CAPITALISM

↓

SOLIDARITY

― Theory and statistics ―

Carlos A. Bondone

CAPITALISM → SOLIDARITY

Theory and statistics

Abstract

In this work the following hypothesis are postulated:

- *Profit* is the basis for capitalism ─considered as the system of economic merit.

    - The laws governing the economic merit of the capitalist system are:

        Decreasing marginal utility
        Increasing marginal effort
        Decreasing marginal yield
        Increasing marginal destruction

    - The *distributive causality* is *capitalism → solidarity*. Without profit there is no *solidarity*.

    - *Fiscal* and *currency-financial policies* infringe upon *distributive causality.* It's regressive consequences are *significantly different*.

Theory and statistics

Introduction

Recurrently, humanity poses the issue of the detrimental effects of capitalism. Concretely, there is emphasis on the "distributive inequity of capitalism".

In question here is determining if the *economic merit,* rewarded with *profit*, derived from capitalism's fundamentals —markets— is compatible with *solidarity* —consideration of the economically invalid by the *winners (generators of profits).* From this perspective, evidently what is in debate is if *economic merit* is incompatible with *solidarity*, or if in truth in capitalism *everyone wins*, as we shall show.

This work, eminently theoretical (essential for generating and interpreting statistics), presents the following hypothesis —proven according to the scientific laws that govern economics, the corroboration of which corresponds to statistics:

1) **Profit**, considered as *economic merit* in capitalism, derives from the *four marginal laws of economics*, which are: *decreasing profit, increasing effort, decreasing yields,* and *increasing destruction of wealth*.

2) **Solidarity** considered as the support of the economically invalid, does not exist without *profits*, **distributive causality** is represented by the ordered pair **profit→solidarity**.

3) Deficiency of *profits* derives from infringement on the marginal economic laws.

4) Deficiency of *solidarity* has its origin in the deficiency in *profits*.

5) Currency-financial and fiscal institutions, existent since the twentieth century, explain the deficiencies in *distributive causality (profits→solidarity).*

Thus, this work will show that the so called "distributive inequities of wealth", have their origin in human institutions that infringe upon the fundamentals of capitalism, that rewards economic merit.

Based on this, it will be necessary to review the statistics that are generated, since they can be evaluated within a scientific framework.

Scientific positivism: when statistics are not based on a certain theory, which places them in the unfortunate situation of the possibility of "explaining" them with several theories —similar to a system of undetermined equations.

Corroboration of theories: when statistics corroborate theories or prove them false. This is the terrain of the present work. Providing a theory that can be corroborated or proven false by statistics and verifying the veracity of its central hypothesis: the flaws or alterations of the *distributive causality, merit→solidarity*, derive from infringements upon the fundamental laws of

capitalism.

Precisely, the worst "offense" inflicted on the causal play *capitalism → solidarity* is the combination of currency-financial and fiscal policies. Policies in which the totalitarian elites have found contemporary shelter, in the form of mercantilism where the "democratic State" replaced the monarch, and the "the financial system", the merchant. I.e., an uni-personal totalitarian system has been replaced by a pluri-personal system, and the financier of the crown has been replaced by a *financial system*.

Summary of the introduction:

- The best socio-economic system (*capitalist → solidarity)* is represented by the ordered pair: *merit → solidarity*. I.e., the best institutional setting for economic merit implies the best solidarity, since there is no solidarity without previous merit.

- The current currency-financial-monopoly-state-banking institutions, along with inadequate fiscal structures, menace the set *merit → solidarity*. Which implies "statistical inequities" [1] do not have their origin in capitalism, but in *modern totalitarianism with "currency" and "imposition"* as its face.

- Given the above, we need statistical information that will allow us to corroborate-reject the theory presented here, which puts us on the correct path of science: corroborating theories or proving them false —the opposite procedure to methodological positivism.

- We cannot end this introduction without mentioning the unfortunate role that, in light of the theories presented here, are put forward by those that form public opinion (politicians, religious authorities, journalists, "economists",...), with *populist, light, "comforting"* and *"exculpatory"* criticisms, refer deprecatingly to capitalism as being responsible for "distributive inequities".

The issue is so relevant that it is necessary to discuss it with scientific rigor. I hope these paragraphs are a contribution in this sense.

CAPITALISM → SOLIDARITY

─ Theory and Statistics ─

THEORETICAL FRAMEWORK

When judging the distribution of economic wealth (economic or currency value) among the components of a community, we consider prudent to focus on our "judgement" in two spheres, so as to give a just verdict, and they are:

- *Capitalism* (merit or profit).

- *Solidarity*

CAPITALISM

― MERIT or PROFIT ―

It is important to previously consider the following concepts:

- *Profit* is the ***flow*** of economic merit of capitalism. i.e., capitalism is the system of *economic merit*, that rewards success with *profits*.

- *Wealth:* economic value (*currency value*) of economic goods.

- *Profit* → *Wealth* the accumulation of ==***profit flow***== results in a ==***stock of wealth***==. i.e., the ==**stock of wealth**== at the end of a period. Ergo, profit is the flow of economic value, and wealth is its *stock*.
  In this manner here we will work considering net rent (or net income) as synonymous with profit, independent of the "production factor" originating it, insofar as we refer to *the flow of net wealth* (generation minus destruction), decanting in a *stock of wealth*.
  The *Theory of Wealth and Unemployment* (TWU) and its model, the *Curve of Socio-Economic Evolution* (CSEE) [2] on which this work is based, clearly show us that: in the framework of the marginal laws of economics there is no generation of surplus value, considering as such the appropriation of profit-rent generated by another owner of the productive factor (labor, machines, etc.). [3] And this is so as a result of applying the axiom *economic good* ↔ *owner*, [4] based on which any *economic factor that generates profit* always has an owner, that is the owner of the *profits-rents-income* it generates ―the owner is the one that receives the profit, not the productive factor, that is his means. Ownership that gives him the right to destroy it, determining the *profit-net rent* or *final result* as the difference of currency value generated, minus what has been destroyed ―economic reality that is exceptionally well reflected in double entry accounting, with the difference between initial and final patrimony of the period, or the table of results obtained by subtracting losses from income. The same result by both paths, is the true "secret" of double entry accounting. I.e., accounting cannot commit the error of "generating surplus-value", what it does allow is adopting the most adequate valuation system for analysis, but the differences of valuation do not imply surplus-value, which does not exist because of the *axiom economic good* ↔ *owner* ―read the preceding notes 3 and 4.

- *Four marginal laws of economics*: are the laws we consider necessary and sufficient to explain micro and macro economics. Laws that will be expressed in terms of wealth ≡ currency value:

  Decreasing marginal utility: the utility of the unit of currency value *x* is less than the utility of the currency value of the unit *x-1*.

  Increasing marginal effort: the human effort to obtain the currency value unit *x* is greater than the effort to obtain the currency value unit *x-1*.

Decreasing marginal yield: the generation of the currency value unit x is obtained with a lower yield than the generation of the currency value unit x-1.

Increasing marginal destruction: the currency value of the destroyed unit x is greater than the currency value of the destroyed unit x-1.

- *Capitalism:* system in which human beings appropriate wealth within the framework of the four marginal laws of economics.

- *Capitalist* any owner of economic value (*currency value*). Ergo any owner is a capitalist.

Having defined the basic concepts that guide this work, we continue with its development. According to what the *Theory of Wealth and Unemployment (TWU)* [5] indicates, specifically its *Curve of Economic Evolution (CEE)* [6], we present graph 1, which is a summary of the graphs of the *curve of generation of wealth, the curve of destruction of wealth* and *Point R*, which in said work we called *Point R of median speed of net positive wealth generated per capita of owners.*

Structure of the figures of graph 1:

Given that graph 1-c) is a combination-superposition of the preceding two, we will refer to its construction, understanding that the references we will give can be applied to all three, each in its specific sphere.

Closed box: the graphs refer to the wealth generated (*g*) and destroyed (*d*) by (n^O) owners that generate wealth, in limited spatio-temporal setting. i.e., the graphs refer to a *real world* of human beings that value in currency terms in spatio-temporal limited settings. Ergo we are in the presence of observational variables: data obtained in a limited spatio temporal setting, of a *population of owners* that produce wealth (n^O) and of *currency value*, resulting from amounts of economic goods (q_{xt}) multiplied by their prices expressed in currency units [$p_{qxt(m)}$].

Wealth (currency value): represented by the currency value of the economic goods, i.e., equivalent to the summation of the available assets in a limited spatio-temporal setting. In mathematical terms it is represented by the expression $\Sigma_{r=1}^{y=n} y[q_{xt}p_{qxt(m)}]$, equivalent to the wealth of n^O owners (and from 1 to n) expressed in quantities of economic goods (q_{xt}) available in the period t, multiplied by their prices expressed in currency units [$p_{qxt(m)}$]. All which tells us we are referring to equality or equivalence: wealth = currency value = accounting asset. It is important to stress that when we refer to wealth we are not including credits, since in the social consolidate they are neutralized (credits = debts).

It is crucial to realize that we are using *currency value* in the construction of the two curves: generation of wealth *g*, and destruction of wealth *d*, which implies that the currency value is not only useful to humans for establishing the value of that which possesses or generates (*g*), but also to that which destroys (*d*), if not we could not see that economy refers to shortages, and we would commit the error of not "realizing" that what it destroys is wealth, currency value.

Graph 1

(a)
Generation of wealth (*g*)

(b)
Destruction of wealth(*d*)

(c)
Point R of wealth in society
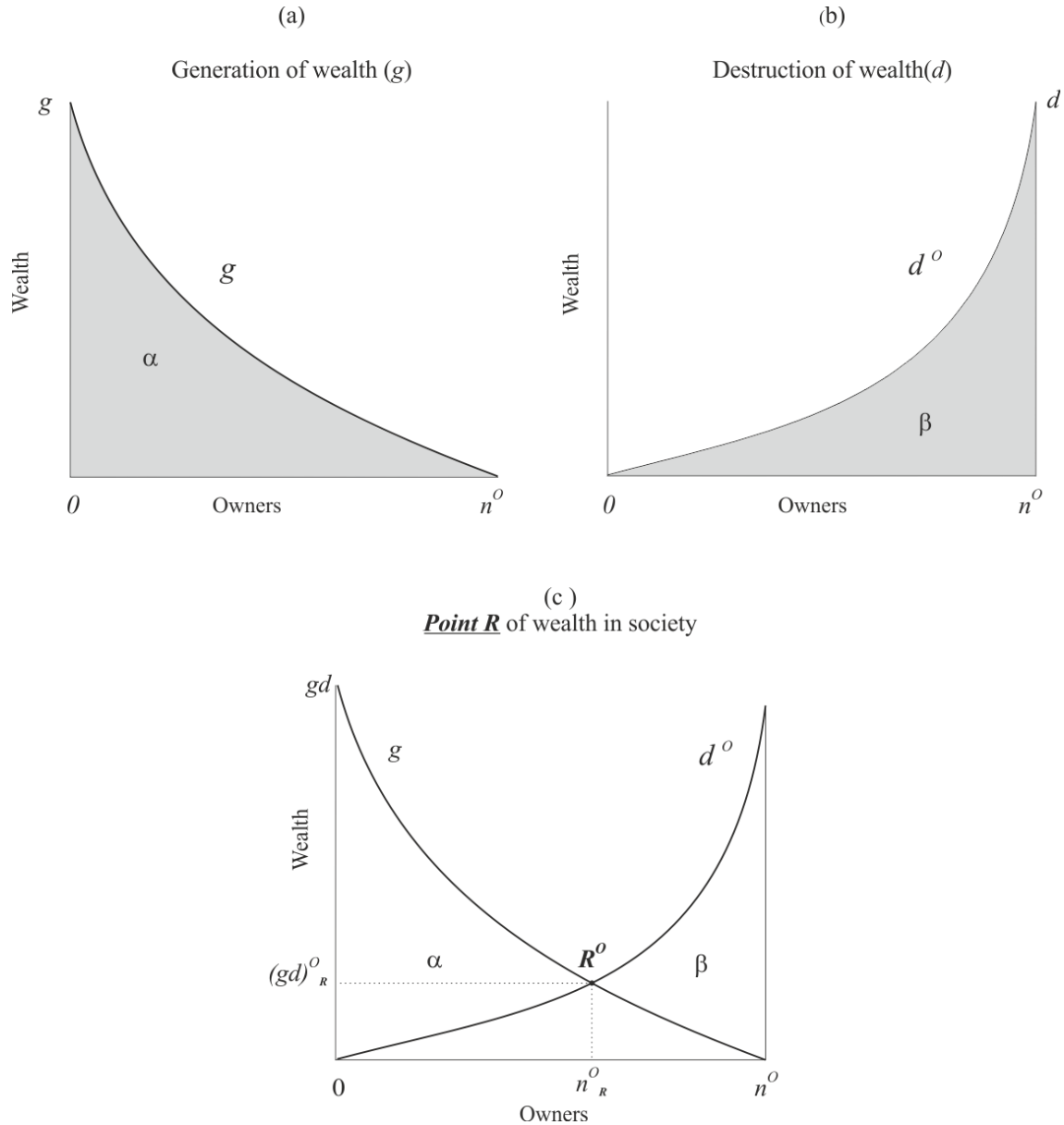
Individuals that generate and destroy wealth: in the abscissa we consider all the individuals (n^O) that in the limited spatio-temporal setting *generate* (*g*) and *destroy* (*d*) wealth at the same time.

Currency value: in the ordinate we consider the currency value in which wealth is expressed —generated (*g*), destroyed (*d*), and in stock (*α* and *β*) — derived from multiplying the quantities of economic goods (q_x adequately classified according to their being economic goods of *g*, *d*, *α* or *β*), by their prices expressed in currency units [$p_{qx(m)}$].

It is important to **bear in mind** it makes no sense to find surplus value or distributive inequity

in what is a difference of inter-temporal currency valuation. Since it is simply profit (or loss), just another source of profit or rent-income, since wealth is an *economic value*, not the economic good in itself —*currency value* when the calculus considers currency as the unit of measure. [7]

Stock of wealth generated (α): is the *area of the currency value* (wealth) that n^O generate, at the velocity of *curve g*, in the period t —subscript t which we will do without from now on. Its mathematical expression would be $\alpha = \int_{y=1}^{y=n} y\ [q_{xg}p_{xg(m)}]$, to indicate the currency value *generated* (we add the subscript g) in the period t, represented by the integral symbol, since it is the "summation" in the symbolism of continuity.

Curve of generation of wealth (g): the curve g represents the velocity of the flow of currency value (wealth) generated by n^O in the period t, which has a *decreasing slope* since it derives from wealth accumulation going from those that generate most value to those that generate less. I.e., the negative slope indicates the validity of the *law of decreasing yields*, in currency values. Thus, area α is the integral of *curve g*, and curve g is the derivate area α: $\alpha' = f'\alpha = f'\{\int_{y=1}^{y=n} y\ [q_{xg}p_{xg(m)}]\}$.

Stock of destroyed wealth (β): is the area of currency value (wealth) destroyed by n^O wealth generators, at the velocity of *curve d*, in the period t. Its mathematical expression would be $\beta = \int_{y=1}^{y=n} y\ [q_{xdO}p_{xdO(m)}]$, that would include the *destroyed* currency value (we add subscript d^O) in period t, represented by the integral symbol, since it is the "summation" in the symbolism of continuity.

Curve of destruction of wealth (d^O): curve d^O represents the velocity of the flow of currency value (wealth) destroyed by n^O generators of wealth in period t, which has an *increasing slope* since it arises from the accumulation of wealth destroyed, going from those that destroy less to those that destroy more currency value. I.e. the positive slope indicates the validity of the *law of increasing marginal destruction.* [8] Thus, area β is the integral of *curve d*, and the second is the derivate of the first: $\beta' = f'\beta = f'\{\int_{y=1}^{y=n} y\ [q_{xdO}p_{xdO(m)}]\}$.

Economic distribution of wealth: the currency value, represented in both curves and areas, implies its distribution in terms of *who generates* and destroys wealth, and who *owns* and destroys wealth. Thus curves g and d^O reflect the way the *generation and destruction of currency value is distributed,* which derives from specialization and distribution of labor, following the marginal laws that govern human economic life (market). I.e., following the axiom *economic good ↔ owner*, as a *stock α y β* (wealth) or as a *flow (g y d^O)*, wealth (currency value) always has an owner, and is always distributed. Economic distribution that is carried out according to the *marginal economic laws* of:

- *Decreasing marginal utility*
- *Increasing marginal effort*
- *Decreasing marginal yields (g).*
- *Increasing marginal destruction (d^O).*

Laws that govern the temporal relation of human economy, be they:

- The relation of *man* with his needs and the economic goods that satisfy them.
- The economic relations among *men* —distribution of the generation of wealth (specialization and distribution of work) and its destruction.

Displacement of curves g y d^O: since they represent the temporal behavior of the currency value generated and destroyed in time, and said currency values are composed of the flow of the multiplications $q_{xg}p_{xg(m)}$ y $q_{xdO}p_{xdO(m)}$ respectively, this results in:

A) <u>*Displacement of g*</u>:

   a) <mark>↑ *g*</mark> if:

1) q_{xg} increases or remains constant, concomitant with an increase in the value of the currency unit $p_{xg(m)}$.
2) the value of the currency unit $p_{xg(m)}$ increases or remains constant, concomitant with an increase of q_{xg}

   b) <mark>↓ *g*</mark> if:

1) q_{xg} decreases or remains constant, concomitant with a fall in the value of the currency unit $p_{xg(m)}$.
2) the value of the currency unit $p_{xg(m)}$ decreases or remains constant, concomitant with an increase of q_{xg}

B) <u>*Displacements of d^O*</u>:

   a) <mark>↑ d^O</mark> if:

1) q_{xdO} increases or remains constant, concomitant with an increase in the value of the currency unit $p_{xdO(m)}$.
2) The value of the currency unit $p_{xdO(m)}$ increases or remains constant concomitant with an increase in q_{xdO}.

   b) <mark>↓ d^O</mark> if:

1) q_{xdO}, decreases or remains constant, concomitant with a decrease in the value of the currency unit $p_{xdO(m)}$.
2) The value of the currency value $p_{xdO(m)}$, decreases or remains constant, concomitant with a decrease of q_{xdO}.

Point R^O of socio-economic balance: shows the limit of the median speed of positive net wealth generated, per capita of owners generators of wealth, according to the spontaneous distribution of labor attained considering the greater efficiency attained with specialization -in truth it is the point where the velocity of generation of net "social" wealth is zero, since the slopes *g* y d^O, are equated, where $g - d^O = 0$, attaining the level n^O_R of the n^O individuals

generators of wealth.

Point R^O is extremely relevant, since it derives from the valuation that individuals, components of the society that generates wealth, have of the capacity with which they generate and destroy wealth, measured in the currency value originated by them —serving as a point of reference for each and every individual, therefore configuring statistically observable data, both micro and macroeconomic.

In terms of the economic analysis of accounting states, we can say that *point* R^O is the point of equilibrium of the company "society" —in which for now we are only considering the society of owners (n^O) generators of wealth. In this sense, a displacement to the left implies arriving at **point R^O of greater socio economic equilibrium** ($\uparrow R^O$), which expresses a greater level of the rhythm of generation of wealth ($\uparrow g^O_R$), with a smaller amount of stock of wealth generated ($\downarrow\alpha$), with also a smaller level of generators of wealth ($\downarrow n^O$) —higher yield implies a stadium of less production, derived from the law of decreasing marginal yields. On the contrary, a displacement to the right implies being at **point R^O of a lesser socio economic equilibrium** ($\downarrow R^O$), which expresses a lesser level of the rhythm of generation of wealth ($\downarrow g^O_R$), with a greater stock of wealth generated ($\uparrow\alpha$), by a higher level also of generators of wealth ($\uparrow n^O$) —less yield implies a stadium of greater production derived from the law of decreasing marginal yields. [9]

Thus we can summarize this sequence of causal implications in the displacement of point R^O —to that effect, in the following expressions we should interpret the symbol $\rightarrow$ as **implies**:

1) On the generation (g) of currency value:

$$(\uparrow \mathbf{R^O}) \rightarrow (\uparrow \mathbf{g^O_R}) \rightarrow (\downarrow \boldsymbol{\alpha}) \rightarrow (\downarrow \mathbf{n^O})$$

$$(\downarrow \mathbf{R^O}) \rightarrow (\downarrow \mathbf{g^O_R}) \rightarrow (\uparrow \boldsymbol{\alpha}) \rightarrow (\uparrow \mathbf{n^O})$$

2) On the destruction (d^O) of currency value:

$$(\uparrow \mathbf{R^O}) \rightarrow (\uparrow \mathbf{d^O_R}) \rightarrow (\uparrow \boldsymbol{\beta}) \rightarrow (\downarrow \mathbf{n^O})$$

$$(\downarrow \mathbf{R^O}) \rightarrow (\downarrow \mathbf{d^O_R}) \rightarrow (\downarrow \boldsymbol{\beta}) \rightarrow (\uparrow \mathbf{n^O})$$

It is important to consider the different behavior:

$$(\uparrow \mathbf{R^O}) \rightarrow (\downarrow \boldsymbol{\alpha}) + (\uparrow \boldsymbol{\beta})$$

$$(\downarrow \mathbf{R^O}) \rightarrow (\uparrow \boldsymbol{\alpha}) + (\downarrow \boldsymbol{\beta})$$

Which we can consider as the synthesis or *symbol of the marginal laws*.

They are all causal implications and consequences, derived from the presence of the four marginal laws of economics, that are necessary and sufficient for explaining the economy of a society.

Understanding the meaning of **point R^O of socio economic equilibrium** is of transcendent importance, and it is convenient to express it in terms of popular sentiment: a greater quantity implies lower quality and vice versa (good things come in small jars). I.e., an increase of quantity implies a stadium of lower quality value, the essence of economics, even if it sounds

contradictory, since we say that we are better off when the quantity of economic goods increases. This is the same scenario for scientific knowledge, the more we know, the more we realize how little it is worth compared to what we still do not know —which implies the humility of the scientist.

Accounting and the TWU model: **point R^O of socio economic equilibrium** can be considered as the state of "neutral" community result, since it indicates the moment in which society goes from winning to losing. Here *Social Profit* = G = 0, which is obtained by $g = d^O$, or $g - d^O = 0$ —both concepts expressed in the currency value generated by the "society of owners". Once again, we discover that the basics of micro economics (the results of a company) do not differ from those of macro economics (table of results of a community). [10] I.e., the only thing missing was understanding how the micro appears in the composition of the macro —the essence of TWU and its CSEE model—, something we cannot do with current theories, since they try to explain the macro (quantifying without qualifying adequately), and from there understand the micro. [11]

Synthesis of economic merit

In this manner we have represented the economic behavior of human beings according to the laws of merit. Let us now see how this behavior of *homo economicus* relates with *homo sociologicus* (political), including the destruction of wealth by those that do not generate it —or generate by defect, i.e., destroy more currency value than they generate.

Given that human beings are different by nature, the first thing we need to stress is collectivism —understanding as such a world of "humans" in which "all are economically equal"— is theoretically (and practically) impossible. [12] Which implies that solidarity should not be equated with equality, or we would be in search of something impossible.

Considering this, we now proceed to study the theoretical and practical consequences of the alternatives with which *homo economicus* —governed by the laws of merit— attends to *homo sociologicus*, governed by social policies —more precisely with fiscal (taxes), and currency-financial (control of the price of currency and interest) policies. [13] To which we must add price controls, duties, etc.

To this effect we recur to graph 2:

Graph 2

"Solidarity" Policies

Fiscal (F) and Currency (M)[*]
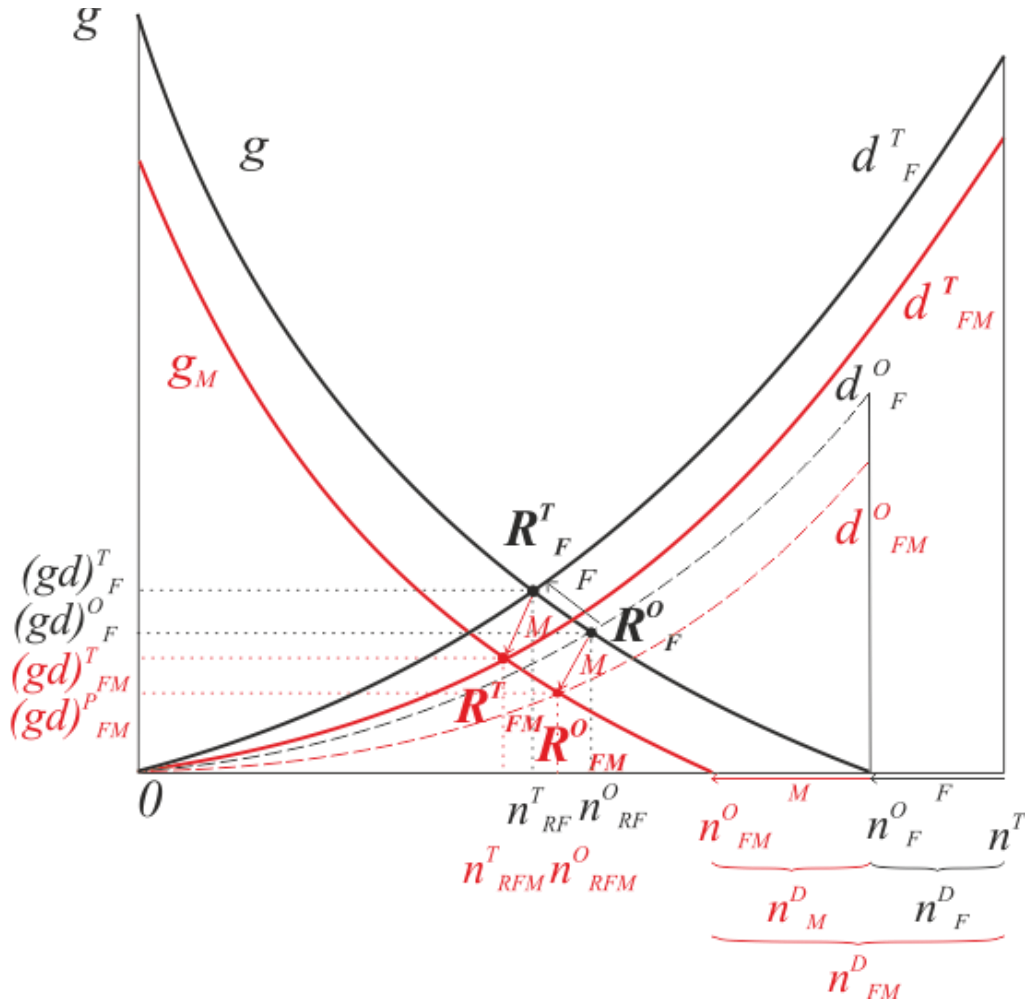
FISCAL POLICY (in black)

We consider as fiscal policy that which attends to the destruction of wealth, of those that do not generate it (or do so by defect, destroying more than they generate), collecting taxes from those that generate wealth.

In the graph we have developed this with the expedient of adding to the abscissa $n^D_F (\leftarrow F)$, that represents the individuals that only destroy wealth or that generate less than they destroy (e.g., subsidies).

In this manner in graph 2 we can study the *contribution of economic merit of capitalism* (graph 1) to *solidarity*. i.e., graph 2 shows us the economic consequences of the coexistence of *homo economicus* with *homo sociologicus*, in what refers to human solidarity, which there is the inadequate pretense of carrying out in the name of "equality" (ontologically impossible).

To visualize fiscal policy, we have represented it in curves and dots in black. I.e., we refer to the curves g, d^O_F y d^T_F, that in turn define points R^O_F y R^T_F respectively, and n^D_F added to the abscissa. All which we will now explain:

- g is our curve of wealth generation produced by the n^O_F owners that generate and destroy wealth (now adding the subscript $_F$ to stress that they are the ones that support fiscal policy). That is why the curve is identical to graph 1.

- n^T, represents the total population (^{T}), derived from including n^D_F ($\leftarrow F$) individuals that only destroy wealth (or that generate less than what they destroy). As a result $n^T = n^O_F + n^D_F$.

- d^O_F is our curve d^O of graph 1, which we call n^O_F to stress we are referring to the destruction of wealth by ^{O}wners, that support $_F$iscal policy.

- d^T_F is the curve of destruction of wealth by all the inhabitants of society (n^T), which configures the curve of destruction of wealth by all those that generate it (n^O_F), __plus__ the destruction of wealth by those who only destroy it (n^D_F). We deduce this curve $d^T_F > d^O_F$ (insofar as $d^T_F = d^O_F + d^D_F$, since $d^D_F > 0$ is the distance or graphic difference $d^T_F - d^O_F$), and that both have a positive slope, for the same reasons explained for d^O. [(14)]

- R^O_F, is the equivalent of graph 1, to which we have added the subscript $_F$ to indicate it is in charge of fiscal policy.

- R^T_F, is the new *point R* (of ^{T}otal population with $_F$iscal policy) generated on the previous curve g (bear in mind it does not change, since it is generated by the same owners n^O_F), that is now intercepted by the new curve d^T_F, that appears when we include the wealth destroyed by those that do not generate it (or generate less than they destroy: n^D_F).

Consequences for merit → solidarity via fiscal policy

Since in the *Theory of Wealth and Unemployment* (TWU) we can study the issue in greater detail, [15] here we will focus exclusively on the two issues that interest us most, merit and solidarity. Which we do with the analysis of the parameters referring to:

Concentration of wealth and unemployment: study we carry out taking advantage of the conclusions we have reached when analyzing the displacement of *point R^O,* derived from the movements of *g* and *d*. Thus we conclude that wealth will concentrate in less people, because the consequences of altering the incidence of the marginal laws derive in:

$$(\uparrow\!R) \text{ upward displacement of } point\ R \colon R^T_F > R^O_F$$

Reflecting that:

- Due to the law of decreasing marginal yields, it places us in a higher level of marginal yields (in curve *g*, we have $g^T_F > g^O_F$).

- Due to the law of decreasing marginal yields it represents a stadium of less production of wealth ($\downarrow\!a$) —not drawn.

- Due to the law of marginal increasing destruction of wealth, added to a greater number of individuals that destroy, it represents greater destruction of wealth ($\uparrow\!\beta$), since $\beta_F > \beta_O$ (not drawn, that can be appreciated in the displacement $\uparrow\!d\colon d^T_F > d^O_F$).

- Due to the law of decreasing marginal yields, it represents a stadium of less production of wealth, which implies a lower number of owners that generate wealth ($\downarrow\!n_O$), observed because of $n^T_{RF} < n^O_{RF}$.

- Due to the law of decreasing marginal yields, it represents a stadium of lower production of wealth, which implies a greater number of individuals that must be supported with fiscal solidarity ($\uparrow\!n_D$), also observed because of $n^T_{RF} < n^O_{RF}$.

- Since we use a *real* closed box model, we can express: $\left| \downarrow\!n_O \right| = \left| \uparrow\!n_D \right| = \left| n^T_{RF} - n^O_{RF} \right|$. Which is telling us the absolute values of both variations are equal, given the displaced n_O are now included in the n_D.

- Due to decreasing marginal yields, increasing marginal destruction, added to a greater number of individuals that destroy, any quotient involving the variables of *stock* of wealth (generated, destroyed and net) and population (generator and destroyer, only destroyer, and total) is negatively affected. Specifically we refer to the well known coefficients with which median, marginal and total values are obtained, to study median and total wealth, concentration, etc.

Synthesis of fiscal policy: evidently the incidence of the marginal laws, that govern economic merit, demarcate the pretensions of "solidarity" fiscal policies and they do so in a very

significant way, to the point that they completely contradict what these pretend, and what theory affirms. Let us see:

Employment: taxes originate unemployment.
Redistribution of wealth: taxes produce concentration of wealth.

Therefore with fiscal policies: ***there is less with more, and more with less***.

CURRENCY-FINANCIAL POLICY *(in red)*

We consider currency-financial policy as the action of attending to the destruction of wealth by those that do not generate it (or do so destroying more than they generate), through the emission of credit-currency, insofar as it affects the price of the currency unit (p_m), and or the intervention of the financial system, insofar as it alters the price of credit (time), and interest expressed in currency units (i_m) —based on the currency axioms of equality and equivalence.

It is very important to stress that in the graphs of the CSEE model we work with the price of the currency unit (p_m) variable, not resorting to i_m, which ratifies TET, that considers them to be equal and/or equivalent variables, in the framework of the current currency regime. Adding that the model does not resort to i_m either, since it is a variable subordinate to currency value (wealth), responding to indirect materialization. [16]

Thus, the study of currency policy is included in graph 2, with the analysis of the displacements of the previous curves g, d^T_F y d^O_F, obtained through the inclusion of fiscal policy.

To visualize what is exclusive to currency policy we have represented in red the pertinent curves and points. We are referring to curves g_M, d^T_{FM} y d^O_{FM}, that in turn define points R^T_{FM} y R^O_{FM} respectively, maintaining n^D_F in the abscissa, that allows us to continue with the total population (n^T). All which we will now explain:

- g_M in our well known curve of generation of wealth produced by owners (generate and destroy wealth) now presented below its preceding g, insofar as it appears weighted by the price of the currency unit, lower than the previous one, since it is considered as the consequence of an expansive currency policy —always bear in mind that the currency value derives from weighting the amounts of economic goods by the price of the currency unit (p_m), not by the *stock* of currency units.

- d^O_{FM} is our curve d^O_F, appearing now below it, derived from it being weighted by the price of the currency unit, lower than the previous price, since it is considered as the consequence of an expansive currency policy —idem.

- d^T_{FM} is our curve d^T_F, now presented below it, derived from it being weighted by the price of the currency unit, lower than the previous price, since it is considered as the consequence of an expansive currency policy —idem.

- $n^D_{FM} = n^D_M + n^D_F$, expression that indicates the expansive consequences of n^D, from applying currency policy, including the summation of the $\leftarrow F + \leftarrow M$ arrows. I.e., n^D_M is the inclusion of n^D generated by the currency policy, that are in turn ex n^O, which are added to the previous n^D_F to show the new number of unemployed n^D_{FM}.

- $n^T = n^O{}_{FM} + n^D{}_{FM} = n^O{}_{FM} + n^D{}_M + n^D{}_F$.

- Since we use a closed box *real* model, we can express it in absolute values: $\left| \downarrow n^O{}_M \right| = \left| \uparrow n^D{}_M \right|$. Which indicates that the absolute values of both variations are equal, since it is the $n^O{}_M$ desplaced that are integrated in the $n^D{}_M$.

- $R^O{}_{FM}$, is equivalent to our *point* $R^O{}_F$, below it, arising as the intersection of the new g_M y $d^O{}_{FM}$ —idem.

- $R^T{}_{FM}$, is the new *point* $R^T{}_F$, below it, insofar as it appears as the intersection of the new g_M y $d^T{}_{FM}$ —idem.

- We can clearly observe that the red curves and points (with a currency policy that depreciates the currency unit) appear below the black curves and points.

Merit → solidarity consequences via currency financial policy for fiscal policy:

Evidently there is a repetition of the consequences we have stressed for fiscal policy, but with the additional problem that there is a lower level of *curves g and d*, and *R points*. i.e.: **everything worse: less with less, and more with less**.

Table 1

g_M		g
$d^T{}_{FM}$		$d^T{}_F$
$d^O{}_{FM}$		$d^O{}_F$
$R^T{}_{FM}$	$<$	$R^T{}_F$
$R^O{}_{FM}$		$R^O{}_F$
$n^T{}_{RFM}$		$n^T{}_{RF}$
$n^O{}_{RFM}$		$n^O{}_{RF}$
$n^O{}_{FM}$		$n^O{}_F$
$n^D{}_{FM}$		$n^D{}_F$

We can summarize it all relating only the data arising in reference to $R^T{}_{FM}$ versus $R^T{}_F$, and $R^O{}_{FM}$ versus $R^O{}_F$, which we do in table 1.

Evidently the indicators in *red ($_{FM}$)* are inferior (<) to the ones in *black ($_F$)*. A situation that clearly shows that the decline of the price of the currency unit (classical result of currency-financial policies) has regressive effects on all markers related to generation, destruction, and distribution of wealth, and unemployment (that increases).

Summary of currency-financial policy: evidently the incidence of the marginal economic laws, that govern economic merit, are the basis for the pretension of "solidarity" currency policies, and this is so in a very significant way, to the point that they completely contradict what they pretend and what the theories say. Let us see:

Employment: the fact that the fall of the price of currency originates unemployment contradicts the political pretension of printing currency to promote the destruction (consumption) of wealth and generate employment. Policies based on the idea that: ***using currency not generated by wealth to destroy wealth*** will promote employment.

Redistribution of wealth: the fact that the decline of the price of currency originates concentration of wealth contradicts the political pretension of ***using currency not generated by wealth to destroy wealth*** to improve wealth distribution.

Synthesis: we have proven what common sense perceives: ***using currency not generated by wealth (g), to destroy wealth (d)***, goes against the natural laws of economics —the four marginal laws.

Thus, we have shown "solidarity" currency policies are regressive in the two settings we studied: they increase unemployment and concentrate the distribution of wealth.

OUR FINDINGS ON "SOLIDARITY" POLICIES

- *Fiscal policy*: affects merit and solidarity. *Undeservedly it benefits a few and harms many people.* A situation that savvy business people take advantage of, doing business with fiscal policy. [(17)]

- *Currency-financial policies*: affect merit and solidarity. *Undeservedly it harms everyone.* A situation savvy business people take advantage of, doing business with currency-financial policies, which is simply another case of price controls —here with p_m, and i_m because of the incidence of currency axioms.

- The *CSEE model* allows us to:

  1) Study macroeconomics based on the micro-economic behavior of its components. With no composition fallacies.

  2) Study macro and micro economics based on the four marginal laws of economics (profit-effort-yields-destruction) that govern economic merit and are the framework for social solidarity —not considering interest, since time is represented in the marginalism of the laws, which ratifies TET's "*relativity of time and is price, interest*".

  3) Study macro and micro economics based on the currency value (wealth) generated and destroyed. A model with an only world, currency and real at the same time, as opposed to the theories that postulate the existence of two different worlds (real and currency) that must be "balanced" —known as Patinkin's dichotomy, and the origins of which take us back to Knut Wicksell.

  4) Study the behavior of the distribution of wealth in terms of combining the laws that govern economic merit with "solidarity" policies.

  5) Study the behavior of employment-unemployment, in what is at the same time a currency and real world.

  6) *Unified value theory*: since the model combines the objective aspect (physical marginal productivity) and the subjective (currency value), we can say it configures a synthesis of value theory.

- *Reformulating statistics*: insofar as statistics do not separate the incidence of fiscal and currency-financial policies, they are not adequate for qualifying the *distribution of wealth in capitalism*. This is due to the fact that the distribution of wealth not derived from economic merit does not arise from the fundamentals of capitalism (the four marginal laws of economics) but from the *anti-capitalistic* institutions —created to attend to solidarity, born under the auspices of current economic theories.
Again, statistics without theories promote infinite interpretations (solutions), which is a breeding ground for scientific positivism.

On the other hand, as graph 2 shows us, it is possible to identify levels of unemployment and hidden sub-employment (the policies that "employ people" but do not give them work, the "hidden unemployed": Mises' bureaucracy, and Keynes' laborer that digs and covers ditches).

In reference to statistics on those that generate and destroy wealth, it is pertinent to stress the enormous meaning of the composition of currency value (wealth) *generated by owners*, and that *destroyed by owners* and *non owners*. All this will allow us to appreciate very well not only that solidarity has a "cost", but how much, who contributes to it and who the recipient is.

- *Inconsistency of stating that $r \neq g$*: insofar as *r* stands for return on invested capital and *g* the growth of the economy, the analysis based on them producing conclusions on the capacity of the capitalist system to distribute profits (= *rent = income = economic growth*) present at least two basic theoretical-conceptual defects:

  1) They do not show the incidence of anti-capitalist socio-economic institutions, that go against the laws that govern economic merit —specifically those of fiscal and currency financial nature considered here.

  2) They analyze through the lens of the theories that dissociate the concept of *rent-income* from that of *net profit*, equivalent in turn to *economic growth*. [18] The concepts of (net) *profit-rent-income* must be assimilated to that of *generation of net wealth*, that is the *stock of temporal flow of net profit* accumulated. Concept of *net wealth* that is valid both for individuals and society, with no composition fallacy —we have obtained *point R* of macro-economic ("social") profit, with the same basics as the micro economic profit: subtracting the currency value destroyed (expenditure) from the currency value generated (income).

- *Reformulating socio-economic institutions*: once we see the causal relation of *capitalism → solidarity (merit → solidarity)* presented here, we will be ready to build more adequate institutions to reach a more efficient socio-economic stadium. Meanwhile social tensions will feed on the current situation.

  In the short term erring fiscal policies (that deter and tax currency profit) and currency-fiscal policies (that control the price of the currency unit, considering the axioms of currency equality and equivalence) promote inequity —both policies derived from "technicalities" based on theories that departed from the four marginal laws of economics.

> *The laws that govern the causality of capitalism → solidarity suggest we need to revise income and wealth taxes* [19], *and current currency and financial systems.*

- ***Reformulating beliefs-ideologies***: of TER-TET, its derivate TWU, and its CSEE model, we conclude the marginal laws of economics (rules of capitalism) are the ones that satisfy the needs of the "*economic* **market**" + the "*political-socio-ethical-solidarity* **market**".

- ***Reformulating value criteria***: considering Carl Menger's classification in final and intermediate goods (the prices of which derive from those), it would be prudent to inform on the "distribution" of the currency value of final and intermediate goods; the relative share of both; and the currency absolute and relative value of goods destroyed by those that generate wealth and wealth destroyed by those who only destroy it... and other measurements like these, that would detect the relative incidence of those who destroy wealth of final goods, not only the possession of wealth of all economic goods.
i.e., judging or valuing solidarity in terms of wealth destroyed, insofar as we know that the generation of wealth is in the hands of the four marginal laws of economics ―the warranty of ***efficient profit***.
Thus, in the same manner we know information on merit (value generated and destroyed by those that generate it) allows us to value ***economic efficiency***, information on the destruction of currency value by those that only destroy it would allow us to evaluate ***solidarity efficiency***.

NOTES:

1) The inequities are not statistical, precisely without theories they are only "statistical inequities".
2) The complete development can be found at www.carlosbondone.com, under the title *Theory of Wealth and Unemployment.* All this derived from the *Theory of Economic Relativity* (TER), known today as the *Theory of Economic Time* (TET).
3) There is no scientific rigor in stating the theoretical-factual possibility of "surplus value", considered in any of these aspects.

   a) Technical surplus value: the difference between wealth generated via rent or net income, with that deriving from the patrimonial difference. Admitting technical surplus value implies not understanding the essence of **double entry** accounting, that expresses rent with double entry: that expressed by the difference between final and initial net patrimony ($\Delta PN = PN_{tn} - PN_{t0}$), with that expressed in the table of results as the difference between income minus outlays of the period ($G = I_{tn} - E_{tn}$). This is the majestic poetry of double entry accounting, that Goethe admired: "one of the greatest and most subtle discoveries of the human mind".
   Thus:

$$\Delta PN = G$$

   Note: the different valuation of historical "registered" quantities and those of the market, with which wealth can be reevaluated as a stock (PN), and its flow (G) must be considered *doubly*. I.e. the different sources of currency valuation do not define any surplus value.

   b) *Theoretical surplus value:* it is more important and unconceivable than the technical surplus value, insofar as it would imply accepting that rent-income-profit do not belong to any owner. The *economic good $\leftrightarrow$ owner* axiom (one does not exist without the other) refers not only to the stock, but to the *flow of profit* also, as the generator of that stock. In other words, not only is there no profit that does not correspond to an owner, but the profit belongs to a human being (theory of subjective value) through the possession for economic value, there is no "profit of the economic good" (theory of objective value, dialectic materialism).

4) Axiom that expresses that there is no economic good without an owner nor an owner without an economic good.
   In agreement with note 3-b), this axiom de-legitimizes the circular model of rent that disassociates the *flow* income-rent-temporary currency profit with the possession of the currency value of stock at the end of the period. It is important so stress this inconsistency of the circular model insofar as it is the reason why these models have to be "closed" with the balance equation S =I. i.e., as it could not be otherwise, an inconsistency must be corrected with another inconsistency: an *ad hoc* results in another *ad hoc*, with no end. More on this in note 18), below.

5) Available at www.carlosbondone.com, "book" section.
6) Represented in graph 25, on page 105, of the referred work, in the preceding note 5.
7) We reiterate on the importance of not confusing the *adjustment of the currency value* of historical quantities (registered by accounting), which do not validate *surplus value* (note 3)
8) The basics of the economic law of increasing marginal destruction are equivalent to those stated when enunciating the *curve of ignorance*, a moment in which we anticipated its relevance to explain the economy, which we did with the law of destruction of wealth. i.e., since the *curve of ignorance* refers to the non use of available knowledge, it is logical to consider its economic equivalent in the destruction of available wealth. For more see *The curve of destruction of wealth* in *The Theory of Wealth and Unemployment*, and *The Curve of ignorance* in *The curve of human evolution* and its *continuation*, available in this page.
9) It is important to stress we do not need interest (rate of interest) to see the relation between productivity, employment, distribution, etc., and to explain the level or rhythm of investment of a community. In the same manner, we do not need to resort to balance between savings and investment (S = I), or between currency interest and real interest. i.e., we do not resort to the two Wicksellian worlds (Patinkin dichotomies) that were the basis for all the developments for theories and economic models in the twentieth century.
10) Which should not lead us to forget that the collective-aggregate does not exist, what exists is the summation of the individuals that compose it.
11) Those of us who have grappled with accounting information, know it is easier to group information in several accounts (a simple sum), than to disaggregate those included in a total —identical to the scientific process. An essential aspect for the collection of statistical data to be consistent with the analysis, that must always derive from a previous theory. Precisely, it is the theory that will determine the qualitative aspect of statistics, if not we disobey the causality of knowledge, first you qualify and then quantify (*qualify → quantify*) to which we have referred abundantly in *The curve of human evolution* and its *continuation*, and in the *Theory of Wealth and Unemployment, Theory of currency*, and other works, available at www.carlosbondone.com. Qualify adequately before quantifying, implies taxonomic and statistical excellence.
12) This would imply that all human beings value exactly the same in each spatio-temporal moment all the time. If you wish to know more on this, you can see impossibility of calculus in collectivism*,* in *The theory of Wealth and unemployment,* page 110, available at www.carlosbondone.com.
13) Currency axioms of equality ($i_m = p_m$) and equivalence ($i_m \equiv p_m$), that belong to the *Theory of Currency* of TET. For more on this you can see *The theory of Currency, The Theory of Wealth and Unemployment*, and other texts available at www.carlosbondone.com, under that title.
14) When adding n_D to the previous n^O, the disaggregation of d_F in d^O y d^D, would be in order, since $d_F = d^O + d^D$.
15) Available here, on page 136: *currency policy*.
16) Derives from the *Theory of Economic Relativity* (TER), the essential fundamental that we later called the *Theory of Economic Time* (TET), decanting in TWU and its CSEE model. For more you can see *The theory of economic relativity, The theory of interest*, and other texts at www.carlosbondone.com. We stress that the CSEE model corroborates TER, since it explains without resorting to the entity interest, more precisely interest expressed in currency (i_m).

17) For more on this you can resort to our work *Price focus*, subtitle *Naive-Savvy*, at www.carlosbondone.com. *Here we have unmasked the basics of their business.*

18) Typical of circular models of rent-income versus consumption-investment, that "close" with the inconsistent balance $S = I$. For more on the axiom $S \neq I$, see *Economic Balance, Technical Error*, available here in Application *(Opinion)*.

19) In complete contradiction with recent proposals (Tobin and Thomas Piketty, for example). In this sense we stress the graphs 35 F and 35 M we have presented as alternative models to represent the fiscal and currency policies, in our previous work the *Theory of Wealth and Unemployment* (available at www.carlosbondone.com), can be very useful as the initial step for new institutions for "new" solidarity policies.

We believe that based on curve simulations g, g_M, d^O_F, d^T_F, d^O_{FM} y d^T_{FM}, we can suggest better fiscal policies, and normalize the current currency financial policies, to avoid recurring crisis -that necessarily occur while these systems are present. I.e., the alternative simulations will produce changes in the slopes of the curves, and in their displacements: eg., a sales tax is not the same as a profit tax, a per capita tax as an ad valoren tax, etc.