

What is Economics?

Is it science, theory, recipe, dogma? In a simplified version of the history, the Middle Ages were a time of Religion. For a thousand years the Roman Catholic Church was primary influence upon the life and values of Europe. One didn't sit around and discuss whether the doctrine of papal prerogative was correct or not. It was one element of an orthodox and accepted dogma which supported the social primacy of religion.

In the times of the Sun King in France, this same country was the most sophisticated and admired of all European countries. The phrase which strangely remains popular today, "the divine right of kings," this as idea at least (but not perhaps as phrase) was orthodox dogma, and provided support for the primary importance given to royal government during those centuries. No one yet questioned whether royal government was the only genuine form of government possible. I am the state and the nation, says the king, and accepted dogma and opinion at that time supported such claims.

At present, though governments still are active, it is business, commerce, manufacturing, in short, the economic, which is given social primacy in setting values, directing activity and goals. But if this is true, that we now exist within an Economic Age, then how can such uninhibited efforts and encouragement towards economic enterprise be without its own proper and orthodox

dogma? How can an Age continue without corresponding Dogma to explicate what is held to be most valuable and desirable as worldview? One might even be cynical and suggest that the content of economic theory could be almost anything at all, it doesn't matter. As long as this set of ideas, economic dogma, is Absolute, only then will it be able to fulfill its societal role as dogmatic-type support for the worldview and primary values of the present moment.

For example, what does contemporary "political science" do? It may ponder concepts such as sovereignty, power, administration, law, or it may observe existing governments in operation. Democracy is thought to be a great choice here, but political scientists recognize that democracies come in different forms. I myself don't quite understand how the parliamentary systems work, but will take their word for it that these are in fact democratic.

But within modern Economic science there is no such leeway. Various forms of economy cannot exist. The laws of economics allow the existence only of either a pure or a dilute market capitalism. And is this not because Economics must fulfill a role which is not now required of political theory? It must function as official orthodox dogma, must "support" the primary values of the Age. It must be absolute, dogmatic.

The skyscrapers that form the skylines of our cities are mostly business edifices; not government, religious buildings, residential. Their glass, metal and modern

materials make them impressive. They gleam. When Lehman Brothers failed this was a sad occasion, and I expect numerous capitalism-loving individuals still nurse a grudge against the US Government for not having stepped in to save this ailing corporation. We all hope that the thousands of well dressed and talented workers who lost their jobs at Lehman were able to obtain equivalent jobs after the financial sector later got back up on its feet. We empathize even if we don't exactly sympathize with all such well paid persons.

But Mr. and Mrs. Lehman of Poughkeepsie were also affected by the Great Recession, though their story lacks equivalent pathos. Among more than eight million other persons Mr. and Mrs. Lehman lost their working-class jobs, they had to give up the equity which they had built up in their home, and are now living in a modest retirement community. We tend to sympathize perhaps, but don't care to directly empathize with the second Lehmans. They did dress up occasionally but not every day...

Why the recent needle-peak in CEO salaries? Was there a twinge of fear at the corporate level. If corporations lose prestige this is not good. The corporate king must look comfortable. It's not about money it's about comfort... And if a hundred large corporations around the world actually produce much of the product that benefits

all of us, then how can anyone say that such corporations do not deserve prestige?

If business enterprise is in fact King, then is it not appropriate that those who wear a business suit and fly the pro-economic flag should get the more rewards thrown their way? If we guess that sixty percent of trained economists have some understanding of the present workings of the economy, this would still leave forty percent of economists who may have a very inadequate grasp of the workings of the economy but who yet regularly function as courtiers, yes-men, proponents of the ongoing operations of business enterprise. How can it be otherwise? Great courts will have their courtiers and hangers-on. Religious prestige will tend to have its theological yes-men and docile followers hoping to benefit. And an Economic Age must have many willing propagandists consciously or less explicitly hoping to benefit from the largess of the "King." Even if there doesn't seem to be one Economic king, no symbolic centralization, we recognize when looking up at that the many big business buildings of our cities—there is no alternative realm of importance to challenge the priority of the Economic. We are the ones who have chosen this for ourselves. We benefit now and hope to benefit some more in the near future...

My own fundamental belief and fundamental arrangement can be stated in this way: The economic

entity, any functioning economy, exists always within and only via the structural support and framework of a particular government. And society (since we are democratic) is the larger and more important entity which must be smart enough to direct government so as to see to it that this nation's economy is of actual benefit to the whole of the democratic society. Society is more fundamental than the nation's government, and a national economy in turn can exist and operate only within the legal structure and support provided by that particular nation's government...

Economic enterprise is important, we agree, but it does not set the rules. The people at large thus need to obtain clearer and correct views of the economy so that they can direct their government to tweak their economic arrangements towards (hopefully) better results. But to think better about any existing orthodox dogma one also has to break off the veneer, get past the conventional gilding which coats a prestigious theory. Thus in this chapter about Economics my aim will be attack and break to pieces as many present-day economic falsehoods and partial-truths as possible. No longer in thrall to all of the shiny dogma-claims of capitalism a few citizens at least might be able to think more clearly about how to better arrange for a better capitalism.

On my telling, the reformation happened because numerous Christians appropriately realized that papal

priority was not the only polity possible for Christianity. Kingship lost its thrall in Europe when citizens began to consider alternatives as serious possibility. And at present, since the economic is most important, the only way in which we keep the economic from engulfing and dominating society is by assertion of genuine–(not mechanical)–democracy. We want the economic, yes, but democracy is more important, more fundamental. We wish the economic as a whole to serve higher social values, to benefit a higher, nobler conception of society.

And I wish to be clear about the following. Political democracy is inadequate; democracy must be social... That is, there is I believe in all societies and with their governments a perennial issue, which issue is, how does this government situate itself with regard to status quo wealth and privilege within the society; does the government lean towards the conservative and/or progressive. I am uninterested in such mere political squabbles. I ask for a more fundamental, philosophical-type apprehension of economic realities. Infighting on this perennial spectrum within a modern-mechanical democracy, this will not accomplish our task. Of absolute necessity, in my opinion, is a philosophical and genuine rather than a mechanical democracy.

Adam Smith is one of my heroes, but Adam Smith is not responsible for, not theoretically continuous with the rationalistic individual-selfish theory which is now at the

center of orthodox capitalist dogma. (I believe well-read economists will back me up on this.) There were two separate revolutions which began in 1776. Smith did publish his book in that year, but he was not an advocate for (individualistic) political-democracy, nor did he advocate for an individual economic-selfishness. And quite surprisingly, of the two distinct and separate revolutions I would claim that Smith's has been the more complete and successful. In effect one might say that Smith's revolution has been so successful that it has disturbed and tainted (especially in the US) the other, the democratic-political revolution.

Thomas Jefferson imagined an agrarian democracy. There was no capitalism, no factory-style capitalism yet in existence in America. (Some land speculation...) The US Constitution defines the nation as a political democracy (requiring social virtue...)

But a rationalistic and simplistic capitalistic theory has in the two centuries since then allied itself to an inadequate and mechanical version of political-democracy such that this combo, two originally separate revolutions, are now awkwardly conjoined. Democracy+Capitalism. America's gift to the world. (A product which at present needs more Quality Assurance attention before being shipped around the world..)

As ideals this combo may not be dangerous. Ideals can be dismissed as merely ideals. But as simplistic and

even “pragmatic” theory, as with Professor Fukuyama, (The End of History and the Last Man), this combo-product is dangerous—because of its dogmatic oversimplification and attempted theoretical Absolutism. Fukuyama says that while an exaggerated Enlightenment notion of Western historical progress must be abandoned, the “pragmatic” combo-notions of Democracy+Capitalism have won the day. At present there are actually no other theoretical alternatives. All of the world, therefore, must follow along in this vein. Big history has become pragmatic and ultimate. And thus, this far too simplistic combo has become for many otherwise intelligent Westerners, conservative or progressive—has become a religious combo-dogma. And I don’t expect Adam Smith would agree with either simplification.

We should recognize rather that the famous invisible hand paragraphs describe what I would insist is an organic metaphor: The actions of various individuals create a larger social and economic organism. This comprehensive and continuing larger social economic whole is what is important, not the rational or selfish interests of single and separate individuals. The invisible hand does not promote or advocate selfishness; it creates, ties together, surprise, a new thing, a comprehensive and functioning “economy” existing within a society, the economic world as self-maintaining and quite naturally interconnected organism...

Adam Smith thus first imagines, and then advocates for the importance and the growth of this economic organism, this sphere of economic enterprise and activity, and advocates also that government and religion should allow this to happen. (They don't need to engage in any direct sort of management or initiation.) And this philosophical revolution has been successful. Too successful, even.

In Book II Chapter III Smith begins to contrast what he labels as productive and unproductive labor. (Capitalism today talks about both goods and also vendible services.) Smith here does not talk about services, but his rhetoric is clear enough. Some people produce things and some people don't produce any actual thing. Against conventional preference, ought we not respect, give more prestige to the product producers?

*The labour of some of the most respectable orders in the society is, like that of menial servants, unproductive...*

*The sovereign, for example, with all the officers both of justice and war who serve under him, the whole army and navy, are unproductive labourers.*

*...churchmen, lawyers, physicians, men of letters of all kinds; players, buffoons, musicians, opera-singers...*

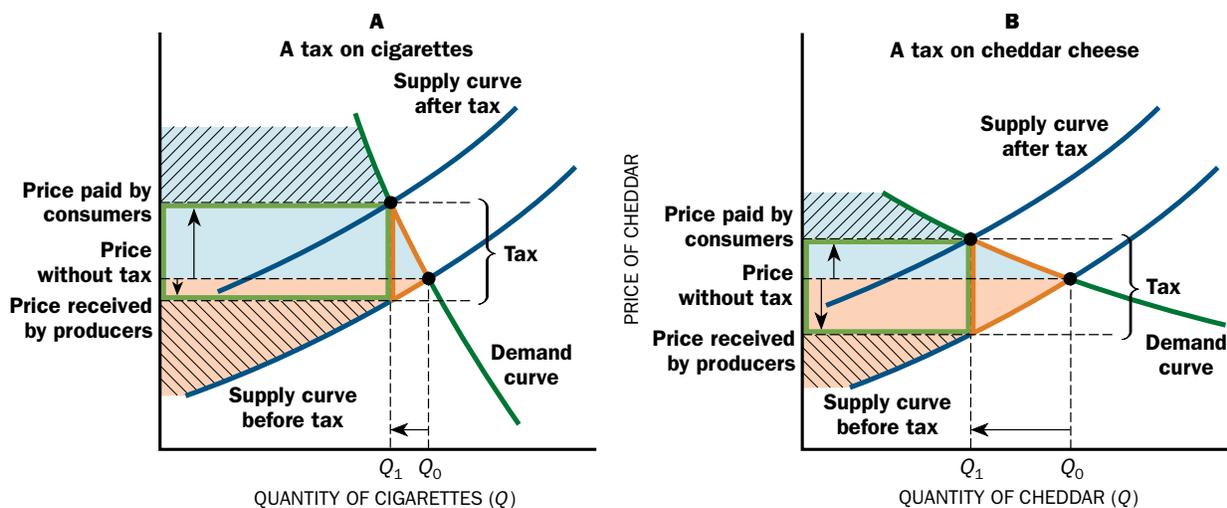
*Like the declamation of the actor.. the work of all of them perishes in the very instant of its production.*

Because his society has little regard for the economic, for people who engage in economic enterprise and make products, Smith wishes to reverse some of this esteem gradient. The producers of product are respectable.

But I, reading this old rhetoric at present, am afraid for the government officials, religious officials, the people in culture. The economic realm is now so important that it is only too easy to denigrate the social worth of any such non-economic persons! Smith's revolution in social prestige has been too successful! Today, we need some way to move back in the other direction, to restore a better balance. To do this we need to complete that second revolution, the democratic revolution. Is democracy only mechanism added to the old authority politics, or can modern democratic consciousness become smart enough to rise above the economic—enable people to rise above rather than remaining cogs within the mechanism.

But to begin finally with faults of capitalist theory. Introductory economic textbooks like to offer supply and demand curves which demonstrate (with graphical certainty) that tax, any tax, is a drag on the mechanism. The triangular and aptly named (!) deadweight loss in the product on the right is the larger area, demonstrating a

larger loss in productive efficiency. The base expectation, no surprise, is a pair of pre-tax curves. The after-tax curves show/demonstrate a reduced quantity and increase in cost, a move up and to the left in these two products and as well, obviously, in all instances of taxation. The rectangular colored areas also demonstrate graphically whether producer or consumer will get stuck with paying the larger portion of an imposed tax—depending upon which side is more inelastic. Wow.



[illustrations from Economics/ Steiglitz]

Economists obviously spend a lot of time and effort with their supply and demand curves, but do these hypothetical curves “prove” anything at all of a deterministic nature? Zoro was a secretive nobleman who

spent a lot of time practicing his swordsmanship only to leave his initial..., Z.

Do economists really believe that they exist in a higher realm! They are above and beyond the mundane demands which we all admit are sometimes necessary: Persons who benefit from religion see that a compensation for the benefits of religion is fair. The New England Puritans canvassed residents in a district to pay for a schoolhouse and schoolmaster—an education/culture tax. Governments (we all recognize) must get their operating money from somewhere. Only economists believe in the frictionless economic machine! Rationalistic mechanical determinism plus isolation from other human concerns!

At near zero temperature the electrons that belong to a metallic solid seem to be able to circulate almost without bumping into anything else; a frictionless electric current. But this is a very unique situation. The normal situation in nature is not frictionless.

The tax-drag claim and supporting diagrams seem to me now to demonstrate a gross philosophical stupidity as evidenced by conventional economic theory; a legal stupidity. All tax is certainly a drag, ideally considered, on economic activity, but existing economies are not ideal entities. An economy is people and products and technologies greased in their interaction by money, and

existing NECESSARILY within a particular society, which particular society necessarily must be looked after by a government of some kind. Property law, land deeds, contract law, criminal law, national defense, border laws, law which gives birth to corporations as legal persons, laws “governing” how partnerships and proprietorships may operate. Without government no law; without law an economy must be dead in the water, sunk to the bottom of the lake, non-existent.

But like ever-petulant and ungrateful grown children, a rationalistic-simplified economic theory wishes to deny this original (and philosophical) and largely legal dependency! I ask you to show me a modern economy of any complexity that exists apart from the protective structuring of a particular government... The textbooks usually offer a one sentence aside noting that laws do help to structure the Economy-engine, but when economists claim to be presenting science or theory of some kind, such a one sentence aside is a dismissal, and a joke. Adult children should very well operate independently of parents, but are there any children who come into existence without parents?

Since I am at this juncture riled up, let me add another demonstration of what I find to be a strange legal-economic stupidity: Credit Default Swaps. Before the 1990's such contracts did not exist, but once this bad

economic innovation was born these contracts became very, very popular. A private insurance contract offered by someone such that if or when a bond goes bad (–the debtor defaults...) I will be paid the full amount. I do not need to actually own the bond. In effect, I give my insurer a portion of the interest I earn from the bond and offload all of the risk onto my insurer. What a deal. What could go wrong!

Before the financial crisis there was 62 trillion dollars worth of this insurance written up. A few years later, after the crisis, there was still 25 trillion dollars worth in existence. A trillion, as we are all aware, is a large amount. But the credit industry around the world has mutually insured itself, has made itself more comfortable by shuffling risk contractually.

Real world economic risk is real. It cannot be minimized via legal contract, only shuffled around as in a nursery game. If such contracts were declared illegal and wound down out of existence as I believe should be done, well, it would probably have a positive effect on climate change.

But why can no one else see that such risk transfer via legal contract is an imposition upon our society. WE the people never agreed to this. Contract law and corporate law, Ok. But we never agreed to let people play

financial games in this manner and then have the government clean up the big mess afterwards.

Obama was a law professor. He (appropriately enough) decided to save AIG. A reputable insurance company that insured airlines and shipping companies asked its own lawyers to write up and start selling these contracts. When the increasing collateral requirements that their own lawyers had written into the contracts started kicking in and this huge corporation couldn't meet its own obligations it faced bankruptcy! But Obama did not have Geithner force a haircut on either side involved in the swap-insurance contracts. The contracts were bought out or paid off in full! No penalty. Billions went over to the poor big European banks because they were having problems also. And there has been no further questioning of such economic contracts other than minimal requirements added via Dodd-Frank legislation.

Well, I can only conclude that my insight here is at a rare genius level, or else that most people are quite stupid when it comes to recognizing what is involved here at an economic-legal philosophical level. When at the beginning of the economic crisis there was a rush to buy swaps-insurance on Bear Stearns and the price of this insurance started to go up, was this, as some say, a contributing cause to the subsequent demise of Bear, or was it because people really knew that Bear was in

trouble and wanted to protect themselves or else to cash in. Does it matter? It seems to me that there ought to exist no such easy-insurance market at all.

Does trillions in CDS contracts significantly increase systemic risk. You betcha it does. Financiers and regulators have discovered as a result of the recent Great Recession that “systemic risk” does exist. But has there been any significant change in operating procedures as a result of this discovery? No. Which suggests to me that the two sides here were not and still are not capable of addressing so-called systemic risk. They can identify it but yet cannot address it philosophically. Philosophical here would be the ability to see financial industry, government, and society, to conceptually relate all three at once (!) in a disinterested and theoretical manner. Not just to get the truck back up on the highway, but to adjust the rules of the financial game for the safety of all.

But to change topic to something less technical and much more vague, it seems to me that orthodox economic theory has a problem with size. Companies may cheat their way to the top, but if a company is capable and fair and comes to dominate its market, what then. Monopoly, semi-monopoly, oligopoly all pose problems. These are aberrations while perfect competition is the optimal situation. But does the economic machine have a natural

or ordinary tendency to produce monsters, large animals, very large corporations—or not.

Land ownership and rent, this is another topic which standard economic theory would rather avoid. It is messy. How does land relate to manufacturing or the movement of money? But can the issue be avoided.

In one paragraph Adam Smith suggests an economic origin for government itself. When in a primitive and settled society a person builds up a degree of wealth, then government must come into existence to protect the wealth of such a wealthy individual. But Smith also discusses at length the unsettled tribal-pastoral stage of human history. The northern-Asian Khan and the nomadic horde were unstoppable. Nomadic tribal chiefs could become wealthy and also powerful politically.

The Biblical account of the promise of land to the patriarchs may not be as literal as most prefer. Both Abraham and Moses came from landed civilizations, and wandered (by Divine intent) before they—or their people—were actually given land. Does this indicate that land is necessary for a further degree of civilization beyond nomadism, but that land also poses a set of challenges.

The civilizational plan of Deuteronomy is implemented first by a sort of priestly-military securitization of territory. Then the land is given by

Yahweh to the separate tribes via lots, via chance. And many many years later after a capital city and temple are in existence, the Deuteronomic plan is complete. The civilizational enterprise can begin in earnest.

In the Deuteronomic vision the economic realm is held in check, it seems to me, by the required remission of all debts every decade or so, and by the prohibition of interest-taking from fellow citizens. But otherwise Deuteronomy does not seem to me to constrict the economic, certainly not like the strict prohibition of usury maintained by Christianity during the Middle Ages.

Ricardo, it seems to me, goes to great length to develop a faulty argument about scarcity and the justification for land rent, economic profit from land. When land is free for the taking there can be no rent. Land rent is caused by people having to make use of less desirable land for farming. But is this not to confuse a primitive-origins scenario with the standard economic argument about scarcity and price? At the time, the United States itself was a place where land was available for homesteading, but all of this new land was controlled by the government, federal and state (and with a local land registry I presume). Ricardo's scarcity argument cannot explain theoretically why land deserves rent, profit. Why must money be given to the landowner from those persons, businesses, that use the land... Where is

the production taking place with land ownership?  
Economists can't say.

Or, the city, this may seem to be a non-economic topic. Arguments showing the futility of rent-control in the big city are to be found in every orthodox introductory textbook. But who does the city belong to, or who gets to use the city? This is a topic so important to me that I would tend to dump, to disqualify economic theory simply because it goes against my Aristotelian city-preferences. The city belongs to people, it exists to make the good and comprehensive life possible. It should not be owned in any significant degree by economic interest.

Office space, factories, workers nearby. Economic efficiency has urbanized the world. How can standard economic dogma avoid an attempt to conceptualize this situation, to describe what is happening to the city, the good city, as a result of economic forces?

During the Hellenistic Age there was a Greek effort to convince peoples of the Mediterranean of the benefits of city-centrism, but this effort did not take so well. Peoples apparently were more interested in returning to their tribalism, nationalism, empire-building, localism. But at present the city does seem to me to be a good test case for economic theory. Does the city exist for the sake

of economic interests, or does democracy take back the city for the sake of the people!

ITEM: Is money a mundane-mystery (created by an existing government) which holds together, constitutes, the economic organism? If so, is culture (or something else) the higher-mystery which holds together the society as a body/organism?

ITEM: Power is a concept for political science but work/servitude would be the universalized economic concept. Work-servitude has been the human condition since removal from Paradise. But if everyone must labor—how can any economic theory (Marxist or Capitalist) reconcile with equality, or with freedom as social good. Are we all workers, all equal because all in servitude, all slaves?

The early classical economists thought of workers almost as animals. A minimum level is set for wages by the fact that if wages are set too low workers will begin dying off from starvation! Adam Smith notes that he has heard that slaves are actually more expensive to maintain than low-wage workers.

Aristotle claims that the higher human life is natural to man, but also clearly admits that slavery is “natural” as well. But Aristotle confines economic theory to the

household; there cannot be an all encompassing Aristotelian theory of economics!

ITEM: The gorilla in the machine. Government not only must legally structure the framework which an economy requires, government is also ordinarily the largest agent or actor within the operations of any particular economy. Shouldn't economic theory be able to deal with this gorilla in a theoretical rather than anecdotal manner?

Finally, I offer a warning about Market religion. A decade ago as I was following the blogging news during the great subprime crisis, I came to the conclusion that there were some bad economic individuals here. I impute to these persons bad motives, motives which arise because they have an almost religious belief in the Market. That is, since the US Government is illicitly interfering with the mortgage market (via Fannie, Freddie, Ginnie) I have a right, they thought, to do whatever I want, such as write dangerous subprime contracts and pass these on to other investors, etc. The Government has no business occupying—clogging up in any significant degree any portion of the Free Market. A Free Market always and everywhere is my Market-god-given-right.

But where is this written as concomitant to US citizenship, right to make money in any/every market?

The issue is not the political question of whether such government programs are good or bad as idea, whether they will have good or bad result. The basic issue is whether such efforts can ever be appropriate for government, any intrusion, interference in markets. I myself presume that such a Government interference in a market MAY in fact be kosher because such limited and specific effort does not violate basic democratic principle. IF (as in this case) government wishes to make efforts to promote citizen ownership of a first home, make efforts to monitor and manage and insure house purchase on the part of lower income persons, yes, government might very well insert itself into a specific market. So what—I would say—if this detracts from another citizen’s money-making opportunities. There are numerous other money-making opportunities available elsewhere.

But for some American capitalists the free market idea seems to have become a religious norm. Religion can and does at times claim priority over the patriotic. But to a non-business US citizen like myself this demand for an absolute right to a business opportunity—this is obviously excessive. Market worship. Bad.

But was Adam Smith a market worshiper? Having made my way through his long book, *Theory of Moral Sentiments* (—thank you..) I would describe his social and moral view as a sort of semi-secularized local

Protestantism. Morality is not induced by society or by religion, nor is it a rational calculation. Morality is the result of the individual observing human situations and observing one's own emotional reactions to human actions; sympathy. We sympathize much more with the person physically injured via accident or malice, more than with the person who loses their wallet. And then working with and cultivating the objective-expert within, one's conscience, one works toward maintaining self-esteem. And the culmination of such self developed virtue is good social offices. One learns as habit not to impose upon others with one's own distress or issues, just as one does not like it if the neighbor makes a public clamor as a result of their personal emotional issues.

We shouldn't denigrate France as a nation, for example, because a providential God is looking after them. France is not our business. Government force is only required in the case of criminal violation. (Government is not needed as nanny...) The individual contributes to the healthy local community ethos by paying attention to himself; conscience and healthy sympathy.

And I do expect also that Adam Smith knows where he is going. His second book. Added to this good-neighbor community context will be the possibility or opportunity for economic activity and enterprise. But

such economic activity is not technically moral activity, and economic enterprise will not modify the good-neighbor social foundation. Just as the local citizen minds his own business and has regular concern for social trust and good offices, government and religion also should mind their own business and not pay too much attention to the new emphasis on “economic” activity.

So the economic is built upon, added to, a mild-mannered morality, but the homo economicus, the economic-rational calculator upon which modern economic theory is built, this rationalistic-selfish individualism is not present in Adam Smith, nor envisioned by him. Rather, he is all for common sense. Economic ambition can be excessive, corporation managers can be selfish and misguided because they are managing money that is not their own, governments can be less than co-operative, etc. Common sense. But he hopes for a near-future society of unleashed economic enterprise as being superior to his own society still beholden to kings, landed aristocracy, religion.

pk (Aug 2021)

