Frank Perrin, 2010
Building Money
Montage of banknote
graphic elements

(nominal rate minus inflation rate) rates of interest should neither be high enough to elicit a shift of capital from production, jeopardizing income generation for the servicing and repayment of debt, nor fall to a point that demotivates creditors. The central banks are the main mediators of these struggles, and all the recent changes in their organization and operation express the resurgence of money-capitalist creditor power.

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BIMONETARISM

SEMINAL PRINCIPLES FOR A SOCIOECONOMIC REVOLUTION

Samuele Liosca

PREMISE

As Myrdal once argued (Objectivity in Social Research 1969), researchers should state explicitly their value judgements and inclinations, for clarity of interpretation and to disclose potential biases. To honour this principle, the author of this paper hereby declares neutrality, in the sense of not leaning to the left, as some readers may later suppose. To be more precise, a libertarian and individualistic conception of society inspires my vision. I have also to admit a disposition rather intolerant of authority and any imposed rule of conduct, not excluding reasonable and minimal constraints like seat belt laws. Freedom is at the top of my hierarchy of values and, admittedly, this may not be so for the majority of people, but this aspect will be duly discussed in this paper. To provide a fertile ground for my vision, in our affluent times, society should be organized according to principles that are fair, equitable and that can accommodate the varied nature of its members. Basically, a socioeconomic order where the agents are maximally free to exert their individual talents – while being limited in their anti-social propensity. And where the economic rules are conceived to maximise the free use of their positive qualities rather than optimize the allocation of scarce resources. I would say, to reference the above disclosure to known contexts, that my ideals are exactly the opposite of what communism has been and can be, but not entirely in resonance with the current capitalistic principles.

INTRODUCTION

There is little doubt that capitalism has served well the purpose of accelerating the creation of wealth, and that this process has benefited the whole of society. The paradox is that capitalism’s rootless approach, overall, has brought more prosperity to the underclass than the merciful communist system that was supposed to rescue the ‘workers’ from the ‘predatory’ nature of capital. And the advocates of the system, by using the same logic that would assert martial law as the best system of administering justice, only because it has proved its efficacy in times of war, see in this paradox the proof that market, profit and capital are the best recipe for keeping a society healthy and flourishing; especially if they are left unchecked. But it could well be that a good system to expedite the improvement of the condition of man, when a large part of the population is in a state of precarious survival, becomes inadequate when the situation is reversed. And, beside the fact that the terms ‘prosperity’ and ‘healthy’ should be better defined, any serious analysis should go much deeper than looking at tall skyscrapers, crowded highways and iPhones. In the good old times, prolific with new theories, the economic order was a popular subject among philosophers. In the past decades, such speculative urge of advancing the existing social structure has been confined to small enclaves of scholars or to utopian freaks. Mainstream economists have preferred to accredit the current capitalistic arrangement as the optimal end point of an economic evolution that they, the custodian priests, have only to keep in good shape. Accordingly, their theories have been instrumental to their role of treasures of the system whose self assigned mission was that of guarding the working fiction of the invariant monetary standard. That is, to maintain in a state of equilibrium the unstable balance between inflation and deflation, with the least possible damage to employment and capital – the latter being usually kept in higher regard. But there is an even larger responsibility that they see lying on their shoulders: that of keeping intact the credibility of the credit-money construction whose solvency has to be continuously pushed into the future. And yet, extraordinary post-war developments have radically changed the very elements that should be at the basis of economic thinking – the technological capability, organization, polity and wealth of society. Regrettably, these changes have not inspired the conception of any successful new theory that could match the progress of other areas of academic study. With no ambition of filling such a gap, I’ll throw in a few ideas by arguing that the crux of the matter is not in the instability of capitalism whose alleviation has been the main concern of economics; I believe that the long term vulnerability of the capitalistic social engine is in its conceptual unfairness and in its dependence on endless growth. And it is for the sake of manageability, not for ignorance or despise

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of the economic history of civilization, that the complex problems that lurk under the gleaming surface of capitalism will be treated here with substantial simplification. And it is to keep some measure of emotional detachment, not for contempt of the human drama often involved, that I will treat the matter with humour and irony.

THE CAPITALISM'S ORIGINAL SIN

One popular criticism of the system has to do with the pervasive pollution and the depletion of vital resources that capitalistic greed will eventually cause. Another objection, initially raised and argued with quasi-scientific method by Marx, postulates the intrinsic instability, and eventual collapse, of capitalism. Both of them are well founded. But, in general, there are remedies for those concerns – and, to protect and preserve the environment, population control is undeniably an imperative, independent of any economic system. Corrections and amendments to the operation of market and the capitalistic economy, if wisely deployed, could mitigate, and even avert, the worst consequences. And, in fact, the discourse of mainstream economists has the primary objective of improving the understanding of financial instability so to allow its control, whereas the political system is supposed to curb the excesses of laissez-faire. All this can be done within the system and it is constantly done, not always successfully, to prevent the social discontent from becoming a threat to the capitalistic order.
There is nothing easy about this course of action, but coexistence of capitalism and a bearable ecosystem is a theoretical possibility. Actually, respectfully disagreeing with Marx, continuous growth is not part of the capitalistic paradigm per se, but it is the inevitable consequence of its genetic legacy. It is not within the scope of this paper to get involved in the complex discourse on the origins of capitalism. But we can safely state that capitalism has risen from the ashes of decadent aristocracies to reproduce its privileges under the cover of the new 'natural laws' of capital, market and profit. There is continuity in the pursuit of privilege and power between the aristocrats and the capitalists, in most cases a linguistic euphemism for the word merchants. Having its roots in the selfish animal depth of human soul, the profit having replaced the sword, this new system has unleashed powerful forces, thus restoring the lost energy of a consumed society. This is the original sin of the current social arrangement. If not understood, such guilt cannot be resolved. When understood, it can be forgiven only with radical conceptual changes, certainly beyond the complacency of mainstream economists and spoilt politicians. It follows that the real difficulty of capitalism in limiting its boundless unsustainable growth rests not in its theoretical laws, but in its covert raison d'être; the selfish safeguard of privilege to the benefit of the capitalistic aristocrats.

GROWTH TO A TERMINAL ILLNESS

Growth is the shield that fogs the coarseness of profit as the motivational fuel of society and conceals the unfairness of the system. Growth continuously contents the workers by shifting their position a step up in the social hierarchy – with growth, a coachman can be promoted to the rank of chauffer. Growth feeds society with new 'toys' and lures the have-nots with hopes – the prizes are there, can be seen in ads, touched in the showrooms; and the awards are waiting to be won by anybody willing to bet. In this way, like a donkey chasing a carrot, and enjoying the occasional bite, the masses can be kept in motion without asking where they are going and whose cart are they pulling. This is why growth is fundamental to the capitalistic social order. And, shed of all the contingent constraints, this is the real reason that makes problematic to slacken the pace of growth, let alone to stop it. The Ponzi scheme of expectations will eventually end, and the toys will bore the players, but aristocrats never quit, they step directly from the throne to the guillotine stage.

The postponement of this dreadful moment is the main occupation of the financers, economists and politicians who deploy all kind of strategies to avert the inevitable. Old remedies were thus revived. If slavery worked well in the past, immigration of cheap labour – that is, paid slavery – will also work in the present to fill the empty places left behind by the field promotions. But, immigration, improvements in technology and organization cannot provide enough productivity increase to keep alive the diabolic mechanism of continuous expansion. And since compromising the benefits of the well off is ruled out as a possible solution, this is not a negligible hindrance. However, the damaging extent of slow growth could not be ignored; the best ingenious and creative minds were then marshalled to tackle such annoying obstruction to 'progress'. They proposed two solutions, and both were neither creative nor new. First, they said that if the exploitation of immigrant workers had produced wonderful results, but it had now reached the limits of 'hospitality', the immigrants could be used directly in their birthplaces. It could have been a good course of action in the first place, but it was accepted as a brilliant new idea and opened the era of globalization and delocalization. In the second proposal, they suggested the expansion of the well tested instrument of credit-money. And credit-money being virtual, it is open to nearly unbounded opportunities. Only a 'cowardly restraint' could limit its full potential. As this shrewd new scenario was not only a solution, but also an opportunity for further profits, the proposal of such an accounting marvel was accepted with enthusiastic support. Of course, bankers and financial institutions of all kinds promptly offered their 'generous' help to the economy, the wealth of nations. Their oiled engine was revved up, their commissions started flowing and the choking economy received a breath of air, though not quite fresh, as it was made of subprime funds, state bonds and plain paper bills. This therapeutic obstinacy with palliative cures will only make the final outcome more painful and will not spare the crowds at the lower levels of the social pyramid of privilege.
And here we are, today; with a huge amount of credits guaranteed by nothing else that future growth, some originating from profits and rents of the rich, some painstakingly saved by the less fortunate as a safeguard for the future. To deny the growth would be tantamount to denying the credit and, for once united, this is something that neither the rich nor the poor are prepared to accept. That the disease is of a chronic nature is of some relief, but many aids that kept the patient alive are close to vanishing. The immigrants, previously grateful for the opportunity of being enslaved, are now taking a demanding and aggressive stance. The Far Eastern countries, once eager to be of help to our growth, are seriously thinking of their own comfort. To summarize, a disease that was kept in a tolerable chronic condition can soon precipitate in an acute stage, possibly lethal.

THE SOCIAL DEMOCRAT PATCH

And the malaise presents other unpleasant sides. Voracious financiers, bankers, entrepreneurs and even an extraordinary number of managers, salesmen and clerks of all kind are cornering a good chunk of the available wealth. On the contrary, with notable exceptions, any serious and productive activity is underpaid and risky – subject to the threat of aggressive competition from countries with more favourable conditions. All this being so, the Western capitalistic system is progressively voided of its productive resources that, according to the laws of free market and division of labour, thrive better in other localities. But the necessary condition for trading is to have something to exchange; and the West, as all decadent aristocracies, is quickly dissipating its original wealth and is less and less capable of generating new resources. Of course, these rather trivial considerations seem to be more related to the general decline of a society, whatever its economic system may be. Though, I believe that there is a connection between the fate of a culture and its economic foundations; the decline of the Soviet society under the communist economic principles being a recent example. And capitalism, despite its claimed self-regulating properties, does not have any intrinsic mechanism to counteract the pressure of profit, its essence and foundation. Capitalism can adapt to anything but to the lack of profit. And, unluckily, profit cannot provide any homeostatic social function; it is by definition self-centred and short term – long term implying benefits that go beyond the direct utility of the agent. In passing, I will note that the happy remark of Adam Smith on the benign invisible hand comes from his empirical observation of the society of his time, not from a theoretical reasoning asserting a timeless truth. Most economists of democrat or social-democrat formation, but solid capitalistic faith, claim that there is room for improving the status quo, that it is possible to redirect the growth towards socially useful directions and reach a steady state of happiness and limited, but functional, growth. In their vision, this positive slant should be imparted by a benign democratic state that should guide the economy, illuminated by a sensible ideology or pragmatism, so as to control the excesses and the deviant tendencies of market and profit. This could be a possibility, if politicians were more than stage actors pretending to serve their people and in fact pursuing their own good; if democracy, as usually practiced, made sense as a wise system of government. In any case, any economic theory based on the good intentions of an authority, however appointed, suffers from two shortcomings; the oppressive intrusion of bureaucratic value judgments into the individual freedom and the lack of an automatic goal pursuing mechanisms. The failure of the Soviet economy is an extreme example of the difficulties that such an approach faces, and of the pervasive intrusion into the personal space of a state thus organized. The public sector in the advanced democracies is also a model, in a measure proportional to its limited scope, of the upsetting inefficiency, and evil resistance to change, that characterize a system deprived of built-in effective and independent means of feedback. The indirect consequence of these considerations is that any policy based on invasive taxation, whose revenues are redistributed by a bureaucracy, has to be avoided. Capitalism, notwithstanding its shortcoming, is at

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least self-optimizing – though according to its own rules – and based on principles of individual freedom and responsibility. And these should be preserved.

REFLECTIONS ON PROFIT, CAPITAL AND CREDIT

Profit is not an invention of Adam Smith; in fact, it is not an invention at all. Notwithstanding the discourse of different economic theories on its essence and classification, profit is always the motivation and the result of a trade. The object of the trade – labour, commodity or an intangible – is not relevant in this discussion where it is assumed that free trade only takes place when capable of producing some utility to both parties. The logic consequence is that any trade produces two profits, thus a global increase in wealth. This coarse line of thought has practical use and, in fact, has been widely applied in the course of civilization. It is according to this simple consideration, and the corollary division of labour, that society has initially flourished. But this principle is unproblematic only until the exchange does not produce an excess of profit, that is a utility non immediately necessary, especially if only one of the two parties enjoys such opportunity. Then, this accumulated profit – call it surplus, capital or whatever – becomes the source of many theoretical and practical conflicts. Marx has painfully written a few tomes elaborating upon the matter and much more has been written to refute his conclusions. The problem is that the conclusions depend strongly on the initial viewpoint and cannot be judged with scientific methodology. In profit, two unrelated viewpoints play a role; the concept of free trade, that is, the free disposition of individual utilities; and the moral concept of social fairness, that is, the idea that any personal utility has social implications. To move from the generic to the substantive, let's consider the case of someone with a life threatening medical condition, in urgent need of treatment. What would be a fair trade? One based on the value of his life or another based on the value of the doctor's time, maybe a simple medical procedure? Who is exploiting whom? Is the man buying something as valuable as his life for, say, only one thousand dollars, or the doctor that is charging that much for just a fraction of his working day? And, are the labourers exploiting the entrepreneurs that, with ingenuity and initiative, create a world that they would never had the capacity to generate, or the other way around? Clearly, there are no conclusive answers to these questions, debated for centuries. But they are the essence of the hidden value judgements that many theories discount. Anyhow, connected to the fairness of the trade, and its profit, an even larger contention stems from the concept of capital.

There is no doubt that capital is a kind of saving; its odd peculiarity is that, from a certain point of view, it can be considered as a form of forced saving where the beneficiary and the investor don't coincide. According to this logic, the worker is the investor that, by being forced to not collecting part of his deserved wage, leaves in the hands of the capitalist his personal savings. Intricate as it is, the relationship is further complicated by the invention of credit-money, whereas the object of the saving is not a fraction of the actual wage but that of future earnings which, usually, can only come from economic growth. There is no logic other than that of power, or that of compassionate sociality, that can sort out such dilemmas. And another tricky technical issue has been left, so far, out of the picture; the generation and management of credit-money. Though, a way out from this maze can be found looking elsewhere. Rather than searching for what is right and what is wrong, a more promising approach can be found in pragmatically focusing the attention on what is best compatible with the different classes of humans in a given economic situation. In this respect, I would like to observe that the most 'socially useful' people are not motivated by profit but by self set goals. For instance, it is accepted that the best scientists have worked stimulated by their curiosity, not by their salary; and they usually demand more resources not a higher pay. It is also reasonable to think that the best people would do what are they doing, independently from their remuneration. Especially if they would not be angered by the vision of profiteers around them. Can you imagine Steve Jobs doing what is doing just for the appeal of seeing his personal bank account growing in size? Would he stop working, if not paid? Profit is likely to be a strong incentive mainly for those who are interested just in that, the pursuit of money and power, not in a project. And, the empirical demonstration of this statement is under our eyes, daily. Not surprisingly, this is not the message that a profit minded establishment sells to the public.

FROM SOCIAL CLASSES TO CLASSES OF HUMANS

Sad to say, society has always been divided in classes. In the past, social classes were defined with blatant arrogance; in our hypocritical and polite times they are mentioned only with subtle understatements. And classes have been the starting point and the main object of economic analysis. It has been so from the antiquity to the birth of classical political economy, eventually culminating in the Marxian class struggles, central to his work. In the 20th century, economics has shifted its focus from man to its economic essence, money. Thenceforth, money, models and formulas have stolen the limelight, but social classes, however camouflaged, still exist. None the less, social classes are the symptom of a particular economic system, not the cause – we are ignoring here extra-economic classes, like those of the nobility and church in feudal Europe. Therefore, social classes are a convenient simplification, but a not a good starting point for any sound economic theory, although an excusable line of attack in the 19th century. In that time, the industrial revolution produced great productivity advances and a brutal natural selection of the different classes of humans that left the less gifted, often only the less fortunate or discriminated, in what was then called a proletarian condition. The rapidity and violence of this transformation quickly created a huge and well defined 'class' that had to be the natural focus of any economic study, especially because the liberation of these people from their miserable chains was a theoretical and practical necessity. The cynic may observe that in our advanced economies a large section of the population lives in a condition worse than that of the 19th century proletariat. In fact, if the Enclosure Acts had left the peasants with only their labour power, consumerism has brought the abuse much further; it has stripped from the workers even this last remnant of ownership. Today, more often than not, wage earners possess much less that their labour and reproductive power. They are enticed into debt until their labour power, their only capital, is less than zero, it is wildly negative. With their labour power mortgaged for years to come, not anymore at their free disposal, they are dispossessed even of the future. The significant difference is that, today, the 'underclass', in absolute terms, is spoilt and well cared for, even if the distance from the wealthiest is wider than in the past. Social classes are the symptom, but human classes are the cause, and they should be at the foundation of economic research. As human traits are spread in a continuum of multifactorial characteristics some simplification is due.

First, characteristics can be divided into needs, positive talents and negative talents. Maslow's pyramid, the hierarchy of needs, is a well known schematization of human natural wants, but each human being has its own personal pyramid. With positive talents, in our context, we mean characteristics that are good for social life and the progress of the economy. The opposite holds for negative talents. Books have been written on the subject, but the common sense interpretation of these definitions is enough for our purpose. It suffices to add that anybody that has worked in an industrial environment, where the results are tangible, understands very well how different talents place in very precise human classes each individual. From those that, surrounded by similarly talented individuals, would have never overcome the state of the primitive man, to those that constitute the backbone of the productive economy. And, at the two extremes, stand the astute parasites and the very special people that move society forward.

BIMONETARISM, A CAPITALISM WITHOUT CAPITAL

I suppose that this long preliminary has bored, if not turned away, most economic minded readers; nevertheless, however superficial and unoriginal, the review had the scope of setting the context for the economic design that I am going to present. It is a theory that is based on money since, whatever its origin and nature maybe, there is no doubt that it has had, and has, a pivotal social and economic role, at least in the recent few centuries. The theoretical virtue of money is that it can be anything; in the past, in the present and in the future. It is a number in a money-of-account virtual ledger that does not specify its origin and its possible destination; hence its use is boundless. But this virtue is also its weakness, because it can be the fruit of a crime or the deserved reward of hard work. It can come from the will of an unknown relative, or be the trusted store for the needs of your beloved descendents. It can be the capital for building a business, or may be squandered in wasteful pleasures. It can even turn into an illusion, when redeemed in the future. There is no belonging and no guaranty in money. It has sustained the capitalistic system and it may destroy it. In the end, it is just a number with uncertain legitimacy and power. Money is nothing else than a convenient social relation. The problem is that it has become *the most* important social relation. And money is a blind relationship, with no moral or social purpose. To fix the society, it is necessary to fix the money. And this is what I am set to do in the following pages. Last, but not least, the theory needs a title. Stretching the accepted meaning of monetarism, thus abusing the name, I will call this imaginary new order *Bimonetarism.*

End of part 1

Adapted from a chapter of the forthcoming book *The Tech-Affluent Society* by the same author.