instead is the receipt for the spontaneous work done by the soil, the fruits of an activity by nature. And because these results were in no way inherent in any previously existing sustenance, they alone had to be the source of all others. Successive values of everything created in all their transformations was always viewed by Quesnay as having had their ultimate origin in the fruits of the earth. So that the work of the peasant farmers, the tradesmen, and the merchants, consumed these fruits through obtained wages, while being involved in reproducing them anew into future output. The landlords alone were indeed the receivers of the essential source of all the other kinds of wealth. From the bosom of nature as its ultimate cause, originate all other manifestations of wealth; the ability to pay the wages of an entire nation, that would not be employable, but for the landlords.

Following up on a previous annotation, even though Sismondi does not clearly spell it out, it is obvious that in his mindset, he agrees with the physiocrats before him and, perhaps with the possible exception of the Marxists, all economists after; that profits are an essential element to induce a prosperous continuance in any economic system. A reward over and above the cost of production turning into a form of capital, that can thus be reinvested, without it ever having costed anybody anything, but will yet provide ever greater future pay-offs; in other words a form of 'surplus economics'. This particular notion of profits, as everyone is aware of, has indeed lasted right through till our own times. In spite of nobody ever being able to pin down unequivocally, the original source of all profits in general. In fact the physiocratic paradigm, to a large degree, can still be said to hold true and provide about as logical an explanation, as any other one offered since. For not only can't there be any general advancement in the affairs of a nation, until its population is prevented from starving to death; but in the absence of ample living conditions, all its so-called capital would be "worthless" as well.

The proposed alternate paradigm however, again takes a somewhat different tack. In the affirmation that any to be elucidated economy has already succeeded in starting off from this elevated basis, and whereby it thus has transcended the fundamental physiocratic concept; it strongly disagrees with the Marxist notion, that any profit taking is the effect of a monstrously unjust societal set up. But instead, as later will be found out already having been alluded to by Sismondi, that although the institutionalized distribution of profits, potentially may indeed take on the undertones of its Marxist's understanding, fully agreeing that profits are indeed indispensable to the system. However, instead of considering them to be necessary for continued investment; deciding that the economy could not possibly survive without them, for the very different reason that remunerations after the fact simply are essential in providing the necessary complementary closings of the system. And these are impossible to be calculated in advance, because our naturally limited foresight in eventual returns, and the elasticity of real output for given accounted-for inputs, makes it so.

This of course is a topic that we certainly will get back to in a more extended form later on, but I found it interesting to start pointing this out here; to show how close, with the one exception, the physiocratic dynamic concept of profits as an income, unmistakably, even though hardly spelled out *as such, agrees with the new paradigm. Granted of course that not only this one exception, but especially their whole idea of "national wealth", did indeed make the physiocratic system an untenable proposition and well worth replacing. But not exactly by supplanting it lock, "stock" and barrel with Adam Smith's doctrine: which holds as its central tenet, that it is the existence of capital as a stock, that enables profits to materialize; a way of thinking that Sismondi, no matter how hard he tried (e.g.) by imputing their origin to lie in distribution instead of in production, was never able to fully extricate himself from.*

With this ingenious explication, the foundation of mercantilism collapsed completely. The economists ridiculed the substantiality of a balance of trade, to which the former system had attached such great significance. Since they postulated instead, that it would be impossible to bring an uninterruptible flow of moneys into the country; and that even if such were done, it still would not have been able to realize an advantage. Furthermore, they denied the ability of industrial and commercial sectors, that were favoured so much by the mercantilists, to create any value at all. And so, by dividing the nation into three large factions, they only recognized the landowners as the sole distributors of the national fortune; the peasant farmers as the only productive labourers in the system, by creating the revenue accruing to their masters; and a salaried class among which they placed merchants, tradesmen and all others, including those employed by the State to provide for its law and order.

And just as its principles no longer were valid, so too were its conclusions regarding the economic role of the State the total opposite. For, while the mercantilists would constantly invoke the powers of governmental intervention; the motto of the physiocrats was *laissez faire et laissez passer*. An expression of their conviction, that since the national interest is only the agglomeration of all private interests combined, and an individual knows his own interest better than any government possibly could; the national interest is best served, by leaving individuals to freely determine their own best course of action.

From their political perspective, as considering the landed gentry, thanks to the distribution of wealth sprouting from their properties, to be the hosts and masters that gratified the entire nation; the sovereignty of the State, rightfully belonged to them as well. According to their principles, an all-powerful aristocracy should be established; still accommodating however, a monarchist type of government, that would bring it about. The duty that the aristocratic principals would be saddled with, and that of the public authority were one and the same; so that the arrangement of the entire social fabric should remain a function of its landed gentry.

As far as its finances were concerned; misconstruing all revenues to be the earth given ones, each year accruing to the landowners; these economists felt absolutely certain that taxes, under whatever form collected by government, in the final analysis are always paid out of this revenue. Hence, their conclusion had to be, that a single tax should be levied and directed solely to the propertied class. Since any other form of tax collection would be wasteful and increase the cost to that same class anyway; meaning an unnecessary affront, to those making the contribution.

Administratively, these economists professed it to be the duty of government to guarantee, to all its first class citizens or property holders, their discretionary use of the land and peaceful enjoyment of their possessions. To its second class or peasant farmers, a wage over and above the full restitution of their annual cultivating expenditures; and to its subordinate third class, comprising the industrialists, merchants, artists and tradesmen, all the rights expounded in the notions of liberty, immunity [from taxation], and [free] competition.

And finally, foreign trade relations would have to be established on the principles of total freedom, regarding the import, as well as the exportation of finished products and raw materials; inclusive of the abolition of all taxes on such foreign trade, and differential treatment of national, as compared to foreign merchandise and its traders.

The implications of this new economic theory, stirred up a great deal of commotion within the French nation. But, although free and open discussions about the workings of the economy could now be held, the government felt in no way obligated to reveal all its secrets. And access to the facts, in the form of governmental documents, were still considered by the authorities to be none of the public's business. This involuntary ignorance of the facts, can indeed be recognized in the fundamental propositioning of this ingenious, but badly researched theory. Nevertheless, the system did capture the imagination of the population; because for a first time they considered themselves at least to some extent, actively involved in the nation's affairs. Which simultaneously, not only conditioned society to become free; but also was setting the stage, to allow a non the less ingenious but also much better, as far as observable facts were concerned, researched system to emerge. One that after a short struggle, managed to push both foregoing theories into the background, as truth always conquers, even the most brilliantly disguised error, in the end.

Chapter 7.

The System of Adam Smith....

The author of the third system of political economics was Adam Smith, who; unlike his predecessors, instead of a priori assuming a plausible theory to be correct and subsequently remould all observable facts to make them fit the presupposition; understood economic science to be of an empirical nature, that would conform to the specific historical background of any individual nation. So that one could come to deduce any particular principles that were involved, only through an impartial observation of all the pertinent facts. His immortal work "An Inquiry into the Nature and Causes of the Wealth of Nations", published in 1776; and having been preceded already in 1752, by his "Lectures on Political Economy[7]"; in effect are the result, of a philosophical study into the civilization of mankind. Only after having clarified analytically, the manifestation of past economic commotion, did its author advance general laws pertaining to the augmentation of wealth in society; which he thus exposed as such for the first time.

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[7] This work was never published as such. A. Smith had merely been lecturing on the subject in a Glasgow University during 1752. It is more than likely that Sismondi got the wrong impression from discussions with friends and/or adversaries during his extended stay in England.

Evenly rejecting the two [previously outlined] restrictive systems; the first one only acknowledging the efficacy of foreign trade and the second one, only that of agriculture; Adam Smith researched labour as the source of wealth creation. For it appeared to him that as long as it results in an exchangeable product, all labour is productive; thus without placing any significance, as to it being produced in the country side, or in the city; or whether it either came into being as an original object, or as an added value to a previously existing good.

And just as labour according to Smith, was the only producer of wealth; so was prudence[8], for him the sole means to effect its accrual. As prudent economics, is what creates capital; that as denomination no longer is limited to gold and silver, as the mercantilists saw it, but represents wealth of all types that can be accumulated as a result of the work done by men; and which, thanks to the achieved gain, can be employed by its owners to carry out further work.

The national wealth, he thus considered to comprise: land, that whenever made arable through the exertion of men by working the soil, not only effectively compensated the workers involved, but also produced enough to pay the landlord for the letting of land, his share of net revenue which he called rent; capitals, that by bringing industrial productivity to life, renders it lucrative, as its circulation yields another kind of revenue for its owners, he called profit; and finally, labour, that produces for those who are carrying it out a third kind of revenue, which he called wages.

Adam Smith not only recognized, that each type of work contributed in its own way, and for the benefit of all concerned, to the augmentation of societal wealth; he also ascertained in principle, that society would automatically alternate between the types of activities it needed the most, through those who were setting the level of wages that were being offered. The supply and demand of these, [labour services at the individually varying wage levels in industry] being the sole and reliable expression for society's advancement; and that government could put its utmost confidence, in the leaving it up to those individual interests to set the pace and direction of market activity.

He affirmed thereby also, that the type of work most in demand at any particular time, would invariably be, the most beneficial type of work to society in general; therefore [as a rule] remunerated the best, as well most attentively carried out. To the extent that a nation's wealth developed, and more capital as well as additional labour power could be utilized; he figured that it alternately would have to turn its regard in that respect to: agriculture, the fabrication and trade of all domestically consumed products, the production for export purposes and foreign trade, and finally [the different modes of] transportation. Asserting that the demand for output always distributes the flow of capital and the required work, from the more downtrodden industries to the most profitable ones; he thus exhorted government to provide agriculture and business with nothing in the way of favours but the provision of total freedom; thereby putting all his confidence of [a maximized] national wealth development, on [the principle of] *competition*.

It would be redundant to work out in detail, an entirely new economic theory from the ground up; since by taking as point of departure, the doctrine of Adam Smith, which I consider as my own, the

[8] See the final annotation at the end of this section for a further explanation of the term.

purpose of this work could not be better served, than to just develop that system somewhat further. The light that his genius has shone on all those concerned with the economic science has been so penetrating, that all progress from now on is thanks to him. And just because he did not concern himself with all its possible ramifications, it would be pure vanity to start pointing these out now in detail; as without him, one could not even have become aware of these truths unknown to him at all.

Having expressed this profound admiration for the ingenuity of his creation, and recognizing that any new insights could only have developed as a result of his pioneering effort; this does not take away from the fact, that now with the help of half a century of hindsight, during which this theory has been more or less put into practice; it has become obvious, that the emerging results have often turned out to be diametrically opposed to his expectation of them. I therefore believe that I can show, that in a number of instances, he now would have had to come to very different conclusions [himself].

Agreeing entirely with Adam Smith that work is the only source of wealth, and that prudent economics is the only way to accumulate it; one still has to go farther however, by affirming that enjoyable living conditions, have to be the only significant objective for that accumulation; and that the latter is meaningless, without an ultimate increase in the pleasures of consumption. Smith considered wealth [as an entity] by itself and thereby came to the conclusion, that since everybody owning wealth is always interested its augmentation; societal interest in that regard could not be better served than by having it supplanted by the free choice of individual interests. He advised the government that the national wealth is nothing but the sum of all private wealth combined, and that no man however rich, would ever turn down an opportunity to become wealthier yet; so let him be, for by enriching himself, he will contribute to the national wealth [in an optimum way].

[In this work however,] wealth is always viewed from the perspective of its relationship to people, and what this would mean to their enjoyment of life. It would not make much sense to come to the conclusion, that a nation had grown wealthier solely by having increased its aggregate capital, unless this augmentation also meant an improvement in the overall standard of living; because it is more than obvious, that a nation of 20 million people with total revenues of say 600 million, [in any one currency]; is a lot poorer off than a nation of 10 million, with 400 million in aggregate revenue.

Moreover we have discovered by now, that it is not only possible for the [powerful few], to increase their personal wealth through additional production; but also by re-securing for themselves, that what previously was reserved for the working class. Now in order to guide that apportionment, to be as equitable as possible, it is almost always necessary to call upon exactly the type of governmental intervention, that Adam Smith [without the benefit of our hindsight] so strongly denounced. 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 only temporal advantage to the few.

Even though Adam Smith's authority, still has not led to the reformation of economic laws in every respect, its fundamental dogma of free and general competition has yet made great strides in all civilized countries; having resulted thereby not only in a nothing less than amazing development of the powers of production, but unfortunately also in the terrible suffering of an entire stratum in our society. Our experience therefore should justify a new point of view, regarding these misgivings of the existing system. And we feel the absolute need to call upon the authority's protective power as being indispensable; so that the people not be sacrificed in the name of a wealth progression, that to too many of them remains wholly and forever unavailing. Only from beyond productive gain calculations can [authority] 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.

From the outset of this discourse, it is important to be made aware from what perspective any appearing differences of opinion stem; while at the same time refusing them to become objectively controversial. Still, there will in no way be any hesitation to argue against the opinions of Adam Smith, nor of any of those of his followers; whenever in light of the above, they appear to be misguided. But the principles of political economy, even though originating from a number of different authors, should ultimately re-emerge into unity again. They will therefore be presented, in their innate appearance; neither claiming originality, nor as having been envisioned by predecessors. And if these principles can in effect be said to overlap one another and become united once more, then I will have reached the goal I set for myself; for it is in no way my intention, to propose a new system overriding the one of our great master; only to include some modifications, that experience has forced us to reconsider....[9].

His current English followers however, are moving in a totally different direction and seem to be departing thereby, from the doctrine as established by Adam Smith; especially from the way the latter used to go about researching reality. Smith always considered political economy as an empirical science, forcing himself to look at things within the social context they appeared; trying never to lose sight of the underlying specifically connected circumstances and how these, in one way or another, exerted an influence on the well-being of the nation. In this current critique of Smith, we have to take the liberty in remarking however, that he could neither be considered loyal to the full extent of his syntheses, nor always regarded wealth in its relationship to the well-being of a population, or to the nation as a whole. His latest disciples in England however, by submerging themselves in ever greater abstractions, have totally lost sight of the fact; that in the end, it is only man and his ability to enjoy his achievements, that are important.

It is indeed a natural habit of the human mind, to seek to reduce the operations of nature to the simplest formulas possible; to try to generalize all its rules and to apply this uniform method wherever feasible, in order to avoid more complicated procedures. This habit which tends to simplify everything, to classify and generalize everything, no doubt has been the most essential cause of progress of the various sciences; but in no way is it necessary, to abandon oneself to it, in the unreflecting manner [of the English economists][10]. The science in their hands has become so

[9] The omitted paragraph following, lists the names of the individual seven "books" in this work. It is omitted because this translation covers only: BOOK I and II in Vol. 1, and a (good) portion of BOOK V in Vol. 2. The final sentence of the omitted paragraph, Sismondi pointing out that Smith neither made territorial wealth nor its population the subject of any specific research, is yet worthwhile of translation; but would be out of context within the above text, and hence is done so herewith in this footnote.

[10] These italized sentences in this paragraph so far, in fact occur much later on in this work and thus outside the scope of my translation, but because of their pertinence have been inserted here. J.C.L. Simonde de Sismondi, *Nouveaux Principes...,* 2nd ed. Vol. 2, p. 171.

speculative, such as to be devoid of all practical application. They may be believing that, in extracting the theory from all its circumstantial accessories, one ought to render it clearer and easier to comprehend; but much the opposite has been the effect. Their work has become so abstruse, that it can only be understood with the greatest possible concentration; because our mind is simply opposed to admitting the abstractions, that are demanded from us. This repugnance is in itself a warning, that we may be turning away from the truth; when in a social science wherein everything is connected, too much effort has to be spent in order to isolate a principle, [while in the end] this will let us see nothing but the [inane] principle itself.

The ingenious work by Mr. David Ricardo that appeared in 1817, called "Principles of Political Economy and of Taxation", which was quickly translated and embellished with some sparkling criticisms into French by Mr. J-B. Say; seems to me to be a notable example of this new direction taken by the economists in England, as it is generating an enormous effect. For according to the prestigious *Edinburgh Review*, this work represents the greatest step forwards in political economics since Adam Smith. Now, because of the totally different aspects in political economics that we are concerned with here, there would hardly have been any occasion to cite from that work, either using its analyses or maybe to challenge them, if its notoriety would not have forced us into doing so.

A French administrator whose name is by no means a secret, even though he did not attach it to his book, has also published in that same year his: "Elements of Political Economy"; which is intended, so he says, especially for the policy makers in government. I was most astonished, considering this aim, to find that he too approaches the economic science from an abstract perspective. Although, in his pretentious *Elements*, there is much of the essence of political economy; it still seems to me that the realistic approach so essential to be maintained by people in power, has remained a totally foreign [element] in his reflections.

With these words, Sismondi ends his first book, that notwithstanding trying to keep the appearance of an unmistakable gap, between his own ideas and those of his illustrious predecessor Adam Smith, to a minimum; as well as not totally destroying any possibility to get Ricardo, someone he obviously admired, on his side; clearly has pointed out irreconcilable differences with the ruling opinions of his day. In outlining his convictions regarding a healthy economic progression and the meaning of 'wealth'; one cannot come away but be quite impressed with Sismondi's sincerity and love for humanity. The notion that really sets Sismondi apart both from A. Smith as well as his contemporaries however, is the statement he makes that everything considered to be 'economic' is no more than a means toward the goal of society's betterment. This makes the economy a subset of humanity with a purpose; whose theoretical implications and import cannot be overstated, and we will return to this notion again very soon. Another sentiment that is not so obvious, is the perhaps intuitive distinction Sismondi keeps making, by invariably using the term 'l'économie'; whenever Smith would use 'parsimony' (commonly understood to mean 'savings'), in describing his understanding of how economic wealth accumulates. For even though on a cognizant level, or perhaps just in order to try to keep his differences with Smith to the absolute minimum, he seems to somewhat reluctantly concede to a developed synonymity between 'savings' and 'economy'; Sismondi's usual thinking about the economic process is in dynamic terms and 'parsimony' in general (though wrongly!) is being associated with static 'savings'; I therefore have taken it upon *myself to translate 'l'*é*conomie', by using the term 'prudent economics' or just 'prudence' to convey the distinction that Sismondi makes and that certainly implicitly, does seem to saturate his work. Later on in reviewing Book V, regarding money in general and the banking system in particular, will Sismondi lead us to determine the exact nature of the term; as it being, in the reality of the alternate paradigm, indeed an indispensable service that is provided through the banking system and whereby it truly is enabling any economy to function, as economically as is possible. However, it won't be savings; although the latter also in the new paradigm, that is up until society decides to net-save, will remain a very valid option for the receivers of economic income to take.*

BOOK II.

THE FORMATION AND SUCCESSIVE DEVELOPMENT OF WEALTH.

Chapter 1.

The Constitution of Wealth to a Solitary Individual.

Man, by being born on this earth, brings along needs that have to be met in order to live, and wants that when fulfilled give him the feeling of a certain happiness; as well as an industry or an aptitude for working, that he is inherently eager to apply in order to requite both the first and the second. This industry is the source of his wealth, while his wants and his needs purposefully implement it. Everything that man evaluates has been created by this industry, and all that has been created as such is destined to be consumed to satisfy both his needs and desires.

But between the moment of creation through work and that of its consumption during one of his leisure activities; the result of work, though destined to be used up, has a more or less prolonged existence. It is this existence, the result of work, amassed but not yet consumed, that we call wealth. This wealth can exist, not only apart from being symbolized by a means of exchange, or money, but also without there even being the slightest possibility for any such exchange, or commerce. On the other hand, it can neither possibly exist without expended work, nor without the needs or desires that this work is supposed to satisfy.

Even though very early in the narrative, some very fundamental elements have already been touched on as comprising the central core of Sismondi's philosophy. And a distinction from his contemporaries is revealed when he makes it clear, that what we understand an economy to be, is not a static accumulation of goods, capital and the like; but instead is a dynamic account of man transforming nature all around him for the sake of his own well-being. Hence, the subtitle of this work: "Wealth as it Relates to the Population".

Everything starts, affects, and ends with human beings. There are no residual entities that seemingly take on a life of their own; and that thereby would be responsible for the creation of anything wholly or in part, that not ultimately is destined, in one form or another to be consumed as a personal utility by man. This should not be seen as some natural law, even though Sismondi himself may have believed this to be the case. It is only the assertion of a presupposed logical given, which as underlying concept facilitates the foundation of an in its terms limited theory of value, from which to delineate a logically true and all comprehensive economic doctrine. Sismondi's fundamental idea as such, thus presents the ideal infrastructure around which the principles of the proposed alternate paradigm can be woven.

It should also be made clear now, that not too much effort should be expended at this time in the nitpicking on minor details, that from an alternative perspective perhaps could just as validly be explained to convey a more or less different meaning. Sismondi's forte is his shrewdness in intuitively arriving at overall valid economic inferences; but unfortunately, since he neither recognized the non-linearity in his argument, nor fully understood the explicit need of placing the population exogenous to his analyses, it also stopped him from following a rigorously logical path, *leading towards those conclusions. Therefore as long as, when given the benefit of the doubt, his ideas could in general be said to hold true, they should be accepted as such, at least for as long as he doesn't strain too far away from consistency.*

If a man were to be abandoned on a deserted island, his domain of the entire island, even if uncontested, would not [in itself] make him wealthy. Never mind the natural fertility of its soil, the abundance of wildlife existing in its forests, fish waiting to be scooped up out of its streams, nor even any indication of precious metal [nuggets]. Quite the opposite, while in the midst of this bountiful natural endowment, he himself could possibly be reduced to an utter state of despair, or perhaps even be starving to death. But if this man through his ability to work could catch some of those roaming animals alive; and by, instead of immediately devouring them, keep them penned up for some future needs. And if in the meantime he could tame them and live off their milk, train them as beasts of burden and breed them; then he will have made a start in becoming wealthy, because through his [initial] effort he will have turned those animals into personal property, and by continued work will have made them even more valuable as domesticities. The measure of his wealth could therefore in no way be considered in terms of a price he could obtain for his property through exchange, since any type of exchange is inconceivable to him; but rather with the sum of need alleviation available to him, or if you like, the amount of time he could maintain a livelihood of the avails, without having to resort to start working anew. Through the taming of those animals, this man will have obtained his wealth and proprietorship; and by subduing the world, he could transform it all into wealth and property. The island that this man is finding himself on remains valueless [thus in preset economic terms], as long as it has not been subject to work. But if instead of devouring its natural produce as soon as it becomes available, he is able to put some of it aside to alleviate some future need. He will re-sow some seeds and cultivate the fields to increase their productive power, so as to manifold their natural yield. He will fence those fields off, to safeguard against the grazing of wild animals; and plant trees, in spite of not being able to do any harvesting of its fruits for some time to come. [By doing all those things] he has been creating wealth, not only in the form of a periodical product created by his work, but also in the form of having the earth itself, just as the animals on it, made subject to him; something of value, which he is able to leave to posterity. This is what makes him rich. And the longer he could forget about working, without having to worry about new needs coming up, the wealthier he would be.

Once this solitary is no longer weighted down by his most pressing needs like hunger; he can then direct his efforts towards obtaining shelter and clothing, to feel more comfortable. He could build himself a cottage and decorate it with furniture of his own making; flay his sheep and use the skins for footwear and clothing. And the cosier his home will feel, the more sufficient his stocks are able to take care of future food and clothing needs; the wealthier he will consider himself to be.

Sismondi's definition of the measure of wealth, is probably in general conformity with that of his contemporaries, and as far as it concerns the wealth of a solitary, quite possibly even with that of modern economics. But right after, he will make a most significant assertion namely: that the economy of society as a whole, is identical to the economy of a solitary individual. As well as iterating Smith, that the wealth of society is nothing but the wealth of all individuals combined; which might yet remain generally acceptable, if all he means is its ultimate purpose over an *indefinite period of time.*

But from the above can also be inferred, that if the assertion can be thought to hold true as stated, but other generally accepted measures of wealth yet validly existing side by side with it; then the by any other means accounted for wealth at the personal level within society, which in fact always boil down to having to be measured pecuniarily; can as a result never add to, an in terms of the potential provision of comfort and joy expressed evaluation of wealth.

Now this is bound to ruffle the feathers of current orthodoxy, for it seems to imply that two of the commonly known factors of production, to wit land and capital assets, have intrinsically different characteristics than wealth; and, while these may conjure up economic values expressed in monetary terms and in fact are 'owned' as such by individuals, they should never be interchanged indiscriminately, with what Sismondi measures as wealth and the new paradigm indeed reserves the name wealth for. The implications of this are tremendously far-reaching however, as the so-called "wealth" of for instance society's billionaires, would only be "realizable" in useless inflationary terms; by the same token designating "surplus equity" as a myth, and the totality of economic assets and liabilities to net to zero. All this however, is going quite a bit beyond Sismondi and surely will need to be picked up on again, at a later stage.

The tale of this individual has been identical to [the developmental path, that] humankind as a whole [has had to take]. But although our mind can easily follow the most significant successive steps, by which an individual passes from misery to opulence; this is soon lost from sight, whenever the whole of society is implicated. As the wealth of a nation is nothing but the sum of the wealth of all individuals in it; so does it not only find its origin in work, but also accumulates in an identical manner; being the excess productive power of periodical work, over the [chosen sustaining] needs during that same period. And finally its objective is the same for society as it is for the individual, namely the achievement of comfort and joy arising from its utilization; whereby it then self-destructs. When work would somehow cease to be the instrument, through which comfort and joy are acquired; if [through some magic wand] there no longer would be anybody around with some to be alleviated needs or desires; only then would work have lost its value, and no longer be wealth [creating]. Everything that holds true for an individual, holds true for society as a whole and vice versa. But despite [the fact that] there is nothing easier than identifying prosperity and impoverishment, when a solitary is involved; when wealth is continuously interchanged [as is happening in society], our understanding of it vanishes as its beneficial results take on a nearly metaphysical appearance.

Nature, in spite of commonly being known as benevolent, offers nothing for free to man; but if called upon in a supporting role, it nearly always is ready to [almost] indefinitely extend man's ability. The development of wealth [and its demise] is always determined by the same limiting factors: labour, that creates; prudent economics, that accumulates; and consumption that annihilates. Something that is neither created, nor receives a value through the direct or indirect application of human labour, can in any way be considered wealth; no matter how much utility or necessity to life it may inherently contain. As likewise, anything useless to man, or something that in no way is desirable to be used directly, or indirectly to make something else useful with, could be considered wealth; notwithstanding the amount of work that was applied to produce it. And finally, anything that cannot possibly be amassed in quantity and thus stored for future use, can be called wealth;

even though it may have been produced by applied work, and its consumption or utilization would indeed be a joyful experience.

We have mentioned that wealth creating labour, can be directly or indirectly applied. In effect, by gathering natural produce, man often gives it value consisting simply in the fact of not having to carry out this work in the future; by way of his [now affixed] relationship [with that produce], without in any way having changed it in substance. The solitary, by enclosing meadows and simply protecting the grass from the abuse by wild animals, gives them a value without [in reality] ever having touched them. Through the work involved in increasing his herd, will he give a value to those pastures, that now will come within their reach; and by making use of a waterfall in such a way that it will power his mill, will he even have made the cascading water valuable. All this being true not only to the solitary, but even more so to society; as the work by which one gives a value to things, is passed on to any successive outputs in turn.

We have also said that usage may be either directly or indirectly applied; as in for instance the value that man gives to the fodder, is serving him indirectly, through it being the nourishment to his herd. And finally, it should also be made clear that in order to be considered wealth, conforming to only two of the three necessary conditions, [reiterated: labour embodied, storability and utility] is not enough; by reason of a non-compliance with the third. Hence air, water and fire are not only useful, they are necessities to life; but unless their availability is the result of some previously carried out work to store it, they cannot and thus generally are not to be considered wealth. All work that never reached its intended goal can neither be considered wealth producing, since [its output] did not satisfy anyone, even though work was duly expended on its production. Exercise, music and dance all require work and may be very beneficial, but they cannot be considered as parts of wealth; since there is no way to store its benefits for enjoyment at another time.

Before possessing any means of exchange, before even having the slightest inkling of how precious metals facilitate exchanges for us; the solitary as we hypothesized him on his island, could already have been cognizant in which way work relates to the specific aspect of wealth accumulation. If it has had no resulting benefits to him, it has been useless; and if its results are of the kind that cannot be stored for a future use, then it has been unproductive. The only wealth creating or productive efforts are those that leave something beneficial behind, being of equal value to the extended work; which from the perspective of the solitary means a chore already done. Hence, this individual, misled by a similarity in appearances, may be under the impression, that he will be able to start an olive grove by sowing olives; quite unaware that their stones will never germinate under the type of circumstances that other fruit[seeds] would. He could have prepared the fields through quite extensive and tiring labour, but experience will eventually tell him that all his work has been for naught, because he will never grow a single olive tree. Or he could, on the other hand, decide to reinforce his dwelling against the potential attacks of wild animals, very useful work but [also to be considered as] unproductive, since its results cannot be subject to accumulation. If this person would once have been a subject of civilization, he could be passing away some time by playing a flute, supposing he saved it from a shipwreck; very useful work, that he might even regard as his most pleasurable time of all, but again equally unproductive and for the same reason. He could also be dedicating some time, to take care of his personal health; hours very usefully spend, but in no way adding to his wealth. Even the solitary therefore, can quite well distinguish his productive time from the time he spends without producing anything substantial for future needs, without being at all confused about the identity of activities he will call 'killing' some time with.

Chapter 2.

The Formation of Wealth within Society through Exchanges.

We have seen what all is involved in the formation, the conservation, and the utilization of wealth, as far as it concerns an isolated individual. This same course of events takes place in exactly the same manner and with the same goal in mind by someone living within society. But with the sole difference that the first never has to take anyone else but himself into consideration and thus during the creation of his wealth never looses sight of the reasoning behind it, namely to provide for his own comfort and joy; whereas the latter, living amidst a great number of individuals in the same position as himself, with whom he continuously exchanges his own output, therefore is working for the comfort and joy of others; so that he himself has to rely on the work of others, to provide for his own comfort and joy in return.

People nowadays, by having become part of society, have turned into abstract beings; whose wealth and needs are hypothetically assumed. This has left one unable, not only to become aware when one's efforts are being consumed, and the extent of the needs as prompts to be undertaken in the first place; but also [perceive] when it becomes necessary to give it a rest. One works without reflection to regenerate communal stockpiles, leaving it up to society to find a usage for whatever has been produced.

Though Sismondi, in his perception of an abstract societal individual, is way ahead here of his contemporaries; he would have been more elucidating if he had made his argument more explicitly in terms of the abstract value of the economic agent's output, rather than the agent's abstractness of being. For in the orthodox sense, the two are not synonymous. If we consider all economic agents to possess a dual nature, with a producing/exchanging as well as an expending side; then, in the orthodox sense, at least the latter would be just as real whether belonging to a societal individual, or to a solitary person. For the spent income, that was extracted as production compensation, is a real and thus determinate entity. The abstraction argument however, finds it justification in that with the spending of that income, before passing its effects over to one's consuming nature, a former abstraction becomes realized. For through spending, one does not realize (resolve) one's own productive side, but the countless fractions of the productive sides of others' in society; whose incomes, both past and present, are embodied within the article to be passed on to one's consumptive nature for an immediate, or a drawn out consumption. This cannot mean anything else than that (unspent) income itself is an indeterminate quantity. Sismondi no doubt picked up on this intuitively, for much later in his "Études" he called its attributes "mysterious and inexplicable" and as a rule used the term "revenu" (as derived from "return") instead of "income", to make this very distinction in his English works and correspondence. This is the essence of a very different 'economic' man, in his encountering a to be resolved dynamic environment, than the orthodox 'economic man', who finds himself having to deal with paradigmatic static conditions, but one that *unfortunately escaped Sismondi's conscious perception. We will pick up on this notion very soon again, before starting on his fourth chapter regarding capital, as it is of vital importance to the new paradigm.*

An exchange [of goods or services], between two people, both working and producing wealth, with the idea in mind that all of it would be consumable, just as in the case of our solitary, had to be conceived prior to a superabundance; as in: "Give to me what you don't require but I find very useful, and I will give to you in return something that I don't require but you will find useful."

Here, perceived utility has not been the sole measure of the item's exchangeability; as both individuals estimate the time and trouble spent on the production of the item, that each has chosen to part with, thus formulating the basis of the selling price; as well as comparing that to the time and trouble saved, by not having to produce the needed item themselves, thereby establishing a buyer's price. And no exchange would be taking place unless both parties after having done their estimations, each make up their own mind that it makes more sense to obtain the needed items through exchange, than through any self-fabrication.

The exchange in no way however, has altered the nature of wealth; which always remains a creation of labour alone, applied to alleviate some future need and valuable only because of that need. Moreover the relationship between production and consumption also remains the same, even though someone other than its producer has taken the place of its consumer. One can, as far as a produced item is concerned, abstract from all ensuing exchanges; someone bringing it about, then someone retaining it because of someone else having the [perceived] need to consume it. It does not make any difference whether this someone is one or several people; and a few of such successive exchanges, makes the last one in no way representative of something different from what the first one had [already] stood for.

Not only things are subject to exchange, it also pertains to work itself; the means whereby everything is produced. [This exchange] happens when those with stocked up provisions, offer them to those whose provisions are depleted; on the condition that the latter will work for them. Such an outlay, given in exchange for work, is called a *wage*.

But this type of exchange does not alter the nature of work any more, than that produced items are altered through exchanges. So too do the notions of useless and unproductive work exist equally within society, as for a solitary. When either of these yet draws a wage, then labour's inherent attributes were not sustained; as through useless labour, neither the needs nor desires of the employer were met, and through unproductive labour no storable results were obtained. The fact that wages in either case were nonetheless paid out, should in no way be deceptive; for employing someone, means putting that person in the [working] capacity of oneself. The role that we presume to be taken by a single person, is now divided in two; or for that matter into a whole lot of people. The outcome however, is never any less than always the same. The day-labourer having sown olive stones, performed only useless work for his boss; in spite of it having been advantageous to himself, for he has drawn a wage. And anyone who defends his master against a bear attack, or society against the attacks of its enemies; takes care of the health or other social requirements of others;

performs for anyone, so to let them share in the pleasures of music, theatre and dance; does, just like a solitary would [by playing his flute], very useful work that is pleasing to everybody involved, and in so far as drawing a wage, quite lucrative as well; but it happens at expense of whoever does the paying [and thus will reduce their 'wealth' accordingly]. This type of work therefore remains unproductive, because it can never be subject to accumulation by prudently consuming its results. In effect those who have paid the wage, can be said to possess neither the wage, nor any substantial object that the wage had been paid for.

Work and prudence, equally applicable to a social individual as well as to a solitary, are always the true and only sources of wealth, rendering to both the same kinds of benefits.

After lucidly informing us how in all likelihood the first exchanges came about, as well as asserting the equivalency of the meanings of wealth, production and consumption in both self-sufficient and exchange driven economies; Sismondi is starting to fall all too frequently here, into the trap of inconsistency; as well as making some outright undefendable statements, to simply let them pass by without further comment. First of all he understands very well and will iterate later on, the emergence of an altering economic value after successive and economically expedient exchanges. And secondly, when he comes to asserting the equivalency of work in both types of economies, one can't help wondering why he did not state those in somewhat less ambiguous terms. For in the above argument, set in a society where one can be employed by somebody else, the disadvantage of useless and the advantage of useful seem to cancel one another out; while for a solitary, the net result would have been disadvantageous overall. The root of the problem to be solved however, lies in an economic resolvability of previously made expenditures, i.e. negatives; and this dynamic macro concept of an economy as representing a set of accounts, remained ever so slightly beyond Sismondi's grasp and ability to use as its explanation.

Furthermore, that notwithstanding the somewhat demeaning connotation of the word unproductive, he does not want to let go of its Smithian meaning as the production of non-physical (non-storable) output only, (despite some rather heavy adversarial reaction by his contemporaries) is more than fair enough. It's a theme Sismondi will revisit at the end of the last chapter in this book where he puts it, although in a different context, about as decidedly as possible; i.e., as a consideration of a semantic nature only and unworthy to spend any time on. It almost seems however, as if Sismondi is trying to have it both ways here, by explaining useless, which can only be understood in the meaning of something wasteful, and unproductive as yet being useful, in the same line of argument. And finally, after having asserted for some time that work is the only source of wealth and that prudence (l'économie) is the way to ensure its results remain widely beneficial, and for the longest possible duration; in the paragraph just started, prudence suddenly acquires source attributes all its own; again hardly consistent and therefore best to be ignored.

Notwithstanding this, the formation of society including the introduction of commercial exchanges, have led to sweeping changes regarding the formation of wealth, whether it be [in complexity] through the division of labour facilitating enormous increases in efficiency, or [in size] by raising to a greater magnitude, the various attainable enjoyments that a concentrated effort of economically applied wealth can provide. Thus people clustered in society produce much more successfully than each of them would in isolated circumstances and will less likely let their own produce go to waste, since [conditions in the former] will give them a better feel for [the meaning of] its value.

The accidentally discovered advantage that two similar individuals experience when they can exchange, the through work acquired goods for which they have no immediate use themselves; soon led to the recognition, that this advantage will reoccur time and again, whenever the goods that some excelled at making, were offered for goods that others were much better at producing than the first. Something that is made repeatedly, is usually made better than something that is only attempted once in a while; [often happening] in a slow paced and clumsy manner. The more one can specialize in a single task, the more one thereby develops a certain dexterity in finding the easiest, as well as the most efficient ways by which to do the job. This discovery has led to the division of labour, as a result of which the making of implements that a farm-hand would spent more than a month on, now can be done by the local blacksmith in a single day.

The same principle that initially separated agricultural labour into the different trades, like herdsman, blacksmith and weaver; subsequently divided those trades into interminable tasks again as well. Each one in turn simplifying the number of functions to perform, thereby facilitating a quick and well-done production process. So did the weaver consign the tasks of spinning and dying to others; while the spinning of hemp, cotton, wool, and silk, all became separate occupations in their turn; with weaving still further subdivided according to the fabric and purpose of the cloth [involved]. And at each subdivision, every workman carrying out just a single task, experienced an increase in productivity. Within each manufacturing plant these divisions went still further and with repeated success. As [any number of] labourers work in co-operation with one another to produce a finished item, with each of them performing a different function; [so that as a result] they will over time produce [many times] more, than the totality would have been, had every one of them tried to produce each item individually.

Machines came about from the division of labour. The to us provided immutable powers of nature, so infinitely superior to those of man, are [usually by themselves] in no way appropriable by him; but industry has successfully been able to conquer and control those forces for its benefit; which even though they are in some respects similar to human power, can be applied which such speed and intensity, that they are immeasurably superior to the application of man's own forces. Water, wind and fire could not be depended upon to perform complicated tasks, but the division of labour has made the resulting operations very simple to carry out indeed. When in a factory setting, a worker has to perform a simple task, he will soon find out the exact movements necessary for its most efficient accomplishment and a little later will figure out how to apply one of nature's forces to do it without the aid of himself at all. This is [in short] how water power came to be used in the milling of flour, to move saw-blades and to lift rammers; and the work that before could not even be accomplished with thousands of men, can now be done with the help of those insensate labourers, that do not have a single need of their own.

The division of labour has led to still another way by which the productive power of man has been increased. Many members of society, no longer necessary to perform manual labour, can now dedicate themselves to the mental tasks of studying the natural laws and attributes of dynamics and mechanics; [and do this] in order to apply those as inventions, with ever increasing effects to the productive capacity of man. These are means of production nowadays called *scientific expertise*; which empowers the realization of projects, that mankind could never even consider to undertake, if it could only depend on the use of manual labour power alone.

After the somewhat confusing and ambiguous previous section, the second half of the chapter, straightforwardly exposes Sismondi's thoughts on early industrialization and trade; as an entirely naturally having occurred developmental process, where human experience has brought about an ever more effective harnessing of the powers of nature. Nowhere showing a trace of the prejudices that later critics thought to have detected, in the from the above philosophy stemming theory of technological unemployment, as a somehow inherent inevitability in the progress of mankind's constitution.

Moreover the way we here, at the end of this chapter, find Sismondi extolling the benefit of the powers of scientific knowledge should at least give some starting indication; that his perspective on the questionability of such kind of progress, does not lie with improved production methods, but with the feasible distribution of its output; something he will try to elucidate in the following chapter.

Chapter 3.

The Increased Needs of the Societal Individual and the Limits Concerning Production.

Ever since man became clustered within a societal setting with its correlated division of labour practices, a great deal more output has successively been generated on this earth. By only having to carry out a single task, combined with the successful subjugation of nature's undiscerning forces to assist in the effort, everyone has now acquired an amazing capacity to produce. So that, since having been instructed by technicians in how to make full use of the generally acquired scientific expertise, everyone's output has grown many times its own [naturally inherent] size. While outside of civilization, man has had to spend the entire day; just to take care of his own most basic necessities. In a most perfectly organized society this could be accomplished, working in industry with similar diligence, by one percent maybe even only by one permille of a normally working population; with all the others having the option to do nothing at all. Although to be honest, this does not quite hold true for agriculture, which in this respect does not operate in a comparable manner to the rest of the economy.

But if, as a result of the progress of civilization, a manifold increase in the output of goods was accomplished; it naturally follows, that its power to consume has had to increase proportionately as well. The solitary, working for himself, could only have had limited needs, as well as a limited set of pleasurable activities; his food, clothing and shelter, could only be thought of as necessities by him. And he could not have had the slightest inkling, how a nowadays possible standard of living could be experienced, let alone the spurious wants by some of an even better one. The goal of the solitary, lay strictly in accumulation; and well for the purpose of subsequently having some leisure time, [in which to enjoy it]. His accumulation of this wealth therefore would soon reach the point, whereupon any further accumulation would be absurd; as his consumption could not possibly be increased proportionately. But if the needs [and wants] of man in society appear to be without limit, it is only because his output is presenting him with an almost infinite variety of delights; and no matter how wealthy he becomes, he will never be motivated to say *and now it's been enough*. Instead he will always be searching for means to make life even more enjoyable and to figure out yet further uses for his acquired wealth.

It is a great mistake however, which currently is being made by the majority of contemporary economists, to consider consumption as if it were of unbounded capacity and forever ready to devour an unlimited production. These economists incessantly encourage nations to increase their production capacity, invent new machinery and perfect their productivity; with the objective that every year's output without fail, should surpass the one of the previous year. When seeing with distress a rising number of workers not producing, they scorn them with public indignation as malingerers. And in a nation that has seen a multifold increase in its productivity, they would like nothing better than to see everyone in it [living] to work, [rather than] be working in order to live.

The solitary primarily works to be able to subsequently take a comfortable rest, and accumulate wealth in order to enjoy it at his leisure; the latter is a natural experience to man, it is the goal and the compensation of work. But people would probably give up all their material wealth, as well as the niceties that the arts are providing; if the only way that they could be obtained, would be through the incessant work of our common labourer. The division of labour and the station of those who are affected by it, cannot have changed the reasoning why humanity works. Man only tires himself out, so that the rest he can take afterwards feels right and enjoyable; he accumulates only to spend and aspires wealth only for the purpose of its enjoyment. Nowadays however, his efforts are totally separated from any enjoyments that his output will bring about. It no longer is the same man who works, to be able to enjoy his repose afterwards; but it is because one man will do the work, that someone else may enjoy the derived comfort.

[Inserted original footnote] - The rest or repose, that we are talking about here, means the cessation of the work, that purposely had been initiated to create wealth; and it should in no way be confused with indolence. Just about any physical activity that one loves doing, will become a lot less pleasurable when its objective becomes to gain material benefits by it; and activities not having that objective, hence become leisure activities [for those having the time], with a well-earned rest being especially conducive to all sorts of mental activities, that without such repose could never even take place. Another effect thus of man's accumulation of wealth, while he consumes the results of it, is to stimulate his mind and clear his soul. A nation accumulates as a result of granting to all its citizens the necessary leisure time to develop their intellectual faculties, so that a number of them may lead the way, into ennobling humanity in its quest towards perfection. If all members of society would work, like the majority of them are working nowadays, this aim of national wealth accumulation could never be reached; as there neither would be enough leisure time left to enjoy the growth in accomplishments, nor would man be able to progress intellectually. Such a nation, in spite of multiplying its material wealth, would be sacrificing its ends for its means - *[end footnote]*.

Furthermore the needs of a working man are in effect quite limited. If after the enormous increase in the productivity of labour already achieved in its food, clothing and shelter production, through the applied force of society as it exists right now; the entire nation would from now on be subject to the working conditions of the common labourer and consequently another tenfold increase in the production of those necessities would occur and become available for consumption; would this then constitute a proportional gain to all?

Quite the contrary, every worker would then have to be selling ten times as much, while as buyer would still be [either his former self, or limited now by his changed personal requirements and under the conditions as stated, would have nowhere near the use for a tenfold increase in the average output]. Therefore the [average] worker would be selling so much less, that he [consequently] will find himself proportionately even more distressed in his [renewed] purchasing power; so that the transformation of society into an incessantly producing manufacturing complex, far from producing prosperity would make the current misery [already felt by most], now an [even worse and] universally felt condition.

From the moment that there are more than enough of the basic necessities, virtually all the extra work will then have to be dedicated towards luxury goods production. For, while the consumption of the basic necessities is limited, that of luxury items [at least theoretically] is limitless. And although one in short order could produce, all the clothing, shoes, flour or meat that, given their humiliating condition, are being consumed by the working class right now. Even if by way of a somewhat more justly organized society, a larger share of the by them created wealth could be retained; one would soon have to consider the possible enjoyment that could be gotten out of it and remain compatible with their [station in life]. No doubt the day will never come that we have them commute to work in a limousine, or let them carry out their jobs in velvet or gold brocade clothing. If these were the only [attainable] results of this zeal for production, that so excites the current political economists and drives their exhortations to governments; then the affected workers would very quickly rebuff, whatever luxuries they could buy with their punitive types of labour.

If those kind of frills were indeed the only things that could be made available to them, as compensation for the twelve to fourteen hours that they are commonly required to put in; then there would not be the slightest doubt that they would choose less luxury and more rest, less superficial adornments and more freedom. And if the conditions [as sketched above] would universally remain in effect, this is the choice that [no doubt] would then be made by society as a whole. Any entrepreneur getting his income out of profits, when having to compare the almost imperceptible enjoyment that the greater beauty of his clothes is giving him; in terms of the extra working hours that went into their making, [and be required to pay for them by having to put in a similar amount of effort himself], would never acquire them at all. Luxury [in our society] is only possible as long as it is bought with the labour of others; and it is only because the basic necessities of life itself are at stake, that anyone will put up with our relentless working days without leisure, but never for the sake of luxury items.

The indefinite growth of the productivity of labour therefore, can have as only result the augmentation of luxury items and pleasures of the idle rich. The solitary works for his own comfort, the social person works so that someone else can enjoy that comfort; the solitary accumulates in order to subsequently enjoy and take it easy, the social person sees the result of his slaving being accumulated by those empowered to enjoy them; but from the instant that he and his fellow sufferers increase their productivity, which has already happened to an extent that is far beyond their own consumptive capabilities, it all gets appropriated for consumption by those, whose standard of living does not bear the slightest resemblance to the one of those who do all the producing, and [who themselves most often] do not produce anything at all.

Could it be that the tragedy of Sismondi's inability to convince his contemporaries, and thus possibly the reason why the world would have had to wait well over a century longer, before a start could be made with the creation of the affluent society; wherein, even without the economics of it being all that much better understood, at least nobody questions any longer everyone's right to share in achieved productivity increases; is exemplified here in the middle of the third chapter? Here Sismondi conceives, what must be one of the most striking and brilliant 'reductio ad absurdum' themes ever advanced in theoretical economics. Clearly going beyond strict normative arguments, when he points out that: if the "what is good for the goose, is good for the gander" principle were applied; society, as existing under the operating conditions of the mid-industrial revolution, far from leading to a maximization of emergeable utility, no doubt would fall apart.

In a way however, he does seem to spoil a great deal of its impact, not only by postulating an exaggerated tenfold increase in output, but especially by an in the beginning of the analysis having made abstraction from agricultural produce; which later however creeps back into the argument, in its constituting by far the greatest component of life's basic necessities, to become itself of a most critical influence again. The connotation being, that in times when the agricultural sector in all likelihood was comprising at least somewhere between two-thirds and three-quarters of the workforce under consideration, one of an almost unforgivable sloppiness. But which now, in light of subsequent economic development, disappears into virtual meaningless again; as that sector in particular, has seen productivity increases probably unequalled anywhere else in the economy.

In spite of that slightly disparaging conjecture however, there still remains the ingenuity of his ever recurring argument: the showing that contrary to most of his contemporary thinkers on the subject, there is nothing at all natural about those latest developments in society. And that man's intrinsic propensities to work and rest, produce, accumulate and consume are being tampered with, not directly by the also natural development of exchanges beyond straight barter, the division of labour and automation; but that through these influential factors of growth, wittingly or not, an enabling conduciveness is brought about, which allows a patently inequitable remuneration of increased output to appear as the perfectly normal result, of what we nowadays would call free-market forces. A point Sismondi will considerably expand on in the next chapter as well. He does this by constantly falling back on the natural lifestyle of a solitary individual and compares those aspects; to how, as a result of the so-called natural economic laws, a common labourer in society is forced to live during his own times. So therefore it's the height of folly to expect, that with more of the same productivity increases apparently having led to ever deteriorating living conditions of the working class in the first place; economic health and with it, improved conditions for that great majority will be restored. If past productivity increases have already resulted in over-saturated markets, then the reason is because the natural and sole aim of production, being personal consumption in leisure, has not been followed closely enough; so that more leisure time in the next period, coupled to a more equitable remuneration to fully reflect the already achieved increase in productivity, will set a greater consumption of current output into motion, and thus restore the move towards equilibrium.

Sismondi's analysis, however intuitively arrived at, is that of a <u>feasible resolution</u> of pertinent economic expenditures within the process of livelihood distribution for society. Now while such distribution of course doesn't enter the picture for any solitary, or could be said to naturally resolve itself as a matter of course; in order for individuals within society to enjoy that same automatic repose, inherent in solitarian production not subject to any distribution, it is yet imperative that such resolution does at least remain a feasibility at all times. For it is only when full distribution is allowed to happen that society indeed will progress equitably. By having put the emphasis on wealth in reference to its effect on the population as a whole, Sismondi arrives at conclusions that his orthodox adversaries have already defined away before the argument gets even started. For orthodoxy full distribution is a matter of course, for Sismondi the evidence shows it is not; with the advance of industrial society and its means of production, the latter creates wealth in the abstract, that only becomes <u>real</u> (or determinate) and so allow a continuity of purpose after having been distributed.

Thus industrial growth, or the progress of productivity, has been having the tendency to increase the disparity between people. The more a nation is advanced in its industrial arts, the larger is the disproportionality in its sharing of the output between those who do the work and those who live a life of leisure. The more overworked the one sector, the more ostentatious the other becomes, at least until; through an institutional set up, that may seem to be incongruous with the purely economic aim to expand the national wealth; the State will rectify and ensure that a more equitable share of the produced wealth, is distributed among all of those that are involved in its production. The institution of a weekly day of rest, while curtailing the productivity of labour, has set some time aside for workers, to enjoy the by them created niceties of life. Its abolition would mean that overall wealth could increase by one-seventh, that the rich would add to their luxury, but which as a result would be compounding the wretchedness of the poor.

In a similar vein should legislative measures be enacted to safeguard workers from some of the worst excesses of competition; as just like the institutionalized weekly day of rest, these [measures] are being denounced by those who only acknowledge the augmentation of wealth; while they would carry the approval by all those, who value such expansion only in terms of its relationship to the well-being of the nation's population as a whole.

These last few paragraphs paint a striking picture, just how far society had degenerated in the abstract pursuit of wealth; as the even from antiquity dating weekly day of rest, no longer was self-assured, but contended to be sacrificed in the name of vested interests.

But the rich, who consume the results of work done by others, could never got a hold of it, if it were not for exchanges. As they spread about their acquired wealth, in return for all those new products that strike their fancy, they seem to be putting their savings in a real danger of exhaustion; as we have said before, they do not work and could not even work. One would therefore expect to soon see all that old wealth dwindling away, so that whenever gone, nothing could be offered in exchange to workers, who are totally dependent on that wealth for work. Workers, as we have seen before, neither have any use for carriages, nor for clothing made of velvet; so if the wealthy cease being rich, because of having made too much use of it, coach makers and velvet manufacturers will all perish in misery too.

In the way society is structured however, wealth has acquired the attribute of being able to reproduce itself through the labour of others, and without its owner participating in it. Wealth, like labour as well as through labour, yields an annual return that may be destroyed every year, without the wealth itself diminishing. This return is the *revenue* that springs from *capital* and the distinction between the two, lays the foundation for social prosperity. Production comes to a halt, as soon as it no longer is exchanged against revenue. If all of a sudden, the entire wealthy class decides to start living off its work like the poorest of people, and add all of their revenue to their capital; the workers who count on the exchange of that revenue for their livelihood, would be reduced to an utter state of misery and be starving to death. If on the other hand, the wealthy class would not be content to live off its revenue only, but would encroach on its capital as well, it would very soon find itself without any revenue at all, and the necessary exchange that the poor are so dependent on, would similarly come to an end. And as we will see later on, this would not be the only disastrous result following the demise of capital. Hence production must find its measure in social revenue, and those who encourage unlimited production, without worrying about having to recognize revenue as such, push a nation towards ruination, while believing to be opening the way to prosperity.

Here at only the end of the third chapter, Sismondi gets already about as close to the heart of the matter as he ever will. But however correct in many respects, he never completely understood his own propositions. Therefore the above assertions have been edited below, in a way to strip them of what in light of the alternate paradigm could only be considered as irrelevant and sometimes even misleading accessory statements; without ever really going much beyond what Sismondi himself says here, as well as on subsequent occasions. Hence a spin-doctoring of his statements toward their greatest possible impact, which at the same time will show us how to approach 'the' original economic question, namely: how much of current income should be reinvested in order to achieve a maximized prosperity. Although the answer to be analyzed later, is not distributively determinate, and would not by far have been as meaningful in Sismondi's time, when the economy was still developing, as compared to our own fully developed and mature one. Sismondi perceived, however intuitively, that for the economy to remain functioning at current levels, it not only sufficed to spend all of revenue on production output, it was also imperative to do so; and that, if any spending of current income on additional means of production does take place, it may very well turn out to have been detrimental instead.

The fact that he never was able to grasp the degree of necessity on the one hand and the potential detriment on the other, is immaterial to its reality as we will discover it later on. So here goes....

But this type of wealth, the consumption of the results of work done by others, could never be got hold of [in the first place], if it were not for [economic] exchanges. As the rich spread about their acquired wealth, in return for all those new products that strike their fancy, they seem to be putting their savings in a real danger of exhaustion; as we have said before, they do not work and [most] could not even work [if they had to]. One would therefore expect, to soon see all that old wealth having dwindled away....But in the way society is structured, wealth has acquired the attribute of being able to reproduce itself without any ongoing collaboration by its owner. [The accounted-for input of] wealth yields, just like labour and through [renewed] labour, a periodical return that has to be consumed [directly spent] that same period under penalty of its owners finding themselves [as a group], worse off than before. This return is the *revenue* that [bestows] *capital* [with eternal life]; and the determination of social prosperity lies in making the proper distinction between the two notions. Production will be brought to a halt, if its [final] output is no longer being exchanged against [all accounted-for] revenue;… since its [capital realizing] measure of production is bound by socially created revenue. And those who advocate an endlessly expanding production, without worrying about [the inherent juxtaposition of] revenue, will propel a nation towards its ruination, all the while believing to have been opening the gate to the cornucopia.

After thus having put the above passage in basic conformation with the alternate paradigm; this may also be the right time to appraise Sismondi's concept of economic reality in terms of its logic, and see how far it can be pursued to arrive at a systematic close. Unlike the orthodox utility measure of wealth following from a competition-enforced determinate price connotation, that is decisive up to and including the point of sale; where utility and price meet as equivalents in terms of the existing wealth and together provide the spark to the economic engine, invariably thereby drawing it into equilibrium; Sismondi takes a somewhat different tack. By earlier having defined the measure of wealth as the quantity and at least implicitly also, as the quality of livelihood provisions in the possession of the individual; as well as by not only disconnecting the meaning of that wealth from its economic price connotation, after it has gone as such into private possession, but also associating the term wealth itself throughout a viable economy <u>only</u> in so far a later validation into private possession will indeed take place; in other words by making wealth and price equivalency subject to equilibrium conditions, that are not automatically accomplished at any point of sale, but only at those of cost-covering prices; he indeed made the very significant first step to free himself from the clutches of the economic trickster, that, in its pretends to be so much more mystifying than in actual fact it is, has been clouding the minds of whoever tried to uncover its mysteries. Unfortunately he never made the next step, which would have been to place private wealth possession outside the economic sphere altogether. For while he will yet come somewhat closer to that; in chapter 4, he will postulate the existence of a 'consumption fund', and in chapter 6, define the transfer of items into it, and thus out of the circulation of the market, as 'the' significant moment of transformation, that changes a physically produced economic object into a to be enjoyed [metaphysical] experience and <u>not</u> the time of its actual consumption; he never explicitly declares it, at the point of final sale having lost all its economic connotations. For if he had done so, he would have started to place economics into a confining hold, from which it eventually would be bound having to surrender all its mystique; subject only to his understanding of how exactly this process is connected to the imperative resolution of capital, in order that the economy remains a vibrant entity, throughout a continuance of production. However as we will discover later, he remains about half a step shy of fully understanding that as well. Hence as far as Sismondi is concerned, his 'consumption fund' remains a level of the economy and his 'economic man' is yet the orthodox one; although the somewhat non-following attribute, that the measure of wealth in his possession can not in any way be significantly connected to its economic meaning in price, does at least hint at an exogenous population. This inconsistency, together with both the limiting connotation of 'consumption fund'; since not all items in there necessarily end up being consumed, but at any time some could be put up for re-sale again in a 'used' condition; as well as his insufficient understanding of the full attributes of capital, by enlarge must have been the reasons *why he never was able to close his model. But that we, by underpinning and extrapolating his otherwise most valid ideas, will give another try; starting with propositioning a slight variance to Sismondi's capital-revenue duality.*

When our 'economic' man is acknowledged by the system as a necessary activator in its success, it is obvious that in this recognition both his earnings and his expenditures are involved; and one of the questions becomes, which one to consider the positive and which one the negative economic element so that these two factors can effect each other's mutual cancellation. This brings us to what, if any, connection there could be between the obvious earnings-expenditures equivalency and Sismondi's obscure capital-revenue notion. Now it is important to remember that Sismondi's analysis so far has been conducted in real terms with a positively growing or lessening stock of capital, according to whether the incomes of all economic participants are justifiably spent. Leaving the idea of a positively valued stock of capital intact for the moment and without involving any type of numeraire; we can I believe validly assume that both notions, at least when looked at in terms of a resulting flow of final output, convey the same meaning.

Still it is not at all obvious which single realization is what, nor which ones should logically be considered the positive, respectively negative ones. Our solid footing however is provided by the product, since (in the classical sense) it axiomatically embodies past and present earnings; however, these are not the earnings of the spender, those rare and in any case insignificant occurrences may safely be dispensed with. Instead they were the earnings, or better said, minuscule fractions of earnings of countless others; that thus through the spending of anyone's earnings on a particular product will be resolved in terms of produced exchange-value and turn into a positive use-value for the spender. As building up a stock of means-of-production involves the disbursement of personal earnings, capital at this stage could be considered as nothing but representing 'unresolved' earnings, that logically should be represented by a minus sign; with further analysis, of this rather against the grain of common sense going conclusion, to come later. This would then make the resolving expenditures, Sismondi's (and A. Smith's[11]) revenue; which in his way of thinking could probably be understood best, as the from capital derived income, destined to validate the existence of its originator by withdrawing its production output from circulation, into one's own private consumption fund. In reality of course, this would still amount to expenditures, or better said 'spending-' and not earning-power; so that anyone translating revenue by using the word income, as being a determinate fait-accompli, equally valid to either consume or invest, is bound to miss the, albeit rather obscure, point completely[12].

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[11] Additionally, it's most interesting to bring Adam Smith's interpretation of the term "revenue" into the picture here as well: *...though the wages of the workman are commonly paid to him in money, his real revenue, like that of all other men, consists, not in the money, but in the money's worth; not in the metal pieces, but in what can be got for them.'* "The Wealth of Nations" - Modern Library Edition, New York: 1937. p. 280. Thus to Adam Smith also, at least in this particular quotation, revenue is not income that as such would remain fully integrated with produced output; but instead is expressed in units of spending power over previously produced output, with the latter having most often no direct link with the existing capital enabling income at all.

[12] Cff. Thomas Sowell, *Sismondi: A Neglected Pioneer.* History of Political Economy, Spring 1972. p. 78-9. And: J.C.L. Simonde de Sismondi, *NEW PRINCIPLES OF POLITICAL ECONOMY, of Wealth in its Relation to Population.* Translated and annotated by Richard Hyse. Transaction Publishers; New Brunswick, (N.J.) 1991. (e.g.) pp. 79, 80, and footnote 2. p. 87. The latter, as far as the crucial understanding of the term *revenue* is concerned, thus certainly not providing any further advance over Sowell's work. My overall

Now even though this meaning seems to agree with Sismondi's overall concept most of the time; it will become obvious soon that he is most inconsistent in his definitions, seemingly caused by that most basic of all confusions, in which he all but followed his precursor Adam Smith; with the latter, in his attempts to determine the measure of value, if not forever swaying back and forth between the terms of labour units embodied and labour units commanded, regardless the earlier footnote, never was able to make indubitably clear what he meant either. Even though of course, unable to provide an absolute proof of reality, the proposed new paradigm gets around this by explicitly stating a set of exogenously derived axioms, as priorly existing assumed facts; and next deducing from those, both a definition of its measure of value (money) and the endogenous delineation of the economic system as a whole in its terms. If these axioms cannot be denied as being sensible, then their logical deductions are so too; regardless if, as a consequence, this would make the economic structure as a whole indeterminate ahead of final-output sales, with only piecemeal determination taking place at that time, through the direct spending of both cost-derived and profit-derived personal incomes. And it is the latter that gets us back to Sismondi's latest paragraph, where he holds it as being crucial that for the sake of a continuity, capitalists too <u>directly spend</u> their periodical "revenue". While this is intuitive or inductively argued by Sismondi, the fact that capital itself cannot resolve previously-made expenditures on its own behalf directly is a deduced reality in terms of the proposed alternate paradigm's set of first principles. Thus a definition of wealth <u>solely</u> in terms of realized personal income through the demand for final output, which in spite of being inherently indeterminate anteriorly, can, thanks to the limiting connotation of 'economic value' (i.e. values in exchange, netting to zero and thus intrinsically remaining within a self-enclosed economic sphere), yet be argued to qualify as such. If as a coherent explanation of the economy's workings this is indeed deemed to be so, then it certainly remains incredible that notwithstanding Sismondi's own basic confusions, how close his intuition did get him following that same fundamental concept of reality; making it also more than worthwhile to follow his interpretations about the nature of capital in the next chapter.

Chapter 4.

How Revenue [Realizes] Capital.

Commerce, which is the common name given to the totality of exchanges, has been confounding the so necessary interdependence between production and consumption; and that instead of diminishing, has become ever more consequential, [the farther those factors have been growing apart]. Originally, everyone produced as much as they themselves were expecting to need to consume; limiting production to the knowledge of one's own needs. But since in society everyone works for everyone else, the production of all must be consumed by all; so that everyone in [charge of] production must keep the ultimate demands of society in mind, and thus conform production with demand. This demand however can only be vaguely guessed at, although it is no doubt limited,

impression of this translation (undertaken either slightly before or contemporaneously with my own), and in spite of drawing most interesting inferences with respect to Marx's emulation, was a disappointment, and a missed opportunity to expose Sismondi's crucial dynamic interpretation of economic phenomena. But at least, this left my own translation effort with something additional to contribute, and not be a waste of time.

since in order to continue meeting their expenses, everyone has to keep them within certain limitations and the totality of society's expenses is nothing but the sum of the cost of living of all individuals combined.

The distinction between capital and revenue, still [perhaps somewhat] muddled for the solitary, becomes therefore of an essential importance within society. [If] the social individual must keep his consumption in line with his revenue, [then] society of which he forms a part must follow that same rule. It must not and can not, under penalty of ruination, consume more than its periodical revenue; for if it encroaches upon its capital, it altogether destroys its means of production and thereby its means of future consumption. Still, the totality of what it produces, remains destined for consumption and if its periodical production, marketed as it should be, does not find consumers [with sufficient revenue; then future] reproduction will not get started and the nation will have ruined itself in spite of its current abundance.

Here we are broaching the most abstract and difficult problem in political economy. The nature of capital and that of revenue remain for ever confusing to our mind, because it seems obvious that what is revenue for one becomes capital for someone else, and the same entity while passing from hand to hand, successively takes on one or the other identity. And its value, as becoming distinct from the to be consumed item, seems to be a metaphysical entity that one person dispenses with and another exchanges, perishing with the item's consumption itself, or is able to metamorphose into its different identity for the other and thereby able to persist, for as long as such circulation continues. Yet, the more difficult it is to distinguish capital from revenue [the further society develops], the more important this distinction becomes; [the heedless following of economic] doctrines utterly confused by this distinction, has more than once led to disastrous consequences. Be it either by excessively stimulating [indirect spending], as a means to encourage industrial development; or maybe by imposing a disturbing taxation on capital instead of on revenues; while invocations, in terms of taking the parable of the goose with the golden eggs at heart, as far as the conservation of the national capital is concerned, were dismissed as being delusive. We have mentioned before that all wealth is a product of labour, of which revenue by being only a partial realization of wealth, must have its origin in that same source too. It has become customary however, to recognize three kinds of revenue, known as rent, profit, and wages; each derived from their own source, namely the land, accumulated capital and [applied] labour; which, upon some reflection, can be understood as three separate ways to acquire participation into sharing the results of the work of man.

Because of the combined industrial and scientific progress, that is allowing mankind to harness all of Nature's forces; a worker can nowadays produce a lot more than he needs to consume on a daily basis. But while doing one's job had been producing [an ever increasing] wealth, if the enjoyment of that wealth were [simply] allotted to all, it would make for less inclination to do work. In addition most people were not able to hold on to the wealth they created. So that whenever this [progress in the form of capital] made a contribution to work; it allowed anyone in its possession, to retain as compensation, all that a collaborating worker produced, over the latter's immediate consumptive needs.

[As far as the land is concerned] the peasant farmer too, generally has not been able to hold onto the ownership of it himself; yet the land has an inherent capacity to produce, which human labour is only able to direct in some ways towards a more productive output. The owner of the land on which the work is being performed appropriates on behalf of this productive power, a share of the crop that was produced through the applied labour upon his land. This is the revenue of land ownership, withheld from the productive results of the cultivator, which may be consumed [by the landowner] without reproduction [meaning, without the nation growing any poorer for it]. The physiocrats called this *rent*.

At our stage of civilization, a workman is not able to own outright, enough means of subsistence to last him during his enterprise and until a willing buyer is found for the results of his effort. He can no longer afford to own the raw materials, often coming from far away, that he needs to apply his trade; let alone owning the complicated and expensive machinery that makes his work so much easier and infinitely more productive. The rich [or naturally limited few, able to take advantage of the human condition] now owning those means of subsistence, raw materials and machines, no longer have to do any work themselves. Because by providing those to the labourer to work with, they in effect become the owners of all output; of which they appropriate, on behalf of their extended inputs, by far the largest share. This is called the profit on capital, or the revenue of the capitalist. Even though the worker with his daily job has produced much more than his daily expenses, it is rare indeed that after having shared [his output] with the landlord as well as the capitalist, he is left with anything more than just his very basic necessities; which forms his revenue, also known as *wages*, that are to be consumed without reproduction.

Let us next observe, from the moment of their creation as well as their subsequent development, the three different types of revenues within a closed economy.

From the perspective of the solitary, with whom we started our inquiry into the formation of wealth; this wealth was nothing but a provision prepared in advance for a later moment of need. Nevertheless he could already have recognized, that these provisions have two most distinguishable purposes, namely: one portion that he budgets to have at hand, at any time now and in the future, to live off; and another portion he does not have any use for, until the time comes that it be used as means in the reproduction of his requirements for the next period. Thus one portion of his corn will be kept for nourishment until the next harvest and anther stored away to serve as seed corn to germinate the following year. The development of society, including the introduction of commerce, has in effect allowed for a compounding of [items similar in nature to] this seed corn; this viable portion of accumulated wealth, that has taken on the name of *capital*.

But, while the solitary only had to work in co-operation with the soil and his animals, within society the poor depend on the rich for work. The farmer after having set aside all the corn he expects to need for the next sowing, understands that the best suitable use he can put the surplus corn to, is to feed other people who, during the following growing season, will be working the soil for him; and in the meantime will spin and weave his hemp and wool, perhaps extract some peat from his uncultivated land, or somehow rework consumable things already in his possession, in order that wares of greater value for their eventual consumption may be brought about.

By operating in such manner, a farmer changes a portion of his revenue into capital; which in effect always underlies any new capital formation. The harvested corn, above what he needs for his own use, and in excess of his need for seed corn to at least maintain the size of his operation for the coming season, is wealth; or the revenue that he can give away, squander, or consume in idleness without becoming any poorer. But once he uses it to feed productive workers with, once he exchanges it against their work, or the output of his farm-hands, spinners and peat-cutters; then it has become a permanent value, able to grow and no longer destined to perish, it has become capital. The value of this capital however, has become a separate entity from the created items themselves; it has taken on the intangible form of a metaphysical entity, always in the possession of those who commissioned its existence, but periodically assuming a different identity to its owners. First existing in the form of corn, then taking on a value identical to [sustaining any renewed] work, followed by a value equal to the results of that work, later still taking on the value according to what those results will exchange for in the way of other commodities, or money, or additional corn, or more work. All these successive exchanges in no way necessarily altering capital, as remaining at the disposal of those who originally decided to [turn their revenue into capital].

If in so far at any of these capital metamorphoses, others were supplied with consumption goods, that thus more often than not ended up as destroyed revenue, the original capital value itself suffered thereby no loss at all. For any such exchange always involved two values, which could either manifest as capital or revenue; with those values however, never being inherent in the object that is exchanged, but attaching instead to the person who owns it. Thus workers have no revenue, but what they can obtain in exchange for labour; if they exchange it for corn, that then becomes their revenue, which they are free to consume without it at the same time leading to an overall diminution of wealth, because their work had become capital to their boss; who through a subsequent exchange of its results, say woven wool with a merchant, will exchange capital for capital, or better said each one will be holding onto the capital of their own but under a different form. The merchant may eventually sell this cloth to a consumer, who could sew a suit [from it and who because of being a consumer, will be spending] and as such consuming revenue, [just as if it was corn but this time in the form of a suit;] all this having caused no general wealth diminution as the consumer's revenue has turned into a portion of the merchant's capital again.

Since only human labour possesses a wealth creating attribute, that is coming to the fore whenever it adapts natural objects for the alleviation of human needs; all capital must periodically put new labour into motion again, and hence be regenerated through this newly by labour created wealth, in order not to lose all its wealth connotation. This requisition of labour, [needed] by the rich [to remain wealthy], is expressed in the price of the wages paid for to the poor; with the division of labour having been able to bring about an ever greater disparity in their respective situations. For as with each generation more offspring were being put into this world, without any other revenue than their [potential] labour power; this has been leaving them no choice, but to go along with whatever conditions for employment were being offered. As most labour these days, consists of unskilled operations within a factory, they became totally subjected to the mercy of their employers; since they no longer produced complete items by themselves, but only made a portion of the work; thereby needing the collaboration of their fellow workers, as well as raw materials, the proper tools and someone in charge of selling the item, that they had helped to produce. When a worker thus has to negotiate his wages with his superior, it is always the former who is in a precarious position; as his livelihood, [having become] impossible to take care of on his own, is at stake; while his boss's only concern is to gain further [on an already substantially better standard of living]. By thus nearly always having limited his demands to the absolute minimum, that work can at all be done for; the only ones to profit from the increased productivity that the division of labour brought about, have been the owners of the workshops.

The subordination of the labourer and the state of misery that the original creators of the national wealth are finding themselves in, is not alleviated through a growth in the working population. For as the number of those, that possess no other revenue, than the one obtainable by the use of their hands is increasing; so does the increased competition for those jobs, lead to ever increasing servility to accept whatever wage and conditions are being offered. Hence the benefits that the employer secures for himself, often represent nothing but a spoliation of those he employs; he does not gain because his enterprise is producing so much more than it is costing him, but because he does not pay all its true costs, which would amount to sufficient compensatory payments to his employees for their performed work. Operating an industry in such a way is a social evil, for it reduces those who do the actual work to the utmost misery imaginable; while ensuring no more than the ordinary profits on capital, to anyone in charge of it.

Each time a wealthy individual is obtaining a profit through the commissioning of labour, he finds himself in an every respect similar position to the farmer who sowed his fields. The wages that he paid to his workers are like seeds entrusted to the soil, which as time goes by [and given normal circumstances] will germinate and be fruitful. Just like the farmer knows that those seeds will give him a crop; so too does the capitalist know that there will be a production of output by his workers. As a result of which, in spite of this remaining an inscrutable process to him, he will first of all recover the value of the inputs, or of all the capital that was used to produce the output; followed by a surplus of production, that he will call his profit and which forms his revenue. The latter brought about periodically from any similar amount of capital, could be consumed and thus destroyed without reproduction; without this leaving its owner any worse off than before.

And just like through cultivating, a farmer is unable to use up all the productive power inherent in the soil; so, during any entrepreneurial effort, is only a portion of factories and equipment dedicated towards improving the productivity and lightening the burden of work [and thereby become embodied in its output]; again in very much the same way, as all the preliminary work a farmer does to prepare and fertilize his fields [only in part shows up within any particular year's produce]. Such is the way, that wealth is brought about and subsequently separates itself, into its different forms. One portion of which; accumulated by society and dedicated by each of its possessors to render work more profitable, and easier done through the harnessing of the innate powers of nature by letting those expend [super] human like efforts; is being called *fixed capital* and includes irrigation and drainage works, factories, tools of the trades, and machinery of all kinds. A second portion of wealth, which inevitably will be used up in any reproduction process resulting in output; but while irrevocably changing in form, still conserving the value of its inputs; is called *circulating capital* and consists of seeds, raw materials to be reworked, and wages. And finally a third portion separates itself from the second [in its interaction with the first], it is the value by which the achieved output surpasses the value of all its embodied inputs. This value, called the *revenue* of capital, is destined to perish without reproduction as well; in its exchange one last time and before being consumed, against those items that [capitalists perceive to] need using. The collectivity of the above, being the totality of items dedicated towards needs [and wants] alleviation; no longer reproducing themselves and acquired through expended revenue, is designated by the name of *consumption fund*.

It is most essential to point out, that these three types of wealth are all equally in the process of disappearing by being consumed [through the aggregate consumption fund]; since all that has been created, has only acquired an [economic] value, in so far it could be applied towards the alleviation of human needs, which can only take place through his consumption activities. The consumption of fixed capital however, has to occur in an indirect manner; through the gradual [embodiment into its output, by a process of] assistance in the reproduction of the goods, that man will designate for his own usage. The consumption of circulating capital on the other hand, does take place directly; it passes into the consumption fund of the worker by representing its wage, as this is his revenue obtained in exchange for his work.

In order to complete the whole process, and thereby continuously achieve a successful reproduction; it [meaning the complementing output on the retail level, thus over and above the bare subsistence of the workers who produced it] must be passed into the consumption fund of others' altogether, who then as buyers exchange it for some of their own acquired revenue. Every time something is consumed, there is someone to whom it is lost forever; and [at the same time] for someone else [a benefit is realized by this and thus] it is consumed with [full] reproduction [potential].

This shifting back and forth of wealth is of such abstraction and it requires such a great effort in concentration to fully comprehend, that it is probably best explained by using the most simple of examples possible, through the fixing of our attention on just a single family.

It seems opportune to insert another time out in here, as the above couple of paragraphs are so indicative of Sismondi's groping for some essential truth, that remained ever so slightly beyond his reach. And even though he promises us, to further clear it up in the next few pages, this unfortunately won't be as successful as he might have hoped it to be; for he didn't quite grasp that in an exchangeable value economy, any explanation of a "return" in terms of a singular produced stock of capital cannot possibly be complete.

By that I mean, that while it is all good and well to point out the confines of basic sustenance means of production, and argue in terms of a stock of existing sustenance that subsequently will enable the production of a dissimilar kind of output (non-direct sustenance, or luxury goods); it is a very different matter to equate these fundamental transformations with the further exchange of such non-direct sustenance products for other ones. In the fundamental transformation, at least as long as the resulting output is applied to further improve the standard of living of those involved in its production, the return is unconditional (or self-fulfillable); while the secondary ones are conditional (or non-self-fulfillable. Or in other words, when the loop is deep enough to include basic sustenance, a "positive" stock of "capital" (means of production) is of an identifiable (determinate) value; but this may not at all hold true for exchange loops between non-direct sustenance output, as now capital values have become conditionals only and are fully dependent upon their returns (meaning: the ex post determination of values come from other capitals *altogether, and no return = nil capital value). It seems to me, that the explicit reference to the non-linearity of capital-value determination is what is missing from Sismondi's analysis, in spite of implicitly conferring that notion all along in this work.*

The essence of all of this concerns the concept of a reproduction potential, or the maintenance of existing capital at 'values' (meaning in terms of the alternate paradigm, 'realizable returns'); at least equal to those of anteriority. Although Sismondi intuitively understood that this reproduction, or the enabling continuity of economic progression, was something very different from renewed investment; and that there was no way that this reproduction could be accomplished through new investment instead of consumption, but that consumption itself was the determining factor that enabled this reproduction, or generally beneficent economic continuance, to come about in an entirely automatic way; he obviously did not succeed in conveying that meaning, as none of his later reviewers were able to pick up on this notion[13]*.*

Yet in the foregoing, Sismondi did come up with a number of very remarkable concepts. By designating the entire economic output of society to end up in a 'consumption fund' and getting there by means of revenue discharge [or the exercising of spending power], by all of its classes; this however implicitly, cannot mean anything else than that a rise in the demand for capital, or investment goods, has to precipitate into a rising demand for consumption goods in the future and therefore in no way can be an end in itself. Now although the effect of any non-compliance with this systemic imperative, or failing to increase the level of consumer goods spending by profit income earners, results in a situation very much similar in nature, to the concept of a secular economic stagnation as identified by Keynesians; this obviously cannot at all be alleviated by additional investment incentives, that the latter would prescribe; which at best could postpone any inevitable reckoning, but in actuality, given unchanging propensities, may even make the situation worse.

It seems to me that this problematic condition, might very well have been what brought Joan Robinson to the point of such despair in the ability of conventional economics, to be in any way effective in alleviating the prevalent distress. As far as I'm aware she was the only one of the post-Keynesians who reasoned all the way through Keynes's inductive understanding, that the return on all investments in the final analysis depends on this demand for consumer goods; whereby she also

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[13] Cf. R. Hyse. op. cit. p. 88, n. 14. - The citation following is a case in point of: when being hindered by deterministic blinders within a static environment, it becomes impossible to interpret the meaning of a contention set dynamically, in which values are essentially indeterminate in time. "If Sismondi would have discarded the notion of reproduction and would have made a simple division between investment and consumption, ...he would have come very close to the Keynesian model." As if the muddled effort of establishing the workings of a dynamically operating economy through deduction from a static first principle is the final word on the subject. Sismondi rejected his own 1803 "Keynesian" (equilibrium lagged aggregate income) model here in N.P., and at least tried to move beyond it. That he didn't quite succeed in this quest, because his conception of capital remained too close to that of his reviewers does not alter the fact that: if sustained reproduction is indeed a cardinal objective of economic endeavour, all (capital) values become ex ante indeterminate; while a simple division between investment and consumption yields faux determinate values, with fatal consequences of internal contradictions. There is no common denominator to be had here at all, it's either one approach (Keynes's wrong self-contradictory one) or the other; and Sismondi, at least in these passages, is showing us the way to the "right" one. Now if only he would have been just a little bit more consistent and had refrained from defining revenue as a worker's wage; and that in terms of a desirable continuity it isn't human labour that creates wealth statically or ex ante, but human consumptive power as the only possible entity doing so ex post exclusively.

came to the conclusion, that the nature of capital had to be essentially different from what it commonly was made out to be. And that realization, of as being "the only economist not knowing what capital is"[14]*, will, if this work is going to make any difference at all, put her miles ahead of all those other (capital understanding!) economists; faux Nobel Prize winners included.*

Another point brought up by Sismondi and also most noteworthy since it relates to the above as well, is that: (paraphrasing it to its ultimate meaning) no matter how low wage remuneration gets, and this by the way holds true all the way down to the level of slavery, it never can have any effect whatsoever on the "ordinary" rate of profit. Occurring in the final line of probably one of his most frequently quoted excerpts; it even in Sismondi's toned down version, goes diametrically against the grain of one of the most basic tenets of all of conventional economics. Yet as far as I'm aware, no one ever questioned its validity; perhaps by quoting it in the first place showing their sympathy, and thus not wanting to tarnish the brilliant rhetoric of the foregoing.

However, from the perspective of the alternate paradigm and given a closed economy, existing for an exogenously located purpose; Sismondi, in spite of what we will have to conclude later on, not fully grasping its ultimate meaning, could not have been more right. As what he calls 'ordinary profits', in the final analysis boil down solely to the propensity of profit income earners to directly spend such income on production output at the retail level; and is thus holding true regardless at what level input 'costs' are remunerated. In other words, in spite of conventional economics' edification to the contrary: there is <u>no</u> inverse relationship between wages and profits! And the 'rate' of profit is a misnomer, since it virtually could be anything; having nothing whatsoever to do with the wage level, nor with the size of the capital involved. Could this tenet be considered the essence of our economic system? The notion that if the earning of wages, and all those other incomes forming part of ex ante production costs (including interest costs and taxes!), cancel one another out in terms of achieved standard of living, then it becomes imperative for profit income earners, to achieve that same end among themselves; meaning that if profit earners didn't comply with this obligation at least to some extent (or, distribute it as a share to newly hired wage earners, to proxy such spending) then no profit income could ever materialize in the aggregate on a sustained basis, since there is nobody else around to make it for them? If this is indeed so, then unfortunately, it remained ever so slightly beyond Sismondi's reach; and notwithstanding a very strong ending, he really won't come much closer to it, in the remainder of this chapter.

As secluded farmers in a distant settlement at the edge of the desert; they, in a given year harvest, say, 100 sacks of corn. In the absence of any particular market to transport it to however and all of it having to be consumed, pretty close to within a year to [(not spoil?), and] be of any value at all to our farmers; this family, still only manages to consume 30 sacks of it. These are their expenditures as exchanged against their revenue and without being the [subject of a potential] reproduction for anyone else.

Now, they manage to call on additional workers; they make them clear woods, drain any neighbouring marshes and irrigate with it, a portion of the desert. These workers will eat altogether another 30 sacks of corn, which to them will be expenditures also, acquired at the value of their revenue, namely their work. For the farmers however, it [will have been subject] to an [economic] exchange, by which they have converted their 30 sacks of corn into fixed capital. Now they are left

[14] Cf. Joan Robinson, *Collected Economic Papers, Vol IV.* Blackwell, Oxford: 1973; p. 126.

with 40 sacks, which they will sow this year instead of the 20, they sowed the previous one; this will be their circulating capital, doubled from last year. Hence the whole 100 sacks will have been consumed, but 70 of these will have constituted an actual investment, that will give them a multifold return; some of it already this coming year, but much more in all subsequent harvests to come.

The very isolation of the farmers in our supposition, gives us a much better feel for the limitations of such an operation. If they only have found consumers for 60 sacks out of their 100 sack harvest; who is going to consume the 200 sacks that will be the likely result of the doubling of their seed corn? One could answer that *the family itself might increase*; quite possibly so, but human generations do not multiply at nearly the pace of produced subsistence. If our farmers could count on available help to repeat this process every year, their crop would double every time, while the family itself may double at most every 25 years.

We thus distinguished three different types of wealth within a private family; let us now consider each type of wealth separately in its relationship to the whole nation and discover how in this process, the national revenue is brought about. Just like the rudimentary work that a farmer must carry out, like the clearing of woodlands or the draining of marshes before any actual cultivation can start; so is it necessary for all kinds of enterprise to carry out some type of preliminary work, to facilitate or augment the reproduction of circulating capital.

One first has to develop a mine, before one can extract minerals; reroute water through canals and build mills and factories, before being able to use its power; assemble a manufacturing line and make it ready for the trades, before being able to weave wool, hemp, or silk. This fundamental impetus is always accomplished through work and is represented by the cost of wages; which are always to be exchanged against the basic necessities of life and consumed by the workers, while they are carrying out that work. It is therefore a portion of annual consumption, that is transformed into an established permanence; characterized by its intended augmentation of the productivity of future labour, that we have given the name of fixed capital. This capital is predestined to eventually become old and dilapidated as a result of slowly being consumed, while over a long period of time contributing to augment periodical production.

The same thing that is encompassed through seeding at the farm; whereby after having been entrusted to the soil, returns will reappear in multifold during the next harvest; also happens through every entrepreneurial effort. Starting with facilitating the reworking of natural materials and together with the wages of its workers being consumed during production, they are both equivalents in life's progression. What thus starts out with the consumption of a surplus, inevitably is followed by a much extended reproduction, because the latter must be equivalent to its raw materials, consumption necessities of its workers, as well as the depreciation of all fixed capital that has partaken in it; [and this is happening] to the ultimate benefit of all people having collaborated in the work, including those whose contributions consisted in taking the trouble and risks involved, with the objective to gain [in the lending process]. The farmer sows 20 sacks of corn, in order to harvest 100, with a manufacturer acting on a similar impetus; and just as the farmer does not only recover the costs of his [rent,] seeds and all applied labour, so does the manufacturer not only recover the costs of his raw materials and wages of his workers, but also a profit over all his input costs, be they fixed or circulating capital.

Finally, a farmer may very well increase his seed corn every year, but he should never loose sight of the fact that his harvests will increase proportionally, and he may not be sure to find enough consumers for it. While a manufacturer, similarly inclined to dedicate all his resources towards periodically increasing the reproduction of output; should never forget the necessity of finding buyers, as consumers for the increased production leaving his plant.

Since a consumption fund does not reproduce anything, and everyone works with the idea in mind to try to better one's position; consumption as a rule is restrained [to the minimum acceptable standard]. So that instead of accumulating the provisions of one's entire periodical revenue within one's own home, to as such pass into the fund; one is instead inclined to increase one's fixed or circulating capital, at least for the time it is not absolutely necessary to be expended with. Therefore, in the current functioning of society, a portion of [what should go into] the national consumption fund is remaining within the means of the retailers; awaiting [in vain] to accommodate their consumers; while another portion, [mainly that] which normally takes an extended time to be consumed, like homes, furniture, carriages, etc., remains in the [underutilized] possession of people who, without giving up ownership [are trying to] make a living from renting those items out. A considerable portion of the wealth of prosperous nations, is thus refused entry into private consumption funds, which in spite of being at the disposal of its possessors, is not conducive to the national reproduction process.

Sismondi began as well as ends this chapter on very powerful notes, inferring the essential importance of effective demand. Its strength however, lies only in the originality of his display of common sense; one that ever since his time has been precipitating onto human consciousness, whenever the economy did not behave according to the at the outset invariably enthusiastic forecasts of its prejudiciously inspired orthodox guides. Sismondi's establishment of causation however, to whatever should have been identified as the impetus to successful economic progression, namely how the sufficiently validating resolution of capital takes place, remains tenuous at best. For notwithstanding its interspersed brilliant rhetoric, he could not possibly show, how the obviously negative economic condition he saw all around him, was arrived at utilizing economic entities with only inherently positive values.

As long as capital was thought of as having a positive to be depleted value, any one capital was as good as another; if some of the already existing, did not quite contribute to productivity on par with the new generation, then the "invincible" market had decreed its liquidation. If thus income was spent on means of production instead of on output, so much the better; for those who will manufacture the invariably more productive means, no doubt will carry out all the postponed spending on consumer goods instead. It is at least six of one, or half a dozen of the other; but with the probability of it being even a lot more advantageous, to invest rather than consume. As anyone knows, these counter arguments to Sismondi and his more recent spiritual confrères are familiar enough, and what's more, the orthodox reasoning behind it is still solid as rock, not a single crack anywhere to try breaking it apart. However, that solidity exists only within a certain paradigm and it so happens to be not the only paradigm possible. Heaven knows how many more there could potentially exist.

What exactly does it mean, that in terms of an all encompassing personal income <==> personal expenditure circuit; capital takes on the identity of unresolved earnings, and why should it become thereby, a designated negative? Is it not obvious that capital must be a positive entity? One of the most common complaints about the current state of economics, is that it has lost all touch to everyday reality. Thus how could a new system claim to be realistic at all, if it has to designate that all important capital; the very symbol of affluence providing, that at least most of us in the lucky developed world are enjoying, as logically needing to be circumscribed under a negative sign? What link to reality could there possibly be in that?

Well, there happens to be a very important link, there is an entity in the real world that is almost constantly on the minds of a great number of people; but that economists, since they have their all powerful positively valued capital at their service, only worry about when it reaches what they consider to be extreme levels. That entity you no doubt guessed, is <u>*debt*</u> *and it so happens to be, that any to be resolved earnings in the all pervasive controlling accounting system of the economy's positive and negative values are registered in exactly the same way as debts are. And how is debt normally paid off? Well, we earn some money and we save some of that, and.... But what were those earnings again? Exactly! There you have it, the economy in a nutshell. Debt is acquired as a matter of course in all economic activity and if everybody gets decently remunerated and, within a certain range we'll talk about later, spend their income on its derivative consumption goods; then that debt is automatically paid off and we all end up with our beautiful homes, cars, clothing, plentiful food, and holidays. The good life, that when bought and paid for in economic terms, itself exists entirely beyond the economy and has zero economic value; until some of it returns there for sale in a "used" condition, we'll talk about later as well. So that as long as we remain consistent with the above premise, and do not confuse the necessity of economic well-being with our utility providing affluence; or in other words, reject the above two states as unity and thereby the occurrence of paradoxes by convention; then the net value of the economy itself, as measured in its unit of account, will never even come close to zero, let alone be positive. Surplus equity can be thought to exist only thanks to a misunderstanding of what the economy is all about. A very big question that still needs answering however, is how can we possibly reduce our current debt level; if all new earnings, excepting profits at the retail level, automatically enlarge it first by a similar amount? Well again, there are a few ways and they all concern the enormous flexibility of a validating distribution of output, inherent in any economic progression in terms of to be resolved negative values, rather than in terms of depletable positive values; which also, thank goodness, happens to remain in effect in the reversal mode of a no longer growing or even shrinking economy. But first some more Sismondi in the next chapter.*

Chapter 5.

The Distribution of the National Revenue among the various Classes of Citizens.

We have mentioned before, that work has been creating three permanent sources of wealth in society; and that they brought about three [distinguishable] forms of revenue. The first one of these sources being the earth, whose natural power by continuously sustaining production, only has to be directed to be of service to man, a direction it gets through work. Second, there is capital, yielding labouring wages; and the third being life itself, which is providing the potential [for all] labour power. All three are having thus a direct connection with labour, and so [justifying the dictum] that there absolutely be no wealth, unless [applied] labour is involved.

The earth as source of revenue has an easily recognizable relationship with fixed capital, such as factories, mills, mines and smelters, whose ownership provides revenue as well, [both] remaining subject however to be reawakened and developed through human labour. The earth, just like the manufacturing plant, assists work by making it more productive; and its results, together with the wages of the worker, [could, after sales and showing up in profits, be understood as] embodying: in the first case, the earnings of the earth and in the second, those of the factory; [the latter two thus] as in a way having worked like human beings.

But while the productive power of a factory was entirely due to the result of previously carried out human labour, that had been creating it from the foundation up to the top of its chimneys; the productive power of the earth is only partly the result of previously carried out work, such as the fencing off, presumably done drainage or irrigation works, etc., that had to bring the land into a certain state of readiness first, which then became awakened anew at each yearly sowing. There is thus in the earth as there is throughout nature, a productive force that in no way comes from man, but which man can appropriate by just taking the trouble to set it in motion. The physiocrats thought this to mean, that work engaging the powers of the earth was therefore inherently more productive than any other, because of the assistance of this, only to be awakened, natural force. But factories too, make use of natural forces infinitely more powerful than those of man, namely the capacities of wind, moving water, and steam; whereby their outputs, at least whenever the land involved requisites a rent, could be considered to be even more profitable than agricultural ones. Only in the colonies, or wherever the fields are still free for the taking, and there usually because of basic needs, can agricultural pursuits yet be thought of as being the most lucrative enterprise of all. In contrast to the earth, one could combine the other two sources of wealth; life itself that provides labour power, and capital that remunerates it. And when those potentials are thus being reunited, it will contain within itself a single expansive force; causing a worker's output, with which he is being supported, to gradually become more valuable in each successive period of his employment. It is because of this added value, having expanded by as much as the [acquired] skills, or the utilization of scientific expertise with respect to those skills, are advancing, that industry provides an ever growing output of wealth; which as [marginal] expansion can then either be added to the revenue of those involved, or added to its capital. But generally speaking, the capital that enables and remunerates work has all but remained in the possession of those who do the work. It being the consequence of more or less lopsided sharing arrangements between capitalists and workers; whereby the capitalists are aiming to appropriate for themselves, all the additional wealth that the workers produced; by [successfully] keeping the workers' share at the level of subsistence provisions; with the worker on his part [unsuccessfully as a rule], striving to gain at least a portion of the increased output, that he [had helped] achieve.

In an examination of this controversy, the conclusions of which no doubt are most significant, it will be easiest to make an abstraction from the situations wherein workers are partially capitalists, as well as the other way around; so that their position in this is determined according to how the largest portion of their revenue is obtained. Furthermore an abstraction of the basic difference that we have come to detect between revenue having the earth as its source and revenue from capital can also be made; since it is also the interactivity of capital and labour, that makes the earth sprout forth its revenue. The farmers as rural entrepreneurs are in fact capitalists, behaving from the perspective of their workers in very much the same way as their urban counterparts; in their advancing of the workers' means of subsistence and appropriation of all subsequent profit on their work; leaving to them only whatever is necessary to keep them alive, so that they remain in the position of being able to apply their labour power again at a later date.

According to this [somewhat altered] point of view, the national revenue consists of only two components, one part included in periodical production, the other as being extraneous to that; the first being [materialized] profits as derived from wealth, the second [exchanged] labour power having life itself as its source. Understanding the term wealth to comprise both territorial as well as capital wealth, and profit to include both the net revenue to the landed gentry as well as the benefit accruing to the capitalists' class. The first however, because of the way they obtain their rents as disengaged from capital profits, not bothered much by any controversy [about its taken share].

Similarly does the national product, or the resulting output of [a diligent] society, divide itself up according to the apportioned profit derived from [accumulated] wealth, which we will further elaborate on; and wage remunerated labour power supposedly equal to that portion of wealth that enables them to subsist and thus indefinitely provide their labour power in exchange.

Hence, national revenue and annual production mutually balance out and seem to be equal quantities. The entire periodical production being consumed over a similar period, in part by workers who in so far they exchange it for their labour power transform it into capital thereby reproducing itself; and in part by capitalists who, as far as they exchange it for their revenue, destroy it. It is very important however to remember, that labour power as such, is incommensurable with wealth; that wages do not represent an absolute quantity [of current output], but only the quantity of subsistence produced [during the previous period], which enables supporting the labourers [now]. And that this same quantity of subsistence, in the ensuing period may result in a quantity [of output] that can either be larger or smaller than before. It is the fluctuation between these two [outputs and its proportional resolve by the two classes], that makes it result in an augmentation or in a diminution of national wealth; a comfortable, or a poverty stricken working class, with an expansive, or a destructive effect on the population.

It also needs to be mentioned, that of the two parts the national revenue is composed of, [both do not exist within the same time-frame but] one is present while the other is past, or for that matter one is present and the other one future. That one, the profit on [invested] wealth [to be received during the next period,] is [in fact the revenue] currently in the hands of the would be consumers, who obtained it as a result of [their production input of] the previous period; while the other, the [energy inherent in] labour power, does not become a measurable reality until the opportunity to work presents itself, and that ability at the same time exchanges itself against subsistence, [produced in the previous period].

The totality of periodical revenue is destined to be exchanged against the totality of periodical production, through which everyone provides for his consumption, replaces productive capital and puts a renewed demand for reproduction into effect. If periodical revenue is not fully utilized for the consumption of periodical production, a portion of that production will remain unsold, obstructing the warehouses of producers, paralysing their capital and thereby bringing renewed production to a standstill.

Sismondi at his elucidating best, clearly qualifying himself here as the progenitor of the new paradigm, in bringing to light essential attributes of economic reality, only expressible through factual dynamics, that existing theories, be they orthodox or radical, have the greatest trouble dealing with and thus usually abstract from in their analyses, making the latter statically deterministic and for all intents and purposes irrelevant at the same time.

Sismondi viewed a growing productivity, even without the help of ever improving means of production, but clearly much more pronounced with it, as the natural state of affairs; taking place because as a rule, everyone learns from the past and creates a deepening experience, that even without consciously being aware of this happening, causes each periodical output to be physically larger and ceteris paribus of greater value than the previous one. This would obviously work totally independent from the striving for higher levels of profit, which in turn, through its allowing of further investment, would mean the augmentation of means of production and general growth in output; and thus exemplifying such wealth creation as becoming the by now questionable exculpation of orthodox economics. But that instead, with similar applied diligence alone, every generation of means of production, produces more and better output solely as a result of the acquisition of production experience, and, although Sismondi doesn't mention that positive feedback from its users, as discovered already by Adam Smith.

This process once established as such, would require absolutely no new investments for its accomplishments, taking place simply through consumption in full of its periodical output, through which all income paid out (as received from previously done business), whether in the so-called investment goods or in the consumption goods sector, is resolved. This notion as exposed so far, at least as far as I'm aware, is not recognized by orthodoxy; which asserts a certain quantity of investments to be indispensable, not only to affect growth but, for most of conventional economics so it seems, even for simple reproduction. The latter apparently related to the absurd notion that the investment goods sector is a totally independent entity, implied off and on by radical and orthodox exponents alike; entirely inconsistent with everyone's cognition, that in order to facilitate successful enterprise, all incurred production costs need to be passed on to lower levels. But then, what is the significance of just one more paradox in theories, that are smothered by them already.

An independently functioning investment goods sector cannot possibly remain feasible, when the implications of the dynamics of a self-resolving economy, inclusive of the acquisition requirements of its necessary means of exchange for the accomplishment of that process, are fully reasoned out. Only in the works of some post-Keynesian economists, wherein the multiplier and accelerating influences are implicitly abandoned for the original vertically integrated economic structure already conceived by the physiocrats, are mathematically determined conclusions obtained that are starting to approach those intuitively reached by Sismondi. The latter however, by making his theory inherently dynamic in even its simplest configuration, not only concluding that abstracting from time in economics would render it meaningless; but even that the time factor, considered by itself as *such, is insufficient to give the model the required realism.*

In what is generally considered his first book on political economics, called "de la Richesse commerciale"; antedating by about a quarter of a century the revised second edition of his main work "Nouveaux Principes d'Économie Politique", which as such is partly translated in this text; Sismondi, in a multi-page footnote, devised algebraic notational models of sequential periods in time, yielding results similar to those of the earlier post-Keynesian growth models[15]*. He must have felt however, that these were not illuminating the issue well enough, since he did not include them in his main work. See the following excerpt for his own (partial) explanation for this omission:*

De la Richesse commerciale. Op. cit. vol I, p. 104. "Those who are not familiar with the language of algebra, pay no attention to calculations set out in this form; those on the contrary, who by once having formed the habit of looking at ideas and figures in an abstract manner, dislike seeing numerical assumptions made, as these always appear contrived or inaccurate to them.

To satisfy both groups, I shall generalize in this footnote what I have said in the text and thus for once apply this language of the exact sciences. But I repeat, I shall do this only once, for to apply this language to a science which is not exact is to expose oneself to continuous error. Economics does not rest solely on calculation, the facts are constantly altered by a host of observations of a moral order which are not subject to calculation. If permanent abstractions are to be made of the latter, it would be just as if a mathematician were to chance that suppressing some essential terms in each of his equations [would not make a substantial difference in the outcome]." (my translation)

The above makes it obvious that well before writing N.P., Sismondi did not consider economics to be an exact science; which is about as close as one can come without explicitly saying that its values are indeterminate. But even though he puts it in terms of morality, instead of placing humanity exogenous to the economic system of its creation; its final purport is identical to that of the proposed alternate paradigm. Sismondi's struggle with economics and reality, coming to the fore in all sorts of inconsistencies haunting his works, may well concern the point that he didn't know when he was talking in terms of thesis and when in terms of synthesis; and apparently didn't know the difference between the two. Someone by the name of Pierre-Joseph Proudhon, writing just a decade or so after Sismondi, more or less recently opened my eyes to such conjecture; though without having accused the latter in particular of that specific flaw. Proudhon, not having much use for economists in general and equally despising both orthodoxy and communism, did admire Sismondi. Although this was perhaps more as a fellow philologist than as an economist; some Sismondian economic thinking must have stuck to the back of his mind, as will become obvious by reading him. By the way much of Proudhon's writing, translated and original, is available on the web. It is thus a pity that Proudhon didn't study Sismondi's works on economics with a bit more enthusiasm; for my quest would have been his to accomplish, and history conceivably could have taken a very different tack. He figured that such would take at least twenty Montesquieus and that he couldn't be expected to be up to that task, but I beg to differ if Sismondi's work were taken as the underlying foundation.

Getting back to more recent developments. Although at least some post-Keynesians apparently share Sismondi's dissatisfaction, with what their original economic models were supposed to

[15] Thomas Sowell, *Sismondi: A Neglected Pioneer;* History of Political Economy. Spring 1972, p. 86. In my opinion, overall being a pretty good primer to Sismondi's ideas.

portray; witness the already alluded to return to the physiocratically inspired vertically integrated and dynamic economic model. The nature of the mechanism by which the economy necessarily resolves itself however, including its must for negatively valued entities like debt, to as such continually approach a dynamic equilibrium to the fullest extent possible, without actually being representable in terms of a static equilibrium, remains beyond their ratiocinative horizon too. For it is imperative to understand that, when period analysis is utilized, the spending of income by wage earners, is not resolving the to them disbursed advances, that the income is consisting of; but the systemic debt inherent in the production of the goods they are buying, something that in every day logic has to concern the production of the previous period(s); meaning the disbursed wages of those previous periods. So that after the clearing of the market; which moreover can only happen at a profit, through the spending of the previous period's attained profits from the production of an earlier period still, together with currently disbursed advances; the economy is not resolved at all, but remains minimally in debt at least to the totality of wages paid this very production period, but furthermore as a matter of course includes lots as yet unresolved capital (unresolved earnings) higher up in the system as well; in spite of the latter's attributes having to remain hidden from any conceptual flow. Meaning that neither a true equilibrium, nor its analytical representation can ever be attained in our economy as a reality. For this either would mean an allocation of costs with perfect foresight of the return from sales, which in effect is a no profit economy; being physically impossible to attain, because of the discontinuity of return and the degree of output elasticity with respect to its accounted for inputs; or the abstract exact spending of all future profits, by means of current credit dipping by those involved, on goods that are just now being marketed, which is of course another absurdity if tried to convey in a set of equations. But no more so, I'm afraid, than any other solution, either based on: a general equilibrium framework, or for that matter a post-Keynesian static determination according to defined static identities like: $Y_t = C_t + I_t = W_t + P_t$ *, will turn out to be.*

So even though his analysis was far from complete, Sismondi, at least during his more enlightened moments, understood that being separated by not just one, but in effect at least two time periods; profits to the capitalist were not at all inversely related to the level of wages paid, as concluded not only by his contemporary adversaries but still maintained by all conventional economic theorists today. But since the working class supposedly could not save and thus acquire any share in ex post income, solely came about as the result of mutual spending of previously attained profit income by the capitalists, on currently available retail output, including luxury items; and with that profit income neither being connected to the production of the current, nor derived from that of the previous period, but instead had it's source in an earlier period still. Remaining confused however, as to how this could possibly have originated in the first place, as we will see again in the next chapter as well.

If those whose revenues consisting of the profit on wealth, experience such [profound] losses that it no longer suffices to cover their living expenses; or if they squander expenditures, by say overindulging themselves in luxurious services without their revenues being sufficient; or finally if for any reason at all, they consume over and above their revenues, then they no longer take hold of the surpluses, but of capital itself. Meaning that although the revenue of the working class in that particular period has been increased, a decrease of similar magnitude will take place in every following period; for what they call their capital ought to be given in exchange for work, being the revenue of that class. The wealthy determine the fate of the poor. If they consume their capital, they truly ruin themselves; something their own self-interest should preclude them from doing. When however they shut their eyes to that, only the diminished capital left is all that poor will receive for the price of their labour during the following period. And even though the revenue of the working class remains unchanged, as labour power keeps its same potential, its aftermath will not be the same at all. During the time that the spendthrift is squandering away his capital as if it were revenue, he also spreads around the working class, in return for the aggregate work that they are accomplishing that particular period, a much greater share of that period's production. But when the wastrel's capital is finally dissipated and he is out of revenue, the share of the national product given to the poor in exchange for all the work they are called upon to do is diminished by as much; and they will obtain less subsistence for their work.

When a rich man on the other hand saves his revenue in order to add to his capital, he appropriates for himself a lesser share of the periodical industrial output; leaving a greater proportion to be given to the workers in exchange for their labour. As much as he is decreasing his own revenue by, so much the revenue increase of the poor becomes; not only because they will receive a greater portion of subsistence in exchange for their work, but also because more work in general will be called for. If a population is not large enough to carry out more work, it will increase over time as a result of raised wages; for nothing stops the natural development of mankind as much as incurred misery. As soon as that stops, instead of dying in childhood, children will thrive in new found abundance; and those who [out of necessity] are having to remain single at present, will, thanks to the increased demand for labour, be able to afford starting a family. The rich therefore, will do the poor a favour, when they save their revenue in order to add it to their capital; because by regulating the distribution of periodical output, everything that they consider revenue will be consumed by them, while whatever they consider capital is ceded to the poor, so that it becomes their revenue instead. But in effectively controlling this distribution, they should keep another consideration in mind as well, namely never to commission work whose output will not be in demand; for if it lacks this ultimate justification, it will either sell badly or not sell at all, with consequently either a decreased profitability or even turning into a loss. So after having given rise to a diligent work-force, with however no other revenue than that obtainable through work, they will now deprive the latter of the subsistence it has grown accustomed to expect.

Any prodigality [by the State] would put quite similar tendencies in effect. During the time capital is squandered away, a great deal of work is being called for and at a relatively high wage level. But having as such over time fostered an increase in the working class population; it has, whenever it runs out of capital, no other choice but to suddenly withdraw that support. Now it could be argued, that when one particular capitalist misspends his capital, this economic activity will most often end up as the property of another one. Whenever the State is the culprit however, which is likely to happen during wars, or when it otherwise goes on extensive borrowing sprees in order to pay for its annual expenditures; then it creates an artificial prosperity lasting only for as long as the borrowings are being spent, but followed immediately by putting the population that they helped sustain, in a most terrible state of distress, when the inevitable time comes to start paying off those loans, instead of contracting new ones [and all means of support are withdrawn].

As fully compatible with the new paradigm, the first half of this chapter turned out to be. Sismondi's never abandoned concept of capital as a positively valued stock, or 'surplus', ready to be either doled out to the poor or directly consumed by its holders; is much more in line with current orthodox thought, than remaining in general concordance with our proposed alternative view. Here he argues exactly in terms of how his reviewers, familiar with the Keynesian model, expect him to do so; namely, in terms of "under-investment". Moreover this depiction, if not totally unrealistic, is in anyway too simplistic to be able to salvage much from, and made use of in a further elucidation. Suffice it to say, that Sismondi himself must have been aware of his rather ambiguous reasoning; as towards the end he is starting to negate most of his prior argument, by stating that the prodigality of one capitalist, usually turns into the receipts of another; so that an overall loss, hardly if ever takes place at all. Returning thereby to the kind of interpretation that could be upheld from our perspective as well; as confirming that in terms of a viable flow of output directed towards living standard sustainability, the identities of capital and revenue have to intrinsically cancel each other out within the same abstraction.

Yet his 'stock of capital' interpretation, is proving too much of a hindrance to be able to perceive these characteristics, in quite the same way as the proposed alternate paradigm does. Herein the spending of this from capital underwritten income becomes detrimental, when with it instead of heeding to its intentional resolving action that realizes the former abstraction, it is thought that additional determinate capital value can be created; while it factually is still accounted for in terms of an already existing abstract capital, and thus results only in additionally to be resolved economic debt. The process of investing out of income however not only aggravates the evolutionary redeemability, setting up the potential for a future crisis; but a much greater than necessary debt level also leads to rising stress levels so common in the modern workplace, as employees are pressured to produce ever more cheaply, so that employers can satisfy their line of credit criteria. The related supposition that we all work much longer hours than is necessary to maintain a naturally improving standard of living, because perfectly well functioning means of production is constantly being made obsolete and destroyed because of marginally more productive newer means; as well as having to share final output with those who obtain their income solely in the attempted pursuance of such relentless renewal, while falling way short in the resolution process of costs especially due to those acquired through the financial services industry, is outside the scope of these annotations and will need to be further explored elsewhere.

Deficit financing by the State, Sismondi's final subject so far, again is too vast a topic to say much sensible about at this stage, except maybe to comment without much elaboration, that recent developments in heterodox economics like MMT have shown beyond a shadow of a doubt that with the State holding the monopoly of money issuance and the physical means of production being impervious to financial mismanagement of any kind, the above defined extended deprivation of income to the population as a whole need never occur.

After these general reflections on the initial distribution of revenue, it might make sense to expand this with such distribution throughout all branches of society. When the farmer has put aside, the same quantity of seed corn from his harvest as he had done the previous year; he will have left: the portion that will nourish his family, which will be taken and consumed in exchange for his revenue, meaning his own annually expended labour; the portion that will nourish his hired help, similarly being revenue in exchange for their work; the portion that he has to pay his landlord, who acquired the right to this revenue, either by having done some original developmental work, perhaps through an inheritance, or through the simple occupation of [formerly] vacant land. He also should have left a portion to pay the interest on previously acquired debts, made in order to build up his original working capital, which is a revenue acquired on account of some incipient work done in the past by physically creating that capital. And finally there should be another portion left, as it too has been sprouting from his fields, namely as a requital to be paid to the guardians that uphold both his personal as well as communal rights. These peace officers, judges, military men, lawyers, doctors [and others] acquire this right to revenue, through their own inherently unproductive work, which as such does not leave them a saleable substance. Similarly, over his periodical output, a manufacturer has to realize a return on: first of all the raw materials he used up; followed by the equivalence of his own salary as well as the wages of his employees, which is revenue acquired solely as compensation for the [recently] performed work; next, the equivalence to the periodical depreciation that his fixed capital was subject to, which is a revenue acquired by rights of having performed some incipient work either by himself, [in commission,] or by other title owners; [the equivalence of his share in taxes,] and finally a profit on his circulating capital, which some other previously done work had brought into existence.

It seems therefore, that notwithstanding the conflicting interests we have established between the several types of revenue that sustain wealth, and those that are no more than just a potentiality to perform labour; there still exists an essential relationship between them, all having an identical origin, situated however in a different time. Which amounts to: amongst all of those that the national revenue is distributed, some have to acquire every year again a new right, through newly applied work; while others, through some incipient work, have previously acquired a permanent right to a periodical greater output, for as long as it's being applied. Everyone therefore, receiving a direct share of the national revenue, does so on account of either themselves or as title holders, having caused that revenue to become extant; or indirectly, as the result of, as we shall soon discover, providing an obligatory service to others. But those who consume, without fulfilling one of the conditions that give them a right to revenue, consume without possessing any revenue, or consume over and above their revenue, ruin themselves, as well as the nation of which they form a part; because revenue is the quantity by which national wealth is periodically increased and thus consequently can also be destroyed without a nation growing any poorer for it. Thus a nation that destroys a quantity of wealth above that periodical increase, without effectuating its reproduction, destroys the necessary means to reproduce an equivalent quantity in subsequent years.

Even though ending with a couple of sentences that at best could be described as meaningless, since it is not possible to as such destroy anything, that would influence eventually emerging wealth in a detrimental way; the previous iteration, without really covering any new ground, is quite valid in its overall depiction of distributive variables, at least as far as it goes; since it does not go nearly far enough to show for instance, that the ultimate economic variable is the profit margin of the retail sector and that all taxes, levied throughout the economy, which enable its final recipients to appropriate through transfer payments, their share in the mutually achieved standard of living, are included as costs of retail output, advanced by retailers and returned to them by would-be consumers on government payrolls, or those on the dole. The explicit mentioning of depreciation costs, as being recoverable through sales of (current) output however, facilitates a logical extension *in theory. By as such imagining a certain percentage of the workforce constantly being employed at recreating means of production at ever rising technological levels, while yet being remunerated in terms of a living standard already achieved from previous economic involvement; whose costs, like all others having been assumed by retailers, are to be returned to them by that portion of the workforce in question. Or looked at from another point of view: the build up of means of production (or physical capital if you like) occurs thanks to others having produced previously, while being remunerated in terms of a still earlier attained standard of living and has no source in any newly undertaken financing (or investment). A distinction needs to be made however between the depreciation of retail level means of production, from that being used higher up in the economy. Only in the latter situation does the above hold true; by assuming costs, i.e. rolling over a portion of the existing debt, the retail sector creates income that needs to be returned to them, if a dynamic equilibrium is to remain in effect. But things are not quite so simple, when the depreciation allowances of the retail sector itself are added to the price of final output; for there seems to be no extant income anywhere, that can provide retailers with a covering return. Such depreciation costs thus have to be resolved through the gross profit portion of those returns. As Sismondi already hinted at, the latter happens when profit income is spent directly; by thus allowing a certain number of retailers to not only make good on their set prices, thereby facilitating continuous reproduction, but through further direct spending do the same for others, with ever diminishing effect. From this it follows that the aggregate depreciation cost returns potentially are available after all to replace even retail means of production on an ongoing basis. For, given that direct spending out of profit income does indeed occur, it is the accounting for future replacement costs through the setting of a profit margin on current output, as if their returns are a matter of course, that over time creates sufficient funds all by itself to finance ongoing growth, and no "new" investment funds are at all necessary; both higher up in the economy where profits have turned into straight costs for the retail sector, and as just shown for the retail sector itself as well. Therefore any financial arrangements, other than corporate saving and borrowing by those in need to replace worn out equipment, that strive for a similar effect, could never be as distributively neutral in terms of a means of exchange value as the above, and must therefore be considered as inefficient and wasteful. Which is as far as we will take this aspect for the time being, because it obviously, aside from involving a number of practical difficulties, is too vast a topic to successfully deal with at this stage.*

The last sentence of the next to last paragraph, and the first one of the final paragraph, deserve yet another singling out, as especially the former one shows Sismondi at his aphoristic best; drawing in a few precise words, the true and exact picture of a situation that just below its level of depiction, is so complicated and obscure, that when a modern attempt is made to capture that same essence[16], not only does it not particularly improve on conveying an economic reality with the clarity as shown above, but, from a non-Say's Law perspective, might even be it argued as not quite right.

[16] Cf. Pasinetti's seminal '81 work: "Structural Change and Economic Growth", p. 144. ...within the 'natural' economic system, whether we look at profits and wages at the macro-economic level, in terms of absolute amounts, or in terms of shares, the asymmetrical nature of the determining process emerges very clearly. Total profits emerge as a kind of prior claim to share in the final national income, while total wages - by being (conceptually) determined after profits have been determined already - emerge as a kind of residual, looking at it from a different point of view, as a 'surplus' that remains over and above what has been charged for profits.'

Chapter 6.

The Reciprocal Determination of Production through Consumption and of Expenditures through Revenue.

As national wealth is developing, it follows a circular path, wherein every effect, becomes a cause in its turn; every step, as regulated by the previous one, determines the next, with the last one restoring [the determination of] the first in the same order. The *national revenue* must command the *national expenditures*, as this must absorb the total [embodied] production into the consumption fund. This ultimate consumption is what will determine an equal or superior reproduction, giving rise to the subsequent national revenue. The national wealth will continue to develop and the State will prosper at the same time, only if a prompt and total consumption is allowed to determine a superior subsequent reproduction. As long as the [emerging revenue] of both parties [inexorably intertwined], follow one another in equal steps, [this cannot help but lead] to a gradual increase in wealth for all. If however this correlation is proportionately tampered with, society will deteriorate.

The national revenue must command the national expenditures. We have seen that this revenue has a dual nature, materialized net profit [accruing *ex post*] to the capitalists, and [applied] labour power for which the workers get compensated. The first group only having to be [concerned with mutually] exchanging this revenue among themselves, on the for the fulfilment of their needs and desires produced consumption items, for this is what will bring their [future] revenue about;

Before we let Sismondi go on and finish this sentence, it is most important to point out that what he has been saying here so far is that it is only the spending of the capitalist class on already produced output, that will determine their continued revenue [in times to come], which, in its somewhat strengthened form by including the text enclosed in brackets, is exactly one of the major tenets of the alternate paradigm as expounded already in the annotations of the previous chapters. In other words, Sismondi's critical point however obscurely expressed is, that in the aggregate, the "rate of profit" is solely determined by the "rate" of direct spending by capitalists. Anteriorly to this, Sismondi's "...with the last one restoring [the determination of] the first in the same order" not only is a dynamic and non-linear description of economic progression, it makes the economy statically indeterminate as well, and no longer expressible in a set of equations in terms of the latter; going as such well beyond the dynamic period analysis of the (post-)Keynesians. To my knowledge, non of the later reviewers of his work were ever able to fully reason this notion through; though Schumpeter[17] could be said to have come close. Their acknowledgement of Sismondi's dynamic (period) analysis, usually remains cloaked in terms of a notionally equalized rate of profit on capital inputs, or a (post-)Keynesian analysis and its a-priori methodology of (induced) determination. For an example of this latter point and its related retrogressive referencing to "de la Richesse commerciale": Cf. Richard Arena, Réflexions sur l'analyse sismondienne de la formation des prix; Revue économique, jan. 1982. pp. 132-149. But probably the main reason for this oversight remains its obscurity and Sismondi's continuation of the above line in the vein of 'over'spending, thereby negating much of its contended significance overall. As has already been

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[17] Op. Cit. p. 495.

indicated in the previous chapter, overspending of capital is a function of distribution and does not necessarily mean a lessening of (re-)production potential. It all depends on the further actions of its receivers.

but if they spend beyond their income, this necessarily forces them to encroach upon the very same capital from which their profits spring, where, by reducing their future profits, it ruins them [in the process].

The poor, having only their labour power as their revenue, are totally dependent on the wealthy class; not only in the way they can spend its remuneration, but what is more important, on the opportunity to sell that labour power beforehand; which happens after the capitalists, once having exchanged their revenue among themselves, dole out the remnants of their capital to the poor. Labour power is a revenue only when its potential is being utilized, it is worthless when it can not find a buyer and even when used in its entirety, its value fluctuates to the [expected] demand [for its output]. The workers can therefore only spend their labour inherent revenue, after having had it sold; setting their expenditures, according to the price they were able sell their labour power for.

Everything a worker spends over and above that price, maybe thanks to some small savings or by taking a loan, is detrimental to himself as well as to society; as on the other hand will also be, any deprivation of life's necessities, that he either imposes on himself after an accepted cut in pay; or is forced on him, when he becomes unemployed. This is not only injurious to himself, but to society as well; since it violates his life, his health or his strength, from which his future working ability will have to come and which performs such an essential role in the creation of socially necessary revenue. So it is equally important for the wealthy and the poor, to keep their expenditures in line with realized revenue, as the total expenditures of society is regulated through societal revenue.

Another [important] point is the necessary absorption of the entire national product, through national expenditures, into a consumption fund. In order to follow the analysis with the clearest possible understanding, while at the same time avoid being side-tracked; we have until now, by hypothesizing a closed economy, abstracted entirely from foreign trade. Now since humanity as a whole, can as such be considered a closed society; what is true for a nation without foreign trade, is equally true for the whole of mankind.

We have discovered that the characteristic goal of human activity, is to alleviate needs; that to one's possessions no other values apply than one's utility for them and that this utility is bound to be destroyed, sometimes very fast, at other times imperceptibly slow. Furthermore, that from the moment one starts to enjoy a purchase, having withdrawn it from circulation, this consumption begins. So that it is not important whether this wealth, once having reached its destination, will right-away be totally dissipated in its use to man; but that the moment of an article's removal from the market, suffices in its having changed into a [to be experienced] enjoyment, whereby it then thus passes into a consumption fund.

The failure of [previously produced] wealth to reach that ultimate goal, stops the reproduction of a [with respect to social stability] necessary equal quantity of replacements. Once the solitary has obtained enough in the way of food, clothing and shelter, to be able to put to a practical use, he will stop working; he won't seed more than he can harvest, weave more cloth than he can wear, nor build in excess of his shelter requirements. No doubt he will find some comfort in a bit of reserve, so if at all possible, he will provide himself with not only the bare minimum, but also with plenty to spare. But although a certain abundance of provisions will make him feel good, it is bound to have its limitations. As soon as he will no longer feel the need to add to his provisions, he will stop working; finding it just not worth the extra time and trouble [to add something with such limited usability]. [The disposition of] society, [as a whole] is exactly the same as [the one of] this individual; in [spite of interminably] having subdivided its tasks, [this] by no means has changed [the nature of] its determining motivations. Society too, does not need any more food, when nobody goes hungry, [or better said] when it does not believe anyone to go hungry for the foreseeable future; neither does it need any more garments, when the wardrobes of the nation are full; nor more homes, when everyone is adequately housed.

But the limits placed by consumption on the reproduction process, are felt much more profoundly in society, than by an isolated individual. For even though a great many individuals in society are going about underfed, badly clothed and homeless; society only esteems those who can purchase, and, as we have seen, purchasing can only take place with revenue. The making available of more luxurious articles, than the revenue [from the profits] of the capitalists could command; in spite of the likelihood, that they might very well love to own those new articles; would not make them buy those items, as they would be penalized with ruination, since this would encroach upon their capital. Meaning that societal revenue would then be tied up [in unrealized luxury wealth], withheld in actuality from those who duly need to have it come to pass right now, as well as their own revenue in times to come. Hence, whoever in society is engaged in [commissioning] the production of those luxuries, won't be exchanging them for the revenue of their prospective consumers; to have this revitalize their capital as necessary for reproduction, so that all [its related future] work will come to a stop.

If on the other hand more of the necessities of life would be created, not only for the would-be consumption of the poor, but thereby in exchange for their labour, make revenue available as well; this activity no doubt, would then go far in the provisioning of better foods, clothing and lodgings. That this is not happening however, is because their legitimate needs, in no way determine any offerings of higher wages by those with capital, nor figure whatsoever in their requisitioning of more work. While as far as the poor are concerned, they have nothing but their labour to offer for any exchange; or, if they happen to be in the possession of some small savings, can't escape an even greater misery, whenever those are dissipated as well. The corn therefore will remain unsold, amidst the multitude still going hungry; and its producers, unable to recover their capital, can no longer advance wages for a reproduction process, thus no more available work will be the result.

An abundant production always enlarges consumption, through a lowering of the price, without however this necessarily being advantageous overall. For if producers would want to market, twice as much in the way of luxury items than the revenue of the wealthy amounts to, and they moreover are most determined to do so; they force themselves to accept the totality of existing revenue, in exchange for the total production, meaning at a 50 percent loss. The consumers of those luxuries will, in spite of really having no need for it all, believe that they have gained; but within that same class of people, one does not only find consumers but producers as well. And in the capacity of the latter, have lost an awful lot more than the former gained, because that loss is an indispensable one; as this 50 percent loss on the sale of output, renders a diminution not only of revenue but also of capital. So while their loss in revenue will mean a loss in expenditures during the next period, the loss of their capital means less demand for labour; negatively affecting the revenue of workers to far into the future.

If on the other hand, producers would be marketing twice as much in life's basic necessities, than the wages of the workers would normally command, then they are ceding the totality of produced subsistence, for the totality of all wages paid, thus again with a loss of 50 percent. But, while the workers as consumers would profit for the time being; the loss taken by the producers in revenue as well as capital, would make itself cruelly felt for a long time to come. For what a capitalist loses in revenue, he will have to cut his consumption by; which by affecting the capital of others, thereby affect their workers' wages. And what he loses in capital, negatively affects the wages of his own workers, so that it will be diminishing the latter's revenue as a consequence.

This is the reason why national expenditures, limited as they are by revenue, must absorb the totality of production into the consumption fund. Ultimately it is consumption that determines an equal or greater reproduction; as it is around this point that the circle may break open and change into a spiral. A [given quantity] of production and consumption during any particular period, may [get incited to] become a [greater] one during the next period, but it is the more or less successful manner by which the consumption of this expanded production takes place, that will determine a greater or lesser overall prosperity, than that existed during the previous period. Whenever the capitalists decide to set aside some of their revenue, so as to add to their capital and as such provide an increase in [aggregate] wages, more work will be done as a consequence. Now if the results of this work are to be sold at cost covering prices, so that the additional capital will bring about additional revenue as well, then this will require additional consumption [by all those involved]. Whatever savings are made during any particular period, transpose themselves into revenue that requires consumption during the next one, by capitalists as well as by the working class. Made prudently and in the right proportion, this process could continue indefinitely, but if hurried along [without proportionately increasing consumption] it would have ruinous consequences instead.

It is the revenue of the previous period, that has to pay for the production of the current one; it is a predetermined quantity, that has to [set in motion and] function as the measure of an indefinite quantity of [output from] labour, during the following period. The mistaken notion of all those encouraging unlimited production, [as a cure all to any prevalent economic woes,] finds its origin in their misunderstanding of present revenue regarding [the potential gain in] future revenue. They are saying that to increase labour means automatically increasing their revenue with as a result also the consumptive potential of workers and thereby overall wealth. But by adding to the demand for labour power, no automatic increase in wealth is accomplished at all. Work will have to be paid at its price; and this price, fixed in advance, has to come out of pre-existing revenue. All one can exchange after all, is the totality of the current period's production, against that of the former period. Now if production gradually increases, the exchange of a certain period ought to cause a small loss, while concurrently improving conditions for the next period. If this loss is slight and well distributed, each one will carry their part without complaining too much about their lack of revenue; this is after all what a national economy is all about, a series of small sacrifices at present, increasing future capital wealth for everyone's benefit. But if too great a difference in output between the last and the present period is attempted, capital will be affected negatively and the nation will decline instead of advance.

Although it is reproduction that brings about revenue, this reproduction by itself is very different from revenue; as it neither takes its name, nor functions as such until after it has been realized. [In other words] when each produced item has found a consumer, with the need or desire to withdraw it from circulation into his private consumption fund, the value-giving exchange takes place. So that the producer is then able to make up his balance and find out, if the just made sale did indeed recover all his capital input costs and how much if any profit was made during the process; which he then in turn can dedicate towards his own comfort and joy, and the continuance of his enterprise.

The two, in the latter part occurring sentences: "It is the revenue of the previous period that has to pay for the production of the current one." and: "All one can exchange after all, is the totality of the current period's production against that of the former period." more than any other have subverted Sismondi's reputation as a competent theoretician of economic inquiry, both among his contemporaries and according to later reviewers; a notion that we will hereby try to set straight, and fully exonerate Sismondi.

So made Malthus[18] *the comment, referring to the latter sentence, "...if this were really the case, it would be difficult to say how the value of the national produce could ever be increased." and Rist*[19] *(my translation) remarked that, "...Sismondi reasoned as if the nation were composed of agrarians, who would buy the manufactured goods needed by them, with the income from the sale of the previous year's harvest. If thus an overabundance of manufactured goods were available, the income from agriculture would not suffice to pay a cost covering price for it all. But there is however, a dual confusion in his argumentation.* The annual revenue of a nation is in fact nothing but its annual output. (Emphasis added.) *The one thus could not be inferior, because the two are unity. Moreover, it is not the output of two different years, that is being exchanged for one another, but instead the various products that are created every year exchange for one another; or rather (since the division of economic progression into annual periods does not at all conform with reality), it is the different products, created at every moment throughout the world, that continuously exchange amongst themselves, by as such constituting a reciprocal demand for one another.*

There could yet be at any particular time, too many or too few items of one, or a number of products in existence; with a subsequent breaking out of crises prevalent in one or several industries. But never could there be too much of everything at the same time. This is why McCulloch, Ricardo, and Say, became victorious in opposing Sismondi." And later in his conclusions he writes: "Moreover, as a theoretician, he [Sismondi] surely remains shortsighted, simplistic and not very enlightening at all"[20].

Originally written in the early 1900's and re-published again unchanged in post-Keynesian times;

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18 Malthus, *Principles of Political Economy*. London, 1820; p. 420.

19 GIDE et RIST, *Histoire des Doctrines Économiques*. Paris, 1947; 7e éd p. 198.

20 *Op. cit.,* 1909 edition, p. 222.

excepting the last line as shown, which was toned down somewhat in this later edition[21], as part of a re-evaluation of a number of Sismondian ideas, that in the intervening period had been rediscovered by a great number of modern economists[22]. The foregoing is a typical example of a critique steeped in staticism entirely oblivious to the striking analytical differences that Sismondi's dynamic reasoning brought about.

This particular notion did remain submerged however for only a little while longer, when at least for the English speaking community, Schumpeter[23], first uncovered some of the special characteristics of Sismondi's approach, even though without being able to fairly appraise it on the level he himself believed Sismondi could very well be right. For those reading German however, a 2-volume work by Prof. A. Amonn[24], had done much the same, slightly ahead of Schumpeter, in the mid to late forties. See as a small example of this, the following in my translation of Amonn's interpretation, of the at the moment dealt with critical passages; with a non-contextual, but doubtlessly still Sismondian opening line.

'[The natural expansion of output, occurring both as a result of capital investment, as well as without,] makes year after year a greater amount of consumption goods available, that has to be taken out of circulation and absorbed into a consumption fund. This according to Sismondi presents a fundamental problem; because with this production increase, no increase in income has yet taken place. Only after the producers would have successfully sold the marginal increase at cost covering prices, would additional income from the new capital have been created....Until then, only the insufficient former income is available for an in reality enlarged national output, which therefore can not all be sold at cost-covering prices, causing its producers to have to take a loss. If this [marginal] increase [in output] is not too large, no practical difficulties will ensue, but when it is substantial the situation as above described, can lead to a curtailment of the [future, or re-]production process.

Every increase in productivity therefore, inherently has the potential to set a reduced reproduction process in motion and therefore should be regarded with care; when this is done says Sismondi, the operation can continue indefinitely, but if overextended, it will lead to ruination. It is the income of the past year that has to pay for the production of this year; it is a definite quantity, that has to serve as measure of the indefinite quantity of output from future labour. All this means, is that in an expanding economy income does not quite keep pace with production, but follows it one step behind....Now, with this doctrine, Sismondi has placed himself in a fundamental and most curious contra-position with regard to the [orthodox] classicists; since they, according to Sismondi confuse the past, [ex ante or cost] income, with the present, [ex post or including profit] income, make no distinction between the two and therefore consider production and income as being ipso facto the same. They take the position that to increase labour is to increase wealth, by consequently increasing income and subsequently consumption as well. Wealth however is not increased, unless the output from labour is demanded, and it, including the labour itself is sold at cost covering prices, through formerly existing income. One exchanges always the entire production of the year

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21 *Op. cit.* 7th edition, p. 214.

22 Cf. J. Weiller, *Préface des Nouveaux Principes d'Économie Politique, J. C. L. Simonde de Sismondi.* éd. Calmann-Lévy, 1971. p. 14.

23 J. A. Schumpeter, *History of Economic Analysis.* London: George Allen and Unwin, 1954. p. 496.

24 A. Amonn, *Simonde de Sismondi, Als National Oekonom.* Francke Verlag, Bern; 2-Vol's 1945-9; Vol. II, pp. 152-4.

against the entire production of the previous year; thus when production is gradually increasing, every year's exchange, notwithstanding improving its future position, still causes a small loss.

Now if this loss is small and well distributed, everyone will be inclined to bear it without complaining too much about diminished income; this is after all what national thriftiness is all about, collective sacrifices increasing the capital assets nation-wide; but if a disproportionately large increase in marginal output has occurred, a diminution of capital will be the result and a crisis ensues, so instead of making progress the nation will suffer a setback..."

So much for the interpretation of Sismondi by Prof. Amonn, presenting a subtly extended image from what the straight translation provides and which no doubt is aiding in evaluating Sismondi's philosophy. For without being able to develop it any further, Amonn puts his finger right on the cardinal point; when he interprets Sismondi to mean that aggregate income, or the ability in total to buy everything at a price exceeding its costs, is at least in a growing economy always a step behind achieved production.

But even though later on near the end of his book, he further expands his own views on Sismondi's line of thought, he never gets back to his interpretation of this particular principle. Which is not really all that surprising, since neither he nor any other orthodox economist past or present, has the fitting tools to do so. Hence Amonn, with his entire background referenced in the analysis of comparative static economic equations, was therefore never able to perceive that: if the above in reality does portray the typical ongoing economic situation; given Sismondi's at least implicit hypothesis that any developing economy is naturally growing, unless actively, though not necessarily cognitively, prohibited from actually doing so; this being one step behind, apparently never inhibited the economy from taking its obviously enormous flight of expansion. In other words, if the economy has indeed been operating according to Sismondi's logic, which Amonn by the way did not even try to refute, then the one step behind still advanced pari-passu with the one ahead; didn't thereby exert any insurmountable friction, and thus had to be explained in terms of a very differently operating kind of equilibrium; which we of course already rudimentarily dealt with, while interpreting the previous chapter, by including the notion of capital = to be resolved debt. This debt, because it exists under the guise of a positively valued equity or a surplus, induces its holders to confidently wait for its expected return; which, by enlarge over the years, has indeed been the final positive result. And most importantly therefore, that the orthodox dogma as expressed by Rist above, of annual production and annual income being inherently one and the same, is in fact fallacious; as the income a certain amount of production will generate for a mutual purchasing of that output at a cost-plus price, is not totally derived from that production, but for the profit part depends on the direct spending of previously accomplished successful marketing income by capitalists of other products altogether, and thus is not unifiable within that same 'annual' period at all.

In spite of Sismondi's understanding, as he will make this assertion at the end of Book V, that any money economy is in fact synonymous with being insolvent at any particular time; this unfortunately did not translate into the recognition that the extending of money, instead of naturally stocked sustenance, for applied input, is virtually identical to a factual creation of debt. So that in terms of the system as a whole and it is easier not to consider individual players in this; debt and money are each other's indifferentiable substitute, whether anyone is cognizant of that or not.

This in effect seems to have stopped him from logically continuing his chosen path and since we have reached the final stretch of that line of thought; we can't escape the feeling of having come so *close and yet being so far away. For Sismondi; by asserting the necessity of small losses, diffused over a large proportion of those engaged in production, in order to affect growth beyond that, what he earlier recognized as derived from surplus food production; seemingly, be it unwittingly alleges, as Rosa Luxemburg*[25] *rightly pointed out, that valid economic growth is in fact impossible. As losses are exactly that, no matter how small or well spread out, they can never add up to a gain; no matter how great the expectative confidence and resulting impetus to invest may be. And especially not, if as matter of principle these have to take place as an inherent attribute of each period under investigation. So what's up?*

Having already identified beyond Sismondi, the sanctioning effect of an alternate equilibrium notion as the mechanism that allows growth to validate itself over time in our current economic structure; it has now become possible to interpret Sismondi's losses as just "virtual" ones, that would only become practically indeed so if everyone were to try to "cash out" at the end of each period. The impeccable logic of Sismondi's lagged periods, lacked just the single trait of recognizing that the contemplated values are yet abstract; and had he brought that notion up here, it might very well have put him over the hump. And when period analysis eventually was rediscovered well over a century later by the post-Keynesians, they too found out to their chagrin that something was still missing from it; and so effectively also put their orthodox adversaries, with their simultaneous determination axiom of supply and demand, check mate.

All economists, from Sismondi's contemporaries to the present ones, orthodox, heterodox, radicals and with Rosa Luxemburg of course included, construe the economy to be a determinate structure and thus deterministically depictable, either in sets of equations or by common discourse; which evidently precludes their ability to discern the whole as being imbalanced, or "out on a limb" at <u>all</u> times, inclusive of to be posited points of departure. Next, it would become essential to expand on its pertinent "real" causality by including potential limiting factors as well. The bulk of this however, because of implicated non-linearity and feedback loops, will have to wait for explication till another place and time. Suffice it to say for now that inflation-free and apart from lateral growth, exogenously induced "learning by doing", empirically in the aggregate found to be about 1-2% yearly, will turn out to be the limit to validate (or soak-up) additional investment towards growth of already developed economies; and all further leveraging attempts are necessarily destructive, both in inflationary and real terms. In the mean time, it remains worthwhile to reiterate the close link, that connects Sismondi's imperative "losses" to our concept of capital as an accumulated debt; namely, as hinted at before, the feasible resolvability of a naturally, pari-passu with economic growth, growing level of to be resolved deficits.

This seems to insinuate on the one hand, the futility of attempting to fully understand economics, without implicating the aggregate debt notion; nearly two centuries of ineffectual growth in economic understanding, should be considered as ample proof of that. And on the other, that Sismondi in effect came awfully close to leading his contemporary thinkers out of that nearly impenetrable jungle that economics proved to be. But that just before reaching the edge and coming into the clear, his co-explorers forsook his guidance and turned around; unwittingly choosing for themselves as well as their modern descendants, to remain hopelessly lost and forever unable to see the forest through the trees. But that's enough philosophizing for the time being, let's get back to

[25] Rosa Luxemburg, *The Accumulation of Capital.* transl. by Agnes Schwartzschild; London: Routledge & Kegan Paul, 1963. pp. 187-8.

Sismondi and finish this chapter.

It can be understood that by everything we have considered so far, the forever existing [potential] discord in the correlation between production, revenue and consumption, will imposition a nation to the same extent; whether the revenue that current production is bestowing on it, is smaller than what it has been accustomed to until now, or because a portion of capital is being forced directly into the consumption fund.

Not in Sismondi's somewhat confused way of thinking, as he will mention right after, through any prodigality of capitalists; which, as he has also admitted, usually (read: always) forms the receipts of some other capitalist, without this leading to an overall diminution of wealth. But instead, through the starting of unsuccessful ventures, those that never lead to the sale of derivative final output on the retail level; but yet in the mean time have all those in receipt of pertaining income, partaking in the normal consumption of the at the retail level available, and already autonomously produced consumer goods output

Or perhaps it is consumption itself that is lessening and thereby is calling for a diminished reproduction. All it takes is a disturbance in equilibrium, to force great distress on the nation. Productivity can decline as a result of a malingering working class, capital may diminish when prodigality for luxuries becomes in vogue and finally consumption will diminish because misery, even if not directly resulting from a shrinkage in opportunities for work, will yet be the cause of unemployment in its turn, as an inability to consume leaves no room for its reproduction.

Nations are thus susceptible to dangers that might seem contradictory. They can equally be impoverished by spending too much, as by spending too little. A nation spends too much every time it exceeds its revenue, as encroaching on its capital harms its future production capacity. Its behaviour in that way would be similar to a solitary who, instead of putting seed corn away for the next sowing, consumes it instead. On the other hand it spends too little when, not having a foreign trade, it does not consume all its production; or if having a foreign trade, it does not spend all that remains after exportation. For in those cases, it would soon find itself in the same position as the solitary, who after finding his barn still filled with corn and not interested in doing any useless work, will have to forgo sowing his fields anew.

Fortunately, as long as society does not put any fallacious theories into practice, as long as its government does not instigate activity contrary to its natural interests, the expansion of capital, revenue and consumption will almost always take place in the right proportion, without there being any need for manipulation; and if momentarily one of these three components of wealth finds itself out of step with any of the others, foreign trade is usually quite able to quickly restore equilibrium again.

One could on account of this suppose, that when I accuse economists of great fame, of paying much too little attention to saleability and consumption; [two factors by the way,] every merchant knows the undeniable significance of; I am doing battle with a misconception, that exists nowhere but as a figment of my [own] imagination. But in the latest work of Ricardo, I am finding an expression of opinions, that I belief to be very much open to criticism; which Say, in finding those ideas as being not too divergent from his own, fails to challenge in his works as well, and that at least to a certain degree could even be attributable to Adam Smith.

According to Ricardo, if within a nation annual production surpasses annual consumption, it is then said that an increase in national capital has taken place and when the annual consumption is not at least replaced by annual production, it is said that a capital loss has taken place. The augmentation of capital can therefore either take place through an increase in production, or through a decrease in consumption; for if the consumption of government, as a result of the raising of new taxes, enlarges and is followed either by an increase in production, or a decrease in consumption for a portion of the population, then taxes will only have affected revenue, while the national capital has remained the same. But just a minute here! Is this not like saying that the prosperity created by a [regional industry], that is making [and selling] say 100,000 items in one year, followed by 110,000 in the next; is identical to it having produced those same 100,000 items [two years in a row], but [in the last year] only having been able to sell 90,000 of those; since in both cases one has ended up with an extra 10,000 items? One surely could not find any manufacturer, who without believing himself to be a great economist, would not answer with: if one increases production by 10 percent one year over the next, one only gains as long as it can all be sold for whatever it's worth and one would only loose if those extra 10,000 could not be sold. Moreover if one produces the same number of items two years in a row, but the second year, one is left with 10,000 unsold items, one most certainly has taken a loss. For although there may be a grain of truth in Ricardo's proposition, one has to include outside factors like foreign trade; and the necessity of the latter's modifying influences, soon become very apparent.

Thus if that same manufacturer producing those 100,000 items and selling them domestically for say 20 francs a piece, this would then have amounted to 2,000,000 francs received by one portion of the population and paid by another; and if during the next year an equal number is produced, selling at the same price but with 10 percent of the amount being exported abroad, so that domestically a diminution of consumption has taken place, one could indeed say that 200,000 francs had been saved without its producers having lost anything at all. If on the other hand during the next year those same 100,000 items are sold domestically with another 10,000 in export sales, one then can say that the manufacturer increased his capital by 200,000 francs without any cost to the domestic consumers and either outcome as considered so far, could be said to have an equal effect on the domestic economy. But it is neither the increase in production in the first case, nor the diminution in consumption in the second, that either increased domestic capital or maintained it at the same level; it is the additional demand from consumers [abroad] who could afford to buy and pay at the same price level. As far as those exports as opposed to domestic sales are concerned, ...they result in a balance of trade difference between the two countries involved, and is unaffecting the combined populations at large. Whenever one examines all factors, in the way they apply to a global economy; one will always find that it has been an increase in consumption, solely determining any increased production and that this consumption in turn, can only have been commanded by the revenue of its consumers.

Starting with the last sentence: note the striking resemblance as well as a potential discord between *the final lines of this chapter and Keynes's realization on p. 104.*[26] *of his "General Theory ..." that* <u>*objectively*</u> *seen (i.e. with the observer, as part of the affected population, situated exogenous to the purposeful human-made system) consumption is the* <u>*determining*</u> *factor of economic continuity. In other words, anterior to final consumption, values are indeterminate; and that demand thus determines (the value of) supply. Sismondi wisely leaves it at that, but Keynes is trying to go a step further by predetermining the values of additional investment goods through aggregate current demand as well. The fact that on the next page he encounters a "riddle" should have given him an indication, that the objective viewpoint* <u>*over*</u> *time of his first sentence, no longer holds for the rest of his argument set* <u>*in*</u> *time. It proves that in the course of his reasoning, he somehow must have moved from an objective ("sole end and object") to a subjective position and thus causing the appearance of a riddle (or paradox). As the elements of his causal analysis concern propensities and investment decisions, these must be presumed to be systematically endogenous (or subjective) with Keynes; and that moving those impulses to the outside of the system would rid the argument from its riddle. The problem with that solution is that Keynes's endogenous identity Y=C+I, as causing the predicament of his concern, would no longer be valid at the same time. In other words, if, as Keynes holds as obvious, in the real world "consumption ... is the sole end and object of all economic activity", then it is also the sole determinant of economic continuity. This means, in terms of the latter with "real" investment and consequent disbursed income having to occur prior, that I and Y are indeterminate in time until determined over time by C, and a static Y=C+I is nonsensical.*

The propensity to underspend on consumption goods cannot be fixed definitively with additional investment spending; at least not under dynamic equilibrium in the long run, given by investors with the power to pull the plug on non-performing loans. If it yet seems to work empirically, the underlying theoretical course of events remains hidden from view in the short run, because the Keynesian model lacks the required level of generality to expose it. The reason for this being so is an insufficiently comprehensive theory of inflation, in which asset inflation is either totally ignored,

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[26] *J.M. Keynes, The General Theory of Employment, Interest, and Money. London: Harcourt, Brace & Co. 1936 p. 104-5. "Consumption - to repeat the obvious - is the sole end and object of all economic activity. Opportunities for employment are necessarily limited by the extent of aggregate demand. Aggregate demand can be derived only from present consumption or from present provision for future consumption. The consumption for which we can profitably provide in advance cannot be pushed indefinitely into the future. We cannot, as a community, provide for future consumption by financial expedients but only by current physical output. In so far as our social and business organisation separates financial provision for the future from physical provision for the future so that efforts to secure the former do not necessarily carry the latter with them, financial prudence will be liable to diminish aggregate demand and thus impair well-being, as there are many examples*

[105]

to testify.

The greater, moreover, the consumption for which we have provided in advance, the more difficult it is to find something further to provide for in advance, and the greater our dependence on present consumption as a source of demand. Yet the larger our incomes, the greater, unfortunately, is the margin between our incomes and our consumption. So, failing some novel expedient, there is, as we shall see, no answer to the riddle, except that there must be sufficient unemployment to keep us so poor that our consumption falls short of our income by no more than the equivalent of the physical provision for future consumption which it pays to produce to-day."

or becomes an afterthought with respect to prior thought to be autonomous system-deep determination. In other words, the expectation of realizable future wealth in real terms does not correspond to its viable realization; that is in supra-economic terms of systemically exogenous living standard enhancement, thus where any inflationary trends have long since been cancelled out from both sides of the equation. Other possible interpretations of p. 104-5 would be that a) since neither endogenous nor exogenous are in the GT's vocabulary, Keynes didn't consider its philosophical implications at all; b) Keynes never moved his viewpoint and just didn't realize, that in order to consider a system objectively, it is necessary to be observable from outside of itself; c) propensities and investment decisions, even though exogenous, can yet be relied upon to produce determinate effects. But I cannot conceive of any condition whereby Keynes's position could be upheld as valid.

Getting back to Sismondi, it is quite interesting here to view these polemics; between: Sismondi, who has always been stressing the preponderance of revenue and Ricardo, known for doing the same with capital; from the perspective of the new paradigm. For even though Sismondi does not seem to be showing much difficulty in countering the first half of Ricardo's argument, that all non-consumption of production output, automatically turns into capital accumulation; the second part of it, where Ricardo brings in government consumption as supposedly unaffecting the national capital, is not really answered by Sismondi at all.

First of all the above makes it perfectly clear, that there is not a great deal of difference between Sismondi and Ricardo, regarding the significance of the monetary value of capital. And that in spite of Sismondi's final line, which is in total agreement with the principles of our new proposition, this does not fully translate into his cognizance that the purpose of an economic system – i.e. the creation of personal wealth – does not lie in the raising of as much capital as is possible; but that in order to attain its final economic goal, the 'saved' capital at all times needs to be resolved first.

Second, getting back to the latter part of Ricardo's argument, when taxes are raised by government, these as a rule will be passed on by all successful enterprise, as a cost of production, to eventually be born, just like any personal taxes, by consumers; who thereby give up a share of the already achieved derivative output to those who, by newly being employed to provide the additional civil, military, or private sector contracted for goods and services, become its intended receivers. And this would also include the provisioning of an army, as the only substantial circumstance, apart from government run cafeterias and hospital kitchens; whereby government could be thought of, as being in the market for any consumption goods directly.

So far taxes indeed will affect revenue only, but instead of diminishing it, only a redistribution of unchanged total revenue is effected. If however, such governmental expenditures would be dedicated to an augmentation of public utilities like: water, power, transportation facilities, etc., and as such lead to a consequential increase in private sector activity to help the government in their construction projects; an augmentation of the national capital, as it was understood in the classical sense, is brought about, and thus antithetically, very much affecting capital indeed. Taxation therefore, though obviously leaving the existing capital resolution process, identified as Sismondi's 'revenue' unaffected; when the latter is understood to just mean (personal) spending power, and without there being an overall diminution; by having to share output with those not directly having contributed in bringing it about, it arguably could yet be said to have been decreased, at least per capita.

Just before these polemics, Sismondi shows himself to be quite a bit less of an interventionist, than he is commonly made out to be. He appears, on the contrary, to be very wary about the inherent power of government to influence unwarranted growth; and taking also his previously stated views into consideration, would use government intervention only as a last resort, after it has become apparent that the private sector by itself has become either incapable, or unwilling to rectify its previous shortcomings. A position I believe, only ultra-conservatives could nowadays disagree with.

Chapter 7.

How a Currency Simplifies the Exchange of Wealth.

So far we have conducted our narrative about the formation and subsequent progression of wealth, by purposely refraining from talking in terms of a numeraire, [a currency, or money] to make it very clear, that this is not a necessary component of wealth formation at all. For in no way does money create wealth, in spite of its simplification of all relationships, making commerce considerably easier to conduct and affording everyone involved the means to quickly get whatever they fancy most. And by as such benefitting the world, it [by way of a much more efficient distribution process] facilitates an augmentation of wealth, but that without its influence could have been [brought about] just as well.

Precious metals are one sort of a great variety of products, created by man's labour that he finds valuable to use. One could not help but come to the conclusion however that they, more than any others, have the ability to keep their value indefinitely without being affected by age; as well as having the certainly no less important characteristic, of being able to coalesce without any difficulty, after having been divided into an almost infinite number of pieces. The two halves of a hide, or a fleece, and even less so that of an animal; in spite of supposedly having been used in the past as money, are not worth the value of the whole, but only that of two halves. While the four quarters of a gold coin, in total always remain equal to the value of the coin itself; no matter how often it is being subdivided, or for however long they are being kept.

As the first exchanges needed by men concerned putting a measure on the preservation of the fruits of their work for the future; everyone with any kind of surplus to trade, became enticed with exchanging that for precious metals. Not because of having any intention to make use of this metal for any particular purpose directly; but because of the near certainty it provided to use it for similar exchanges, made for the same reason to obtain any in the future needed items.

Here Sismondi touches upon an essence, that unfortunately he didn't fully reason through till its ultimate meaning. As will become clear in a little while, not only was he very much enamoured by a full-bodied coinage system; whenever he discusses money generically, he forces one into an interpretive translation of the term. For implicitly Sismondi always seems to mean such coinage, ostensibly as providing the only secure means to back-up a country's wealth; because, as he reasoned, these coins themselves were wealth embodying and as such a worthwhile <u>addition</u> to the nation's wealth.

In the preceding passage however, his reasoning is fully compatible with the principles of the *alternate paradigm, as the holders of precious metal were not at all interested in the utility of it, but in the claim it represents to acquire some needed utility in the future. Such a claim however, cannot be considered as an additional wealth to any already existing or maybe future utility; as the only criterion of a claim is its security of redemption, and its only connection to embodiment depends on the fundamental 'trueness' of the system, which logically demands the either additional/or not proposition, as presented above.*

Now most of the time during the following discussion about money in general, Sismondi argues as if he fully realizes the systematically assignable debt notion of money, and probably even more so than many orthodox economists would nowadays, but whenever precious metals explicitly enter into the picture, he can't seem to let go of the incongruous idea that they yet represent an additional 'wealth' to the system; whereby in terms of an implied inferiority, this usually ends up unduly colouring his propositions regarding any other forms of money as well.

From the time that precious metals became [greatly] sought after, far outstripping their usage to man to make domestic utensils and ornaments with, and indeed primarily accumulated for their ability to represent all other forms of wealth; hence their consequential usage in commerce, as a means to facilitate exchanges.

Gold dust, in its primitive state, remains to this day a [functional] means of exchange in commercial transactions among the peoples of Africa. But once its value becomes generally recognized, there remains only a single and much less significant conversion to be made; whereby as easily converted to coin, it by legal imprint guarantees the standard and weight of each piece in circulation.

The invention of money has given a quite novel attribute to exchanges, by effectively separating its two inherent components; while previously one always had to simultaneously consider the receiving as well as the disposing aspect of any trade. By means of a currency, each of these considerations can be made separately; the acquisition of the wanted item being called the *purchase* and the disposal of the unwanted surplus being called the *sale*, and with both market activities carried out independently from one another. So does the farmer in order to part with his surplus corn, no longer has to be concerned with finding the merchant with just the needed type of merchandise to trade; but only in finding a merchant with money, as that assures the farmer's ability to purchase whatever he needs later. And any buyer, no longer has to consider what he would be able to submit to a seller, as all he needs to get is money, with which he then is assured to get whatever he needs in return. So while before the invention of money, it would take a lucky coincidence of circumstances, to fill the exact needs of both parties involved; since that time, situations where a seller could not find a buyer or a buyer unable to find a seller, have not occurred nearly as often.

All [economic] operations we have been mentioning in the previous chapters, which constitute the progression of wealth accumulation in society; have indeed become an awful lot simpler to carry out, ever since the circulation of money has become a regular feature in the exchanging of goods. But in its doubling of the necessary turnovers, the reality of it also has become a lot more perplexing to the casual observer. As we have mentioned before, wealth materializes, through the withdrawal of that part of periodical production, which is meant for consumption, and which forms the capital of the rich; in exchange for [renewed] labour, which forms the revenue of the poor. But this [wealth materializing] process divides itself up into an enormous number of arrangements, all having entirely different sums of money as their common denominator. The size of the producers' periodical sales volume is evaluated by them in terms of money, one part forming their capital and another their revenue. With their revenue they buy the things they need for their personal consumption, these are thus their expenditures and with those two turnovers, the first part of the withdrawal of periodical output becomes a fait accompli. With their capital they purchase the labour power of workers, becoming the latters' revenue, which is evaluated in terms of money as well; while the workers in turn use this money for the things needed for their subsistence, thus forming their expenditures and with that the completing part of the withdrawal of periodical output has taken place.

Not only is capital thus evaluated in terms of money, it for all intents and purposes seems to be equivalent to just money as well; with the confounding of both principles involved, to a large degree blameable on the constraints of language, as it always takes a great concentrated effort to keep reminding oneself, that capital is not money at all, except maybe during some very specific moments in time; but in reality, is the to be consumable part of wealth, given to workers in exchange for their periodical labour power.

The revenue of the capitalists, also expressed in terms of money, requires a similarly concentrated effort to remember that it too, is being represented by money only as its momentary measure; while the revenue itself, in reality is that part of consumable wealth, that the capitalists exchange in portions of equal value amongst themselves, to so take care of each other's needs and desires. And finally the wages of the workers are always expressed in terms of money, equally requiring some attentiveness to recognize, that they are identical to capital; as meaning that portion of consumable wealth, given to workers in exchange for their periodical output.

Thus while money simplifies the coming about of all commercial exchanges, it makes the philosophical contemplation of the sum effect of those same exchanges a lot more difficult to comprehend; for as much as this invention at each market transaction clearly shows the accomplishment of whatever intended individual goal, so does it also obscure the achievements of the market in total, confounding the true reality of the economic condition.

So much for Sismondi's scanty account of the influence of money, that aside from showing his quaint fondness of precious metals, wherein he is somewhat at variance not only with Ricardo but also with Smith; on the whole is iterating, the classical position of the obscuring veil of money, powerless to in whatever shape or form, affect the real formation of wealth in the economy. A however confused stirring of the pot by Keynes well over a century later, still left many a follower of his wondering to what degree if any that was indeed so; as no specific Keynesian monetary theory had been forthcoming either, and so no alternative view as part of a comprehensive heterodox theory had ever been expressed. But although Sismondi, as has just become clear, hardly deals with the subject of money in his first and second books; he does dedicate the entire fifth book presented in his volume II, to that subject matter, in all its real and imagined appearances, as it was generally understood in his time. Translating the entire fifth book however, would have been way surpassing this endeavour to establish a link between Sismondi's fundamental economic conceptualizations and those of the proposed new paradigm, so a number of chapters have been cut short and a few *were eliminated altogether; still, the bulk of it is left intact, and they are presented in the ensuing subsections as follows:*

1. The Symbolic Representation, Pledge, and Value Measurement, attributes of Money.

It is through monetary means that wealth circulates incessantly, amidst producers and consumers alike; as all sorts of exchanges take place under its auspices. Whether there is a change in the ownership of land, means of production, or raw materials; when labour power is sold; or when the [final] commodities exchange one last time to reach those that will be consuming them. A numeraire [in the form of a currency] facilitates all those exchanges, which, as an intermediate object between the contracting parties, is thus generally considered to be most desirable. For it not only enables everyone to obtain their most immediately required items; but moreover, by being submitted to an invariable measure, can in its terms be used as a unique computational entity, to value anything at all.

Currency fulfils a number of distinct functions all at once: it is the symbolic representation of all other values; it is their pledge and also, it is their measure. In its symbolic representation, money represents all other types of wealth; and in its passing from hand to hand, it thereby transmits a right to [generally acquire] any other valuable item. For instance, it is not the coins themselves that a day labourer finds valuable, but the food, clothing and lodgings obtainable in its symbolic manifestation. So too is the entrepreneur not interested in the cash that the output of his workshop will sell for, but in the raw materials he can buy in order to keep on producing indefinitely and by which means he is able to afford his own standard of living. And neither is it just money that a capitalist lends to a merchant, but whatever the merchant immediately purchases with the borrowed money for resale; for however long a merchant would be keeping that money, no profit could ever be made and it is not until it leaves his possession that the symbolic changes into reality so that as capital it can be made productive [to earn the lender a profit].

Because of deficiencies in language [to represent reality], often having been the source of considerable error and confusion, the words money and capital have almost become synonymous. For, while money can be understood to represent all other forms of capital, it in effect is none of those itself; it always remains naturally sterile and wealth does not start to be accumulated until one gets rid of it.

It is interesting that Sismondi brings up the deficiency of language to represent reality; for it parallels the difficulty of economic theory to represent reality. The effects of both language and economic theory are statically indeterminate, in that the present is never quite complete. Their actual meanings, in terms of representing emotions where language is concerned and values in the case of economics, are approachable but cannot be definitively set. This means that where language is used to explain economics the problems become quadratic. So it is no small wonder that Sismondi's approach is so strong on an intuitive level, but often so weak analytically; for the intrusion of inherent inconsistencies considered in set time, about any such situation, cannot help but be ubiquitous occurrences.

Currency [in the form of precious-metal coinage] not only is the symbolic representation of all wealth, it moreover is a warranted pledge; as it is not only wealth representing, but also contains its worth. It has been produced like all wealth as such, through fully compensated work; which has been costed as a physical effort and other incurred disbursements of various kinds. By [first of all] mining it, and [through further processing] turn it into a value equal to the one by which it becomes transposed into our daily lives. It thus supplies commerce with a most valuable commodity, for although it is bought just like any other form of wealth; it is unique in that it neither adds to its own value by successive exchanges in circulation, nor in any way diminishes in value by being enjoyed as a possession. It always, without altering in any way, is available to the means of, either those who utilize it productively, or to those who are giving in to the pleasures of spending it. The rather high price by which society acquires coinage, might at first sight appear rather inconvenient; but this is exactly why to its holders, it always remains an imperishable pledge of security; because its value had not been created through some arbitrary convention, whose effects could therefore at any particular time and just as easily be withdrawn. And although the value [of a country's coinage] to some degree is influenced by the quantity of it in circulation, its price could never drift too far away from what the extraction of a similar quantity [of the necessary raw material] from a mine would cost.

In conclusion, we also have to mention that a currency is the one substance, that serves as an indispensable common measure of all things created. Before its invention it must have been exceedingly difficult to compare say: the value of a sack of corn, with that of a yard of cloth. And even though clothing could hardly be understood to be less valuable than food; the processes by which man created those commodities, made any such comparison fraught with great difficulties. A numeraire [in the form of coinage] however, supplies just such a common and invariable standard, as well as a term of reference for everything. Under certain circumstances however, these three inherent attributes of a monetary system, seem to exist disjointedly [and by themselves], within commerce and among the people [who make use of it]. So are banknotes and commercial bills of trade only symbolic representations of its indicated value, without providing the security pledge of coin; and the general confusion about these traits has more than once enticed governments to convert the former into paper money; with the in reality existing differences between the two, nearly always leaving in its wake the ruination of countries that remain confused about symbolic manifestations and secure pledges governing its exchanges.

On the other hand gold dust, which commonly is utilized as a generally accepted means of exchange on the West-African coast, could very well be understood to represent a secure pledge, without it at the same time [representing its value in symbolic units]; and since it lacks such a numerical identity, it neither could in a direct way represent each item in part, nor the value of all items in total; but when indeed sought after by all, gold dust can yet fulfil to be a secure means of exchange.

[Apparently] the inherent discrepancy of gold dust, to provide a unitary measure as such, has prompted one people [in that same general area], the Mandingo, to create as numeraire an altogether different and entirely abstract measurement of value, known by them under the name of *macute*. Being in no particular manner derived from anything physical, nor itself existing in any material form whatsoever and in no way conforming to our notion of monetary accounts, in the reality of its overall [possessed] quantity; it nevertheless could be understood in terms of an ideal means in the comparison of values. So does for instance a cow command ten macutes, a slave fifteen, and [one of their typical] glass bead necklaces, two macutes; these objects exchange freely for one another, although the pertaining macutes are never given, nor of course received; they only served as a means for establishing the values of the items given and received in reality. They are a measure, without in anyway being a representation, or pledge.

Sismondi's identification in this chapter of the three inherent attributes of money, and how a monetary system is thought to function in their terms even today, namely: representation -, embodiment -, and measurement of value, are just about similar. Although measurement nowadays would be closer identified with a unit of account rather than with command over what is measured; the significance of the three attributes lies not so much in the interpretation of their individual meaning, but that the integrity of the whole is maintained. Thus Sismondi's intuition, as we have seen happening so often, did put him on the right track. It does not follow at all however, that singling out the embodied production process inherent in precious metals, just because it by at all times remaining visually representational in the intermediate means of exchange, makes it decidedly better able to stabilize the commodity exchange system, than only abstract-value-embodied fiat money.

But to Sismondi's defence it should be remarked, that even a nowadays much more secure national banking system, still is not sufficiently aware of the significance of the embodiment aspect of money. Meaning that whenever money is received as an income; it has had as result, that some commodity within the system has been subject to acquiring an embodied cost. In other words, these are booked debit entries that naturally amount to be redeemed systemic debts. And that because of this misunderstanding, or better said self-delusion in their power to create additional wealth in the form of means of exchange, which is and remains a debt; the banking system cannot guarantee to the fullest extent the command that money is generally expected to have, and thereby fulfil its role in securing a stable functioning of economic society as a whole.

2. The Established Relationship between Wealth and Currency.

We have seen how the formation of wealth through work, [its extended furtherance through] prudent economic activity and its ultimate destination into mankind's general feelings of well-being takes place; followed it time and again, sprouting forth both from the soil through applied agricultural effort, as well as from industry, and through the trading of both outputs alike. We have shown how it is being distributed amongst [a country's] citizens and how it finally accomplishes its purpose through consumption, soon to be followed again by renewed production. But everything created through work and consumed in pleasure, as we have noticed, almost invariably has been distributed on account of a currency having been its intermediary and standard measure of exchange. So that [as a rule,] no property of any kind passed from a vendor to a buyer, without at the same time causing a certain quantity of money to move in the opposite direction, thus from the buyer to a vendor. That same quantity of money however, does not remain in the possession of the vendor, in the way the merchandise remains with the buyer; as these vendors will have to become buyers in turn; passing on their money to others, who will yet spend it again. Moreover, even though

there is no inherent limit to any quantity of these coins, accomplishing a turnover of say either one or two hundred individual expenditures within any given period of time; there nevertheless is always an indicative flow of money, equal to the flow of merchandise that it paid for, going in opposite directions of one another.
A number of writers in the political economy field, impressed by this remarkable primary equality, took this to mean that the value of the entire currency in existence, therefore had to be equal to the total value of all merchandise sold; thereby forgetting that the physically existing means of exchange, takes care of distributing many times its value in merchandise, for as long as the former remains in circulation. The supposition of unconditional equality therefore, hardly merits extensive examination, as such notion would be the same as concluding that: since wares can only be transferred by the bale from one warehouse to the next, and porters can only carry a single bale as such on their shoulders; to keep a circulation going there are as many porters required, as there are bales in existence. This analogy is an awful lot closer to reality than may be apparent at first sight; for these bales are transported from one warehouse to another, through the intervention of money, just as much as by the shoulders of the porters that carry them; and the same [limited number of] coins, like those porters, repeat their operation time after time as renewed trade comes along. Therefore although there should be a certain proportion between the number, or better said the movement of bales and the porters, or if you like the money that will pay for it; the movements of merchandise, or the way that an increasing or lessening quantity of exchanges takes place, depends totally on the inclination of the buyers and vendors and will take place regardless of the quantity of distributional means in effect at anyone time. So would it be just as impossible trying to increase market activity by increasing the amount of money in circulation, as it would be through the hiring of additional porters.

Any equal amounts of wealth do in no way require for their distribution, any equal amounts of money; because the frequency of exchanges is much closer related to the nature of [any particular type of] wealth, than to its value. Therefore the abundance of money in a country is in no way indicative of its inherent wealth; as also its relative scarceness, is no telling measure at all of any existing poverty. The proportion of money however, that each particular wealth sets into motion, does merit some further considerations.

The distribution of agricultural wealth for instance, is among those requiring the least amount of currency. In fact, a great proportion of its revenue is consumed by its own producers, never becoming subject to a [currency-requiring] sale at all. The peasant-owner living of his harvests and slaughtering his flocks, who drinks home-made wine and dresses himself with clothing made by his wife on spinning wheel, loom and with needlework; is hardly in need of any money at all, unless he needs to make contributions by way of taxes to authority; whereas an urban labourer who, in much poorer circumstances, with greater needs, less comfort and with ever threatening poverty; continuously has to make use of money to provide for his food, clothing and shelter. The latter's impoverished existence may require an at least tenfold increase in circulative money, as when compared to the peasant farmer.

At least half of all agricultural produce in this country, ends up in the hands of its consumers, without it at the same time causing any turnover of money at all, while of the other half, an almost negligible share is acquired for the purpose of reselling; and by far the greatest portion of that is exchanged just a single time by its cultivators, straight to the eventual consumers. It thus leaves only an invariably small proportion, acquired for commercial purposes, that by being exchanged a number of times, requires the greatest output in provisional means of exchange, from the offices of the exchequer.

But yet the revenue that sprouts forth from the soil, is only a small portion of the overall territorial wealth. The wealth contained in the land itself, inclusive of all its man-made attributes, is what really constitutes a nation's treasure; and this contained wealth, because of its most infrequent exchange in ownership, in relative terms requires an almost negligible portion of exchange enabling numeraire. A hereditary attachment, which moreover is strongly influenced by a certain degree of narrow-mindedness, keeps a considerable amount of wealth [tied up in the real-estate holdings] amongst certain families during many generations. But while the value of this real estate in France, could certainly be said to number in the order of tens of billions; it would be hard pressed to account for a few million, and a few hundred thousand would be a much more likely figure, that exchanges each week on account of all such properties being bought and sold.

Apart from the value of annual harvests and that of all its real estates, one moreover has to consider as being part of the territorial wealth of a country, all the existing circulating capital that is destined to make the land more valuable: consisting out of dairy and meat cattle, agricultural implements and seed goods of all kinds. But since all this farming capital hardly circulates with any velocity at all, it neither is in any need for great amounts of currency to bring about its existence, nor to distribute it to its final destination. The farms themselves both produce and consume most of this capital; so that it probably will take at least four years, to put into circulation an amount of currency, that approaches its entire inherent value.

After this evaluation of all things that territorial wealth consists of, it becomes obvious that purely agrarian driven economies, hardly have the means to keep a considerable quantity of currency afloat, nor do they have any use for it; and if instead of coinage one would offer them paper money or banknotes, they would if anything be even more bewildered. In spite of utilizing such limited amounts of money; they could yet very well be considered rich; as they sustain all their inhabitants at relatively high levels of prosperity. With their seasonal economic effort, they are able to leave magnificent estates to posterity; as well as contribute in sufficient measure to the tax department and their lack of currency forms no hindrance at all in settling their accounts. So that if at any time there is a surplus in domestic produce, they can either redistribute it through the treasury [for the benefit of those that are less fortunate], or export it and with it obtain all the coinage they might need. If they only have a small amount of money, then that is so because the nature of their wealth limits their requirements for any more; and if under those conditions, they would be in the possession of gold and silver mines as well, they could be exporting the entire output of those.

It should be mentioned too, that in a pure agrarian society, not only isn't there much use for currency; neither is much circulating capital required. It is through the established fixed capital, that the earth can be said to be valuable; and these are bound to the properties and can never be separated from them. As for any circulating capital, in so far it concerns the means to buy and replace the annual harvest; a country is very quickly saturated in those necessities. All the accomplishments of increased wealth, manifest themselves in an increased cultural heritage; [in having the time to enjoy the increased standard of living] but not nearly as much in an increase in cultivated foodstuffs. Moreover the peasant farmer, having grown able to save a small nest egg, most often does this in the form of some coins; so while a rural society becomes less and less dependent on a currency for its circulating capital, its velocity of circulation tends to decrease at the same time as well.

From the above, it also becomes easier to understand why in spite of the inherent wealth of a purely agrarian society, it most often is so extraordinarily difficult to newly levy substantial taxes, liquidate loans that involve considerable amounts of money, or sell a number of large real-estate holdings all within a relatively limited amount of time. Neither wealth, nor any [kind of] confidence is lacking, but only the general availability of currency as well as of circulating capital; for the simple reason, that such a society in its economic development, has only very limited needs for either of them. Forcing them into the position of having to accept a greater amount of currency, either in the form of real coinage, or that of fiat paper moneys, will have no effect whatsoever on its [currently enjoyed] prosperity; as all it could amount to, would be like increasing the number of porters for an unchanging amount of wealth. *Capitalize [the inherent wealth of] real property [to let it work for you in order] to become wealthier [yet]*. Although one commonly hears these urgings, it most often is not at all being understood by those who make them, that the only thing this could accomplish is exchanging one existing property for another; leaving society as a whole, with exactly the same amount of both circulating capital as well as of real property, as before. Circulating capital is never *capitalized real property*, but a consumable wealth; and [while] one profits only by enjoying the consumption of the former, [one could neither profit nor would commonly enjoy, having to consume real property that had been capitalized].

Although Sismondi uses the verb 'to mobilize' in his italicised sentence, I think it is fair enough to translate this in terms of the currently more in vogue 'to capitalize', as remaining entirely within his expressed train of thought. This paragraph shows some very perceptive reasoning by Sismondi, but even though he continues with this line of thought for a little while longer. It is valid on a much wider scope than he ever gets to realize and involves an aspect of economics, that society as a whole would greatly benefit from, if it were indeed heeded by the powers that be. Moreover, this also happens to concern one of the main tenets of the proposed alternate paradigm, while in the mean time giving just a hint of its purport, in the following paragraph. In its wider scope, such (re)capitalization involves corporate economic might. The latters' prerogatives, having evolved thanks to the failure of macro-economic theory to point out unequivocally: the difference in reality between profitability in absolute terms and profiting at the cost of, not only proportionately harming others operating at that same economic level, but potentially and to a much greater degree than those profits could ever amount to, undermine the health of economic society as a whole. The set of micro-economic principles that have been advanced to stifle the nagging doubts about economic righteousness, would thus decidedly become invalid; if the creation of our current dog-eat-dog economic structure (under the guise of promulgating so-called 'free' competition), could be exposed as being nothing but a catering to the predatory instincts of a far too powerful faction of the corporate world. Whereby it could thus be made overly clear that its institutionalized power, inclusive of capital markets, is indeed well able to redistribute, but yet is entirely impotent to effect *any furtherance of the emergeable standard of living accruing to society as a whole, were this to be compared to a situation wherein such powers would be absent from the economic development process as such.*

The small proportion of circulating capital and a consequent currency that a purely agrarian economy needs for its operation, explains the great obstacle that the selling of real estate has to contend with; and not only under those circumstances, but this also holds true for countries that have developed a more mixed economy. [Because] one can only sell real estate against circulating capital, whenever this capital is rather scarce in relative terms, it will become necessary to withdraw the latter from its normal destination [as enabling the selling of industrial output], in order to accomplish the former. Moreover since the powers of habit are stronger than is generally realized, and those of men will tie down capital; even a [relatively] small detour from its normal role, will have to be publicized extra well and over an extended period in time.

Within the industrial wealth production and distributive sectors as such, the circulation of both capital and its means of exchange is considerably more rapid. This is because the portion of output consumed by its own producers is so infinitely small, that one can barely identify it at all; while everything else is distributed, through a means of exchange requiring buying and selling process. So will for instance someone employed as a hatter barely have the need to replace his own hat once a year; while for his everyday subsistence, he will require to sell his labour and be able to purchase his food; with both these activities, necessitating money to bring it about.

And this is not at all the end of the story, agricultural production [requiring a monetary means of] exchange, concerns only a small portion of the overall agricultural revenue; while the sales of industrial output require the turnover of the total commercial capital in existence, so that it thereby be incessantly renewed. In textile manufacturing, the wool merchant must be in the possession of a circulating capital equal to the value of the shepherd's fleeces which will replace it, an exchange made entirely thanks to [the intermediary] money. The cloth manufacturer must have another circulating capital, larger than the former, to replace that of the wool merchant. The wholesaler must have a third, the retailer a fourth; even without accounting for the additional capitals required by the shearers, the carders, the dyers, the shippers, the broker, etc., who are all accomplices in the process that puts the cloth into the consumers' hands. Each of these capitals consists of consumable merchandise, that for the greater part is not yet finished and which passes from one processor to the next, by means of money. Although the value of the money, must be far less than the value of the capital that it helps circulating, there ultimately must exist a certain proportion between the two. Business would be experiencing a downturn, if the proportion of circulating money is insufficient for its purpose, and anyone party is unable to attract it from those with the [supposedly] superior means. It is essential that the transfer of commodities between producers and consumers takes place without experiencing any obstacles or delay. If the means to accomplish these transfers are lacking, they should be brought in from the outside; and if they exist in excess, they will have to be send back to where they came from. For, since the means to transfer does not determine the actual movement, they would [under those circumstances] remain useless.

Here at the close of this particular chapter, where Sismondi has taken it upon himself to clarify the *need for an at least minimum amount of currency, available to business so that it may proceed smoothly; we find him arguing in terms totally foreign to most modern perceptions of the potential pitfalls, surrounding the vertically integrated economy and its concomitant set of bank accounts. For whatever the cause of downturns in business might be, it certainly is not a lack of domestically available coins[27]. And his suggestion that an alleviation of such problems is brought about through an increased export of domestic production, since that would result the importation of such coins; seems to me equivalent not only to say that business will improve with an increase in business, but to revert back to a mercantilist "solution" as well. The ever recurring problem with Sismondi's train of thought, is the inherent contradiction in his terms, trying to maintain on the one hand, the veil characteristics of money; while on the other unable to let go of his, imagined real-wealth containing, precious metal embodied coinage system.*

3. The Fundamental Differences between a Currency and Capital.

The particularly important function of money within a political economic system, as well as the variety of its inherent attributes that play a role in animating, securing, and measuring all commercial activities, must be why it is so ill understood, not only by the man in the street, but for the greater part also by those in government; as it appears to all to be the essential element, enabling employment possibilities to come about and [thus responsible for] the creation of all wealth. It has become most urgent however, to try to put a stop to these misconceptions, by bringing to bear the following set of principles. At the current state of human development or civilization, it has become all but impossible for any type of work to commence, without some existing capital to put that into motion; but this capital, though nearly always represented in terms of currency, is in fact something very different from the latter. For, while the augmentation of the national capital is one of the driving forces behind wealth creating work, the augmentation of its representative numeraire or money, has no such effect at all. Capital supports this process of wealth creation, through its manifestly bringing about of periodical revenue; while the numeraire remains sterile at all times and in no way is able to create any revenue at all. The competition between those having periodical work (provisory capital) to offer, forms indeed the basis for [any existing rate of] monetary interest; but the more or less substantial quantity of the existing underlying currency, has no effect on the fixing [of that rate] whatsoever.

Sismondi's assumption regarding the origin and the justification of interest, is not particularly problematic with respect to the use of commodity money in his days. To remain fully compatible with the alternate paradigm however, fiat money must be understood to have replaced commodity money in all repects; and the interest rate of the former while set exogenously by central bank authorities, will be endogenously determined as having been valid (or not). To the limited extent that he is taking the subject here, he seemingly upholds the orthodox view of money, i.e. as a veil; covering expectable growth of saleable output on the part of the business sector. The problem with

[27] Although strangely enough, Keynes's belief that unemployment could be ameliorated in fact, by having those affected dig up previously buried money; does not seem to be all that far removed from Sismondi's perception of reality at this point.

orthodox thought according to the principles of the proposed new paradigm however, is that no matter how much expectation, if this is not followed up with an actual realization in sales on output; meaning not only through those having obtained income by providing input into the additional production process, but also most significantly the rentiers having provided the 'funds', will by enlarge utilize their resulting returns by spending it on currently available output, rather than having it recirculate and inflate financial assets; then the interest rate in effect had been set at too high a level to be realistic and has turned out to be dis-economizing or recessionary. The 'rate' of interest is therefore a misnomer, as under moving equilibrium conditions whereby nobody is gaining to the proportional detriment of others, it follows from the demand for currently available, as well as of currently embodying output that itself will be available at a later date; and has no basis in fact to either any expectable limits, or to the so-called 'power' of investment funds to effect growth. As seen from this perspective, the Keynesian multiplier is a myth.

All supply-side activity puts the economy in a disequilibrium position, where it will stay until the direct spending by interest-income earners <u>determines</u> that so-called rate of interest, which is indeterminate anterior to this happening. As such not only can't it be relied upon to restore equilibrium, but may even be the source of a disequilibrium itself; that is, when the costs of interest rate resolution are insufficiently taken care of, in terms of final-output purchasing, by interest-income earners themselves. Now the question of the automatic neutrality of money will enter the picture; which is something very different from whether money is a veil or not. The former denotes that the agents' input costs are either automatically resolved by those same agents, or are otherwise going to be resolved by others. In other words, resolution in terms of its unit of accounts is a matter of course; and in an a-priori 'simultaneous determination' framework, it doesn't have a basis for even entering the polemic. Money neutrality is strongly rejected by most heterodox approaches, including this new one. The veil concept of money on the other hand is rooted in the question whether, beyond its function as a unit of account, available money is a constrain on economic development. Money is considered not to be a veil by some heterodox approaches, due to axiomatically having set one of its attributes to be a store of value. The latter is identified by this new approach as an antinomy, requiring a synthesis; but as such cannot be considered comprehensively within the thesis, without running into the internal contradictions that haunt other heterodox theories. This approach thus holds that money, as strictly a unit of account determining the validity of the physical economy, operates indeed as a veil, presenting neither a stimulus nor constrain on economic development; thus coinciding here with Sismondi and for once also, in its limiting connotation, with orthodoxy.

Although the government has the power to mobilize capital in order to [redistribute its effects for the] benefit [of] the nation as they see fit; the monetary means whereby this [transference in accounts] takes place, [itself is limited as such and] in no way can be any more than the agent of the transfer.

All the inhabitants of Europe, at one time or another [in the development of their civilization], have been confronted with periods of serious shortages, bringing about a general misery that hardly left anyone untouched. During such hard times however, invariably the expressed opinion most commonly heard, was not that corn or any other foodstuffs were lacking, but [that the real culprit was a shortage of] money. Enormous grain silos in effect often remained filled to the brim, well until the proceeds of the following year's harvest became available; these provisions, distributed proportionally among all citizens, nearly always would have sufficed to alleviate them of any hunger; but the poor, as a result of lacking the money to offer [for the food], were unable to buy it. Prohibited, seemingly because of a lack of money, to put their labour power to use; they were unable to obtain enough of it to subsist. The money is what's lacking, natural wealth's abounding; what other notion could ever evoke a such apparently to the point conclusion, that takes money to be the source of all wealth and not to lie in the consumable [manifestation of] capital, [or revenue]. For the money that is lacking during such times of distress, is nothing but the wages offered to set [renewed] labour power into motion and [as an intermediary device is destined] to provide for the purchasing of a subsistence [already existing]. A labourer is never able to obtain work [and with it this intermediary], but on account of those who were enabled to accumulate capital, meaning the proceeds of previously undertaken labour, which thereby realized the value of their capital and allowing it in part to supply the necessary raw materials, as well as the sustenance of the workers. Work is unable to bring about any productive output, becoming part of the [emerged] wealth, without the raw materials to be reworked; since a worker can not apply his labour power, without the food that sustains him [during this effort]. So that all work is thus impossible, without the prior existence of already for consumption available capital, supplying the material means as well as the reward for working [anew]. And if anyone worker, is able to supply those advances to himself; he, [at our state of economic development] combines to the extent of that [relatively] small economic involvement, the two characteristics of being both a capitalist and a common worker.

Hence, what is missing in those distressing economic times is [revenue, or] a consumable [manifestation of] capital, that notwithstanding having to be distributed by money, is not money at all; for the latter has never diminished in Europe, and even has often increased in quantity in those same areas of ever growing hardship. But that it stopped circulating as quickly as capital; be it that the capital had been destroyed in reality, like in various disasters, through war, or bad harvests, be it that its release had been prevented and thus fulfilling its true economic function. Since after having nourished the carried out work, the [reformed] capital must now wait for consumers to be exchanged against their revenue; because it cannot repeat the former function, before the latter has been accomplished [and without this no realization of capital wealth can ever materialize as such]. But in so far those disasters did not greatly disturb capital, revenue was very much affected indeed; as the latter failed to replace in their usual way, all circulating capital. And with consumption thus lacking, this meant a diminished requirement for renewed labour [inputs], since [a lessening income to the capitalists] left no money at all to pay wages with.

Just as workers are in need of capitalists, so does a capitalist depend on workers, for his capital remains unproductive for as long as it stays dormant; and the revenue that he expects to be able to live off, only comes about from the work that he commissions with it. Hence in trying, through productive enterprise, to find the ways and means to [maximize the formation of his] revenue; he will employ his entire capital, rather than letting any of it remain at all inoperative. If [we imagine him] as a manufacturer having made a [substantial] investment in his business, he will continue to produce for as long as it takes to convert the entire capital into merchantable output and his entire cash balance is depleted. And if at that point one would ask him why he was forced to quit production, he would answer [in a similar vein] as [one would expect to hear from] any of his employees: namely, that there is a lack of money, or that it does not circulate [in sufficient quantity].

It is however not the lack of money, but the lack of consumption, or the revenue of the consumer [but better said the direction to which consumer revenue as a whole is flowing; about which the capitalist, or more to the point the class of people he belongs to, is destined to perform a most significant role]. When starting any kind of manufacturing enterprise, those in charge of the operation will make estimates regarding the demand for the to be created output. Meaning that as soon as it is finished, it is expected to all be bought by consumers by means of money; which, for the time being represented in its monetary form, will replace their invested capital [as a reward for previously undertaken activity]; as well as and also in also in monetary form, become the new revenue to employees to buy there subsistence with, [but here with regards to their future productivity]. Consumer deficiencies consist of a lack of revenue and not of money; [coming to the fore because] some may have had to cope with inferior harvests this year, others received a smaller rate of interest on their invested capitals, or may have ended up with a diminished share of the periodically reproduced industrial output; and others again, whose [only potential] revenue depends on indeed finding employment first, were unable to do so. Or perhaps, non of the three classes [mentioned above] did grow any poorer, but our manufacturer just imagined them to be richer than they were, and regulated his production according to a revenue that [in reality] did not happen to exist.

Revenue, with its variety of different sources that we have come to recognize above, is of a material and consumable nature. It is brought about through labour and is destined to be enjoyed; having the exact same characteristics as the advances made by the manufacturer in the form of wages and raw material outlays, which themselves make up the revenue of those supplying it. Currency forms only its representative sign and measure of account. And likewise the capital that it must replace, is made up of material objects; which by [entirely] being subject to consumption as well, requires an incessant renewal. The representative currency, forms always only a small portion of the total amount of capital that is possessed by the businessman; as we can imagine very well how only the output of a single week, through a continuity of sales renewing the [substantial] investment made by our manufacturer above, enters his domain in the form of money and how this may involve only about one percent of his total capital. We could for instance suppose that one half of that total is taken up by buildings, equipment and [other] fixed capital; and that his profit will amount to ten percent of [gross investments]. So with the weekly output taken off his hands by merchants who will pay cash for it; only two percent of his circulating capital [the other half of his total capital], will suffice to take care of the payment of wages and other advances; while at the same time he will be reimbursed, by the wholesalers upon delivery of his output, for that same amount with an additional twenty percent profit. Comprising this total, will be [one percent of his gross investment] constituting the revenue of those who earn their living through him, with [an additional .2 percent] that he will retain for himself. This way the entire circulation will be accomplished without him ever seeing any more in actual cash, of the total make up of his entire fortune.

Sismondi's example here, at first sight seems rather meaningless in its overall purport; since what he is trying to clarify, is nothing beyond the nature of the factors already given at the outset. If one suppositions a weekly turnover of income and expenditures, which in total amounts to fifty percent *of gross investments on an annual basis; then dividing this by the number of weeks in the year, one will automatically come back to about one percent of gross investments. Be that as it may, what makes this paragraph really worth coming back to however, is that when consumers, or in this case the expectant consumer demand from the perspective of the wholesalers, are not willing to concede the manufacturer his ten percent profit on gross, or twenty percent net return on circulating capital; then the manufacturer is out of luck and he will have to make due with less, as the wages regarding the output in question, have already been paid.*

Sismondi thus argues in terms of a 'cost plus' economy, an original notion not revived until Kalecki made it the mainstay of his theoretical underpinnings in Keynesian times and that as such was enthusiastically endorsed by Joan Robinson; but which as a fundamental concept, flies squarely in the face of both orthodox and some radical economic reasoning alike. I'm sure it won't come as a surprise that it is a main tenet of the proposed alternate paradigm too; where costs determine costs and profits do the same for profits, through a direct spending on final output at the retail level so that the system can continue unimpededly.

An augmentation to the national capital is the most powerful stimulus for employment opportunities; because for one, such an augmentation anticipates an increase in revenue, and with it a consequential increase in [potential] consumption. And since this [marginal increase in] capital is of no value to its owners unless it is being employed, this furthermore makes each capitalist forever strive to create new productive opportunities for it. In thus having it distributed to his workers, which to the latter forms their revenue enabling them to purchase and consume the production output of the previous period; he will see that capital reformed, and being augmented by the revenue coming in as a result of the following period's production. But even though the distribution and subsequent recovery, take place by means of a circulating currency that is facilitating these exchanges; this currency itself is not essential to the operation at all.

For [if] the manufacturer, [whose existence we hypothesized above] did indeed sell the output of his periodical operation to the wholesaler at a cost covering price; [then] it has been a certain quantity of that output, that will be serving to maintain him at the standard of living he had grown accustomed to; with another portion [of that same output] covering the new raw materials, as well as the labour input going into the reproduction of an equal quantity of renewed output; enabling him, in the next period and in every period following, to exchange an identical quantity of output on the same conditions. His capital as well as his revenue, actually consists of his output and not in money; and the forever resulting outcome of his enterprise, is to exchange already produced output for output yet to be produced in the future.

If [for some reason or another, the demand for] the consumption of his output goes up by say twenty five percent; there is no doubt that he will increase his labour force to fulfil this increased demand. If there were [on the other hand a situation where he would have] more currency [at his disposal], without the [consumptive demand or] revenue that determined it [in the first place], work and its output won't be augmented [by him] at all.

This characteristic Sismondian statement and very true in terms of the alternate paradigm, is much stronger in its negation of all monetary influences concerning true [ex post] economic reality, than *the wishy-washy one he made in this regard, at the end of the previous chapter. Moreover aside from placing all typical (Keynesian) monetary policies in the realm of the nonsensical, it also implies the 'correct' understanding of the 'revenue' notion as a feasible return; admittedly though it being asserted here, without either giving any indication of how this increase in 'effective' demand could possibly have come about, or in some other way supply any factual evidence for how this could come about.*

In the above example, we assumed that every week the merchants our manufacturer worked for, took over the value of the finished goods; so that he consequently received a sum of 1.2 percent of his invested capital, of which one percent amounted to his operating expenditures, thus enabling him to continue producing. If however, those wholesalers decided to start operating differently, so that from now on the merchandise will only be picked up every two weeks; he will need to be paid double the former amount in order to keep his factory going at the same level of activity.

And if no wholesalers at all are involved, who, after having given advanced purchase orders as steadily as it is being produced, take the quantity of output off the manufacturer's hands; then the latter will have to find retailers on his own. Which often means selling his output at trade fairs, that are held at three month intervals; and now, given the same level of production output, his intake at each fair has grown to be about fifteen percent of his gross investment. He thus, without doing any more business, requires a great deal more cash to meet his ongoing business expenses and therefore will make less in the way of profit....

Interest on money in our first example, hardly must have entered the picture at all in accounting for his net profit, while in case of the latter, it must have become a substantial outlay indeed. For neither his fixed capital, nor his need for circulating capital in terms of work in progress, raw materials and wage advances to his employees is subject to any change; the former are still represented by the same structures [and land], and the latter by the same periodical output. But now he also needs cash amounting to fifteen percent of his gross investment; available in his register from the moment that his expenditures come along, to that of the [eventual] sale. So that if the market allows him a return of ten percent on that same gross investment; his net profit on capital won't be any more than eight and two-third percent.

Next, from the perspective of either the merchants or the consumers, we will also find; that with an identical turnover, the increased use of money did not in the slightest way possible, add to commercial wealth, nor to the output that it provided. If we would consider each of the customers of all the existing merchants in turn, we would find that there isn't one among them, who would not lay claim on a more or less substantial portion of his revenue, in the form of items that are for sale; even though all will have made arrangements to receive the totality of it in money [first]. One could be renting out the farm that he had originally started himself, while another could at interest place the capital he has held on account of [accomplished] business; but this does not [in aggregate] make them wealthier. They will not have created additional spending power and no extra output will be able to get sold, so that his business has no chance to experience any kind of augmentation

Although Sismondi's line of reasoning at this point has become rather obscure and his argument

somewhat scanty, what he still seems to be saying however is that: in contrast to orthodox thinking both in his own time as well as at present - the velocity of money has no effect whatsoever, on the overall wealth emerging from the system. Instead, what is happening when turnovers have slowed, is that additional profit takers are allowed to enter the picture, who without being part of the actual productivity under way, yet demand a fair share of the output being produced. And since the quantity of output does not change, this has to occur at the cost of those actually involved in commissioning the production process; so that furthermore the implication becomes that the reverse, or a speeding up of the so-called velocity of money, only has distributional but no real effects. If this interpretation is right, another Sismondian first, which, because it goes straight against so much of what orthodoxy stands for, has never been picked up on before and that once again is showing the overall brilliance of our protagonist.
... The rest of this chapter, consisting of: a variety of governmental concerns; a most unsatisfactory set of arguments, since it is conducted entirely in terms of full bodied coin, trying to justify his otherwise most valid assertion, that an influx of money from abroad does not result in a domestic rise in the standard of living; and some rather unsuccessful attempts to show that capital and its underlying money are two very different entities, have been omitted from this translation.

4. Interest is the Fruit of Capital, and not that of Money.

Brilliance, awkwardness, mediocrity, they all seem to follow one another at regular intervals in this work; and this particular chapter too, is no exception. There certainly is brilliance in his insights, that wealth does not start to accumulate until the underlying money has been gotten rid off; and, that the rate of profit is a variable. Furthermore, his observations regarding the usual activities associated with the exploration of precious metal mines, are also most keenly made. But Sismondi's ever confused notion of a 'stock of capital', and his idea that specie is a wealth like any other and thus additional to other produced wealths, in my opinion makes most of this chapter yet rather mediocre. However in spite of its overall awkwardness, and especially as part of his objective to repudiate the mercantilist notions of money, it does remain worth reading.

Since no work can be accomplished without a capital to set it in motion; and since no reproduction of capital can take place without the raw materials for the work and the sustenance for the workers; those who furnish both the raw materials as well as the workers' subsistence, form a most immediate involvement to its reproduction; and by being to a large extent the cause of whatever turns out to be profitable, having a most self-evident right to share in its resulting benefits. For whoever provides that capital, makes, in its underlying representative form of money, nothing but those raw materials and subsistence available and thereby enable something eminently productive to appear; or better said furnish its sole reason [to get into being], as all wealth comes about, only through [the applied power] of labour. And since [at our stage in civilization] all labour can only be put into motion because of an enabling wage, which through the provision of capital procures the sustenance [of the workers in the mean time]; one indeed attributes, as primal cause of the reproduction of all wealth, work itself.

Hence, when theological scholars attached a pernicious sense to the word *usury,* in their understanding of the meaning of this word being all the interest received for the use of a sum of money; and doing this under the pretext that as money, it could not possibly have born any fruit, so that there could not be a legitimate sharing of profit, as no profit as such could ever materialize; their motive turned into an absurd allegation. There would have been just as much reason to prohibit the renting of land and of labour power to work it, because without a capital to enable the [interactive] productivity of the two, they both would remain unfruitful as well.

The schoolmen however, did have a valid reason for saying that the nature of gold and silver makes them inherently sterile; but they remain that only for as long as one keeps them in that form as such, and cease to be so from the moment that one makes it symbolically representing another form of wealth and one that is productive par excellence. If these men were wanting to remain consistent with the single principle on which their prohibitions were founded, they should have stuck to the determination of usury being malevolent, only when the lender obliges the borrower to keep the treasure in its natural form locked up in a strongbox, from the moment of borrowing till that of restitution. For it is certain that for as long as one keeps money locked up, it cannot produce any fruit; and neither the borrower nor the lender can expect any increase in value, unless the former gets rid of it [and makes it start working for both of them].

However from the tolerance of the theologians in actuality, it should in no way be deduced that the church had not expressed itself, against the charging of any kind of interest for the lending of money, in the most precise and absolute manner possible. And it nowadays escapes the decrees which fulminated [the sinners] during centuries of ignorance, only through certain subtleties that are very difficult to qualify. The prohibition against all interest, that was taken literally by pious persons however, has had an unmistakable influence on the creation of wealth in [predominantly] catholic countries; having had as its result, a much greater degree of wealth depletion among the population at large. Because a prudent activity like the amassment of capital, won't be attempted as much; when it is considered to be just another [worldly] transgression.

If money is itself sterile, if it produces fruit only on account of representing some other value, then it must be self-evident that no good can come of it, if one increases its quantity without increasing those other values it represents. Although it is true that if in a single country, one increases the total quantity of money, one gives to that country the means to command the goods that this money represents; and those of course, could be located in other countries altogether. However, if one increases the quantity of money in all countries simultaneously, one does not do a thing for anybody anywhere. We nowadays have come to associate a certain proportionality between the sign and items [of value], so that a 20 franc piece is just about equivalent to a bag of corn. But if by waving a magic wand, one could instantaneously double all the money in the world, while everything available to obtain with this money in exchange, has remained exactly the same; it would now take two pieces of 20 francs each, to represent that same bag of corn. The quantity of corn consumed by a worker to sustain himself, wouldn't have changed in any way at all; so that now his wage must be doubled. With much more money around, exactly the same quantity of work would still be carried out, and nothing but its account of in the amount of specie would have changed.

Capitalists require that their capital be employed, so that a revenue may be obtained from it; and hence they offer it at a certain price to those interested in putting this into practice. Workers, including those who employ them, need that capital for the accomplishment of anything; so after estimating the expected amount of profit, the latter offer a certain percentage of these benefits [to the capitalists]. The forces of supply and demand [for capital], like any other market, draw themselves in equilibrium; thus effecting a median rate accordingly. The basis for this market is always the quantity of work that is demanded by consumers [in order to sustain themselves], relative to the quantity of capital that represents the wages and raw materials and is available for transacting the execution of this work. If the needs are great and the available means for work, small, the interest will be considerable. If on the other hand, there is a great deal of capital in circulation, while the opportunities to employ it are few, then the interest will be quite low. It will always be regulated according to the designated quantity of money, that is offered on the market [for that purpose]; because money, even though in no way capital itself, remains the sign [or symbolic representation] of capital.

If money were multiplied by waving a magic wand, and without this having costed the nation anything at all; or if quite suddenly new mines were discovered, in which gold and silver in massive quantities would cost nothing but the time and trouble of picking it up, and thus doubling the quantity of money in circulation at the same time; the rate of interest would still in no way be affected. Although it would be true that double the amount of coins would be required and thus doubling the required weight of [precious] metals to accomplish a similar amount of work, representing the same value as previously. This doubling in weight would neither quicken, nor slow down the output of any manufacturing process. It would still need the same proportion [of the returns] to settle the periodical accounts between the manufacturer and his workers; paying for the unaltered output of its workers and it would matter little if that output now costs twice as much. The profit would still be of the same percentage, and the sharing of it between the capitalist and the manufacturer, would still be equally based on the comparison of output that could be commanded with it [by the former directly], relative to the output the latter could successfully create a demand for. And if, before the sudden doubling of money, this share had been fixed at say 4 percent for the capitalist, it would remain at that same rate after the said enlargement.

But [so far,] we have supposed a free addition to the national money supply, that would diminish its [per unit] value by exactly the same amount as its quantity would increase. The rate of interest would also not be subject to any further change, if money were acquired at a justifiable price; either through trading with foreigners, or by the extraction of it from mines. Having thus arrived from one or the other such place, in much enlarged quantities, its relative value would be remaining the same; for, the formal representation of capital, would quantitatively have changed only in step with itself.

Nearly all the circulating capital of manufacturers and other businessmen, is successively offered to them under the form of money, in its circulation from buyers to sellers. But that portion of his funds that a merchant finds himself to possess in the form of money, is ordinarily only a very small part of the capital he is employing in his business; with a much more considerable portion of that capital kept in its natural state either in warehouses of his own, or in [as far as remaining unpaid] those of his customers. On the other hand, it nearly is always in the power of each merchant [individually], to augment almost instantaneously, the quantity of money at his disposal; either by [starting to] sell his merchandise at lower rates of profit, or by discounting the balances of his debtors. In this way, if he wanted to, he can always get hold of [some extra] money, without ending up any richer however; for this money instead of adding to his capital, is in effect bought with his capital. Now if [in a certain area] these types of operations are carried out by a large number of merchants, they will be buying money from a neighbouring area; and if made by a substantial number of either French, English, or German merchants, one could say that those countries in effect are buying money. There will, in the reality of the situation, [in those countries] be much more money around to make payments with; but neither will there be larger, nor will there be smaller inventories offered in exchange for that much increased amount of money; and the rate of interest will not be affected at all. Those who understand the arrangements surrounding commercial activities, know very well that money may be quite plentiful, while capital is scarce; or for that matter money may be wanting, while [at the same time] there is an oversupply of capital.

It is therefore a great mistake to believe that in all circumstances, a considerable importation of money, lowers the rate of interest; or that on the other hand, the exportation of it [inevitably] raises that rate. Coinage is a wealth quite similar to any of the other values, that are an acquired as a result from work; and forms just like all those other ones, a part of the circulating capital. If the imported money has been a gift or some kind of tribute, if it hasn't been a cost to the [importing] country, and if non of its value was diminished, then it certainly will augment its circulating capital, and therefore must contribute to a lowering of the domestic interest [rate]; just like it would contribute to a raising of that rate, if it was paid in tribute or as an expense, without [any expected] repayment. The sums paid within the nation in exchange for merchandise however, would to the same extent have contributed to the lowering of that rate; while it would equally be raising it again, if the country were giving its merchandise away for free. If on the other hand this money would have been acquired [in exchange] for another portion of its [own, meaning its fixed] capital, then the overall total would have remained the same, and the rate of interest could not in any way have been affected either.

Following these principles, it becomes easier to understand why the mining of gold or silver, does not enrich a country any more than any other type of industry would. The precious metals extracted from mines, are a merchandise procured at its price of [embodied] labour and capital just like any other. The opening up of a new mining operation, like [sinking its shafts,] tunnelling, and constructing its refining furnaces, requires a considerable amount of investment; let alone the necessary labour that extracts the ore from the bowels of the earth. These works including all [preliminary and] derivative outputs, could end up being redeemed exactly by the [eventual sale of the] produced metal; in which case the nation will have gained in the process, just as it would have from any other industry. This labour however, could also have yielded, an output greatly superior to the entrepreneurial investments and all its [pertinent] incurred costs; but at the same time this could also have meant, that the resulting output far outstripped the market demand for it. The mining entrepreneur would be finding himself thereby in the exact same position as a manufacturer who, after having invented a more economical production process, ends up with a quantity of output so much greater than the [established limits of] consumption; that he is forced to lower the price in order to be able to sell to more remote, [or usually, to less inclined] consumers as well. The buyer of precious metals could in effect be thought of as society as a whole. Each year it needs to be provided with a sufficient quantity of precious metals used up in goldsmithing and the jewellery trade, along with what through the use of money is lost due to abrasion. If it is given any more, the total quantity will suffer a price decline, just like any other merchandise whose supply outstrips its demand.

Finally, the mine may return less than their original investments to the entrepreneurs and the specie that they have produced, may have come very dear to them; it even turns out, that this most often is their fate. Profits in [precious metal] mining [operations] are most uncertain; seducing desperado's, just like major jackpots do in common lotteries. The enraptured profits entice miners to continue their quest [to the bitter end], even though the returns usually are less than could be had through any other kind of effort; and nearly all of them will be ruined, just as gamblers are because of some initially attained success. After that, the fixed capital used in the exploration plunges in price and those start up efforts are now sold at a discount, making it again possible for new miners to make their fortune; not because of a suddenly greater productivity in mining, but only because it does not have to return all the previously made [and written off] pertinent investments....

The rest of this chapter, concerning a withdrawal of full bodied coin by the government of one of the Swiss' Cantons, and the real or imagined repercussions following that removal, has been omitted. Moreover the two subsequent chapters 5 and 6, dealing respectively with his imaginary advantages of a full bodied coinage system, and with commercial bills of exchange, have not been included in this translation either; as both are quaint practices with little or no relevance to the modern economy. This makes the following subsection #5, instead of chapter 7, as in the original version.

5. Banking.

From having confounded capital with money, has arisen the general mistake that it is feasible to increase the national capital by putting [unembodied] money into circulation. But since the latter, in that case, did not come about through an expended labour, like gold or silver would have; it could not possibly be considered as a pledge of anything representational; so that consequently, after having given those nations illusions of riches, more often than not has left them in ruins instead.

Banks have been among the first to propagate the issuance of paper money, and the very invention of the banking system itself has been the result of such inferences and successive observations. It would perhaps be easier, to better understand both the underlying reasoning, as well as the accompanying illusions that have induced so many nationalities nowadays, to replace their money with paper bills; if one starts with contemplating the manner by which one of the oldest trading centres in France, makes a rather small amount of money go a very long way indeed.

The commercial centre of Lyon has [long ago] made the arrangement, that all mutual payments should only be conducted at four fixed intervals a year. This idea followed in the footsteps of the celebrated ancient quarterly fairs; so that during the three days set aside for this, all the accounts of the region were duly settled at once. Now, since everyone during this period had about as much to pay out as to receive; on the days immediately preceding the scheduled payments, they would all meet in the exchange building to make what they called *virements.* Meaning to assign to one another whatever sum is necessary to mutually settle their accounts. Hence, A owed B, who owed C, who in turn owed D, the latter owing E, who himself was indebted to A, again; so that through these assignments, all five accounts [conceivably] could be settled without any money having changed hands. If however E did not owe A anything, it was generally agreed that A should pay E, and thus with this single payment strike out the remaining balances of all the parties involved in these mutual assignments. All merchants only buy for the purpose of reselling again, and so receive to be able to pay; thus if those types of assignments were utilized to their fullest extent possible, one would indeed be most astounded to find out, how little money is actually necessary to settle a truly immense amount of transactions. *This also, by the way, is apparently very close to the daily activity currently undertaken, among the bankers of London*[28].

But all these mutual debts are not of course equal and bankruptcies, as well as the occasional error made in the assignments, did sometimes lead to difficulties. The invention of [commercial] banks however, did negate those deficiencies; with most of them coming about as the result of the expressed demand by merchants, to have these banks act on their behalf. A banker, in those circumstances, was nothing but the merchants' treasurer, who received, as well as made payments for them; and since he carried out these tasks for a great number of merchants at the same time, about as often as not it so happened that he was actually paying himself; so it therefore was totally useless, to keep all the pertinent funds tied up in his vault. If for every 100,000 made in payments, he regularly averaged about 50,000 in payments to himself, because those concerned a settling of internal accounts; he could put the remaining 50,000, that were unnecessary to make payments with, to a much better use himself. He thus settled, with only half the funds that his fellow merchants put into his [trusted] possession, all their accounts; and placed the other half out, at [a to be received] interest. By arranging his returns to be made in definite and easily made repayments, with alternating maturity schedules, he assured himself of not having to let demanders for money wait; even when during unusual circumstances, a greater proportion of his payments would have to be made to parties other than his own clients. According to Thornton: there are seventy bankers in London, making daily total payments in the order of four to five million pounds sterling; which amounts to at least 1,500 million on a yearly basis; and that this immense circulation, nevertheless is accomplished with only twelve or thirteen million sterling in specie or banknotes[29].

The banking trade however, has by no means been left to [the prerogative of] the bankers alone; public institutions, established under governmental protection, have in virtually all trading nations become a part of the scene. The more broad the operation of a banker would be, the lesser would be his requirements for payments [to external locations]. Hence all those seventy bankers in London could be eliminated, if all their business would be conducted by a single bank; one would therefore have to come to the conclusion that the substitution of a single national bank, for the currently existing number of bankers would mean a great saving in money and be most beneficial; as this would be like a [universally available and] forever functioning assignments' office. Every enterprise thus pays or receives, through a line [of credit] that would be written down in the books of the bank as account balances, without the need for any money being disbursed at all. Between the

[28] Inserted original footnote: Cf. Henry Thornton, *Inquiry into the Nature and Effect of Credit.* Chap. III. [London: 1802.]

[29] *Op. cit.* Chapter IV, p. 154.

businessmen having opened such [line of] credit accounts, the ensuing bookkeeping operation can in the easiest way imaginable, replace [the responsibility of] the treasurer function of the banker; and accomplish this without any differences in amounts, dates, or directions of payments, ever preventing the mutual balancing of such accounts.
It has to be mentioned however, that our presentation of the early practice of *virements* [or assignments], followed by bankers who merely acted as cashiers [or treasurers]; was conducted more to help facilitate the understanding of this commercial enterprise, rather than relate the facts in the order that they actually took place. The oldest banks of Europe, those at Genoa, Venice, Amsterdam and Hamburg were established, not with the intention of facilitating an exchange of assignments at all, but only to accept deposits; so that they could be kept in their original state and with a higher degree of security than each merchant could do so for himself; and moreover as a way to get rid of the mixture of foreign and badly worn coins, that especially in the smaller countries so detrimentally affected the local currency.

The [private] banker had taken it upon himself, in the most solemnly fitting manner, to conserve in his vaults the totality of coin or bullion, that each merchant had deposited; thereby acquiring a credit to the bank, which at a moment's notice could be redeemed [in full] on demand from those who had transferred that credit. The bank [as a result of this], thereby denied itself the natural profit that would be accruing to such commercial transactions, but instead provided for its maintenance by charging a [periodical] fee payable by its clients. It seemed however, that to count on forgoing such considerable benefits, apparently deductible without this hurting anybody, is placing way too much confidence in an institution operating under governmental controls. The Bank of Amsterdam, founded in 1609, continued at least until 1672 to scrupulously carry out its commitments; by maintaining intact in its vaults, the immense deposits that had been entrusted to it. It therefore was in the position to pay without difficulty all the moneys that the quick advance of Louis XIV induced all depositors to withdraw at once. This event however, even strengthened [the public's confidence in the safety of] its credit, and led [the bank] to abuse [that confidence] towards the middle of the following century; as from that time onwards it started to loan out the money that was tied up in its vaults, to the East Indies' Company, the provinces of Holland and West Frisia, as well as to the city of Amsterdam. At the time of the French invasion in 1794, when it had to reveal its long kept secret, it was discovered that the bank had lent these four corporations the total sum of 10,624,793 guilders. Those corporations however were insolvent and the bank was [subsequently] dragged down into their bankruptcies [as well].

The Bank of Hamburg, founded in 1619, remained more faithful to its charter; its deposits, representing the bank's money, were conserved intact until the night of November 4, 1813; when it was seized by order of Marshall Davoust, to defray the costs of the siege, and amounted then to the equivalence of 7,489,343 in bank marks.

The ruination of the two most famous deposit banks in Europe, shows at what price the modern convenience of credit is bought for, when perhaps too much trust is placed onto it; and its correlated pitfalls, even in its most moderate use, come to the fore. However a new concept altogether, closely following the [inception of] banks of deposit and banks of account, soon extended beyond all bounds, the use of credit as well as its associated dangers.

The type of bank like the one of Amsterdam, is only of use to those who have opened an account in it. But many businessmen may have no such account, while virtually all those not owning a business, and in spite of having payments to make or receive, have no bank accounts at all. To extend the *prudent economics* of [enacting] assignments[30] to those people as well; banks of issue, or of circulation came into being, and soon became very popular throughout all of Europe. Their notes are assignments on the [pertinent issuing] bank, payable to the bearer on demand at any time. Everyone by combining any number of notes, becomes in the position [to be able] to enact such an assignment by himself, for whatever debt he is required to make good on, without having to call on specie. Therefore it will generally be more convenient to pass those notes on to others, just as they were themselves received, rather than involving any actual money; and even though each at his own volition may exercise his option to receive an actual payment, no one ever ends up doing so; exactly because of one's ability to do this at any time, everyone feels that to do it later will in any way be soon enough.

Up to this time, banks had done nothing but simplify payments, cut down on the [expensive and now] unnecessary transportation of a currency, and render circulation easier because it involved a smaller amount of money, than would have been required otherwise. But someone had to profit from the fact that a lesser quantity of money needed to be employed in [existing] business. A portion of capital, that previously did not draw any interest, could now be converted to the kind that would be wealth generating and thus allow someone to profit in the process. In the arrangement of assignments in Lyon, everyone profited in relation to his share of business, as they were required to have money on hand at only four times a year, for the said three days; allowing them thus to gain interest during the rest of the year. And by making this smaller amount of money perform the function of a much larger sum, these assignments could not help but simplify everyone's operation as well. In London and everywhere else bankers have established themselves, to just perform this simplifying transfer service; they were the ones profiting from the resulting saving of money, as this was the benefit arising from their profession. In Amsterdam, Hamburg, Rotterdam, and Nuremburg where banks of deposit were established, these profits were solemnly relinquished; and because currency was not circulating, less of it was required to remain in the country in its immobile and non-interest bearing state. But this condition was not maintained in good faith forever, for when banks of issue were established; they openly declared that they would take their profits as such, [from exactly this lessening requirement of currency] as that was their [just] reward.

These banks emitted their notes throughout commerce, as a perfect equivalent to specie; since those notes could to the discretion of its holders, at any one time and without any trouble, indeed be converted as such; with consequently enabling the issuers to charge and receive without fail, interest, just as if it were specie. The usual way by which these notes were brought into circulation, was for the bank to buy at a discount the proceeds from a trade that were due in the future. The businessman's promissory bill of exchange payable three month's hence, was then exchanged against its value in banknotes, less the interest over those three months. The [nature of the] exchange

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[30] (emphasis is mine) See the final annotation at the end of these subsections (chapters of book 5.) regarding money.

was one of paper against paper, but even though the banknotes received were as such, convertible; the receiver himself was usually prohibited to cash them in, until the bill of exchange against which the banknotes were offered, became due for payment itself. The underlying specie therefore, in fact was an asset belonging to whoever relinquished the bill of exchange; while the banker, speculating that his notes would not be converted during the interval, lent this asset in the form of specie out to others; and he was able to gain a profit as a result of rendering these beneficial services to society.

The banks drew interest, not on the actual money that they paid out, but only on the money that every note holder believed he could command at any one time; but which never was actually present in the banks' vaults. The expertise of the banker thus consisted in the ability to judge accurately the ongoing needs of the market, always having enough cash on hand to satisfy the daily requirements for it; while prudence required him to have sufficient reserves over and above that amount, to meet any extraordinary demands for money as well; as some incidental inability to convert his notes in a prompt and secure fashion, would induce the large majority of note holders to come in and also demand their payments in cash.

It always remains astonishing [to see], that human sentiments and volitions can be subjected to calculation, so that whenever these involve a more or less substantial group, an average response can be prognosticated with results close to certainty. Nothing seems more capricious than the discretion of some unknown individual among the many, who tomorrow will receive a banknote for a thousand francs, to either convert it into specie, or not. However, since this activity concerns the volition not of a single person but of thousands who will find themselves in that same position, its outcome can be predicted and the necessary quantity of specie to serve the demand for it, can be ascertained very closely indeed....

The paragraph following, concerning Sismondi's opinion about the very limited security and correlated validity of banknotes issued in rather small denominations, has been omitted.

We have seen that in the general progression of exchanges, a lucrative business starts out with an entrepreneurial effort; directed in either the industrial or agricultural sector, whereby paying out wages to employees. This entrepreneur, as a farmer or an industrialist, may very well have to utilize his capital in received banknotes; but [usually, since] he could not use those in that form to pay his employees with, these soon will be returned to the bank for conversion into cash. It will therefore be useless trying to find ways to make banknotes part of this type of circulation, as their prompt return would cause losses rather than be beneficial; for workers too, would exchange the money making up their wages, immediately for the small coins that they need to procure their subsistence with, so that no banknote could ever remain part of this type of circulation.

Wages are the revenue of workers, but a worker is not the only type of person whose revenue is expended in small amounts. The very wealthy, just like the poorest, provide for their sustenance with a number of small purchases, which must be made in cash. If some wealthy landowner does receive the revenue of his farms or from his capital, in the form of banknotes; even if he sometimes pays the bills of his suppliers with banknotes, such a banknote circulation will not go far; as both the landowner and his supplier will hasten to bring them back to the bank for exchange. Therefore it is of no use at all, to make banknotes enter the circulation of revenues.

[The output of] production however, does not immediately fall into the hands of consumers but first may be, two or three times, the object of an exchange between merchants, [sometimes even involving those] of different countries. These exchanges are made on term accounts, and in their totality have given rise to a new type of commercial enterprise altogether, that of merchandising bills of exchange, which we have also come to know as banking. All these deals between businessmen involve large amounts, which each one of them receives in order to pay out again, at virtually the same value; and all have in their safes a valuable reserve, consisting of banknotes and cash, to make any such settlements with. Now if none of them would feel any uneasiness about [the solvency of] banks, it is likely that no one would even consider converting those bills to cash. This is the channel of circulation that in the easiest and most convenient way can be filled with banknotes. From there, some will flow back to the channels of exchange that are made between capitalists and their bankers, such as the making of capital investments by the former, and the paying of their interest by the latter. In the remainder of all business transactions, banknotes cannot stay in circulation; and those that incidentally fall into the hands of others, will soon return to the bank for conversion back into cash.

It is true enough however, that, quite apart from commercial dealings, there is another channel of circulation absorbing a certain quantity of banknotes as well, namely: the revenue of government. It is convenient for the latter that all the remittances of internal revenues, from the regions to the treasury be made in banknotes; and all the payments from the treasury to the government's suppliers and outside contractors, are made this way as well. These governmental dealings require more money transfers than all commercial business dealings combined, and has given rise to its own branch of banking, for which it employs banknotes with identical advantages as those pertaining to commercial banking. But subsequent to this circulation of massive amounts, also the revenues of government will reach the consumer; and for paying individuals in the military and civil services, these banknotes must be cashed again, as it by then has become the revenue of all those receiving governmental remunerations.

Whenever banks remain cautious and well informed, the manner by which they put their notes into circulation, makes them naturally enter the two channels for which they are best suited. They discount bills of exchange, but this is the proper response to the enormous increase in commercial activity, that the interaction between merchants and bankers brought about. And except in those cases where bills are fraudulent, being no more than speculations made by people with business troubles, or developers way in over their heads, and who according to the old saying are trying to raise cash by passing paper; the totality of [outstanding] bills, fairly closely would represent the amount of currency that should be circulating in large sums, to solely take care of the receipts between businessmen, and that therefore can indeed be replaced by banknotes.

Again, [these national] banks deal in government securities and the obligations of the regional tax collectors; by in general providing funds, before the [governmental revenue] is received. If those advances are made for a short time only, say about three months, they could correspond to the time during which the notes of the treasury agents remain in circulation, and there would be no reason at all to convert them. But there is almost never a bank, that does not find itself more or less dependent on the government under whose protection [it was chartered]; and does not discount its issues for a much larger time period, than it takes for the public revenue to circulate [and pay off its major creditors].

All that happens then, is that a portion of the notes issued under those conditions will be quickly converted back into cash, as soon as they fall into the hands of those needing smaller denominations. The Bank of England, discounting [the to be received] governmental taxes, was therefore obligated to keep in its vaults; a reserve in silver that they would normally use to make payments with, of one-third to one-half of the value of its issued notes. The much more conservative Bank of France, limited to discounting only three [concurrently running issues[31]], and whose terms were not to exceed a three month period; was nevertheless bound to maintain a similarly large reserve, most likely to counter any rapidly [spreading] turmoil of enormous discounts, that public issues [because of their size] may cause on the money markets. [On the other hand] if a bank was confined to deal in the equities of large businesses only; a cash reserve of one-tenth the value of its outstanding notes, would in all likelihood be sufficient to maintain its credibility.

6. Credit does not in any way Create the Wealth that it Distributes.

Bankers, thanks to the credit they command [at any one time], seem to have an almost inexhaustible supply of capital at their disposal, ready to be offered to serve business. And this credit soon appeared to possess the power of creation, [whereby enticing] speculators; being convinced that by emitting banknotes they were augmenting the public's wealth just as if a comparable amount of precious metal was imported; to sprout delusions as dangerous to themselves, as to those governments that also were to put their faith in them. They promulgated the establishment of banks, to compound [both the availability of] commercial funds, as well as providing for increased agricultural activity; thus setting labour power into motion everywhere, to thereby increase the national capital and multiply industrial output.

Although the theory of banking has been thoroughly investigated ever since Adam Smith, it could not be said however, that since that philosophy was first expounded, even the slightest amount of progress has been made; but then perhaps there wasn't any to be made. Nevertheless these entrepreneurial efforts, entirely oblivious to [the dangers of] credit, have followed one another in a much more rapid progression than had ever been the case before the writings of Smith; and successively have dragged almost all nations, into the frightful abyss of calamities and ruination.

Yet, despite these terrible experiences, hardly a year goes by that doesn't have another such menacing scheme imposed on the public fortune. Given that we cannot add anything substantial to

[31] The original mentions the word `signatures', which probably is best translated by `underwritings'. Because of other connotations regarding that term however, the decision was made to translate as above; but it must be said that absolute certainty of its correctness cannot be assured.

the analysis of Adam Smith, regarding the operations of banking and credit; we might at least try to expound his principles with somewhat greater clarity.

Above all, it is essential to establish without a shadow of a doubt, that credit can never create any new wealth; that it adds nothing at all to the capital of society and all it can do is to make a portion of that [pre-existing and otherwise dormant] capital profitable. Generally speaking, credit only shifts wealth around, re-allocating it from one to another, but leaving the aggregate as rich or as poor as before. Credit means having the power to borrow, but it is impossible to borrow if there is no available lender; for whatever doesn't exist, can never be borrowed either. A decree [proclaiming] the abolishment of debt would turn society upside down, but it wouldn't destroy it altogether. It would amount to a universal robbery, with all its creditors being plundered by their debtors; but the nation's assets would remain exactly the same as before. The possession of all material things, may nowadays be divided between two or more people; with one holding onto the ownership of it, and the other having the right to [utilize] it. But the value of [owning in fact] the item itself, will proportionally alter with the value of [having] its right [to utilization]; by abolishing rights, the item will regain whatever the right to [use] it, had been causing it to lose. The annihilation of debt would, by subverting the trust inherent in proprietorship, surely destroy all sense of order and [prudence in the] economy; just as a universal robbery would, in a nation whose government can give no one any protection from violence. Such a nation would be ruined by the bad usage that robbers would put their wealth to, and not because proprietorship had become a thing of the past; be that in the one case, from the robbed to the robbers, or in the other, from creditors to debtors.

It does not take any particular effort to understand, that when someone is in the possession of some real property valued at say twenty thousand francs, but owes half that amount to someone else; the property of both the creditor and that of the debtor, can never exceed those same twenty thousand francs. But whenever banks and the public credit are concerned, nobody seems willing to reason in any such similar manner at all; even though the analogy fits perfectly. A bank, by means of its notes put into circulation, effectively finds itself in the possession of some new capital, that it can [usefully] distribute. This capital however does not belong to it, but only to whoever left it there in trust and retain the right to withdraw it in cash from its vaults. Generally, in order to merit and secure such trust, [the bank] will have to offer a pledge to the lenders. The Bank of England, on its part, had secured as pledge the original value of its shares, deposited there in cash; which at the time of its inauguration in 1694, amounted to some 1,200,000 pounds sterling. Its operations however, were of such a nature that although it attracted specie to its vaults, it hardly ever caused it to leave again; excepting the [bank’s starting-up] funds which were lent to the government, so that the shares [themselves] became the only guarantee to the holders of its notes, for any losses that the bank might incur. It had obtained as a reward, [for this lending to the government] the privilege of exclusivity, for a fixed number of years; which at each renewal turned out to have increased the value of its original deposit, amounting in 1797 to a total of 11,686,800 pounds sterling.

The bank's actual capital, which served as the basis for its credit, [or the general confidence it subsequently enjoyed] has been the cause of the latter and not its effect. It consists of a part of the wealth of its shareholders, and should in no way be confused with the money remaining at the bank on deposit; until the time, that the holders of its notes demand it back; and which, thanks to its credit, it was able to attract in the first place.

Those latter funds are really the only portion of capital that a bank can add to the circulation [of wealth]; it having been the dormant specie, resting in the safes of prominent merchants, that the bank had been able to attract and replaced by its notes, so they could be lent out in turn. The bank borrows with one hand and lends with the other; it borrows without interest, in order to lend at interest. Speculatively increasing new wealth, could indeed be rampant if there were no limitations to this; which however on the contrary, happens to be uniquely constrained to those idle reserves in its vaults; otherwise bound to always circulate in bulk and no matter how necessary to commerce at large, are yet presenting a loss to it.

There are some cities, were it has become customary to give and receive, satchels containing twelve hundred francs by weight without ever counting them. These moneybags, looking all alike, pass from merchant to merchant without ever being opened. And it so happens that banks can only bring into its vaults, through credit and lend afterwards, the kind of specie contained in those never to be opened bags....

An original two page footnote, dealing with Scottish banking regulations and the extent to which paper money had replaced specie there, has been omitted.

In fact, the accounts of the Bank of London published at the time of its suspension of payments, February 26, 1797; astonished immensely, by showing exactly just how small the influence of this always overly exalted business resource really is. The bank of the largest and richest city in the world, belonging not only to London but to England as a whole, discounted annually, not more than three million pounds sterling worth of bills of exchange. The bank was indeed an awful lot more occupied with serving the government, than it was with the interests of the public. While its total circulation [in banknotes] during the five years preceding its suspension of payments, never rose above some eleven and a half million pounds sterling; during that same period its vaults contained a little over six and a quarter million pounds in specie and bullion. Thus all the capital that it, thanks to its credit, had been able to add to the country's circulation of wealth, amounted to less than five and a quarter million pounds. Moreover, because its advances to government were so much greater than the circulation of the public revenue could absorb in banknotes, those issues steadily flowed back to the bank to be reconverted again; and since this diminished its cash reserves, it ended up being forced to suspend all its payments [in specie].
Similar calculations concerning the Bank of France, show results not all that much different from the ones arrived at above. It seldom at any one time had a value of more than one hundred million francs in banknotes outstanding; while a fund of about forty-five million in specie was employed to back them up. All the capital that it thus borrows from commerce to lend it back again, at most could account for between fifty and sixty million; which probably is the highest level of service it would be able to render to the public [in any case].

Such conclusive evidence regarding the two most powerful, commercialized nations in the world; should have enlightened speculators and more than persuaded them to believe that banks in no way are the inexhaustible suppliers of new wealth, which capriciously can be allocated to accelerate industrial development. That the capital they indeed are able to put into circulation, just like the capital, which, although never counted, remains inherent in the moneybags [as mentioned before], is most definitively limited; and that every attempt in the direction to attract any other part of the circulation of wealth, would not only be ruinous to the bank for as long as it remains obligated to honour its notes; but indeed ruinous to the entire country from the moment that the law would force it to accept those notes.

Even so, the delusions of banks of lending, regional banks, and all those others pretending to be able to create the resource that supplies industries with capital stimulation, have by no means come to a stop. [It seems that just about] every day now, some new speculator dreams up another gigantic scheme, that will ruin himself as well as any others who will put their trust in him; which would already be disastrous enough, but if his projections succeed to entice the most powerful capitalists of the nation, he might turn his speculation into a national cause. Then, from the moment that his notes will be returning to him from every direction imaginable, to be converted back to cash; it will take legislative intervention to stave off the bankruptcy [of his ill-conceived project]. And like so many instances in the past, the dangerous expedient of forced circulation will be accorded to his notes; plunging the nation into a quagmire of [worthless] paper money.

The managers of a bank [that was founded on the principle of] aiding industrial development, should be most aware that if they lend ten thousand francs to an [expanding] manufacturer. The latter will almost never spend it all in a single payment, nor even in ten payments of one thousand francs each; but that as of tomorrow, he will need to change his notes [back into cash] to pay the bricklayers who will build his new factory, or [maybe the additional] workers he would be hiring. So that if those ten thousand francs are to be employed in their entirety [to spread additional wealth around] not as gold coins, but in small change; then regardless of the denominations that the manufacturer may have received, it will still be necessary to convert them back, long before the manufacturer has turned his capital into output. Since there is no advantage at all, in keeping banknotes on hand that are of no use [to the receivers of the additional wealth], until they can be converted back into cash; they will all be returned to the bank for conversion into cash, well before becoming part of the circulation of newly manufactured output. That is at least if the issued notes are not of such small denomination, that they will replace specie in all consumer transactions; which is something to be hoped, that no government will ever allow.

The bank managers of rural banks should similarly be aware, that the large estate holders on whom they count for taking up loans; borrow either to cultivate [additional land], construct buildings, or to pay off incurred debts. They will always demand a circulating capital for the purpose of turning it into a fixed capital; and hence find themselves in a less favourable situation, as far as the bank should be concerned, than that of the manufacturer. Money does not circulate for [the landed gentry]; it passes through their hands only once, never to return. The manufacturer who has put this year, say one hundred thousand francs into circulation; will do the same thing all over again next year, and in any number of following years as well. But the best positioned and most prudent landowner, having put in anyone given year, one hundred thousand francs into agricultural investments; will have done a great business if his annual returns will be in the order of ten percent and thus make his yearly revenue increase by ten thousand francs in cash. If the bank however, has given the landowner one hundred thousand francs in banknotes, from the day that either the latter converts them himself to pay off his workers, or causes them to be exchanged by someone else; and even if he remains in debt to the bank for the rest of his life, he will never see any of those notes re-enter the circulation between himself, or his peasants, and the markets in which he sells his produce.

And finally, it is the inexorable duty of the government as protector of the public wealth, to make sure that currency, which forms part of the national fortune, is prohibited from being borrowed by insolvent debtors. All banking operations involve the attraction of hard currency that is [privately held] and replacing that with notes which are but promises to pay and lend it out in turn to foreigners in order to gain interest. Every banknote put into circulation, sends a corresponding value in coinage abroad. Bankers who have borrowed this hard currency to lend it out again, may end up in what commonly is called a very liquid position; meaning that they will be able to mortgage very large real estate holdings, after having accomplished their business in the above fashion. Without however imparting in fact, their own confident existence to the nation [as a whole] at all; for the moment could come at any time, when even with the greatest of sacrifices, they would be unable to bring back the coinage that they had exported before.

If an [agricultural] corporation operating similarly to banks, would after the harvest propose to the government that since their silos hold a stock of corn, that won't be consumed before six to twelve months hence. And it's being idle for that duration anyway, without accruing any profit, would be not unlike the coinage in a banker's vault; so that it therefore should suit the government to provide loans to the corporation, with the latter on good grounds mortgaging each of their storage facilities [with contents]; while in the mean time undertake to release every Saturday, enough corn to feed all the people during the next week. Surely no government would ever be mad enough to consider that such type of collateral would be sufficiently trustworthy. [But the point is that] it would be hardly less so, if it were trusting the mortgage offerings of a rural bank in so far as it would permit it to ship all its coinage abroad; with only a promise to reimport it again, as soon as it would be needed domestically.

In uneventful and normal times, currency can indeed be represented by a [symbolic] sign only. But it is essential for the security of society, that it can be made to reappear in its natural form; either when having to use it to finance a national defensive force, as in times of danger all credit notes become useless; or to serve simply as the standard of all values in commercial transactions.

Suppressing the pledge [attribute of money] and leaving solely the sign of it to conduct commerce, puts all participants in the gravest danger of turning all property exchanges into most perilous undertakings. A nation without possessing any coinage, no longer knows what it owns. In times of war it might find out that all its previously considered wealth has suddenly turned into nothing but worthless rags; and during peaceful times, it risks that all its foreign trade is based on fictitious calculations, causing it to sell at a loss all the while believing that a profit was in the offing. Just as today, Russia, Austria, and Denmark serve as perfect examples of what can happen to commerce, when its standard becomes an infinitely variable measure of paper....

A couple of the following paragraphs: a short metaphorical description of Sismondi's beliefs in the *import, and exportations of hard currencies, as well as another warning to government not to experiment with the issuance of small denomination paper money, have been omitted.*

Ricardo has said of banks: 'A currency is in its most perfect state when it consists wholly of paper money, but of paper money of an equal value with the gold that it professes to represent. The use of paper instead of gold, substitutes the cheapest in place of the most expensive medium, and enables the country, without loss to any individual, to exchange all the gold which it used for this purpose before, for raw materials, utensils, and food; by the use of which, both its wealth and its enjoyments are increased.'[32]

Admiral Anson, travelling in China, noticed that the fortifications placed alongside the Canton River, and intended to instil him with respect for the might of the Chinese, although looking very impressive from afar, were only made of pressed paper, that even included paper cannon. The Chinese had reasoned somewhat like Ricardo: *The use of paper instead of copper for cannon, replaces a very expensive resource with another that is much less so; this will enable a country, without loss to any individual, to exchange all the copper previously used for cannon, for raw materials, utensils, and food; by the use of which both its wealth and its enjoyments are increased.* Now, this will all work very well for as long as peace is maintained; but with the first signs of war and dangers, it will become clear that paper money and cardboard cannons, are not at all equal to their counterpart in silver, copper and bronze; and that by such narrow-minded economics, the sacrifice of public security will be its result. The United States of America, on their part, have also been exposed to these speculative tribulations. During the War of Independence, their paper money depreciated rapidly, which could not be put to a stop until a final and complete default; while the bonds issued to finance [military] provisions, were always liquidated punctually and never lost any value at all. Nowadays, the trust placed in that government is absolute and prosperity has been increasing so much, that the [confidence in the] new banknotes replacing the old ones had to become almost self-assured. Nevertheless, there are some disturbing aspects connected to the imprudent use, that is being made of them. *The Bank of the United States* continues to convert its notes on demand, so that as far as that goes [their issues] cannot be considered as just paper money; but, while this bank has branches in virtually all cities, it only converts its notes in the major centres. Americans have regarded the right to found a bank and the issuance of notes to its credit, as part of each citizen's liberty. So that in the quite recently founded city of *Cincinnati,* in the state of Ohio, a city barely having about ten thousand citizens; there are already two chartered banks and one without a formal charter, as well as a branch of the Bank of the United States. All four banks issue notes in competition with one another, and these in such small denominations that notes equivalent to about seven, thirteen, twenty-six and fifty-two French sous[33], are in general use. Having entirely displaced all specie, excepting some Spanish piasters, that now circulate not as whole coins but cut

[32] *Original footnote:* Chapter XXVII, p. 242, of the [French] translation [by J.B. Say]; chapter XXV of the original.

[33] With a sou representing five centimes; this would, at proportional (pre-Euro) exchange rates, amount to about one cent each. And thus the closest equivalence as mentioned, would be from a nickel to fifty cents. Not having researched either historical U.S. currencies, or comparative values of the franc to the dollar in Sismondi's time; it seems more likely though, that those bills were in denominations of one dime, up to a dollar in value.

up at will into halfs, quarters and even eighths. Moreover, it is also quite common that banknotes are cut in half with scissors, whenever half such a note would be sufficient to pay the bill.

When banknotes have been reduced to such small denominations, particularly in a country where the daily wages of a common labourer amount to five francs and more, paper must have entered even the smallest channels of circulation. America has experienced the ill effects of this during the consternations of inauguration, as well as later again in 1812; but even in the midst of peace and prosperity, it has been depriving itself from the most precious assurances in its business relations. Banks frequently go under, and with the immense variety of notes in circulation; one could always be subject to receiving worthless paper, and be ruined in the wake of unsuspected bankruptcies. Apart from this, since each note can only be cashed in at its place of issuance, it loses value in proportion to the distance from that location; and this can amount from ten all the way up to forty percent. Hence, by having lost all precision in the standard [supposedly] established to measure everything valuable; all commercial activities and every piece of property are exposed to constant speculation. This daily and universally played game with values, is perhaps one of the main reasons why all foreign traders agree and charge Americans with a greediness in business, that measures everything only in terms of the amount of profit that can be made. Without any doubt, banknotes are a much more economical means than specie in affecting [efficient] circulation. But as to security, consistency, and integrity, it is a much inferior means; so that a nation is quite unwise if it compromises the very things it holds dearest, through that particular kind of economics.

Furthermore, the principle that the law has no role at all to play in the regulation of private banks, is totally fallacious. These banks borrow the national currency, which by virtue of being a public asset must be kept under the watchful eye of authority at all times. Land in a large city is very expensive. Whatever is occupied by streets and public squares has a great value; which could be considered just as lost as the value of a country's coinage, since neither yields any revenue. Should it therefore be lawful for anyone to excavate under those streets and create [additional] storage facilities? Or should the magistrate of such a city, as guardian of the public's property, prohibit all such excavations from taking place, unless explicitly authorized by him; and before allowing such projects to go ahead, assure himself that they could never result in any danger of cave-ins, thereby damaging the public roads? Currency is the great highway of commerce and every private bank, replacing public currency with paper, [could potentially] undermine that highway. There may be localized economies involved, but also a diminution of security; and the government should never allow this usurpation of public property, without being assured that this great public highway is safe from any danger of collapse.

American banks would have very little business if their dealings would be limited to discounting bills of exchange; and it is quite understandable that these cannot be very plentiful at the frontiers of the new western territories. They are however in a variety of ways, engaged in lending the capital acquired by acts of public trust, and thereby engage their debtors to assist them in the upholding of their creditworthiness; while at the same time spurning them on with the easily acquired capitals [from others], to projects of such high speculation, that they themselves would be most hesitant to undertake if their own funds were at stake. This imprudent business behaviour leading to an overabundance of all kinds of enterprises, and the subsequent increase in bankruptcies taking place in the United States, is no doubt due to the proliferation of banks and the ease by which spurious credit has replaced real wealth.

Not only in America but in England, as well as on our own continent, general experience has taught us that banks imagining themselves to be lending institutions; invariably march towards ruination every time they are busily replacing real capital with their credit. These activities however, should in no way be confused with what institutions like the Lombardian and Caritas Trusts in Italy are engaged in; borrowing the currency at interest in order to lend it out again as a currency with interest. If by transferring capital from a wealthy region to a poorer one, it becomes possible to gain from the spread in interest rates; this business may be profitable, but it is only charitable if the goal of the enterprise is to protect the poor from the clutches of usurers. Some banks of issue, like those in Scotland for example, could from this perspective be considered advantageous; even though as note banks they were unsound and probably lost rather than profited from their notes. Their profit however, came from loaning capital to the poor Scots at six percent, that cost them only four percent in London; while at the same time providing earnings to the Scottish entrepreneurs, who without their help would have been unable to find lenders; as well as to the London capitalists, who otherwise could not have found any borrowers at all. The circulation of their notes was only a disguise for the real reason of their business, and may indeed have deceived all that were involved; which for that matter, probably goes for a number of banks established throughout Northern France as well…

The following and rather extensive paragraph, dealing with the numerous bank failures and related consequences, that had taken place both during Sismondi's life time as well as before; even though it does make for some interesting reading, has been omitted as it is of course most dated and not very pertinent to the current argument, that credit by itself cannot create additional wealth.

The many frightening examples of bank failures, even those that were run on entirely voluntary contracts, might be considered enough reason to ban them outright. Nevertheless, those that limit themselves to the only service they are well suited for: the discount of commercial bills of exchange, with short maturity dates; are of a most legitimate benefit to entrepreneurs and indeed reasonably useful to business. To a certain extent they keep the rate of interest under control, and most of all contribute to [business'] harmony and continuity as well. All the bills currently discounted by banks, if the latter were not to exist, would in all likelihood still be discounted by the various corporations in commerce; but any borrowers, could never be sure to find lenders when the need arose, and would because of that very same condition, be much more at their mercy.

A banking institution however, is a great deal more useful to government than it could ever be to business; as it alone is in the position, to make the extensive loans that governments so often are in need of, such as: discounting the regional tax obligations to be received, facilitating the financial [arrangements due to peace] treaties, and finally serving as an intermediary between the State and its creditors. In the interrelation between the public and private sector, a bank is of the highest importance; and any minister of finance could only with great difficulty forgo of its assistance. But precisely because of that powerful influence it has over matters of State, it could also become dangerous. Moreover since it renders such immense services to the government, the latter may tend to bestow it with special favours. There is no country in the world, where the theory of political economy in general and that of money in particular, is more widely disseminated than in England.

Yet in 1797, a Mr. Pitt demanded the suspension of all banknote redemptions. The English Parliament did indeed sanction that motion, while declaring that the banknote had lost nothing of its former value; [this happened] at the very moment of it having lost twenty-five percent in terms of gold. So that now twenty-four years later, even England herself rather than possessing trustworthy banknotes, has only paper money to show for.

7. Crises that Convert Banknotes into Paper Money.

The security of every kind of property, in a country that possesses a national bank of issue; necessitates that the ever so smooth transition from banknotes to paper money and the justifying rhetoric invariably accompanying such a changeover, be subjected to a most rigorous scrutinization. Governments got the idea that with such a bank, they had found an open mine, from which they could draw at will without [in any way] having to be concerned. So that whenever [a perceived] need arose, the printing of new banknotes was undertaken. Soon it became clear to them however, that their notes no longer were received with the same confidence as before and were quickly returned to the bank for conversion. So as things usually go, they substituted their authority for the natural flow of things; by refusing conversion on demand, and ordering each citizen to accept the notes that by now had become *paper money,* as if these were full bodied coin; they thereby extended to every debtor, governmental authorization to pay all their accounts with that money.

The currency of a country is involved in a determinate relationship with that country's wealth, as well as with the level of activity connected to the circulation of that wealth. The same coins, in the course of a year, serve to exchange a great number of marketed items; yet there remains a necessary equation governing the mass of values [inherent in the items] to be sold for money, and sum of money that will be returned as payment, multiplied by the velocity of its circulation. If during any year, all transactions amount to say five hundred million francs, this monetary sum will have passed from the buyers to the vendors; while an equal value in merchandise, or [embodied] labour, will have been passed from the sellers to the buyers. In the first amount however, the same moneys that had served for one transaction, served again for a second one, followed by a third [and so on].
Since they aren't actually consumed by anybody, everyone passes them on after having received them; which is very much unlike the merchandise itself. If every coin has thus averaged ten such transactions yearly, the five hundred million worth of merchandise thus sold; would have taken fifty million worth of coinage to be bought. While if every coin had served in fifty transactions, that same sum could have been paid with ten million worth of coinage.

In any country, neither the sum of all annually conducted transactions, nor the quantity or circulation speed of coinage, can ever be known with certainty. And it is most astounding to see, the extent of the divergent opinions regarding these matters; making this another striking example of just how cautious one ought to be, in drawing conclusions from what commonly is called political arithmetic. But whatever those amounts may be, it is certain that they do not in any way depend on the quantity of currency existing in the country. There will be neither more nor less output, either produced or demanded on account of the abundance of the underlying currency; and similarly will those who are holding it neither be more, nor less eager to place it at interest, instead of having it lying around in their safes as dead capital.

This [appropriate] proportion, whatever that may be, will yet be established unequivocally, without government intervention or even its recognition. If too much money with respect to the circulatory requirements, remains in a country; this won't induce anyone to keep [a certain quantity of] it in their possession, for any longer than is necessary. All such useless stagnation would mean a [corresponding] loss in interest to those involved; so it is always sent on its way and be presented to someone who, if a lack of profitable enterprise exists domestically, will export [that excess currency abroad]. If exportation is prohibited; the bulk of the idle coinage will be kept in the country until the loss of those unable to employ it, will make it worthwhile to smuggle [it abroad]. And if the border security is so tight that its exportation is entirely impossible; the totality of the country's circulative coinage will fall in value till it is reduced to the equation that it can not go below; which is the numerical value of all the periodical sales and payments, divided by the velocity of circulation.

An issue of paper money does not add a single purchase or sale, to those that occurred in the country previously. However, if the velocity in the circulation of money is merely tenfold that of merchandise, then for each issued thousand franc note, an additional ten thousand francs worth of transactions must take place. Since this never happens, each thousand franc note makes two hundred coins of five francs each, useless. This inutility makes them being offered for sale at a discount, which is known as the depreciation of exchange. When the pound sterling is quoted at only twenty-four or even twenty-three francs in Paris; that is because English guineas rendered superfluous by banknotes, have become cheaper in London and sell there for less than they would in Paris. Someone, who computes the difference between the English exchanges and the price of gold in Paris, can always be found; and if this difference warrants smuggling and leaves a profit, smuggling will undoubtedly take place until the last numerically superfluous guinea has been exported.

This theory equating the currency with the [available] merchandise, had already with such clarity been expounded by Adam Smith, that it seemed impervious to any further doubts. Nevertheless at the end of the eighteenth century, it has been attacked in ministerial writings by Henry Thornton M.P.; who took it upon himself to prove that the Bank [of England] had acted prudently in their advancing of enormous capitals to the government, that Parliament had acted wisely by authorizing the bank to stop converting notes into specie. And that all those involved in the execution of those activities had shown exemplary patriotism; he thereby believed that he had successfully refuted Adam Smith, accusing the latter of having made a number of errors.

Thornton relies on a true fact, which is that the velocity [of circulation] of the currency is not always equally quick. When confidence is unmitigated, everyone only holds onto the least possible amount, so as not to forgo on the interest of [the otherwise] dead capital. But from the moment that this confidence declines, money becomes so called tight and everyone prefers to lose out on the interest of a certain amount, by keeping it safely locked up; rather than being exposed to the inadvertent inability of debtors to make good on their loans at maturity. Thornton draws the proper conclusion that, given an unchanging turnover of merchandise, a much greater amount of specie is required to accomplish the corresponding turnover in currency, during times of a gloomy business outlook, then when the general confidence is high. The already mentioned equation, fits perfectly with this supposition.

But, Thornton adds: it therefore, in a period of low expectation, is proper to issue new banknotes; or, as was done in 1793, bills of exchequer (government obligations with short maturities) to reconstitute the circulatory requirements; taking the place of [the notes and specie] that certain individuals would be holding back. Although I do not deny that this kind of counter-activity does not necessarily have to end in a crisis, it nevertheless remains a very dangerous undertaking.

Mistrust can have various causes, and so it must also have a similar variety of effects. If it is solely connected with experienced business difficulties, if a great number of closely spaced bankruptcies have stricken fear and the belief that [many more] corporations, while still holding on, will soon succumb as well; then money will get tight, since everyone will increase his reserves just in case the unforeseen happens. However, as there will be no more reason than before, to doubt the solidity of the government or the banks; no one will make a distinction between banknotes, bills of exchequer, and specie, and amass them all equally into their reserves. The new issue that the government put into circulation, to help the business sector, if it only exactly replaces the [value of] notes and specie that was withdrawn, will not in any way contribute to the mistrust of paper [in general] and could indeed save merchants from a grievous crisis.

If suspicions however, are directed against banks or the government; if a revolution or an invasion makes people believe in the bankruptcy of all public institutions; if imprudent [major new] works, or unjust laws make the suspension of all previously enjoyed rights and contractual obligations, including those undertaken by bankers, a real possibility; then everyone, just in case their worst fears might become true, will want to build a reserve and make this consisting of specie only, and not of any bills or notes. Everyone has the right to do this, because the specie left in the banks' vaults, were belonging to them in the first place. Under such circumstances, the banks must cease the extension of credit that does not belong to them, altogether; they must, to whatever extent demanded, without any form of discount, redeem all their notes up to the very last one with specie. There doubtlessly will be some distress among the holders of commercial bills of exchange, but while this is misfortunate, it is an inevitability; as it in no way is connected to the mere existence of banks, who can only lend what has been lent to it before. Instead it is the fault of those capitalists who either entirely lack the needed funds to stay solvent at anyone time; as well as those who do not believe that the offered collateral comes anywhere near close enough, to adequately secure their position. A bank merely acts as an intermediary between borrowers and lenders; forcing it to put its credit to the service of business, when creditworthiness is diminishing; is [exactly] like forcing a money changer to come up with cash, when no one has been offering him any cash for a while.
The bank had substituted its notes for the reserve that each businessman had kept in his safe, for unforeseen emergencies; from the moment that they all want to rebuilt those reserves however, the service of the bank ceases [to be needed] and its notes must be relinquished. It had been successful, from the time of deposit till its redemption, in making the [otherwise dead] capital profitable; but from the moment it is reclaimed again, its duty is obvious, it must be returned to the original lenders, without any consideration whether it would be of more use to those, they could be lending it to.

It should not be believed however, that a decrease or even discontinuation of bank services, creates hardships anywhere near the level of protests that accompanies such action. The number of businessmen that are left holding the bills of exchange the bank would be discounting, is never large enough that a misfortunate bank closure or abatement in discounting services, could be considered a public calamity. Instead a rearrangement of affairs will be the order of the day, just as in the many places where no banks exist; and if the warrants to be discounted were valid, the means to bridge the two or three month interval would no doubt be found in one way or another. Therefore, it invariably is not them, but the speculators who had counted on raising money for some or other new project and to whom the means to use the capital of others is suddenly denied, that do the loudest screaming. If a new loan, either domestically or abroad, is being offered, or if a new market becomes available to business, showing a good potential for profit; this at the same time, will then greatly increase the demand for capital. The poor as well as the rich would like to profit from investments so seemingly lucrative. If they can, they will borrow immediately, and if they have an established credit, they will find it most advantageous to draw on the accounts of their business relations; and to accept from them in return [for such funds], warrants on themselves....

Sismondi finishes this line with a reminder, that he had explained this process in a previous chapter; but this chapter dedicated solely to commercial bills of exchange has been omitted from this translation . He does a fair enough job however, in explaining it again in the following sentences.

When a capitalist discounts such drafts, he generally invests his money in the easiest and safest way possible; and for him, this is quite different than it would be for a bank. A capitalist invests his own funds that he wants to lend out, with the intention to successively discount other warrants with this, for ever. A bank can only lend what does not belong to it and can be demanded back at any time; less the amount it must keep in reserve to facilitate the exchange of the large business deals, among his accounts. It does not matter to the capitalist if the ten thousand that he lends and is backed up by bills of exchange, is used for the making of ten or a thousand payments. His investment would not be any worse, if this money lent out by him is returned to the bank for conversion back into coinage. However to a bank it matters a great deal, that its borrowers don't turn around and demand the conversion of their notes in cash. It is very important to a bank, that its discounts are used in the limited ways for which they are intended; and if the bill of exchange that is presented to them, does not originate from [an increase in] business; if, on the contrary, it is only a convenient vehicle to borrow at times when too many want to borrow and not enough lending is taking place, then refusals [for bank loans] become very important to banks. Such a refusal will indeed contribute to making the raising of loans difficult, and lower the amount of public obligations; or better said it will reduce them to the level directly commensurate with the capital that is offered to support them. It could in no way be considered proper either, to sell obligations to those who cannot actually pay for them, but only wish to establish a never to be redeemed claim [against them]. If a bank, at times when enormous amounts in loans are outstanding, does not cut back on its discounts, not only will its notes return in very short order to be redeemed for cash; but in that case, it would also be forced to sell at tremendous losses, the public obligations it had taken on from those having borrowed and who, after the three month interval, were finding themselves without the means to repay, thereby causing renewed shock waves on the bond market as well....

The following six paragraphs, mainly dealing with Sismondi's pet topic regarding the superiority of coin over paper, have been omitted.

The expertise of bank managers, essentially consists of having the ability to anticipate business crises; when these are caused by a significant number of bankruptcies in business, they will soon stop on their own accord. But if they are the result of a sudden demand for additional capital, a banker must know never to provide such capital and lend it to those who try to raise capital by offering [worthless prospects]. He must restrict his operations only to those who are holding valid bills of exchange and not fictitious ones. And finally, if they result from a scepticism in a country's political situation, a banker must refuse all new emissions, until the situation has been cleared up; he himself being in a better position than anybody else, to alleviate such general distrust, by a prompt and satisfactorily meeting of all his own obligations.

Since the publication of the first edition of this work, a new crisis, much more severe than any of the preceding ones, has greatly upset commercial banking in England. By precipitating in the failures of more than one half of all the regional banks, and causing immense losses to all the others as well; it finally has led the government to recall the currency and prohibit the circulation of its smallest notes. In taking this prudent course of action however, it had to fight off a mob of private interests, as well as habits and prejudices that were even more ingrained than those interests themselves.

These English regional banks had proliferated tremendously since the Bank of England had suspended payments; and because paper [money] was the only thing available anyway, people were inclined for all transactions to prefer the notes of a known banker, rather than those of the Bank. These banks had through their discounting and cash accounts, been able to accustom all the smaller merchants to their paper; and notwithstanding the Bank's resumption of payments, had remained operating profitably. Their banknotes, most of which are of the one pound sterling denomination, constitute by far the largest portion of the currency among consumers, shopkeepers and tradesmen; so that even though a pound sterling is worth about twenty-five francs, everything is so expensive in England that a consumer, values a pound note about as much as a Frenchman used to value a five franc assignat. The result has been that the mass of notes issued by all private banks has risen to eight million, while the circulation of notes issued by the Bank of England amounts to twenty million sterling.

This all-paper currency did not arouse any complaints, as long as everything remained quiet. Keeping the accounts of the retail trade, well-to-do individuals, as well as a great number of farmers; the banks and their lending of paper, every time that money was needed by the former, seemed to all those involved a most convenient invention. It is not only that it had become much too easy to obtain new credit, which in turn encouraged a dangerously optimistic entrepreneurial drive, giving everyone the idea of an overabundance of available capital; but that business was pushed into wild speculations with public obligations, which eventually led to such sad results. All those whose passions were catered to by the bankers however, and in spite of being set up to take a fall, still glorified their institutions [that allowed them to take these gambles]; with often the banks, as a result of their foolish reliance [on the chimera of self-created, all-powerful money], declaring bankruptcy, but their positions however, were soon taken up by others.

Meanwhile this venturing in public obligations, that had been pushed with such mania, continued; being not unlike the shares in American mines, which suddenly ruined all its speculators whenever the moment came that selling at a much lower price than having bought them for, became inevitable. The speculators succumbed, but not before having exhausted their bank credit, so that every overvaluation in stocks damaged some banks in the process as well. Every failure also increased the need for coinage to take its place on the Exchange; putting yet greater demands on the banks, with as result that many had to go under. Now a general fear has gripped the nation, as everyone starts demanding to change his notes back into gold; for as we have seen, this gold really was belonging to the bearer of the note, that [supposedly] only was left with the banker in storage.

All the gold that was thus reclaimed however, had been sent abroad and bringing it all back on a moment's notice, was out of the question. Bankers, often through the greatest of sacrifices, attempted to meet the public's demands. They sold whatever they held in domestic and foreign government obligations, as well as all those shares of the so madly proliferated corporations; thus resulting in the crashing down of their stocks, that unwarranted speculation had driven up before, but that now had fallen far below their actual worth. Immense sums have been lost on these occasions both by the metropolitan and by regional banking institutions. Being faced with losses of twenty and twenty-five percent of their capital, their executives, and often even including their friends, tried to alleviate the most pressing needs by gathering enough specie to present upon the demand for it. Furthermore, this disaster cannot even be solely judged on the overall number of bankruptcies; as those that survived, for the most part lost just as much as those who succumbed. But while the latter did come down to their last pennies, the former would still have had a few of those left.

All in all, not a single class in society escaped the commotion. The humiliation, the losses, and the turmoil, equalled what would have been experienced in the greatest of political upheavals. About seven hundred of the richest families in the nation, have been thrown into poverty; all the small savings of the poor, which had been tied up in regional banknotes, were wiped out; all the reserve funds of the wealthy, that they kept in their safes for ongoing expenses disappeared without return. So that the majority of manufacturers had to suspend work, as there simply was no more money to pay wages. Compared to all those calamities, even the loss of eight to ten million pounds sterling in national capital that found itself destroyed almost overnight, could be considered a subsidiary misfortune only.

Without doubt, the invention of banks has been a great boon to economic wealth, having added to the productive capital of a nation the equivalence of its entire circulatory currency. But what exactly are those economic advantages, having led to enlarged production? Is it economic wealth itself that is the ultimate goal of society, or is this wealth only the means to attain its goal? And if it is only its means, wholly destined to acquire the feeling of well-being throughout; how can society put it to better use than assuring the security of all, [inclusive of] the preservation of its [economic] wealth? Among all its public expenditures, the full bodied coinage of a nation is the most useful and of all its luxuries it is the most sensible; and although it's been said that it produces nothing, are security and stability worth nothing at all? It might not produce anything, but then the conservation of marvellous parks that the English have set up throughout London, does not produce anything as

such either; and the latter are occupying an area that could very well be made productive, perhaps even be worth as much as all the money circulating in London. Yet the [city's] inhabitants must have reached the conclusion that fresh air, a stroll, and visual enjoyment, are assets just as well; and that a wealth which provides health and pleasure, is not unproductive at all.
If the increase of [economic] wealth is taken as the goal of society, then one will continuously sacrifice the end for the means. More production will be available, but it will be bought by a larger and more miserable populace; more corn will be harvested, but at a loss of a rural population who living there in happiness, would have given their lives to defend it. The most beautiful clothes will indeed be produced in the mills, but its weavers and seamstresses will be clothed in the crudest outfits around. In order to encourage industry to the fullest, all gold and silver will be made use of and replaced with banknotes; but everyone going to bed at night thinking to be rich, may wake up in the morning and be ruined, and without this being any of their fault at all. When one listens nowadays to the many argumentations regarding the national economy, one cannot help but feel that man has been congregating in society not to pursue happiness, but to less expensively produce cotton fabrics and metal buttons.

With this sparkling aphorism, closing the next to last chapter of Sismondi's fifth 'book', dealing with the subject of money; we have come to the end of this translation of its better parts. Even though this will cause us to miss, two of the more remarkable lines of thought in that section: namely that ...the circulation of paper money is always equivalent to an overall insolvency.' and 'When a nation has...fallen into a system of paper money, ...the paper has become its debt.' Because the former however, being just a more or less thrown in assertion, with neither an introduction nor any significant follow up; and the latter, as can be seen, additionally has been pulled somewhat out of context; the final chapter of that book, wherein Sismondi mainly attempts to distinguish between what he calls 'paper money' and other 'paper' private and government obligations, does not really contain anything else substantial in its relation to the proposed alternate paradigm and therefore has not been included. It cannot be denied however that, in spite of his coin fetish and some other predilections in that respect; Sismondi not only understood the banking system as such very well, but also realized that the overriding aspect of valid banking practices, concerned the security of the system in being able to continuously approach, an overall solvency. Something that he, by being a notable historian, just happened to perceive as therefore having to be irrevocably backed up by precious metals. Keeping that in mind, together with the wealth of pertinent experience acquired since his time; the possible small errors and inconsistencies made in these last few chapters did not warrant interrupting the narrative with localized further commentary, so that his perspective may now be evaluated in its entirety.

The principle that a very small quantity of actual means of exchange is required; empirically found to amount to less than one percent, in the case of historic annual exchanges, between the major capitalist producers, that were made in the City of London; made it overly clear, not only to Sismondi but to all his contemporary classicists as well; that money, if necessary at all, is no more than a catalyst, that returns in an unaltered state to its point of origin, after through its circulation having effected economic exchanges in a positive way. This tenet, as we have seen, is taken one step further by Sismondi when he hypothesizes that money would be unnecessary altogether, if just a single national bank could take care of all internal accounts, so that bookkeeping entries de facto replace all means of exchange. The reason he does not take this line of thought to its ultimate *conclusion; and thus also includes both the individuals whom he understood, in the final analysis, to be the consumers of all that the economy produced, and the decidedly non-wealth embodiments of its numerator; must be as others have noted before me, that even the greatest of minds are the products of a* Zeitgeist; *which limits virtually all visions to whatever could be conceived as attainable, at anyone period in time.*

A 'cashless' society, with electronic transfers of account balances; wherein all individuals possess plastic cards with an embedded chip or magnetic strip, indicating their personal appropriation potential of economic production output, or creditworthiness, anywhere at any time; clearly has to be way beyond Sismondi's ratiocinative horizon. And since this is the only way whereby theoretical indicatives can be transformed into fully practical arrangements, he could not help but remain torn between: the unresolvable dichotomy of a 'secure' but residual wealth of a full-bodied coinage system, and his mistrust of a small denomination 'worthless' paper money system; no matter how economically, the latter could enable the universal transfer of 'assignments'. The essence of any valid means of exchange circuit however, concerns not only the safe return of those means to their point of origin; as whenever there is any doubt in that respect, this usually and by enlarge is achievable through the systemic powers of the issuing agents, to pull the plug and by law demand recompensation. But also that the floating of new money at any time, or the initiation of such an additional circuit, is the expressed manifestation in the confidence of entrepreneurial savvy to successfully invoke demand for additional output only; and this does not change its nature as being nothing but a credit (belief), both from the perspective of the receiver as well as the issuer of the 'funds', until this demand becomes materialized for derivative (final) output at the retail level of the economy.

The issuance of money therefore is clearly no more than the intermediate effort of establishing an assignable <u>debt</u>; and the power of financial institutions as indicative <u>wealth</u> providers, in spite of the latters' belief in themselves as such, is entirely misplaced. Instead the economic power of banks and the issuance of a universally accepted means of exchange, lies in its potential to virtually eliminate all incidental waste. This notion no doubt has to be the l'economie *that Sismondi so frequently mentions. It comes to the fore whenever items are no longer exchanged for each other on a bartering basis, with all its associated and frequent give and take over the quantity and quality really wanted, and that thus inevitably would be resulting in some sort of inefficiency or another. However now thanks to the creation of an 'economic system', effecting a resolvability through abstraction and its related universal acceptance of intermediate 'assignments', with or without its physical manifestation into a means of exchange; is something that only a judicious banking system can validate. This also ties in directly, with Sismondi's very close to the heart of the matter reaching dictum: that putting money into circulation without it at the same time being embodied by something that is generally wanted; which in Sismondi's eyes aside from needs alleviating substances, includes not only their means of future production but, because of their universal and immanent desirability, precious metals as well; is worse than useless as far as the capital wealth of a nation is concerned, since it lacks one of the three imperative attributes that valid money should have, namely what he calls a pledge. Now even though Sismondi never explicitly mentions it, the over-extension of banks; manifested in the creation of additional means of exchange backed up by either 'real' assets or other equities, thus over and above what has been deposited in savings, or third party warrants; must have been a common occurrence even in his days. For it is difficult to see, how the simple time limit extension of credit beyond the usual three month period as he* *mentioned; would have resulted in the described flood of worthless paper bills, put into circulation by the rural banks.*

This relentless inducement to growth; whether warranted or not, that is being initiated through the banking establishment, as a way of trying to maximize their own income; will invariably put the economy in the often far from enviable position of growing laterally, thus at the cost of already established other businesses. Although this extremely far reaching conclusion, will seem to flow naturally from the principles of the alternate paradigm; it still has not reached the consciousness of orthodoxy. Probably because this chain of events takes place, in so very much an indirect way; as it is not through the initial, what could be understood as inflationary activity of new money creation, but through its subsequent deflationary aspect; as financing costs, comprising an ever greater share of total <u>costs</u>, become unresolvable systemic <u>debt</u> through the insufficient demand for retail output by the suppliers of those funds. So after first leading to the demise of industries that were in no position to compete with those engaging the latest and greatest means of production, having a diminished labour embodiment, leaves these newly produced capital assets to be resolved from the beginning again, but now in a smaller effective economy.

Furthermore any financial institution in question, having pulled the plug on an operation whose attempt at growth creation had to fall short of its costs and therefore could only be considered as having been unwarranted, was yet empowered to resolve its claim through a depreciation far exceeding the originally loaned sum; with as result that, with the principal amount, by now having disappeared to become an economic externality in the form of valueless bank held bills, only the recovered interest as bank income will have to resolve the full capital value still left in the economy. This in effect means that bank employees, depositors and shareholders have to spent that income, on the eventually emerging derivative capital output at the retail level; and it is the degree of insufficiency in that respect, that will put the burden on the economy as a whole. For the pertinent capital, or economic claim, that originally was put up in such cases, and intuitively grasped by Sismondi at least when it concerns paper instead of full bodied metal and essentialized by the proposed paradigm as a matter of course, remained in fact valueless, until validated through the demand for its embodied output. Something that may or may not take place at a future date, but which from the perspective of its lenders, by at all times supposedly being already inherent in the sum that was actually put into circulation, has been giving them the institutionalized right to withdraw that at their discretion; and by indeed doing so, no matter how unwittingly, will leave the economy in the worse position of incurred deflation than before.

Apart from indicating, as the argument is yet far from complete, that as such it indeed could be said that any floating of new money issues leaves the system as a whole insolvent until the resulting growth becomes demanded and ready for resale; at which time in any developing economy however, other insolvency issuances no doubt will have taken its place; a further substantiation of this would involve the tremendously complicated dynamics of economic growth, obviously having to go a fair bit beyond Sismondi. A more detailed discussion regarding money therefore, without to a considerable extent having dealt with an overall economic growth schema, is bound to be unsuccessful; and thus will have to wait till later, to be picked up again in the alternate paradigm approach itself. Let's for now continue with the following chapter, to wit, where we left off in dealing with Sismondi's Book 2, Vol.I.

Chapter 8.

How Commerce Assists Production in its Replacement of Productive Capital.

The original bartering, followed by the purchases and sales of later years, normally took place as voluntary acts; participated in by anyone only after the decision had been made, that whatever one gives up in exchange, is of the same value as the item one receives in its place. One could therefore come to the conclusion, that all values are exchanged for entirely equal [and already existing] values; so that the totality of periodical exchanges by themselves, add nothing to societal wealth at all. It is also possible however, to consider the operation of the entire market from a different perspective; namely its appreciative effect, as basis for the occurrence of any exchanges at all; since exchanges would never take place, unless there is a real advantage to both parties involved. So must the seller see a benefit in selling, just as the buyer does in buying. The first is attracted by money an awful lot more than by being stuck with unsold merchandise, as is the second a lot more by the merchandise, than by not being able to get rid of his money. Both gain therefore in their position, and consequently the nation gains twofold in each single trade.

The same situation occurs when an employer hires someone to work, giving him a wage corresponding to his subsistence while doing his work; so that the two parties involved, both gain here as well. The worker, because he is given an advance on the eventual output of his labour, and the employer, because the to be collected proceeds will be greater than the paid out advances; so that the nation gains with both again. And since the national wealth finds its ultimate requital only in the feelings of comfort and joy of its citizens; all that increases these benefits and augments those individual experiences, must be considered as a gain for all.

Agricultural produce, as well as manufactured items, often come from areas far removed from those of their consumers. Thus one sector of society assumed the facilitation of those exchanges, as a means of partaking themselves in the social benefits they confer; by taking ready to be sold goods, against a monetary payment, off the hands of its producers. After having transported the merchandise to the place where it is expected to be in demand, it is brought to the attention of prospective customers, to be sold piecemeal, as the latter hardly ever could afford to buy it all in a single deal. They provided a service to the community; and paid themselves a share by means of what they called commercial profits. The advantage arising from the clever undertaking of trade was the origin of those profits. So would a producer in one part of the country, figure that two measures of his own product were equivalent to one measure of something produced in an other part; while over there, the producer of the other product basically reached a similar conclusion regarding his own output. Because these two estimations were so different, [as both undervalued their own goods in terms of their demand elsewhere] there was plenty of room to cover all the costs of transportation, profits in trade, and all the monetary interest that had to be paid for the initial outlay of funds. As a matter of fact, through any such sales of commercially transported commodities, there first of all must be a full realization of all the manufacturing capital inputs, plus all the wages paid consisting of the costs of transportation, next all the interest on advanced funds, and finally the profits of all those concerned in commissioning the output.

The merchant thus places himself between producers and consumers and is providing a service to both, as well as being paid by each of them in part, for the rendering of it. As much as a division of labour process takes place amongst workers; so too can this type of secondary work, consisting of taking capital one step further, be considered as having identical consequences; since with the help of this further division, more work with the same expended effort is accomplished more effectively. The task of supervising labourers, motivating their effort, distributing the raw materials they need, and make sure that the end product is a saleable item; all require a very different business sense and body of knowledge, than the task of comparing the advantages of one product over another, their respective demands and usage under different climatological circumstances by people speaking different languages and living under different forms of government. There will be a more efficient execution of the actual work and a better organized distributional system, if those two sectors operate independently from one another. The wholesaler starts his business of marketing, at the moment that the actual production by the manufacturer is finished. And after having analyzed the demands for the product, at the various locations, delivers the merchandise to wherever the consumers for it, are most likely to be. During this operation the wholesaler functions as a sort of transportation manager in charge, aside from his own staff, of truck drivers, swampers, sailors, and others; all working together, in what still could be considered as a form of production. For the objective of output is consumption in its entirety; thus production can not be considered complete, until the consumer takes it off the market altogether.

The [analytical] comparison of the various markets at far away places must also include their different currencies and other practised forms of payment. The function of banker therefore evolved as a specialized branch in commerce, to best take care of balancing the accounts of both the producers, between the different countries involved, and those of their customers; and most notably effectuate thereby the mutual compensation for transported goods, that involved the least amount of a counter-flowing transportation of specie. Bankers are thus performing a distinct service within the commercial sector, that though operating indirectly, in no way contributes any less to the overall exchange of production against the revenue of consumers; and therefore in its turn facilitates the reproduction process as well.

This specialization in worldwide commercial dealings, also diverted the wholesaler from having to be aware of another and even more pertinent aspect of his involvement in this; namely the needs of the consumers that he ultimately lives off. For it is the retailer who relieves the wholesaler from this responsibility, by agreeing through a sharing in the benefit, to stock his shop with merchandise that consumers would want to buy for their consumption; given that he is already possessing the means necessary for [this intermediary] acquisition; with the retailer by thus accommodating a demand, being repaid [for the goods in return].

Commerce therefore, requires a considerable amount of capital that at first sight, in no way could have come from the movements of [wealth exchanges], such as we have been describing before. The value of the accumulation of goods in a wholesaler's warehouse, seems indeed to be very different from that portion of wealth, that the capitalists dole out as wages in exchange for labour power; and yet the capital we are talking about now, is only an altered form of the one previously considered. To fully grasp the progressive development of wealth, we have to get a hold of it at its creation and not loose sight of it until its consumption. Thus any capital used to produce a commodity always presents itself identically, to be exchanged against the revenue of its eventual consumer, whereby it [embodies] only two distinct elements; namely, the profit on its capital inputs in the form of revenue to those having commissioned the production, and the paid out wages to the workers which forms their revenue, while [in the mean time] the latter are engaged in producing it all over again.

As time went by however, it was discovered that this process functions most advantageously, when the capital involved is being interchanged successively among a variety of participating parties; so that if a particular amount of money suffices to take care of a direct exchange between manufacturer and consumer, this same amount will take care of exchanges involving wholesalers and retailers as middlemen. The manufacturer with only a third of the total required capital, takes care of the same amount of output as the entire process will need; because from the moment that he finishes production, wholesalers will take this off his hands an awful lot sooner than individual consumers would, and the same holds true for retailers with respect to a wholesaler. As thus [shipments are larger], they are carried out more efficiently, taking less time and with more frequent restitutions, but the overall work involved remains the same. The difference between the amount of advanced wages and the return from the eventual consumer, constitutes the profit on capital. This divides itself then between the manufacturer, the wholesaler, and the retailer, to the same extent as the function of capital had been divided up; but the overall accomplished work has remained the same, in spite of it taking three persons, each with their own individual portion of capital, instead of only one.

Even though most of the chapter could be considered as rather straightforward, things do get rather confusing near the end, where Sismondi seems hard pressed to bring his argument to a meaningful close. He does not really explain for example, the origins of the by him considered necessary marketing capital. His assertions that the extended division of labour process inherent in the commercial marketing sector, requires no more capital than any direct selling from the manufacturers' warehouses, to the end user of the product; and that moreover the total achievable profit has to be the same in either instance, should be subject to some further analysis however and not rejected out of hand as patently false.

First of all the amount of wages paid to shipping and retail employees, as also seems evident from the text, adds to the value of the products involved. But just because a manufacturer selling directly to the public, might have to keep his inventory longer before it all can be sold; thus potentially having additional costs such as interest on borrowed capital to contend with, and simply equating this with all intermediate marketing costs, even with a primitive reference to economies of scale, is, to say the least, stretching the point a little. But in spite of Sismondi's line of reasoning not being quite logical, his intuitive conclusion regarding the influence of capital on the whole process, excepting of course his comprehension of profit achievability as, at least in these passages, directly derived from its means of production as capital, is remarkably close to the reality of the alternate paradigm; where capital is a debt society originally acquired through the actions of some of its leading members, able to raise a credit; and, for the continual benefit of all, takes it upon itself to resolve. For according to the principles of the latter, at any given existing level of debt, as embodied in means of production input; this liability is continuously transferred to its output for an expected and feasible resolution through the sales of final output later.

A typical manufacturer, during the normal course of value-added production, will further add to *this debt; as all its costs become personal income to individuals in society, and whether this occurs directly or indirectly is immaterial, as long as it can logically be considered to happen as such.*

Abstracting for a moment from varying returns to scale, as well as from profits; by surmising that a particular manufacturer is on average only getting the price for his output that is causing him over a certain period of time to break even; in case of direct sales to the public obviously means, putting as much money into the hands of consumers as eventually getting back. Hypothesizing that same outcome but this time after having sold manufactured goods through intermediaries, society will have ended up paying more for the same product, namely all intermediate marketing costs, less any potential savings of the manufacturer that where passed on to the wholesaler. But society in that latter case would also have been in receipt of the advanced, now extra intermediate marketing costs; so that overall, looking at the situation with the above given resolution, there is not really a great deal of difference between the two situations.

Now since manufacturers, as a rule, do not sell directly; the public has, and thus can indeed be induced to pay more than an absolute minimum; and the over time 'free market' induced excellent system of distribution that we in the developed world enjoy, not 'costing' society as a whole anything at all, has notwithstanding its higher prices still provided us with our enviably high standard of living. This very summarized 'cost' of distribution theme, conceivably could have played in the back of Sismondi's mind, when he tried to convey the would-be results of an extended marketing system; showing to the best of his ability, that the to his understanding limited amount of existing positive capital or 'wage fund', is not adversely affected, when a selling through intermediaries takes place. Unfortunately, the above analysis is not at all recognized by those presently in charge of manufacturing output; as during the latest recessions, more and more are enticed to cut out middlemen and distribute directly to the end users of their products. And with orthodox micro-economic guidance having nothing to offer but the agreement, that becoming lean and mean is the way for modern business not only to survive, but even prosper; this amounts to just another typical example of standing up in a crowded stadium to get a better view for oneself, and being oblivious to needs as a whole.

However, as a full analysis of this, involves the much more fundamental principle of the meaning of costs in general, as these occur in an economic sphere of acquired debts and their resolutions; including some consequential implications concerning efficient participation in terms of manhours worked, the sharing of available work and related matters; this too is to again be dealt with later, in the main approach to the proposed new paradigm.

Chapter 9.

Price Demanding Sectors, not Producing any Physical Output.

Society not only is in need of [material] wealth, it could not possibly be considered complete, if it only consisted of capitalist owners and their productive employees. It needs a civil service, guiding it domestically towards a common objective, while at the same time protecting its interests abroad; it requires legislators, determining the divergent rights of its citizens; judges who uphold their regard and lawyers who defend them; and finally it is in need of an armed force, that maintains the established national order within its borders, while able to fight off foreign threats to its stability, both on land and on the seas. This entire security force, from the head of State to the common soldier, will never produce anything substantial, thus anything at all susceptible to accumulation. Yet without its existence, all the through labour created productive wealth would soon break up amidst violence; putting a halt to all further enterprise, as no worker could any longer depend on enjoying the results of his effort in peace.

The guardians of the state are therefore involved in the carrying out of a most necessary task, which certainly merits remuneration. They could from a certain perspective, be said to belong to the same class as capitalists; since they obtain their revenue from wealth [produced by others] also. But in the occupation they perform they are workers, whose revenue equals the periodical value of their output; with the difference that this revenue is not paid out from the national capital, as it does not exist there. No capital needs to be dissolved for it, it only has to somehow become part of the exchange amongst current production goods, that in effect represent their existence in totality as well; and since the output of those guardians is not of material substance, it for continual existence is not subject to [any actual] exchanges [of its own output to be able] to perpetuate itself either.

Hence in order to keep a viable safeguarding force in operation, no existing capital is affected; but only [a re-sharing of] national revenue [has to occur] instead. It requires from everyone to lessen their demands somewhat, so as to pay for their security; as the latter is a form of attained comfort in itself. The capitalists are appropriating the revenue arising from their capital, through their consumption of a part of periodical production. They will proportionately have to cede a share of that production, in return for any security provided, to be consumed by the security providing sector. The productive workers will apply their revenue, that is: the wages received in exchange of their labour, to the obtainment of their sustenance. If they would be putting in the same amount of work, less sustenance will be their share; it namely be diminished by whatever is consumed, by those who maintain the established order.

But since regardless of importance, the kind of services provided by the security sector to society in general, are by no one perceived as directly benefitting them; they could never be left to any voluntary decision making, about whether to participate or not. Society itself has to be the procuring party, through the imposing of a forced contribution, from the revenue of all involved. Any force however replacing the free choice of people, soon destroys the righteousness of relative values, of all the things that are exchanged between the contracting parties involved. And since this contribution is being paid to those with the political power to implement its redistribution to the sector they themselves form a part of; it can not help but be prone to abuse, through a connivance at aggravating any such contributions, from which they in turn receive a compensation. Civil service as well as the military, escalate to a much greater extents than publicly would be necessary. Too much governing will tend to take place, including the upholding of the perpetrators who are forcing those services on a population, that can ill afford paying for them; with as a result, that those in charge of safeguarding the nation's well-being, often end up being the foremost strategists of its demise.

Considering the administrative authority only in terms of its influence on economic relationships, one necessarily has to fall back on the meaning of representative government itself. At all transactions between capitalists and those seeking work, the level of wages is negotiated between the two parties involved; but the remuneration level of the civil service is set by those empowered to establish this level by themselves, and thus force the necessary compensation from those they are supposed to serve. Since this sector does not serve individuals but society as a whole, it is up to society to approve of its servants and the extent of their services. This, in freely chosen government, is the right and the duty of its national legislators; but in spite of their power of intervention, there is hardly a nation that is not ruled at much too high a cost. For it would be too much to expect societies' delegates, to uphold the interests of those they serve with the same ardour, as they are taking care of their own.

Society is also in much need of effort undertaken towards spiritual happiness, nearly all of which is of an intangible nature and as such also impossible of being stored for future benefit. Religion, sciences, the arts, all foresee in the happiness of mankind; but to extend the resulting feelings of felicity, some work needs to be carried out by those who practice these arts. This type of work however, does not produce any material objects, as no one can stockpile spiritual effects. If one considers such comforts a form of wealth, it in effect dissipates the moment that it is being created. Men apply it to their own use, without it even for an instant having become part of a to be consumed fund. Moreover the split operation of providing and procuring, is made by the same individual who in effect consumes [its results] as well. This type of work, much like the foregoing, exchanges just a single time; as between its creation and the dissolution of its results, there does not exist a space in time for capital to interposition itself within this buying and selling activity.

Each consumer parts with his revenue in much the way he feels like, between material objects and intangible effects; this normally being a freely taken choice, by which he with his revenue replaces alternately either the means of production of capitalists, or the output of those workers we call being *unproductive*. And by which the latter then in turn, are allowed to consume that portion of material output, which the former had agreed to give up.

Among the services providing spiritual wealth, government has decided which ones are the most useful to society; without those in anyway being sufficiently demanded [through an expressed free choice]. Since it feared, that if they would let everyone pay for services like education and religion, according to the prevailing fervency to participate in one and/or the other, both religion and education might well become ignored. The free market process of autonomous exchanges was thus overridden and just like [the government's] own upkeep, its practitioners were taken care of by means of forced contributions. This had as its result a self-perpetuation of workers, operating independently from those they should be serving and who are paying them to boot; with the expended work less well carried out, with less enthusiasm, and with a poorer outcome more often than not. In those countries where this practice has been rejected and where religious and educational services are left to follow their own free path; one as a result won't be finding such forced payments from anyone not having the gumption for one thing or another. Whereas those who have to work in those areas, do so instead with a display of much ability and motivation.

The serious pursuits towards spiritual enlightenment, as well as those of a more fleeting nature such as expressed poetry, music, and entertainment; are being exchanged against the revenue of the working class, just as much as against that of the capitalists. The first giving up a portion of their subsistence and the second a portion of their material luxuries, to acquire those mental diversities instead; and a portion of their original share of consumption goods is now passed on to those [so-called] unproductive workers, replacing their own [consumptive power].

It is also worth mentioning, that if a nation does not consider its body of literature and works of art, to be part of its national wealth; its authors and artists should surely be counted as assets. Their acquired scholarship and acclaimed notability are most valuable, and their typical remuneration, often exceeding that of the most talented workers, thus contributes greatly to disseminated prosperity; which in general could be considered as a sort of fixed capital, similar in kind to the amassed skills of tradesmen, to whose class they belong as well.

And finally society is in need of effort directed towards its physical health, in contrast to the financial well-being of its people. This type of work could be said to combine the most lofty, as well as the most servile attributes of work there are. According to, on the one hand its demanding knowledge of nature and mastery of its secrets such as the workings of medicines; while on the other requiring the mere compliance and obedience of a houseboy's disposition towards his master. All the above mentioned are types of labour, destined to provide some sort of comfort or enjoyment; differing from the output of productive workers, only in the impossibility of that of the former being subject to accumulation. Which therefore, notwithstanding their induced augmentation to the well-being of the nation, can never become a part of its capital; so that the revenue of this sector or the value of its output, is always given in exchange for the revenue and not any capital that others may possess.

The distinction that we have come to redress between productive and unproductive workers, again is being repudiated in the latest writings about political economy; wherein this is considered to be some sort of malevolence towards our most prominent citizens. The name unproductive however, happens to be given to that class by Adam Smith, on account of their output being of a non-material nature; and it would be hard to draw from this the inference, that the two notions productive and unproductive have to be understood in terms of one being more honourable than the other. The distinction between the two however, remains a reality; as the output of the first always exchanges against the capital of a nation, while of the second this always happens against a portion of its acquired revenue. This differentiation is indispensable in the comprehension of what the capital of a nation consists of, how time and again it becomes the revenue of some, replaces the revenue of others, or is itself replaced by it in turn. All other considerations are semantic and unworthy of spending any time on.

Effectively dispelling any possible remaining suspicion of being a socialist, and in conformation with those who, no matter how much they admired some of his insights, could not possibly consider to place him among their ranks[34]*; we find Sismondi here in the final chapter of his second book vividly defining his observations regarding the workings of government. Which confirms for us living close to two centuries later, how little new there is under the sun when it comes to human*

[34] Cff. (e.g.) Henryk Grossman, *Simonde de Sismondi et ses Théories Économiques.* Warsaw, 1924. And Rosa Luxemburg, *The Accumulation of Capital.* transl. by Agnes Schwartzschild; London: Routledge & Kegan Paul, 1963.

behaviour and its outcome, once given the influential opportunity from a position of political power.

Going as far as charter-school conservatives do nowadays, he appears to reject even a public education system; but given the unfamiliar state of that system in his time and his sense of righteousness as we have come to appreciate it, he might have had a point, who knows? More important is the general principle he seems to convey, that whatever can be done through a free market system, should be left up to that system to accomplish, since that likely will be the most efficient way of doing things; and only when that system either shows signs of not being up to the task, or as in the obvious example of a civil security force, should government step in.

The theme of this chapter, 'unproductive' work and the means to pay for it, evidently was one of those key notions he intuitively felt were essential to comprehend, in order to fully understand how the economy operated; but no matter how hard he tried, he could not convincingly show his contemporaries and in some respects, not even convince himself exactly why that should be so. This becomes apparent for instance when he starts talking about a body of knowledge in terms of capital, thereby almost falling again in that trap of contradiction that seems to be following him at every step he takes. Here too however, as by now must be hardly surprising, Sismondi had the right hunch, but this again is one of those topics that can not successfully be dealt with at this stage. Rests it for now to say, that our pioneering hero Sismondi tried and almost succeeded in rebuilding Smithian economics, based on classical Greek sagacity regarding the nature of wealth, whose definition had been cultivated well before the hallucinatory veil of neutral money, subsequently contaminated all that supposedly clarifying economic thought.

This situation has continuously deteriorated, since money and especially the pursuit of it, in true schizophrenic fashion, far from remaining a veil, has grown to become the heart and for many even the soul of economics. Notwithstanding the valiant efforts by such later gifted thinkers as Marx, Ruskin, Soddy, to a certain degree the Cambridge post-Keynesians and some others as well, those more or less meritorious observations were almost totally drown out by the multitude in the profession. Those apparently having found that if not the easiest then at least the most influential post-secondary degree could be acquired by an in the main unsophisticated memorization and regurgitation of previous thought. So their subsequent role as the establishment's exculpators was then played with gusto, and thus secure the above all desired ticket to upper-class status. That this involved assigning a productivity factor to an in effect system-gaming by the established elite, based on tautological reasoning and thus meaningless as an explanatory exercise, was unapologetically brushed under the carpet. For any questioning of the status quo would amount to killing the goose of golden eggs' fame; with my excuses extended to all those convinced of the righteousness of their tack, econometricians and other misguided genii at the top included.

I'm afraid however, that the current state of affairs will have no reason to change, no matter how well founded any opposing argument appears to be, until fears about the preservation of future well-being, by the establishment itself, reaches crisis proportions; with all the potential calamities that may precede this. As no matter how devoid of intellectual justification, until that critical time of lost confidence and expectation, any system that is more or less democratically founded will prevail, once having reached its exalted status by the majority of political decision makers, who moreover have control over the system's unit of account. Assuredly though, it isn't a matter of if, but of when a devastating capitalist-induced crisis will occur. For the gaming of a system, that is always thought inherently able of producing <u>accumulable positive values</u> as wealth for its assumed to be powerful elite (or the proverbial 1% of economic-income earners) makes it statically <u>unstable</u> as a matter of *logic. Regardless of "the obvious power of capital", this unavoidable disequilibrium is due to a within the dynamic reality of an economy's systematic continuity being equivalent to an unequivocal withholding/preventing the needed resolution of already accumulated negative values; i.e., the latter as representing systemically to be resolved economic debts. In other words the reason why an economy functions coherently, and that we (beyond Sismondi but following in his footsteps) are now able to sense its reality of, is the exact opposite of how it's supposed to function according to conventional economic thought. It's a comprehensive system of non-physical to be resolved accounts, put in place for a purpose meant to be righteous for all and not to be gamed for as long as it lasts by a limited few; rather than being a collection of determinately-valued physical items. The latter, as the economy's end purpose, exist exogenously to the creative system itself and its concomitant analysis. The underlying justice of such an all-decisive purposeful system finds its final expression in the fact that any economic collapse is ultimately founded in relatively easy rectifiable distributional aspects only, and that unlike in wars or natural disasters of any kind, nothing is ever physically destroyed. Thus, when that time arrives, justice will demand an expropriation of the system's gamers, thereby wiping the slate clean of all their accumulated fictitious wealth. There is no theoretical reason however for society not to take that revolutionary step right now, and thus prevent any further system gaming; thereby putting an end to the hardships undergone by the population at large, that all along has been accompanying a systematic robbery of its applied effort by a capitalist elite. The methods to do so are available, to some extent in place already, and relatively easy to implement in full; that is if an electorate will be allowed to democratically set in motion the political will to do so in the near future. The powers-that-be can only postpone the inevitable.*

This, in a nutshell, is the argument broached in the proposed alternate economic paradigm. It will be conducted from a set of three axiomatically derived first principles, that I believe everyone could be comfortable with, and from thereon deductively reasoned as being true. For further reading, please consult my website: http://www.vcn.bc.ca/~vertegaa *Thanks for staying with me till the end.*