Economic Disequilibrium:  
A Philosophical Analysis of Economic Inequality,  
Property Rights and  
the Future of Democracy  

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ABSTRACT

The problem of extreme economic inequality, publicly recognized since the 2007 – 2009 Financial Crisis, gives rise to divided political and economic ideological views often leading to conflicts. Analysis of inequality in the Post-World War II era reveals that the historical process of financialization is due to market deregulation, technological changes, innovation of financial instruments, increased investment activities and bundles of claim rights traded around the world. Orthodox economics treats rights and conflicts as exogenous to the traditional equilibrium model that collapses a property right into a choice and market determined prices. Without explicit justifications, laws can favour traditional property rights for large corporations and investors over rights of labour, as seen in corporate bankruptcy settlements paying-off investors before pensioners. This thesis draws from literature bases in economics, conflict studies and philosophy. This thesis argues that Alan Gewirth’s theory of rights and epistemological foundation in generic rights to freedom and well-being required for action, offer a framework to explain how degrees of need and risks of self-contradiction are involved in economic and political decisions and actions. Human rights require that needs be met in conditions of possibility for productive agency required for purposeful action-taking in everyday life. Our economic literature review describes struggles explaining historical cycles. Post-Keynesian and Kaleckian economists rely on disequilibrium to explain reality whereas in orthodox economics market equilibrium assumes reconciliation of all conflicts over rights, and cycles are caused by unexpected exogenous shocks. Another economic review reveals foundational problems and difficulties in public policy-making to manage liquidity, interest rates, currency values, and unemployment. All these factors can negatively affect real-life situations for the least developed and indebted nations and all humans struggling to meet basic needs. The prevalence of social choice theory supports the use of orthodox equilibrium models that lead to devastating austerity policies based on preferences. Potential for devaluation of labour raises questions of the relations between money, humans and property rights and claims to wealth. An evaluation of research findings using Gewirth’s epistemology reveals how a range of different economic approaches remain tied to traditional economic equilibrium, property rights and the competitive individual that sustains conflictual relations between rights and community. The antecedentialist and consequentialist justifications of property rights form the bases of Gewirth’s analytical framework. Gewirth’s two justificatory bases of rights are used to gain insights into conflicting economic approaches. Gewirth’s philosophy and conceptual framework are used to explain inequality and describe economic disequilibrium dividing wealthy and poor, yielding social space for conflicts that can spiral out-of-control. Gewirth’s generic rights to freedom and well-being are needed for mental equilibrium, and form the bases of political democracy and economic democracy. Historical evidence of financialization and mounting inequality along with theoretical evidence problems related to market fundamentalism rooted traditional rights, shows that capitalism is threatening democracy which can be usurped by totalitarian or fascist leaders. We conclude that Gewirth offers an alternative ideal in social relations built upon mutuality of actions and rights, leading us to a concept of equilibrium based on political and economic democracy.

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<tbody>
<tr>
<td>ABCP</td>
<td>Asset backed commercial paper</td>
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<tr>
<td>AFP</td>
<td>Americans for Prosperity</td>
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<tr>
<td>AI</td>
<td>Artificial Intelligence</td>
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<td>BCBS</td>
<td>Basel Committee on Banking Supervision</td>
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<td>CDOR</td>
<td>Canadian Dollar Offered Rate</td>
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<tr>
<td>CFPB</td>
<td>Consumer Financial Protection Bureau</td>
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<tr>
<td>CFTC</td>
<td>US Commodity Future Trading Commission</td>
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<tr>
<td>CMHC</td>
<td>Canadian Mortgage and Housing Corporation</td>
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<tr>
<td>CGFS</td>
<td>Committee on the Global Financial System</td>
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<tr>
<td>CDO</td>
<td>Collateralized debt obligation</td>
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<td>CMO</td>
<td>Collateralized mortgage obligation</td>
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<tr>
<td>CaR</td>
<td>Cost-at-risk</td>
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<tr>
<td>EC</td>
<td>European Commission</td>
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<tr>
<td>ECB</td>
<td>European Central Bank</td>
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<td>ECS</td>
<td>Equilibrium climate sensitivity</td>
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<tr>
<td>FDIC</td>
<td>Federal Deposit Insurance Corporation</td>
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<td>EU</td>
<td>European Union</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>GAO</td>
<td>US Government Accountability Office</td>
</tr>
<tr>
<td>HOGRC</td>
<td>House Oversight and Government Reform Committee</td>
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<tr>
<td>ICIJ</td>
<td>International Consortium of Investigative Journalists</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<td>IOSCO</td>
<td>International Organization of Securities Commissions</td>
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<tr>
<td>Libor</td>
<td>London Interbank offered rate</td>
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<td>LVTS</td>
<td>Large Value Transfer System</td>
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<tr>
<td>NBER</td>
<td>National Bureau of Economic Research</td>
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<tr>
<td>PGC</td>
<td>Principle of Generic Consistency</td>
</tr>
<tr>
<td>PRA</td>
<td>Purchase and resale facility</td>
</tr>
<tr>
<td>SEC</td>
<td>Securities Exchange Commission</td>
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<tr>
<td>SSA</td>
<td>Social structures of accumulation</td>
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<td>SGP</td>
<td>Stability and Growth Pact</td>
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<tr>
<td>SLF</td>
<td>Standing Liquidity Facility</td>
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<tr>
<td>TARP</td>
<td>Troubled Asset Relief Program</td>
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<td>VaR</td>
<td>Value-at-risk</td>
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<tr>
<td>UN</td>
<td>United Nations</td>
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<tr>
<td>WESS</td>
<td>World Economic and Social Survey</td>
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<tr>
<td>WHO</td>
<td>World Health Organization</td>
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<tr>
<td>WMDs</td>
<td>Weapons of Math Destruction</td>
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0. Introduction

The 2007 – 2009 Financial Crisis that came along with the United States’ housing bubble, supported with the use of dangerous financial derivatives, de-stabilized markets around the world and revealed the failure of economic theory in explaining events that harmed people on a global scale. The Crisis was just one of the half-dozen that had occurred since 1970 (National Bureau of Economic Research (NBER), 2012). Business cycles that culminate in a financial crisis are shaped by fluctuations in the rate of economic growth, prices, levels of employment, investment and saving, consumption decisions along with government policies, availability of resources, technological changes, investors’ decision-making, the mobility of large employers, and susceptibility of workers’ wages. Each cycle has unique historical dynamics that interact in ways to lay the seeds of the next cycle. The shift in policy-making towards privatization and deregulation, that accompanied the elections of conservative governments in America and the UK, along with the crisis of the early 1980s, marks a time when inequality started to increase rapidly in many nations (Piketty, 2014, 23). Deregulation of financial markets and cuts government services can worsen economic forces that help shape and are encompassed by a historical cycle.

0.1 Statement of the Problem

Historical cycles are related to phenomena such as the climate or broad cultural or civilizational changes. For example, modern cycles are frequently recognized as part of the massive Industrial Revolutions that took place over the past three centuries. The First Industrial Revolution started with the steam engine in 1776, followed by the Second Industrial Revolution (c.1860), based on inventions using electricity and oil. A Third Industrial Revolution may also be identified that starts in the late 1970s and is based on computer technologies carrying out various purposes (Walters, 2002, 3). The Third Revolution may be seen today as weighed-down by the
older industrial giants from the Second Revolution. Conflicts over economic interests related to old and new technologies competing for market shares, raise questions about the nature of the environmental, economic, political, and social factors that will shape the ebbing decades of the Third Revolution. Moreover, since the First and Second World Wars were part of political and economic turmoil encompassed by the historical cycles, there is a need to understand how such deterioration of economic and political democracy has and could, potentially again lead to conflict and warfare.

The 2007 – 2009 Financial Crisis gave rise to the Occupy Wall Street political movement (September 17, 2011), drawing public attention to the huge inequality between the masses and the wealthiest one percent of citizenry (occupywallstreet.org, n.d.). Inequality has since worsened, with reports now showing that .7% of the world’s population control more than half the world’s wealth (Credit Suisse, 2016, 24). Between 2010 and 2016 the richest 62 people gained half-a-trillion US$ to own as much as the world’s poorest half who lost a trillion US$ since 2010 (Hardoon, Ayele & Fuentes-Nieva, 2016, 2). Such a massive shift of wealth from the masses of workers to the most powerful elites is also part of financialization in society.

Financialization happens over time and alters the normal relation between the real economy and the financial sector as it grows comparatively larger in size due to deregulation and financial deepening that comes with development of investment products, such as derivatives and securitization processes (Sawyer, 2014a, 4). Historical cycles, therefore, also need to be understood in terms of financialization in the current long wave that started after World War II, including several market bubbles that formed since the 1970s (Vercelli, 2013; Chorafas, n.d.). The preceding era of financialization started in the late nineteenth century and collapsed with the Great Depression followed by two World Wars. Financialization includes wealth accumulation driven by investors’ and savers’ decisions, technological changes, and institutional, political and
economic factors shaping a given historical era. The current historical cycle involves economic changes related to population growth and migrations, global climate crisis, fossil fuel interests and ongoing technological changes related to renewable wind and solar energy, computerized and wireless networks supporting, artificial intelligence and globalization of communications and markets. Global warming has led to environmentalists calling for abandoning fossil fuels that can be seen as the “lifeblood of industrial civilization” (Skidelsky & Skidelsky, 2012, 127).

Fossil fuel-based economic growth is also being challenged as the life-blood of civilization by the digital revolution with networks that have supported financialization, increasingly globalized access to information, data and economic development based on technology. As well, high speed wireless networks and technology is increasingly supporting artificial intelligence (AI) that is imagined as critical for the future world economy for management of renewable energy sources, analysis of data to predict disasters, improvements in food production, coordination of automated electric vehicles and in monitoring the use of world resources (Herweijer, 2018). It is important to note that AI can be deployed publicly or privately, without concern for outcomes such as job losses and other human rights violations, for example in the use of software, robots, investment scams, or in new weaponry and war. The use of algorithms and big data have given rise private political and economic interests observing and profiling individuals via their electronic footprints, creating opportunities and potential for abuses of human rights and democracy.¹ For, algorithms that are part of AI along with technology can blur our understanding of the “distinction between mind and machine” (Walters, 2002, 3). The rising significance of AI in economic affairs is glimpsed at in the use of algorithms supporting investors’ decisions and financial instruments in the 2007 – 2009 Crisis and exposing how human rights are readily at stake. Understanding economic theory used in guiding policies

¹ For discussion of this problem, see, O’Neil, 2016; Walters, 2002.
and decision-making is of critical importance in order to stay ahead of the use of algorithms and AI, particularly to prevent human rights abuses. One imaginable alternative is for AI to be used to produce the impression that it is more important than economic theory in creating knowledge and understanding of what is happening and what ought to happen. This sort of potential situation emphasizes the importance of questioning the epistemological foundations of economics and clarifying how knowledge about economic situations and events is produced.

The present historical cycle is also tied to the rise of American hegemony, but which is now on the decline, especially given China’s and India’s fast growing economies. The post-War global political and economic order is furthermore “rules-based and progressively oriented” and includes agreements that shape international trade, plans to mitigate global warming, and partnerships for security just to list a few, and, these are all now disrupted by major shifts in American leadership (Ikenberry, 2018). The current receding historical long wave includes growing conflicts between capitalism and democracy rooted in the economic and social inequality built up since 1980. In the words of French economist Thomas Piketty (2014), visible inequality “naturally inspires sharp but contradictory political judgements” based on emotional positions used to explain social problems (2). Financialization and the growth of the financial sector combine with political and economic factors that bring about inequality. This happens as investors with access to savings invest in innovative financial products that increase their income and wealth while masses of low-income earners face downward pressures on their wages and incomes.

When people express emotional judgments about the nature of wealth and inequality, they can end up in conflicts over human, political and economic rights. As in the early 1900’s, conflicts fueled by inequality along with threats to human security are again giving rise to populism of both the right and left that want to change or upend the current political and
economic establishment. Emotive conflicts over political and economic problems that are only worsened by climate crisis, give rise to scapegoats, racism, and forms of nationalism. Populist leaders get elected because of their various promises to change the system. Given mounting political and economic turmoil, people may find appeal in authoritarian leaders and forms of government. The culmination of an historical long wave can create conflicts that can dismantle or degrade democratic institutions that uphold democracy and the structure of world order. Such destruction of democracy could in future be pushed ahead by opportunistic participants in fascist or totalitarian regimes using political schemes, policies or financial machinations and decisions facilitated by AI.

To complicate matters, there are also conflicts within economics about how financial cycles and collapses are related to growing inequality threatening democracies. For instance, the traditional ideal of economic equilibrium, that ideally reflects stability of market forces, is challenged by the reality of repeated economic cycles and long waves that involve changing conditions over time. Yet, mainstream orthodox approaches such as those based on the Arrow-Debreu model, use equilibrium as routine part of analysis in policy-making (Lavoie, 2013a, 14). In contrast, Post-Keynesian economists, following in the tradition of Michal Kalecki, Hyman Minsky and others, use disequilibrium in order to analyze events that are part of real world economic problems.

It must be noted that property rights, traditional competitive equilibrium as an ideal, and the self-interested agent are largely ignored by economists in both of these opposing camps – perhaps due to longstanding political distaste for traditional concepts with ties to colonial power, and the need to produce practical policy solutions to address urgent problems. In addition, the concept of a market can be alternatively framed, such as in the influential Austrian school, using an imaginary conceptual foundation of the “auctioneer” who functions along with institutional
rules to provide a narrative device to explain how market demand and supply is balanced-out (Wolff & Resnick, 2012, 295). As a result, the ties to old philosophical underpinnings appear to be unnecessary as focus shifts from an emphasis on individualism and property rights to the use of a narrative device used to discuss systemic adjustments watched-over by institutions. Thus, foundational and traditional concepts such as property rights, equilibrium and the human self, may be largely ignored in economic discussions.

At the same time, however, the problems inherent to foundational concepts must be discussed to understand how economic theories are part of growing conflicts over rights related land-use, environmental exploitation, and access to income, clean air and water and more. The role of financialization in conflicts also has to be considered, particularly as it may result violations of rights, with loss of income and vital access to basic goods. Income allows people to buy necessities, goods and secure food and shelter and thereby exercise the most essential of property rights in day-to-day life. In order to understand how conflicts over rights can become all-encompassing, it is necessary to examine how economic ideas of the past continue to shape political and economic thought and decisions that shape culture and problems of morality fueling those conflicts. The intellectual divisions and conflicts within economics magnify the need to investigate epistemological foundations that tie economic theory to human rights and to democracy.

Growing economic inequality, emotional political views, complex debates in economic theory and conflicts related to property rights, altogether pose serious challenges to democratic societies. These conflicts are seen among politicians, policy-makers, elites, citizen groups, and are scrawled across social media. Chronic conflicts leading to evidence of decline in the functioning of democracy is seen in the eleven years leading to 2016 with greater losses in democratic rights and civil liberties in 67 countries compared to only 36 countries making gains
(Puddington & Roylance, 2017, 1). A significant change and concern for the study of democracy, is that free countries accounted for most of the losses in freedoms and, say Puddington and Roylance, “nearly one-quarter of the countries registering declines in 2016 were in Europe” (1). The problems found are of such a magnitude that “the international order of the past quarter-century – rooted in the principles of democracy, human rights, and the rule of law – will give way to a world in which individual leaders and nations pursue their own narrow interests without meaningful constraints, and without regard for the shared benefits of global peace, freedom and prosperity” (1).

Current geopolitical challenges and threats to democracy evoke similar trends to the 1920s and 30s that resulted in fascist and totalitarian governments, conflicts and World Wars. The historical parallels further emphasize the need to explain how economic inequality stirs conflicts and threatens democracy. This requires studying historical contextual evidence as well as theoretical problems underlying political and economic conflicts over rights that are eroding democratic society.

The study of human rights in political theory, as for foundational concepts in economics, is also burdened with conflicts, particularly in light of globalization. For example, according to Mutua (2002), rights are ideologically rooted in liberal thought based on the egoist self who is in constant conflict in society: This is evidenced in the litany of historical events based on justifications using human rights to shape constitutional laws and European and American policies that have demeaned or demonized African and Asian culture (10-70). For Mutua, the entire global project fails since the conception of the self at the centre of the liberal universe does not offer any means of understanding the relation between the self and real-world non-Western communities such as in Africa (65, 91). The non-Western communities have importance in shaping culture and their own particular views of rights.
In contrast, from the practical perspective of mainstream economics such as found in standard textbook microeconomics, rights are seen as part of production and consumption of social goods that may involve conflicts among people: The rights involve external positive and negative social goods or issues that are considered as being apart from the economic model (Mankiw et al., 1999, 205-216). The production of pollution for example, is seen as an external negative social good. Education, for instance, is regarded as a social good that is consumed, and yields external goods that can then generate improvements. On the production side, a technological innovation is treated as an external good that is internalized, for instance, if it gets protected by law, such as by gaining a patent (Mankiw et al., 1999, 205). A boundary is thus created to classify economic phenomena and conflicts involving property rights as mainly external legal problems which may diminish concern over rights and conflicts for some economists.

Since the market model in economics calls for legal recognition of property rights as an important means for their inclusion, this emphasizes the importance of institutions in mediating conflicts over rights in society today. Laws in Canada (as well as in other countries) are based on traditional views of property rights with implications that are important to illustrate. For instance, when the United Steel Workers’ Union tried to defend pensioners’ funds being used by Indalex, the Supreme Court of Canada responded: “While the protection of pension plans is an important objective, it is not for this Court to decide the extent to which that objective will be pursued and at what cost to other interests” (Supreme Court of Canada, 2013). For, previous case law shows that:

The existence of apparent conflicts that are inherent in the two roles of employer and pension plan administrator being performed by the same party cannot be a breach of fiduciary duty because those conflicts are specifically authorized by the statute which permits one party to play both roles. (Ibid.)

In other words, since the law can be seen to support conflicts of interest that can abuse
pensioners’ savings, a judge ruled that the conflict could not be interpreted in terms of the harm inflicted on the pensioners. The courts may wash their hands of having to make any nuanced judgments about human rights or the needs of pensioners while automatically serving the interests of the biggest investors. The example of the Supreme Court readily supporting financial interests of big investors bears important ties to ordo-liberalism. This form of liberalism is a “rules-based legalistic …doctrin[e] that prevents adoption of Keynesian policies to challenge austerity” and was important in shaping the European Union (Sawyer, 2018, 59-60).

Keynesian policies include fiscal policies providing, for example government spending on social programs and economic development. Keynesian monetary policies are carried out by a central bank to deal with problems of “equilibrium of the money market – that is, to alter either the money supply or the exchange rate” (Baumol, Blinder, & Scarth, 1995, 261). Ordo-liberal ideals seek to limit Keynesian macroeconomic policies and instead, protect traditional property rights by interpreting constitutional and legal rules to favour wealthy investors and lenders, while leaving poor less powerful economic agents at risk in bearing the costs of market losses. The current rules-based global order is certainly influenced by ordo-liberal ideals as many conflicts over property rights are resolved according to rules that favour wealthy investors rather than people who need support (such as pensioners), and Keynesian policy-making is challenged by austerity imposed by governments elected to reduce debts.

From the 1950s to the 1970s, democratic governments used Keynesian monetary and fiscal policies to help support full-employment and keep inequality at bay. The full-employment levels were certainly helped by government spending on the postwar reconstruction. However, by the 1980’s macroeconomics shifted in concern from full-employment policy goals to Chicago

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2 In this thesis, the term traditional property rights refers to the use of rights to wealth or property that let agents protect ownership of rights that can downplay or dismiss how these rights affect others. Views of traditional rights can regard taxes as “forced labour” (Nozick, n.d., 30-38, 169). For more descriptions of how traditional property rights may be interpreted to abuse power and ignore the well-being and freedom of others see: Wolff & Resnick, 2012, 262-263; Minsky, 2008, 10.
School ideas about monetarism that relied on a natural rate of employment that allegedly reflects equilibrium of supply and demand for labour only if unemployment levels can rise to accommodate people who want to quit working. This approach to unemployment then spawned debates about workers’ unwillingness to accept lower wages needed for equilibrium.3

As well, the rise of public choice theory during the same period, led to analyses of competing groups’ in the public sphere, including bureaucrats in the Keynesian state who were cast as an “inefficient” self-interested elite by both the political right and left (Thompson, 2008, 355). Conservatives and monetarists pushed the view that unionized “miners, teachers, railway workers, state health or local government employees [are all] rent-seekers” whose greedy behaviour would only increase the size the government (366). The corollary of this view is that government economic activities take opportunities away from potential business investors. Thus, shifts in economic thought promoted negative views about government, which were used to generate support for neoliberal goals for deregulation and privatization of public assets and services.

Since the 1980s, shifts in economic thought helped bridge differences between neoclassical or orthodox and Keynesian economists: For, a general agreement among the various economic approaches emerged around the idea of an economic agent functioning in a marketplace characterized by conflicts and a “fog of uncertainty” (Wolff & Resnick, 2012, 290-292). The traditional concept of equilibrium is of importance since it is an ideal that is supposed to resolve the conflicts related to property rights tied to distribution of wealth and uncertainty related to events that are not predicted by the economic model. Defining equilibrium requires imagining the “reconciliation of, [and] a kind of harmony among, [all] the potentially conflicting interests of different economic agents: buyers and sellers, employers and employees, lenders and

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3 For discussion of the debates surrounding labour’s unwillingness to accept lower wages see Baumol, Blinder & Scarth, 1991, 175.
borrowers, and so forth” such that all wants are fulfilled (292).

However, it is important to note that while the fulfillment of wants is included in the economic concept of equilibrium the problem of human needs is excluded. Skidelsky and Skidelsky (2012) explain that modern economics interprets “needs as a special class of wants… that are relatively impervious to changes in price” (89). The “psychological desire” to stay alive is used to explain why concern for subsistence existence and human needs are subsumed in wants (Skidelsky & Skidelsky, 2012, 89). As a result, some economists may choose to ignore rising inequality, conflicts, and how human rights to basic needs can be violated by economic events. Wolff and Resnick (2012) offer additional detail:

In neoclassical theory the achievement of a correspondence between producers’ selfish maximization of their own profits and consumers’ selfish maximization of their own preferences is also the achievement of a perfect harmony between physical and human nature, between scarcity and choice. The two parts of human nature – unlimited wants and the ability to produce and satisfy them – are in balance. (103)

Perhaps neoclassical economists simply believe-in the traditional equilibrium ideal and thus ignore “wildly unfair” allocations of wealth resulting in violations of rights to needs. Since some Post Keynesian economists use disequilibrium to explain economic problems there certainly exist contradictory economic approaches. These contrasting approaches suggest there is philosophical indeterminacy in the meaning of equilibrium. Thus, investigation of underlying philosophical problems around the meanings of and relations between equilibrium, property rights and human rights to needs is required.

Philosophical indeterminacy in the meaning of equilibrium raises serious questions about how demand, supply and prices are related to the day-to-day lives of people. The indeterminacy of meaning resides in the relation between market valuations and human beings that is expressed in property rights. The fact that conflicts over property rights can involve human action-taking that results in harm to others rather than the idealized reconciliation and harmony among
conflicting interests underscores how there is indeterminacy. The concept that people’s needs are unmet due to lack of desire to live well and acquire goods, can be used for justifications to further demean people living in poverty. Such condescension of people living in poverty with lower social status aligns with social Darwinian notions of survival of the fittest which supports views of how individuals’ gain wealth and status due to their natural abilities. When condescension leads to contempt and resentment around notions that “weak” or “undeserving” people are “unfairly” gaining wealth and social status, racist political views can spread quickly and lead some people to take actions that can further harm different groups of people in need.

In political life, the philosophical indeterminacy in economics leads to discussions around needs and wants that are confusing and contribute to emotional views about inequality. For, words can be used to create, assign or assert different meanings to events and experiences related in different ways to needs and wants. This is seen in historical political situations where power is used to manipulate meanings and events in order to generate outcomes that benefit themselves and certain elite groups while imposing costs on poor people. The fact they can be held responsible for their impoverishment after being subject to manipulation, means they are easily practically positioned as scapegoats within some economic thinking.

General acceptance of denial of human needs can also set the stage for other forms of abuse supported by further manipulation of the meanings of words. For example, with “dog-whistle” politics, leaders can assign new meanings to words to deliver messages to support racist groups, fuel hatred, increase confusion or brainwash people. Racist views can lead to abuse of labour as people are forced into conditions akin to slavery, which involves turning a human being into property. This may happen when people make hardly enough money to acquire food and shelter and become so insecure that employers gain seemingly endless control over workers’ time

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4 For a discussion of the ongoing influence of Darwinian views, see Horgan, J., 2017.
and efforts. Thus there is need for clarity in discussing human needs and power relations in property rights. The indeterminacy in the meaning of traditional economic equilibrium that putatively reconciles conflicts over rights may well be used to support forms of economic violence such as slavery, abuse and other forms of theft of people’s labour.

Literature reviews of a number of contemporary political and economic theories indicate that conflicts over property rights are not at the forefront of many discussions. This may be due to historical ideological problems and aversion to liberal rights in general, as noted earlier. Yet there is also passionate dedication to property rights by people who believe-in them as essential to capitalism. Thus, there is mounting political confusion with ideological conflicts and electoral fluctuations between right and left wing approaches in dealing with conflicts over rights that are threatening democracy. Since these conflicts can involve violations of human rights to needs there is imperative to reconsider philosophical discussion of equilibrium, property rights and political democracy. The philosopher Alan Gewirth offers an alternative foundation for property rights that ultimately leads to an alternative conception of equilibrium that involves both economic and political democracy. His concept of equilibrium emerges from a foundation for the two main justifications of property rights that require philosophical distinction between human needs and wants, thereby offering a clarification for discussions of economic problems facing society. Moreover, his approach to equilibrium for society deals with the variety of theoretical debates and conflicts over rights and problems of inequality. Problems in resolving conflicts are rooted in “two opposed ontological conceptions of the human self [that fuel] the adversarial conception of the relations between rights and community” (Gewirth, 1996, 91). The two explanations of the human self, contrast the Hobbesian competitive individuals with separate identities versus a “constitutive doctrine” that see individuals as social beings with very important ties to community that allow a sense of belonging (Ibid.).
Gewirth’s epistemology produces clarity in meaning of a balance in political and economic democracy as it requires two justifications based on consideration of antecedentalist and consequentialist dimensions of morality and human knowledge. Understanding property rights and discussing and resolving the conflicts that arise around rights also requires the use of the two justifications. As a result, Gewirth offers a radical departure from the concepts of equilibrium and disequilibrium that engage the traditional notion of the self-interested agent. As well, instead of leaving language and epistemology open to relativist and fabricated or racist interpretations, the Gewirthian framework calls for economic problems and conflicts to be analyzed according to the real-life situations affecting humans who all have basic requirements that must be fulfilled in order to have productive agency and meaningful lives in society. These matters are discussed in more detail in the following section and in Chapters Four and Five of this thesis.

0.2 Purpose of the Study

This thesis investigates the nature of property rights in relation to economics, philosophy, and conflict studies. It investigates problems related to the nature of market equilibrium analysis that restricts our understanding of the relations between conflicts and economics. Property rights and their justification play a critical role in economic theory and in philosophical conceptions of the relation of an economic agent (struggling with uncertainty) and market equilibrium theory. Our methodology to analyze these relations draws from American philosopher, Alan Gewirth (1912 – 2004), who taught three generations of philosophers at the University of Chicago after World War II and dedicated much of his life’s work to developing an action-based theory of human rights, including property rights (Gewirth, 1996, 53, 56, 166-213). He sought to “provide a more thorough and more firmly rooted foundation” for the United Nations (UN) Declaration of
Rights by grounding rights in the “necessary conditions of human action” (29). The UN (2015) recognizes “the inherent dignity of the equal and inalienable rights of all members of the human family is the foundation of freedom, justice and peace in the world” (1). But a tautology is in the UN definition that relies on dignity since this cannot exist without well-being. That fact that certain freedoms and conditions of possibility are required for well-being is supported by extensive research findings of the World Health Organization’s (WHO) (n.d.) social determinants of health:

the conditions in which people are born, grow, live, work and age [and the] circumstances [that] are shaped by the distribution of money, power and resources at global, national and local levels [which are] mostly responsible for health inequities – [and] the unfair and avoidable differences in health status seen within and between countries. (WHO)

A strong theory of rights such as Gewirth’s is needed to help enable a peaceful community based on mutuality and solidarity, both of which are required to support human dignity. There is a need to expose the relationships between freedom and well-being, mutuality, reciprocity, and economic democracy and political democracy.

In contrast to orthodox economics’ competitive marketplace for rights, Gewirth’s philosophy offers a conception of the relation between human rights and community that is non-adversarial in nature. Approaches that engage the adversarial conception of the relation between rights and community are found in traditional economics and critical political theories that can both create confusion in dealing with the role of ideals in contrast to reality. Ideals can become dangerous when conflated with a notion of reality. For example, libertarians see “freedom” as an absolute ideal and similarly, communitarians view the role of a community as absolute in defining rights, particularly in contrast to traditional property rights (88). Approaches that conflate ideals with reality can diminish capacity for effectively dealing with immoral rights, such as staked out by racist or misogynistic cultures that may control or take-hold of a

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5 For discussion of tautologies in the use of dignity as the foundation for human rights see Walters, (2002), 34-35.
community.

Gewirth's theory of human rights, in general, and his dynamic epistemology offer an alternative foundation for morality. Gewirth’s theory of economic democracy, political democracy, and property rights in particular, methodologically guides this thesis in an effort to help resolve moral problems concerning claims and conflicts surrounding property rights; it also aims to help prevent abuses of economic and political power so formidably at work today. Human rights are grounded in a theory of action that leads to a vision of community in which people mutually work together to develop an economic and political democracy. Knowledge and analysis of political and economic thought and actions are needed in order to support economic, political and democratic institutions in a post-Financial Crisis world.

Gewirth's theory of human rights provides ample justificatory arguments essential for analyzing human rights claims and conflicts present on a global scale. Gewirth constructs a vision that depends on development of a commonly shared understanding of the need for morality in a community. This is possible because members of a community either agree with the Principle of Generic Consistency, the PGC, or otherwise suffer the inevitable pain of self-contradiction that eventually affects anyone who denies others their freedoms and rights.

Boylan (2016) explains that the pain of self-contradiction⁶ is critical to understanding morality, because it can be seen in the tradition of Kant and Euclid, like “a fulcrum against which the world might be moved” since it gives us, common ground for understanding reality. Boylan says, “the law of non-contradiction is the cornerstone of those who believe in some sort of realism: moral, epistemological, logical, and metaphysical (which constitute the four principle areas of philosophy). If we can establish a fulcrum, than much is possible in the quest for truth”

⁶ It is important to note that Boylan (2016) specifically discusses the “pain of contradiction” and the “law of non-contradiction” which is the centre piece or fulcrum within the detailed proof in analytical philosophy for the incontestability of the Principle of Generic Consistency. The proof for the PGC establishes that morality exists even though there may be people who live without any recognition or respect for the PGC and pain of self-contradiction.
(48). In other words, the PGC and the pain of self-contradiction are universal philosophical concepts that are essential to an epistemological foundation, offering access to knowledge that is of importance to everyone. The concept of the pain of self-contradiction holds potential to help people share morality and new understanding of reality.

Gewirth (1988) defined the “universalism of the principle of human rights” to help deal with political conflicts that he observed. A new theory of human rights was needed to challenge the failings of traditional property rights that allow abuses of economic power. Moreover, Gewirth wanted to address the dangers of communitarian rights that have historically led to extremism in “Nazism, Stalinism, Maoism, and South African apartheid” (1988, 145). He saw that at an epistemological level and in self-understanding, the pain of self-contradiction or denial of the PGC entrenches individuals in self-struggle that come along with challenges to truth in immoral action-taking that harms other human beings.

To avoid immoral action-taking that can lead to abuse of power, and even get wound up in historical conditions that lead to extremist movements, it is critical to understand the logical basis of Gewirth’s theory of rights. The *claim-right* at the heart of Gewirth’s theory is structured as follows: “A has a right to X against B by virtue of Y” (1996, 8). The structure of the right has five elements that include:

- first, the *subject* (A) of the right, the right-holder;
- second, the *nature* of the right, what being a right consists in;
- third, the *object* (X) of the right, what it is a right to;
- fourth the *respondent* (B) of the right, the person or group that has the correlative duty; and
- fifth, the justifying basis (Y) of the right …and the *justifying basis* is a stringently rational supreme principle of morality (Gewirth, 1996, 8-9).

As for human rights, all people whether they are the *subject* and right-holder, or the respondent(s) of a claim right, are equally entitled. The *justifying* basis of a right, Y, requires rational thought to assess *claims* to according to the supreme principle of morality or the PGC.

The PGC is the supreme principle of morality because its generic character allows it to be
used by all rational persons in countless situations where conflicts have to be resolved using criteria such as degrees of needfulness. Gewirth sets the stage for his human rights theory with the concept of “conditions of possibility” that provide the basis for human action and productive agency, which are “part of their generic rights to both freedom and well-being” (Gewirth, 1996, 133). Generic rights require that an agent can access income in order to safeguard well-being and freedom; everyone has “positive rights to the development of their productive agency” to assure their ability to continue to access income (Ibid.). These links reveal how for Gewirth, agency is linked to conditions of possibility and economic life with ongoing dynamic potential that is grounded in action theory.

Gewirth provides philosophical and ethical justification for property rights depending on the degrees of needfulness for successful actions related to purposive agency, as well as on the basis of agent contribution through work. The epistemic justifications for private rights to property are described in terms of the “consequentialist” (based on degrees of need) and “antecedentialist” (based on contribution) conditions of possibility. In Gewirth’s words:

The consequentialist justification [for property rights] involves that all persons have equal rights to property, although not necessarily equal rights to equal amounts of property. The protections of freedom and well-being provided by private property through the community of rights must to this extent pertain to all persons. A famous example of this general, comparative, egalitarian emphasis is Locke’s stipulation that the acquisition of property rights in the state of nature requires that “there is enough, and as good left in common for others.” The possibly harmful consequences of property rights when they differentially affect some persons as against others are also invoked in the thesis that one of the “incidents” of property ownership is “the prohibition of harmful use . . . the condition that uses harmful to other members of society are forbidden.” Here, the consequentialist consideration likewise refers not only to the property owner herself but also to the freedom and well-being of other persons; but it is still distributive, focusing on the rights of each person severally. (Gewirth, 1996, 175-6)

Gewirth’s theory of property rights is of special relevance to the problem of global economic inequality. For example, the consequentialist justification of private property prohibits harmful use including such “wide inequalities in property holdings that some persons can
dominate the lives and thus the freedom and well-being of others” (176). Gewirth calls this abuse of power “the Inegalitarian Harm Thesis” (176). Thus, Gewirth offers a philosophy that addresses the problems of approaches based on social Darwinian notions that accept inequality, poverty and suffering as natural and inevitable. Property relations, says Gewirth, are relations of power. Thus, studying financialization and inequality requires understanding how relations of power are expressed in economics. Moreover, it is also important to inquire about how AI is implicated in economic and financial power relations.

Power relations play a role in shaping events in which degrees of needfulness are ignored as some property rights can take precedence and be protected by legal means without due regard for others. This happened, for instance, during the Financial Crisis as people were unaware of financial risks that they were not informed about and unknowingly assumed in signing home mortgages with balloon interest rates. Human needs are at stake at any time during a business cycle due to the ways in which property rights help ensure investors’ risks are limited by protecting their claims to wealth as against the claims of ordinary folks.7

The antecedentalist justification considers the contributions that a person previously made that may entitle them to a particular claim to property or wealth. However, it also requires concern for conditions of possibility that provide “the relevant basis for morality which is human action” (Gewirth, 1996, 13). The antecedental justification is concerned with the “proximate generic features of action” (13). The antecedentalist dimension of thought must consider the facts of reality that shape the conditions in which people live and take actions. Neglect of the

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7 For example, Canadian companies such as Sears and Nortel both faced bankruptcy and liquidation of assets with money flowing first to secured creditors rather than the unsecured pensioners who are left waiting for years to learn how much they may get back (Morgan, 2018). The board of Sears approved transfers of $3.5 billion in benefits to shareholders while knowing that the pension fund was $300 million short. The infliction of such harm on pensioners is legally permitted in Canada due to bankruptcy laws that give priority to the property rights of the secured lenders such as banks, bondholders and others. The federal government of Canada responded to questions about the need for legislation by noting it was “connecting Sears [sic] employees with services to help them through this difficult time” (Ibid.).
antecedents of a situation is dangerous since this omits consideration of the basis of morality.

Gewirth (1987) asserts that when laws are not based on moral rights and cause harmful situations, they do not have to be obeyed. This is due to the fact that people who face their own moral obligations based on needfulness – such as maintaining shelter and supplying food for their loved ones – must find the means to fulfilling those moral duties. So for instance, in Canada pensioners who lost pension plans due to courts’ decisions over their bankrupt workplaces, would have been morally justified to openly take goods and assets, or the proceeds from liquidation sales to help cover personal needs and lost savings, as they were threatened with essential of income. In other words, the meaning and purpose of human agency in society is inherent to moral rights – and, this must be reflected in laws and comprehended by legislators, regulators, lawyers and judges (1987, 125-136).

A situation where laws are not based on moral rights and when courts at the highest level make decisions that can cause harm – is a sign of the degeneration of democratic institutions that give preference to ideals of traditional property rights that are closely related to orthodox economic notions of competitive efficiency and market equilibrium. In contrast, for Gewirth, democratic institutions are supposed to guard the “equal distribution of civil liberties in the political process, as well as other liberties or freedoms that are needed for action and successful action in general” (1987, 136). If one is living in conditions of war such as in Yemen, where starvation is happening, efforts to escape or steal food in order to feed oneself and one’s family are necessary and moral. It is important to note that conflict is not the only cause that explains conditions of starvation. Research by the United Nations’ World Food Program (2018), confirms that the war left millions of people at risk of famine. However, the numbers of people dying of starvation increase as prices for food and fuel rise more sharply over September and October of

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8 For examples, see Morgan (2018); Supreme Court of Canada (2013), Sun Indalex Finance, LLC v. United Steelworkers.
2018 (2-5). The sharp rise in prices is largely due to a currency crisis which impinges on already difficult conditions for action-taking. The currency crisis is due in part to market forces, for which it seems nobody is directly responsible, yet market forces do in fact come from human actions. Thus, there is moral imperative to ask how such currency crises happen and if they can be avoided. Mainstream economic theory can be used to depict market events as “inevitable” and due to the “invisible hand” or forces that work, somehow towards an automatically just equilibrium. In reality, economic calamities call for charity drives to deal with famine and deprivation.

Michal Kalecki (1899 – 1970) recognized problems with the model of perfect competition and traditional equilibrium since these economic concepts have no relevance to real-world problems (Sawyer, 1985, 5-40). Kalecki introduced methods using disequilibrium to explain economic problems using, for example, his important concept of degrees of risk. His methodology can help explain, for instance, how workers’ pension plans are used-up by investors as they seek to reduce their degrees of risk and offset losses of their own accumulated capital. The pensioners meanwhile, suffer increased degrees of needfulness, in accord with Gewirth’s theory of rights.

Degrees of need and risk are at the heart of different human experiences of events and conflicts affected by legal influence of ordo-liberalism and financialization. Kalecki’s approach stresses the need to consider the antecedents that are involved in conditions of disequilibrium that can harm pensioners or “allow” people to die, as in Yemen. Kalecki’s “principle of increasing risk” helps explain human actions and power in relation to business cycles, economic dynamics, and wealth accumulation.

This thesis develops a conceptual framework based on Alan Gewirth’s property rights

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9 It must be asked if central banks ought to take a role in preventing the sort of worsening of conditions described in the UN World Food Program Report, (2018).
grounded in action and demonstrates how both degrees of needfulness and risk have the potential to affect people in different situations, thereby helping to explain how human action-taking is related to historical cycles. The framework then demonstrates how degrees of needfulness and risk relate to one-another within the self by using a modified Euclidian framework that includes antecedentalist and consequentialist dimensions and time. The discussions and framework offer philosophical links between the self, events, and conflicts, thereby revealing a complex interplay between needs and risks in the conception of the human self, requiring perennial philosophical analysis that includes historical contexts. Such analysis helps delineate the importance of lost human and economic potential that occurs as a result of inequality and conflict. The interplay of needs and risks is essential in including both investors’ and individuals’ decision-making required for analysis of debates and conflicts over government policies that currently depend on preferences and emotivism.

Although traditional property rights do not include degrees of need or risk, in reality, investors are very focused on analysis and use of risk to create or access new claims or rights to property. For instance, in the lead-up to the 2008 Crisis “big data” was used by financiers in the United States housing market, employing mathematicians to develop algorithms to assess risk. The algorithms made it possible to classify people, according to their financial risk based on data sets available on home location, credit card debts, retirement assets, online behaviour, consumption behaviour, and much more (O’Neil, 2016, 1-50). Power relations supported financial decisions to sell toxic sub-prime loans in neighborhoods with minorities and women, who would most need easy access to mortgages and have the most difficulty repaying such loans and (Dymski et. al., 2013). Algorithms could further enhance the power of investors targetting the home owners’ risks as a financial opportunity for short-selling. The rights related to financial

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10 A Euclidean framework denotes shared experience or perspective in two or three dimensional space. For more details see, Editors, (n.d.), Euclidean Space, *Encyclopedia Britannica.*
risks were shaped by power relations regarded as external to orthodox economic models. The use of power relations and algorithms to ultimately get access to the property rights of targeted minorities, people of colour, retired folks and women requires more exposition. The investors’ actions to gain money from financial risks illustrate how the blurring of distinction between mind and machine leads to human rights violations.

The problems around property rights in relation to needs, wants, risks, and disequilibrium of financial crisis call for more philosophical investigation. The human need for security that people have in their property rights to homes, for example, created multi-level risk opportunities for investors who then exploited the home owners. Orthodox economics does not explain the power relations nor the interrelated needs and risks that are built into property rights and claims in real life. As a result of this gap in theory, there is a need for a framework with capacity to depict interactions of degrees of needs and risks. The relationships between the financial sector and ordinary people need to be described both empirically by examining data and events, and theoretically in considering conceptual issues such as rights. Analysis of the relations must provide specification in distinguishing between needs and risks in claim rights in financial instruments and how these affect different people.

Explaining how actions and property rights are related to disequilibrium involves studying the dynamics of business cycles and historical long waves. Bernard Lonergan (1988) describes economic dynamics in relation to the rhythms of the day-to-day, and the “flow of human activity” that shapes history and the general health of a democratic society (206). The idea of a flow of human activity allows for a deepening of the philosophical discussion of economic cycles and the actions related to conflicts.

Property rights play a hidden or silent role in shaping the decisions and policies that allow accumulations of wealth and extreme inequality in society. According to traditional
economics, conflicts over rights involve preferences and psychological states and are to be resolved by markets or courts of law. Thus, economic theory accepts that conflicts are present but are not a concern.

Discussion and specification of problems related to property rights are further obscured because of the popularized role of groups’ rights in communitarian theories rejecting universal rights. Postmodern theories that came into vogue in more recent decades also reject universal human rights and depend on the relativism among groups (Bauhn, 2016, 2). There are other philosophical debates that are rooted in the belief in relativism. For instance, Boylan (2016) points out that the logical proof for the law of non-contradiction or the significance of the pain of self-contradiction is undeniable. That is, morality exists for all humans because of the “fulcrum” and central role of the pain of self-contradiction. However, philosophers continue to raise objections by arguing there may be some particular instances where it does not work (47-57).

The philosophical support for relativism may be seen in ongoing and deepening struggles over group rights that come about with rising inequality. The prevalence of relativism is seen in debates about wants or preferences and discussions of psychology that contribute to emotivism that underscores justifications for public policy-making while human needs may be ignored. Emotivism is defined as, “the doctrine that all evaluative judgments and more specifically all moral judgments are nothing but expressions of preference, expressions of attitude or feeling, insofar as they are moral or evaluative in character” (MacIntyre, 2007, 12). Emotivism is critical in explaining the importance of the state of confidence of investors in determining how policymakers and courts prioritize property rights. Economic thought that externalizes property rights and kowtows to investors’ preferences to preserve financial stability ultimately relies on emotivism. Moreover, preferences presume choices based on emotivism ignore human needs. Economic theory that ignores human needs, as noted above (0.1), is bound to integrate errors in
explaining reality. Errors multiply over time, particularly with respect to analyses of how decisions may violate people’s rights over the course of long-wave economic cycles with mounting financialization and rising inequality. This problem points to an analytical limitation or gap in economics that is related to the blurring of distinction between mind and matter and the need for epistemological clarity.

0.3 Hypothesis and Guiding Research Questions

This thesis argues that Gewirth’s theory of human rights provides an epistemological foundation and criteria for evaluating the limitations of mainstream economic theory that help produce growing inequality. Understanding human rights, generally, and property rights, in particular, requires analysis of the relation between economic theory and the individual human. Gewirth’s philosophy of property rights entails “a dialectically-necessary method” (Beyleveld, 1991, 15; Gewirth, 1996, 16) that holds need-based and contribution-based justifications for property in balance, with degrees for needfulness of action and risk relating self-contradiction, that must always be considered in an ethical and philosophical framework. Gewirth’s theory provides an alternative epistemology and conception of the relations between the individual, human rights and democratic community. The aim of this thesis is to develop a link between Gewirth’s concepts of the self and property rights and economic theory. This is done by demonstrating how the antecedentalist and consequentialist dimensions of Gewirth’s property rights that shape his action theory offer a foundation for morality in economics. In the process, the epistemological potential of Gewirth’s theory of human rights including power relations in property rights, economic and political democracy, is brought to bear on the global problem of economic inequality.

The Gewirthian foundation challenges orthodox macroeconomics that places freedom,
desires, and preferences as the moral basis of theory. Monetarist and orthodox economics use a framework that promotes and protects market forces and freedom without duties and ignores the Keynesian objective of full-employment. The demarcated market model in orthodox economics leads to confusion in describing the causes of financial crises as external shocks. Legally protected property rights to financial instruments have power to trump the basic rights of individuals to their own homes since economic theory based on preferences can ignore human rights to needs and denies the reality of power relations.

How do claims to financial products or homes in property rights relate to values – and value of human life or labour in relation to money and finance? That is, how does economic theory express those relations? Finally, what is the relation between property rights and democracy? These questions will be explored in light of the concepts of degrees of needfulness and risk. The hypothesis herein is that Gewirth’s theory of rights offers a new epistemological foundation that calls for reconsideration of the relation between humans and economic theory. Kalecki started on this path by describing the actions of investors and offering formulations that explain investment in productive capacity. Yet Gewirth’s philosophical description of the self thoroughly challenges the 19th century notions that are drawn from traditional property rights and offers a foundational framework that can describe consumers’ and investors’ action-taking and rights including the right to productive agency over the course of an individual’s “economic biography.” We develop discussions of the flow of human activity which helps to extend Gewirth’s framework to demonstrate how needs, risks, and economic dynamics contribute to historical waves and cycles that shape the economy-at-large.

If economic theory fails to explain historical cycles that shape society, this means that governing institutions lack capacity to meaningfully discuss and take action in the public interest. In such a case, society can be overrun by deterministic forces, perhaps using bit data and AI to
monitor people; power relations become unwavering and institutions lose the ability to protect human rights and democracy, as well as the capacity to provide rules for free markets. This evokes Johan Galtung’s (1969) famous description of institutional violence that includes both physical and psychological harm, such as loss of “somatic capability” and the use of power that “works on the soul (such as) lies, brainwashing, indoctrination (and) threats”(169). The nature of institutional structures and actors is more important than efforts to assign guilt (178). Such structures are kept in place by “top-dogs” who hold onto the power to preserve the status quo. Galtung specifies “the police, the army, (and possibly) the thugs” may be used to quell any threats to stability, while the top-dogs remain hidden (179). Overturning a violent structure is difficult since any vacancies are filled by a new group that upholds power relations that help preserve a fundamentalist regime. This makes it important to investigate how ideology related to fundamentalism may work to keep “top-dogs” in control of institutions and society. The history of institutional and structural violence emphasizes the importance of addressing the mechanisms that can destroy democracy. Ideology consists of “the causes of intellectual errors” rooted in theories that once reached for scientific capacity (Geertz, 1973, 197). Moreover, ideologies or failed theories can morph into doctrines that can for example, lead to fascism, communism, or totalitarianism (194-198). It is important to identify ideologies that stem out of intellectual errors in order to establish what sort of corrections and intellectual changes are required.

We will examine further, therefore, evidence of how limitations in economic theory results in the use of ideology that is eroding democracy. Important evidence is offered by Alan Greenspan, former chair of the Federal Reserve, detailing how policy-making depends on ideology in his testimony at the United States Congressional meeting of the Financial Market Regulators and House Oversight and Government Reform Committee (HOGRC) meeting held in 2008. The fact that institutions may depend on the ideology of individuals underscores the need
to investigate how economic theory can lead to intellectual errors. Policies and practices based on ideology must be questioned since institutions using it can end up supporting abusive power relations.

It is important to note that Greenspan’s ideology rooted in mainstream economic theory views the conflicts around rights as being mainly exogenous. The traditional economic approach explains prices as a result of the adjustments of market demand and supply for goods. In order to explain events of harmful events and rights violations related to the exercise of private property rights, economists may discuss “negative externalities” to explain social costs.11 Traditional economics is not concerned about and does not account for social costs, conflicts and the power found in social relations that give rise to conflicts.

In reality, there are conflicts in social relations with people struggling for rights to basic needs because of economic inequality. This reality stands in a stark contrast with the traditional equilibrium model that reconciles conflicting rights via the price mechanism. Moreover, mainstream economics regards money as exogenous to economics (Arestis & Sawyer, 2006, ix). All these confusing conceptual difficulties emphasize the need for philosophical analysis of the relations between government, financial markets, money and people – consumers, producers and investors in society.

One could argue that the divisions between economics and rights seem reasonable and explains why human rights experts and conflict studies are required to deal with the messy reality of social relations and property rights. However, historically, the relation between economics and conflicts is burdened with real-life dangers and risks that can ultimately lead to war. The intersection of economics and conflict studies involves boundaries that call for investigation to expose the nature of the shared theoretical and philosophical problems.

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11 For a discussion of negative externalities and efforts to overcome the market priority given to private property rights, see Wolff & Resnick, (2012), 259-266.
0.4 Methodology

This thesis draws upon historical and theoretical research of the relations between conflicts, economic disequilibrium, property rights and the future of democracy. An outline of historical events leading into the 2007 – 2009 Financial Crisis offers empirical evidence to describe these relations and the challenges facing democracies. Analysis of historical evidence demonstrates that many political conflicts are linked to various claims and property rights that economics does not address. The claim rights of workers, investors, numerous interest groups, corporations and even government all come into conflict with one another through different social relations. In the history of thought, property rights are part of microeconomic concepts that shape consumer choices and utility theory. Property rights and claims are embedded in a choice or decision to purchase a commodity or to partake in an exchange of equal value, which “aims at a stasis or equilibrium” (Meeks, 1989, 118). The stasis related to equilibrium assumes that the rights are simply a given part of an action or choice that is completed by virtue of an exchange relationship. Successful completion of the exercise of claims or choices underlies the ideal of equilibrium. In reality, however, power relations generate conflicts around the claims and rights that affect the meaning of equilibrium that is in theory supposed to provide reconciliation of conflicts over rights, as noted earlier (0.1). Competitive relations involve winners and losers along with human experiences of economic inequality and conflicts that lead to disequilibrium. For example, any sense of stasis in exchange and equilibrium is disrupted for the pensioners forced to surrender their claims, or for the people in Yemen who no longer have access to food markets. There is an abundance of evidence of harmful relationships in which powerful players or investors take actions without any concern for the PGC or the risk of the pain of self-contradiction. We also find that orthodox economic theory that is based on the competitive self, does not have the capacity to include or assure the application of the PGC.
A history of thought methodology is used in curating theoretical evidence in order to investigate foundational problems in economics that are related to the nature and functioning of property rights and equilibrium. The dialectic that emerges in the analysis of evidence in the evolution of economic thought exposes problematic concepts. For example, as noted earlier, property rights are typically regarded exogenous to the economic model. As a result, problematic action-taking may be seen as external to the field of economics. Contradictory potential is built-into economic theory. The potential to ignore the PGC and pain of self-contradiction in taking actions comes along with imposition or use of the traditional concept of competitive equilibrium.

We draw upon literature sources on political and economic theories as well as conflict studies. Our discussions of theoretical problems provide further evidence that help demonstrate how and why Gewirth’s conceptual framework is of importance. Gewirth’s philosophical framework provides concepts that are used in a systematic evaluation of empirical and theoretical findings. The Gewirthian evaluation of a broad range of economic theoretical problems that are directly related to inequality suggest that there is a need to replace the neoclassical notions of equilibrium that deny the need to recognize how free market can cause violations of rights rather than the idealized reconciliation of conflicts over claims. We discover that Gewirth’s philosophy provides an alternative equilibrium based on balancing rights to political and economic democracy.

There are serious theoretical limitations in understanding and describing reality using the orthodox competitive market equilibrium that can result in the dangers of relying on ideological thought. These limits to understanding and boundaries in thought involve conflicts over rights. Models that involve fundamentalist approaches in which human thinking clings to “tight boundaries” that ultimately serve to protect a “separate community” is of much importance (Neufeld Redekop, 2012, xx). For, political and economic theories or features of theories may be
used to set boundaries and protect a group’s views and interests without any regard for potential conflicts and harm suffered by others. Such boundaries are seen, for example, in the need to describe economic factors that disrupt the market equilibrium model as exogenous issues. Conflicts happen as people have to fight for their needs and well-being that are ignored by orthodox economics.

As well, people who devote their lives to staking out academic or professional work on either the right or the left of the political spectrum may unintentionally contribute to fundamentalist theorizing, particularly if there is lack of discussion of the problems around human and property rights. For example, Lavoie (2013a) describes how economists stake out boundaries in a variety of schools that form two main camps, the “heterodox” that includes economic Keynesian and orthodox methodologies, and the “orthodox” that rely on equilibrium models – both of these camps include subdivisions with other specialized schools of thought (5).

As well, in political theory, post-modernist approaches may reject liberal economic theory outright and support groups’ rights, thereby shutting-out any potential for philosophical discussion on foundational theories and problems around property rights. As described by Gewirth, this sort of dismissal of property rights, actually engages the traditional notion the self and leads to the conflictual conception of the relation between rights and community.

Mimetic behaviours and group-think may kick-in, leading people in intellectual camps to fortify positions. People with responsibility to produce decisions in the world of finance may be politically swayed in addition to being in the divided world of economics. And, such decisions are also based on interpretative activities over time that results in the use of narratives to explain reality (Redekop, 2002, 175). Mimetic processes are particularly dangerous when set into motion with interpretations and narratives that involve scapegoats who are blamed for problems and
In the 1930’s, unresolved economic crisis and debate helped support the use of narratives that blamed Jews and other immigrants for problems. Mimesis then works with the “scapegoat action” largely based on the mass of people’s “sense” that the blaming is legitimate (Redekop, 2002, 99).

People seek out a new solutions and social order to resolve the problems blamed on the outsiders perhaps by voting for totalitarian and fascist leaders who encourage nationalism and identity politics. Today in America, for instance, narratives blaming economic problems on Latin Americans and refugees from around the world have also taken hold because of mimesis. At the level of economic decision-making, there are also political narratives of inequality since the 1980s that blame U.S. President Reagan and U.K. Prime Minister Thatcher who both introduced neoliberal privatization, lower taxes and economic austerity. To the extent that Reagan and Thatcher may be seen as scapegoats, this may sideline studies of the causes of inequality that have deeper theoretical roots. It could also be argued that the phenomenon of widespread blaming of Reagan and Thatcher for inequality was a forewarning of the potential for future scapegoating, mimesis and racism to once again put totalitarian and fascist leaders in government. Social scientists and economists who may blame particular leaders may end-up fueling narratives and contribute to intellectual mimesis that prevents asking questions about foundational philosophical problems related to rights. Explanations based on social scientists’ and economists’ “sense” of problems only adds to ideological arguments and political conflicts around the causes and solutions for inequality.

Narratives may be built-up around the use of economic concepts including traditional property rights that may conflate personal effort to acquire a good with an absolute right to that good. Belief in absolute rights to wealth may lead to the misconception that status in society

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depends solely on one’s effort to acquire goods. Studies in psychology show that persons’ attitudes and preferences tolerated increased inequality as they increasingly believed that social welfare benefits caused laziness and that high incomes were due to individual efforts or hard work (Aldred, 2019). The attitudes and preferences of the public tolerating rising inequality become a problem especially as people vote time-and-again for leaders and governments that cut-back public education and healthcare. Questions are raised about interpretations and narratives of the Financial Crisis. Are there other underlying causes for inequality that have a more lasting influence in shaping narratives?

For example, concepts such as property rights and the traditional ideal of equilibrium can meld into political narratives that combine with mimesis. The concepts may also be used as devices to protect group boundaries to the point of involving serious and evil distortions to protect or ensure the goals of a group. Robert J. Lifton (2017) offers the concept of malignant normality that explains how thought that is crazy, cultish, and even harmful can get mixed-in with reality and be “presented as normal, all-encompassing, and unalterable” and then becomes acceptable, even to “witnessing professionals” (xv-xvi). Malignant normality can be particularly dangerous and degenerate into evil when the mixing of thought and reality shapes the “political and military currents of a particular era” (Ibid). Therefore, witnessing professionals in academia that participate in mimetic activities or group think that supports ideology and scapegoating may end up unintentionally contributing to malignant normality of immoral rights.

We need to recall however, that the telos of political and economic philosophy or theory is to produce knowledge rather than narratives based on “sense” or emotionally based narratives. The struggle for knowledge, which involves ongoing dynamic thought used to explain reality must be distinguished from interpretative use of concepts that can result in misleading or ideological narratives. If political and economic theories rely upon or defer to emotivism to
explain reality and provide moral evaluation, narrative interpretations are likely to give rise to interminable conflicts. The use of narratives that come about because of the failures of theories likely translates into ideology, opportunities for abuse of power and moral relativism.

As noted above (0.1) Boylan (2016) describes how Gewirth’s philosophical foundation for morality is built on the PGC and the fulcrum of the pain of self-contradiction was intended to help all people find a common framework in which to share knowledge of reality. Yet we find an abundance of evidence of powerful investors and policy-makers who ignore the PGC and the “pain of self-contradiction” in managing property rights; this is undeniably related to deepening inequality and conflicts. The abundance of evidence of people ignoring the PGC and pain of self-contradiction calls for analysis. Gewirth’s philosophical framework and concept of political and economic democracy helps to demonstrate how disregard for the pain of self-contradiction poses grave threats to human existence, well-being and freedom. The fulcrum of the pain of self-contradiction is in each-and-every person and his or her actions. The violations of the PGC by investors, policy-makers and agents in positions of power must be accounted for in terms of their effects upon the freedom and well-being of all people in society. Gewirth’s philosophical framework helps us with development of knowledge that is part of an ongoing process.

The methodology in this thesis uses Gewirth’s antecedentalist and consequentialist dimensions of thought, action-taking and development of knowledge. The antecedentalist dimension involves consideration of the antecedents or social, political economic and environmental conditions that allow action-taking. The consequentialist dimension includes analysis of the purposes related to actions. This includes considering the purposes that relate to actions for individuals as well in the aggregative sense, in terms of society at-large. Gewirth (1996) points out that the aggregative consequentialism usually takes precedence over distributive consequentialism since the notion of maximizing goods assumes there are no
distributive problems (379). In other words, the ideal that the market optimizes distributive outcomes to everyone’s benefit – is another way of dismissing problems of economic inequality. The historical and theoretical evidence provided in this thesis provides contextual explanation for this imbalance and blatant theoretical limitation in explaining inequality.

The antecedentalist and consequentialist justifications for actions are used herein as investigative tools and form the epistemological approach of the thesis. Our analysis of the history of ideas that shape current economic theory relates to the antecedentalist dimension. For, current economic theory is used in shaping decisions and policies that affect everyone. The consequentialist dimension is also used to philosophically evaluate the decisions and actions that are exposed in the historical evidence in the thesis. The violations of the PGC that exposed in the research findings are evaluated in accordance with both the antecedentalist and consequentialist justifications.

0.5 Outline of the Thesis

The first chapter, “Economic Violence: Empirical and Theoretical Problems,” starts with a brief historical overview of business cycles leading into the 2007 – 2009 Financial Crisis. Contextual evidence is needed for a philosophical analysis of economic disequilibrium that fuels inequality, conflicts around property rights and democracy. The historical outline provides detailed examples of the sorts of events, exchanges and economic violence that shaped the Financial Crisis and now challenge the future of democracy. The outline also provides evidence of how leaders in government institutions can end up relying theory that is ideological. The second part of this chapter discusses how conflict theories help explain how ideology contributes to abuse of power and economic violence. The problems of historical determinism and institutional violence are also considered in relation to conflicts over rights. Conflict theories
offer ways of interpreting the historical evidence of violence, yet include disagreement about the role of political and economic causes for wars. Debate in conflict studies reveals links to foundational problems in economic theory. The third section of this chapter looks at foundational economic concepts that are of importance in the thesis. The traditional concepts of property rights and equilibrium are discussed. The concept of property rights that traditionally provided a relation between humans and economics is set aside with the rise of Keynesian theory. Thus, John Maynard Keynes’ (2003) foundational concepts in his *General Theory of Employment, Interest and Money* (originally published in 1936), including preferences and wage-units are also discussed to convey their original role in linking human wants and the value of labour to economic theory. Keynes also maintains the traditional notion of equilibrium as a market ideal which he discusses in relation to output, the level of employment, savings and investment decisions, expectations of current and future consumption (10). His theory of employment is based on the aggregate income, savings and investment and leads to conclusions and reasoning that are of importance to “public finance and public policy generally and the trade cycle” (10).

Finally, since social choice theories are predominant today in many of the social sciences, it is necessary to briefly discuss the mathematical foundations set by Kenneth Arrow (1978) introduced in his famous work *Social Choice and Individual Values* (originally published in 1951). The foundations of social choice theory moves the field of economics away from methodological individualism and concern with the nature of the actions, discussion of ethics and philosophical problems that lie at the base of financial cycles.

The second chapter, “Economic Approaches and Historical Long Waves” provides an overview of different theories used to explain financial crises. A number of economic approaches were developed in response to shortcomings of Keynesian theory in explaining business cycles and economic long waves or cycles. Post-Keynesian, monetarist, and Marxist approaches, as
well as systems dynamics and chaos theory are all briefly described to survey their contributions to understanding economic cycles. The overview reveals common elements of shared cycles in day-to-day life and economics, found in views explaining relations between the self, society and nature. The debate over climate change science and economics is noted. Textual evidence of classical authors reveals how racism and sexism are tied to the atomistic self along with notions about competitive action-taking, valuations of work, and social status. The overview of economic literature on cycles allows us to listen to the tradition of economics and to gain textual evidence of theoretical struggles to understand financial crises and cycles. Analysis of the evidence is required to better understand disequilibrium, property rights, and inequality, and lack of concern in economics for democracy.

The third chapter, “Claims, Conflicts and Property Rights,” sketches out some theoretical problems and conflicts in economics and considers how these shape policy-making that affect democracy and rights. Marc Lavoie (2013a) explains that social choice economics based on the Arrow-Debreu (1954) article inspires orthodox economic models and divides economists, so it is studied. The Arrow-Debreu model conceals property rights at the foundation of orthodox models with mathematical notions that appear to limit philosophical discussion. The Arrow-Debreu model collapses the action-taking to acquire a good into an automatic property right, thereby supporting absolutist views of rights. As a result, the model also sets economics apart from concepts of democracy and human rights related to redistributive policies. We then discuss a range of approaches that try to offer ways of dealing with foundational problems in economics. A brief overview of policy approaches in response to the 2007-2009 Financial Crisis is provided in order to see how decision-makers handle theoretical and foundational problems. The research findings call for discussion of the conceptual problems around the value of labour, money, inequality, and market equilibrium. The discussion reveals how all these concepts relate to
traditional property rights that are part of the conception of the conflictual relation between rights and community.

The fourth chapter, “Alan Gewirth’s Theory of Human Rights, Economic and Political Democracy,” starts with a brief discussion of authors who are concerned with justice and struggles over rights to help situate Alan Gewirth’s (1996) philosophy of human rights. His carefully structured argument for rights based on the Principle of Generic Consistency (PGC) stands as a bold alternative to theories by authors that rely on adversarial conceptions of the relation between rights and community. Gewirth’s theory does not skirt around the difficult philosophical issues in economics, but instead shows how to deal with conflicts over property rights by using the PGC, degrees of necessity, and consideration of the circumstances, conditions, contributions and analysis of the problem at-hand.

Chapter five, “Economics and Human Rights: An Evaluation,” uses Gewirth’s justificatory criteria to evaluate the research findings of the thesis. The economic theories discussed in the first three chapters are evaluated. The economic policies discussed in Chapter 3 are also evaluated in light of Gewirth’s criteria. The evaluation of cycles and foundational problems in economics sheds light on the need for more in depth understanding of action-taking in economic theory. As well, the evaluation of financial policy-making provides specification of theoretical problems related to disequilibrium that can worsen inequality and conflicts that threaten democracy.

The sixth chapter, “Theoretical Foundation for a Relation between Rights and Economics” suggests an alternative framework for viewing the individual agent and the nature of action in economics. This leads to a need to reconsider the concept of value in relation to human action-taking. Gewirth’s foundational framework is used to show how both antecedentalist and consequentialist justifications provide a basis for analysis of conflicts and the causes of extreme
inequality in society. Gewirth’s dynamic theory of agency requires analysis of how claim rights in finance impact other people and society at large (Walters & Morley, 2016, 150). The agent as conceived by Gewirth includes the role of duties of a rational being who understands degrees of needfulness based on cognitive awareness of others and conscience that is needed for one to grasp the meaning of the PGC and avoid the pain of self-contradiction. In the context of financialization, it is necessary to consider how the self may take-on degrees of risk as an investor and how an ordinary person is affected by degrees of need and risk in his or her life. An analysis of the agent thus comprised offers criteria to reconsider problems related to money and value. The relation between political and economic democracy highlights the nature of the self, action-taking and the economic biography. In turn, studying the nature of this relation helps expose how actions can contribute to disequilibrium and lead to historical long waves.

The Conclusion discusses the implications and findings of the thesis. Our synthesis of research findings provide evaluation of historical and textual evidence that helps in understanding of the claims and conflicts arising from disequilibrium, inequality, property rights. Research findings and a Gewirthian analytical framework are used to help to demonstrate how economic disequilibrium that gives rise to inequality can be a dire threat to democracy. Analysis based on Gewirth’s concepts also suggests that the real-life relations between economics, nature and democracy may be better served by envisioning equilibrium as a balance of economic and political democracy. This matter stands as a subject for future research and discussion.
1. Economic Inequality, Conflicts and Theoretical Foundations

This chapter describes how economic inequality has been increasing due to financial crises and financialization that has been happening since the mid-1900s. The first section in this chapter provides historical background for the 2007-2009 Financial Crisis. Real-life experiences and economic inequality unfold along-side, yet often in tension with, political and economic theories that prioritize equilibrium analysis and goals. Increasing economic inequality over decades (as described earlier, 0.1) warns of problems with economic theory and policies. The use of market equilibrium as an ideal and analytical tool leads to struggles in providing policies and social conditions needed for democracy. For, the rise in inequality emerges along with conflicts that are increasingly shaping public affairs with election outcomes that routinely place tax cuts austerity ahead of broader social needs. Increasing economic inequality also raises questions about the functioning of institutions with responsibility for policies to assure well-being for the future of democracy.

Today, as in the early 1900s, questions are being raised about the validity of political and economic theories to explain reality and guide policy-making. In the early 1900s “scientific currency” was seen as important to model the mechanics of groups and reveal the need for elites, such as advanced by realists challenging the relevance of “messianic democracy” (Meisel, 1962, v-x, 6). In other words, the ideals of equality that are part of the philosophical tradition of liberal democracy were deemed unrealistic by critics who sought-out alternative theories to account for the rise of successful business and political elites. The early 1900s experienced tense international relations, financialization, growing inequality and conflicts over claims to rights. Ruling elites were in favour of laisser-faire economics based on neoclassical concepts: The
egoistic “rational man’s” action-taking and property rights supported the workings of the so-called self-equilibrating free market model – with its well-known ongoing exceptional events of repeated economic booms and busts.

The laissez-faire model allowed massive wealth accumulation by successful business elites. As introduced earlier (0.1, 0.3, 0.4) such challenges to liberal political and economic theories led many people in the early 1900s, in the world’s most economically advanced democracies to turn to alternative forms of government found in totalitarianism and fascism. The problems stemming from economic inequality, fascism and totalitarianism culminated into the World Wars. The historical relations between economic inequality, social and political disruption and conflict call for the multi-disciplinary approach used for this thesis.

The first part of this chapter offers an historical background leading up to the 2007-2009 Financial Crisis to provide a contextual and empirical basis for discussions about economic inequality, property rights and democracy in North America and Europe. The historical outline provides a profusion of evidence of economic violence based on conflicts around property rights. The second part of the chapter briefly outlines different approaches in conflict studies that are used to explain the causes of economic violence and of conflicts. Historical cycles characterized by mounting inequality and social turmoil seem on the one hand to describe how society may be destined for war. On the other hand economists and social scientists strive to gain new knowledge about the causes of economic problems and war precisely to determine what actions can be taken in order to avoid conflict. This overview reveals how economics intersects with conflict studies, particularly when conceptual problems related to distinctions between wants and needs place limits on analysis. The third section in this chapter discusses foundational concepts in economics that are required for development of the thesis. As described earlier (0.2) the

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13 The term ‘rational man’ comes directly from the colonial era and paternalistic emphasis on “man” as decision-maker and master of economic affairs and other human beings who were seen as inferior. For detailed description and disputation of rational man see, Sen, (1977).
concept of rights provides a link between humans and political and economic theory. Concepts of forms of property rights are noted. Understanding the role of equilibrium is complicated by the fact that different methods are used to explain how it exists. As well, its role as an ideal lacks clarity and requires further investigation. Since Keynesian macroeconomics gave rise to approaches that ignore property rights, we discuss Keynes’ foundational concepts of preferences and wage-units that are philosophical links to decision-making and the value of human labour and life. Finally, the importance of equilibrium in the Keynesian conceptual framework is discussed. At this point we turn to the historical outline, starting in the early 1900’s to provide adequate evidence to discuss the nature and evolution of financial crises and economic violence.

1.1 Historical Background

Pareto (1935), writing in 1916, says that morality is on the decline among the wealthy but has increased among the poor. The sense of dignity of the poor has driven “humanitarian sentiments” underlying the “rights of society” that are used by the poor to take possessions from the “less populous class of the rich” (1171-1173). He adds,

One may use the term “poor” as equivalent to the term “society,” but however great the sottishness and stupidity that wins acceptance for certain derivations, the term “society” cannot possibly be equated with our estimable criminal class. Another derivation has therefore to be devised for the purpose; and it is easily obtained, nowadays, by asserting the “rights” of the individual criminal as against society. (1173)

Pareto demeans the role of liberal rights and describes poor people as criminals. He goes on to describe the influence of social classes in terms of the “movements of sentiments” and the general trends of class residues that fluctuate over time (1180). But in “politico-social prognoses,” if residues are followed to determine facts, they may lead to inaccuracies (1241). The abstraction of phenomena from concrete reality helps reduce the influence of residues (1241). Conflicts arise between “knowing and doing,” and then if a community is divided in two
parts, with “one in which knowledge prevails ruling and directing the other in which sentiments prevail … in the end, action is vigorous and wisely directed” (1241).

Pareto’s (1935) writing reveals the malaise of Europe in the early 20th century in the role of class identities and his disdain for liberal democratic ideals. Pareto says that science is used to define “the good” in society which is surrounded by “minor deities such as ‘Democracy,’ Humanitarianism,’ ‘Pacifism,’ ‘Truth,’ ‘Justice,’ …like angels of light fighting the angels of darkness [and] entities called ‘reactionary’ and defend and preserve our wretched humanity from the wiles of such demons” (1318-19). Such disregard for democracy supported the rise of alternative forms of government around Europe, including fascism in Italy. Pareto discusses utility of decision-making and forms of governments in historical and relativist terms, describing:

the nationalist faith is very like the Moslem, the Christian, the Democratic and all other faiths there are. And myths in enormous numbers are manufactured, all of which make it as clear as the noonday Sun that the dominant nation is deserving of its dominion, while the subject nation deserves nothing but oppression. (1493)

For Pareto, reasoning required in social situations is found in utility theory that can explain where the equilibrium of a community is maximized. The idea of Pareto optimality in microeconomics offers mathematical depiction of how efficiency can be reached with extremely unfair, even harmful distribution. The notions discussed by Pareto show how anti-democratic spirit could be harboured in neoclassical thought that undergirded economic growth and inequality of the early 1900s.

In writing about the economic conditions leading up to the First World War, John Maynard Keynes (2011) writes in 1919 that central European nations experienced industrialization and tremendous population growth. Germany’s population grew from 40 million in 1870 to 68 million in 1914 – “The German machine was like a top which to maintain its equilibrium must spin ever faster and faster” (10). Industrialization was fuelled by coal, with
its output growing from 30 million tons in 1871 to 110 million tons by 1900 to 190 million tons by 1913 (Keynes, 2011, 11). Germany was responsible for spreading organizational know-how and investment capital worth well over $6 billion throughout central Europe, Turkey, and Russia (12). The “psychology of society” was a problem, explained Keynes, since it allowed the increase in income to go to the class of the new rich who saved the money rather than spending it while the growing mass of population experienced only some “improvement in the daily conditions of life” (12). Social and economic inequality allowed “vast accumulation of fixed wealth [to support] capital improvements” (12). “I seek only to point out” adds Keynes, “that the principle of accumulation based on inequality was a vital part of the pre-war order of Society and of progress as we then understood it, and to emphasize that this principle depended on unstable psychological conditions, which it may be impossible to recreate” (13).

By the 1920s came another economic boom and capital accumulation that ended with the stock market crash in 1929. Irving Fisher (2010) wrote (in 1933) about debt-deflation cycle theory. Between 1929 and 1933 liquidation of assets “reduced debts by about 20 per cent, but had increased the dollar about 75 per cent, so that the real debt, that is the debt as measured in terms of commodities was increased by 40 per cent” (28). The whole problem of excess debt happens because people are lured by prospective gains in “new investment opportunities” some of which are scams (32-4). Once a sell-off triggers the economy into a downturn, the price level goes into a “vicious spiral” that continues for years until the system capsizes like a boat tipping in water (28). The “natural” way out of a downturn, says Fisher, is to allow the vicious spiral to end with “needless and cruel bankruptcy, unemployment and starvation” (28).

Keynes (1919) had bemoaned the over-accumulation of money by wealthy classes. The rich need “to spend more and save less, the poor to spend more and work less … not just [as] a
matter of extravagance or ‘labour troubles’; but of life and death, of starvation and existence, and of the fearful convulsions of a dying civilization” (7).

In response to the crash of 1929 followed by the Great Depression, regulations were put into place to prevent over-speculation. The Glass-Steagall Act\(^\text{14}\) was passed in America to impose limits on financial institutions. In Canada, a Royal Commission was ordered to examine The Bank Act and recommend revisions and study “the advisability of establishing in Canada a Central Banking Institution” (Report of the Royal Commission, 1933, 5). The MacMillan Inquiry set out to study “the entire monetary system of Canada, including credit, currency and coinage, particularly in their relation to commodity price movements and fluctuations in international exchange” (5). The central Bank of Canada was set-up with responsibility to oversee activities of privately run banks and “regulate credit and currency in the best interests of the economic life of the nation” (Bank of Canada Act, 1985).

Kalecki (1971) points out that the “misgivings of big business” towards full-employment policies were fully visible during the 1930s in all countries except Germany (138). This resentment and irrational attitude is difficult to justify since “higher output and employment benefits” businesses’ profit levels and everyone else in society as well (138). Business leaders push for the use of “the doctrine of ‘sound finance’ [that functions] to make the level of employment dependent on the ‘state of confidence’” of investors (139). Big business uses the doctrine of sound finance to insist on reduced government spending is needed to restore equilibrium and job creation thereby controlling government decisions, that is, unless government figures out that its own purchases can increase employment (139).

Other risks in maintaining full-employment include; that it would give rise to opposition of business leadership, firing workers would lose its disciplinary power, bosses would lose their

\(^{14}\) The Glass-Steagall Act was passed by President Roosevelt in June 1933, effectively separating commercial and investment banking. For more details see Maues, (2013).
social status and profits would be threatened (140-1). A slump is characterized by conflicts over the sort of stimulus policies that government ought to use (142). Policies to stimulate economic growth in a slump by subsidizing businesses are inadequate in preventing mass unemployment (143).

According to Kalecki (1971), business leaders prefer holding onto the power of discipline in the workplace and their brand of political stability to avoid worrying about profits (141). He explains that “one of the important functions of fascism, as typified by the Nazi system, was to remove the capitalist objections to full employment” (141). Under fascism, the state is controlled by a partnership of business and fascist leaders who work together to prevent the re-election of democratic government (141). The production of armaments is the “backbone” of the fascist policies of full-employment that shape the economy and assure that business hangs onto its disciplinary powers over labour (141).

Kalecki (1972) analyses the post-Depression problem by studying events, unemployment data, and militarization in the period from 1937 to 1955: During these years the total domestic national product of the United States “more than doubled” even as the remuneration of government employees and armed forces are excluded (85). Massive government expenditures on armaments and capital equipment for heavy industry needed during World War II shifted with reconversion to civilian life and government selling-off all the heavy war industry and its productive capacity at bargain prices to big business (86). The war resulted in “deferred demand” for consumer goods and accumulated savings stimulated the rejuvenation of industrial capacity, production and growth (86). From 1937 to 1955, the share of accumulated wealth as a portion of GNP that went to big business increased significantly, at the same time that the “relative share of consumption” as a portion of GNP decreased (91).
Kalecki’s careful analysis of the components of the GNP includes “gross private accumulation” and balance of payments to help explain foreign trade. He concludes that the excess amount of “private accumulation was absorbed by armaments and by the export surplus, whose increase was associated with “foreign economic assistance” or with the building of bases abroad which provided the wherewithal for importing American goods” (93). This second shift in the use of resources from consumption to armaments occurred to such an extent that the “decline in the percentage of unemployment from 1937 to 1955 did not contribute much to the average standard of living” (94). This is due to the shift from “productive to non-productive employment – mainly as a consequence of militarization” (95). The fact that life had improved eased the sales-pitch used by government and media to allow ongoing development of the military-industrial complex (95-6). And, it also set the stage for mounting inequality and the next economic cycle.

Writing in 1955, Simon Kuznets found some evidence that inequality was on the decline; but only in some countries where transfer payments to individuals could be included (7). However, he thought that this evidence was puzzling since

the top 5 per cent of units in the United States appear to account for almost two-thirds of individuals’ savings; and the top decile comes close to accounting for all of it, [and, moreover] the inequality in distribution of savings is greater than that in the distribution of property incomes, and hence of assets. (7)

Even with this evidence of inequality, the period of the 1950s and 1960s may be seen as one of “relative tranquility” (Minsky, 2008, 6). The pressures for deregulation in finance led to a series of disruptions in the 1960s and 1970s (7). But by the 1970s, evidence of inequality was building in most OECD nations: The poorest deciles had small shares of total income, from 1.5 to around 3 percent in the Netherlands and Japan, while the tenth and wealthiest decile’s share of post-tax income ranged from around 22 to 30 percent (Sawyer, 1976, 19). The lowest two deciles’ rely on transfer payments for income while the highest income deciles, the ninth and
tenth, only got a very small part of their income as transfer payments, while ironically, “each of these deciles receives over 7 per cent of total transfers” (Sawyer, 1976, 21). In brief, the patterns for skewed distribution of income and transfer benefits were set-up early on in the Post-War period.

Keynesian policies appeared to work from 1940 to 1970 as growth and labour productivity increased at least 3 to 4 percent per year (Kaldor, 1985, ix). Kaldor suggests that the Keynesian era ended in the mid-1970s with the first “oil shock” caused by OPEC prices quadrupling and adding to inflationary pressures that were already happening in manufacturing at 5 percent a year (xi). Prices for commodities and money wages were also already rising by the late 1960s. Food grain prices had skyrocketed about 100 percent over a two-year period after crop shortages in Russia and China unexpectedly increased demand.

Nixon’s decision to abandon the Bretton Woods gold standard\(^\text{15}\) in August 1971 further added to inflationary stressors. The gold standard, in place since 1950, provided a counterweight for the dollar, even as commodity prices sometimes varied by as much as 66 percent within a year (Kaldor, 1985, x). Delinking gold to the dollar led to a spike in the price of gold, “three- to four-fold in a period of eighteen months” (x). The acceleration of prices for primary goods or input prices such as “food, industrial raw materials and energy” in the early 1970s triggered other sectoral price increases that set the stage for the OPEC oil shock (xi).

By the late 1970s, the Keynesian era was challenged by high inflation, and this marks the beginning of the erosion of Keynesian fiscal and monetary policies that form a Keynesian social democracy or what is called herein the *Keynesian state*. The early 1980s, not only veered away from Keynesian full-employment policies, but in the early 1980s, high interest rates created a recession that led to unemployment, increased household debts, and acceleration in the growth of

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\(^{15}\) The Bretton Woods Agreement involved 44 countries rebuilding international trade at a meeting of the United Nations Monetary and Financial Conference, held in July 1944 in Bretton Woods, New Hampshire. See Bretton Woods Committee, (n.d.).
inequality (Piketty, 2014, 73-4). The high interest rates generated much wealth for people with savings, which led to financial capital accumulation, and the capital to income ratio then increased, which led to rising unemployment and social conflicts (Piketty, 2014, 40).

The elevated interest rates, increased savings and stagflation led to unemployment and decreased demand for commodities of developing nations such as Mexico, for example (UN, 2017, 50). The 1980s Debt Crisis started in 1982 when Mexico announced that debt servicing costs could not be paid and a chain reaction of loan defaults ensued (Ibid.). Indebted developing nations suffered because of the Washington Consensus, which imposed austerity measures on any state receiving loans from the International Monetary Fund (IMF) or World Bank. As a result, the borrowing states of Africa and Latin America suffered a “lost decade of development” (52).

Minsky (2008) describes how American policy-makers did not hesitate to bail out the large-at-risk institutions during the financial crisis of the 1980s since the financial system was known to affect the economy-at-large (7). In contrast, labour was forced to make concessions as government abandoned macroeconomic full-employment policies (7).

The 1980s also ushered in major technological changes and advances in computer sciences that allowed the onset of commercially available computers, word processing software, and the beginnings of internet communication capability for the World Wide Web. This capability helped with formation of financial market exchanges. There were also pressures for deregulation of the financial industry based on the idea that regulations caused economic inefficiencies. Globalization of markets through the 1970s and 1980s also created pressures for banks and other institutions to want to have greater flexibility in lending practices to raise capital (Jeffers, 2013, 482-3).
By 1990-91, economic growth stumbled in America as the contractionary monetary policies of the 1980s, including cuts to government programs, overly weakened the economy, making it susceptible to recession (Walsh, 1993, 44). Major structural economic changes led businesses to invest in new computer technologies.

In Canada the shift from hiring labour to investing in new technology was clear: “Computers accounted for 3 per cent of machinery and equipment expenditures by businesses in 1981 (in constant 1986 dollars), and their share rose to 14 per cent in 1988… [and then] surged 23 percentage points to 37 per cent” by 1991 (Parker, 1995, 28). The structural economic developments related to computer technologies happened in part due to the unexpected drop in prices for the new capital equipment.

The impact of new capital equipment seemed to improve conditions in America. Alan Greenspan, as Chair of the Federal Reserve, famously announced in 1996 his concerns that “irrational exuberance” had taken hold of markets (Sarhan, 2017). Evidence was mounting that asset values were rising more quickly than earnings and past inflation rates (Ibid.). The causes of such exuberance are not just irrational or psychological. One study suggests that the reduction of the capital gains tax in 1997 reduced the “risk sharing between investors and government” and led to increased buying, asset return risk, and volatility (Zhonglan, Shackelford & Zhang, 2008, 2). Yet in 1999 the Glass-Steagall Act was repealed which allowed commercial banks to invest in financial markets and take on even greater risks (Krugman, 2009, 163).

The financial crash that Greenspan feared did not happen until 2000. The NASDAQ peaked in October with a 570 percent increase in just five years – and then it fell until 2002 losing 80 percent of its gains (Authers & Mackenzie, 2010). In response to the dot-com crash, the Federal Reserve lowered interest rates, which then fuelled the housing sector and the growth of hedge funds. The number of hedge funds increased from 3,325 in 1998 to more than 10,000
in 2007, with values skyrocketing from 1,000 billion US dollars in 2001 to 1,800 billion US dollars in 2007 (Ibid.).

Ongoing developments in computer technologies and of the World Wide Web opened new channels for a range of investors to access financial and equity markets. Governments’ decisions to deregulate banking institutions by amending laws that had prevented them from accessing stock markets created new opportunities for a range of investors. Momentum trading, which has been part of financial booms and busts recorded for over 200 years, made a comeback during the tech boom of the 1990s (Asness et al., 2014, 75). Momentum trading occurs with the buying and selling of winners and losers in efforts to maximize profits and minimize losses (Tse, 2015, 134-5). High-speed trading activity can have increasing volumes of traders in each buying and selling cycle of an instrument and is different from traditional long-term value-based decisions to buy-and-hold for longer-term profits. Momentum trading seemed to disappear around 2000 but then reappeared in different forms within a few years as a strategy used in trading “international stocks and other asset classes” (135). A survey of homeowners in America indicates that momentum was present in their decision to purchase homes, even at the height of the housing boom, since some expectations can cling to the idea that home values will increase (Piazzesi & Schneider, 2009, 306-7).

Rapid growth of the housing sector, momentum trading, and hedge funds are just some of the factors that fed into 2007-08 Financial Crisis. One of the first big stories of the Crisis was in August 2007 when the French bank, BNP Paribas, stopped cash flows to three giant funds holding sub-prime mortgages bundled into collateralized debt obligations (CDOs) (Kingsley, 2012). A few weeks later, on September 14th, folks lined up for the first bank run in Britain in 150 years to withdraw funds from Northern Rock Bank. News had leaked that it was short of liquidity due to difficulties selling funds with mortgages (Ibid.).
By December 2008 economic instability worsened to the point where the Federal Reserve reduced interest rates to close to zero in the hopes of easing the liquidity crisis (Hilsenrath, 2008). Interest rates in Europe followed suit, and this provided private banks access to the central bank’s “lending of last resort” as they increased their balance sheets based on the financial backing of their governments (van den Noord, 2009, 9).

In the United States, a CNN January 2008 news report about the sinking housing and mortgage markets from 2007 included a 26 percent fall in new home sales, “the biggest drop since the government started tracing new home sales in 1963” (Isidore, 2008). Mortgage market troubles were already rattling financial markets as more financial institutions quietly struggled to sell funds, hoping to avoid the media light.

The Wall Street Journal (2008) reported on the “significantly lower borrowing costs for the London Interbank offered rate, or Libor … [compared to the] rising default insurance costs” (Mollenkamp, Apr 16). The Libor rate depends on information reported by banks, and affects interest rates set for debts, mortgages and other financial products all over the world. The Wall Street Journal (2008) further investigated the movement of the Libor and default-insurance costs, confirming that these measures had always moved together until recently when the Libor diverged for a group of 16 banks (Mollenkamp, May 29). The evidence raised suspicions that bankers were understating their borrowing rates to avoid revealing how bad things were becoming, how high a price they would offer and just how desperate they were (Ibid.).

Other big actors and long-standing institutions were getting singled-out and blamed for irresponsible actions that caused the crisis. The three biggest rating agencies authorized under special government charters, Moody, Standard & Poor, and Fitch, were accused of giving triple-A ratings to the toxic mortgage securities, which led to the buying frenzy (Lowenstein, 2008). It is important to note that these excellent credit ratings allowed the mortgage industry to avoid the
decades-long wait for their clients’ actual monthly mortgage payments – the industry could use the triple-A ratings to sell securitized bundles of mortgages to others, get the money right away, and then use the capital to get even more clients to buy the toxic mortgages!

The rating agencies would rate the special-purpose vehicle which is “a ghost corporation with no people or furniture and no assets either until the deal was struck” that is set-up to buy the mortgages (Lowenstein, 2008). The special purpose vehicle would float “12 classes of bonds, from triple-A to a lowly Ba1” (Ibid.). The investors holding the triple-A bonds would be paid first, with payments flowing hierarchically down to the Ba1 bond-holders who got paid last. The bonds at the bottom of the pile had the highest interest rates but in the event of any defaults, the losses would be absorbed at this level first (Ibid.). Since the bonds at the top of the heap were protected by the scheme that shifted losses to the bottom, the top bonds were given high ratings.

A collateralized debt obligation (CDO) describes the “even more esoteric vehicles [that were] …financed with similar ladders of bonds, from triple-A on down” (Ibid.). Similarly, the bundling of millions of home owners’ mortgages into securitized assets also called collateralized mortgage obligations (CMOs) and are supposed to be subject to “strict underwriting standards, where risk is primarily defined by the allocation of principal and interest payments” (Tavakoli, 2008, 2). The financial system handling of these instruments could effectively become like a “hot-potato game” getting passed around in global finance since bankers have to keep their assets and liabilities on the move in order to assure that everything balances-out at the end of the day.

In the face of all these complexities, the rating agencies still would produce the rating within a day. The official institutions with responsibility to evaluate the securities, manage risk and protect markets, were found to have a number of problems. Data that is used to evaluate risk is historical in nature: Statistics and models are used to study historical patterns and to predict the percentage of mortgage holders who will pay their mortgages (Ibid.). Evidently, the esoteric
complicated nature of the instruments added to the owners’ need for high ratings – or nobody would have wanted such hot-potato sorts of financial deals. These deals all involved property rights or claims to a linkage or to a bundle of mortgages, as well as the original mortgage holders’ claim rights to their homes.

The whole problematic of how to see these property rights was complicated as trading picked up speed. The securitization of the bundles is known as the originate to distribute model – and it increases both velocity and trading of the loans (Lim, 2008, 3). Thus, it is possible to envision the original mortgage owners’ rights to shelter and their homes, and claims to property – that had been turned into the object of a global digital trading game among all the big players, akin to the “hot potato game.” In a hot-potato game, nobody wants to be caught holding the hot potato when the music stops, which happens in financial markets, at the moment of redemption when it is no longer possible to sell a securitized instrument, loaded with toxic mortgages.

As many hot-potato style financial deals were being traded around global markets, all the big players were at risk that their holding might suddenly implode in value. In September the news broke that JP Morgan had to buy Bear Stearns. A series of frantic back-room business dealings took place between Wall Street giants over a period of weeks. The US Department of the Treasury and Federal Reserve held discussions with bankers resulting with Lehman Brothers unable to sell itself, and Merrill Lynch selling itself to Bank of America. Meetings were held “to try to avoid a downward spiral in the markets stemming from a crisis of confidence” (Sorkin, 2008). The September 15th announcement of the fall of Lehman Brothers triggered a panic and sell-off, called Monday Meltdown, that “claimed trillions of dollars of wealth worldwide and triggered a global recession” (Sachs, 2008).

At the height of the Crisis, U.S. Congress, Financial Market Regulators, and House Oversight and Government Reform Committee (HOGRC) held a series of meetings. On October
Chairman Henry Waxman asked Alan Greenspan, former chairman of the Federal Reserve Board, if his proclaimed ideology based on belief in free competitive markets had led him to make regrettable decisions (that contributed to the Crisis) (HORGC, 2012). Greenspan responded by explaining:

Remember what ideology is, it’s a conceptual framework with [sic] the way people deal with reality, everyone has one, you have to — to exist you need an ideology. The question is whether it’s accurate or not and what I’m saying to you is yes, I found a flaw, I don’t know how significant or permanent it is but I’ve been very distressed by that fact… I found a flaw in the model that I perceive is the critical functioning structure that defines how the world works so to speak… (00:07)

Waxman seeks out more details saying: “In other words you found that your view of the world, your ideology was not right, was not working.” Greenspan replied, “that was precisely why I was shocked because I was going for forty years or more with very considerable evidence that it was working exceptionally well…” (01:00).

HOGRC (2012) Members discussed deregulation and activities in the investment world that led to moral hazards related to derivatives. Discussions about regulatory difficulties reveal major differences in interpretations. Democratic member Elijah Cummings asked Christopher Cox, chairman of the Securities Exchange Commission (SEC), about the fate of a task force on derivatives set-up by his predecessor that had allegedly been defunded (28:00). Cox claimed that more people were working on risk assessment than before and claimed the SEC lacked legal authority to investigate hedge funds (30:00).

Former Treasury Secretary of the Bush Administration, John Snow, emphasized that assessment of risk and leverage is at the heart of the problem:

I think regulators need more transparency on the risks and the leverage on the financial system and some regulator should be given responsibility for assessing broad systemic risks and to step in where they see the risk management function being … abused, too much leverage being created in some aspect of some business’s behavior … It seems to me the root problem is risk and leverage … and nowhere in our financial regulatory system is there anyone with full accountability and a full 360 view. (HORGC, 2012, 1:00:10)
Snow explains that it seems impossible to get an understanding of the big picture since all the different experts only seem to offer a small part of the puzzle. This situation creates risk that is always hidden from view with systemic risk related to “unfunded liabilities” which are the equivalent of promises made into the future (HORGC, 2012, 1:46). Committee discussions turned to accounting standards required of companies compared to standards used by government with accumulated amounts of money that raise the problem of the fiscal gap. Snow stated that this is serious because of “the systemic risk associated with the unfunded liabilities … [which relate directly to the] promises which we made to the future that we have not provided for would swamp any problem we’ve ever seen” (1:45). Mr. Issa suggested that perhaps the government and Congress should invest in predictive modelling to explain doomsday scenarios that it seems ought to have been in place – Should we invest in “microeconomic modelling of everybody’s …derivative product and macro-modelling of if… in fact there’s a hiccup of six percent in the California market for home homes and it ripples throughout the United States” (1:52). Greenspan replied that this modelling is not available:

…And the econometric work that’s being done is essentially been restricted to taking the whole history and assuming that it is homogeneous and therefore you can get some insight. What is very evident to me and I think increasingly to others, is that the way economy functions in the period of expansion is really quite different from what happens on the way down….And I should think that we will find …that we can model the euphoria stage …and the fear stage, and they are really quite different. I think that we would find that we can learn a great deal about the fear stage… Our major problem is that we don’t have a third model which tells us which of those two are about to happen. And the reason essentially is that a financial crisis must of necessity be unanticipated, because if it is anticipated, it will be arbitrated away and if a financial crisis by definition is a discontinuity in asset prices than it means from one day to the next, uh people are surprised, something fundamentally different happened… What we have to understand is our view of the way an economy functions is not properly modelled uh, by what we now have… The Federal Reserve has got as sophisticated a modelling structure and capable people as any organization I’m aware of. …It did not forecast what has happened. (1:54)

Cox, chairman of the SEC, responded to the same question saying that the “SEC is focussed on moving us from bare bones disclosure … so that computers can …instantly do
comparative analysis [and] it will vastly improve risk analysis in the market environment” (HORGC, 2012, 1:57). Cox explained that modelling will always have weaknesses and this requires “more human input” (1:58).

Discussion returned to the matter of accounting practices and Mr. Greenspan explained, that the accrual system is reflected in the cash system; he said that he had been arguing years that programs, and in particular,

medicare is, underfunded by half and …in order to actually …honor all the promises that are being made to the baby next generation, the baby boom generation that are retiring, we would have to either cut benefits by 50 percent or raise taxes to a point that cannot fundamentally be sustained and therefore we are looking at the underlying meaning of these types of reports …for we essentially promised to the American people far more than we can deliver and I am very fearful that unless and until we can solve this problem before everyone retires, that the large numbers of people who will not be able to get what they are fundamentally promised, still have time to make adjustments in their retirements…but if we wait until the hammer falls on us with the inexorable grind of the numbers I think that we are doing a very great disservice to the American people (2:00).

The definition of a fiscal gap is the “extent to which the government’s commitments (e.g., spending, debt obligations) exceed its resources (e.g. revenues) over a period of time” (Ernst & Young, 2016, 1). This amount may be used in deciding whether to increase taxes and revenues or to decrease government spending. It is important to note that Greenspan says spending has to decline by 50 percent, while the amount of taxation increase required is not specified, but somehow unsustainable. Greenspan used the meeting as an opportunity to issue a warning to soon-to-be retirees to take actions to replace any promised payments from government programs or pensions for future security since money is lacking. For the “grind of the numbers” or market forces assure that promises will be broken and people will be let-down. It is clear that retirees are at risk in America just as they are in Canada of susceptibility to harmful financial decisions and events in unregulated markets.

The notion of a fiscal gap also raises questions about money. In the committee discussions, the conversation shifts from concern about the financial crisis, to concern about
management of money and the fiscal gap that is blamed on over-spending by government particularly on social programs. And, if money is circulating within an economy-at-large that includes government and income earners who pay taxes, this should assure that aggregate income and expenses may be reasonably expected to equalize over time. Equilibrium of income and expenses would be due to the daily cycles of producing goods, earning money and consuming, saving and investing. All these factors are related to the perception of mechanisms bringing desired income and desired expenditure into balance. Thus, a fiscal gap makes one think of leakages originally discussed by Keynes (2009) as money that may leak out of an economy due to investment in foreign countries – but he felt it would be balanced by the increased economic business in the foreign country that favour the investing nation (80). Both notions of the fiscal gap and leakages try to explain how investment money leaves an economy – Yet both notions sidestep the possibility that over-accumulation of wealth and or of claims to wealth embodied in financial instruments may lead to financial sector overgrowth that may be one of the causes of imbalances between expenses and revenues.

The idea of a financial sector that has capacity to draw money away from the daily cycles of production and consumption in an economy– that is, an economy in which households, firms, banks and government circulate money as a result of voluntary relationships (as opposed to slavery or bondage) – raises questions about the relationships between the financial sector, government, and the cycles of production and consumption of an economy. It was noted earlier (1.1) that governments had to save large private institutions experiencing severe liquidity shortages.

Krugman (2009) explains that macroeconomics supports policies to bailout institutions to keep them from crashing. Catastrophic harm of the Great Depression fueled by the ideas of Treasury Secretary Andrew Mellon to purge all the “rottenness out of the system” and allow
widespread liquidation of asset prices including labour and farmers should never be repeated (Krugman, 2009, 4). For, policy makers have learned from history and Keynesian economics. However, Mellon’s policies of reducing taxes, cutting spending, and balancing the budget are exactly what Kalecki described as the doctrine of sound finance, discussed earlier (1.1). Government spending cuts are still advocated by conservative policy-makers and have been repeatedly put-in-place in countries around the world.

The support for Mellon styled policies based-on judgements of people as worthy of purging was in evidence in 2008. Policies to help the people facing foreclosure were met with protest, for instance, from Wilbur Ross who denounced the plan. Media personality Rick Santelli carried out a televised rant, exclaiming that nobody should want to help the bankrupt homeowners who were “‘losers’ who deserved their fate” (Mayer, 2017, 204). Moreover, he added, Obama’s plan to help homeowners was “Cuban-style” state management. He yelled “This is America! How many of you people want to pay your neighbor’s mortgage that has an extra bathroom and can’t pay their bills …” (Ibid.)?

In Canada, and in contrast, a series of policies were carried out by central bank authorities to avert a liquidity crisis with spill-over effects in Canada (Longworth, 2009, 1). Canadian banks exchanged their mortgage-backed securities – that were no longer saleable in international markets – for cash, provided by the Canadian Mortgage and Housing Corporation (CMHC). Exchanges of mortgages for cash continued until the spring of 2010, which was well after the Crisis had subsided at the end of 2009 (Macdonald, 2012, 11). Macdonald explains that these exchanges involve government loans supporting big private banks that provide oversized pay-outs to their CEOs who all make millions of dollars annually. At the same time, however, the exchanges between the banks and the CMHC appeared to prevent judgements to purge assets of Canadians that were no longer tradable in international markets.
Over the course of the Financial Crisis (2007-2009), the Central Bank of Canada set up a number of different operations to take on problematic securities. For instance, “the term purchase and resale facility (PRA) [was to] allow purchase of securities from primary dealers and then reselling them at term” (Longworth, 2009, 2). A number of other facilities allowed overdrafts for “participants in the Large Value Transfer System (LVTS) – to include certain types of asset-backed commercial paper (ABCP) and U.S. Treasuries” (2). Another facility involved “a US$30 billion swap line with the U.S. Federal Reserve” intended to avoid bottlenecks in regular liquidity channels and allow Canadian institutions an alternative liquidity source (4). Bailouts were required for “financial and credit market to return to good health and stay in good health … [in order] to ensure our long-term economic well-being” (1). Financial markets are therefore, clearly recognized as have a relation to well-being which underscores the need to have a clear definition of the term.

In Iceland, also in early 2009, the entire country was impacted by banks’ asset losses worth more than ten times the value of the nation’s GDP (Bowers, 2012). Thousands of people protested to remind the government of their need for jobs and food (Gunnarsson, 2009).

The stock market crash incurred losses estimated at $7.6 trillion and the central banks’ injections and purchases of toxic assets amounted to around $12 trillion (Sun, Stewart & Pollard, 2011, 2-3). The bailouts continued for years and amounted to about $16.8 trillion by 2015 (Collins, 2015). In addition, American households lost an estimated $19.2 trillion in wealth (U.S. Department of the Treasury, 2012, 2). The Santelli rant shaming the people who lost their homes helped stymie the Obama government plans that would have served as a back-stop to such enormous losses.
Manipulation of paperwork helped ensure such enormous losses and encourage moral hazard. For example, Steven Mnuchin was able to buy “predatory lender IndyMac, saddled with tens of thousands of failing mortgages for $1.65 billion [and then run] a foreclosure machine” that allowed him to make billions (Dayen, 2016, Nov 30). He renamed the bank OneWest and engaged in a “loss-sharing” deal with the Federal Deposit Insurance Corporation (FDIC) that covered losses on loans beyond 20 percent (Ibid.). This deal cost the FDIC $13 billion and granted $3 billion worth of so-called profits to Mnuchin (Ibid.). OneWest is known for its cruelty:

The bank pursued all of the tricks of the era—servicer-driven defaults (where servicing companies tell homeowners they must miss payments to get help, and when they do, they move to foreclose), dual tracking (when servicers negotiate modifications and pursue foreclosures at the same time), and more. (Ibid.)

Evidence suggests that OneWest was involved in racial targeting as more than two thirds of the foreclosures were in minority communities (Dayen, 2016, Nov 17). OneWest is also known as a “market leader in foreclosing on the elderly,” because its subsidiary, ironically called Financial Freedom, actually targeted seniors’ reverse mortgages to “suck out their home equity” (Dayen, 2016, Nov 30).

Steven Mnuchin was just one of many agents involved in action-taking that forced millions of people to give up their property rights or claims to their homes. Wilbur Ross is another foreclosure servicing agent who bought American Home Mortgage Servicing Inc. (AHMSI) and its loans worth $132 billion in August 2007 (Dayen, 2016, Nov 30). Ross determined whether mortgages were to be modified or foreclosed. He hired a company named DocX to handle document signing. DocX created a “chain of title [by forging] millions of

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16 “Moral hazard is a situation in which one party gets involved in a risky event knowing that it is protected against the risk and the other party will incur the cost” (The Economic Times, n.d., Moral Hazard).
17 Steven T. Mnuchin served as Chairman and Chief Executive Officer of OneWest Bank Group LLC and on February 13, 2017 became Secretary of the United States Treasury (Mnuchin, 2018).
18 Wilbur L. Ross became the 39th U.S. Secretary of Commerce under the Trump Administration on February 28, 2017 (Commerce.gov., n.d.).
mortality assignments that were then broken by lenders” (Ibid.). The CEO of DocX ended up going to jail. Ross continued his work, with AHMSI, changed its name to Homeward Residential which was sold to Ocwen. Ross served on the board of directors of Ocwen, which was fined $2.1 billion for its improper banking practices. The practices included a “back-dating scandal… [for legally], servicers must inform borrowers of why they were denied a loan modification and give them 30 days to appeal. Ocwen sent thousands of these letters backdated 30 days from the sending, giving borrowers no time to act” (Dayen, 2016, Nov 30).

Of course, once the links between the claim rights are broken, or once the homeowner loses claim to his or her property, “investors” can then claim rights to remaining assets including any government backing! The notion that $19.2 billion of household wealth was “lost” (as noted earlier) is incomplete since it does not explain the diversion of money into the foreclosure system. This amount would reflect the transfer of rights and wealth from the household sector to the financial sector, with costs covered by the FDIC in many cases.

The Troubled Asset Relief Program (TARP) was intended to save homeowners from losing their homes. In reality, it helped prevent only about 2 million foreclosures. Nonetheless, TARP still allowed the delivery of 7.1 million new foreclosure notices by 2011 (Yip, 2011). All the examples of the wealth from mortgages being unjustly and deliberately diverted from home owners to private financial institutions constitute economic violence. The people engaged in economic violence ignore Gewirth’s Principle of Generic Consistency and take on the risk of self-contradiction within their actions that unjustly take over home owners’ mortgages. The greed of the so-called investors manipulating paperwork was not the only factor at work.

For instance, in the United States, wealthy donors such as the group Heritage Foundation, paid media companies such as Premiere Networks “$2 million or so a year” to ensure broadcasting of the Foundation’s views against programs such TARP (Mayer, 2017, 211). Media
personalities used the term “porkulus” to scapegoat poor people and fuel anger to end the Obama government’s $800 billion stimulus spending intended to help the victims of the Financial Crisis (Mayer, 2017, 211). Evidence shows that the TARP helped the financial institutions deal with their own losses while the masses of people owing the mortgages, received no funds and lost their property rights to the devalued “toxic” homes (Yip, 2011). There was a skewed policy response favouring outcomes for Wall Street institutions, and ignoring the impact of economic crises for ordinary people.19

As in the Great Depression, wealth and income flows to individuals vanished, although certainly not to the same degree. This was due to the massive bailouts that “helped to unclog the credit pipes of the financial system” (Department of the Treasury, 6). In 2011 the United States Government Accountability Office (GAO) estimated that these loans “peaked at over $1 trillion in late 2008” (2). The fact that millions of home owners could be made homeless like people were in the Great Depression, at the same time that Keynesian economics was used, exposes a problem that calls for investigation.

In response to the Financial Crisis, in 2011 the US Commodity Future Trading Commission (CFTC) established new rules and regulations in the Dodd – Frank Wall Street Reform and Consumer Protection Act to “improve accountability and transparency in the financial system, to end “too big to fail”, to protect the American taxpayer by ending bailouts, to protect consumers from abusive financial practices, and for other purposes” (Congress.gov, 2010). In order to help people deal with or fight the harmful impact of predatory practices of investors, the US government also created the Consumer Financial Protection Bureau (CFPB). By 2016 the Bureau had helped 29 million consumers get back more than $12 billion and also imposed $600 million worth of penalties on lenders or firms (O’Harrow Jr., Boburg & Merle, 2019).

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19 News stories and studies about extreme poverty, unemployment, trauma and suffering are numerous. One study reported that there were an “estimated 10,000 additional economic suicides between 2008 and 2010” in Europe and North America (Reeves et al, 2014).
2018). However, recent political administrative changes drastically slowed down the CFPB’s responses to complaints by 75 percent since 2016 (Ibid.). The CFPB (2018) states it plans to conduct “lab experiments, randomized control trials and a scientific survey to ensure that policy making is evidence-based and effective” (16). As well, the CFPB states it will assess its rules and “identify opportunities to reduce regulatory burden” (16). In other words, the goals of the CFPB are shifting with the Trump regime decision-making. Time consuming, randomized control trials used in testing new drugs, suggest the CFPB has little interest in assessing the how and why consumers were cheated out benefits. The reduction of regulatory burden is about relying on free market forces which is in fact part of what created the context for the Financial Crisis and the abuses suffered by consumers in the first place.

Since the Crisis, news stories about societal problems of excessive wealth abound. In 2016 the Panama Papers revealed how wealthy investors sought out ways to hoard money in “tax havens” from the reach of their own governments (International Consortium of Investigative Journalists (ICIJ), n.d). Tax havens are used to hide savings to evade divorce settlements, tax bills, hide the proceeds of thefts of public funds, stash funds for criminal activities, such as illegal arms trades, or engage in child abuse and funding terrorism (Ibid.). Evidence now indicates that over the past four decades, the amount of wealth held offshore has increased rapidly to 10% of the total of World GDP with percentages of national GDP involved varying from about 2 to 5% in Scandinavia and Canada, to 15% in Continental Europe to “as much as 60% in Russia, Gulf countries and a number of Latin American countries” (Ibid, 1, 10). The nature of wealth accumulation and inequality cannot be understood without considering the implications of offshore tax havens holding easily movable assets owned by the ultra-rich .01% of the population (Alstadsæter, Johannesen, & Zucman, 2018. 1-10). Indeed, such siphoning-off
of money into off-shore accounts takes Keynes’ notion of leakages to a more permanent state than normal foreign investment that could stimulate reciprocal trade.

Ann Pettifor (2017) says that orthodox theory used in policy making allows unbridled accumulation and structural problems. As a result of the policies used to salvage the banks and other too-big-to-fail institutions, the governments and central banks handed over power to private markets by allowing them to take over management of bond markets (Pettifor, 2017, 124). The risks of this shift of power to private markets are of such a scope that it threatens democracy:

Financial elites have grown wealthy beyond imagining; the middle classes and the poor have grown poorer as inequality has sky-rocketed, and the labour movement has been shackled. This has led to economic failure, and social and political unrest. … So of course, there can be no question: money-creation powers must be wrested back from the control of this relatively small group of economic agents concentrated in financial markets on Wall Street, the City of London and Frankfurt. These markets must be made subordinate to the interests of society as a whole … [or] the finance sector’s hold over society will remain a divisive, destructive and despotic power. The recurring financial crises of the last four decades will roll on relentlessly and lead inevitably to graver social and political upheavals and even war. (129)

Moreover, as a result of decades of privatization, elites have accumulated vast sums of money in charitable foundations, to ensure political candidates work towards the specific interests of the wealthiest controlling donors.

Skocpol and Hertel-Fernandez (2016) identify a complex network of funding groups in the U.S. involved in a large increase in domination of the flow of resources to the Republican Party:

…Americans for Prosperity, the Freedom Partners Chamber of Commerce, the Koch seminars, the Libre Initiative, Themis/i360, Aegis Strategic, and others. When we add up the numbers, three-quarters (76 percent) of all of the budgets of organizations on the right newly created since 2002 turn out to be controlled by the Koch operation. Remarkably, more than four-fifths (82 percent) of the new money attributed to extra-party collective funders flows through the Koch-affiliated consortia launched after 2002. (684)
Some of the most important charitable donations of the Koch network have been dedicated for decades to the development of a totalist and dominant ideology in think tanks including the Cato Institute and the Mercatus Centre, producing information that is made available for politicians to reflect in their work (Skocpol & Hertel-Fernandez, 2016, 684). The ideology promotes the free-market, privatization of health, tax cuts for corporations, individual liberty and it opposes environmental reforms (685, 690). The dominant ideology also sees the main purpose of government as “protecting individual and property rights” (Mayer, 71, 356). Policies that reduce corporate taxes, for instance, are ostensibly rooted in morality since this presumes to justify property rights (Ibid.). Members of any political party may be wooed by such funding and the ideological brainwashing includes voters.

The donations from the network are also directed “to mobilize conservative activists and U.S. citizens for issue campaigns and elections” (Skocpol & Hertel-Fernandez, 2016, 686). Political candidates then also receive funding from the Americans for Prosperity (AFP) to pay for advertisements and for extra staff members who work on voter contacts and turnout (689). It is important to note that unlike most organizations, although AFP has millions of voluntarily affiliated citizens, these members provide no funding, have no election rights and do not have input into AFP decision-making (689). The extreme right wing economic ideology of the AFP exposes how political philosophy is related to government policies and property rights. Ideology is used to justify cutting taxes without any consideration of the implications to cuts or privatization of government programs or initiatives.

Skocpol and Hertel-Fernandez measured the political influence of the ideological right wing donor group in America. A logistic regression model assessed data available on the influence of AFP and unions, found for example, that “the presence of a paid AFP state director increases the probability of a state enacting curbs to public sector bargaining rights by nearly 30
percentage points, nearly the same effect size as partisan control of government” (694). One method used by the AFP is in monitoring elected representatives’ preferences by keeping tabs on voting records and giving higher scores to politicians if their preferences reflect those of the AFP.

The fact that wealthy donors are able to wield power is of great concern for the meaning of rights and democracy in real-life. Issues of morality and conceptions of the relation between the individual and the state and between individual and rights are paramount in the current political and economic context of extreme inequality.

The historical overview shows how policy-making and legal structures have favoured the accumulation of wealth in the hands of a few. The major players and institutions implicated in mismanagement include the SEC, credit ratings agencies, major financial institutions behind the Libor interest rate scandal, and, the Federal Reserve with Alan Greenspan admitting to the failings of economics and his ideology underlying ruling monetary policies. Such outright evidence of failure is all far-removed from any sort of rational thought about or in economic theory. The historical cycle of financialization and mounting inequality related to use of the orthodox economic model suggests that social conflicts will continue to escalate. As increasing numbers of people experience forms of economic violence that come with rising inequality the conflicts may worsen. We turn to discussion of concepts in the field of conflict studies for insight.

1.2 Conflict Theories: The Greed – Grievance Debate

To discuss conflict theories it is necessary to provide conceptual definitions that help explain how economic inequality is boosted and why peace and the future of democracy are threatened by conflicts over rights. The World Report on Violence and Health (WRVH) offers a
typology of violence that includes, self-directed violence (self-harm), interpersonal violence (domestic and community-based) violence and collective violence that involves groups (WHO, 2002). Political and economic violence are forms of collective violence:

Political violence includes war and related violent conflicts, state violence and similar acts carried out by larger groups. Economic violence includes attacks by larger groups motivated by economic gain – such as attacks carried out with the purpose of disrupting economic activity, denying access to essential services, or creating economic division and fragmentation. (6)

The historical overview (1.1) describes how economic violence grew out of situations that involved financial institutions supporting financial markets and harmed workers and millions of mortgage holders. Other examples of economic violence include for example, deliberate actions by governments to deprive specific groups of sources of income. Clearly, austerity policies that target the groups with reductions in disability and welfare income are examples of economic violence. As well, economic sanctions that target specific countries and result in reduction or loss of access to essential food and pharmaceutical and medical imports such as in Iran and Venezuela (happening at the time of writing) are also examples of economic violence.

Efforts to understand economic violence have evolved since at least the mid 1800’s and Marx and Engels’ famous critique of capitalism, inspired by the Industrial Revolution and the different modes of production that shape material life in a society and support chronic class conflict. The importance of Marxist methodology in relating historical analysis to understanding the relations between humans, power, and social change persists. Analysis of how the “logic of profit” can drive elite groups to control development of “productive forces of land labor and capital by expanding markets” is important to feminist studies of class conflict (Ferguson & Hennessy, 2016). Women have historically lived with lack or loss of power with private property controlled by men.

20 For a discussion of Marxism and conflict studies see Rioux & Redekop, (2013), 155 – 160.
All feminist theories start from the position that comprehending the differences in behaviour that are due to gender is critical to analysis (Renzetti, 2008, 271). With respect to conflict and violence, feminist theorists adopt broad definitions of violence to include “sexual, psychological, and economic violence and well as physical violence” (271). Inequality must be explained in terms that view patriarchal society with norms that generally grant greater opportunities to men (271). The concept of economic violence is of importance as it demands attention to the ways in which systemic decisions and actions happen and result in harmful events. Abuse based on sexual views may be seen as a foundation of primordial forms of systemic and economic violence.

Johan Galtung (1969) sees abuse of power at the systemic level as institutional violence. Determinism, conflict and institutional violence are “present when human beings are being influenced so that their actual somatic and mental realizations are below their potential realizations” (168). For example, the implementation of policies such as deregulation that lead knowable harmful financial crisis constitutes violence. Violence is defined in broad terms to include physical and psychological violence, such as the reduction of “somatic capability” as well as violence that “works on the soul (such as) lies, brainwashing, indoctrination (and) threats” (169). Galtung’s description of structural violence involves the policies that cause unfair distribution of public goods and “unequal life chances” (171). In contrast to physical combat, structural violence exhibits a sort of social stability since it is institutionalized. Galtung suggests a science of social structures is needed to identify sources of inequity in distribution of power that may lead to the production of violence (173-5).

The nature of structures and actors is more important than questioning guilt, perceptions or interpretations that emerge “at either end of the violence channel” (178). Overturning a violent structure is exceedingly difficult since any vacancies are quickly filled by people from a “new
power group” (181). Even if the structure is altered by the new group violence re-emerges since latent internal features are engrained in thought (181). Personal and structural violence are wed both socially and dialectally (184). The absence of structural violence is essentially what Galtung means by the term social justice.

Galtung’s description of how institutional violence is difficult to overcome links violence to thought and ideology to explain historical events are repeated. This is seen for instance, in nations with dictators, such as in Egypt, Iraq and Libya, that seemed “delivered” from the stranglehold of a dictator only to find that the institutional vacuum or the social structures that were supporting a violent regime, are quickly replenished by another dictatorial regime.

Institutional violence seems inevitable, at least according to Galtung’s description which takes us back to the problem of the determinism in relation to conflict and wars.

Systems theory can be used to explain the cyclical or seemingly inevitable occurrences of conflicts, with analysis, for example, that links historical long waves to natural and biological rhythms (Devazas & Corredin, 2001; Lee, Fok & Zhang, 2009). Mathematical analysis of historical and climactic data in agrarian pre-industrial China indicates that wars follow climate cooling with a 20 to 30 year time lag, attributed to the adjustment time needed for traditional agrarian communities to adapt to the reduced food supply (Lee, Fok, Zhang, 2009, 83). Their study suggests that issues of equilibrium between population, resources and food supply culminate in conflict and war (85-7).

Human behaviour that is reflected in human learning patterns of the population as a whole has also been linked to historical long waves. Mathematical analysis using two parameters including “the diffusion-learning rate … and the aggregate effective generation”21 that are

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21 Devezas and Corredine (2001) explain the diffusion-learning rate is one of determinants of the roughly 25 year period it takes for a technosphere to be developed, followed by another 25 years for its consolidation and exhaustion (12). The aggregate effective generation is the period of years that it takes for a biologically tied process involving the “expenditure of human energy” such one’s work-life (35-36).
represented in an interval function that is defined as deterministic chaos is what “grants the evolution and performance of social systems” (Devezas & Corredine, 2001, 1-2). Devezas and Corredine suggest human learning patterns lead the historical long wave, based on observable alternating sequences of “knowledge phase and a consolidation phase” (2). Moreover, generational learning creates “syncopated beats” that are at the heart of the long wave “socioeconomic growth and development” (2).

Studies on biologically rooted causes of conflicts align with economic studies that have to wrestle with the problem of greed. Human greed or desire has been seen as a driving force in shaping society, providing a link between nature and liberal theory since Thomas Hobbes’ *Leviathan* published in 1651. The greed versus grievance debate in conflict studies contrasts economically rooted causes as against politically and culturally rooted explanations.

Paul Collier’s (2000) in-depth statistical surveys of conflicts identify a possible “global pattern of large-scale conflict since 1965” as well as the rise of civil wars (91). Grievances form narratives that may be used as propaganda, but this is likely to be insignificant if greed is a cause of conflict (92). As a result, Collier says it is necessary to “infer motivation from patterns of observed behavior” (92). Economic motivation and grievances are statistically analysed as causal factors of conflicts to try to predict events of civil war in a given place based on observations of an earlier time period (92-93).

Different proxies are used in Collier’s analysis to outline an economic agenda. For instance, “primary commodities” serve as a proxy for the “availability of lootable resources” (93). Other proxies include; “the proportion of young men” in an area and a measure of education in the population to indicate opportunity levels (94). Other economic agendas for conflict may arise such as with suppliers of weapons, or with “opportunities for bureaucratic corruption,” however, these are not measureable and comparable in the same way as the factors
in an economic agenda (95). Statistical “results overwhelmingly point to the importance of economic agendas as opposed to grievance” to explain causes of conflicts (97). Primary commodity exports appear as a causal factor for conflict and if they account for more than 25 percent of a nation’s income, its risk of conflict increases by four times beyond a country without export dependency (97).

Identifying exports as a cause of conflict is useful for peacemakers because deep-rooted historical grievances are even more difficult to address than dealing with interests of private profit seeking rebel groups. If economic incentives within conflicts could be addressed, this may help reduce the incidence of war even where there are “long-standing hatreds” (Collier, 2000, 106). Government policies and international development teams could work to promote economic diversification in areas where exports fuel wars (107). Although Collier emphasizes the importance of greed as a cause of war he does not dismiss political factors. Yet his thesis results in a competitive tension between political and economic spheres of analysis. Ballentine and Nitzschke pick up on this tension in discussion of war economies and how Collier’s approach understudies political causes of war.

According to Ballentine and Nitzschke (2005), the self-financing nature of civil wars is one of their defining features. Combatants’ financing comes through their deals with criminals, arms traffickers, as well as corporations, export markets and world financial centres, in a context of “weakly regulated globalization” and weak governments (2). They note that early debate in conflict studies was dominated by the greed versus grievance debate. Different approaches to conflict studies may emphasize factors from political, social, cultural and other fields and this has an impact on any related policy decisions.

Collier’s greed-thesis has a number of problems, say Ballentine and Nitzschke. First, the thesis may itself be used to divert attention from those actually causing or allowing conflicts or
by blaming rebels for seeking profits out of conflict. It is necessary to analyse state behaviour to avoid legitimizing corrupt states and elites that may be reaping profits from the conflict while harming the population. As well, the greed-thesis is reductionist since it infers individual motivations based on statistics and if motivations change over time this will be missed in the statistical study (3-5).

Ballentine and Nitzschke (2000) argue that Collier’s economic thesis labels rebels as criminals and this makes it impossible to initiate any sort of discussions for “political or diplomatic solutions” to a conflict (5). Finally, the reductionist quantitative approach, blaming rebels’ profit-seeking as the cause of conflict, is not supported by qualitative studies that identify the triggers of conflicts as a blend of economic motives and “socio-cultural, political and economic grievances” (5). Other problems in conflict zones include “combat economies,” made up of traders benefitting from sales of weapons and black market economies with activities beyond the reach of state regulators, encouraging high profit margins, corruption, illegal smuggling of goods over borders, and altogether this may contribute to state collapse (7-8). The emergence of the “coping economy” can allow citizens’ very basic needs to be met through redistributed benefits from diaspora payments, “lootable resources” or illegal trading in drugs or goods. Analysis at the level of the household is important in shaping effective humanitarian policies. In addition, failing to note local and household economic activity may result in decision-making that can harm people. The most important task is to figure out how to make peace more profitable than war (9-10). It is important to note that Ballentine and Nitzschke ultimately detail how conflicts stem out of unmet human needs.

The greed versus grievance debate involves economic statistically supported analysis as against qualitative studies of the political causes of conflict. However, both approaches concede the need for multi-disciplinary analysis. The debate highlights division in methodological
approaches to study needs as discussed by Ballentine and Nitzschke and to reveal the functional role of greed in economics at the basis of Collier’s approach.

The greed versus grievance divide reveals how theory itself can get caught up in conflictual debate. Theories and ideologies can get used for analysis that leads to decisions with unintended negative consequences that may further fuel conflict, as in earlier discussion of institutional violence. This problem gives rise to a need for ways of viewing the multi-dimensional causes and features of conflict that can combine to make society susceptible to out-of-control forces such as described by Galtung’s structural violence.

Wolfgang Streeck (2016) offers a multi-dimensional approach, as he explains that “democratic capitalism” is the result of market interests and power working along with the influence of supply-side economics, to shift government policies away from taxation towards taking on debt to encourage economic growth during the 1980s (10-12). Streeck describes the politics around public debt as being “distributional conflict between creditors and citizens” since both have claims on the funds (14). The claims are based on “contractual-commercial and political-social rights” (14). As commercial investors increasingly seek out protections, governments reassure investors by agreeing to “tight mutual surveillance” and austerity policies that are supposed to ensure debt repayment, with states winding up dependent on financial markets (14 – 16). The growth of financial industry benefited from its “sophistication beyond anyone’s imagination” (21). Ultimately, this sort of “plundering of the public sphere” not only threatens democracy, but it eventually hurts the economies when the elite groups move away along with their capital to privately owned areas of the world that may offer tax havens (22). The conflict is seen as a “distributional game” that allows the top one percent to gain the lion’s share of all the income, 93 percent, for example, in 2010 (21). Streeck explains that the wealthy oligarchs have no need to increase the productive capacities to help ensure democratic stability,
even while they benefit from gains in their financial arrangements that allow ongoing profits (22).

The situation described by Streeck seems hopeless considering the spiraling accumulation of wealth in the hands of the wealthiest one percent. The increased risks facing democracies since 2010 emphasize how democratic stability is subjugated to financial markets. Financial machinations allow greed and leave a residual role for grievances and any needs that depend on democracy. Given that finance and economics overpower the purpose of democracy, conflictual relations seem bound to persist and spiral out-of-control in a deterministic way.

In the *Spiral of Violence* Helder Camara (1970), describes how the economic, cultural and political forces, may combine in a spiral of violence (30-40). The essential construction involves considering the experiences of economically oppressed people with the repression caused by “egoism of some privileged groups,” and combined with cultural dimensions of ideologies, religion, or psychological warfare, along with the use of political power in “governmental repression, under the pretext of safeguarding public order, national security, [or] the free world” (30-39). Camara’s framework offers the use of a spiral, as a way of envisioning how the causes of conflict intertwine and culminate, over the course of time, into violence.

A similar spiral theory of conflict is put forth by Kaufman (2001) with three basic elements including, “ancient hatreds, manipulative elites, and economic rivalry stories” (12). The narratives of ethno-symbolism show us how “myths and fears” play into the manipulated opportunities. “Ethnic war occurs when the politics of ethnic symbolism goes to extremes, provoking hostile actions and leading to a security dilemma” and, says Kaufman, “war results from a process in which extremist politics and insecurity mutually reinforce each other in an escalatory spiral” (12).
Both of these theories of conflict use the symbolism of the spiral of violence to help explain how problems escalate. This also links to popular jargon describing how “things just spiral-out-of-control”! As highlighted by Ballentine and Nitzschke, it is necessary to ask about the role of institutions in preventing conflicts. Historical evidence provided above (1.1) illustrates how financialization has potential to spiral-out of the control of government institutions and can have harmful impact on people in society. The overview of conflict theories shows how primordial and economic forces stand in contrast to approaches that stress the importance of political and social causes of conflict. The greed versus grievance debate reveals how the lack of distinction between wants and needs in economic theory also creates a division within conflict studies. The economic greed-based theory seems unable to include the political grievances related to unmet needs.

The greed versus grievance divide aligns with discussion of how economic and financial interests of power brokers seem to increase conflict while undermining democracy. The historical overview offers evidence of how greed and primordial economic forces support rising inequality. Some conflict theories that integrate a multitude of causes including economic issues use the concept of *spirals* of violence to describe how matters converge together in escalatory and seemingly deterministic manner. Given spiralling wealth accumulation that goes along with financialization, historical cycles and rising inequality, it is of critical importance to investigate how economics contributes to conflicts. Foundational concepts in traditional microeconomics such as property rights and equilibrium contribute to views of how the individual is linked to economic theory. Although Keynesian theory moved away from microeconomics, Keynes’ (2003) *General Theory* originally published in 1936, used the concepts “preferences” and “wage-units” as a means of tying economic analysis to discussions of the value of labour. Although the concept of wage-units has no modern usage, the philosophical meaning of this foundational
linkage is discussed in more detail in the next section. Keynes’ central role for the concept of preferences, on the other hand, is central to economic analysis. Understanding the nature of the foundational concepts is critical for analysis of economic theories in subsequent chapters of the thesis.

1.3 Foundational Concepts in Economics

Property and greed have had an important role in political and economic thought since at least the time of Thomas Hobbes. Greed underlies the idea of economic choices that remain at the heart of economic theory today, which speaks to the significance of Hobbes in the history of modern thought. This section discusses the philosophical concepts at the foundations of economic thought including, property rights, and equilibrium as well as Keynes’ concepts of preferences and wage-units. Ultimately, choices leading to acquiring wealth and rights to property are encompassed by equilibrium which functions as an ideal to help explain how action-taking is reconciled in an economy, as described earlier (.01).

Hobbes declared that the “distribution of lands at home” had to be under the control of the sovereign. After all, if property belonged to “private persons to use at their own discretion, “some of them would be drawn for gain both to furnish the enemy with means to hurt the Commonwealth, and hurt it themselves” perhaps by importing goods that could be noxious or unprofitable, but that would “please their own appetites” (Hobbes, 2005, 221). Today, centuries later, the potential for privately held property to be used in ways that harm society-at-large remains a philosophical problem.

Locke (n.d.) writing in 1660, describes the environment as naturally producing “fruits” and providing feed for “beasts” that are available for mankind. However, the goods of nature are useless unless they are appropriated through human labour:
Though the earth and all inferior creatures be common to all men, yet every man has a “property” in his “person.” This nobody has any right to but himself. The “labour” of his body and “work” of his hands, we may say, are properly his. Whatsoever, then, he removes out of the state that Nature hath provided and left it in, he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property. (116)

In fact today, in light of widespread urbanization, many people cannot access property by simply mixing their labour with land or the fruits of nature as described by Locke. Such an account of how people acquire rights to property does not offer a foundation by which to assess the morality of distribution of goods in which masses of people only own the value of their labour and no rights to land or property per se.

Rousseau (2011) argued in contrast, in his Social Contract and Discourses published in 1762, that individuals find morality in the community. He says that the “the right which each individual has to his own estate is always subordinate to the right which the community has over all: without this, there would be neither stability in the social tie, nor real force in the exercise of Sovereignty” (Rousseau, 2011, 48). Utilitarian approaches to property rights that are inspired by Rousseau’s philosophical account emphasize the importance of social and political institutions in providing moral justifications for rights (Waldron, 2004). For example, John Rawls’ account of rights stresses the importance of the institutions in supporting conditions for distributive justice.

An extension of Rousseau’s view of the basis for morality in relation to property and material wealth, is to have commonly held or collective property rights. Since the time of Aristotle, the concern with having mainly collective rights, may be viewed as the collapse of the role of individual virtue as people can become dependent on government and be “irresponsible participants in the tragedy of the commons” (Waldron, 2004).

In stark contrast, Nozick (n.d) argues in Anarchy, State and Utopia (originally published around 1974) that assessing the morality of an exchange between two people is not even possible because of the “separateness” of individuals. “There is no justified sacrifice of some of us for
others” says Nozick (33). Individuals’ actions are guided by “side constraints” that are supported by the idea that since humans are separate from one another, no one person can be seen as a “resource for others” (33). Political philosophy is separate from moral philosophy, in his view, which means that political concerns linked to property rights and morality only arise if there is violence (Nozick, n.d., 32-36). People are to avoid physical aggression against others by using side constraints even though there is no possibility of any “moral balancing act [that] can take place among us… so as to lead to a greater overall social good” says Nozick (46).

The contrasting approaches to property rights are based on forms of rights seen in individual versus collective rights. The differing views of rights are tied to opposing political views of the community and the economy-as-a-whole. In economic thought, an important encompassing view of the economy is based on the accounting identity that says the total of consumption is equal to the total of production. This helps explain how the sum-total of all human activities producing and consuming goods and resources comprise the economy.

In turn, as explained by Gewirth and noted earlier (0.2), the morality of humans is found in their actions. Therefore, the concepts used to explain the economy-as-a-whole, need to include understanding of the meaning of human actions. Yet, confusion arises since a holistic approach viewing the nature of the sums of consumption and production may remove analytical concern from a Gewirthian analysis of actions. As a result, effort to untangle and understand the role of action-taking is of importance and serves as a guide post in the subsequent chapters and discussions of authors.

The problem of morality in human actions is also intimately related to economic equilibrium. Leading nineteenth century economists advanced the concept of equilibrium as an ideal that could replace the Hobbesian view that freely-acting self-interested individuals would lead society into chaos or war as in his depiction of the state of nature (Wolff & Resnick, 2012,
The encompassing ideal of equilibrium offered a way to explain how everyone’s activities could be summed up together to create demand and supply. The concept of equilibrium offered an ideal that could magically reconcile all the conflicts that could arise with free-acting people in a market economy.

Three conceptions of equilibrium evolved in economics since the mid 1800’s and include: a basic exchange equilibrium between two “self-interested, economically rational traders;” a general equilibrium model that required the vision of an auctioneer settling equilibrium prices among buyers and sellers (from the late 1800s); and since the early 1900s, a partial equilibrium approach looks at change in one industry or market while holding other industries and markets as constants (Wolff & Resnick, 2012, 294-295). These conceptions of equilibrium may be used to explain relations between market supply and demand, prices and economic conditions.22

A mainstream microeconomic textbook notion of competitive equilibrium may be tied to Pareto optimality and Pareto efficiency: It is based on “the Edgeworth box [that] considers a two person, two good “exchange economy” [that resolves] exchange problems” (McAfee, 2006, 5-181). Pareto efficiency involves a contract curve that yields allocations in which “it is impossible to make one person better off without harming the other” (5-182). McAfee explains that the points on the curve that are efficient include the possible situation where “one person gets everything and the other nothing [since] …it could still be the case that improving 2 must necessarily harm 1. The allocation is efficient if there is no waste or slack in the system, even if it is wildly unfair” (5-182). Such an allocation might make sense if there was some comprehension of what is being gained or lost and the sort of harm being suffered along with plans for ensuring human needs are met. However, such practical and philosophical concerns are not included in the model.

22 For more discussion of equilibrium as an ideal, see Hayek, (1976), 67-85.
In addition, since the 1950s, other alternative approaches such as “classical game theory” have introduced the notion of agents who may be self-interested or altruistic (Wolff & Resnick, 2012, 297-8). The “Nash equilibrium [is described as] a stable state [in which] no interacting agent benefits from unilaterally changing his or her chosen strategy” (299).

The Austrian school of economics offers yet another major approach, based on works by Friedrich A. Hayek, Eugen von Böhm-Bawerk and Ludwig von Mises (Financial Times, n.d.; Boettke & Leeson, 2003, 1-3). Austrian economics supports free market ideals, supply-side economics and the idea of a “natural rate of interest” that theoretically could have prevented low interest rates that helped fuel the housing bubble (Ibid.). Böhm-Bawerk tried to refute Marx’s theory of value and prices, arguing that it required the value of commodities to remain constant to prices (Wolff & Resnick, 2012, 243). The Austrian school depends on Walras’ idea of the narrative of an imaginary auctioneer announcing all prices until a general equilibrium is attained and all demand and supply are cleared in markets (295). The Austrian school also requires consideration of the “structural rules governing the imaginary auctioneers’ function” (295).

By the 1870s neoclassical economics was “systematically reformulated around the proposition that the value of goods” is due to individuals’ subjective assessments (King & McLure, n.d., 5). The contributions of F. Y. Edgeworth, Leon Walras, and Vilfredo Pareto (and others) helped to shape neo-classical economics with the concept of marginal utility and ways to arrive at economic equilibrium. Alfred Marshall’s (1895) Principles of Economics was concerned with human well-being as well as the importance of adequate income to allow people “the material conditions of a complete life” (6). Yet the neoclassical economic focus on utility theory and the use of Pareto Optimality, discussed earlier (1.1) failed to support policies that could help avoid the economic, social and political problems that led to the Great Depression.

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23 Palley (2019), points out however, that if there “exist non-reproduced assets whose return dominates that of investment” the natural rate of interest may not even exist (1).
The social and economic problems of the 1930s raised further questions about the relevance of the microeconomic models of the late 19th and early 20th centuries. Keynes (2003) explains that he struggled with his transition from microeconomic methodology to his macroeconomic model. For example, he says that the “instantaneous picture taken on the assumption of a given output” posed limitations in his earlier writings (4). For clarification, output, which is the result of human action-taking, is reflected as an instantaneous occurrence in microeconomics.

In contrast, in The General Theory, Keynes (2003) shifted to the “study of the forces which determine changes in the scale of output and employment as a whole” (4). Keynes’ focus on aggregate output shifted his earlier interests in monetary issues aside, and set up a framework with “changing views about the future [that] are capable of influencing the quantity of employment” (5). Since the changes in views are dependent on “interaction of supply and demand [it is all] linked up with our fundamental theory of value” (Keynes, 2003, 5). Keynes could not develop his ideas about aggregate concepts based on the traditional foundations of property rights and utility theory. Keynes’ theory of value provided a theoretical link to nature situated in the “wage unit” which served as a variable to reflect the value of labour that can be exchanged for money. Keynes describes:

It is more convenient, however, to work in terms of a slightly different function, namely, the function which relates the consumption in terms of wage-units (Cw) to the income in terms of wage-units (Yw) corresponding to a level of employment N. This suffers from the objection that Yw is not a unique function of N, which is the same in all circumstances. For the relationship between Yw and N may depend (though probably in a very minor degree) on the precise nature of the employment… But in general it is a good approximation to regard Yw as uniquely determined by N. (62)

In other words, the differences in individuals’ earnings should not significantly disrupt the assessment and relevance of the level of employment. Given psychological propensities and one’s “habitual standard of life [that] usually has the first claim on …income” an increase in
income will usually lead to increased savings (Keynes, 2003, 66). Investment will increase if people increase their savings.

Psychological impulses in Keynes’ theory are also related to the multiplier effect. With respect to savings, the multiplier is a function of the psychological propensities that lead people to save more:

If saving is the pill and consumption is the jam, the extra jam has to be proportioned to the size of the additional pill. Unless the psychological propensities of the public are different from what we are supposing, we have established the law that increased employment for investment must necessarily stimulate the industries producing for consumption and thus lead to a total increase of employment which is a multiple of the primary employment required by the investment itself. (Keynes, 2003, 79)

Preferences are presumed to determine how much money one wants to hold. So “liquidity preference is given by a schedule of the amounts of his resources, valued in terms of money or of wage-units, which he will wish to retain in the form of money” (106). Ultimately, wage-units are a philosophical sort of basis for discussing how national income, the level of employment, and effective demand relate to labour (155). Keynes describes the wage-unit as being set by the bargaining between employers and employees (156). Keynes also describes how,

…as soon as we know the propensity to consume and to save (as I call it), that is to say the result for the community as a whole of the individual psychological inclinations as to how to dispose of given incomes, we can calculate what level of incomes, and therefore what level of output and employment, is in profit-equilibrium with a given level of investment; out of which develops the doctrine of the multiplier. (10)

Keynes’ framework nevertheless relied on the idea that income and savings are ultimately subject to market equilibrium that assures profits for investors and producers. Theoretical analysis of psychological inclinations and different behaviours end up being subject to equilibrium. The emphasis on the psychological sources, nullifies the potential to deal with relations of power that could affect a wage-unit which is an abstract notion that Keynes relates to aggregate income. The Keynesian framework cuts-out discussion of property rights that may be part of economic action-taking: The wage-unit – as described by Keynes – does not relate to or
support any analysis of the generative processes by which people earn or acquire money.

Individual action-taking is essential to earning money and creation of real-life market forces although ironically, the analysis of actions is not built into Keynes’ macroeconomic framework.

Keynes’ concern was initially with the financial problems of the early 1900s, interest rates and analysis at a macro-level. Liquidity preference schedules determine interest rates in the Keynesian framework. He explains that the “acuteness and peculiarity of our contemporary problem arises… out of the possibility that the average rate of interest which will allow a reasonable level of employment is one so unacceptable to wealth owners” that merely manipulating the money supply will not work (194). Keynes notes the significance of historical cycles, saying that “the essential character of the trade cycle and, especially, the regularity of time-sequence and of duration which justifies us in calling it a cycle, is mainly due to the way in which the marginal efficiency of capital fluctuates” (Keynes, 2003, 196).

The forces propelling the system “upwards at first gather force and have a cumulative effect on one another but gradually lose their strength until at a certain point they tend to be replaced by forces operating in the opposite direction” until they also lose momentum (Keynes, 2003, 196). Keynes notes the “shifting” and unpredictable nature of expectations related to future valuations of capital goods, which leads to the notion of “a sudden collapse in the marginal efficiency of capital” such as in an over-bought market with rising doubts about prospective yields (197-198). Investment, trade, and speculation do not increase again until the market has bottomed out (198). A laissez-faire system is bound to have major fluctuations in employment because of the “far-reaching change in the psychology of investment markets” that is needed to avoid fluctuations in stock markets and in the propensity to consume (199-200). Keynes concludes that the “duty of ordering the current volume of investment cannot safely be left in private hands” and government policies are needed (200).
Keynes’ (2003) emphasis on the psychological, changing views of people in the economy lies at the heart of preference theory. As a result, Keynesian theory shifted the issues of morality from microeconomic foundational concepts of property to macroeconomics, preferences and psychological issues. Yet, the mechanisms of the free market system and traditional reliance on the social conscience of individuals in private and public leadership roles were also shifted into Keynes’ new conceptual framework and his foundation based on preferences and beliefs (Skidelsky, 2003, 365-8). In other words, the role of social conscience and the potential for virtues, to play a role in analysis, policy-making, and actions of government and others depends on preferences and beliefs that are central to emotivism.

A foundation emphasizing how psychological states shape the economy led to Keynesian analysis of equilibrium with new concern for functions aggregate income, consumption, output, savings, investment and the employment level, as well as liquidity, which is a function of the interest rate (128). The rate of interest is “a highly psychological phenomenon” says Keynes (2003), that he imagined could not rest at a level below that which is required for a level of full employment (129). Equilibrium is also to be analyzed in terms of the multipliers calculated in relation to employment and investment or “the schedule of liquidity-preference,” which is a concept that explains the demand to hold cash (157). The demand for cash is analyzed in relations to the value of output and the level of employment that are assessed in terms of the wage-unit (157). Thus, the meaning of equilibrium is also to be linked to Keynes notion of the wage-unit! However, as noted earlier, the relevance of the wage-unit is difficult to interpret in terms of day-to-day human experience and valuations of actions. As a result, Keynes’ theory faced challenges in assuring that government policy-making supported full-employment levels.

Political pressures to bow to microeconomic interpretations of equilibrium happened in the wake of Keynes’ policy recommendations. In 1937, for instance, pressures to balance the
budget led F.D. Roosevelt to return to orthodox economic cuts to spending, unemployment rates soared once again and the slump returned (Krugman, 2009, 196). Keynes’ (2003) thought that a return to government support for austerity was unlikely:

The method of increasing the quantity of money in terms of wage-units by decreasing the wage-unit increases proportionately the burden of debt; whereas the method of producing the same result by increasing the quantity of money whilst leaving the wage-unit unchanged has the opposite effect. Having regard to the excessive burden of many types of debt, it can only be an inexperienced person who would prefer the former. (167)

In other words, austerity leads to reduced incomes that make it harder to pay debt.

Even though Keynes discussed the ineffectiveness of falling wages in economic terms, *The General Theory* did not offer any means of analyzing the experiences and rights of workers in the face of power wielded by business elites. Keynes mentions how the “right” to take advantage of falling wage rates as a result of increasing unemployment, was a feature of fascist states, but not democracies:

To suppose that a flexible wage policy is a right and proper adjunct of a system which on the whole is one of laissez-faire, is the opposite of the truth. It is only in a highly authoritarian society, where sudden, substantial, all-round changes could be decreed that a flexible wage policy could function with success. One can imagine it in operation in Italy, Germany or Russia, but not in France, the United States or Great Britain. (Keynes, 2003, 168)

Keynes had an optimistic view of the Western economies, believing in the good in freedom rather than the immorality seen in authoritarian states. Keynes was also a “disciple of Cambridge philosopher G.E. Moore” who saw the good life as being dedicated to “states of consciousness” such as found in day-to-day pleasures (Skidelsky & Skidelsky, 2012, 17).

Keynes was optimistic that Moore’s new philosophical approach to the world’s problems would help everyone. However, his *General Theory* was challenged when orthodox economic concern over the debt and deficit led to reduced public spending. As is well-known, it was only the massive spending related to World War II that led to full recovery from the Depression.

Understanding Keynes’ use of wage-units is of importance because they were intended to
be part of his theoretical foundation and epistemology. For, the units provided Keynes a way to discuss links between the value of human labour and aggregate output, consumption and other economic issues. Moreover, since rights are grounded in human action, as explained by Gewirth (0.2), it appears at first glance that Keynes’ concept of wage-units may have been intended as a philosophical link between human action and economics. However, Keynes’ concept of wage-units does not include a practical way to evaluate labour and income issues. The overview of the concept of wage-units exposes difficulties within Keynes’ philosophical foundations, particularly around his suggestions to assess the value of human labour. As well, Keynes’ lack of consideration of human and property rights creates an intellectual gap.

Instead of rights, the concept of preferences which involves psychological states and leads to emotivism takes on an important theoretical role. As a result of the significant roles given to preferences and emotivism, it is clear that the self-interested individual and equilibrium theory are part of the Keynesian model.

Kenneth Arrow helped set the philosophical foundation for interpretation of preferences, in his first writings in the 1950s, with his mathematical *impossibility theorem* (Morreau, 2014). According to Morreau, Arrow’s technical framework is predominant for studies of welfare economics and “the impossibility theorem itself set much of the agenda for contemporary social choice theory.”

Arrow (1978) saw problems with individual utilities and choices when trying to use them to mathematically represent social utility (4). For instance, social utility “might be the sum of individual utilities or their product or the product of their logarithms or their product taken two at a time” (4). The different approaches all lead to different value judgements and risks of leading economists “into the realm of ethics” (4). Value judgements can be self-contradictory rather than offer consistency when applied to various situations and this is problematic (5). Differences
between political decisions made by voting and decisions made via the market mechanism are insignificant since both are in the “general category of collective social choice” and take care of distribution of goods (5-6). Preferences, says Arrow, can be represented by mathematical notation, by assuming that the chooser is faced with a “basic set of alternatives” wherein each alternative is a bundle of commodities (11). Economic welfare problems tied to the cardinality of utility theory are avoided by using alternatives that each represent a commodity bundle or “a complete decision on all inputs and outputs” (11). The alternatives for welfare economics involve “a distribution of commodities and labour requirements” (11-12).

The fact that Arrow implies that economics should have nothing to do with ethics is a problem since it assumes that the mathematical expressions assure a superior, value-free interpretation of phenomena. As a result of avoiding the subject of morality, it is not surprising that Arrow’s impossibility theorem says that there are no procedures “that satisfy certain apparently quite reasonable assumptions concerning the autonomy of the people and rationality of their preferences” (Morreau, 2014). Moreover, since there is no way to ascertain what is the best alternative for society, Morreau suggests that the notion of a social ordering of preferences does not exist. Arrow’s theorem challenges the political ideal of the Enlightenment, especially in suggesting that the “will of the people” is not realistic since it does not reflect everyone’s “tastes and values.”

Arrow’s theorem, says Morreau (2014), “is deeply antithetical to the political ideals of the Enlightenment.” Perhaps Arrow’s intellectual contribution is at the foundation of contemporary culture that emphasizes polls and surveys to assess situations and explain events, constantly striving to comprehend preferences and tastes, while private interests bombard the masses with ads or “fake news” to influence business and political trends.
Keynes’ epistemological idea of wage-units is a relic, as focus shifted to preferences as a foundation for thought. However, methodological individualism based on actions and choices maximizing utility did not vanish. Debates over utility theory and the rational self, continued for decades. Sen (1977) writes that the neoclassical “rational fool” has only egoism and no ability for thought and cannot be accepted in a forward-thinking ethical society. As a result of theoretical difficulties, the trend “since Paul Samuelson has been to slay the metaphysical beast” of utility theory and rely on preference theory (Schabas, 2007, 15). It is important to note that utility theory, property rights and the ideal of equilibrium still exist but receive little attention.

In contrast to the neoclassical and Keynesian models that rely on equilibrium, a number of Post-Keynesian and socialist economic approaches see disequilibrium as a more realistic description of day-to-day life, economic inequality, job insecurity, unemployment and the changing social conditions that are part of historical cycles. In logical terms, approaches that adopt disequilibrium indirectly engage the self-interested agent since analysis requires a counterpoint to disequilibrium. That is, how can discussion of disequilibrium exist without maintaining some sort of concept of the traditional ideal of equilibrium? Economic problems call for ethical analysis, yet social choice theory, equilibrium and disequilibrium offer no epistemological basis to discuss morality.

In concluding this section, even though Keynes made great efforts to depart from microeconomic foundations, he had to concede a role for an ideal of equilibrium. There are different economic approaches to equilibrium, however, they rely upon or do not make a real departure from the traditional self-interested being (Wolff & Resnick, 2012, 296-303, 327). For the self-interested rational agent makes choices and is inextricably tied to property rights that are part of conflicts, economic violence, disequilibrium and financial crises.
The historical overview (1.1) shows how institutions, leaders and policy makers struggled to protect human rights throughout the Financial Crisis. The failure of economic theory to include rights to needs seems related to lack of ability to predict financial cycles. That is, the difficulties in economics to evaluate morality in human actions that result in financial crisis, involves foundational questions around rights, needs and the value of labour.

The historical overview also shows how economic ideologies and institutional violence such as described by Galtung is taking place in high finance. The next chapter examines economic theories in relation to financial crises and economic cycles in order to better understand theoretical approaches and problems in explaining historical cycles. Since theories that inadequately explain reality give rise to ideologies that can in turn give rise to economic violence, there is a need to see how theoretical concepts may produce stories and ideological positions rather than knowledge.
2. Economic Approaches and Historical Long Wave

This chapter offers an overview of literature on historical long waves and business cycles as part of the quest to understand the relations between economic theory, cycles, disequilibrium, inequality, and democracy. Discussions about business cycles and long waves emerged partly in response to Keynesian economic theory that did not adequately explain historical cycles.

In this chapter works on economic cycles are considered, as much as is possible, within a historical dialectic. We note how monetarist thought proclaimed to explain business cycles and succeeded in diminishing the role of Keynesian economics. Minsky and others challenged monetarist thought by pointing out its incapacity to explain institutions. Additional theories that are briefly discussed include Marxist views of long waves and Systems Dynamics and Chaos approaches that offer explanations of economic cycles. The final section in this chapter examines how economic long waves raise questions about the relation between economics and nature, which ties directly into debates about environmental crisis.

Textual evidence is gathered using a history of thought methodology to discuss the how economic concepts and theory have evolved. The discussion of theories reveals how Keynesian economics and the traditional market equilibrium model have difficulties in contending with big business power, unemployment, nature and environmental crisis. Theories also face methodological difficulties in evaluating the impact of human actions over time. Economic interpretations struggle to explain financialization and economic forces that seem to harness energy of their own, especially as they result in financial crises. This gap in economic theory ties into debates over important matters in economics that are seen as exogenous instead of endogenous: Mainstream economists, including neoclassical and new consensus macroeconomists, see the causes of financial crises as exogenous shocks, to an otherwise stable

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24 The notion of endogenous factors is seen in the use of the Coase Theorem, discussed earlier (0.1) to delineate equilibrium economics from the array of conflicts over rights that are classified as part of the uncertainty of the marketplace.
system, whereas heterodox economists including Minsky, Kalecki’s and others, see financial crises as the result of endogenous factors that must be explained by economic thought.

Long wave literature is inspired by Kondratiev who noted price changes over periods of 50 to 60 years, and Schumpeter who explains the importance of technological innovation in historical cycles. However, some literature was provoked by Keynesian economics because it does not adequately explain how people take actions that produce the dynamics of business cycles. It was noted earlier (0.2), that the daily cycles of economic production involve the actions of people, so it follows logically that the larger cycles of time must also explain the actions of people. Therefore, the theories in the next section are considered in terms of how they relate economic events and cycles to human actions. Property rights are not explicitly discussed in most discussions on long waves, this leads us to question how economics accounts for human action-taking in relation to human rights and historical cycles. As well, since economists make implicit assumptions are made in dealing with property rights, effort is made to observe how this affects political and economic analysis.

2.1 Keynesian Macroeconomics: Problems and Debates

Keynesian theory played an important role after the Great Depression of the 1930s setting the stage for the Post World War II economic boom, by supporting development of legislation, policies and an institutional framework to monitor financial sector developments (Minsky, 2008, 5). Keynesian theory helped in explaining the Depression, widespread unemployment, and supported development of fiscal policies to help restart the economy. As noted earlier, analysis shifted from microeconomic issues, including 19th century notions of utility and property rights, to macroeconomic concern for aggregate consumption and production in society-as-whole. After World War II things were quiet until the “financial near crises” that happened in the late 1960s
and 1970s and again, these events were used to justify a rejection of Keynesian economics in favour of the neoclassical microeconomic theory (Minsky, 2008, 4-5). Keynesian theory was needed as a basis for policies and institutions that could deal with the impact of over-speculation that results in financial fragility (5-7). However, orthodox economic notions against government spending were used to justify the push for deregulation. Tightened monetary measures were used to control inflation and reduce government spending and this led to increased unemployment (7).

In the decades after The General Theory, economists argued that Keynesian theory did not adequately explain the nature and causes of the business cycle (Hicks, 1951, 1; Harrod, 1936, 36; Goodwin, 1982, vii). Although Keynes’ (2003) General Theory included a chapter on trade cycles, these are shorter and distinct from long-wave theory. The national accounting methodology that stems from Keynesian theory includes mathematical descriptions to balance aggregate demand with aggregate supply, savings and investment. However, the equations do not explain the dynamics of waves, and a number of economists made contributions to fill this gap in economic theory.

J.R. Hicks, (1951) says that Keynes’s theory does not explain fluctuations in the level of economic activity, and economists “run serious risks in the application of his theory” (1). The longer-run effects of policies need to be better understood in terms of pressures that cause fluctuations, and how and why the cycles happen as they do through history (1). A cyclical sequence may be understood by making a number of reasonable assumptions to help explain repetitiveness. Any additional secondary cycle-making forces are not likely to induce a cycle (2). The main cycle attracts the secondary forces that act upon the main cycle to intensify its fluctuation (3).

Hicks wanted to use math and physics to try explaining the accelerator principle as an important “element of causation of the cycle” (5). The dynamics in economic theory needs to
“date all Quantities” (10). Integration of the accelerator principle extends the Keynesian framework without adding any inconsistencies and more importantly, provides a shift in foundation from Keynes’ use of “wage-units” as the basis for analysis to using “money values deflated by the price-level of output” (11). This is done to make it easier to escape the restrictive conditions that exist in Keynes’ General Theory which do not capture how consumption depends on income earned in previous time periods (18). Hicks’ system can explain “transitory saving which is deferred consumption” (21). Dynamics are “that part of economic theory in which all Quantities must be dated” (10). His more generalized explanation of wages, prices, production, consumption, savings and investment allowed integration of changes in quantities. This allowed the development of a framework to show how changing quantities over time relate to movement of the economy towards new equilibrium positions.

An important notion behind laisser-faire economics that overrules Keynesian thought in favour of austerity is that an economy is a natural system in which the forces of demand and supply will always tend towards equilibrium. Minsky (2008) argues in contrast, that an economy is not a natural system but instead, depends on “social organization created either through legislation or by an evolutionary process of invention and innovation” (7). Since Minsky builds on Keynesian economics that shifted concern away from any more traditional links to nature, towards relying on preferences and expectations. Do preferences truly provide an adequate basis for developing legislation and innovations? Minsky’s assertion that the economy is not a natural system raises further questions and clashes with foundational ideas in microeconomics. We recall that the basis of morality is to be found in a philosophical analysis of human actions which are also a link to nature, as explained by Gewirth (0.1). Thus, at this point, Minsky leaves us with unanswered questions about how macroeconomics relates human actions and morality.

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25 Minsky (2008) does not specify what constitutes a natural system and this philosophical question is further investigated in section 2.7.
The need for institutions to assure social justice in an economy also raises questions about whether or not institutions are moral. The difficulties in discussing morality and social justice in relation to institutions raises the ire of economists and others who believe that freedom as a philosophical foundation of society must be prioritized to assure justice. For example, Hayek (1976) describes social justice as the goal of a dictator pursuing some particular ill-intentioned view of what is just:

> It was in the belief that something like ‘social justice’ could thereby be achieved, that people have placed in the hands of government powers which it can now not refuse to employ in order to satisfy the claims of the ever increasing number of special interests who have learnt to employ the open sesame of ‘social justice’. (67)

Hayek’s thought continues to have influence in economics, such as with the Austrian school, even though there is ample evidence as described earlier (1.0), to prove that financial crises happen when there is a lack of government oversight and regulations that ensure the proper functioning of the financial sector. To the degree that economic forces are at play, and free from government regulation, it appears that they can indeed take on a potential to act as if they have a life of their own, like out-of-control and dangerous forces.

The Great Depression and financial crises have proven that if economic forces are not counter-balanced they hold power that can cause tremendous harm and human suffering. In contrast, Hayek says natural behaving economic forces ought to be allowed. He explains that:

> The type of social order in which the individuals are directed to serve a single system of ends is the organization and not the spontaneous order of the market, that is, not a system in which the individual is free because bound only by general rules of just conduct, but a system in which all are subject to specific directions by authority. (85)

Government meddling in the economy is unjust, and moral issues related to economic inequality are best solved by the natural economic equilibrium process. From this perspective, economic policy-making that fails to respect the natural working of the equilibrium mechanism leads to injustice.
In reality however, events are caused by economic forces which are caused by human activities that may have harmful impact on society. Economic forces shaping equilibrium or disequilibrium exist in tension with democratic and social institutions that exist to assure human well-being. The effort to offset financial crises can be done most effectively if theoretical analysis is able to explain how and why crisis happens at the end of a boom and how its negative impact can be avoided. Yet, microeconomics is still used to challenge the idea of a Keynesian state and institutions that can help offset the impact of crises. The notion that economics is based on freedom and “natural forces” leads to the belief that naturally equilibrating supply and demand should rule over or reject Keynesian social institutions.

Political and philosophical problems and inconsistencies spring from the belief in freedom as a foundation of economics. Hayek (1964) discusses how problems of inflation and deflation need to naturally work their way through money as a medium of exchange: “there may be cases where some changes in conditions might make fairly extensive reductions of money wages necessary in a particular area if exchange rates are to be maintained” especially for countries dependent on a small number of exports (46). In this view, the “rigidity of wages” is a problem for the natural or automatic equilibrium mechanism. This is an important political issue because wage earners are singled-out as a group! Hayek also suggests that economic equilibrium should regulate wage earners’ income levels – thereby casting economic equilibrium as having superior power to government, since only market spontaneity is just. In Hayek’s approach, the market is cast like a religious authority on morality and justice since it “ought” to be allowed to make people suffer loss of income. Market equilibrium becomes a foundational source for the austerity measures that enforce various forms of cuts to wages, government social programs, education funding and so on.
Moreover, as a point of basic logic, it is crucial to note that the singling-out of wage earners directly contradicts Hayek’s own concern that Keynesian social institutions might serve particular group interests. By asserting it may be “necessary” to allow denial of wage earners’ income, Hayek moves in the opposite direction to protect freedom of market forces and whoever may have the financial leverage and power over market sectors instead of wage earners. Wage-earners typically formed the masses of people who were providing labour to corporations. Such policies are intended to support economic efficiency yet in reality downward pressures on wages increase inequality.

According to Minsky (2008); “Distasteful as inequality and inefficiency may be, there is no scientific law or historical evidence that says that, to survive, an economic order must meet some standard of equity and efficiency (fairness)” (6). However, even capitalism cannot survive if it is constantly oscillating “between threats of an imminent collapse of asset values and employment and threats of accelerating inflation and rampant speculation, especially if the threats are sometimes realized” (6). Minsky’s point that there is no scientific law to argue against inequality does not diminish the role of moral arguments against inequality and the accumulation of power and wealth in the hands of a few. Since democracy and wage earners’ rights are threatened by inequality such moral arguments are important. Moreover, perhaps moral arguments against inequality can better explain philosophical links between actions causing wild, seemingly natural economic oscillations that threaten social stability and democracy.

If various economic theories depict the causes of cycles as separate from nature, then how do we conceive of the relations between economics, society, and nature? The history of economic thought holds a tangled web of ideas that help shape different views of our links to nature. Yet if it is believed that natural forces cause economic cycles, this is a deterministic view of economics such as prevailed before the Great Depression. Determinism may be lurking in the
risks and potential impact of unknown future events within the historical long wave. Minsky’s point that the system is *not* natural emphasizes that people and institutions *do* have influence and *must* make efforts to control economic forces that can wreak havoc and cause harm. Knowledge must be sought in order to avoid deterministic outcomes such as seen in harmful business cycles.

However, economics and discussion of long wave theory must include a role for historical factors and economic forces over time. We look at a number of approaches to viewing the relations between history and economic cycles.

### 2.2 History and Economic Cycles

As noted earlier, the Financial Crisis of 2007–2009 raised the spectre of the economic long wave and historical cycle attributed to the Great Depression. Different long wave theories all attempt to link economics with forms of cycles over time. The historical long wave encompasses a number of shorter business cycles that happen every few years.

Long wave economic theories can help explain how events shape economic reality. A number of long wave theories follow in the traditions of Marx, Kondratieff, and Schumpeter in attempting to explain historical forces affecting society. Schumpeter (1976) does not believe that the Marxist notion that capitalism will ultimately breakdown under its own weight is automatic. Instead, he states, “its very success undermines the social institutions which protect it, and ‘inevitably’ create conditions in which it will not be able to live and which strongly point to socialism as the heir apparent” (61). Moreover, “the process of Creative Destruction” is essential to capitalism that evolves due to “economic life [that] goes on in a social and natural environment which changes and by its change alters the data of economic action” (82-83). The whole process finds life in the new innovations of capitalist enterprise. The decisions and innovations of the capitalist enterprise offer ongoing real qualitative change that provides
opportunities for society in economic cycles but has a destructive impact on the older economic and institutional foundations.

Wars and related political situations including the “attitudes or feelings” of people come from “much deeper forces” (421). Wars may clear the way for evolution of society but this is no reason to support conflict. Inflation can accelerate social change and if it is chronic is can “strengthen subversive tendencies [and lead to] …eventual conquest of the private-enterprise system by the bureaucracy” (421-4). As well, says Schumpeter,

money rates must be freed from the grip of cheap-money policies if normalcy in the sense of a free-enterprise economy is to be attained and that for everyone who desires return to such normalcy, the liberation – or reconstruction of a free money market must be a point of prime importance. (423)

When private enterprise is blamed for “frictions and deadlocks [this is] used as arguments for further restrictions and regulations” (424).

Kondratieff (1979) points out that the typical seven year-long business cycle exists within a larger historical cycle. Empirical evidence shows increasing prices and wages in the period from the late 1700s to 1812-17, that then decline until the late 1850s, marking the end of the “first great cycle” (528). In contrast to Schumpeter, Kondratieff says wars and political turmoil are not due to “individual personalities [but rather] they originate from real especially economic circumstance… [and] in the acceleration of the pace and increased tension of economic life, in the heightened economic struggle for markets and raw materials” (539). Nor is the opening up of countries an external cause of long waves. For, evidence shows that “a new upswing makes the exploitation of new countries, new markets, and new sources of raw materials necessary and possible, in that it accelerates the pace of capitalistic economic development” (540). It should be noted that Kondratieff’s analysis uses prices to assess cycles instead of considering how output or unemployment are affected over time. Gold is also not a causal factor for long waves, says
Kondratieff, for its functioning as a store of wealth means that its production increases at the
downturn of the cycle (540-1).

Simon Kuznets (1930), overviews approaches to cycles including: Time discrepancy
theories, such as by Irving Fisher, that detect changes in expectations in different time periods to
explain cycles as the result of one sector lagging behind the others; Generalizing theories such as
Schumpeter’s that describe innovation waves that disrupt the system, yet fail to explain how
there is a general rise in prices and overproduction in the system at large. Theories of
independent variables which turn to issues such as crop failure to explain cycles end up refuting
economic theory since the causal variable lies outside theory (388-9). Kuznets suggests the
study of different relations between economic sectors is of importance. Setting different time
coefficients for different sectors means that equilibrium may not happen and instead there are
random changes that accumulate in the system. The accumulation of random changes “becomes
in certain conditions a source of prolonged oscillations [and can shape] a normal frequency
distribution of changes strung along the line of time” (408-9).

Kuznets (1950) wrote an important study about growth and inequality. He explains that to
assess the relation between income inequality and growth it is necessary to have “defined
economic and social conditions” (2). He analyzes the incomes of deciles of population. “The
general conclusion suggested is that the relative distribution of income, as measured by annual
income incidence in rather broad classes, has been moving toward equality – with these trends
particularly noticeable since the 1920’s but beginning perhaps in the period before the first world
war [sic]” (4). The evidence shows:

whereas the share of the top quintile declines from 55 to 44 per cent, and that of the top 5
per cent from 31 to 20 per cent. In the United Kingdom, the share of the top 5 per cent of
units declines from 46 per cent in 1880 to 43 per cent in 1910 or 1913, to 33 per cent in
1929, to 31 per cent in 1938, and to 24 per cent in 1947; the share of the lower 85 per
cent remains fairly constant between 1880 and 1913, between 42 and 43 per cent, but
then rises to 46 per cent in 1929 and 55 per cent in 1947. (4)
During the same period, inequality increased slightly in Prussia, while Germany had a sharp drop in inequality “due to decimation of large fortunes and property income during the war and inflation” but the depression restores pre-war inequality (4).

Kuznets’ measurements exclude government transfer payment to individuals which suggests even less inequality in developed countries (5). He says “narrowing income inequality” happened around the time of the First World War in United States and Germany compared to the late 1800s for England (19). Industrialization allowed an increase in “capital formation rates of 3 to 5 per cent of national product in underdeveloped countries and rates of 10 to 15 per cent in developed countries” (20). More data is needed to measure such ratios as “foreign trade to domestic activities” to assess how government policies affect market forces (20). Kuznets concludes, “The longer alternation in the rate of growth of population can be seen partly as a cause, partly as an effect of the long swing in income inequality which was associated with a secular rise in real per capita income levels” (20). Developed countries’ growth likely affects what Kuznets described as “underdeveloped” ones, such as “India, Ceylon [sic] and Puerto Rico” where available data shows even greater inequality: The “conditions of primitive material and economic technology” magnifies income inequality (21). In hypothetical conditions, “the secular level of the share of the lowest decile could not fall far short of 6 or 7 per cent, i.e., the lowest decile could not have a per capita income less than six- or seven-tenths of the country-wide average” without falling below levels needed for survival (22).

Irving Fisher (1933) explains economic cycles in relations of “physical wealth, property rights, and services” and valuations, equal to their “quantities multiplied by the prices” (17). As prices and values are affected by many factors, “only in the imagination can all of these variables

26 Thomas Piketty (2014) explains that the Kuznets’ curve has “fragile empirical underpinnings” and does not explain the complexity of political and economic factors that result in the rise and fall of inequality (14). For example, there are increased levels of inequality in developed economies with greater “diffusion of knowledge and skills” and rising income levels, particularly for business leaders (20-24).
remain constant and be kept in equilibrium by the balanced forces of human desires, as manifested through ‘supply and demand’” (17). The study of “imaginary equilibrium … is economic statistics” whereas, the study of the disequilibrium of variables is about “economic dynamics” (17). Understanding disequilibrium requires studying events, facts, and the range of tendencies, such as deflation. Tendencies are understood by studying how they are shaped by “general laws [found] …primarily in economic science” (17). Both economic history and science are needed and help each other (17).

Fisher says it is a myth that there is only one “self-generating” sort of business cycle that is shaped by one main force, akin to gravity (18). Instead, there are many interrelated and “coexisting cycles, constantly aggravating or neutralizing each other, as well as co-existing with many non-cyclical forces” (18). In addition, one cycle does not exist as a fact or historical event, according to Fisher, since “there are always innumerable cycles, long and short, big and little, conceived as tendencies (as well as numerous non-cyclical tendencies)” (18). Any one historical event happens because of “all the tendencies then at work” that may be classified as steady (trends), unsteady (haphazard) or cyclical (repeated) (18).

Cyclical tendencies may be “forced” or imposed on the economic mechanism from the outside, such as with annual cultural traditions. Or tendencies may be “free cycles” and self-generating (18). Equilibrium may be tentatively assumed but this is so fragile that as soon as it “moves beyond certain limits, instability ensues” (19). This is similar to a ship that is usually floating in a sort of equilibrium, unless it tips beyond a certain point, from which it can no longer return, and ends up capsizing. In the economy, the free cycles may tend to give way to equilibrium but most variables are “almost always above or below the ideal equilibrium” (19). The variables most often blamed for cycles include imbalances in consumption, production, capacity, prices, and between investment and savings. Over-speculation is problematic when
carried out with over-confidence that “beguiles its victims into debt” (22). Over-indebtedness leads to the need for liquidation, distress selling that leads to a “stampede to liquidate” that ends up swelling the value of money that is owed (25-26). The result is general deflation of prices. Losses then spill-over into business, trade and employment. The bankruptcies and unemployment lead to “pessimism and loss of confidence which in turn lead to hoarding and slowing down still more of the velocity of circulation” (23).

Fisher’s book, 100% Money describes how the history of banking was about the “losing fight against lowering reserves” (1936, 285). Bankers were seen as responsible for the Depression. Money creation is a government’s responsibility: “We cannot permit 15,000 banks to act as so many little independent mints with no central responsibility as to the aggregate production or destruction of the nation’s circulating medium” (288). If government took responsibility for money creation, banking could be freed of vexatious regulations (288).

F.A. Hayek, wrote Monetary Theory and the Trade Cycle in 1933, rejecting theories that use historical trends as evidence for statistical analysis:

We cannot superimpose upon the system of fundamental propositions comprised in the theory of equilibrium, a Trade Cycle theory resting on unrelated logical foundations. All the phenomena observed in cyclical fluctuations, particularly price formation and its influence on the direction and the volume of production, have already been explained by the theory of equilibrium; they can only be integrated as an explanation of the totality of economic events by means of fundamentally similar constructions. Trade Cycle theory itself is only expected to explain how certain prices are determined, and to state their influence on production and consumption; and the determining conditions of these phenomena are already given by elementary theory. Its special task arises from the fact that these phenomena show empirically observed movements for the explanation of which the methods of equilibrium theory are as yet inadequate….It is not only that we lack theories which fulfil this condition and which fall outside the category best described as ‘equilibrium theories’ – theories which are characterized by taking the logic of economic action as their starting point; the point is rather that statistical method is fundamentally unsuited to this purpose. (28-9)

Statistical approaches that abandon the “proper conditions” required for economic analysis will never deepen theoretical insight, says Hayek (30-32). Statistics are supposed to
provide information about “the events which fall within the province of our theory, and so to enable us not only to connect consecutive events as cause and effect, a posteriori, but to grasp existing conditions completely enough for forecasts of the future and, eventually appropriate action, to become possible” (35). Hayek proclaimed that no single trade cycle theory is accepted by economists and there is not one that “could be … worked out in such detail, as eventually to command such acceptance” (40). Hayek disagrees with all theories that claim disequilibrium as a starting point. If the logic of equilibrium is properly followed, it proves that “such disturbances of equilibrium can come only from outside” and the system will adapt by forming a new equilibrium (42-43).

Hayek critiques the monetary theories of the trade cycle because these over-focus on “superficial phenomena of changes in the value of money, while failing to pursue the far more profound and fundamental effects of the process by which money is introduced into the economic system, as distinct from its effect on prices on general” (46). Hayek wants to coordinate a “unified logical structure” for the various trade cycle theories rather than developing a new system of thought (52). He explains:

All those forms of disproportionality theory with which we have to deal here rest on the existence of quite irregular fluctuations of 'economic data' (that is, the external determining circumstances of the economic system, including human needs and abilities). From this assumption, they try to explain in one way or another that the fluctuations in consumption or some other element in the economic system occasioned by these changes are followed by relatively greater changes in the production of production goods. (59)

It is important to note that Hayek sees the “determining circumstances including human needs and abilities” as external to the system. Hayek’s notion that human needs and abilities are external to the economic model, contradicts his previous statement on the imperative of “taking the logic of economic action” as a starting point for analysis that includes humans. However, excluding humans is consistent within Hayek’s model if “economic action” equals the mechanical working of equilibrium market forces.
Hayek says his English colleagues are mistaken in their perspective and “fascination with the relation between ‘the’ price level and ‘the’ cost level in a particular area [and] they are apt to overlook the much more important consequences of inflation and deflation” (1964, 46). In a footnote Hayek adds that this fascination is likely due to the influence of Irving Fisher (46).

In contrast to Hayek, Michal Kalecki saw major problems in orthodox economic models relying on equilibrium and unrealistic assumptions of perfect competition.27 As noted earlier, Kalecki’s economic thought is important in creating alternative multi-disciplinary approaches in economic thought that maintained concern for the plight of human labour. Thus, we explore his work in order to understand his work in relation to philosophical foundational concepts such as the ideal of equilibrium, property rights and democracy.

2.3 Michal Kalecki’s Economics and Long Wave Cycles

Kalecki (1972a) explains that understanding distributional changes during business cycles first involves identifying features of different industries or sectors. For instance, in agriculture and mining the product prices may fluctuate more than the cost of labour since the “marginal-cost curves in agriculture and mining, as distinct from other sectors of the economy, slope steeply upwards” (34). This means that during the cycle the raw material prices rise and fall more quickly relative to labour costs (34). In a slump people cut back on expenditures. The “degrees of monopoly” increase during a boom and may decrease during a slump, but this may be offset by cartels’ efforts to save profits. Producers may also collaborate to avoid price reductions. Although labour’s share of income during a cycle appears to be stable, this may be due to the “effects of the opposite changes in the degree of monopoly and in the relation of prices of basic raw materials to wages” (36).

27 It must be noted that Hayek did not use equilibrium analysis of the neo-classical type, nor adhered to perfect competition, for he supported the Austrian view of the operation of markets that recognizes institutions and rules and an abstract foundation.
Kalecki (1972a) rejects Keynes’s idea of wage-units since they cannot show how productivity of labour changes due to technical progress over the long periods with changes in real income (52). Kalecki carries out detailed analyses of relations between capitalists’ income and consumption over time, from 1926 to 1929 (58). His evidence shows that for capitalists there is a time lag between income received and consumption, whereas the labourer has very little time lag between his or her income and consumption (59). He investigates further by distinguishing between six groups of non-wage earners, from recipients of welfare to dividend receivers and joint-stock companies (59). There are shifts in income among these groups over the course of the cycle, and wage earners are more affected during a slump than are salary earners, leaving the latter with a higher proportion of total income than wage earners (61). The evidence shows how shifts in distribution of income over the cycle affect consumption levels.

Kalecki (1972a) specifies the nature of relations between consumption, income, savings, and investment. The savings of wage earners are minimal and the relative share of manual labour is a constant. Analysis of the relation between investment and national income involves a function with a multiplier (63). Since non-wage earners’ consumption “changes in a lesser proportion than their income the reverse must be true of their saving, i.e. the latter must change always in a greater proportion than [income]” (64). This means that “investment fluctuates more violently than national income and a fortiori more violently than consumption” (64). The traditional acceleration principle could be used to deduce these proportional differences, but its predictions were unrealistic because it did not account for changes in the “degree of use of equipment” that leads to changes in output over the business cycle (65).

Kalecki (1972a) shows how elastic wages that rise or fall (without concern for workers’ needs) permit the degree of monopoly to increase (92). If government had the power and will it could prevent increasing degrees of monopoly through tax policies, but this is not a norm in
capitalist economies (92). Kalecki studies the forces that operate to limit investment. Imperfect competition has effects over time that limit investments spread over a range of fields, but it does not explain why different sizes of enterprises start-up (98). To help explain this phenomenon Kalecki (1972a) turns to the concept of increasing risk. The usual assumption that risk is independent of the amount of investment is not realistic and in real-life, “marginal risk increases with the amount invested” (98). As the entrepreneur’s investment increases so does marginal risk – income derived from his or her own capital decreases as “the average rate of profit falls short of the rate of interest” (98). If investors are too bold with investments creditors will calculate and impose rising rates of interest to deal with the excess of portions of borrowed money and charge “the burden of increasing risk” (99). The increased cost of borrowing may also result in lost market potentialities particularly if the firms’ perceptions of degrees of risk are higher than necessary.

The principle of increasing risk or the concept of degrees of risk help explain why there are limits to the size of a firm and may be applied to analysis of activities in bonds, stocks, and other financial instruments. Investors will keep their capital in the form of securities or bonds to ensure income in the event of decreasing profits, but small businesses may not have such access to capital markets (Kalecki, 1971, 106). As a result, concludes Kalecki, “the expansion of the firm depends on its accumulation of capital out of current profits … [that enables] the firm to undertake new investment without encountering the obstacles of the limited capital market or ‘increasing risk’” (106-7). Moreover, owning accumulated capital helps investors get loans if this is desired (107).

Kalecki (1971) considers how time lags affect investment decisions in a given “unit of time” and he offers the “time curve of investment decisions per unit of time… and the time curve of investment” (110). Decisions will be made along the time curve depending on the profit level,
the degrees of risk, the limits of the capital market, valuations of capital equipment, and any
changes in economic conditions (110-111). Firms are likely to have gross savings that can extend
“the boundaries set to investment plans by the limited capital market and the factor of increasing
risk” (111-112). Decisions to acquire capital equipment tend “to restrict the boundaries of
investment plans” (112).

Kalecki (1971) explains the business cycle using a basic economic model dependent on
assumptions that workers are unable to save and balanced budgets exist in foreign trade and for
government (124). He then posits that business decisions at any one time are based on the “level
of investment at some earlier time” (124). The time lag between decision-making and
investment-making allows analysis of “the dynamic economic process [and how it] involves
cyclical fluctuations” (124). In order to distinguish cyclical fluctuations from long run economic
development, Kalecki uses a static system to expose the dynamic process that is made up of
cyclical fluctuations and a “smooth long-run trend” (126). The rates of change in profits and
output “are expressed in terms of the rate of change in investment” that includes a particular time
lag (127). By drawing out the logical calculus of investment affected by degrees of risk, Kalecki
demonstrates its dynamic potential along a sine function happening through time (129). Various
shocks may be added in and these will increase the amplitude of the sine curve that may be
dampened by “inter-relations between investment, profits and output” (135).

Kalecki’s ideas offered an alternative to the neoclassical approaches in economics that
insisted on using perfect competition and equilibrium as idealized notions such as within
Hayek’s writings noted above. The automatic adjustment mechanisms attached to orthodox
models cannot explain the social conflict that is captured in Kalecki’s class analysis and the
nature of investors’ action-taking and power reflected in dealing with increased degrees of risk
(Sawyer, 1985, 5-9). In addition, the idea of increased degrees of monopoly provides a way to
recognize power and wealth accumulating for big business. Kalecki (1971) described how big business would declare government deficits are a problem since government investments displace private investors, in order to prevent government spending on full-employment (142). The whole matter of government spending is ridden with conflict unless there is a slump. Kalecki explains that

… a powerful block is likely to be formed between big business and rentier interests, and they would probably find more than one economist to declare that the situation was manifestly unsound. The pressure of all these forces, and in particular of big business would most probably induce the Government to return to the orthodox policy of cutting down the budget deficit. (144)

Kalecki (1972b) describes the conditions that lead to fascism, pointing to events in the United States in the 1960s. Racist political movements opposed government interference in the economy and social security payments to people in need (101). The most important commonality with Nazi Germany is in the “link with reactionary big business groups” that seem to accept the “ideology of revenge in racist reactions to emancipation of blacks and their entry in job markets once the preserve of whites” (101). These relations pose a serious threat to democratic government and peace. The relations between big-oil, armaments industries, and Bank of America, which at the time he wrote, were new businesses that had no worries about downturns since they could increase their assets at the expense of the aging industries (102-103). Kalecki (1972b) says the young group of fascist or predatory business leaders may find protection with the discontent among any “members of the military establishment who love the game of balancing on the brink of a precipice – if not on that of a preventive war” (103). There are no simple boundaries to define these groups and the establishment or the ruling class does not want to crush the fascist reactionary groups since these are likely providing some financial support. Kalecki describes the fascism of the 1960s as “a dog on a leash; [that] can be unleashed at any time to achieve definite aims and even when on the leash serves to intimidate the potential
opposition” (104). The racist and fascist elements may not be liked but are sustained by the ruling class and political parties in America as a source of power.

However, in the optimistic climate of the mid-1900s, like Keynes, most economists were not worrying about fascism, and they focussed on theoretical developments and struggles.

2.4 Struggles of Post-Keynesians and Monetarism

Important post-Keynesian economic approaches were influenced by Kalecki, such as those of Harrod (1936), Steindl, (1976), Goodwin (1982) and Minsky (2008) who all consider market disequilibrium to be a more realistic basis to describe how decision-making related to dynamics that form business cycles and lead to systemic long waves.

Harrod (1936) says that instead of perfect competition, there are conditions where marginal revenue is not equal to marginal cost. “Marginal revenue is defined as the difference between a producer’s receipts if he chooses to market n units of his commodity per unit of time and his receipts if he chooses to market (n-1) units” (84, fn. 1). However, many entrepreneurs follow accounting conventions by optimistically predicting the costs and sales and end-up misjudging earnings. As well, the “psychological conditions in boom and slump produce a systematic deviation from the procedure which would yield an optimum result in the short-period situation” (84). Changes in the ratio of marginal revenues and marginal costs describes some of the cycle, but the amplitude of profit fluctuation in “the later stage of the boom and the more abruptly declining curve in the early stage of the slump” are not fully explained (88).

Goodwin (1982) started out his work believing that financial issues caused business cycles, but he ended up being convinced that “the ‘real’ behaviour of the economy could and would be wave-like, quite without the help from the banks” (vii). He notes that Harrod tried to “fill a glaring gap in the General Theory by a book on the trade cycle phrased in terms of the
accelerator and the multiplier” (vii). Goodwin asked how the business cycle could be reformulated “in a way which would conform to the well-known facts of the history of capitalism and yet be capable of rigorous analytic treatment” (viii). Three requirements had to be met: Growth had to capture the role of innovations rather than the “repetitive form of the accelerator.” Secondly, the concept of the accelerator had to be more flexible, for example, to capture negative feedback (from engineering); and thirdly, all these issues would need to fit into a system with a “stable equilibrium motion, the dynamical analogue of a stable equilibrium point” (viii).

Goodwin also attempts to address issues raised by Harrod’s work and “arrange an indissoluble union of growth and cycle, instead of the usual marriage of convenience” (viii). Models of business cycles typically fail to include growth. Moreover, all economists know, yet manage to ignore that growth happens in spurts (viii). The way to deal with the growth spurts characteristic of capitalism is to use an “elastic system bumping repeatedly against a rising ‘ceiling’” (ix). This involves a “rising trend of investment” which is part of a system and not just a datum (ix). “The basic, single, given, short-run non-linearity is full employment, whether of capacity or of labour” (ix). Goodwin developed a “one-sided oscillatory economic model” which holds potential to better explain the business cycle. “All cycle models have more or less difficulties in explaining the lower turning point and any use of exogenous investment is suspect” (ix).

In discussing these models, Goodwin says that “only with the use of the Volterra – Lotka model did I feel at last close to a sound formulation, because it is based on the Phillips curve, which is simply the expression of the consequences of full employment” (ix). However, it is a conservative model or “a closed curve in phase space” that does not describe how cycles persist (ix). The “Malthusian Catastrophe paper is an exercise in structural, as distinct from dynamical,
instability” (ix). This model offers a “phase space analysis” that allows qualitative analysis and can show how a “small parametric change case sets a system on a totally different course with far reaching consequences” (ix). It also revives the Malthusian consideration of the problem of “infinite growth in a finite world” that is of relevance given the need to recognize the role of non-renewable resources (174). The Malthusian theory of demography is of importance if one believes “that there could eventually be some sort of spectacular collapse of our industrial civilisation” (175). It is important to note that Goodwin engages a class conflict theory of the business cycle in terms of wages and profits, recognizing how labour is subject to the decisions of big business. Harrod’s discussion of the acceleration principle or “the relation” helps to explain how it is central to business cycle theory (Tinbergen, 1938, 164-6).

Theoretical struggles to deal with the limitations posed by Keynes’ wage-units in assessing fluctuations in prices and the value of labour led economists to side-step foundational problems in Keynes’ work, introduced earlier (1.3). Economists worked instead on the more specific relations linking aggregate supply, demand, income and output, employment levels and the existence of business cycles. The shift away from concern with microeconomic property rights and utility theory towards aggregate phenomenon may have supported the shift away from Keynes awkward wage-units. The ideal of full employment seemed to present an adequate new focus for policy-makers.

Monetarist economics also offered a theoretical way to skirt around Keynesian foundational issues by adding technical interpretation and debate to discuss money and macroeconomics. However, this important emphasis on technical problems in economics only adds to the theoretical gap between any discussion of links between rights and economic theory.

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28 As noted earlier, both Hicks (2.1) and Kalecki (2.2), leading influential economists, discuss the need to avoid Keynes’ problematic wage-units.
The renowned economist Milton Friedman wrote with Anna J. Schwartz on *Money and Business Cycles* in 1963. They explain that prior to the Great Depression business cycles were generally seen as a monetary phenomenon due to Irving Fisher’s (1923) influential article describing the *Dance of the Dollar*. Theories explaining the business cycle tended to focus on credit and investment and failed to include the stock of money. Friedman and Schwartz look at data on the fluctuations in the growth and decline in the supply of money which are in sync with major depression cycles. For mild depressions, the slope of the growth curve of money only tapers off. They also note that this sort of trend in the rates of increase is also observable in growth curves of population, the stock of housing, and railroads (1963, 32-35).

The strength of the growth of the money stock during the upswing of a cycle tends to dominate, such that “it is desirable to eliminate the effect of the trend in order to reveal the cyclical behaviour more clearly” (35-6). This allows Friedman and Schwartz to use a methodology that takes the “logarithmic first difference of the money stock which is equivalent to using the percentage rate of change from one time unit to the next” (36). Their methodology reveals the

average lead for all cycles is 7 months at the peak and 4 months at the trough; for specific cycle dates, the average lead is 18 months at the peak and 12 months at the trough; for step dates, the standard deviation of the lead is 6 months at troughs and 8 months at peaks; for specific cycle dates, the standard deviation of the lead is 6 months at troughs and 7 months at peaks. (38)

The method “involves a change from a measure expressed in nominal units – dollars – to a measure expressed in relative units – percent – and as a flow – per month” (39). Friedman and Schwartz note that there is no way of knowing if “discrepancies reflect the inadequacies of our indexes of economic change, the statistical errors in our money series, or a basic lack of connection between monetary and economic changes” (39-40).
To measure the amplitude of the business cycle, Friedman and Schwartz use fluctuations of “net national product … as an index of general business” (40). They also attempt to disprove the “widespread presumption among economists that investment (or, more generally, autonomous expenditures) is the prime mover in cyclical fluctuation, transmitting its influence to the rest of the economy via a multiplier effect on consumption” (48). They suggest that “there is no systematic relation at all between autonomous expenditures and consumption, [since] in experience the multiplier effect on consumption is as likely to be negative as positive” (48). However, they acknowledge that the actual direction of influence between behaviour of money and behaviour of the economy is unclear (48).

Nevertheless, Friedman and Schwartz (1963) suggest that their monetary interpretation provides an alternative to Keynesian theory by explaining why “major movements in income occurred when they did, and … why such major movements [are] uniformly accompanied by corresponding movements in the growth of the money stock” (54). They note there is a need to explain why the amplitudes of change in income are caused by small changes in money. They suggest that the transmission mechanism may be found by looking at how the “initial monetary impulse is concentrated among holders of financial assets and is then diffused to the rest of the community” (61). The “deposit-currency ratio” rises during contractions, peaking at around mid-expansion and then decreases. The “turning point … reflects the point at which the net tide of redundant balances has shifted from the financial community to the rest of the community” (61). As exchanges struggle, balance sheet adjustments cause cyclical fluctuations within the transmission mechanism (63). Interconnected flows and transmissions enlarge the impact of shocks that initially trigger a shift in a growth rate (63). The effects of these transmissions are diffused over “different economic categories, and give rise to cyclical reaction mechanisms”

29 “The currency deposit ratio shows the amount of currency that people hold as a proportion of aggregate deposits” (The Economic Times, n.d.).
The stocks of money may serve as “buffers or shock absorbers” with all the amounts varying from their “normal” or “natural” or “desired” state and eventually alter other flows (63). “This is called a “stock-flow view [in which] money is a stock in a portfolio of assets, like the stocks of financial assets, or houses, or buildings, or inventories or people, or skills” (63).

Stock flows yield services that have led us “to regard the rate of change in the stock of money as comparable to income flows” and to see variations of that rate of change as the force that “produces the cyclical fluctuations in economic activity” (63). As a result, say Friedman and Schwartz, the stock of money is more “closely related to income over business cycles than is investment or autonomous expenditures” (63).

Friedman and Schwartz (1963) merge together the concepts of labour with flows of services so that there really is no foundation from which to discuss any concept of human rights since people are the same as assets. The services that flow from humans are no different within this model than the flows of services from houses, financial assets or inventories. This problematic notion lies at the heart of a number of philosophical problems. It is also important to note that the monetarist emphasis on data that minimizes links between money, consumption and behavior of the economy, is part of the approach that regards money as exogenous to the economy. In contrast, many of the critics of monetarism view money and credit as endogenous.

Hyman Minsky (1963), Arthur M. Okun (1963) and Clark Warburton (1963) wrote commentaries in response to the Friedman and Schwartz article. Minsky points out that Friedman and Schwartz seem to ignore Irving Fisher’s “‘debt deflation’ view of the business cycles in which the behavior of the capital and credit markets” is a central cause of depression (64). The debt deflation approach recognizes how an “unstable debt structure” can happen even in periods of economic growth (71). The “change in the rate of change in the supply of money” is the
central variable and the key problem is that their approach avoids “integrating their explorations of the supply of money with an income-expenditure view of business cycles” (64).

Minsky (1963) explains that “monetary and financial interrelations” need to be better understood in order to have models that can produce the “more extreme movements characteristic of deep depressions and inflations” (65). The Friedman and Schwartz approach needs to develop greater sophistication in how it depicts behaviour of money and financial institutions, and “how portfolio adjustments and financial liabilities affect various sectors” (65). The model requires shocks to explain changes in income or prices since these are otherwise in equilibrium. As well, financial interrelations of the system are not included to explain changes in their key variables (65). The Keynesian income-expenditure approach and Monetarist approach of Friedman and Schwartz share common ground. Minsky adds “the connections they specify decrease the difference between a monetary and an income-expenditure explanation of business cycles, almost to the point where it is a matter of the specification of the interest elasticity of various classes of expenditures” (68).

Okun (1963) explains that Friedman and Schwartz use an unrealistic overestimation of the money multiplier which “brings monetary policy to the fore and pushes fiscal policy into the background” (72). The use of low short-run elasticity means “transitory income does not go into current consumption outlays” (73). This assumption is unclear. Okun then offers detailed description on actual linkages in the “chain of asset adjustments running from cash to capital” and some of the links may be weak. For example, “At any time, some firms and households are prevented from acquiring all the goods and services they would like because of their limited ability to borrow. Their portfolios are not in balance and they remain hungry for more capital (or more dissaving)” (74).
Warburton (1963) says that the research findings of Friedman and Schwartz had no element of surprise for anyone familiar with history of thought on business fluctuations. The idea of the “misbehavior of the monetary and banking system … inducing contractions in the circulating medium” appears most often as a causal factor for downswings (77). The role of an increased money supply leading to inflationary periods due to government spending during wars is well-known. Previous accounts of financial crises explain interconnected events, causal relations, and “channels of influence” (77). Earlier studies have included changes in the uses of money units, business expectations, trade balance changes, central bank policy changes and announcements, to see how all these factors affect the stock of money (77). The use of a money multiplier that is termed the “ratio of the cyclical percentage change in income associated with the percentage change in the stock of money” to explain the lead of monetary growth in cycles is unclear (78). Warburton points out that “surely velocity can hardly lag as far behind business cycle peaks and troughs, at least when the latter is measured by the change in the rate of change” (78).

There is no doubt that the Monetarist approach generated by Friedman and Schwartz led many economists to believe that money supply management ought to be able to attend to cycles. This seems to have had the effect of shifting concern about historical waves and business cycles to the fringes of economics. The problems raised by Minsky, Okun, and Warburton point to theoretical boundaries where Monetarist economics falters, leaving analysis of social and institutional relations and historical dynamics for other schools of thought.

As noted earlier, an important dividing line involves divergent approaches in dealing with the concept of equilibrium in economic analysis. As is well-known, Friedman and the Monetarists challenged the idea of Keynesian full-employment by arguing that its attainment was unrealistic since “natural unemployment” would always exist due to people quitting jobs, lacking
qualifications for work and due to technological changes. The appeal of the idea of natural unemployment led to erosion of government policies supporting full-employment, now seen as hindering natural forces resulting from the desires of people, for example, to move or change lines of work. A textbook view explains that “the natural rate [of unemployment] corresponds to what we have so far been calling the “full-employment” unemployment rate – the one that exists when actual and potential GDP coincide” (Baumol, Blinder & Scarth, 1995, 357). The diminishment of the meaning of full-employment happens by assuming that natural economic forces are due to individuals’ choices and innovations. Now, the moving natural rate of unemployment relates to business cycles that are shaped by innovations such as with artificial intelligence, rates of business investment, growth, and inflation, changes in consumption and production in different sectors and occurrences of financial crises. As a result it can be tricky to assess the causes of unemployment. The natural rate of unemployment is also seen as “the level of unemployment of labour market at perfect equilibrium” (Kagan, 2019). Thus, the natural rate of unemployment may be viewed as existing within the nicely balanced economy in which all demand and supply and all conflicts over rights are reconciled. Some orthodox economists may implicitly invoke Pareto optimality along with the view of perfect equilibrium and thereby ignore problems and conflicts due to unemployment, poverty and deprivation.

Other schools of thought including Marxists take issue with orthodox economic views of unemployment, poverty and social problems and point out how class conflict rages-on. Marxist approaches take on the challenge of explaining socio-economic phenomena and conflicts that are poorly explained or ignored by monetarist and orthodox economic approaches.
2.5 Marxist Views of Long Waves

The following works are identified as Marxist on the grounds that they develop theories in the tradition of Marx, using a historical dialectic to explain how events are interconnected. The works highlight the originality of different approaches to long wave literature. The challenges of explaining the fast-changing political economy of the late 20th century called for creative effort to overcome shortcomings of the orthodox model.

Perez (1983) explains that “social conditions and the institutional framework are conditioning and conditioned by economic evolution, but they do not form a total structure with the economic system” (359). As a result, analysis tends to exclude their role as part of “the causation mechanism for cyclical behaviour” (359). Schumpeter’s model offers historical context seen within the economic sphere with disturbances driving the system to ever higher equilibria (359). In reality, says Perez, a long wave is about disharmony of the socio-institutional and economic dynamics. The struggles resetting these dynamics are “painful and conflict-ridden” (Perez, 359). The technological mode of development is a paradigm that organizes firms for productivity growth until profit generation slows (360). The profit motive drives change “in the productive sphere” (360). The downswing of the long wave happens due to events that result in contractions in demand for technology and labour.

Social pressures lead to new ways of managing the economy and give rise to new philosophers as well as populist leaders on the right and the left (365). “Carrier branches” transmit decisions shaping trade deals and corporate responses to trade barriers such as subsidiaries. New technologies, telecommunications, data management and other products offer new ways of producing capital goods, and families of products in flexible output for response to market demand has transnational industry seeking ever-decreasing costs. This has an impact on labour that institutions will need to address. Perez (1983) offers specific policies:
Concerning the occupational structure, the new technology seems to produce a centrifugal distribution with rapid growth of the highly qualified top of the scale and of the rapidly trained material or information feeders, panel watchers, button pushers, etc. This is in strong contrast with the rapid growth of the middle range in the previously prevalent technological style. Consequently, if states are efficiently to solve the technical unemployment problem, the focus would have to be placed on the middle strata, both for recycling and for creating conditions for the growth of the appropriate small and medium firms (organized perhaps by the displaced middle managers), capable of generating employment for qualified workers and markets for the office and production equipment producers. (374).

The state plays a major role in directing people, but given the environmental crisis, required planning for social and economic institutions should be at the planetary level, says Perez (1983, 374). However Perez does not provide details about the sort of governance or planning that is needed which leaves the reader wondering about how democratic decision-making fits in policymaking at the global level.

Vercelli (2013) describes the historical long waves and financialization in epochs such as in 1560 when the Genoese borrowed money from Spain; or in 1740 when the Dutch became “the bankers of Europe” (28). Vercelli suggests that cycles include a “phase of ‘creative construction’ characterized by a recomposition of the contradictions between the development of productive forces and the social relations of production” (28). Financialization is part of an evolutionary process that can accelerate historical trends. Deceleration of trends is due to “phases of de-financialization” (30). Money has a structural role since it supports increasingly flexible choices that are “independent of time, space, and utility content” (34). Vercelli suggests that an increasing divergence between exchange and use value adds to instability: “In this sense, financialization is not just a symptom of the basic contradictions of capitalism but is an essential feature of the law of motion of capitalism” (34).

Vercelli adds that Keynesian economics treats money as a neutral link in transactions that is delinked from human motive and decisions so that it has an independent role and its behaviour must be explained to understand the course of events (36). Investors drive financialization with
demands for greater “decision-making freedom” in dealing with instruments (42). Extreme inequality in society has increased since the appearance of “trickle-down economics” in the 1980s without any solutions in sight. Vercelli’s point that money is delinked from behaviour provides more evidence of how actions in claim rights or property rights are not featured in Keynesian economics.

Social structures of accumulation (SSA) theories are largely Marxist approaches developed over the past three decades, that explain the stages of capitalism that shape periods that are “intermediate in length between a short-run business cycle and overall capitalist history” at-large (McDonough et al., n.d.). Disruptive periods of institutional instability and crisis involve “profit-making and capital accumulation [and lead to the need for] a new set of stable economic, political and ideological institutions” (Ibid.). Historical, political, and economic forces shaped by class conflict, competition, and capital accumulation undermine social institutions and cause financial collapse (Ibid). Post-Keynesians tried to deal with problems “by returning to the importance of uncertainty in Keynes’s theory of investment and leavened this by explaining inflation as the result of distributional conflict” (Ibid.).

A foundational work in SSA is Segmented Work, Divided Workers by Gordon, Edwards and Reich (1982). Economic conditions of the 1970s and ‘80s were the worst since the Great Depression with unemployment stabilized at twice the level of the 1960s, leading “apologetic economists to redefine ‘full employment’” (1). Regulatory frameworks for labour laws, environmental protection, and women’s rights were all being threatened. Such crises gave rise to solutions ranging from “wholesale dismantling of government programs to ‘reindustrializaion’ to controls and economic planning” (1). The form of initial proletarianization of the 1700s changed into homogenization from the1870s which fell apart with the Great Depression and was followed by labour segmentation of the mid-1900s.
The period of **homogenization** reduced jobs to semi-skilled functions that could be controlled by foremen, supervisors, and management who ran the machine so as to **drive** workers (3). **Segmentation** of workers started in the 1920s with the development of three “qualitatively distinct labor markets” (3). The concept of **driving workers** to produce ever-more did not vanish. “Structured rules and incentives” became important along with union collective agreements causing divisions among workers that prevented any potential for political unity of a “working-class movement” (Gordon, Edwards & Reich, 1982, 3). The whole idea of “class struggle” is challenged by the reality of people identifying as “primarily as blue-collar workers, youth, blacks, students, women, Southerners, Catholics, the poor, consumers, environmentalists, professionals, unionists, or office workers and rarely as common members of a class defined by its relation to the means of production” (4). The organizational structure of labor is at the heart of analysis of long swings and the roughly 25 year-long alternating periods of sustained growth that are followed by “sustained periods of stagnation” that can be identified since the Industrial Revolution (8).

If the organization of labour has been characterized by segmentation since the 1920s, it follows that segmentation of knowledge has happened. The emergence of popular discussions of the **knowledge economy** since 1990s involves the segmentation of fields of knowledge that happened throughout the twentieth century. The formation of academic subject areas by the early 1900s separated political and economic thought into their own fields. Philosophy, psychology, sociology, the sciences, and medicine also formed separate fields of knowledge that are further segmented with specialized sub-fields of research and professional practice. Segmentation underlies the knowledge economy and knowledge-based workers and professionals. To the extent segmentation and specialization may limit professionals and academics in discussing big picture issues involved in long waves, multi-disciplinary approaches are needed. Unger (2019)
says that the difficulties in describing the knowledge economy helps explain why it is a phenomena shared by just a few elites while mainly excluding the vast majority of workers who live without freedom, “bound to the wheel of production” in order to meet their needs. Economic theory itself lacks capacity to help support inclusive visions of a knowledge economy and the innovations related to communications from the early 1900s had a greater “transformative effect,” adds Unger. As a result, the knowledge economy has not created widespread benefits and it is instead, the idea of artificial intelligence that has “riveted worldwide attention” (Ibid.). The knowledge economy has caused global changes in the division of labour, albeit, under the direction of elites (Unger, 2019). The complex insular network of vanguard elites controlling the global economy by constantly seeking out cheaper workers diminishes the significance of the international finance as a commanding economic force (Ibid.). Unger notes, however, that new relations based on “cooperative competition” could lead to “pluralistic experimentation with the basic property regime” and help create access to investment capital and change the form of the knowledge economy. Economic and institutional changes need to be seen as cumulative in order to prevent the sort of “fantastical wholesale substitution” of an old vision of economic regime for a new one, such as imagined, based on artificial intelligence, discussed earlier (0.1) (Ibid.).

Long wave approaches integrate questions about how technology and knowledge shape the economy, such as in Perez’s and Unger’s works. Integrating political thought with economics is also needed to ensure that institutional roles are included in analysis. For example, the French Regulation School started by Michel Aglietta and his founding work, A Theory of Capitalist Regulation (1979) has had a more influential following than even Mandel (McDonough et.al.). The French Regulation School includes the norms and institutions of finance in analysing processes of destruction and reconstruction of social forms created by financial accumulation. Its analysis studies how power manifests in finance, how protocols administer social forms and how
inertia of institutional structures affects the evolution of social forms. The goal is to explain phenomena that shape reality and reveal the potentially destructive mechanisms in finance. Theorizing is open-ended since there is always questioning about how evolution is creating new phenomena (Coriat & Boyer, 2009, 1). The French Regulationists are also open to using systems theory. There is a shared methodological concern between Marxist approaches, systems dynamics and analysis of chaos, insofar as they all seek to explain mechanistic reasons for events, economic and social phenomenon. Perhaps the hope that inspires the focus on mechanistic explanations for problems is that if the generating processes are understood, they can be addressed. However, this begs the question as to whether there is a shared end purpose and vision in the solutions to problems of capitalism in relation to rights and democracy.

Capitalism has always been in trouble, says David Harvey (2015), and Marx’s concepts of the contradictions of bourgeois capitalist economies still offer important insights (xiii). Contradictions are of critical importance because when they are not resolved they can “suddenly intensify to create violent crises” (3). One critical contradiction is in the relation between fossil fuels and global warming that threatens humanity. Harvey is interested in viewing “capital circulation and accumulation [as an isolated, closed system] in order to identify its major internal contradictions” so as to be able to better explain recent crises including unemployment and downward spirals of economic development (7 – 10). Harvey discusses 17 foundational contradictions that are interdependent. An important contradiction, for example, includes the problems of exchange versus use value in relation to a regime of property rights. The Financial Crisis of 2007 – 2009 shows how intensification of the contradiction allowed exchange values to dominate over the use value to such an extent that the contradiction became contagious (14). Understanding contradictions is important for “social movements seeking to remake the world in a different image” (14). It is unclear however, how social movements can create a different
image and how human rights and democracy fit into such an image. Without a clear vision of how to protect human rights, there is no reason to think that the elites of the knowledge economy will not be at the ready to maintain their control over income flows for labour with the next long wave cycle.

2.6 System Dynamics and Chaos Approaches

Sterman (1986) discusses the importance of systems theory built into the “System Dynamics National Model” developed in 1975, in explaining the historical long wave: “Without attempting to reproduce the point-by-point behavior of the economy, the simulation captures the major patterns in the development of the economy over almost 200 years” (95). The long cycle is characterized by “overexpansion of the capital producing sector of the economy” followed by collapse (95). Long cycles happen as firms amplify changes in demand, which creates “potential for oscillation in the adjustment of capacity to changes in the desired level” (95). This amplification may cause “smaller and narrower peaks in delivery delay between the major surges which occur during the long wave expansion …[and] demand is amplified by the stock adjustments caused by the delays in receiving goods” (96).

Sterman’s theory describes the long wave expansion as based on satisfaction of material wants that allows social concerns to shift “to civil liberties, income distribution, and social justice” (120). Concerns in the later part of the expansion shift to foreign policy issues. In the downturn, conservatism and a focus on economic policies increase due to concern over material needs. Political movements during the 1920’s and the Depression years, student protests in the 1960s, and the rise of conservatism in the 1980s support his theory (120). The National Model does not assign any one cause to explain long waves that happen due to decisions by individuals and businesses within the structures and processes in the economy (121). Endogenous factors
cause long waves and exogenous or random shocks do not explain their persistence or turning points (121). According to Sterman, the National Model is based on structural features of the economy and can explain both the long wave and the business cycle (122).

Historical systems are seen as non-linear and require explanations of the interactions of deterministic elements along with the chance factors that may alter the system’s history (Kiel, Elliott & Brown, 1997, 5). In other words, there are no simple linear functions or causal relations that can explain history and complex analysis is required. In the social sciences, chaos theory\textsuperscript{30} may be used by some analysts to try and explain both the deterministic and chance elements that may lie beyond human control and ultimately affect a system. Chance events may also be seen as deterministic to the extent that they can affect society in ways that seem to be out of human control. Today, risk analysis that aims to be scientific is used in analyses of chance events that can cause crises and is of importance to conflict studies and economic cycles.

The problems of climate crises that are often part of the down-turn of long waves are considered as exogenous to orthodox economics. Jevons (1879) suggests that disruptions in crops due to variations “in sun spots, auroras, and magnetic perturbations” are related to crop failures and price increases, particularly in tropical areas. These price changes in turn, are “like a match which fires the inflammable spirits of the speculative classes” (588-90). As noted earlier, Kuznets (1930) explains that if causes of cycles are seen as exogenous to theory this refutes economics. In other words, economics has a responsibility to somehow gain the potential to include the role of climate in affecting economic variables.

The issues that link climate change to “large-scale human crises” during the past millennium have been studied using multi-disciplinary analyses including economic factors (Zhang et al, 2011). Other approaches use risk analysis to assess how adverse environmental

\textsuperscript{30} Chaos theory in social sciences appeals to ideas from physical sciences to describe how stability may exist in a competitive or unstable environment (Saperstein, 1996, 139).
events affect human health in given conditions of inequality (Fann et al., 2011; Zahran et al., 2011). It has been countered that analysis of risk using inequality indexes may not be ethically desirable since they miss out on the “time-varying nature of individual and community risks” to ensure efficiency in policy-making (Cox, 2012).

All these approaches do not consider the problem of property rights in relation to harmful effects on others, which leaves property rights to be ruled by marketplace decisions, power relations, and equilibrium analysis. This raises philosophical questions about how economics relates to nature and processes that appear to be out-of-the-control of humans. The philosophical questions are important to note given the potential power of equilibrium forces over human rights to well-being and freedom. In addition, the encompassing power of the environment to affect human well-being is also critical since everyone needs clean air, water and food.

2.7 Environmental Crisis and Long Wave Cycles

The notion of humanity as a force\textsuperscript{31} that affects climate is important in understanding cycles and extreme inequality that is only worsened with deprivation caused by crop failures and polluted water and air. Humanity can be interpreted as a force because of the way that human actions affect nature as everyone uses air, water, land and resources for ongoing daily-life. To put matters into perspective, it is a basic scientific fact that humanity’s historical long waves and shorter economic cycles are all encompassed by the much larger cycles of the biosphere upon which human life depends. Herman Daly (2007) offers a precise description:

\begin{quote}
The economy is a subsystem of the larger ecosystem, and the latter is finite, non-growing, and materially closed. Although the ecosystem is open with respect to solar energy, that solar flow too is non-growing. Therefore, in a biophysical sense there are clearly limits to the growth of the subsystem. (9-10)
\end{quote}

\textsuperscript{31} For an example of scientific analysis of humanity as a force, see Potsdam Institute for Climate Impact Research (2016).
The historical evidence of environmental crises happening along with the current long
wave raises questions about causality. In the 1930s a massive drought and dust storms drove
people from their farms in North America. Over the past decades, scientists have expressed
mounting concern about global warming. Recent warnings include data on rates of extinction of
different animal species that are happening hundreds of times faster than predictable by fossil
records. Studies of past extinctions indicate that the present rate of loss of species over the past
100 years should have taken between “800 and 10,000 years” to happen: This “exceptionally
rapid loss of biodiversity [supports agreement that a] mass extinction under way—the sixth of its
kind in Earth’s 4.5 billion years of history” (Ceballos et al., 2015, 1). Scientists agree that the
extinctions started just a few hundred years ago when “Homo sapiens truly became a major force
on the biosphere” (Ibid.).

The fact that the climate cycles are larger than historical cycles indicates the importance
of understanding the potential for small changes in weather patterns, air, and water quality to
have a leveraging effect and harsh impact on conditions needed for human food and survival.
The fact that human economic cycles are encompassed by larger climate cycles of nature can no
longer be ignored as an unrelated scientific issue; particularly since human activities requiring
burning hydrocarbons are now affecting global warming. The fact of the matter is that the
economic cycles are dependent on the larger climate cycles for clean air and water required for
life and existence. The cumulative effect of human activities has the potential to keep pushing
global warming and cause human extinction, calling into focus the need to study the relation
between cycles of human activities and the environment.

Bernard Lonergan (n.d.) discusses some of the links between the economy and the
rhythms that are rooted in nature and action. The circulation of money, he writes is
correlated with the conditioning constituted by productive rhythms of goods and services,
so that positive, zero, and negative changes in rates of payment are concomitant with
various dynamic configurations in the productive process… [The productive process] is the totality of activities bridging the gap between the potentialities of nature, whether physical, chemical, vegetable, animal or human nature, and, on the other hand, the actuality of a standard of living. Such activities vary with the conditions of physical geography and with the cultural, political and technical development of the population. They range from the simple and fixed routines of primitive hunters and fishers to the highly complex and mobile routines of modern Western civilization. Yet in every case there is one effect: the potentialities of nature become a standard of living. And in every case this effect is attained in the same way: it is attained once and for all but only by a continuous succession of activities, by a rhythmic repetition of constant or mobile routines, by a process. (n.d., 18-20)

Lonergan adds that even if the production process evolves to become fully automated, “the robots will need to repeat the motions required for example, to make bread” (25) (italics added). So even with automation there is a need to recognize how the rhythms of production are linked to nature.

The conceptual understanding of the essential nature of cycles in space-time is also recognized by multidisciplinary approaches in environmental and engineering studies. All living systems and human action-taking is part of a larger biosphere and universe that is in a state of “nonequilibrium, with bubbling activity, [and] differences and potentials that drove the formation of complexity and the emergence of life” (Devezas & Corredine, 2001, 2). All life involves the “emergence of an expected fulfillment of the natural order that includes the inexorable arrow of time, driving living systems irreversibly but not linearly – [with cycles that] have been in relentless motion ever since the beginning within the constraints and boundaries of time” (2). And one might add, that is, at least, time as we know it.

Humanity is now facing a degenerating environment relative to the needs of current life forms on earth, with decreasing biodiversity due to the accumulated effects of human energy (which decreases with increased heat and humidity), activities and cycles. Our relationship with the potentialities of nature in providing needs is changing. There may be some potential for conservation to help restore or maintain biodiversity. There may also be ways in which
automation and bio-engineering can help sustain or improve living standards. However, to contemplate such economic decision-making, involves the use of science and economic theory. There is no lack of scientific evidence that economic growth has had some disastrous effects. At the same time, policy-making priority given to economic growth driven by claims to property may dismiss or even challenge the ecologists’ warnings. Disagreement over the idea that pollution is damaging the world’s ecosystem persists and is observable in the election of populist leaders in America and Brazil who are currently dismantling environmental regulatory institutions.\(^{32}\)

Climate scientists work to explain how human activities are affecting nature in the face of political leaders who are climate denialists. In defending their work, Hourdin et al, describe the need to “summarize complex and multiscale processes through an idealized and approximate representation” involving parameters with values that depend on observations (590). Due to the uncertainty in environmental observations, the parameters need tuning based on discussions in scientific community (590). To assess global warming, scientists have to calculate the “equilibrium climate sensitivity” which is “an emergent property of the model” that has global warming as “an a posteriori model evaluation” (597). However, these models are challenged when larger or smaller total forcing is found that yield “less cross-ensemble variation of historical warming than otherwise to be expected” (597). The scientists have to contend with “multi-century simulations with the coupled ocean-atmosphere model because of the long spin-up of the ocean state required before starting transient twentieth century simulations” (597).

Climate scientists have to work with uncertainties to interpret how forces of nature are generating the observable ‘state of equilibrium’ that describes the current environmental situation. Since fossil records show that equilibrium conditions created out of all the different

bio-chemical and physical forces in the environment can become treacherous for life or lead to extinction, scientists issue warnings.\textsuperscript{33}

In contrast, an important climate denial group, supported by the CATO Institute, challenges this interpretation of climate change:

The inescapable conclusion from the paper is that each fiddling of the models — which includes adjusting everything from the earth’s reflectivity to the mixing of heat in the ocean — gives a different forecast of how much the earth will warm for doubling atmospheric carbon dioxide, which is called the equilibrium climate sensitivity (ECS). If the ECS can be changed to a wide range of values, depending upon the “tuning” of the model, then it is the modeler and not the underlying physics that decides this number. …And who defines an “acceptable” ECS? In these cases, it is the very same people jiggling the models in the first place. It isn’t science to decide the right answer and then get a model to compute it. (Michaels, 2017)

In other words, Michaels critiques the modelling efforts of Hordin et al, (2017) on the grounds that the observations of forces are brought together in the form of an equilibrium model. This is particularly ironic, since the CATO Institute supports the use of neoliberal and libertarian economics that generally include traditional economic ideals such as equilibrium.\textsuperscript{34} In reality, both the environmental and traditional economic equilibrating processes hold mechanistic potential to harm or completely disregard humans. At the same time, the crucial problem of determining how human activities affect the equilibrating processes is subject to questioning.

People need to assess their actions in relation to the environment. While this thesis is focused on the economics side, knowledge about potential climate change is important to economics.

Moreover, the multi-disciplinary and multi-level analysis of the climate scientists has the telos of trying to gain knowledge about the existential risks facing humanity; economists must share the abrupt climate change concern.\textsuperscript{35}

\textsuperscript{33} For example, see Ripple et al. (2018). World Scientists’ Warning to Humanity: A second notice. For details on the implications of 1.5°C on global warming and climate related risks on ecosystems, see Intergovernmental Panel on Climate Change, (2018).

\textsuperscript{34} For history of the Cato Institute and its support of free market ideology, see Mullens (2012).

\textsuperscript{35} For details on possible abrupt climate change due to an Arctic methane boost, see Gray, (2018).
Debates about climate change overlap with theoretical problems and concern for growth in economics. Economic and living standards have a sensitive relation to the environment. For example, a recent study on the deoxygenation of the “ocean and coastal waters” notes an increase in fishing stocks where fish populations are pushed into certain coastal areas to survive which leads fisheries to take advantage of the situation (Breitburg et al, 2018, 1). However, over the medium-term economic harm is likely to result due to collapse of food webs and eco-systems that will happen unless the effects of climate change and plastic wastes can be reduced (Ibid.). In this example, it is possible to see how expectations of ongoing fish supplies at retail food stores may appear to be constant, but supply will be threatened if deoxygenation continues.

To help reduce deoxygenation, the scientists recommend “an integrated framework that combines modeling, observations, and experiments in a multiple stressor environment …[that] involves the full range of stakeholders (e.g., scientists, local governments, intergovernmental bodies, industrial sectors, and the public) [that] will facilitate the development and implementation of the most ecologically and economically effective plans” (8). Logically such a plan must involve economists.

Invariably, discussion about economic effectiveness raises questions about how to alter human activities that affect profit margins and growth. To suggest that growth is damaging the environment is “to invite our opponents to show that it is not in fact damaging in these ways – an invitation they have been quick to take up… The whole argument then disappears down an academic cul-de-sac” (Skidelsky & Skidelsky, 2013, 7). As noted earlier, conflicts related environmental pollution are treated as exogenous problems in orthodox economics. Conflicts are dealt with in two ways in economics. The Coase Theorem proposes “if private parties can bargain without cost over the allocation of resources, they can solve the problem of externalities on their own” (Mankiw et al, 1999, 208). In the event of a company spewing toxins into a river,
for example, if external costs to society exceed the polluter’s benefits, government policies may be required (210). *Pigouvian taxes*[^36] may be used to “correct the effects of negative externalities” by taxing polluters and reallocate resources more efficiently than regulatory controls (211-2). These taxes “internalize the externality of pollution” by increasing the cost of polluting (213). It is remarkable that orthodox economics regards both bargaining or taxes as ways to deal with market *externalities* by adjusting conceptual logic so the market mechanism rules.[^37] Pigou’s (2005) original work[^38] explains that “the economic welfare of a community of a given size is likely to be greater (1) the larger is the volume of the national dividend, and (2) the larger is the absolute share of that dividend that accrues to the poor” (7).

It is important to note that there are economists dedicated to fighting climate change and at least two schools of thought have emerged, divided into the ecological and neoclassical approaches (Illge & Schwarze, 2016, 595). Illge and Schwarze conducted a survey of the two schools of environmentalist economists and found strong divisions on topics related to intergenerational justice refuted by the neoclassical economists but embraced by the ecological economists (598). As well, the neoclassical environmentalists accept the egoistic self or homo economicus, whereas the ecological economists reject the traditional homo economicus (598). To the extent there are economists from non-environmentalist schools who may believe in both homo economicus and perhaps ideals of equilibrium and growth as supreme criteria for economic decision-making, they may choose to ignore climate science altogether, perhaps due to their belief that business development is more important.

Economists engaged in policy-making may choose to ignore Pigou’s welfare economics and may prefer or accept the influence of traditional property rights in Coase’s (1960) terms, which also notably form the legal foundations for libertarian and conservation lawyers and

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[^36]: Pigouvian taxes are the basis for carbon taxes.
[^37]: See Wolff & Resnick (2012).
[^38]: Pigou’s First Edition of *The Economics of Welfare* was published in 1920, with the Fourth Edition cited herein.
legislators. Coase provides legal case-by-case analysis of economic conflicts in which one party’s actions harm or are a nuisance to the other. He says that Pigouvian notions that polluters should be liable or pay taxes are wrong since his approach does not compare the “total product obtainable with alternative social arrangements” (40). Citing the founder of the Chicago School of Economics, Frank H. Knight, Coase adds that “problems of welfare economics must ultimately dissolve into a study of aesthetics and morals” (43). Moreover, the harmful effects of exercising a right to property can be seen as a factor of production to be bargained and the total costs of alternative arrangements need to be considered (Coase, 1960, 44). In other words, the relation between economics and nature is ultimately left to utilitarian interpretation. This is a problem that exposes sources of ideology based on beliefs and emotive divisions in interpreting the value of the environment.40

If we approach the issue from traditional property rights, then it carries the potential for primordial politics that Locke felt could be resolved by law as spelled out in The Fundamental Constitutions of Carolina (1669). Locke specified a whole system of status-bearing titles in assigning landowners rights going first to nobility, and then to counts and so on, with inheritance laws supporting descendent males. However, the lords would maintain legal control. For the labour being mixed with land, noted earlier (1.3), was provided by slaves. The primordial definition of rights protected racism in accepting that wealthy lords and others could own labourers, thereby supporting slavery. For instance, the Fundamental Constitutions, specified “Every freeman of Carolina shall have absolute power and authority over his negro slaves, of what opinion or religion soever” (1669). The Fundamental Constitutions was also “really a declaration of war against poor settlers” who came from the unemployed class of England that needed to be controlled by a hierarchy and a “pseudo-nobility of powerful families” (Isenberg,

The dehumanizing potential of primordial politics underscores the importance of property rights underlying conflicts and war.

Today, economics is “essentially detached from the processes of physical nature” (Schabas, 2007, 12). Even though economists embrace “mechanical analogies and mathematical tools” in efforts to emulate physicists, economics has been stripped of its original links to nature (12). Concepts such as supply, demand and money are rarely discussed in ways that attempt to tie them to physical reality. Utility, which used to be “measured in terms of intensity and time” is no longer used as the basis for demand and supply (13). As a result, mainstream economics does not consider “the material attributes … [since] all that matters is that commodities map onto utility functions under the requisite constraints” (13).

The current philosophical foundations of mainstream economics seem divorced from nature, but classical economists went to great pains to discuss how money was related to a physical standard of measurement of one sort or another. Money is of importance since it is used to buy or sell property rights. Adam Smith (2007) describes in his Inquiry into the Nature and Causes of the Wealth of Nations originally published in 1776, that “the value of money is in proportion to the necessaries of life which it will purchase” (688). Smith analyses the prices of goods varying over good and bad seasons, over decades, pointing out how the weather affects supply and costs of food production in agriculture and fisheries. He discusses the production of goods in many industries and relates them to the life-experiences of different people. He notes how trends were important; leather shoes had become a necessity in England for even “the poorest creditable person, of either sex, would be ashamed to appear in public without them” (676). Smith says necessities include not only those things required for survival, but also “those things which the established rules of decency have rendered necessary to the lowest rank of people” (676). The average prices of necessities and demand for work regulate the wages of
labour (676). Increasing prices of commodities, such as due to taxing goods, “does not necessarily diminish the ability of the inferior ranks of people to bring up families” needed for labour supply (677). Poor people who are sober and industrious may use such price increases to “moderate, or to refrain altogether from the use of superfluities” that become unaffordable (677). Smith adds that this “forced frugality” may increase the ability of the poor “to bring up families” and supply labour (677). If the poor are not sober, the children perish due to neglect and if they survive, their morals are corrupted by the parents’ bad behaviour. Although taxes may increase “the distress of disorderly families” such price increases are unlikely to affect the “useful population” that is required as labour (Smith, 2007, 678). The role of women in society is related to the issue of population with poor women having many more children than wealthy women who are exhausted with only two or three (66). Increased prices of necessities affect population growth. In contrast, the “middling and superior ranks of people, if they understood their own interest, ought always to oppose all taxes upon the necessaries of life” (678).

Smith carries out detailed analysis of relations between economic events and the lives of people of different ranks in society. Education for women depended on the judgement of their parents. Men should have more education, unless their lives are spent performing a few simple operations that dulls their minds and makes “stupid and ignorant as it is possible for a human creature to become” (602-3). Unless a government goes to great lengths to prevent such stupidity, poor people are doomed (603). Men who have time and inclination to contemplate the occupations in society, exercise “their minds in endless comparisons and combinations, and renders their understandings, in an extraordinary degree both acute and comprehensive” but not necessarily useful to society (604). A comparative methodology is used to support his analysis of economic dynamics and the effects of events on people:

Compared, indeed, with the more extravagant luxury of the great, his accommodation must no doubt appear extremely simple and easy; and yet it may be true, perhaps, that the
accommodation of a European prince does not always so much exceed that of an industrious and frugal peasant, as the accommodation of the latter exceeds that of many an African kind, the absolute master of the lives and liberties of ten thousand naked savages. (Smith, 2007, 14)

Smith’s approach reveals how comparisons can be based on judgements that lead to racism and discrimination against people. Comparisons and discriminatory judgements reflect culture of the 1700s and demonstrate how historical conditions help shape theoretical analysis.

Irving Fisher (2010), writing in the early 1900s describes direct links between wealth and nature:

Of all wealth, man himself is a species. Like his horses or his cattle, he is himself a material object, and like them, he is owned; for if a slave, he is owned by another, and if free, by himself. …But though human beings may be considered as wealth, human qualities such as skill, intelligence, and inventiveness, are not wealth. Just as the hardness of steel is not wealth, but merely a quality of one particular kind of wealth – hard steel – so the skill of a workman is not wealth, but merely a quality of another particular kind of wealth – skilled workman. Similarly, intelligence is not wealth, but an intelligent man is wealth. …Since materiality is one of the two essential attributes of wealth, any article of wealth may be measured in physical units. (12)

In this quote, Fisher reveals how slavery and racism were still in common use or socially acceptable to some people. A footnote follows the mention of slavery saying that excluding the use of the term would not change the essence of his definition of wealth which compares valuation of labour and material products. Since Fisher dismisses qualities such and inventiveness, it seems that his philosophical approach to the nature of value, does not offer a clear tie between epistemology or the nature of knowledge and value. Thus, his approach sets limits on discussion of how value is seen in relation to humans in a knowledge economy.

In economics a perennial philosophical problem exists in the tie between nature and discussions of economic value. Using gold as a standard of value became a serious problem since it could subjugate the value of labour, living standards and access to basic needs. Keynes (2009) rejected arguments favouring the gold standard along with economists’ remedies in penny-wisdom and “austere doctrines” that let moralists and economists feel virtuous (224). Their
policies mean the state cannot afford “hospitals, open spaces, even the preservation of its ancient monuments” and allows unemployment and under-consumption by labour at the same time there is wealth accumulation and disparity between wages and profits (224). Today the value of money and labour are not gaged in terms of a material or natural standard such as gold and capital is seen as a “claim on the future and is, thus, defined in terms of the discounting of time” (Schabas, 2007, 13). Claims are now abstracted and freed from any link to nature and risks of primordial discrimination. Yet, there is indeterminacy in assessments of human actions, market valuations and the future outcomes or events based on claims to financial assets.

Evidence shows that investments in securitized claims to value can have power to overrule the value of homes and perhaps life in general given a degenerating environment. Human labour and necessities such as clean water and habitable land can be devalued by investors’ decisions, industrialists’ preferences, and financial instruments. Risks of potential devaluation of human labour are closely related to disequilibrium, inequality property rights and democracy with institutions and laws that support human rights. The relation between property rights, human labour and the environment are interdependent even though this can be ignored in macroeconomics. The idea of natural forces running the economy is best known in Adam Smith’s “invisible hand” that explains how demand and supply are reconciled in the marketplace. The invisible hand idea freed interpretations, whether quasi-religious or scientific, of how people could freely compete while larger forces magically worked to ensure the public good (Skidelsky & Skidelsky, 2012, 49-50). Yet allowing degradation of nature and growing inequality along with boosting the financial interests of the wealthiest elites presents extreme risks.

The Stern Review (2007) warned that climate change on its own and without considering the impacts of growing economic inequality could result in hundreds of millions of people [to] suffer hunger, water shortages and coastal flooding … The investment that takes place in the next 10-20 years will have a profound effect on the
climate in the second half of this century and in the next. Our actions now and over the coming decades could create risks of major disruption to economic and social activity, on a scale similar to those associated with the great wars and the economic depression of the first half of the 20th century. And it will be difficult or impossible to reverse these changes. (Stern, 2007, vi)

The shift of economic theory away from its original material links and ties to nature – towards abstract bundles of commodities gives the impression of a shift from micro to macroeconomics, distancing concerns for the value of labour, historical conditions and power relations. The fact that economics is separated from human rights theory and democracy is also a grave concern. Divisions and disagreements about how economics is related to the environment might give rise to totalitarian or fascist leaders proclaiming to have solutions to climate crisis and political turmoil. The next chapter discusses problems related to the use of macroeconomic theory in explaining reality and developing policies that affect democratic society.
3. Claims, Conflicts and Property Rights

This chapter discusses the limitations of economic theory in analysis and policy-making that is supposed to provide for well-being and financial stability in society. The first part of this chapter considers different approaches that discuss foundational problems of economic theory. Since social choice theory plays an important role in economic approaches, a brief discussion of a classic work on social choice theory by Arrow and Debreu (1954) is included to provide philosophical insight and evidence for discussion. An exposition of their model demonstrates how the traditional right to property is concealed in a mathematical conception of human action and choice. We note how this conception of choice essentially shuts-out further philosophical analysis of human action-taking required for morality and consideration of rights and democracy, as discussed earlier (0.2).

The second part of this chapter studies the relation between the state and economic power. We learn how ordo-liberalism discussed earlier (0.1; 0.2) has had influence supporting rules and laws ensuring mechanisms such as austerity that place restrictions on governments’ policy actions. Evidence of just a few of the major problems facing the European Union illustrates how both fiscal and monetary policy-making capabilities insist on austerity that follows from the orthodox notion that wage-earners must be disciplined to pay for government deficits noted earlier (1.1). The third section briefly investigates evidence on monetary policy-making to convey how austerity is routinely or automatically imposed on society, how liquidity was handled in the wake of the Crisis, as well as the uncertainties of the policy response to the Libor interest rate scandal that happened in 2008 in the midst of the Financial Crisis. The investigations help to illustrate limitations in macroeconomic models largely due to reliance on preference theory. These problems are important in the global rules-based order that is being threatened by rising fascism and populism.
The fourth section looks at how social choice theory influences economics and aligns with public choice theory in the social sciences, shaping policies and ultimately supporting austerity that erodes the Keynesian state. Reliance on preferences gives rise to competing judgements that can allow powerful claim rights to overrule the rights of others’ needs and support growing inequality and conflicts. The indeterminacy of preferences gives rise to the last part of this chapter, the need to discuss conflicting views in economics about how people are related to money and value. These conflicting views are also related to conflicts around claims to property rights. The notion that conflicts over property rights are an external legal matter for the courts to resolve leaves free rein for traditional property rights to be used by some actors such as corporate leaders abusing pension plans to justify their action-taking. Such conditions allow growing control over property rights or claims to wealth by elites that are increasingly able to take actions that can control the value of labour and goods in society which are all allegedly resolved by market equilibrium that sets prices. However, the nature of the claims and property rights with contents including power that affects valuations are not considered by many approaches that remain tied to traditional rights.

The final section of the chapter discusses problems related to the concepts of money and value in economics. People are related to money via the concept of preferences. But the most powerful preferences, backed by wealth, favour of structural reforms and austerity that shape economic reality for the masses and lead economic theory to be used in ways that erode democracy.

3.1 Conflicts in Economics

Let us begin with the overview of conflicts in economics and discuss limitations in theory that are buried in mathematical theories. According to Lavoie (2013a), the Financial Crisis of
2007 – 2009 served as a wake-up call to economists who had a range of responses to deal with the limitations or outright failure of theory in predicting the crisis. Mainstream economists declared that economics just needed to be “slightly tweaked and improved” to explain why it failed to predict the crisis (Lavoie, 2013a, 2). “Neo-Austrian and new classical authors [argued that] the crisis was caused by misguided regulations, bad government interventions, ill-advised decisions by central banks, unsound government budgets and by the naughty Chinese who had rigged their exchange rate” (2). Deep divisions exist between heterodox and orthodox economists. Lavoie explains that heterodox economists work on a number of different approaches but says they “are not interested,” he says, “in the counterfactual economies that have been the playground of researchers in general equilibrium theory such as Arrow, Debreu or Frank Hahn that are now the subject of state-of-the-art ‘orthodox models’” (Lavoie, 2013a, 14).

Moreover, these equilibrium models rely upon a single representative agent that is atomistic and requires “hyper model-consistent rationality” along with “exchange, allocation, scarcity and unfettered markets” (12-7). Equilibrium analysis models only recently added the existence of banks. Orthodox equilibrium analysis relies on the “Gaussian copula function” that was used to form the derivative markets (14). Neoclassical economists assert that equilibrium modelling is adequate in explaining capitalism, while some dissident economists “dress up their unrealistic foundations with realistic auxiliary hypotheses” and these are also vulnerable to collapse (15).

Since Arrow and Debreu (1954) have an important role in economics, we turn to one of their most influential articles on social choice theory, based on their attempt to go beyond Walras’ model of simultaneous equations representing demand, supply, and equilibrium conditions used to represent the state of the economy at any given point in time (265). Walras’ model depended on utility theory – with each individual as either utility maximizers or producers

41 The Gaussian copula formula is used in macroeconomics to map relations between variables or assets (The Economist, Apr 29, 2009).
maximizing profits and perfect competition (265). More precise assumptions for a competitive economy are required and two theorems state the “very general conditions under which a competitive equilibrium will exist” (266). The first theorem says that “if every individual has initially some positive quantity of every commodity available for sale, then a competitive equilibrium will exist” (Arrow & Debreu, 1954, 266). The second theorem says equilibrium exists if “there are some types of labor with the following two properties: 1) each individual can supply some positive amount of at least one such type of labor; and 2) each such type of labor has a positive usefulness in the production of desired commodities” (266). The second theorem may not be satisfied if “there is insufficient substitututability in the structure of production” (266). Arrow and Debreu say that their model integrates production and consumption and “takes account of the circular flow of income” (266). However, the stability of the model is not explainable without “specification of the dynamics of a competitive market” and a mathematical definition of equilibrium (266).

The model says that commodities “are produced in production units” such as firms. A Euclidean space is used to frame the set of vectors along with components. Inputs are treated as negative components. Input-output schedules are made up of the elements including “all possible input-output schedules for the production sector as a whole [based on assuming] the additivity of production possibility vectors” and constant returns to scale prevail (267). Labour is a component of production (268).

There are also “different consumption units” that include institutions, families and individuals that are represented by another vector (268). The individual is the most basic of these different consumption units (268). What counts is the most basic “component” part of any quantity of the last countable bit of commodity consumed by the last countable individual. “The rate of consumption is necessarily non-negative,” they note (268). There are imaginable limits
such as for services supplied which are seen as “the negative of the rate of ‘consumption’ ...
[since for example, a labourer] cannot supply more than 24 hours in a day” (268). The consumer
chooses a “given set of alternative consumption vectors…made in accordance with a preference
scale for which there is a utility indicator function” with some minimum level of indifference or
preference among sets (Arrow & Debreu, 1954, 269).

Individual choices are represented by $x_i$ which all add up to create $X_i$ that is “a subset of a
Euclidean space …the existence of a continuous utility indicator … [and comply with what]
amounts to a continuity assumption on the preference relation” (269). No vector represents a
point of saturation and, there is no one “consumption vector which the individual would prefer to
all others” (269). As part of the possibility of equilibrium, the model assumes “that each
individual possesses some asset or be capable of supplying some labor service which commands
a positive price at equilibrium” (270). It is also assumed that “an individual be capable of
supplying something of each commodity; at least one will be valuable (in the sense of having a
price greater than zero) at equilibrium since there will be at least one positive price at
equilibrium, as guaranteed by the assumptions about the nature of the price system” (270). After
listing all the logical possibilities, Arrow and Debreu assert that “an abstract economy, then, may
be characterized as a generalization of a game in which the choice of an action by one agent
affects both the pay-off and the domain of actions of other agents” (273). The consumer is in a
special position as his or her actions are seen as “alternative consumption vectors [that are]
restricted by the budget restraint that the cost of the goods chosen at current prices not exceed his
income” (273). Agents have access to “the set of actions” limited by fellow agents’ actions, and
all agents are maximizing their pay-offs at equilibrium (273).

In the event an agent is not maximizing, the system resorts to the classical adjustment
mechanisms in supply and demand. Negative or zero prices are impossible since these lead to
“indeterminacy of the rest of the system” (288). Such indeterminacy happens when bubbles, financial crises, and deflationary pressures result in situations where people do run out of money and experience deprivation. In other words, there is a need for greater specification in discussing the potential for indeterminacy, including economic impacts on unliveable environmental conditions that reduce food supplies in different regions.

The Arrow – Debreu representation of human action involved in a choice embeds the traditional property right in a vector without any formal mention or acknowledgement in the model. It can be deduced, however, that the individual simply asserts his or her choice, and as such, his or her property right, via the process of market exchange. In this way, private property rights remain at the core of economics in social choice theory such as in relation to the Arrow – Debreu model. It is precisely at the point approaching indeterminacy that questions about human needs ought to be raised, but the model does not provide a possibility to investigate needs. As a result, choices are all based upon wants, thereby avoiding all specifications about real-life issues. It is important to note that in reality the Arrow-Debreu equilibrium may not even exist since there is a lack of any narrative or empirical evidence to philosophically discuss how it could be achieved. In addition, if the equilibrium is Pareto Optimal, this signifies a point in time where there is nobody that can be made better off without someone else being made worse-off, as noted earlier (0.1).

For Arrow and Debreu as for orthodox approaches, situations that give rise to conflicts over property rights such as violations of others’ needs are viewed as exogenous to the economic model (0.3, 0.4). As a result, specifying sources of imbalance that exist within action-taking found in investors’ over-speculation or choices of consumers that can lead to bubbles through the economic cycles are not part of the theoretical foundation. Analysis and decision-making may be subject to views of equilibrium, Pareto Optimality and perfect competition, as discussed earlier
(0.1; 1.3). The need to explain imbalances leads economists into arguments over their preferences that underlie views of the causes of financial crises.

For example, Reinhart and Rogoff (2010) describe financial crises that happened around the globe over the past eight centuries going as far back as 1300 in England. Wars and social conflicts invariably emerge as part of these historical narratives. Rogoff and Reinhart assert that qualitative multi-disciplinary approaches including social, political, and economic analysis are needed to fully explain more contemporary defaults. The “existence of multiple equilibria” and the emotional fragility of investors who may become “skittish” towards a country also need to be considered (55-61). Lavoie (2013a) points out that the study of financial crises by Rogoff and Reinhart uses “data massaging” to suggest growth is hindered by “public debt to GDP ratios over 90 per cent” when in fact, there is no proven benchmark level set to justify imposing austerity (64-65). Such austerity usually harms the household sector and workers.

Hanmer and Akram-Lodhi (1998) explain that the household is not fully recognized as such by Institutionalists and post-Keynesian economics and this inserts conflict at the foundation of thought as value is extracted and unrecognized (417). However, the role of the household is a key part of microeconomic territory. Rossi (2010) suggests for instance, that “no microeconomic foundations can be helpful for a truly macroeconomic approach to the (either orderly or disorderly) workings of an economic system considered as a whole” (59). This is because of the difficulties with microeconomic foundations that end up hinging on behavioural outcomes that produce general equilibrium models. Rossi’s dismissal of microeconomic foundations offers an example of the difficulties facing theories that struggle to assert the roles of women and parents producing value by carrying out necessary work at home that is not formally recognized in the economy.
John King (2013) says post-Keynesian economics largely failed to include behavioural economics (231-42). Behavioural economists Akerlof and Kranton (2010) use the findings of psychological studies to explain the inability of utility theory to discuss any morals or actual motivations that may justify individuals’ action-taking. *Identity Economics* tries to provide “a unifying analytical framework” to study people’s motives that are not related to money and self-interest. Their mix of utility theory and psychology aims to create a “social context – with a new economic man and woman who resemble real people and real situations” (7). De Jong (2012), suggests the use of psychology, neuroimaging and economics together holds the most promise in moving theory forward and offer better insight into the working of public-policy-makers. However, these approaches do not address conflicts of property rights. Lavoie (2013a) points out that the “psychological insights of behavioural economics” are actually embraced by the orthodox economists since the behavioural approach does not challenge the foundation of orthodoxy (86).

Jane Jacobs (2001) discusses foundational problems of economics due to concern that economics is out of sync with nature, fails to offer any dynamic equilibrium, and instead leads to collapse (101). In contrast, eco-systems have negative feedback controls that function to “restore balances between predators and prey” (103). Jacobs says Keynes tried to create a new “negative feedback control” to prevent economic crises, but his controls failed because of government deficit spending, such that the “vicious circle of intractable indebtedness” threatens to take society to the brink of collapse (117). Jacob’s feedback loops are similar to systems theories noted earlier (2.6), but like behavioural theory, end-up accommodating the competitive equilibrium model. Nevertheless, Jacob attempted to shift thinking about economic foundations in order to better understand reality.
Musacchio and Lazzarini (2014) apply market principles in analysing how state capitalism can be used to describe the global system-at-large. There are positive, negative, and potentially conflictual features of the state as an economic actor in the global system. Agents shape complex relations between governments, private enterprise, and the global system.

Examples of state capitalism include nationalizations of banks, telecommunications, oil companies and other energy suppliers (23-5). Wolff and Resnick (2012), describe how state-capitalism may allow government to control business cycles in sync with private enterprise, closely connected to the point of being both the government and extractors of the surplus value of labour (instead of business owners, as described in Marxist theory) (326). Democracy can be entirely ignored by state capitalism which indicates how it can easily align with fascist interests and rule as described by Kalecki (2.3).

Hernando De Soto (2000) analyses how authoritarian rule and undemocratic practices have affected developing economies. Governments create administrative structures that take years for poor people to navigate thereby making it virtually impossible to access property rights. His empirical data from around the world shows how the poorest citizens of the world are systematically prevented from having legal ownership rights that would allow them to accumulate capital. He describes how and why the poorest people of the world are relegated to having “dead capital” in a shadow economy in which the poor people, in many cases, have neither collective nor individual property rights to the dwellings in which they live (11). A government’s use of institutional administrative devices to prevent poor people from actually owning their own homes meets the criteria of institutional violence and is also a form of economic violence. De Soto’s attention to the matter help changes to laws allowing “1.2 million Peruvian families to claim title to the lands they farm” (World Policy Journal, 2010). However, De Soto’s work was labelled by critics as neoliberal partly because of his political connections.
with economists at the Mont Pèlerin Society (Mitchell, 2009, 398). Property rights were not originally part of the culture or lifestyles of the people living in the slums that De Soto studies (Ibid.). Yet if the slum dwellers have no property rights, how can they protect the homes and land if for instance, a wealthy developer was (hypothetically) able to gain title and evict the whole community to build a condominium for other wealthy investors? Labelling De Soto’s work as neoliberal on the grounds that a community’s traditions should be highlighted instead of property rights is an example of post-modern philosophical influence in economics. As noted earlier (3), critiquing property rights by appealing to evidence of community based or ethnic traditions does not provide a shared foundation for resolving the conflicts caused by property rights. Conflicts involving property and relations of power can be supported by government policies.

Monetarism and orthodox economic thought were used to generate economic policies in the 1980s that promised a “trickle-down effect” by giving tax breaks for the highest income earners, whose decisions were supposed to eventually help people at lower income levels. The trickle-down benefits of these policies did not materialize. According to Blyth (2015), investment-led growth models since the demise of the Keynesian state successfully repeatedly imposed austerity to accommodate the unidirectional flow of money that goes straight to private banks and investors (152-159). Austerity is demanded because massive government debt is automatically blamed on government spending. Demands for austerity happen even as the money goes directly to financial investors, in order to assure that the private lenders have confidence in government (Seccareccia, 2014, 567). Moreover, evidence indicates that government spending allows the banking sector to recover losses that it otherwise would never recoup (573). Indeed, such losses are all about financial claims to assets – or property rights. These chronic sorts of
problems underline how macroeconomics struggles with its current foundation based on social choice theory and preferences.

Mariana Mazzucato (2014) says there is a need to take Keynesian economics a step further in order to explain the role of the state in a more realistic way. There are many examples of innovation and economic development and structural changes that happen because of government involvement as a major investor and decision-maker. Innovation needs to be seen as collectively based so that the benefits are not accruing to private partners who may get involved relatively late in the process. A market myth in mainstream economics insists that private players are needed for research and development (179). This myth is used to allow the private sector players to continue to reap the rewards of financialization which has led to serious imbalances along with the “socialization of risks and privatization of rewards” (28). Rather than pretending that government is not a player in the economy, actually recognizing the fact that government makes all sorts of deals would help in clarifying the sort of policies that are needed. Much greater specification is required, such as in recognizing how government steps into difficult situations where private enterprise is too risk-averse (134-5). One of the most important challenges is to develop “institutions to regulate the risk-reward nexus so that it supports equitable and stable economic growth” (185).

Rossi (2010) suggests that monetary economics should serve as the “macrofoundations of macroeconomics, since money is essential for the existence and workings of our monetary systems of productions and exchange” (61). Rossi refutes Walrasian market dynamics that depend on an imaginary auctioneer doing the bidding that fulfills the valuations of exchanges, since this fails to explain the modern financial system, banks and institutions (62). Newer theories that see equilibrium as rooted in game theory, still use traditional views of money and “do not consider the totally immaterial nature of bank money” (62). Money is a “purely
numerical means of payment, which amounts to saying that it is not the object of any payments” (63). Rossi asserts that Keynes’ identities provide the macrofoundations that are needed for macroeconomics. So long as effective demand is “seen through Keynes’ identities, and if bank money is conceived as a purely numerical means of payment” the macroeconomic model may work. Actions are expressed via payments of production costs and via supply and demand, with all valuations within the economy being processed by the identities. In other words, total consumption must equal total production and saving must equal investment (64-65). Yet money is created by banks and is different from income that is the result of labour. Savings derived from income can then be loaned to borrowers and a series of relationships are mediated by the banks.

However, as noted earlier (1.3) some Post-Keynesians and circuitists are content with the “spirit of Keynes” as there are problems with the Keynesian framework of analysis. Desai (1997) explains that theoretical debates can be too distracting from the more pressing practical demands in dealing with complex “real-world problems” that need to be solved (xv). A number of Cambridge economists were engaged in defending the Keynesian state through a number of challenges: In order to deal with the Monetarist attack of the 1970s a more effective approach was developed and “The General Theory was rewritten in oligopolistic/imperfectly competitive terms with Kalecki as our hero rather than Keynes” (Desai, 1997, xvii). Kalecki’s methodology offers practical insights about the nature of economic and political interrelations that are part of financialization.

The relationship between the real economy and the financial sector is affected by financialization that has to be considered in relation to the growth in the sheer “scale of the financial system …[and] financial deepening” that happens with de-regulation and increased activities of financial actors (Sawyer, 2014, 4). Post-Keynesians agree that financialization is linked to crises and problems of wealth distribution for all of society (Demirgüç-Kunt &
Detragiache, 1998, 3; Epstein & Crotty, 2013, 3; Lavoie, 2013, 20). The scale of the financial system is measured in terms of the size of its components, such as bank deposits, loans, and the stock market, relative to GDP (Sawyer, 2014, 4).

In contrast, orthodox and neoclassical approaches regard the volume of savings and investment as handled by market equilibrium, the rate of interest, and money is seen as exogenous. As a result of this approach, explains Pettifor (2017), money is ignored in university economics courses and in analyses. Money is seen as a “neutral veil” over transactions, bankers are “intermediaries between savers and borrowers, and the rate of interest as a ‘natural’ rate responding to the demand for and supply of money” (2). The so-called natural rate of interest is justified by the working of supply and demand forces to attain equilibrium.

A number of orthodox economists followed the lead of McKinnon and Shaw in pushing the liberalisation thesis since the early 1970s (Sawyer, 2014, 13; Grabel, 1994, 48). The financial liberalization thesis urges deregulation of banking institutions that have oversight responsibilities for economic growth. The central bank is perceived as keeping interest rates too low or imposing ceilings, and not allowing market equilibrium to set rates which prevent financial market efficiency and equalization of savings and investment (Sawyer, 2014, 14). In the decades since the 1970s, liberalisation and deregulation have been important in advancing financialization and expansion of financial sectors (15).

Liberalisation advocate and orthodox economist, McKinnon (2002) discusses money and finance in developing countries that are “on the periphery of the international dollar standard” (87). The best situation, says McKinnon, is if banking authorities allow banks to get foreign exchange assets and liabilities, but ensure that their net position “perhaps at the end of each trading day, must be zero” (93). From his viewpoint, this avoids having “exchange risk … translated into default risk [and then] into banking risk” (93). Forcing banks to hold “(near) zero
net foreign exchange exposure… counters the various margins of temptation not to hedge
…and prevents banks from accepting foreign currency deposits to make domestic currency
loans” (94). In such a case, the central bank takes on the role of “clearing international payments
and settling accounts … [and] the banks cannot act as (stabilizing) speculators to determine the
level of exchange rate” (94). But then the government is forced to either act as a “stabilizing
speculator to control risk and currency value volatility, or, it is “forced to determine the
equilibrium exchange rate” (94). In other words, any imbalances in accounts for money flowing
in-and-out of countries for goods, services and financial assets and liabilities that affect currency
values, are somehow supposed to be automatically dealt with by a central bank that strictly
controls all actions of domestic banks.

With respect to the need for bond markets for developing countries McKinnon says that
“in the face of fiscal deficits, inflation and ongoing depreciations, the term structure of domestic
finance cannot be lengthened” (94). Nobody ends up willing to hold any sort of instrument in the
domestic currency. Policy options include complete dollarization as in Ecuador, or currency
boards based on the dollar such as in Argentina and Panama. Yet “out-of-control fiscal policies
remain a serious loose end so that the interest rate differential in Argentina and Panama with the
United States remains surprisingly large at various terms to maturity” (McKinnon, 2002, 94). To
clarify, this means that the financial problems of developing nations’ bond markets are blamed
on potential fiscal spending.

McKinnon (2002) adds that “the key is to give investors long-term assurance that 10 to
20 years from now the peripheral country’s nominal exchange rate will be the same as it is
today” (94). However, if a developing nation’s nominal exchange rate remains static for 10 to 20
years that nation has no means during those years, of increasing purchasing power for any sort of
required capital equipment or other investment goods needed to advance an economy.
McKinnon’s plan eliminates uncertainty for international investors with rights to dollars who can be assured of winning any nominal gain in the value of dollars, whilst labourers and domestic producers and households are put in the position of having to endure the chronically low nominal value currency. This means that developing countries are restricted in what they can import and what they export may be chronically underpriced unless or until firms and resources are owned by agents holding dollars. The problem of restrictions due to currency values is exacerbated in countries that are weakened by conflicts and invasion.42

There are some other well-known consequences that may result from maintaining a low nominal exchange rate which keeps exports at a low cost for wealthy importing nations. In contrast to orthodox descriptions of policies, the heterodox and circuitist economists, recognize that attractively priced imports allow households to enjoy goods yet also results in deflationary pressures on wages in the importing nation (Gnos, 2006, 100). For, the effect of having people working for low wages in the poorer exporting nations selling products at lower exchange rates may end up creating downward pressures on wage rates in wealthier countries. The ability of a state to take a role supporting economic stability by taking a range of policy actions to deal with the implications of globalization and deflationary pressures on wages is critical.

Lavoie and Stockhammer (2016) explain that neo-liberal policies and financial deregulation have resulted in repeated market bubbles leading to increased national debt, for countries such as Greece and developing countries forced into more borrowing and debt-led growth that then must be addressed by generating unsustainable export surpluses to pay-off borrowers (22-24). There is evidence that states holding current account deficits, “greatly speeded up their accumulation of household debt relative to GDP” (23). In other words, debt-led growth has come to depend on households taking on debt, borrowing from corporate lenders and

42 See for example, the impact of the war in Yemen, and the loss in value of the Yemeni Riyals of 180% against the U.S. Dollar, discussed in World Food Program, (2018), 1.
resulting in increased inequality and “economic growth processes [that] have become unbalanced” (1). Lavoie and Stockhammer stress the need to shift from “pro-capital distributional policies … [to the alternative] pro-labour distributional policies” to assure a wage-led growth regime (1). The problem of economic inequality must also be addressed by policies that address taxation, allow labour unions to have greater bargaining power and “securing low real interest rates” (1). The main argument against wage-led growth – which aligns with Keynesian and Kaleckian thought (discussed earlier (1.3; 2.3) – comes from orthodox economic approaches that emphasize notions around natural growth rates, seen as depending on supply-side, investment decisions (2).

Palley (2016) suggests however, that trying to determine if an economy has wage or profit-led growth, even using econometric analysis for example, is problematic because of the way policies may change “distribution of the wage share …[and allow] faster growth and less inequality” (3). Moreover, the structure of growth theory involves analysis of the “investment-saving (IS) balance relation” that can become non-linear and bend backwards on itself, “in capacity utilization – profit share space” (3). Complications arise in assessing different time lags between getting higher incomes and making spending decisions that are required to increase aggregate demand (4). As well, an increase in income in an open economy may lead to increases in imports, thereby resulting in “leakages of demand” (5). These problems highlight the importance of Kalecki’s theory that recognizes the differences in capitalists’ and workers who uphold the split between profits and wages (6). Palley uses a standard neo-Kaleckian growth model to view “income and wealth distribution for determining the economy’s regime character” (5). Palley says the model has three regimes including, wage-led and profit-led growth regimes, divided by a middle ground occupied by the “conflictive economy” (9). In other words, from Kalecki’s work it possible to imagine a shared income space occupied by workers who earn
wages and capitalists making profits. However, the neo-Kaleckian approach is unable to deal with driving forces that determine if a regime is wage or profit-led, including “differences in propensities to consume of capitalists and workers” since “these characteristics are taken as primitive and beyond [the reach of macroeconomic policy]” (7). The dynamic complex relations between the three regimes make it very difficult to determine which sector is leading economic growth at any given moment-in-time. However, says Palley, policy should aim to “increase workers’ wage share …[which] unambiguously increases growth and capacity utilization regardless of whether the economy is wage-led, profit-led or conflictive” (27). In contrast, in reality, neoliberal and orthodox policies persist in demanding deregulation that supports financialization, cutting taxes for corporations and imposing austerity through cuts to social programs.

All the textual evidence offered so far in this chapter, conveys the serious theoretical debates, and political differences in efforts to deal with the practical aspects of economic policy-making, especially in light of overwhelming influence of liberalisation and orthodox economics that seems to over-rule policy-making. Perhaps the sheer scale and urgency of practical problems helps to explain why philosophical problems and conflicts around property rights are generally avoided and not seen as a source of potential theoretical change. The struggle to prove the need for government fiscal policies supporting wage-led growth as against the monetarist and social choice theories that hold sway in supporting austerity, presents ongoing challenges for many states. As a result, democracies can be overwhelmed by the agendas of powerful economic interests supporting conflictual relations that turn into legal resolved by laws favour big business and the ideal of efficiency – which is tied to traditional equilibrium (as discussed earlier (1.3).
3.2 Ordo-liberalism and Democracy

The influence of liberalisation approaches as discussed by McKinnon, offering currency controls to avoid government fiscal policy-making, is also seen in developments that ended up shaping the European Union. The anti-Keynesian policies used in the EU are in sync with McKinnon’s recommended fiscal controls over debtor nations. The EU ended up relying on the German ordo-liberalism from the 1990s which emerged out of the “‘rules’ versus ‘discretion’ debates” that dominated macroeconomic discussions (Sawyer, 2018, 60). Ordo-liberalism assures that legal enforcement can overrule discretionary government actions to shape economic conditions. Legal agreements to place strict limitations on member nations’ democratic powers to deal with monetary and fiscal policy-making were systematically put in place.

The Marjolin Report (1975) argued that monetary union should be postponed until after the achievement of a high degree of economic integration in the European Union. It advocated that a single unified market would provide a sound basis from which to launch monetary union, and this found its expression in the ‘single market’ achieved in 1992. The MacDougall Report (European Commission 1977) stressed the role of a unified fiscal system in a monetary union and concluded that a monetary union would not be viable without a sufficiently large community budget for fiscal policy which estimated an amount of 7.5 per cent of EU GDP (as compared with an EU budget currently around 1 per cent of GDP). Although many had argued for the importance of a fiscal union alongside the single currency, these arguments made no impact on the policy formation of the euro. (Sawyer, 2018, 15)

At first, monetary and fiscal arrangements appeared to have concern for the need for fiscal policies that could help the southern European nations that were not as developed as Germany and the rest of northern Europe. Smaller nations wanted to join given the appeal of gaining access to a stronger currency such as enjoyed by Germany. For example, “the value of the Deutschmark entered (into the Union) at 1.95583 per Euro [compared to] the Italian lira at 1936.27 [per Euro]” (Sawyer, 2018, 18).

For the less advanced countries of the EU, having export prices determined in Euros would mean avoiding the volatility that can impact smaller nations’ lower valued currencies and
export prices. Logically, the chance to sell exports priced in Euros rather than lira, pesetas, or drachmas, for Italy, Spain and Greece, respectively, prior to 1999 could only be a major step-up. Joining the EU could help avoid the impact of McKinnon’s so-called liberalisation that makes it difficult for countries to gain financial stature to offset the impacts of international trade and financial markets. According to orthodox economic theory, there should be no reason for any price effect once the transition was carried-out in stages, from January 1999 to January 2002. It is only consumers’ perceptions and misjudgements about old versus new prices that cause issues (Mastrobuoni, 2004, 1-2). Although the EU offered Italy, Spain, Portugal, and Greece a way to sell their exports at prices expressed in a more highly-valued Euro in global markets there were other challenges to face.

The legal requirements in joining the EU meant that any nations that had shown vulnerability to inflation prior to joining would need to endure “deflationary policies to constrain their rate of inflation (in line with other member countries)” expressed in their national accounts (Sawyer, 2018, 19). The purpose of monetary policies used by small open economies that have their own currency is to use it as a sort of lever to absorb inflationary pressures affecting the economy. Once the inflationary prone Italian, Greek, Spanish, and Portuguese economies joined the EU, the surrender of this monetary policy tool would increase difficulties in dealing with “balance-of-payments position[s] and current account and capital account imbalances” (21). Policy tools that a nation’s central bank would normally use to assure well-being of people within a nation were also surrendered upon joining the EU, including capacity to set interest rates, issuing and accepting bonds, serving as a lender of last resort and performing duties of oversight of institutions (22).
The rules for joining the EU involved imposing a fixed currency rate on all the member states. Such arrangements do not offer much historical evidence of viability without having a stable political relationship:

The relationship between money and the state leads into the question as to whether a currency union requires a political union for its long-term survival. Monetary unions … such as that between England and Scotland (1707) and those of unified Italy (1861), and Germany (1870s), which were linked with political union, have survived long term. Examples of monetary union without political union are limited and include the Belgium–Luxembourg union (from 1923), subsequently absorbed into the euro, the West and Central African CFA franc zone (1948) and the Eastern Caribbean Currency Union (from 1983), which are still in operation. Monetary unions which collapsed when political union collapsed include the Roman monetary union (286 to 301) and, more recently, those of the Soviet Union, Yugoslavia and Czechoslovakia (and, with a long delay, the United Kingdom and Ireland). Temporary monetary unions, such as the Latin monetary union (1865 to 1926) and the Scandinavian currency union (1873 to 1921), and currency pegs, notably the gold standard (1870 to 1931/6) and the Bretton Woods systems (1944–1973) also proved to be unsustainable. (Sawyer, 2018, 23)

The relationship between money and the state is critical in attaching currency values to fixed standards because of the state’s capacity to use economic policies to offset distributive imbalances. The historical evidence of repeated failures of exchange systems sheds light on the fragility of economic relations without political support. Fixed exchange systems lead to imbalances due to investment activities by wealthy well-positioned agents who benefit from particular asset values that rise relative other prices including the value of labour, harming the greater masses of people, as happened during the Great Depression.

In spite of the lessons of the Great Depression, EU policy makers favour austerity programs as used in the wake of a financial crisis in Greece, even though these have harmful effects in reducing the value of labour relative to financial assets that are supported. Limits to fiscal policy-making is secured by the Stability and Growth Pact (SGP), that says budget deficits “should be less than 3% of GDP …with minor exceptions for severe recession” (Sawyer, 2018, 24-25).
From an orthodox economic viewpoint, “Eurozone nations faced their own strand of fiscal distress due to heavy borrowing practices, property bubbles, and living above their means” (Sandoval et al, 2011, 3). From a Keynesian viewpoint, structural reforms of pensions, healthcare and labour markets directly violate the original meaning of fiscal policy-making which was supposed to assure conditions for full-employment levels, as discussed earlier (2.1). The orthodox economic view argues that structural reforms increase competitiveness and “kick-start job creation” (Sawyer, 2018, 33).

For Greece, structural reforms, austerity and fiscal cuts worth 13% of GDP came along with a “€110 billion ($147 billion) rescue package for Greece on May 2, 2010” (Sandoval et al, 2011, 8). From an orthodox view, widespread protests against austerity may be judged or justified according to preferences in countries such as Poland and Germany that maintained financial stability and where people “believe they should not have to help other countries who got themselves into trouble by living beyond their means” (10). Polls show support for austerity measures taken by Britain even though it is recognized that “women and the poor will be the most negatively impacted” (11).

Greece suffered grim conditions. Its high debt to GDP ratio prior to the Financial Crisis resulted in bonds held by Greek banks that were no longer sellable, which meant the banks could not provide loans (Bulow, 2015). The austerity policies imposed on Greece along with the bailout package were organized by the European Central Bank (ECB), the International Monetary Fund (IMF), and the European Commission (EC) which formed the Troika (Sawyer, 2014, 31). The Troika required austerity measures in exchange for loans to deal with the impact of the Crisis. From 2010 to 2013 output fell by 21% and unemployment rose from 12.7% to 27.5% (Kosma et al., 2017, 4). Labour market reforms to increase “the ability of firms to adjust to shocks” decentralized bargaining, lowered firing costs, and led to decreased wages (6). The
growth of financialization since 1971 paired-up with the European Monetary Union experiment to disrupt links between “financial markets and Greece’s economy [resulting in a] major economic and humanitarian catastrophe” (Varoufakis & Tserkezis, 2014, 7-8).

Canada also has features of ordo-liberalism, such as in the example described earlier (0.2) of pensioners’ needs being subjugated to the legal status of investors’ assets. For instance, during the Constitutional Conferences in 1992, attempts were made to insert the policy objective of economic efficiency as an encompassing sort of goal into the Constitution. A Government of Canada study comparing the scheme for constitutional change with Germany’s, reveals some influence of ordo-liberalism in Canada. The Conservative government proposed “a new constitutional power to make laws for the efficient functioning of the Canadian economic union [that] would permit the federal government to introduce a single market plan for Canada along the lines of ‘Europe 1992’” (Chapman, 1991). In Canada, arguments were drawn up by groups and ordinary Canadians who protested the proposal to inject economic efficiency into the Constitution and the plan was dropped.43

In Germany, economic policies were entrenched in the constitution and restrict policy-making actions to deal with changing conditions over time (Sawyer, 2018, Sec. 5). Ordo-liberalism also constrains policy-making in the European Union for example, as policies are embedded into treaties including “the Treaty of Lisbon and the Treaty on Stability Coordination and Governance” (Ibid.). As a result, philosophical questions related to budget requirements, unemployment programs, corporate taxation policies, and the concept of profits, that is, how profit is calculated, are streamlined into a one-size must fit-all approach (Ibid.). Monetary policy-making is similarly restricted with adoption of the Euro and subjugation of nations’ central banks to the European Monetary Union (Ibid.). Rigidities built-into the system, based on theory using a

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conflictual conception of the relation between people and rights, results in labour bearing the brunt of any account imbalances due to financialization, over-speculation or other errors, such as not collecting taxes on wealth accumulation.\(^4^4\)

Ordo-liberalism magnifies structural differences between EU countries with varying levels of institutional capacity. Greece for instance, needed “to tax wealth rather than income and consumption” but the administrative costs of finding tax evaders are too high given expected revenues (Bulow, 2015). Such problems allow growing control of finance by wealthy countries and groups that export and lend money, while consumers suffer lower incomes, thereby leading to increasing financialization (Sawyer, 2018, Sec. 5). Debtor nations such as Greece end up in repeated bargaining processes with lenders scheduling and rescheduling loans and repayments.

Orthodox economics sees such negotiations as following possible subgames that tend towards “equilibrium rescheduling agreements” (Bulow & Rogoff, 1989, 166). Bargaining possibilities are mathematically depicted in three regions including “the bargaining region, the autarky-constrained region, and the punishment-constrained region” (Ibid.). Lenders and debtor countries always want to negotiate to avoid damaging trade as this may involve punishment: since everyone is rational, countries will not borrow so much that future workers become slaves to foreign lenders (162-169).

The problem of possible enslavement is encompassed in the relation between government, finance, and the real economy. Evidence indicates “much larger ratios of financial assets and liabilities to GDP and to productive assets” and it is necessary to raise questions about how financial sector growth can destroy value (Sawyer, 2014, 19-21). Destruction of value also happened to home owners and many other asset holders in the 2007-2009 Financial Crisis, and to

\(^{4^4}\) For a discussion of taxation of wealth accumulation, see Piketty, (2014), 527-530.
the Greek people. The fact that home owners’ wealth was destroyed while large institutions were bailed out points to an area of government and central bank policy-making failures.

The political influence of neoliberal economic thought is globally prevalent in shaping policies and institutions, particularly in relation to central banks (Palley, 2019, 1-5). Central banks around the world have gone through a push for independence from government interference in policy decisions for about the past 25 years, on the grounds that this helps to solve the puzzle of the “fundamental public interest problem” (1). Central bank independence is urged, based on the Chicago School view that bureaucracies are incompetent and that governments’ expansionary policies need to be controlled (7). The whole critique of inflationary government policies being overseen by central banks raises the concern of, “who will guard the guardians” (Palley, 2019, 9)? There is a “conflict theory of independence” of central banks that assures that capital controls policies to constrain inflation, to the disadvantage of labour while benefitting elites (17-18). Central bank independence points to an important shift in control over monetary policy that once rested with government and is now carried out by central bank economists. Palley points out that this “helps lock-in a neoliberal policy perspective” that is followed by both conservative and social democrats (22-23). According to Pally, the shift to central bank independence over the last three decades has reduced accountability and led to policies based on political beliefs in macroeconomics that disregard the problem of unemployment and have become a serious threat to democracy (32-33). In America, explains Palley, ambivalence towards democracy goes all the “way back to the writing of the constitution” and the fears of challenges to property rights (27).

The examples brought forth in this section help elucidate how problems in decision-making related to national debts reflect philosophical approaches in microeconomics. At this point it is helpful to investigate decision-making related to bailouts that help lenders. It is also
important to inquire how austerity is repeatedly imposed by purportedly democratic institutions that can punish the masses of people who may have little to do with actions or account imbalances that cause a crisis.

For these matters we turn to a brief exposé of some policies used in response to the 2007 – 2009 Financial Crisis and the policies under development to respond to the Libor scandal. The policies are discussed to see if any justificatory criteria are present, and, to provide evidence to allow assessment of how central bank policies are related to rights within the community.

### 3.3 Monetary Policy-Making

The Bank of Canada used two sorts of policies to respond to the Financial Crisis to help mitigate the effects of the “financial turbulence, historic marketplace losses, and serious threats to financial stability” (Longworth, 2009, 1). Action-taking required changes to normal “liquidity policies and practices” as well as in thought “on the procyclicality of the financial system – particularly that of financial markets and financial market prices” (1).

The Crisis was followed by a “general global decline – and in some cases, a complete disappearance – of liquidity in key funding markets” (Longworth, 2009, 2). The Bank for International Settlements’ Committee on the Global Financial System (CGFS) recommended that Central Banks be prepared to take measures “that go beyond adjusting the aggregate supply of bank reserves to meet changes in demand” (2). The measures included “providing an increased volume of term funds, conducting operations against a broad range of collateral, and conducting operations with a broad range of counterparties” (2). The Bank of Canada set up the term Purchase and Resale Facility that allowed purchase and resale agreements (PRA) to buy securities from primary dealers and then reselling them at term. There was also a broadening of the “range of securities acceptable for the Standing Liquidity Facility (SLF) – the overdraft
facility accessible to participants in the Large Value Transfer System (LVTS) – to include certain types of asset-backed commercial paper (ABCP) and U.S. Treasuries” (2). Three new facilities were introduced in the summer of 2008. The Term Loan Facility was set up in November 2009 to allow participants increased flexibility and efficiency in “managing balance sheets” and to use “high-quality but illiquid assets, as collateral for term loans” (3). A term PRA facility was also provided for “private sector money market instruments” such as promissory notes, Bankers’ acceptances, and commercial paper to ensure liquidity for this market; and, a “new term PRA facility for private sector securities” to try to help revive the market for private sector securities (3-4).

The PRA for private sector securities is different from the one for private sector money market instruments because the securities are to include corporate bonds (with at least a BBB rating and “including certain callable bonds” (Longworth, 2009, 4). Another facility set up was “a US$30 billion swap line with the U.S. Federal Reserve” intended to avoid any bottlenecks in regular liquidity channels and to allow Canadian institutions an alternative liquidity source. Another whole set of policies was related to the “degree of procyclicality of financial market prices” (5). The microprudential approach to policy looks at the damages that could be caused by individual institutions. A macroprudential approach, in contrast, asks about how to “prevent or limit damage to the financial system as a whole, thereby avoiding or reducing the economic costs that attend financial instability” (5). This approach asks about the risks that can arise from the “collective actions of institutions and markets” (5). The inquiry requires understanding relations between markets and institutions and determining the factors that can “amplify the procyclicality of the financial system – that is, the tendency of the system’s behaviour to amplify financial and economic cycles” (5).
Value-at-risk (VaR) methodology is widely used by institutions for risk-management, and is an international standard for calculating capital requirements and margin requirement for over-the-counter dealing (Longworth, 2009, 6). VaR uses historical data to predict the value of future losses “over a one- to sixty-day period” that could be caused by a shock but this is amplified if used by the whole investment community (Longworth, 2009, 6).

In situations where the fundamentals for an asset show improvement, the VaR is lowered, leading to a fall in capital requirements, and “a bigger trading book could be held for a given allocation of economic capital, and margin requirements could be lowered for counterparties” (Longworth, 2009, 6). The counterparties would then increase their participation in markets, leading to increased liquidity due to the increase in trading in “a growing range of assets” (6). If perceived risk falls along with volatility, conditions may lead to a ‘virtuous circle’ for prices and volatility” as from 2003-06 (6).

However, there is a point where asset prices may become overvalued and risks underpriced. In these conditions, as soon as one institution withdraws from trading, all the same chain of events happens in reverse (Longworth, 2009, 6). Instead of assets prices being pushed upwards, they are driven downwards with volatility increasing. “A vicious circle would result (as it did in the lead-up to the rescue of Bear Sterns and particularly following the failure of Lehman Brothers)” (6).

In reality, says Longworth (2009), participants do not all use the same VaR or “risk-management systems based on short historical samples” (7). Two principles were proposed by the Bank: One is that “all historical data” be used to calculate possible losses for an “asset or asset class” (7). The second principle is that “a stress VaR …calculated on the basis of assumed stress conditions – should be used, especially to consider the heightened correlation of losses across various assets or asset classes” (7). It is known that the “correlations among losses in
categories of risky assets increase dramatically (sometimes approaching one), when the financial system is under great stress” (7). Some amplification is bound to occur with large price decreases; but, if firms “were allowed to undertake their own through-the-cycle stress VaR calculations” the homogeneity of calculations would likely decrease compared to with across-the-board use of short-term calculations (8).

We note that degrees of risk involve degrees of stress. The “BCBS [the Basel Committee on Banking Supervision] has proposed… adding a stress VaR to the calculation of its trading-book capital” (8). Margin requirements “for securities financing operations and initial margin for over-the-counter derivatives transactions could be set on the basis of through-the-cycle calculations and expected to remain constant” (8). The IMF Report also says there is benefit to “having some institutions that are not subject to regulatory capital requirements for their trading books” since they may avoid the “herd behaviour” in investment decision-making which may increase liquidity, reduce volatility and procyclicality (8). Sharp increases in margin requirements can increase procyclicality and loss of liquidity for a lender when it is needed most by other investors (8). Moreover, says Longworth (2009), “a strong economy requires a sound financial system… Liquidity is essential to a well-functioning economy, and central banks have an important and evolving role in helping to maintain the liquidity of key markets” (8-9).

It is clear that liquidity was readily provided in response to demand in order to avoid broad-based negative impacts on financial markets and the real economy: The expression of need for liquidity – particularly for participating institutions – was recognized with VaR judgements of particular asset trends over time. However, the distributional implications for society-at-large, over time, and in terms of financialization are not spelled out.

How does the Bank of Canada assess other trends in decisions related to distribution and austerity in society? To consider this question we turn to a brief description of the *Canadian*
Debt-Strategy Model that is used by the Bank of Canada to offer assistance to the Government of Canada in “choosing a strategy that minimizes the cost of debt, subject to limitations on risk” (Bolder & Deeley, 2011, iii). The main elements of the model include cost and risk measures, inflation-linked debt, optimization techniques, a framework to model government funding requirements, “sensitivity of results to the choice of joint stochastic macroeconomic term-structure model, the effects of shocks to macroeconomic and term-structure variables and changes to their long-term values, and the relationship between issuance yield and issuance amount” (iii). A number of different statistical models summarize and quantify uncertainty in macroeconomics described “by the output gap, inflation and a monetary policy rate” (5-7).45

The statistical inputs provide insight into how a financing strategy influences key Debt-strategy indicators. This may be done due to the “mechanics of the government debt and fiscal management” (5). A large part of the stochastic-simulation model is a collection of mathematical expressions that describe how the debt stock matures, how the government’s funding requirement is computed, how the maturing debt and new funding requirement are refinanced, how debt charges are computed, and how these outcomes impact the size and composition of the debt stock” (Bolder & Deeley, 2011, 5). Basic portfolio theory “measures return as intermediate cash flows plus the percentage change in an asset’s value over some period” (11). The model considers risk as the inherent uncertainty “or dispersion of these debt charges” (12). Cost-at-risk (CaR) is analogous “to the well-known risk management concept, value-at-risk – to describe the maximum debt charges for a given period with a given probability” (12). Uncertainty increases as we move further out in time, as there may be a “wider range of interest rate and macroeconomic outcomes” (12).

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45 An output gap is the difference between actual and potential output produced in an economy. For more details see Jahan, & Mahumd, (2013).
At the same time, however, the dimension of time is difficult to deal with within the model: “One way to deal with this issue is to eliminate the time dimension – A simple way to do this is to consider the total debt charges over the simulation horizon” (Bolder & Deeley, 2011, 14). Since “risk is the mirror image of stability” these factors can be treated accordingly. Ultimately, the notion of risk is entered as a variable that depends on the judgements of the economists. In addition, the model allows the use of algorithms to “consider 2,000 alternative financing strategies—with 10,000 random realizations of our stochastic model—including eight financing instruments. The data used to estimate the stochastic model run from 1994 to February 2007” (30).

The economists also incorporate the Fiscal side of government policy-making. The model sees government funding requirements as the total of revenues less total expenditures. The *Canadian Debt Strategy Model* considers fiscal policy by forecasting government revenues, expenditures and debt charges. This is, of course, an extremely complex, highly dimensional process that depends on taxation policy, government-expenditure programs and the composition of the debt stock. An extremely high level of detail, however, is neither desirable nor necessary for our model. Instead, we simply assume that government revenues and expenditures are functions of the general macroeconomy: that is, output, inflation and the change in the level of short-term interest rates. Forecasting government revenues and expenditures, therefore, reduces to an exercise in forecasting macroeconomic outputs. Given that we explicitly model the stochastic evolution of the Canadian macroeconomy, this is a straightforward task. (Bolder & Deeley, 2011, 37)

As well, since predictions of Debt charges require forecasting interest rates the “non-trivial degree of uncertainty” must be included (37). Within the macroeconomic model, say the authors, “the lever used in our analysis is the fixed component of government expenditure” that sets the expectations for a given fiscal target (37-38). This target is “conditioned on future expectations of other revenue and expenditures to obtain a fiscal goal [that is] …a target financial source for the pay-down of government debt” (38).
This shows how the model emphasizes the need to pay debt to have revenues match expenditures in the macro-economy: The main lever or source of imbalance is pre-defined as government expenditures regardless of the fact that debt can come from different sources, including perhaps costs related to bailing out large businesses, industries or sectors. Assigning the predetermined lever to government expenditure imposes a strict limitation on the understanding of the economic dynamics of disequilibrium. There is a stark contrast between the largesse and liberality involved in dealing with the risk and stress related to Financial Crisis bailouts, and, any potentially damaging effects related to austerity measures and cuts to government spending that punish the masses. Policy towards the liquidity-short investors was one of respect along with degrees of trepidation in considering the potential VaR calculations.

In contrast, the implications of austerity in the real economy have to be noted. For instance, spending cuts in healthcare results in personal and workplace upheaval as Ontario hospitals have had to adjust to the loss of 1,400 full-time registered nursing (RN) positions which translates into the “loss of 2.6 million hours of hours of RN care removed” from the province’s healthcare system (ONA, 2016). In the 1990s cuts to healthcare led to 28 hospitals being closed and the firing of 6000 nurses (Ladurantaye, 2018). Those left to deal with increased workloads general suffered stress, burnout, decreased morale, depression and anxiety (Greenglass & Burke, 2001, 94).

The links between economic policy and moral responsibility or consideration of human experience of suffering caused by austerity policies may be side-stepped by simply having a predetermined lever. That is, the automatic nature of a lever is not necessarily tied to ethical responsibilities. Human rights to needs could be violated with the use of the lever, particularly since there is also no mention of the dangers that may result. The fact that the dimension of time is ultimately excluded is important in explaining how and why historical events and knowledge
do not enter the model in any way. Exclusion of the dimension of time also makes it difficult to acknowledge the reality of distribution of wealth that occurs over the course of the historical long wave. Yet there are certainly other studies that consider historical problems related to finance and spill-over effects from defaults. The discussion of an economic model that can be run thousands of time in an effort to simulate events in reality may seem unrelated to human rights – However its use certainly raises questions about human rights. As well, it is also possible that the use of a computer model could support the growth in value of particular types of property rights tied to wealth in financial markets.

During the 1990s the Bank of Canada was concerned with the relation between the government debt remaining from the 1980s and the private capital markets. A “market jobber function” was put in place to set-up a “secondary market for treasury bills to help develop other money market instruments and to enhance the efficiency of capital markets” (Pellerin, 2006, 39). The whole purpose is to assure the distribution or sale of debt through auctions in order to support “a well-functioning government securities market by promoting broad participation by dealers and investors” (37). The broad participation is then supposed to “benefit the broader Canadian fixed-income market by providing investors with a range of assets that are free of credit risk and that also serve as effective pricing benchmarks and hedging instruments” (37).

These objectives may seem well-intended; however, potential private market machinations must be included in considering risks. For example, Argentina suffered a debt crisis in 2001. A number of vulture funds bought-up a portion of the distressed debt. Although 93 percent of bond holders accepted the discounting of their bonds, the portion held by the vulture funds went to a New York court that eventually ruled that Argentina had to pay back the full value. One vulture fund got “a total return of 1,500 percent on its initial investment [due to] a “compensatory” interest rate of 9 percent under New York law” (Guzman & Stiglitz, 2016).
Similar distressed debt came from the rigged financial instruments that were successfully sold to people in selected American neighbourhoods wooed by toxic mortgages. The bankers that ultimately ended up struggling to sell assets and cope with volatility – while not wanting to lose the confidence of clients – also wound-up in trouble with the Libor scandal discussed earlier (1.1). The Libor scandal created a need to revisit how bank rates are set. The Bank of Canada is engaged in committee meetings to develop its administrative response to the recommendations of the Financial Stability Board’s to produce new interest rate benchmarks that are “risk-free reference rates” as well as a “term risk-free rate benchmark” for the Canadian dollar that would “operate alongside the existing Canadian Dollar Offered Rate (CDOR)” (Bank of Canada, 2018).

The Financial Stability Board endorses the Principle for Financial Benchmarks set by the International Organization of Securities Commissions (IOSCO) (2013). The new Benchmarks were developed due to “concerns over the fragility of certain Benchmarks – in terms of both their integrity and their continuity of provision” and recognition that these rates hold potential to harm “both investors and the real economy” (IOSCO, 1). IOSCO found that there exist “generic risks to the credibility of Benchmarks arising from vulnerabilities in the Benchmarks’ Methodology, transparency and governance arrangements” (3). Perhaps the most significant concern expressed in submission to IOSCO involved potential for “conflicts of interests in and incentives to manipulate the determination process where the Submitters are also Market Participants with stakes at the level of the Benchmarks” (3). IOSCO developed a series of “final Principles...to address these vulnerabilities” (4). The new system involves a “universe of Benchmarks [that] is large and diverse” so high-level Principles first apply to all Benchmarks, and then “a subset of more detailed Principles also has been developed that address Benchmarks having specific risks arising from their reliance on Submissions …and/or ownership structures” (4). In other words,
there will be a new system of interest rate Benchmarks that will involve structural complexity that recognizes the diversity of assets and asset classes.

IOSCO (2013) does not expect its methodology to be uniformly implemented. “Nothing in these Principles,” IOSCO notes, “is intended to restrict an Administrator from adopting its own unique Methodology or from adapting their Methodologies to changing market conditions in order to meet the Principles” (9). But the Principles intend to “promote the quality and integrity of Benchmark determinations through the application of design factors that result in a Benchmark that reflects a credible market for an Interest measured by that Benchmark” (10). The new Benchmarks should be “based on prices, rates, indices or values that have been formed by the competitive forces of supply and demand” (10).

The Principles are also supposed to promote the integrity of “Methodologies” with requirements for minimum levels of information disclosure to allow Stakeholders to make their own judgements (12). Administrators will be appointed and they will have specific responsibilities in mitigating conflicts of interest by providing written and defined responsibilities, policies and procedures that address the conflicts or the perceptions of conflicts of interest (16). The Administrator also has to provide a “control framework for the process of determining and distributing the Benchmark” (17). That framework is supposed to be “tailored to the materiality of the potential or existing conflicts of interest identified, the extent of the use of discretion in the Benchmark setting process and to the nature of Benchmark inputs and outputs” (17).

What seems increasingly evident is that the whole problematic matter of interest rates ends up relying upon individuals’ expert judgements or preferences about how to reflect the market pricing of any particular financial asset or asset class. The notion of market-determined prices being judged to assess interest rates aligns with the methodology that leads to observation
of the effects of actions or economic factors that may or may not be included in approaches using social choice theory.

The brief outlines of the policy-making problems in finance shows how social choice theory shapes methodology in the state-of-the-art models such as the ones used by governing institutions and central banks. Assessments of broad risks facing the international community boil down to judgements and preferences of economists. Thus, there is a need to discuss the influence of social choice theory in more depth.

### 3.4 Social Choice Theory: Preferences and Property Rights

As noted earlier (1.3; 2.7), a number of concepts were set aside with the rise of Keynesian economics. The emergence of social choice theory helped to displace utility theory and property rights as the theoretical foundation for prices, demand and supply. Silencing debate around microeconomic foundations was perhaps desirable since “rational man” was increasingly known for being misogynistic and racist (as discussed in 2.7).

Thompson (2008) helps explain how traditional economics and the competitive equilibrium model combined with preferences and public choice theory and ended up influencing far right to left-leaning social scientists. People from the social sciences critiqued regulatory bodies and government experts that were seen as working for their own interests rather than the public’s. Since the 1980s, many academics from both right and left mounted an “ideological challenge to Keynesian social democracy” in a way that was “more profoundly destructive … than either monetarism or Austrian economics” (355). The attack on the Keynesian welfare-state and its elites perceived to exist in government bureaucracies was a part of the rise of social justice movements – leaving interest and identity rights groups to compete in the arena of public affairs to achieve particular claims. Thompson describes for example, how political science
became subject to the public choice theory agenda, which had, at its core, the object of cutting government expenditures, regulatory bodies and the growth of bureaucracies that were seen as all working their own interests (275). Thompson cites the Virginia School as an original source of academic support in challenging the Keynesian state and the critical political theories of the left have not questioned the foundations of public choice models (1-28).

James M. Buchanan (1988), one of the leaders in so-called political economy of social choice theory explains that it is based on real “living, choosing, economizing persons [who have] differing preferences, and if we so much as acknowledge that some aspects of life are inherently collective or social rather than purely private, the central problem for public choice jumps at us full blown” (4). Critical, communitarian and postmodern theorists that stand for the need to recognize collective or group rights can readily support the public choice model. However, with public choice, the laws of economics are applied to the analysis of government and voters and their self-interests in order to “impose severe constraints on the exercise of government authority” (10). In Power and Market: Government and the Economy, Rothbard goes further by suggesting government itself is the source of conflict in society and that all services provided to the public ought to be privatized (Stringham, 2006, x-xv).46

One of the appeals of public choice theory and the application of economic laws to political science was the aspiration to attain anarchy, to challenge the elitism of governing groups, allow democracy to truly exist, and to also respond to the group protests of the 1960s (Rozeff, 2005, 624-7; Frech III, 1973, 143-144). This means that groups from the left easily got involved in criticising government programs for serving bureaucrats’ interests or views instead of what groups in society wanted. The ascent of public choice theory boosted the role of social choice theory as both approaches rely on the economic equilibrium model.

46 It is important to note that Rothbard is known for his involvement in advancing both public choice theory and Austrian economics. For discussion of Rothbard’s support of both schools, see Frech III, (1973).
According to Sen (2011), social choice theory relies on human capabilities and freedom to do more than just egotistical work in life since people look after others’ needs and well-being. People’s achievements doing things for others are social realizations, and these are based on capabilities, says Sen (18-9). The evaluative potential of social choice theory is in its focus on “the rational basis of social judgements and public decisions in choosing between social alternatives” and this offers a procedural format to rank social states (95). Sen (1977) likes how the mathematical ideas developed by Arrow support social choice theory that he believes can overcome the problems of utility theory by focussing on groups: “between the claims of oneself and the claims of all lie the claims of a variety of groups—for example, families, friends, local communities, peer groups, and economic and social classes” (318).

Although a focus on groups’ preferences avoids the need for a “supreme alternative” as found in the contractarian theories they should not be dismissed outright says Sen (2011) for; “there might well be some less obvious connection, some relationship between the transcendental and the comparative that could make the transcendental approach the right way of proceeding to comparative assessments” (96). Sen suggests that there is dichotomy between transcendental or universal features and the final perspective that is to be found in comparative assessments. Thus, Sen’s approach fully engages Gewirth’s “adversarial conception of the relation between rights and community” described earlier, because of how comparative judgements are ultimately emotive (0.1). On the practical side of ethical concerns, it is noteworthy that Sen does not mention anything to do with the Financial Crisis and how it impacted human rights in his major work, The Idea of Justice published in 2011, after the onset of the Crisis. Sen urges the use of social choice and preference theory to help sort out philosophy of justice, political theory, welfare economics, human rights theory and so on (Sen, 2011).
Questions about how and why economic inequality affects democratic states, and how abuse of economic power by some groups could lead to fascism do not appear as a foundational concern for social choice theorists. Amartya Sen (n.d.) says that “the informational foundation of modern social choice theory relates to the basic democratic conviction that social judgments and public decisions must depend, in some transparent way, on individual preferences, broadly understood” (1-2). Human preferences provide the “informational bases of public decisions and of social judgments” (2). Sen’s model of justice is predicated on belief that preferences of the public-at-large will be able to trump any sort of negative political and economic forces affecting the form of government.

Ironically though, social choice theory is linked to a universal ideal since it ultimately relies on an equilibrium model that attempts to move beyond the Walrasian model discussed earlier (3.1). The use of social choice and equilibrium models generates methodological problems in analysing what exists or what has unfolded in the marketplace because of the reliance on preferences that are assessed, for example, using surveys, polls or social media data. Moreover, as illustrated in the analysis of the Arrow – Debreu model, the traditional property right is embedded in the theory yet is ignored. This brings us back to the reality that there is potential to turn to Pareto’s ideas on maximizing utility in society to claim to resolve ethical questions about distribution, while possibly promoting disdain for democracy discussed earlier (2.1). From a Pareto optimality perspective, democracy is bound to be subject to economic equilibrium, which can involve elites using knowledge to try to control people’s sentiments – and, people who are oppressed or harmed are then seen as deserving their experiences. This raises the question of how to deal with powerful economic elites wielding harm.

The hidden nature of property rights heightens reliance on emotivism for moral evaluation using utilitarian views or relying on market-based judgements. Emotions and
judgements may work together to delimit economic analysis about the nature of actions and power relations in society, guarded and conserved by social choice theory. There is ample evidence that ethical emotivism is involved in most economic approaches (DeMartino & McCloskey, 2016, 1). As a result, policy-makers and institutions assure that “ends are taken to be given and are not available for rational scrutiny” while individuals have to debate over values without access to a “rational social resolution of issues” (MacIntyre, 2007, 34).

Delving beyond preferences requires considerations of the ethical foundations of economics found in rights. Minsky (2008) for example, describes his foundational view of “full employment [that] is a social as well as an economic good” that is required to assure that people can engage in productive livelihoods and avoid having to depend on welfare (10). Policy efforts involving social, political and economic goals can be conflicting, but Minsky clarifies:

I tend to favor personal freedom and democratic rights; the safeguarding of so-called property rights – even if property rights lead to the narrow economic efficiency of orthodox theory – is not to my mind equal to the extension of individual liberty and the promotion of social justice. These beliefs affect my policy positions. (10)

Minsky explains how the foundational role of property rights in relation to the central equilibrating function of efficiency in orthodox economic theory transcends day-to-day economic relations. This function of property rights in economics exposes its tense and conflictual role in compromising democratic rights, and, through the use of power, demands for deregulation, and disregard for others in the shared environment that can be degraded by business rights. Minsky has no hesitation in stating his preference for democratic rights over property rights.

The need, however, for preferences in judging property rights versus democratic rights also illustrates the conflictual relation between property rights and democratic rights. Although rights are exogenous to the orthodox economic model, the theory accepts that conflicts are provoked by rights that shape reality. The division between economics and ethics, suggested for
instance by Arrow (1.3) means that the conflicts have profound effects on people that do not have to be considered by the economists. Conflicts over rights create enormous inefficiencies and harm that may not be accepted as a concern on the part of mainstream economics.

In America for example, public choice theory, as a counterpart of social choice, helped boost the political and economic role of the courts which became increasingly entrusted in matters of justice related to rights. For example, in January of 2010, the Supreme Court announced its decision in the Citizens United case that granted rights to organizations to spend unlimited funds to elect candidates: “To reach the verdict, the Court accepted the argument that corporations had the same rights to free speech as citizens” (Mayer, 2017, 280). We recall how the Arrow – Debreu model (3.1) glosses over the fundamental philosophical differences between firms and individuals as consumption and production units: It seems the approach of glossing over differences between individuals and corporations became injected into law, influencing free speech rights, the democratic political process, economic powers and the relevance of the individual human voter. The lack of distinction between an individual and a group of individuals, that shapes a corporation in social choice theory, shows how its effort to completely sidestep philosophical issues related to the human self. By ignoring “the self” and putting individuals and groups on par in a competitive market, social choice theory makes implicit assumptions that fully engage Gewirth’s adversarial conception of the relation between rights and community. The fact that many political and economic conflicts are tied to the Citizens United law underscores its embodiment of the adversarial conception, allowing elite groups to shape government decisions.47

The role for the courts in recognizing rights of corporations seems to align with the goals of ordo-liberalism but by turning to American corporate ideals of efficiency. Yet, questions

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47 For more details on Citizens United, see Balcerzak, (2018).
about the costs of corporate ideals of efficiency, such as a right to burn coal and other fossil fuels are certainly highlighted by drawing in the costs of flooding, destroyed homes, infrastructure and crop losses, and ill health due to climate change, as just one possible example.

In the European Union, orthodox economics and social choice theory could help gloss over the practical meaning of fiscal and monetary policy, and allow powerful preferences for structural reforms and austerity to be built into legal arrangements that supported lenders and punished people.

Other powerful preferences can also be seen in the dark money interests that target voters’ political views. The World Wide Web and digital social media platforms created potential for financialization and commodification of preferences, including psychological states, views and feelings. American election scandals involved manipulation of Facebook social media users by the Cambridge Analytica research and advertising ploys in order to influence voter preferences. This ploy involved the use of algorithms that skim through available online data about individuals. The data is then used to create profiles about individuals and to follow-up with manipulative advertising that has the aim of influencing election outcomes and generally muddying the public’s understanding of current events (C-SPAN, 2018). Accumulation of economic wealth and power has resulted in current conditions in which preferences are commodified, monetized and securitized: And, this raises epistemological questions about the purpose of the foundation of orthodox economics and social choice theory, drawn from Keynesian thought. If the foundation of theory becomes the object of investors’ actions and decisions, its very purpose and capacity for analysis is compromised.

The policies briefly outlined are all underscored by social choice theory, particularly in their emphasis and use of preferences and judgements to produce valuations. Over the course of

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48 For details see Cambridge Analytica Whistleblower on Facebook Data and Election Interference, C-SPAN. (2018).
the past several decades, the Keynesian philosophical foundation of the economic preferences of economic agents has itself become an object for control: The central role of preferences as a foundation for thought, means that knowledge of consumer preferences allows businesses and investors not only to make money commercially with effective advertising, but to also to shape consumer preferences. Politically, the growing concerns about fake or sensational social media posts such as in the 2016 U.S. elections and the Brexit vote, show how manipulative political and business agents can gain ever-greater political influence and control over buyers. As described in previous chapters (2.1; 2.7), the role of money in society has critical functions in the valuation of human labour, facilitating exchanges of labour, goods and services, and in the processes of accumulation of wealth.

3.5 Problems with Money and Value

The use of preferences as foundation for macroeconomics complicates philosophical analysis of the value of labour. As noted earlier (3.1) preference theory diverts attention away from thought about the nature of action to reductionist valuation of the self in making economic choices. This encourages rampant social judgement-making about people: An individual human being’s valuation in society is automatically reflected in consumer and personal investment choices that he or she makes. A person’s valuation is also gaged according to their station and status in society, in comparisons of job titles and income levels, with little philosophical thought involved. This results in dehumanization of people and presents moral and practical political and economic problems in society – especially in a historical era of extreme and growing inequality. As described earlier, forms of control over valuations are seen; in impoverished nations due to lowly valued currencies and in varieties of ordo-liberalism imposing systemic austerity (3.4). Historical evidence also shows how legal courts function to treat powerful claims more
favourably than the rights of ordinary people and this power differential is intensified through manipulation of preferences during democratic elections (3.4). These examples all demonstrate the collapsing ethical relevance of preferences and social choice theory. All these issues relate to the philosophical problem of how property rights relate to market valuations and money and how valuation and action are collapsed into choice.

The human labour that produces wealth in daily economic cycles is only considered as it is reflected in preferences and demand for money. Since the free market often rules over economic matters, the significance of government policies is diminished. In addition, monetarist and orthodox economic policies support disciplinary action via austerity to counter government spending and wage earners that are regarded as sources of disruption of market forces.

The implications of ignoring the role of money in relation to human affairs are further described by Pettifor (2017). She explains that the production and functioning of money is generally not taught in traditional economics courses (2). As a result of the exogenous character of money in orthodox economics, the private financial system gained control of abilities “to create, price and manage credit without effective supervision or regulation, … [and] to ‘manage’ global financial flows across borders…out of sight of the regulatory authorities” (11). The hand-over of regulatory powers involved “democratic and accountable public authorities [giving up] … effective control over the economy – over employment, welfare and incomes – to remote and unaccountable financial markets” (Pettifor, 2017, 11). The predictable result is the inequality of vast wealth resting in the control of the financial market managers and tycoons while ordinary people endure falling real income, or increased unemployment. When democratic governments need to deal with the economic impacts of increasing unemployment, and falling output, they need to provide increased liquidity, benefits, and transfers for social

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49 It should be noted however, that non-traditional economics courses such as are available, for example, at Leeds University in the U.K. do teach the production and functioning of money.
security. Yet this means government debts increase which automatically triggers more austerity measures in turn.

Deregulation of finance supports instability that challenges government capacity to develop fiscal policies to deal with global climate change. Moreover, “deregulation has enabled the [financial] sector to feed upon itself, to enrich its members and to detach its activities from the real economy” (Pettifor, 2017, 8).

These theoretical, historical and moral problems magnify the need to study how money relates to humans and the economy. As noted earlier, Post-Keynesians regard money as endogenous to the economy. Its functioning within the economy may be described in the following sequence:

Credit money [is] created by the banking system (including the Central Bank) in the process of loan creation; specifically, investment expenditure occurs through the provision of loans to finance the expenditure: the investment expenditure then takes place, and through further expenditures and the generation of income, savings is undertaken. At the end of the circuit, loans are largely repaid, the money created is then destroyed and savings generated equal to the initial investment expenditure. The savings which have then occurred (initially as the holding of money) have to be re-allocated between the savers and investors. (Sawyer, 2014, 8)

The new investment and production fuel activity that ideally employs people and economic developments pushes the system to a new equilibrium. Development requires new money, typically offered as loans to investors and the money then enters circulation. Therefore, bankers have a critical role and “a well-functioning financial sector is postulated to raise the growth (through more and higher quality investment)” (9).

Sawyer (2014) describes a circuit in which money flows through the economic system and allows a number of practical real-life events to happen. Within those events money is used to represent the valuations of loans, expenditures, investments, income, and savings. However, as money flows through a conceptual economic cycle it may hold different values to different agents, for example, due to specific living conditions and the relative nature of an amount of
money. So the annual value of food, clothing and shelter for a worker making $25,000 to $50,000 is worth a couple of hours of work or a pittance for a financier making $10 million per year.

The creation and destruction of money coincides with the “key-stroke” at a computer that creates a loan or asset for a borrower, and eventually destroys it with another key-stroke once the loan is paid-off. Thus, money in the economy is not simply printed by central banks as is popularly declared in news media. But the idea of central banks printing too much money is a popular ideological shaming mechanism used to blame central banks for disrupting natural market forces that would operate justly without government meddling. The ideological orthodox economic approach to money creates a blind spot for money that supports the lending and creation of money by private agents and blames public lending for problems (Pettifor, 2017, 4). This bias is visible in the central bank policies discussed above.

Orthodox economics regards money as a commodity that “can be set aside or saved, accumulated and then loaned out” (Pettifor, 2017, 17). Since money is said to have “scarcity value, they theorise as if money is subject to market forces, as if money’s ‘price’ – the rate of interest – is a consequence of the supply and demand for money” (17). The orthodox approach is problematic because in reality, money is not a commodity. Money and interest rates are in fact social constructs that ultimately rest upon credit – which in Latin is “belief” – and trust in the relationships between lenders and borrowers that create assets, liabilities and money (Pettifor, 2017, 18-19). The processing of assets and liabilities is, however, subject to potential interruptions such as the events that lead to financial crisis. Thus, it is necessary to examine the actions that construct accumulations of money.

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50 See for example, Kottasova, (2016).
Power relations in claims or property rights shape processes of valuation of assets and liabilities. The use of excess power can lead to events that destruct valuations. The power related to claims, for example, can be harnessed by “quants” or the mathematicians who work in finance and in big data to make all sorts of predictions. O’Neil (2016) describes how logarithms were involved in “categorizing people” in ways that subjected them to power relations in predatory sales of toxic mortgages that were ultimately securitized in global financial markets and set to implode the entire financial system (32-49). Mirowski (2007) identifies this phenomenon as a shift in economic thought “treating markets as diverse algorithms” that involve “zero intelligence agents” (209-11).

O’Neil (2016) describes how mathematicians got caught up in financial fraud by creating “weapons of math destruction (WMDs)”. The subprime mortgages were not WMDs, however, “the risk model attached to the mortgage-backed security was a WMD” (40-41). In other words, the complexity of the financial products has to be studied in order to gage the risks in the real-world potential for defaults on mortgages. As well, “the first false assumption was that crack mathematicians in all of these companies were crunching the numbers and ever so carefully balancing the risk …[but] as with so many WMDs, the math was directed against the consumer as a smoke screen [and] its purpose was only to optimize short-term profits for the sellers” (41). The risk was supposedly balanced with credit default swaps that are like insurance that transfers the risk of a given bond (42). But the entities holding the credit default swaps ran out of money prompting a chain reaction through the entire financial system and global economy (42). At the end of the day, “the math could multiply the horseshit, but it could not decipher it” (O’Neil, 2016, 43). Investors could employ mathematicians to develop tools and create financial instruments to insure risk – which could generate profits, to be sure, but they could and did run
out of financing. The system crashed. The moment an asset is no longer tradeable for cash when required, a credit default swap or any other sort of instrument runs out of money.

The mathematics used to create tools for investors to insure risks to make profit and to structure *accumulations* of claims, including financialized property rights, such as homes, in structured derivative funds. However, the mathematical algorithms and VaR models do not provide any sort of *analysis* of the nature or the risks in accumulation, nor the implications of financial risks for society, particularly for the way that risks may affect small investors and wage earners. Evidence in this chapter and testimony at the HORGC meetings at the height of the Crisis, confirm that there are stark limitations to economics and VaR analysis in understanding finance, particularly as it relates to the life situations of those affected.

Discussing limitations is further complicated by the fact that in the real world, ideological position taking, such as described by Greenspan, prevails at the expense of disinterested pursuit of inquiry intended to use or develop the scientific potential of economics. As a result, the prevalence of ideology directing the use of mathematics may create opportunities for abuses of power and “malignant normalities” described by R.J. Lifton (0.4).

Such abuse of power was seen in the evidence of the long-winded fall-out in the use of the algorithms, derivatives, CDOs and then foreclosure systems that targeted racial minority neighborhoods. The appeal to economic ideology based on judgements and preferences for or against specific groups of people and their rights or *claims* to wealth or property seems to be growing. Ideological orthodox economics views power relations, legal means or financial machinations that harm people who lose their claims or rights to their property as allegedly *justified by market forces*.

Different *forms of risk* exist in algorithms, big data, and other analytical means that allow securitization of risk. These forms of risk call for an extension of Kalecki’s analysis to question
how an investor’s decision-making affects the business cycle; for, risk itself is the object of
investment with securitization that supports privatization. For instance, the UK recently
privatised £1.7 billion worth of student loans to reduce government debt and to “generate value
for the taxpayer… carried out through the securitisation market” (Hale, 2017). Student loans are
treated as consumer loans and bundled into pools with differently assigned risk levels that allow
investors to make profits as the loans are paid back by students and consumers (Oyedele, 2017).
Loans that carry high risk levels offer higher interest rates; these appeal to investors seeking
higher rates of return. This packaging of loans is similar to the subprime mortgages bundled into
layered collateralized debt obligations and derivatives. The securitized products and profits are
based on the value of students’ future labour. Securitization supports investors’ claims to the
future value of labour of students that is to be used to pay back the loans. How may this affect
different students’ well-being if the value of their labour is not as high as they had hoped? As
noted earlier (3.1), ending up with such indebtedness amounts to slavery. Such matters are not a
concern of orthodox theory or for traditional equilibrium models.

Evidence shows that economics can only partially address questions about money in
financial markets. If orthodox economic thought is used, the student loans may be seen by some
ideological investors and policy makers as a means of purging rottenness from the system and
assuring that so-called high risk student borrowers face overwhelming challenges. The use of
economic mechanisms to identify and subject people to high interest charges may be debilitating,
restricting meaningful participation in the socio-economic system as most of their income is
directed to interest payments. Such punishment thus has a long-term impact and may force
people to engage in forms of money-making that they might otherwise not consider. These
effects are not illustrated within orthodox economics.
Hence, there is a need to reconsider how money and valuations of financial instruments are ultimately linked to human beings in an economy. As discussed earlier in Keynes’ work (1.3), the “wage-unit” seemed to have a foundational position, but its meaning in relation to labour could not be developed to have a practical role in the use of aggregate mathematical functions in macroeconomics. As well, Kalecki points out how the wage-unit fails to reflect technological factors and changes in real income (2.3). Hicks (1951) offered the alternative view of money values, or the labour’s earnings “deflated by the price-level of output” (11). Hicks offered a more practical foundation for Keynesians economics, by supporting dynamics with “dated quantities” and viewing “Real Consumption as a function of Real Income” (Sawyer, 1985, 11-12). The concept of wage units could not fully explain the effects on labour due to the problem of savings being greater than investment along with changes in underlying conditions that are only partly explained consequentially (12). The potential for dynamics to explain underlying conditions are restricted by lack of philosophical specification of how real-life conditions are related to human action and labour. This is due, at least in part, to the fact that Keynes does not provide a theoretical linkage between humans, labour and rights.

A post-Keynesian approach to rights is seen in Minsky’s view which exposes the prevalence of preferences and beliefs as a theoretical foundation and results in emotivism. The problem of emotivism is then played-out in cul-de-sac arguments about austerity policies, values and the environment, as discussed earlier (2.7).

Economic theories evolved such that Keynes’ wage-unit only exists as a philosophical reminder of the traditional role of wage-earners in the production process. However, in reality the wage-unit or the base amount that a unit of exerted labour may earn is vulnerable to downward pressures from many different sources. Problems related to global warming, climate change, mass migrations, and technological changes that assure increasing automation may all
serve to reduce the need for traditional full-time jobs. Keynes’s predicted that people would move towards a reduced work-week, based on the “common-sense assumption [that] income had a diminishing marginal utility – that each extra bit of income yielded a little less extra satisfaction – so that as societies became richer they would increasingly prefer more leisure to more income” (Skidelsky & Skidelsky, 2012, 20). But his prediction failed to come true for a number of reasons. The wealthy idle elites of the early 20th century are replaced with 21st century workaholic elites who set the social norms and ideals that pose wealth, power that require increasingly harried lifestyles for generating income (26-27). Competitive, comparative “positional struggles” for income relegate people to “the mouse-wheel of money-making pursuits” or otherwise face social exclusion and other forms of suffering, homelessness and even death (86-88).

The role of money is, within traditional economics detached from the value of labour. This means that the value of labour has an unclear role in economics. In particular, say Skidelsky and Skidelsky (2012), Western society has developed a “devotion to accumulation as an end in itself” which is a critical departure from the concept of money as a means to human needs and goods (78). The sheer size of the financial sector relative to the real economy, manipulation and market movements of currency values as well as the impact of monetary policies and deregulation may all function in different ways over time to increase inequality and thereby decrease the value of labour or wages of the masses of people. Sawyer (1985) explains that the problematic theoretical context created by Keynes’ use of wage-units as an analytic device created a need to focus on the financial sector and the role of money becomes all important (186). The concept of wage-units also failed to offer any sort of categorical relationship between the value of labour and the value of assets that become all-important in financial markets. As a result, there is no clear-cut reason for economists and policy-makers to ensure that agents in
financial markets are not engaged in financial activities that can increase inequality and violate rights.

Evidence shows that expert economists and policy-makers with responsibility to watch over financial markets may ultimately have to rely on their own judgements and preferences in overseeing the activities of investors. There is the example of Greenspan whose normalization of the use of ideology that is grounded in notions of the competitive self and traditional property rights begs for challenge. As noted earlier (2.7) traditional property rights tied to value as discussed by Locke holds a potential for primordial dehumanization of people who may be controlled for the purpose of creating value. Primordial tendencies in market forces are enforced by orthodox approaches that make implicit assumptions about property rights and the competitive self, without concern for democracy required in maintaining human well-being and freedom. Evidence that enforcement of traditional economic ideals supporting free market forces may be related to erosion of democracy is in the rise of fascism, totalitarianism, and racism of the early twentieth century followed by World War II. The fact that the current conditions feature extreme inequality, mounting political conflicts and threats to democracy only adds to the urgency of addressing the ongoing influence traditional property rights and confusion around the ideal of equilibrium.

The political and philosophical problems outlined in this thesis so far, magnify the need to ask how Alan Gewirth’s philosophy of human rights can be linked to economics and provide an alternative foundation to traditional property rights underlying most economic thought. We now turn to a brief outline of his philosophy.
4. Alan Gewirth’s Philosophy of Human Rights

This chapter discusses Gewirth’s philosophical theory of human rights. First, it is important to briefly take note of other contemporary philosophers’ efforts to deal with the rising power of orthodox economics in setting government agendas. As noted earlier (0.2), philosophers leaned towards communitarian or groups’ rights and postmodernist trends eschewed economic notions related to atomism, property rights that were tied to problems of inequality and racism.

4.1 Literature Review to Situate Alan Gewirth

John Rawls (2005) developed a liberal theory of social justice to help support multiculturalism and groups with rights that stem from institutions and from the economy. Deep struggles around the claims to rights and freedoms are a “conflict within the tradition of democratic thought” based on notions of the goods of the ancients (4-5). Rawls offers “justice as fairness” and the veil of ignorance to help people solve conflicts. Decisions about re-distribution must be based on the “difference principle” to benefit the worst-off members of society. This evaluation is carried out by using an index of primary goods (6).

Amartya Sen (2011) and Martha Nussbaum (2007) base their political philosophies on human capabilities to provide details about the unacceptability of the human experiences of poverty. People need rights in order to have capabilities and well-being, and to live meaningful lives. Sen analyzes different social, economic, and political factors that affect people and levels of deprivation in countries all around the world. However, Sen emphasizes that his theory of justice is based on social choice and comparisons of goods which challenges Rawls’ universal ideals that are not acceptable to people around the world who associate these with colonial history (Sen, 2011, 9).
Jürgen Habermas (2004) says reason resists the “de-naturing of the self for the sake of self-preservation [and] takes part in structuring” the social system in the struggle for “reconciliation and freedom” (398). He explains that human dignity may be seen as a moral basis for rights conflicts in which the “worth of the individual” or, potentially, their socio-economic status is the basis for claims (Habermas, 2010, 474). However, conflicting claims are not addressed in the framework.

Michael Sandel (1988) describes how the “rights-based liberal ethic” has taken hold of the procedural nature of society (57). The problem facing society, according to Sandel is that rights supersede the role of the “republican dimensions” or the role for community to be more important than individual rights.

Michael Walzer (1983) sees communitarian justice grounded in pluralistically determined spheres of meaning that people share within different cultures (5). The particular social process of a given society determines distribution of wealth. A free market system is automatic rather than dependent on human agency – and this emphasizes the need to look at how meaning is created within a society (7). In other words, for Walzer, no single person can have effect over economic forces and this affirms the irrelevance of discussing human agency of separate individuals. What counts most is how people form groups that may have more influence. A dominating power, however, may interfere either, with the functioning of the standard of value (and disrupt distribution), or with a “social good” of another sphere (10).

Charles Taylor (2004) explains that naturalism of the Enlightenment has led Western society into struggles to find meaning and order and to deal with subjectivism. Taylor suggests we study the human predicament and how we fit in nature and society “as a locus of moral sources … [that requires] we need new languages of personal resonance” (513). He says there are many problems to overcome, such as the social engineering of “reductive streams which
come from the Enlightenment [that generate] the self-serving system that aims to benefit all [and seeks to end] the restless search for improvements” for humanity (641). Views of globalization see the establishment of market democracies as the way to end conflicts everywhere (641). Reductive theories do not comprehend “wide ranges of human motivation [such as] the search for meaning, for self-affirmation, the demands of dignity and the wounds of humiliation” (642). Taylor criticizes secular society in which “common agency arises simply in and as a precipitate of common action” (96). Taylor questions what holds a secular association of people together acting as a “common agent” (96). Time holds one dimension of events “in which they stand at greater and lesser temporal distance and in relations of causality with other events of the same kind” (98).

Jack Donnelly (2007) suggests communities themselves have rights that need to be seen in terms of cultural relativity and an overlapping consensus of universality. Rights are so widely accepted around the world that there is “almost complete sovereign authority of states to implement human rights in their territories as they see fit” (283).

Nancy Fraser (2009) discusses moral balance in a world where “transnational social movements” challenge traditional views of the state as the key actor in international political culture. The Keynesian-Westphalian framework and neo-liberal theory took hold as “philosophers neglected the political dimension” (27). Using the nation-state as the main unit of analysis allowed “structural causes of injustice” manifested in “financial markets, offshore factories’ investment regimes, and governance structures of the global economy” (23). Participatory parity is a procedural alternative since it specifies a “standard by which we may evaluate the democratic legitimacy of norms” based on the deliberation, participation, and “assent of all concerned” (29). Problems to overcome include conceptual links between “democracy and justice” that can form a “vicious circle,” as critical democratic theorists presume
the “prior background condition” that is in the outcome of the “social arrangements” that would allow “participatory parity” (45). To transform the “vicious circle into a virtuous spiral” would create social changes allowing participation to reach parity over time (45). Fraser recognizes the potential for a counterfactual problem in participatory democracy and emphasizes the need for change to produce a virtuous spiral. However, participatory solutions may fall in line with social choice theory and may unintentionally allow the ongoing struggles that it seeks to overcome.

Skewing public participation and choice, wealthy groups can spend money on social media ads to shape people’s views. For example, Gilens and Page (2014) conducted an extensive study based on data reflecting 1,779 policy issues (564). The authors’ “multivariate analysis indicates that economic elites and organized groups representing business interests have substantial independent impacts on U.S. government policy, while average citizens and mass-based interest groups have little or no independent influence” (564). This evidence supports political theories on “Economic-Elite Domination and for Biased Pluralism” as opposed to traditional theories that suggest majorities influence public policy (564). Mainstream political theories rely on social choice to predict convergence of policy preferences among two main groups of citizens, arriving at a “median voter theorem” (565). In accordance with Kenneth Arrow’s social choice theory, mass public choice-making leads to “chaos” if there is not the prerequisite “unidimensional” framework (565). Social scientists have done studies using Arrow’s theory, and provide evidence suggesting the “mood” of the public is reflected in shifts in public policy fluctuating from left or right (565). However, the relevance of social choice studies suggesting the “median voter” reflects democratic choice-making is challenged if voters’ preferences are analysed in more depth to distinguish affluent voters versus low-income voters’ policy preferences (566).
The roots of elite domination theories may be traced back to Pareto and Mosca as discussed by Meisel (1962) in his work, *The Myth of the Ruling Class*. The “true need of human nature is to be deceived” and this is satisfied as elites meet their own “needs” by utilizing the legal system and recognizing the importance and “power of the democratic myth” (6, 55-7). “Equalitarianism” has been part of the democratic myth at the same time that elitism has to contend with the moral problem of the “biological fact that some men [sic] are stronger, or cleverer” than most people (6). Notions of the proletariat ushering in a classless society will never overcome the reality that from the “graveyard of aristocracies [there will always] arise phoenix-like, forever new elite formations to eternalize the cycle of domination” (10). However, Meisel notes that notions of equilibrium among groups competing for power, as suggested by Pareto’s work, may be seen as neo-idealistic and organicist (12). Notions of equilibrium seem to naturally emerge out of social choice theories that emphasise individuals’ or groups’ preferences.

The persistence of hierarchy in group relations has led Marxist analysis to combine with microeconomics and social choice methodology. *Realistic group conflict* explains individuals’ roles in society in relation to socio-psychological evidence gaged in terms of perceptions of reality (Brief et al, 2005, 830). Historical evidence of chronic inequality is the basis of *social dominance theory* that studies perceptions and beliefs in legitimizing myths used by different groups to maintain a given hierarchy (Quist & Revendez, 2002, 287). Inter-group relations are shaped by levels of “social dominance orientation” found in people in groups dominating over subordinate people kept in place with the myths used by dominators to sustain their own privileges and status (Ibid.).

Another social dominance theory combines the psychological states of individuals along with “structural factors that contribute to various forms of group-based oppression” (Sidanius et al, 2004, 846). Group-based hierarchy is sustained by discriminatory practices, ethnocentricism,
sexism, and subtle forms of oppression that people suffer day-to-day (847). Oppression suffered by poor groups includes sickness, imprisonment caused by systematic institutional practices, and unfair allocations of power and wealth of dominant groups that coordinate the use of ideology to “legitimize discrimination” (847). *Inequality of groups* happens as a result of “psychological predispositions, social identities, social context, social institutions, and cultural ideologies” all mixing together through a complex process (849). Powerful institutions such as banks and the legal system help maintain dominant groups, while human rights organizations and other agencies serving oppressed people are seen as “*hierarchy-attenuating*” (851). Social dominance theory employs microeconomic concepts to explain how “the stability of group-based hierarchy is, in part, a function of the equilibrium created by the counterbalancing effects of these hierarchy-enhancing and hierarchy-attenuating social institutions” (851). As long as *equilibrium* is sustained along with inequality, social dominance theory may provide explanation of reality. The theory appears essentially deterministic since people are subjugated to the functions of the group-based relations in the hierarchy along with equilibrium.

Equilibrium analysis may function along with inequality, social choice theory that relies on public preferences, psychological states, and moods that all contribute to emotivism, as defined by MacIntyre (0.2). Gewirth and MacIntyre had an important debate that hinged on the universality of rights and the meaning of the *Principle of Generic Consistency*. The debate involved problems in philosophical relations between people and rights that shape morality. Walters explains that “the Enlightenment moral scheme drove a wedge between is and ought, nature and morality” as it lost a functional concept the self along with the roles of purpose, function, and duty to help provide and explain meaningful life (Walters, 2003, 2-6). Ironically, “the very concept of human rights that MacIntyre derides as a ‘fiction’ has become the very ground of the virtues in Gewirth’s ethical theory” (18).
Other arguments made against Gewirth’s philosophy intersect with ideological issues in relation to foundationalism in all the sciences. Reford Bambrough (1984) argued that Gewirth’s theory brought moral philosophy too close to problems of the “foundations of knowledge” that affect the sciences (39-40). And, his Principle of Generic Consistency was too strict. Bambrough says that moral knowledge has different foundations since it implicates human experience that has to be understood as “a going concern” (Ibid.). A systematic consideration of morality does not explain the human emotions including doubt, surprise, belief, indignation, resentment, guilt or freedom, which are all involved in evaluations people carry out to deal with situations (44). It turns out Bambrough’s critique of Gewirth’s foundationalism is similar to MacIntyre’s affirmation of the prevalence of emotivism. His critique concludes by asking if there is no “supreme arithmetical principle, or a supreme principle of physics or economics or law or history, and whether if not, the lack of such a principle is fatal to the pretensions of any of these studies to be called a branch of knowledge” (51). In response to particularist and relativist protests to Gewirth’s foundationalism, chances are that his philosophy has yet to contribute to all the branches of knowledge (Bauhn, 7). As noted earlier (0.2), this thesis will explore how Gewirth’s foundation for morality relates to economics. The above arguments help to show there is a need to discuss how economics relates to knowledge itself and to ask if and how Gewirth’s epistemology can further economic inquiry.

The following brief introduction to Gewirth’s framework describes the conceptual framework required for human rights and for evaluating conflicts around rights discussed in previous chapters (1.1; 2; 3). Gewirth’s evaluative criteria will then be used in the following chapter to evaluate the research findings of this thesis.
4.2 Human Rights and Morality in Action

Alan Gewirth laid out epistemological foundations for his theory of human rights in *Reason and Morality* (1978) that is grounded in an inductive and deductive, dialectically structured argument for a supreme principle of morality, that is, the Principle of Generic Consistency (PGC) (Gewirth, 1978; Beyleveld, 1991; Per Bauhn, 2016). The supreme moral principle asserts that every person must “Act in accord with the generic rights of your recipients as well as of yourself” (Gewirth, 1996, 19).

Gewirth’s theory was widely acclaimed and a number of debates in the philosophical community received detailed responses by Gewirth and Deryck Beyleveld (1991) (Walters, 2002, 36). One of the aims of the *Community of Rights* (1996) is to address the prevalence of the “adversarial conception of the relation between community and rights” in philosophical theories (Gewirth, 1999, 2). The adversarial conception takes stock of the doctrine that “atomizes society and alienates persons from one another… [using claims that are] egoistic and antithetical to morality and community” (2). The adversarial view of the relation between rights and community has persisted even though sharp critiques of the doctrine of self-interest have proliferated since the 1700s and David Hume’s *Enquiry Concerning the Principles of Morals*. Adversarial conceptions do not, for example, recognize the difference between claims that are based on desires and rights-claims that are based on needs. As a result, confusion and political conflicts over rights persist.

In spite of chronic protest, the maxim of self-interest creates living and working conditions that have become very oppressive for many people. Economic theories must be
scrutinized to understand why and how the doctrine of self-interest has persisted since the Enlightenment, fuelling economic inequality and now threatens democracy.\(^5\)

Gewirth explains that the *conditions of possibility*, and a number of other more specific features, are logically required for human rights and provide a basis for distinguishing between needs and desires. This distinction is part of moral rights due to the conditions in justificatory arguments rooted in epistemology.\(^5\) Justificatory arguments must meet at least two conditions: First, for rights and the “oughts or duties” to be justified by an argument, they must be “categorically obligatory or normatively necessary, in that their requirement cannot be rightly evaded by any actual or prospective agents regardless” of their social, economic or institutional status or any social conventions (12). Secondly, any principle that emerges out of a justificatory argument “must be determinate in that it does not serve to justify mutually conflicting duties based on conflicting interests or different cultural or other norms” (12-13). Here Gewirth notes that this is especially important in view of the need to conciliate rights and community.

The *basis for rights*, is “at least as extensive as that of morality itself; [and it must be] necessary and inescapable for all humans as actual or prospective agents” (13). *Human action* serves as the relevant basis for morality and human rights. Such actions are *commonly shared* and *required to support morality and rights*. In fact, “all moralities or moral precepts deal, directly or indirectly,” Gewirth notes, “with the matter of human action” (13). This includes how people “ought to act, especially toward one another, whether within or outside of institutions; or, as in the case of the virtues, they tell what kind of person one ought to be” (13).

Gewirth challenges the popular notion from John Rawls that human rights have an institutional basis. For institutions are “too indeterminate [and] they do not correspond to the whole range of morality” (13). Gewirth develops a different thesis to explain the *relations*

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\(^5\) For a discussion of the role of self-interest as an underlying value in society, post Smith and Darwin, see Kauffman (2016).  
\(^5\) For analytical depth and twelve conditions for his arguments see Gewirth (1984).
between institutions and democratic and economic rights, grounded in his theory of human rights.

### 4.3 The Principle of Generic Consistency

Gewirth (1996) asserts that there are universally shared or “generic features” that must be part of human actions or potential actions. First, *voluntariness or freedom* means that people are able to “control their behavior by their unforced choice while having knowledge of relevant circumstances” (13). This describes how people have “purposiveness or intentionality” along with a reason and goal for taking action: And, it is only when one’s purposiveness can “be extended to the general conditions required for such success” that *well-being* can be called a generic feature (13). If one’s intentions at improvement are mechanistically subsumed in a context that never allows success and leads to hopelessness, involves unhealthy living or work environments, than *well-being* is compromised. Questions about freedom must be raised if a person is “driven by economic necessity to take jobs that are menial, degrading, exhausting and health-threatening and when the lack control over both the duration and the internal conditions of their work situation” (Gewirth, 1987, 137). In other words, economic inequality and suffering in poor conditions means severely diminished freedom for people.

A hierarchy of components to well-being includes,

having the essential preconditions of action [or what Gewirth calls basic well-being], such as life, physical integrity, [and] mental equilibrium. *Nonsubtractive well-being* consists in having the general abilities and conditions needed for maintaining one’s general level of purpose-fulfillment and one’s capabilities for particular actions; …*Additive well-being* consists in having the general abilities and conditions needed for increasing one’s level of purpose-fulfillment and one’s capabilities for particular actions; [such as] education, self-esteem, and opportunities for acquiring wealth and income. (Gewirth, 1996, 14)

The determination of needs versus desires for various objects in different historical conditions requires assessing if and how the objects relate to the hierarchy of components. For example, in a
society where cell phones with mobile data are increasingly critical to finding and carrying out
paid work or jobs, cell phones may be deemed a need. On the other hand, many people desiring
brand name sportswear does not make it a need. An individual must be able to purposively relate
his or her actions to conditions for success that allows additive well-being. One must be
constantly assessing how material conditions affect inner mental equilibrium, capacities and
abilities needed for action and survival. If a social and natural environment does not allow people
to undertake purposeful actions contributing to conditions for success, they suffer mental
disequilibrium.

It is out of this context required for the generic features of action that Gewirth derives the
“dialectically necessary method” (16). There is a need to hold that which is dialectically
necessary against the “relativity of agents” in terms of “what every agent logically must accept
for herself” (16). Moreover, this relativity of agents must be considered within the “whole
relevant context [which] is that of action of agency” (Gewirth, 1996, 16).

There is a dialectical connection that is essential in the “transition from ‘is’ to ‘ought’” or
in the realization of duties that are part of right-claims (16). Gewirth states that “the central point
of the argument is that rights and rights-claims arise logically and fundamentally out of the
concern of all human beings, as prospective purposive agents, that the proximate necessary
conditions of their action and generally successful action be protected” (16, italics added). If
these necessary conditions are threatened or debased, people experience mental disequilibrium
and forms of deprivation.

The method of dialectical necessity links the generic features of action to human rights
and the PGC by virtue of a series of logical steps. This method of analysis and proof provides the
clear specific terms that each individual in a community of rights must accept and bear in mind.
First, each individual employs his or her awareness of how his or her intentions and purposes
relate to outcomes. Secondly, the categorical foundation relates to the general acceptance by people, that their purpose has some sort of “good,” value or merit. Third, people must also have the awareness that their freedom and well-being is necessary. Fourthly, an individual must also have awareness that is practical and prescriptive in the sense of being able to engage in advocacy or endorsement of the conditions needed “to act and act successfully in general” (Gewirth, 1996, 17). If one has those elements of satisfaction with conditions needed for success, the individual must then logically accept that he or she has the “rights to freedom and well-being” – it is at this point that individual thought must consider the logical correlativity of his or her relations to others. This includes how one’s actions affect others, and how others’ actions affect and or may involve or require interference in one’s freedom and well-being.

The logical argument may be summed up to state that each person accepts “that he or she has rights to freedom and well-being [and] that all other agents also have these rights equally” (17). By virtue of the logical proof, Gewirth produces his supreme principle of morality in the PGC, which asserts that every person must “Act in accord with the generic rights of your recipients as well as of yourself” (19). The PGC provides the basis for philosophical development of the community of rights and is at the heart of evaluative analysis, decision-making and action-taking of all individuals.

The PGC calls for knowledge about the conditions that are required for action, in freedom and well-being. Freedom is not a singular or global concept that collapses the meaning of different experiences. It is necessary to understand how freedom relates to the objects or purposes in different human actions. Gewirth provides the concepts of “occurrent freedom” or a particular freedom, and “dispositional or long-range freedom” (46). Occurrent freedom is required for particular events of action-taking whereas dispositional freedoms affect action-taking over a longer portion of one’s lifetime. This distinction makes it possible to prioritize
freedoms that are required by people. For example, laws that restrict the occurrent freedoms of wealthy corporations in creating potentially harmful financial instruments may be justified on the grounds that both the occurrent and dispositional freedoms of people are violated.

Gewirth (1996) links the hierarchical nature of freedom to human needs first, followed by wants and other non-essential goals. The moral priority that must be given to needs is critical in challenging ideas such as Pareto optimality that may be implicitly assumed as an ideal and that is used to argue that overriding the property rights of affluent investors is inefficient. For example, a popularly held view based on Robert Nozick’s philosophy of rights, equates government taxation with “imposing forced labour” on people, which appeals to notions of concentration camps and “utter(s) an exaggeration that debases the currency of political discourse,” explains Gewirth (46). He adds that Pareto optimality is in accord with negative views of taxation that is seen as “inefficient” since it makes a “deprived group of persons better off, it makes the affluent who are taxed worse off in economic terms” (46). It is a falsehood that positive rights restrict freedom, particularly with respect to access to one’s “surplus property” that may be required to support the provision of healthcare, subsistence needs and other necessities that are required for human action and productive agency (46). Moreover, it is critical to understand that the loss of “civil peace” that happens when people are deprived of basic freedom in taking actions to meet needs must be included in discussion of economic inefficiency (46). The affluent who are taxed and gain civil peace are better off. The relations between efficiency, freedom and property rights are particularly important in situations of inequality that cause suffering and can affect the entire life-times of people.

Difficult economic conditions are often intertwined with historical contexts that include political oppression, as well as “psychological and medical problems,” and forms of suffering due to war (Gewirth, 1996, 99). All the unique historical “economic contexts have their own
special urgency in the relief of human rights” (99). To specify what human rights are required to relieve suffering, Gewirth provides the “sequence of economic biography [that depicts how people may] surmount their economic and related afflictions and move closer to equality” (99). The idea of economic biography is important in describing how people need opportunities to develop their abilities and gain capacity to keep “the main economic dimensions of freedom and well-being” (99-100).

The sequence of the economic biography provides a basis from which to develop “appropriate and justified macroeconomic policies and institutions” (Gewirth, 1996, 99). The biography encompasses “ethical and other humanistic values and virtues [and leads to development of an] ‘economic constitution’ for the state as the community of rights” (100). The sequence includes the basic needs among all people (men and women) including for example, the need for support such as childcare.

The economic biography is also conceived as part of “ethical individualism” in which human agency is rooted in the skills and knowledge that allow ongoing improvement of purposive actions, effectiveness, autonomy and capabilities (137). As a result, the individual’s economic biography is dynamic, requires productive agency and evolves over time (137). Since the concept of an economic biography integrates productive agency over time, this offers a radically different method for viewing action, than is offered by traditional economics discussed earlier (3.1).

There are differences between human action and work. Action-taking may happen for entirely personal reasons whereas work involves relationships. These relations may impinge on a worker’s action-taking which may be forced (134). This is commonly done by routine use of judgements about productivity within workplaces or in social relations that are reinforced by
functioning of the market. Describing productive agency and the economic biography must also comprehend human and social relations.

Gewirth (1996) critiques the traditional economic notion of productivity on the grounds that it is solely focused on market value of productive activity and omits the importance of “mutuality of contributions” (145). Productivity is subject to social and market judgements that can produce a range of contradictions. For instance, higher valuation of harmful products of services such as drug dealing is given than for essential care-giving. Low social valuations are given to work labelled as menial, such as most forms of manual labour, and judgements of low productivity carry insult. Insults, as is well-known, lead to conflicts. Gewirth (1996) explains that some of the problems with valuations may be solved in a community of rights that encourages “mutual protection and promotion of the freedom and well-being of all persons both as productive agents and as recipients of other persons’ productive agency” (149).

4.4 Community of Rights

The community is a central source for well-being and purposive human action. Therefore, there is a need to conciliate rights and community that are shaped by the adversarial conception of the relation between rights and community. Gewirth’s theory addresses the conflicts around rights with a philosophy of mutuality in which all people respect one another’s freedom and well-being (19). The logic that underlies mutuality is tied to the reasonableness of the PGC and the fact that no person can “evade the context of action and the moral principle of human rights entailed by it” (20). One central purpose of a community is to avoid any sort of permanent underclass of welfare dependents, either domestic or abroad that has “a permanent division between affluent agents or rescuers and poor dependent recipients” (59). Thus, with chronic inequality, it becomes imperative that agents “reject a purview that assumes a permanent class of
welfare dependents” (59). Affluent and *rescuer* agents whose own goals involve permanent division need to shift to duties to *transform* conditions of inequality to *conditions of possibility* for all.

The community has the duty of taking on responsibilities where markets fail, such as in supporting the *needs* of individuals that allow purposeful action-taking. Programs at home or abroad, must support individuals’ “acquisitions of the conditions and abilities needed for successful agency and hence a cessation of exclusive dependence on others for basic goods” (59). The community has strict duties related to the positive rights to ensure the conditions of possibility for people and assure moral rights to welfare supporting legal rights. In fact, says Gewirth (1996), “the existence of poverty is an at least prima facie violation of human rights” (108). The *state* rather than wealthy donors and charities must provide the supports needed by people living in poverty. Since *preferences* define donations and services offered by charities needs may remain unfulfilled. Services must also be reliable and non-discriminatory (59).

Charity and some types of welfare programs can turn people into passive recipients. Gewirth provides the concept of the “deprivation focus” to explain the nature of poverty in society. The deprivation focus includes both political elements related to power, and economic components related to property (110). He defines the deprivation focus to include all people who are living in conditions in where their “livelihoods are threatened by unemployment, illness, and other adversities, including feelings of hopelessness” (110). By including and specifying other adversities and feelings of hopelessness, Gewirth is pointing out that emotional and psychological well-being must be considered in studying and setting programs and policies that affect the overall political and economic conditions of possibility. Gewirth critiques Deprivation focussed programs if they try to help the poor in “developing and implementing their own sense of personal responsibility” because these may in reality, diminish or remove the dignity of the
recipients (113). Theories and policies with a deprivation focus that fail to consider the nature of human well-being can also diminish individual agency and productive agency while maintaining poverty as a permanent phenomenon in society (113-4). Policies and programs that maintain poverty use the deprivation focus in a way that objectifies people living in poverty. These conditions affect human dignity that affects mental equilibrium. In addition, deprivation focussed welfare programs and policies that create inequality undermine mutuality in a community which is essential for people to develop a sense of belonging and meaning.

Gewirth’s (1996) dialectically necessary approach involves evaluative discussion of problematic conditions. The logical necessity to “infer from the fact that certain objects are proximate necessary conditions of human action that all rational agents logically must hold or claim, at least implicitly, that they have rights to such objects” (198). All people have specific needs that are “relative to their being actual or prospective agents” (198-9). These needs must be fulfilled to allow the “necessary conditions of action” universally shared by all people (199). Thus, rights require a context that allows human beings to become purposive agents.

The rights to freedom and well-being are generic rights that are “negative rights in that the primary obligation of … other persons is to refrain from interfering with the right-holder’s freedom and well-being” (201). There are correlative obligations since people must uphold or admit that the conditions of freedom and well-being are needed by everyone. It is important to note here that the relativity in the context of agency “enables the PGC and its ensuing criterion to be categorical” (201).

The “context of agency is also necessary for morality and indeed of all practice” (201). There are some situations where the inaction of an agent, while another human is facing harm, can be seen as interference or violation with the other human’s right to well-being.
Correlative obligations relate to the fact that the causes of actions involve both “negative and positive freedom” (Gewirth, 1996, 15). With negative freedom people can take actions without being hindered by other persons. Positive freedom is about having the power to act and make choices. What follows from the complex nature of freedom, is the idea that there exist both negative and positive rights. The rights as defined by the United Nations, as noted earlier (0.2) requiring dignity and being part of humanity, are negative rights. Positive rights are needed in circumstances when people “require active assistance whereby one helps persons to have freedom and well-being” (Gewirth, 1996, 31). The link between rights and community springs out of this positivity of rights (31). Problems arise with philosophical approaches that only focus on negative rights. For example, communitarian views of rights are confined to negative rights since they lay claim to what a group (based on gender, ethnicity, colour) requires (32). The communitarian approach to rights misses the inherent mutuality of rights that upholds the duty of government to provide the positive rights, such as to welfare, healthcare or education. In other words, the logical structure of claim rights requires mutuality that is essential to the nature of community that provides the conditions for rights to well-being and freedom.

In order to deal with conflicts between rights-claims, Gewirth (1996) offers the “criterion of degrees of needfulness” for action, with precedence given to the right whose object has a higher degree of need for action (45). The consideration of degrees of necessity must also include the “range of effect of the necessary conditions on the possibility of action and what can be achieved by it” (45, n. 15). Therefore, economic action-taking in the transnational sphere, must be analysed for the range of implications on the conditions of possibility for others. This also means that corporate decision-makers have a moral duty to consider how their actions affect the environment and general economic conditions for others.
As noted earlier (0.2), Gewirth provides a foundation for *property rights* that *incorporates* the role of mutuality and degrees of needfulness. All individuals have a basic right to action, agency and *productive agency*, which is part of the generic right to well-being and freedom established by the PGC. Analysis of the problems of poverty and inequality must consider the personal as well as the historical and geographical issues relating to physical resources, “political and environmental,” to ensure that people have the necessary conditions of possibility required for productive agency (58).

The distinction between productive and unproductive action-taking and labour is “derived from the principle of human rights with its requirement of the equal and mutual protection of all persons’ needs of agency” (147). The object of productive labour “includes not only basic well-being but also nonsubtractive and additive well-being” (147). *Productive* labour first and foremost *contributes to the conditions of possibility* and supports the needs of agency for all by providing nonsubtractive things such as “food, clothing, shelter, medical care” and other goods that serve to protect life, health and safety” (147). Medical care, education, “humanist and scientific culture” are just some of the examples of additive well-being that involve productive labour. The right to productive agency allows people to receive *earned income*, which is a “species of private property” (166).

4.5 Property Rights and Inegalitarian Harm

The right to private property includes “earned income and accruing wealth” (166). The right to accruing wealth comprises “a moral claim-right … [and] legally enforceable powers or controls over external things and other objects of wealth” (166). As a result, property rights are about relations between people that may involve money and land, along with “correlative duties and other disadvantages placed on others,” by the property right holder (166). This means that
property rights have a *negative* dimension since they require the correlative duties of others to not interfere or take property without an owner’s permission. To the extent that that property rights are derived from the necessary conditions of productive agency they are also *positive* rights.

Gewirth goes beyond the work of Locke\(^53\) in a variety of important ways, especially Locke’s stipulation that “there is enough, and as good left in common for others” (Locke, Two Treatises of Government, 2.27., cited by Gewirth, 1996, 175). Property rights are not absolute for Gewirth. Property may be taxed or removed if the basic well-being of other human beings requires it. There is a necessary egalitarian structure for the principle of human rights. Social justice, says Gewirth, must inquire “how is the privacy of property rights related, if at all, to the mutuality of rights and duties required by the principle of human rights” (168).

Gewirth points out how inegalitarian harm is caused in the absence of rights to shelter by millions of homeless in America, at the same time that billions of dollars in subsidies are credited to middle class home owners when they pay interest charges on mortgages (177). The evidence of the abuse of power during the Financial Crisis emphasizes the fact that abuse of property rights has only worsened since Gewirth’s observations of policies from the 1980s.

Another methodological issue noted by Gewirth is that the Aristotelian efficient causes of property rights must be addressed in order to account for their antecedentalist justification:

This justification reflects, in the transition from productive agency to property, the consideration that persons earn income through their own work … The need for this antecedentalist justification can be further seen by asking the following interrelated questions: From where come the various goods or external things that are the objects of property rights and that are adduced by the consequentialist justification as protecting their owners’ freedom and well-being? Or to put it otherwise, how are these goods provided to fulfill the ends or purposes for which property rights exist? From what source does A derive his [or her] income and the various things he can buy with it? Does this

\(^{53}\) Problems with Locke’s concept of property are clarified by recognizing the role of slavery in the 17th century. Locke was a founder and third largest stockholder of the Royal African Company. For more details see Isenberg, N. (2016). Locke’s concept of property rights holds potential to support slavery and this highlights the moral imperative of addressing the moral justification of property rights.
source have any bearing on who should have the objects of property rights? These questions ask, in Aristotelian terms, about the efficient cause of property rights, the generating process that leads to the acquisition of such rights. (182)

Gewirth explains that vast economic inequalities cannot be explained by lack of productive agency on the part of workers. Such inequality is directly tied to limited interpretation of property rights. Instead, as noted earlier, property rights must give primary consideration for rights related to human needs before rights that are based on contribution. Gewirth provides an epistemological framework with needs that are met with a consequentialist justification and contributions that are part of antecedentalist justification. Thus, both consequential and antecedentalist justifications are part of property rights.

There is a need to recognize objections to consequential or purposive justifications for property rights, such as exist in primordialist views and the two doctrines of “self-ownership” and of “world ownership” (Gewirth, 1996, 188-198). The doctrine of self-ownership explains how an individual can have a “moral right to what results from the use of his abilities, including what he contributes to the productive process” (188). Gewirth illustrates the nature of self-ownership by pointing out problems with Rawls’ notion of the difference principle, that says actions that cause inequality are only justified if ensure the “greatest benefit to the least advantaged” (189). Gewirth explains that Rawls’ principle involves a particular primordialist view of the ultimate causation of individuals’ abilities and productive activities, since these are externally generated. That is, since one’s abilities “stem from genetic or environmental sources” that one does not control, an “antecedentalist purposive-labour justification of property rights” is rejected (190). As a result, there is an element of determinism that comes along with denial of human actions that are causal. Gewirth does not dismiss the fact that abilities and actions depend on environmental factors. The point is that both environmental and purposive, that is, both antecedental and consequential bases for rights to ownership need to be considered (191-193).
The doctrine of world-ownership argues that since “the world was originally owned in common, no one can claim exclusive ownership” due to their work or for other reasons (194). The link between the world ownership thesis and primordial claims has led people to agree with David Hume that it is necessary to reject such claims and to accept the current distribution of things (194). But primordial views point to the wars, violence, and immorality around claims to property and resources that have established the current distribution of wealth, thus highlighting how immorality has dispossessed previous owners of land and resources. The complexities of re-examining ownership issues may never be resolved. However the history of immorality in claims staked out through wars or violence leads to a need to defend the world ownership thesis using the PGC. For all humans have a claim to the goods of the world “that is temporally prior to that of any particular producer precisely because the world, with each person’s interest in its use, exists prior to any particular labour that is expended on it” (Gewirth, 1996, 195-6).

In other words, people with private property have all benefitted from the “primordial natural resources” that were collectively owned at some past time. This means that generic rights of everyone along with private rights may be respected within a mutually supportive community of rights. The relations between nature, property, and the community raise the need for a dynamic understanding of labour. The economic view of labour being combined with nature to generate a product becomes static when attached to a market determined value. The need for mutuality in a community of rights requires that productive agency involved in using resources has to consider moral obligations in leaving enough of the resources in question for others (197). In this way, the world ownership thesis is an important link to many political and environmental problems around economic inequality.

Differences in the value of labour and growing income inequality in society complicate matters. The *contribution principle* has been used to explain rewards for different sorts of work
contributed by individuals. The comparative version of the contribution principle regards the value of a person’s work as relative to another as “proportional to, how much, by their prior work, they have contributed to the total product” (204-5). At this point, the “mutuality requirement of human rights” has to be considered as people contribute to each other on the basis of respective needs as well their productive effort (205).

Exploitation of workers happens when people are not paid the value of their contribution, or in comparative terms if say, a capitalist keeps for herself more than what she has contributed compared to the contribution of a worker who was paid a lesser amount. Exploitation involves the violation of the contribution principle and fails to meet the requirement of mutuality of human rights (Gewirth, 1996, 205). Problems arise in relations to economic measurements of contribution that are equated to the dollar amount or the price that is paid to a person without analysis of the actual work that is done.

The dilemma of valuation of work and the contribution principle pose “familiar conceptual, empirical, and moral difficulties” related to productivity, the notion of one’s marginal product, in addition to valuation of prior contributions. In addition, a capitalist society remunerates workers the opposite of the contribution principle. For example, persons who do difficult physical labour are paid proportionally less than people who actually contribute much less or nothing at all (208-9). The “entrepreneurs, managers and capitalists,” says Gewirth, must have their distinctive work and specialized roles evaluated in terms of the contribution principle, although “the size of the share is still left indeterminate” (210).

The Marxist interpretation that capitalist ownership of the means of production does not itself contribute anything fails to recognize how the act of providing capital is productive if it leads to the production of goods. A justification has to be considered in terms of both the antecedentalist and consequentialist dimensions. The antecedents that comprise the efficient
cause involve questions about how the capitalist got his accumulated savings and invested in productive business. The consequentialist elements include analysis of the contribution to society: For instance, if an investor contributes to “a society marked by vast inequalities of wealth and resultant severe suffering and violation of rights of millions of persons, then this strongly limits the extent to which the antecedentalist justification through the capitalist’s contribution can residually justify the distribution of property rights” (212-13). In this situation, the distributive consequences of investments that lead to extreme inequality calls for a search for an alternative antecedentalist basis for investment that avoids the “deleterious consequences for the human rights to freedom and well-being” (213).

Harmful use of property rights results when there is no mutuality and regard for the well-being and freedom of others. “Negative externalities like air pollution” for example, “unsafe work conditions and dangerous auto driving” are the outcome of harmful use of property rights (Gewirth, 1996, 176). What is exposed in the “harmful use” of rights – and what is of utmost importance is the recognition that property rights involve relations of power. Violations of human rights due to the consequences of capitalist investments call for state interventions to ward off inequalities and fulfill the rights to freedom and well-being. Property rights and inequality involve arguments about how to deal with adverse economic conditions, which brings us to the heart of the problem of class conflict in society.

The philosophers of the 19th century including Rousseau, J.S. Mill and Marx, all made arguments to denounce the immorality of inequity of wealth that allows some individuals to maintain control over the well-being and freedom of others. For, when people suffer insecurity and poverty to the point that they need to repeatedly exchange their own efforts, time and labour under substandard, harsh or strict conditions, for a poor standard of living, the labourer experiences loss of freedom, well-being and a surrender of productive agency – as in the 1800s.
Gewirth’s *Community of Rights* offers a wealth of criteria by which to evaluate the economic problems and human actions that have once again created harmful levels of social inequality.

**4.6 Economic and Political Democracy**

Gewirth’s community of rights envisions government institutions such as central banks that understand the importance of responsibilities in caring for others. Public institutions concerned about healthcare, welfare, education, and business development, for example, are all based on comprehension of the sequence of economic biography. Then, from appropriate descriptions and legislated reasons developed to justify the purpose fulfilment of any given institution, it is necessary to clarify the sorts of duties and positive rights held by institutions. The foundation of the economic biography also needs to be worked into evaluative criteria by which to assess any particular institution: “Democratic institutions to be viable must show that they can cope with such [mandatory] needs in ways that are both just and effective” (Gewirth, 1996, 357).

The economic biography is accompanied by the *economic constitution* derived from the community of rights that supports development of three phases including, “first, the development of abilities of productive agency for all persons; second, their acquisition of private property in the earning of income; third, the assurance of paid employment for all” (257). This systematic description helps address the difficulties of conceiving of a mixed economy given the powerful ideological influence of capitalism and orthodox economics that emphasize the supremacy of investors’ interests. Each of these phases affects market relations. The state must provide welfare, education, and a legal structure and ensure that people have employment opportunities, all to ensure the “equal rights to freedom and well-being” of all persons in an economic democracy that includes a capitalist market-system (257).
The three levels of well-being noted above (4.4) – the basic, additive, and non-subtractive – are all impacted by the larger economic arrangements and whether the context for human activities allows people to be productive. Workers are especially affected by capitalist forms of control that can result in workplaces or situations where people endure “constant fears” of being unable to maintain a reasonable standard of living. Workers subjected to job insecurity, exploitation or “degrading or excessively debilitating work conditions including ‘meaningless’ work” are affected at the level of non-subtractive well-being (278). An economic system that prevents people from improving their standard of living in terms of income, conditions of work, and self-development, impacts people’s additive well-being. There are questions of economic efficiency that need to be asked for each of these three levels of well-being (Gewirth, 1996, 279). In other words, the loss of workers’ well-being at each of the three levels affects the bottom line for workplaces, financially and in terms of lost output, creativity, and knowledge as well as the overall conditions of possibility.

An economic democracy can coexist with a capitalist system that allocates certain resources. However, an economic democracy helps deal with the workers’ loss of agency and productive agency by allowing cooperative workplaces or worker owned businesses. People living in an economic democracy also address violations of rights in workplaces that lack mutuality due to authoritarian rule, disrespect of workers’ needs, including rights to agency and productive agency, along with discriminatory or exploitative practices that result in harm. Ultimately, people also need to assess how businesses relate to one another and to society-at-large. The right to economic democracy has as its direct object “a collective good, a system of organizing economic production and distribution” that ensures the well-being of individual workers (314).
Generally speaking, says Gewirth (1996), political democracy is justified because it is a political expression of the equal right to freedom for all persons” (314). Political democracy comprises the legal and institutional structures that provide for the measures such as education and healthcare, required by an economic constitution and for justice rooted in the morality understood in the principle human rights (311). Welfare programs are also provided by a political democracy to help people gain well-being if they require help or are unable to secure it by their own agency (312). This is a problem for capitalist societies such as America that allow “severe economic deprivation and misery, and thus violations of human rights” (312). The direct object of a political democracy is “an institutional procedure for determining the possession and exercise of political authority” (314). The system supports the mutuality required in fulfilling obligations to allow everyone to take actions and express views, contributing to the community, but without coercing or harming others (314-5). Through such freedom of activities, individuals may watch over the state and limit its actions (315). The right to political democracy involves civil liberties and “is an application of the PGC’s right to freedom” (315). As a result, each person is to be “left free to engage in any action or transaction according to his unforced choice so long as he does not coerce or harm other persons” (315). Gewirth’s (1996) conceptual framework for economic and political democracy creates an encompassing relation to the rights to well-being that people work together to support.

Conflicts can arise out of the “relation between freedom and well-being” (319). The political rights to freedom involve the procedural goods of action that are required in a democracy. The economic rights to well-being involve the “substantive necessary goods of action” (319). Individuals can create conflicts by neglecting to consider how their decisions relate to the PGC. People can make decisions that result in self-harm, or they may ignore how the well-being and freedom of others may be affected. In contrast, in the community of rights the
political and economic rights are interdependent; the conflicts can be overcome because of the shared rational justification for both freedom and well-being (319). As a result, people become engaged in rational consent of human rights and for the “social institutions of the community of rights” (Gewirth, 1996, 319).

4.7. Gewirth’s Separatist Thesis

An important supportive feature of social institutions lies with the professionals that uphold a range of values and principles and ensure the level of integrity that is required for an economic and political democracy. A professional delivers “valued services to other persons” by virtue of his or her expertise and the relations that link means and ends within a given institution or workplace setting. Gewirth (1986) explains that there is a need for The Separatist Thesis in order to explain how professionals, “by virtue of their expertise and their consequent roles, have rights and duties that are unique to themselves and that may hence be not only different from, but even contrary to, the rights and duties that are found in other segments of morality” (282). Professionals may not be able to deliver their expert services if they lack the “special moral conditions” that allow them certain privileges, including, the potential to “justifiably infringe certain of the moral rights of [their] clients or of other persons” (282). Professionals may need to lie, misinform, or withhold information in order to carry out or provide their particular expertise services. In such situations the “normal conditions of moral justification” are lacking, yet the actions may be justified because of the value of the service provided (282). These situations are part of allowing for professional autonomy rather than having institutional totalitarianism in which one’s every move is subject to judgement according to monolithic universal standards (284).
The significance of professional autonomy highlights the importance of their need to learn the three criterion to deal with conflicts between moral rights along with the “rational criteria that the PGC provides for the justified infringement of moral rights” especially when there are conflicting moral rights (Gewirth, 1986, 289). One criterion is in prevention of violations of moral rights. The second criterion is “the justified infringement of moral rights is the degrees of necessity for action” (289). This is to acknowledge that a person may need to steal to avoid having his or her family starve, and that such a claim to property to assure the rights to life for the family, takes priority over others’ rights. The third criterion is found in the ethics derived from the “rules of an institution” (290). Institutions can become morally wrong so the rules of institutions are never adequate in providing criterion for ethics. Professionals and citizenry need to take responsibility and gain knowledge about what institutions are doing.

Due to the pivotal role of the PGC, professionals have to take actions and make decisions that integrate duties and obligations. Correlative with their own generic rights “are duties to refrain from interfering with persons’ freedom and well-being and also, where needed, duties to assist persons to have various component of freedom or well-being” (Gewirth, 1986, 288). Professionals also need to understand the political and economic complexities that relate to human agency so that policies avoid subjecting people to domination and harm, since for Gewirth, human “agency is both the metaphysical and the moral basis of human dignity and human rights” (288).

Institutions run by professionals and corporate administrators need to assure that their institutions are not morally wrong. For instance, Nazi institutions that based their judgements of people on genetics, religion, or social class were all morally wrong. Institutions must be morally justified in order to be able to justify rights (290-1). Morally justified institutions have to meet a second level of criterion, also related to the PGC: First, the procedural criterion requires that
everyone who is subject to an institution’s reach must be freely consenting; and, secondly, the instrumental criterion requires that institutions are safe-guarding and promoting the well-being of everyone subject to the decisions of an institution (291).

There are specific circumstances in which justified infringement of moral rights may be necessary. The criterion for infringement of others’ rights by professionals’ decisions involves “direct and indirect” applications. The direct applications relate to particular actions, such as professionals acting in accordance with recipients’ generic rights (291). Indirect applications involve the rules of institutions as they relate to particular actions, conforming “to the PGC procedurally or instrumentally” (292). Gewirth uses the example of a criminal court being justified in sentencing criminals and depriving them of their “freedom and well-being” (293). This example of a direct application is not absolute since professionals have obligations in accordance with the PGC to be expanding their knowledge and understanding of how conditions affect people and criminal behaviour. So for example, today, empirical evidence is used in the Netherlands to avoid putting people in prisons since the loss of freedom and personal agency resulting from incarceration, was proven to be ineffective in dealing with the actual causes behind different types of criminal behaviour (Ash, 2016). Instead, people found responsible for crimes are individually assessed to see if antecedental issues and causes for desperate or criminal behaviour can be addressed. As a result of new court procedures and rules, the prisoner population has shrunk “from 20,463 in 2006 to 10,102 in 2016” (Smith, 2018).

The example of judges and sentencing exposes competing and potentially conflicting moral rights, says Gewirth (1986):

One is the right based on a morally justified role in a profession or other institution, deriving from the general ends or values it serves. The other is the right based on rational morality in its direct applications, with its requirement that the generic rights of all persons be equally respected. (294)
A third level of institutional justification is needed in order to justify the infringement of moral rights. This level of justification requires that the aforementioned first two levels be met, in that “the institutional right must derive from an institution, and the institution must be morally justified” (Gewirth, 1986, 294). At the third level, the “institution’s operation must itself also conform to the rights conditions of the PGC” (294). This means that institution’s “specific mode of operation … conforms to the rights conditions of the PGC through [the] internal instrumentalism” of the institution in question (296). A criminal court, for example, must avoid cruel punishments.

All public and legal institutions are subject to this “condition of internal instrumentalism” (296). This means that the criterion of degrees of necessity must be applied and assure that the public interest is served – so that property rights to excess material wealth for the few do not override the moral rights of people to food (296). If an institution lacks internal instrumentalism, then this means that its actions or its “modes of operation diverge from the PGC in ways that cannot be justified” (296).

Gewirth (1986) describes that an adversarial legal system can lead to lawyers engaging in egoistic lying to advance their clients’ interests that conflict with the opponents’ rights. The opponent can be an individual or the public-at-large (297). This sort of adversarial legal system requires change, regardless of any arguments about how the system is based on constitutional laws or traditions.

Moreover, in situations where professionals, including lawyers, legislators and economists, “ignore the positive rights of disadvantaged persons” who may lack the means to deal with legal conflicts, the PGC and moral rights are being violated by those professionals (300). The separatist thesis may not be invoked to excuse professionals working within institutions with modes of operation that disrespect the moral rights of people (300).
Gewirth’s threefold criteria are important in evaluating political and economic theories and their use. The theories get used by professional groups, academics and government institutions, and, as such become subject to a range of traditional norms that tend to restrict how professionals think and act. However, to the extent that such rules and the actions of professionals – including financiers and economists – affect the freedom and well-being of human beings, there is a moral imperative to assess theoretical concepts. The ineffectiveness of theory is bound to impede the actions undertaken to meet the mandatory needs.

If professionals in institutions are not carrying out the positive right in accordance with the duties of the indirect application of the PGC, this may be a sign that democracy is threatened and that people are being harmed. The failure of public policy to serve the needs of society – as seen for example, during the Financial Crisis as many people needlessly lost their homes while most of the large financial institutions were bailed out, raises the spectre of failed or fallible theory and ideology as openly discussed by leaders HORCG (2012) meetings. Examining the discussions of financial leaders, noting events and power relations, and assessing some of the reports on harm caused by the Financial Crisis, helps us specify the problems in the role of ideology in fuelling conflicts.

Political and economic theory that mixes into people’s lives in society can become a sort of social construction or ideology instead of a theoretical or philosophical issue subject to genuine debate. According to Geertz (1973), the problem of how to define the demarcation between ideology and science has been the “Sphinx’s Riddle of modern sociological thought and the rust-less weapon of its enemies” (194). To study ideology is fundamentally, to be concerned with the “causes of intellectual error” (197).

Gewirth would agree with Geertz’s concern with ideology emerging out of failed theory. Gewirth’s (1965) view of political philosophy is that it must be a perennial enterprise for
professionals, students and citizens who want to understand the dangers of power relations and conflicts that are related to claim-rights. There is a need for people to be continually engaged in attempts to better explain reality since policies based on static theory may fail: So perennial philosophical analysis needs to consider how teleological, utilitarian, and deontological criteria are interrelated in complex ways to shape an evolving political and economic reality (1-30). The constant risk of ideology means that there is a need to continually work on both the antecedentalist and consequentialist justificatory bases for action-taking and policies based on political or economic theory. The next chapter engages in this task.
5. Economics and Human Rights: An Evaluation

The aim of this chapter is to apply Gewirth’s philosophical criterion to evaluate the research findings of the thesis. Evidence can be evaluated to gain insight on the nature of decisions, actions, objectives and the effects of actions. Concepts used for evaluation include, the Principle of Generic Consistency (PGC), the consequentialist and antecedentalist justifications for action-taking and property rights, the degrees of necessity, the generic rights to freedom and well-being. As well, Gewirth’s discussion of professional ethics and their special status in being positioned to affect the rights of others also needs to be considered. As noted above (4.7), the concept of direct application of the PGC is required to assess if professionals, including policy-makers and investors, are acting in accordance with recipients’ generic rights to freedom and well-being. The indirect application of the PGC is needed to assess if the rules of institutions conform to the PGC, procedurally and instrumentally. The indirect application is required to evaluate if institutions are moral by assuring they do not violate the right to freedom and well-being of people affected by the institution’s functions and purpose. It is also necessary to ask if the rules of an institution provide ethical decisions and actions. An evaluation must consider if all the people who are subject to an institution’s decisions and actions, are freely consenting to that institution. Gewirth also provides the condition of internal instrumentalism which based on analysis of the degrees of necessity. Specific attention must be given to property rights and material wealth to make sure that they do not override others’ basic rights to food and shelter.

The first section evaluates historical evidence gathered for the thesis (1.1), allowing a philosophical analysis of the problem of inequality. The second section evaluates the research findings on theoretical approaches discussed in regards to economic cycles and conflicts. The third section evaluates the evidence provided on the use of economics in policy-making (3.2; 3.3). The fourth section (5.4) evaluates theoretical approaches that have attempted to deal with
foundational problems and shortcomings of orthodox economics (2; 3). The evaluations provide analysis of ethical and methodological problems related to orthodox economics in relation to analysis of disequilibrium, property rights, inequality and the future of democracy. The evaluations reveal how the use of theories that endorse or presume the adversarial conception of the relation between rights and community results in confusion and supports ongoing conflicts over rights. As a result, it is necessary to also question if institutions such as rating agencies and central banks are morally responsible for mounting inequality and rights violations that fuel conflicts.

5.1 Evaluation of Historical Evidence

The evaluation of historical evidence considers the problems related to property rights, inequality, and democracy considered over the course of the previous chapters. The historical background provided earlier (1.1) describes how the Financial Crisis (2007-2009) triggered by a real estate bubble in the United States managed by investors using a range of complex financial instruments led to widespread harm, especially given the way they were traded around the world, exposing financial and economic problems that had been building-up in different countries..

Property rights related to mortgages for homes were at first involved in the risks of over speculation that can accompany rising market prices of a sought after good, such as real estate in America, especially in the decade leading up to the Financial Crisis. It is well-known that people work towards home ownership as a means of having necessary security for a family, and for accumulating wealth that may be dearly needed for income support in the retirement years of ones’ economic biography. Investigation of the nature of the property rights (1.1) reveals how homeowners were often unaware of the vulnerabilities and exposure to financial market risks built into the mortgages that were sold by predatory lenders. The evidence gathered also reveals
how the lenders and financial players redistributed the toxic mortgage arrangements in multi-layered derivative instruments that could then be sold in financial markets, passing-on the risk to other players and institutions.

Gewirth’s use of the efficient cause or generating process that results in acquired property or claim rights is important to evaluating human relations tied to property rights. Government’s failure to monitor financial markets was the result of deregulation that allowed development of toxic derivatives to exist in the first place. Deregulation was essential in supporting the generating process that allowed investors to initiate, produce, and trade toxic financial products. The generating process ultimately relied on the use and abuse of other persons’ property rights to homes and shelter. Analysis of the antecedents or conditions that allowed the generating process shows how capitalists got their accumulated savings and invested in financial markets. Predatory sales of mortgages to people who could not afford certain homes or others who were unaware of unclear written clauses involved violations of the PGC. Actions involved in deliberately targeting of neighbourhoods according persons’ social status denoted by skin colour, low-income or sex also involve absolute violations of the PGC. The effects of the actions also violated individuals’ claims to their home and human rights to conditions of possibility. Perhaps the most egregious violation of the PGC involved the development of the foreclosure machine that systematically produced notices to foreclose on the homes of elderly people who had reverse mortgages.

There are consequentialist elements included in analysis of investors’ contributions to society to determine if they have resulted in “vast inequalities of wealth and …severe suffering and violation of rights of millions of persons” which affects the antecedentalist justification of the distribution of wealth and property rights (Gewirth, 1996, 212-13). The actions taken by investors and financial players on behalf of institutions cannot be seen as productive labour,
given all the consequential violations of human rights and widespread suffering, economic costs imposed on taxpayers, along with the resulting unfair distribution of property rights. Furthermore, these actions did nothing to contribute to the healthy growth of the economy.

There are important antecedentalist conditions that are dismissed and ignored by investors and government institutions responsible for oversight and deregulation. Antecedentalist factors need to involve consideration of the degrees of needfulness related to the morality of action-taking by homeowners and agents engaged in profit-making and the production of financial instruments. Investors’ lack of concern for the implications of their investment decision-making with blatant violations of the Principle of Generic Consistency reflects cruelty and attachment to racist views as part of so-called “business” competition. Investors’ actions targeting minority communities using algorithms demonstrates disregard for risks of bearing the pain of self-contradiction. As noted earlier (0.2; 4.2), the PGC includes the rational understanding that violating another person’s rights results in pain of self-contradiction. The consequentialist features of the investors’ actions are blatantly displayed in systemic poverty and in the suffering and increased dependence in people who are deprived of their rights to shelter, as well as in the huge rewards to financial players and investors who were able to profit from the generating process.

The problem of the “deprivation focus” must be raised in order to better understand what happens to a culture if people are forced over decades to endure poverty and dependency on their community for survival. As noted above (4.7), the chronic existence of charity and a culture that is constantly using the deprivation focus magnifies the depth of moral problems. Chronic poverty as a subject of academic analysis may unintentionally further support the deprivation focus since students may invest in professions that assist poor people without necessarily ensuring that the conditions of possibility required for actually preventing poverty are addressed. Visible
homelessness encourages the need for charity. Large and widespread events to raise funds for charity can become opportunities for social prestige to help poor people. The phenomenon of children being taught that their volunteerism is of importance to “poor people,” for example, neglects the consideration of the humiliation in loss of dignity to persons requiring help. To the extent that dignity supports productive agency the unintended harm caused by insult is compounded. Children involved in volunteerism that stems out of the deprivation focus, may acquire false self-importance in believing that they are rescuers, helping “the poor” as an objectified group. Children may lack capacity to understand the implications of taking on the role of an affluent rescuer supporting systemic violations of rights to freedom and well-being of others. Other examples include the proliferation of wealthy fundraising dinners, balls, and other such events “justified” on the basis of helping “the poor,” or other identifiable groups of people suffering from shortcomings of government services. The phenomenon of a culture that uses the deprivation focus to justify activities helps explain socially constructed class views of entitlement and further detailed discrimination against the deserving and non-deserving impoverished people of society. The evolution of culture around chronic poverty, at home and abroad, indicates that both political and economic elements of the deprivation focus are supporting wealth for some persons and failing to provide conditions of possibility for many other groups of people. Therefore, the problems of political power, policies and economic property rights that are the subject of the deprivation focus need to be addressed.

The description of the Financial Crisis exposes how government policy-making such as with the Troubled Asset Relief Program (TARP) initiatives to help homeowners avoid losing their property rights and shelters were subject to manipulation based on inegalitarian harm. This was evident for example, with the foreclosure machines that once again targeted neighborhoods using algorithms, not to provide assistance but to redirect the assistance to the coffers of
privately run institutions. Such deliberate violations of the PGC and moral rights of others underscore the depravity that accompanies the use of traditional property rights, allowing people to use power and privilege to worsen living conditions for people losing their homes and increase inequality in society. The action-taking that directed and supported the foreclosure machines discussed earlier (1.1) also exposes profiteering by professional investors who violated the basic correlative duty in property rights, to refrain from interfering with the rights of others.

Powerful special interest group funding can influence views related to property rights and policy-making by shaping public views to be against the government’s duties to provide positive rights to people in distress. For example, as noted earlier (1.1) wealthy individuals gave money to media personalities to shape public opinion against TARP by boosting the notion that poor people caused the Financial Crisis. The scapegoating efforts undermined the government policies intended to ensure positive rights for people facing foreclosure, resulting in cruel denial of the moral rights of the people who had the highest degrees of need. In contrast, the big institutions received close to $17 trillion in bailout money in America. The government’s skewed response supporting the property rights of the wealthiest by bailing out the largest institutions likely saved the world economy from systemic collapse however; actions that denied help to people facing foreclosure prolonged the crisis in the real economy and assured ongoing extreme inequality.

A more complete evaluation of the impact of the TARP’s private funding managers that restricted access to bailout money to homeowners would require analysis of how the denial of their rights affected their economic biographies. It is also necessary to consider the impact of lost shelter on the lives and economic biographies of the children of parents who lost property rights to homes. For, the loss of the necessary conditions of possibility impinges upon the productive agency of parents as they are forced into involuntary preoccupation with finding and ensuring means of survival which is required for non-subtractive well-being. Having assured access to
physical needs for day-to-day life is essential for mental equilibrium and development of capabilities required for purposeful action-taking and success in pursuing additive well-being such as income generating activities. Economic set-backs for victims of the investors’ profiteering also mean that the victims’ children are deprived of additive well-being that is necessary for self-development and success in school. All of these costs imposed on the economic biographies of people experiencing economic setbacks would need to be added up to better comprehend the macroeconomic inefficiencies and costs imposed on society by investments targeting specific groups. The loss of well-being affecting the economic biographies of millions of people also impacts political democracy in a number of ways. The problems of people being forced into daily struggles related to poverty and deprivation of the conditions of possibility means that their lives and economic biographies are redirected to focus on the range of problems related to their own diminishing well-being and their subjectivity to the conditions of life and nature. These matters do not register in any way in orthodox or Keynesian economics since needs are collapsed into wants.

The historical evidence showed how derivative instruments or particular claims in financial markets were used in ways that organized, redistributed, and subjugated the claims to homes or property rights of citizens to abuse of power. Problems were initially handled by passing the Dodd Frank Act and establishing the Consumer Financial Protection Bureau (CFPB), as described earlier (1.1). However, the rules and objectives supporting consumer complaints through the CFPB were eroded with the governance shifts towards supporting free market forces rather than consumers. Deliberate actions to shift institutional focus to supporting competitive action-taking related to property rights emphasizes how these ideological views can be used to overpower a morally-based institution and derail its purpose to prevent exploitative use of claims against consumers such as happened during the Financial Crisis. These abuses of property rights
and their vulnerability to ideological interpretation which supports further abuse of power, highlights Gewirth’s (1987, 1996) prescient discussions and concerns about how laws such as legal rights that are not based on moral rights lead to confusion and potentially dangerous situations. The changes imposed on the CFPB which started as a morally based institution illustrates how ideology can be used to corrupt democratic institutions. The persistence of traditional property rights in common law and influencing laws and decision-making by policymakers, government institutions and courts highlights the potential for neglect of duties within institutions to deal with the immorality in traditional views of rights. Gewirth provides an alternative approach to property rights that allows a moral basis for decision-making using the PGC and both antecedentialist and consequentialist justifications. In addition, Gewirth’s conception requires distinguishing between claims that are based on desires and claims that are based on needs.

The historical evidence also describes how the accumulation of particular claims to wealth in financial markets caused widespread harm during the Depression and again during the 2007 – 2009 Financial Crisis. This underscores how the repetition of the use of claims as a means of abusing power must be addressed by economists and governing institutions.

Finally, empirical evidence that shows how powerful interests can work to override or manipulate preferences that determine policies or political behaviour and voting (1.1; 4.1) requires evaluation. The emboldened quests to influence or control decisions of others and government policies also involve stark violations of the PGC. This is due to the fact that the voluntariness of actions undertaken by people is undermined. People who manipulate others to make a decisions that they might otherwise not make, do so in order to exercise or gain power over economic and political conditions. Action-taking that is specifically intended to deepen a powerful agent’s grip over societal conditions by controlling the most basic rights and actions of
citizens in democracies, marks profound endangerment of the rights to political democracy, freedom and well-being to everyone. Deliberate manipulation of citizens’ preferences also raises the question of consent of the people to the effects of government institutions’ actions and policies based on orthodox theory.

We turn to an evaluation of the theoretical evidence to evaluate the political and economic theoretical approaches that were unable to prevent the abuses of property rights by supporting government’s lack of oversight in the deregulation of financial markets.

5.2 Evaluation of Theoretical Evidence

The literature reviews presented in previous chapters (2.1; 3) reveal that property rights do not appear to be a major concern in economics. As discussed earlier, traditional economic approaches may rely on the Coase theorem (1960) that says conflicts over property rights are exogenous to the equilibrium model until the conflict is resolved or a right becomes legally protected (0.1; 2.7). There is philosophical indeterminacy involved as rights may also be simply ignored or implicit conflicting assumptions can be made in different approaches. This indeterminacy means that different professionals may have different views of rights given changing political circumstances. So for instance, it can imagined that with the spreading fears around nationalistic economic policy making, trends may change as people are influenced by more traditional and potentially racist views of rights and conflicts over resources.

The indeterminacy around rights has implications for the way in which economic theory shapes policies and a social reality filled with conflicts over property rights that have to be resolved by courts’ legal decisions or the operation of free market forces. As is well-known, the operation of the free market may involve abuse of power, especially if institutions rely on traditional rights and do not protect human rights and democracy. Historical evidence indicates
that the most powerful players seem to win many conflicts such as between corporations and pensioners.

The discussion of Keynes’ macroeconomic foundations (1.3) offers no evidence of concern for the nature of property rights. Keynes’ theoretical wage-units are not defined in terms of any philosophical link to nature such as in a discussion of basic human needs. Moreover, Keynes’ wage-units were not tied to loose discussions, but no firm idea akin to Gewirth’s antecedental concept of conditions of possibility required for productive agency. Instead, Keynes assumed that labour unions would be involved in helping to set wage-units. Negotiations between unions and big business owners raise the matter of power relations and conflicts between agents and groups. Without any specification of the needs and rights of wage earners, wage units are readily subject to the adversarial conception of the relation between rights and society. Keynes’ original macroeconomics recognized how an imbalance between savings and investment could reflect the tendencies for investors’ actions to cause problems in the economy as a whole. Keynesian fiscal spending was intended to recalibrate matters related to savings, investment and maintain employment levels. In this respect, macroeconomics could hold some potential to include to Gewirth’s conditions of possibility required for rights to productive agency and well-being, if these concepts could somehow be linked to the necessary antecedents for action-taking that comprises day-to-day life and work. However, Keynes did not include discussions of the vital links between property rights and human rights to productive agency and political democracy. Instead, Keynes included a framework that ties into the market equilibrium model, leaving economics vulnerable to philosophical indeterminacy and subjugation to business interests. As a result, the concepts of Pareto efficiency with unbridled competition may function as implicitly assumed standards for evaluations within some economic models, which only further subjugate wage-units or the standing of labour if implemented as policy.
Defenders of the microeconomic and Austrian model, such as Hayek, believed there were problems with Keynesian macroeconomics. Hayek promoted the “proper conditions” as a foundation for economics. Yet proper, competitive market conditions or conditions set by rules as with the Austrian school may have nothing to do with reality wherein people need conditions of possibility to be prospective agents using productive agency, as discussed by Gewirth. The proper conditions and the atomistic agent related to equilibrium create the “pure action” of microeconomics. There is no link to human rights to freedom and well-being and political democracy required by members of a community. As a result, traditional economics relies on the belief that the equilibrium market forces ought to make social adjustments, with flexibility on the workers in accepting lower wages as a critical part of adjustments. Hayek believed that the spontaneity of equilibrium forces would serve as a guide for all of society and any harmful effects would be due to external problems. As noted by Gewirth, the atomistic self is at the centre of this model which supports the adversarial conception of the relation between rights and community. Concern for the PGC does not happen within the market model.

Hayek also writes about historical cycles (3.3) explaining that his methodology sees the determining conditions as well as human needs and actions as external to his model. He considers the focus on the dynamics of prices as misdirected since inflation and deflation are more important to cycles. Hayek’s methodology to explain cycles sidesteps anything to do with the degrees of need, human rights and any concept of the economic biography. Hayek’s theory is in sync with economic approaches that assume real-life conditions and conflicts are exogenous. Economic methodology that treats real-life conditions as exogenous, deliberately exclude consideration of the antecedentalist dimension and justification for actions, decisions and claim rights. The exclusion of the antecedentalist justification leads to violations of basic rights to freedom and well-being in the conditions of possibility.
A number of important economists were struggling to explain oscillations and economic cycles through time since Keynes’ macroeconomic model did not adequately explain the dynamics leading to business cycles and historical long waves. Schumpeter, Kondratieff, and Kuznets followed in the tradition of Marx in trying to explain historical forces, or how historical events are tied to economics (3.2). These ground breaking approaches all use empirical historical evidence to try to explain how events are affecting societies. The authors emphasize the generating processes, discussed by Gewirth, that result in inequality in distribution of wealth (2.5). These approaches can partly account for the antecedents that explain current conditions. However, analytical reliance on the generating process may lack capacity to specify how policies and actions may end up causing conflicts. For instance, a generating process such as described by Schumpeter in “creative destruction” is unable to produce understanding of conditions of possibility to allow purposeful actions that are part of the right to productive agency. The emphasis on the generating cause that is seen as part of patterns in history involve the primordial view of the self in relation to events, as discussed earlier (4.5). As a result, people may be treated as inevitably subject to broader events shaped for instance, by powerful investors or egoistic political leaders. Thus, without the right to productive agency specified as a part of economic innovation, the generating process that is central in traditional economics can allow abuse of power or violations of rights.

Irving Fisher (2.3) also discusses historical forces and offers a detailed description of patterns in multiple cycles that happen due to tendencies as well as events tied to over-speculation. All the interactions affect a very fragile equilibrium that can behave like a ship that capsizes if it tips beyond a certain point. Fisher recognizes that property rights are part of the functioning of the system so his economic approach integrates the adversarial conception of the relation between rights and community, and openly discusses slavery (2.7). His descriptions help
capture the degree of cultural acceptance of the concept of slavery that existed in the early 1900s in America. Violations of the Principle of Generic Consistency and violations of the rights of coloured people were part of day-to-day life and culture and were included in Fisher’s view of rights. As noted by Gewirth, violations of rights as existed under slavery and in Nazi Germany underscore the need to specify the nature of the relation between human rights and community and ensure that laws are based on moral rights. Fisher’s work however, still has an abundance of description of generative processes that may be helpful in explaining systemic problems.

Hicks attempted to address the shortcomings of Keynesian economic explanations of cycles by studying the accelerator principle which is part of the causation of cycles (3.3). He describes the dynamics behind cycles, including earnings and consumption that involve time. Harrod and Steindl and Goodwin also make important contributions to understanding the dynamics that form economic long waves and they demonstrate the importance of methodology starting from disequilibrium to allow more realistic assumptions. This contributes to an understanding of the generating processes that can disrupt economic life. However, all of these approaches do not include any links to concepts of human rights and the economic biography. As a result, there is no way to specify how distributional problems that accompany inequality, lead to violations of human rights and how economic theory relates to democracy.

Monetarist economics, headed-off with claims made by Friedman and Schwartz (3.3) about how their data analysis could explain business cycles that challenged Keynesian theory, support Hayek’s approach to equilibrium. As a result, monetarist economics also excludes the antecedentalist conditions of possibility. Monetarism also emphasizes the generating processes that are part of cycles. As pointed out by Minsky, Okun and Wharburton, (2.4), monetarist theory ignores social relations. Their concern aligns with Gerwith’s theory asserting the need for positive rights provided by government in a political and economic democracy.
Marxist economists (2.5) including Perez and Vercelli use Schumpeter’s concept of creative destruction to explain economic long wave approaches and integrate the adversarial conception of the relation between rights and community. Perez’s description relies on dynamics that include “painful and conflict-ridden” struggles. The economic contradictions that Marx said would lead to the demise of capitalism are recomposed with creative construction. Perez recommends state-led efforts perhaps at the global level to help resolve climate issues and unemployment. However, state-led efforts especially at a global level carry a political risk of totalitarian control over people if decisions are based on primordial concepts, for it is unclear, for instance, that problems around traditional property rights are addressed. The risk of authoritarian or totalitarian state control over people within countries or by powerful nations over developing nations could result (or be maintained) due to the absence of any specified theoretical links to generic human rights to freedom and well-being as well as the right to productive agency.

Decision-making that does not account for human rights to productive agency can end up disregarding the need for voluntariness in human action-taking, which means that people feel oppressed and lose mental equilibrium, according to Gewirth. Societies that disregard the need for voluntariness are likely to lose civil peace. Harvey (2015) also discusses contradictions and explains that understanding them is important for social movements that want to remake the world “in a different image” (14). While a remaking of the world may be well-intentioned, there is no indication of how any given social movement would avoid the risks of a totalitarian image of political and economic life, especially if addressing a foundational contradiction involves abolishing, for example, property rights. Would all the millions of families in a given state lose their ownership rights, or would selected swaths of the population be forced to give up, say, homes that are deemed “oversized”? Without having rights or justificatory criteria established to
assure economic and political democracy, a “new image” of society could take on highly conflictual undemocratic meaning.

Gordon, Edwards and Reich (2.5) use Marxist theory of class conflict and contribute to the “social structures of accumulation theories.” Analysis of historical changes in different eras from the Industrial Revolution to the late 1980s provides important explanations of how workers’ rights are threatened. Their historical analysis specifies the management practices and action-taking resulting in organizational structures to control labour. Gordon, Edwards and Reich specify the nature of actions that violate human rights.

The use of systems theory and the National Model (2.6) discussed by Sterman predict protests that are part of conflicts over rights, which implies a reliance on the adversarial conception of the relation between rights and society. Chaos theories and risk analysis (2.6) that aim to predict chance events such as economic shocks often treat these events as exogenous to the equilibrium model which is also based on the adversarial conception of rights and community. Discussions about the primordial foundations linked to individual rights are seen in the relation between economics and nature that is now threatened by global warming and environmental crisis (2.7). Evidence provided shows how economics and disagreement over concepts of equilibrium are at the heart of debate over global warming and the potential for climate change to cause harm (2.7). The fact that there are multiple approaches to equilibrium (discussed earlier (0.1)) increases the chances of confusion and indeterminacy in attempting to analyse the use of equilibrium economic ideals in policy-making. Debates over global warming expose further confusion over the meaning of equilibrium as climate deniers justify their position by suggesting the use of a concept of equilibrium in scientific assessments of climate change may not mean anything at all (2.7). The threat of challenged food supplies, mass migrations, conflicts, widespread flooding, and extinction that could be brought about by abrupt
climate change points to the need to study how human rights are related to the environmental
equilibrium required for life. Although such a task is not in the scope of this thesis, the confusion
over the concept of equilibrium generally, emphasizes the importance of specifying how human
needs and the antecedentalist justification for rights is tied to growth and political and economic
democracy. Consideration of the antecedentalist justification has to be in balance with analysis of
consequentialist justification, by viewing, for example, the contributions of different agents and
industries to problems of pollution.

Adam Smith’s work illustrates how comparative valuations of human beings can involve
racism (2.7). Such views may be mechanistically drawn into theory and the policies and actions
based on theories. The racism that stems out of traditional views of how humans hold power and
status that can rank them above or against others has influenced Western culture. By the mid-
1900s growing awareness of the moral repugnancy of racist views led to abandonment of the ties
to individual rights and the rise of theories criticising liberal theories and democracy (1.1). The
problem of the competitive self-aggrandizing that gives rise to racist views is part of the
conflictual conception of the relation between rights and community.

In traditional economics the use of the Coase theorem allows obfuscation of human rights
and property rights as conflicts are left to free market forces or the law (as noted above and in
section 2.7). In this way, the practice of economics can appear to have nothing to do with
traditional property rights. Orthodox economics evolved to rely on the Arrow – Debreu model
which specifies that it does not recognize unmet needs since these are undefinable (3.1). As a
result, economic approaches that are based on the Arrow – Debreu model use a theoretical
foundation without any connection to the PGC in terms of the degrees of need and human rights
to freedom and well-being required for productive agency. The Arrow – Debreu theory does not
include the antecedentalist justification for rights. This magnifies the vulnerability of the model
to getting involved in situations supporting violations of human rights. Furthermore the consequentialist dimension is collapsed into the price vector which is the only standard for moral evaluation of action-taking. All actions are reflected in choices that are described in terms of their market valuation.

Theoretical weaknesses within monetarist and orthodox views that are used by public institutions such as central banks were not ignored by post-Keynesian economists. The growing problems related to financialization, austerity policies, and growing inequality are recognized by Arestis, Sawyer, King, Lavoie, Seccareccia, Vercelli, Palley and other political and post-Keynesian economic thinkers (3.1). The need to be engaged in urgent practical matters affecting policies is closely tied to concern for the well-being and freedom of people in society, particularly in the face of the impact of repeated financial crises and austerity measures. Evidence in the evolution of economic thought, indicates that post-Keynesian theory relies on the use of Hicks’ resolution of Keynes’ problematic wage-units by relying on real consumption seen as a function of real income. Theoretical concern with macroeconomic functions supported the philosophical appeal of the movement away from problematic concepts in microeconomics that were regarded as morally unacceptable by everyone who felt part of post-modernist culture. As a result, there is indeterminacy in economic analysis with respect to equilibrium (as discussed earlier, (0.1; 1.3). There is also philosophical indeterminacy with respect to traditional foundational concepts that are ignored, such as property rights. The philosophical indeterminacy leaves the property rights to be monitored primarily by legal institutions that may or may not have concern for macroeconomic problems related to inequality and the erosion of political and economic democracy.

Other foundational issues were considered such as by feminist theorists Akram and Lodhi who stress the need to include a Marxist understanding of extraction of surplus labour,
particularly within the household (3.1). Rossi (3.1) says that microeconomic foundations must be set aside to free macroeconomic thought from behavioural issues tied to equilibrium analysis. However, Rossi offers no alternative ideal to equilibrium nor the foundational role of property rights. King, De Jong, Akerloff and Kranton (3.1) point out that analysis of behaviour and decision-making may help expand thought. However, Lavoie counters that behavioural findings ultimately support the need for the orthodox model (3.1). Jacobs, Sterman and other systems theorists (3.1) emphasize the need for economics to include natural feedback loops with scientific verification of data. Lavoie argues that such approaches can end up aligning with the orthodox equilibrium model, chaos theory and deterministic world views.

All these approaches have to struggle with serious weaknesses inherent to both orthodox and Keynesian economic thought. The approaches are also unable to address the missing linkage between economics and human rights to well-being and freedom and the conditions of possibility related to the antecedentalist dimension.

Musacchio and Lazzarini (3.1) demonstrate how capitalist ideals can be applied to states investing in large enterprises, while Wolff and Renick warn of the fascist sort of power in having government align with businesses in exploiting labour. Further analysis of the nature of blended private and state enterprise could be carried out by using Gewirth’s methodology to specify antecedentalist and consequentialist dimensions of the contribution of the investors, workers, and tax payers. Gewirth’s human rights theory could be of help in avoiding the potential danger of fascism that stems out of state capitalism. This is particularly important as people around the world increasingly look towards China as a model for engaging in global business.

De Soto’s work on property rights (3.1) exposes how governments can impose immoral administrative mechanisms and laws that prevent billions of people from owning their own property, keeping them vulnerable to wide-sweeping decisions about land-use by business and
government actors. And, De Soto’s research underscores how government administrations and legal systems can use property rights as a way to abuse power and deliberately maintain inequality. His approach aligns with the Gewirthian concern for antecedentalist conditions of possibility, as well as for property rights to allow the accrual of wealth in a home which is essential for economic security and well-being, particularly for people with very limited income sources.

Lavoie and Stockhammer’s study recommends wage-led growth policies that can be attained through taxation policies and supporting unions to ward-off exploitative corporate practices. Palley also argues in favour of neo-Kaleckian policy favouring wage-led growth. However, the neo-Kaleckian models do not address the adversarial conception of the relation between rights and community, and thus do not challenge the ideological underpinnings of neoliberal preferences for regarding the freedom of capitalists in their property rights as more important than democracy. As a result, the conflicts between the two main groupings of workers and capitalists are prevalent in shaping political and economic life.

The reality of groups competing in the political arena for rights holds the potential for the most powerful group interests to influence policy-making and overwhelm groups fighting for human rights. This risk is confirmed by the detailed research findings of Gilens and Page (4.1) describing how American democracy has become a façade used by elites channelling funding to shape politics. Gilens’ and Page’s findings help explain how elites using their wealth to abuse power and manipulate government decisions lack any concern for the PGC. The potential for powerful interests to gain control of preferences underlying policy-making and voting decisions compounds the challenges and risks facing political and economic democracy.

The concentration of political and economic power further stresses the need to address the reasons why violations of the PGC happen with such impunity. At this point we turn to an
evaluation of policies based on orthodox theory. Gewirth’s criteria using direct and indirect applications of the PGC can provide further insight into the problems facing political and economic democracy. Philosophical analysis based on Gewirth’s principle of human rights is needed to explain how justifications for property rights have collapsed into contribution. The emphasis of consequentialism happens while ignoring needs in a post-Financial Crisis in which people continue to suffer loss of rights to freedom and well-being.

5.3 Evaluation of Economic Policies

The influential work by McKinnon on liberalisation theories that shaped the Washington Consensus must be critiqued for a lack of concern for human rights of people in indebted nations forced to endure austerity policies that restrict or impede the provision of positive rights and conditions of possibility. As a result, fulfilment of human needs required for productive agency is denied. McKinnon’s theory involves the equilibrium model, the atomistic self, and the adversarial conception of the relation between rights and community which is left to free market forces to resolve. The absence of concern about human rights in various settings in developing nations undoubtedly translates into policies that can cause mass suffering, especially as austerity measures are imposed.

An evaluation of the liberalization thesis policies used by institutions such as the IMF involves Gewirth’s indirect application of the PGC in the use of institutional rules that may infringe on persons’ rights. The rules of the IMF that rely on McKinnon’s theory can leave debtor nations facing downward pressure on their currency values in addition to rules imposing austerity. The limited market support for indebted nations’ currencies assures reduced degrees of risk for foreign investors using cheap resources and labour while demonstrating a lack of concern for human degrees of need. Human rights to freedom and well-being may be violated, for
example, when goods produced by labour are sold and exported at prices determined by a devalued currency, especially if people require imports to fulfill needs. The conditions of the PGC are violated in its direct and indirect applications related to austerity measures as they erode or prevent conditions of possibility required for the rights to productive agency, particularly in developing countries.

Rights violations by institutions may also be caused partly by the limitations in economic theory that make rights exogenous. The decisions taken by economists and professionals are shaped by theory. Then again, the vast evidence of inequality discussed in previous sections (0.1; 0.2; 1.1) makes it increasingly difficult for professional economists to claim to have “missed” or to justify dismissing social problems due to inequality. Indeed, professionals who deliberately ignore inequality may be supporting primordial explanations that involve racism or evil. The potential for racism in economics is heightened by leadership endorsement of the use of ideology by Greenspan (1.1), since ideological origins and interpretations of rights involve racist views of how people fit into society (2.7). The cultural spread of ideologies that limit thought may also be due to mimetic behaviour and group think (0.4) and this is exposed in political turmoil growing out of ideological disputes that are deepening to the point of threatening democracy.

The fact that orthodox economics offers no theoretical oversight of actions violating rights has supported an appetite for abuse of property rights, as seen in the development of algorithms used at different stages in the development and profiteering of mortgage foreclosures in America. The actions of professional economists and mathematicians that invent produce and deploy the algorithms that result in the abuse of individuals’ property rights, require evaluation of those actions in accordance with the direct application of the PGC. Evidence gathered showed that many some professionals such as Cathy O’Neil (1.1; 3.5) did not immediately realize that the algorithms were being used for exploitative purposes, in violation of the PGC. Lavoie
explains that post-Keynesians and heterodox economists recognized the serious shortcomings of orthodox economics in foreseeing and preventing financial crises (3.1). However, as noted by Palley, the powerful influences of orthodox or neoliberal economics is engrained in major institutions such as central banks and thus limits potential for policy changes that could prevent crises.

The dangers in the use of algorithms combined with the failures of orthodox economics underscore the extreme dangers around ideal tied to artificial intelligence (AI) that is being eyed by some as a panacea for the problem of global climate crisis. For, AI could be easily become a structural support for totalitarian or fascist regimes engaged in population management, monitoring and limiting human action-taking. Such a risk emphasizes the urgency of ensuring human rights as part of political and economic democracy. In other words without economic protection of rights, AI could be used to create tools that expand the reach of powerful agents and investors to engage in deceptive practices and economic violence.

As orthodox economic ideology relies on the notion that rights and conflicts are exogenous to policy-making models, economists drawn into a community of professionals are generally required to respect the traditions and practice of the field of economics, particularly with respect to its boundaries. Problematic rights can be routinely seen as part of the field of constitutional law rather than economics. Such ideas may reinforce mimetic behaviour and group think around property rights. A professional community that relies on a model with strict limits around thought, while carefully excluding elements that disrupt that model, is likely to get caught in fundamentalist thought, as noted earlier (.05). As the failures of theoretical analysis mount, economists may feel as though they have little choice but to cling to the boundaries of their field. Fundamentalist thought that excludes consideration of human rights, shows evidence of complete disregard for direct and indirect applications of the PGC. Action-taking by powerful agents
ignoring the PGC without a care for the pain of self-contradiction, such as targeting
neighbourhoods with toxic financial products, can be dangerous to the security, well-being and
freedom of political and economic democracy.

The use of ideology reveals the limitations of economic theories that support policy-
making and helps to explain to some degree how they failed to predict and analyse the impact of
algorithms that managed the selling of rights to mortgages, followed by securitization, resale and
then exploitation of resulting foreclosures. The fact that investors involved in the short-selling of
CDOs justified their actions on the grounds that they believed they were contributing to the good
of society illustrates the reach of the ideology. The Financial Crisis Inquiry Commission Report
provides evidence that:

Although Goldman executives agreed that synthetic CDOs were “bets” that magnified
overall risk, they also maintained that their creation had “social utility” because it added
liquidity to the market and enabled investors to customize the exposures they wanted in
their portfolios. In testimony before the Commission, Goldman’s President and Chief
Operating Officer Gary Cohn argued: “This is no different than the tens of thousands of
swaps written every day on the U.S. dollar versus another currency. Or, more
importantly, on U.S. Treasuries . . . This is the way that the financial markets work. (146)
The reliance on “social utility” to justify the actions around the synthetic CDOs led to debates
about social value. Professionals may well realize that the exchanges of such claim rights cause
grave social harm. However, the lack of coherence between economic notions of social utility,
financial market practices, the law, and functional commonly shared understanding of morality
based on human rights places political and economic democracy in grave danger.

In the end, the Securities and Exchange Commission (2010) charged Goldman Sachs
with misleading their clients. Fraud was detectable in the severity of losses exposed on an
institution to client basis. However, understanding of the role of CDOs becomes murky when the
notion of social utility is used to deflect the possibility of economic violence. This is due to the
potential for implicit assumptions about property rights and Pareto optimality that may still be used in traditional economics in relation to social utility.

The investors’ “clean-up” operations using “Keynesian” bailout monies that were supposed to go to families also has to be evaluated. In this case investors and professionals were involved in action-taking that supported or employed foreclosure machines. As noted earlier, only about a fifth of the people threatened with foreclosure received help from the TARP funds which were being siphoned off by the foreclosure machines (1.1). The direct application of the PGC calls for evaluation of the investors’ actions that directly impacted the home owners. A clear violation of the PGC and property rights happened with the deployment of foreclosure machines. Some of the professionals involved in the operation were charged with crimes. However, other professionals stood by and reaped financial benefits of the foreclosure machine without taking actions to oversee or correct the human rights violations that were happening.

In cases where investment banks created credit and sold mortgages to people who could not pay back the loans, the indirect application of the PGC is involved. For, the institutions failed to follow the normal rules of lending in responding to the rights of clients. The institutions therefore created the high risk mortgages that led to the foreclosures and clients’ losses. The institutions then knowingly passed on the risks by bundling the mortgages in derivatives. This action also involves the indirect application of the PGC. The institutions again failed to respond to the rights of the buyers who would ultimately get caught with the derivative products that could no longer be traded in financial markets running short of liquidity.

Gewirth’s epistemological framework calls for analysis of the antecedentalist and consequentialist features of the generating process related to rights as well as all the harmful outcomes. The costs related to the exploitation related to claims and property rights included the lost personal economic wealth ($19.2 trillion) and TARP bailouts ($16.8 trillion) tabulated in the
years following the crisis. However, the cost of re-housing and rehabilitating traumatized families also has to be considered. Such costs need to be included in calculating the inefficiencies related to the financial market schemes. Moreover, the lost human potential due to the traumatization that results from the experience of devaluation of a person who loses their wealth and is forced into homelessness also needs to be assessed. This may be done using Gewirth’s concepts of the conditions of possibility the economic biography to explain how human lives are affected.

The use of foreclosure machines that rubber stamped claims foreclosing on homes, also set-up a feed-back loop in the housing market since, overall, it increased the numbers of homes that were being auctioned-off. Moreover, since the bankers were getting reimbursed by the TARP funds, they had no need to be concerned about the crashing housing prices. Of course, the falling housing prices led more people to stave off their losses by walking away or declaring bankruptcy if they were stuck paying a high mortgage in a community where houses prices were rapidly falling.

Economists’ decisions to use liberalisation policies and deregulation, and then ignore the growing inequality that happens as a result of investors’ use and abuse of property rights, involves both direct and indirect applications of the PGC. The economists supporting deregulation and privatization of programs, who understand that the use of algorithms unfairly target groups of home owners, are involved in direct applications and violations of the PGC. If they are unable to comprehend what is happening, this may reflect the influence and power of ideology, brainwashing and “malignant normalities” in economic thought itself.

The ideology around liberalization and property rights can also be analysed in the development of the European Union and ordo-liberal arrangements that restricted member nations’ capacity to implement fiscal and monetary policies (3.2). Sawyer (2018) provides
historical evidence of how political, institutional, and economic support is required in the complex policy efforts to support a national economy and prevent unemployment. Post-Keynesian economic concerns for unemployment in countries such as Greece were countered by the prevailing rule of ordo-liberalism in the EU. Government policy focus on “debt-to-GDP” ratios in Greece, Ireland and Portugal led to austerity measures. The preferences of powerful ruling groups support austerity policies which led to a humanitarian crisis in Greece. Ordo-liberalism organizes political and economic relations according to legal strictures supported by the liberalization thesis, free-market equilibrium, implicit assumptions of Pareto optimality, and respect for private property rights (3.2). Financial system lending and borrowing among nations depends on countries avoiding borrowing too much since this reduces their workforce to the level of slaves to foreign lenders (3.2).

In reality however, some governments may end up needing to borrow to stay afloat and have to repeatedly negotiate “equilibrium rescheduling agreements” (3.2). This highlights how political and economic survival hinges on the preservation of a minimal level of equilibrium, especially given how debt can lead to slavery. The fact that human well-being and freedom may be sacrificed in order to achieve financial equilibrium exposes how analysis of actions in relation to conditions of possibility and economic well-being are excluded from theory. Gewirth’s theory of human rights and concept of political and economic democracy provide an alternative vision of the relation between policies and people.

The difficulties faced by Greece in the wake of the Financial Crisis highlights the importance of central bank policies that are like a buffer between the free market forces at play in international finance and the day-to-day economic activities of people. The Bank of Canada describes policy-making that was urgently required in light of the Financial Crisis and bottlenecks in liquidity channels (3.3). A value-at-risk (VaR) methodology looks at historical
data related to specific asset classes and correlated losses between classes especially among those considered risky (3.3). Although central bank decision-making considers risks, the economic approach does not consider of degrees of need and conditions of possibility required for human rights to well-being, freedom, and productive agency. The liquidity provisions to deal with the Crisis were specifically targeting the financial channels.

The Canadian Debt-Strategy Model, however, is concerned with other economic channels, to provide the Government of Canada guidance in dealing with its debt (3.3). The model considers exogenous factors including risks and sources of inflation, shocks and their effects to “term-structure variables” and their valuation, as well as the output gap. The model is unable to include the dimension of time which leaves assessments of risks to depend on judgements made by economists. In other words, the model does not consider the relation between economics and historical evolution. Human activity is only considered via economic production or output without concern for the conditions of possibility that support human agency. The model aims for equilibrium between expenditures and revenues that includes paying down government debt by reducing government expenditures.

Both of the Bank of Canada models include calculations of risk that are based on judgements. There does not appear to be any evidence of the inclusion of criteria to ensure consideration of human rights or explicit evidence of consideration of the impacts of policies on humans as is required by the PGC. In addition, there does not appear to be any criteria for protecting human needs in events where government expenditures need to cut.

The Bank of Canada monitors financial channels that support economic relations (3.3). Joint policy-making efforts with international organizations such as the Financial Stability Board and the International Organization of Securities Commissions (IOSCO) also monitor channels. These institutions had to take actions to reform interest rates in the wake of the Financial Crisis
and the Libor scandal to address the loss of credibility in the benchmark system. A very brief overview of the IOSCO plan for changes in setting interest rate benchmarks was provided earlier (3.3). The IOSCO plan calls for reporting mechanisms, principles, and methodologies to reassure that values are set by the “competitive forces of supply and demand” (3.3). Attention is given to the conflicts of interest and experts’ judgements that are required to assess market pricing of financial assets or classes of assets.

Interest rate setting takes place in a world apart from day-to-day economic action-taking, especially since the principles and methodologies do not even specify concern for the economic impact of interest rates. The hope is that setting rates according to the forces of demand and supply has an impact that is just. However, distributional effects determined by supply and demand can be interpreted to depend on the equilibrium adjustments that are inherent to orthodox economics. Reliance on market forces to justify interest rates suggests that there is no choice but to respond and respect market forces rather than to consider them as part of the larger political and economic democracy.

In a Gewirthian approach, evaluation of the function and level of interest rates in society would have to involve consideration of the antecedentalist conditions and the consequences of actions that result in pressures to increase or decrease the rates. Economic analysis of the financial system and understanding of nature of the action-taking of investors trading in toxic CDOs could have forecasted that trading of assets and liabilities would falter and lead to sudden changes in risks and rate-setting. Professionals’ support for the opaque nature of derivative markets signals how economic thought ignores the antecedentalist elements and specific actions that shape conditions. As a result, property rights affecting human rights to freedom and well-being are subjugated to market power and institutional rules which do not have any concern for the “rights and conditions of the PGC.”
A full assessment of the central banks and IOSCO internal functioning would be required to evaluate if they are subject to the condition of internal instrumentalism. Such an assessment would look for evidence of administrative traditions and practices that have concern for the “criterion of degrees of necessity” to assure that the public interest is served. As noted earlier (4.7), Gewirth specifies that all public institutions have to be subject to the condition of internal instrumentalism to ensure that property rights of the wealthiest most powerful few do not neglect or abuse the moral rights of others.

In contrast, IOSCO’s reliance on experts’ judgements to assess risk involved in setting interest rates brings us back to Keynes’ epistemology and the role of preferences as a basis for decision-making and morality. Keynes’ concept of preferences is at the foundation of social choice theory that is used in economics (3.4). Reliance on preferences may avoid a full consideration of the antecedents that are shaping the overall political and economic context. Reliance on preferences could logically lead to dismissal of the condition of internal instrumentalism, since the preferences and judgements of administrators may be seen as more important than rules and practices.

The cultural influence of economic thought is evidenced in the use of social choice theory in all the social sciences where surveys of people’s views, beliefs, or preferences may be used to justify policy recommendations. Since preferences serve as a source of morality in economics – it is logical that they would take some sort of role in setting interest rate levels. The social importance of preferences is seen in the fervor to access or to influence them via social media sites as powerful agents strive for commercial and political power (5.4).

Now there are examples of analysis of preferences being used to describe reality in order to describe action-taking that threatens the democratic functioning of society, such as with Gilens and Page work noted earlier (4.1). In social domination theory, views of different of groups
converge in a sort of equilibrium and avoid chaos, revealing a precarious relation between people, society and social choice theory. The risk of chaos with the failure of “equilibrium” fully involves the adversarial conception of the relation between rights and society. In addition, the conception of the self that is subject to equilibrium is also primordial since it is determined by a generating process and misses consideration of persons’ rights to productive agency.

Theories based on comparisons, such as with social choice theory, may be subjugated to equilibrium models as a larger encompassing framework. However, preferences, comparisons and equilibrium models involve competitive relations that are emotive and can end up in conflict. The problem of mounting conflicts that are ignored by economics underscores how Gewirth’s criterion for human action-taking is of critical importance. The PGC involves the hierarchy of elements needed for well-being including the conditions needed for action that cannot happen without clean air and water required for life, physical capacity, fulfilment of human needs, and mental equilibrium as explained earlier (4.3). All these basic elements require a real-life context for action such as is found in a community. As noted earlier the contextual elements for successful action-taking require both political and economic democracy based on the generic rights to freedom and well-being. The justificatory criteria of the PGC involve consideration of relevant human actions and the antecedentalist and consequentialist dimensions that are involved in the acquisition and sale of property rights.

The reality of conflicting groups that emerge out of a chronic situation of growing economic inequality requires additional analysis. The most powerful group or its paid operatives take actions with intentions to control others. This demonstrates Gewirth’s inegalitarian harm thesis that spells out the immorality of exploitation of others and abuse of economic power that violates human rights on the basis of contribution. The contribution principle calls for specification of the labour and efforts that people that have put into a good, product, or venture.
Inegalitarian harm happens with a lack of mutuality that requires corrective actions. In light of all the evidence showing how orthodox economics and social choice theory can be used to support inegalitarian harm and mounting conflict, there is urgent need to challenge the egoistic economic agent that remains protected by traditional property rights.

To the extent that unbridled accumulation of wealth may be justified on the basis of Pareto optimality and social utility, the need to challenge the “state-of-the-art orthodox models” (described earlier by Lavoie (3.1). The concept of Pareto equilibrium aligns with the functioning of free market forces, economic power exercised in property rights and the concept may be used to dismiss any harmful distributive consequences on society since it is assumed that an increase in goods benefits society-at-large. Indeed, the relativist philosophers that Boylan (2016) identifies as refuting the logic of the PGC and the pain of self-contradiction, (0.4) also have moral and professional duties to take note of the historical evidence of links between relativism and competitive efficiency in society, racism and war.

The historical dangers of ongoing reliance on state-of-the-art equilibrium models and relativist political views that come along with philosophical indeterminism around definitions of rights and equilibrium may also espouse disparaging views of democracy, as noted earlier (1.1; 3.2). Relativist views about morality, economics and politics seem bound to lead to untethered economic forces guiding a rudderless human society into its uncertain future. In contrast to relativism in analysis of economic policies and democracy, Gewirth, saw the need to analyse the nature of actions and how they affect the future of both political and economic democracy. Gewirth’s philosophy helps describe how degrees of need and risk are closely interconnected.
5.4 Evaluating Degrees of Need and Risk

Risks to the individual are inherent to the PGC – as risk exists in the pain of self-contradiction that is experienced if someone violates the PGC. For, once a human learns the rational lessons of the pain of self-contradiction, he or she is bound to forever avoid or at least strive to avoid pain of self-contradiction.

However, critique of the PGC is possible at an observational level, on the grounds that too many people just do not care about others. It might be argued that so many people believe that egoism is beneficial to society to the point that they will scoff or laugh at the idea of any duty to question how their actions affect others, or any duty as the Respondent of rights, given the correlation of rights and duties. After all, from this relativist viewpoint, everyone else is egoistic and one risks losing the competitive “game” of business, or even in day-to-day life, if cold cunning calculations are not guiding decisions and actions. In other cases, some people are unable to understand the PGC and they completely ignore any risk of pain in self-contradiction because they bear psychopathic traits that result in their being unable to feel empathy to consider understanding how their actions may be affecting others, even while carrying out functions directing people. Given the benefits to be reaped by calculating egoism that avoids any immediate costs attached to duties to others, people with psychopathic traits are likely to make their way into leadership positions.54 In addition, people subject to decisions and actions of psychopathic leaders may come to believe that it is necessary to follow suit. That is, individuals may have suffered personal financial, social and psychological costs if they question and challenge the immorality of leaders who blindly follow economic competitive or business models. In this way, psychopathic leaders hold onto ever-increasing power over people.

There is also evidence of how ideology around orthodox views of property rights can be promoted by leaders (such as Alan Greenspan) and major institutions (1.1). Evidence describing the links between orthodox economic property rights, the law, and ordo-liberalism also highlight the overpowering potential of action-taking by powerful groups and government decision-makers. These actions are supported by the orthodox theory that embraces the adversarial view of rights and community and ignores the risk of self-contraction. There are powerful agents and investors that go further and benefit in a variety of ways by manipulating degrees of risk as seen in the securitization of mortgages and the trading of synthetic CDOs to pass on toxic products.

The blatant disregard of the PGC and the risk of self-contradiction that underlies manipulation of degrees of risk for self-interest without any concern for others must be taken into consideration. As history of the twentieth century has shown, egoistic action-taking combined with racist politics can set the stage for fascist government. Such self-contradiction at an aggregative level, therefore, creates harm by hindering generic rights to freedom and well-being, and leads to self-destruction of democracy. Now, Gewirth reminds us that political democracy stems from the generic context of freedom that is required for successful purposeful action-taking. Since purposeful action-taking is required for economic life in a capitalist context, it follows that self-contradictory actions will ultimately affect the success of capitalism. The need to deal with harmful actions in economics and finance has existed for as long as elite individuals or groups have used forms of wealth to exercise power.

Historical events of misuse or abuse of power tend to shape economic and financial cycles over the course of history. Vercelli’s description of financialization asserts that it is part of the contradictions of capitalism and also contributes to “the law of motion of capitalism” (3.4). Thus, investors’ decisions that give rise to financialization over time also bear some risks of self-contradictory action-taking.
Now equilibrium models and Pareto optimality do not have any capacity to demonstrate the effects of excessive risk taking since relativist foundation and view of the world treat competitive outcomes as being most beneficial for everyone. The orthodox view of equilibrium is completely unrealistic in light of Kalecki’s theory based on evidence of how investors deal with increasing degrees of risk by stalling activities, mothballing equipment, laying-off or firing workers, and using leverage to acquire money while protecting their own capital described earlier (4.3). Kalecki’s work illustrates the inaccuracy of assuming that perfect competition and equilibrium exist and lead to benefits for society-at-large.

Since the negative impacts of accumulating self-contradictory actions adversely affects society-at-large, a concept and definition of equilibrium needs to be able to depict this impact. As well, since there is a philosophical tie between rights to political democracy, based in freedom and economic democracy based on well-being, a realistic conception of equilibrium must be able to illustrate this relationship. A realistic concept of equilibrium must be able to include and explain the potentially abusive relations of power that are involved in property rights and have some capacity to predict and help prevent economic violence. A concept of equilibrium must have potential to explain how relations of power affect people. Gewirth’s concept of equilibrium provides an ideal based on understanding of how political and economic democracy is essential for human well-being, freedom and community life. Gewirthian political and economic equilibrium is able to demonstrate the philosophical importance of political and social relations such as discussed by Sawyer, Minsky and others in the previous chapters. For without social and political relations supporting democracy an economy eventually collapses under the burden of deterministic cycles leading to war.

Gewirth’s description of a community of rights addresses the prevalence of the adversarial conception of the relation between rights and community by providing a categorical
foundation for people to realize how their action-taking and intentions affect freedom and well-being for one’s self and for the lives of others. All decisions and actions of individuals are voluntarily self-governed in accordance with the Principle of Generic Consistency. The community of rights involves both political and economic democracy that together provide a foundation for a concept of equilibrium that is more realistically grounded human action-taking that is based on the PGC. Successful human action-taking after all, requires a number of elements, as noted above, along with mental equilibrium. The components of successful action-taking require both political and economic democracy that Gewirth envisioned as including capitalist activities, including entrepreneurship along with democratic workplaces made up of workers who have ownership in collective enterprise. His community of rights is based on generic rights to both freedom and well-being. Given freedom, people may want to compete in capitalist business environments or be involved in cooperative workplaces. Competitive capitalist environments call for action-taking that requires the freedom that comes with political democracy. Undermining democracy results in either totalitarian or fascist forms of government that can allow dictatorships to take hold and deny freedoms. Thus, capitalism is itself threatened by the aggregative self-contradictions that destroy democracy. In accordance with Gewirth’s philosophy, a balance of political and economic democracy in a community of rights requires the foundation of antecedentalist and consequentialist justifications that allow the evolution of individual economic biographies. Degrees of need and the risk of the pain of self-contradiction have impacts on individuals’ economic biographies.

The next chapter investigates how the problematic discriminatory and harmful potential of traditional property rights may be better understood in relation to a conception of equilibrium drawn from Gewirth’s philosophical ideas. This is done by exploring Gewirth’s conceptual
framework, action theory, and his more complex realistic property rights to depict how the orthodox problems of economic equilibrium and disequilibrium relate to conflicts.
6.0 Political and Economic Democracy: Rights and Equilibrium

The previous chapter describes Gewirth’s human rights philosophy how his antecedentalist and consequentialist justifications for actions provide a substantive basis for evaluation of economic problems and policies. The historical and textual theoretical evidence presented and discussed in Chapters 1, 2 and 3 reveal how the encompassing dangers of the Pareto equilibrium model persist today. The prevalence of the equilibrium model in orthodox economics emphasizes how remnants of 19th century thought around the atomistic competitive self, and property rights maintain a foothold in contemporary culture. There are dangers of racism and Darwinian styled judgements of humans that come along with a culture and society that maintains notions of “pure” economic competitiveness and market equilibrium in microeconomics (2.6). Historical evidence shows that competitively based judgements of humans can harbour unbridled cruelty putatively “justified” in the exercise of property rights that can harm people and violate human rights. The capacity to use algorithms and financial instruments to target groups of people with punitive measures that allow investors to make money exposes how the concept of orthodox equilibrium must be challenged. In contrast, discussion of Gewirth’s justificatory framework leads to the concept of political and economic democracy that provides a more comprehensive explanation of economic life in relation to human rights. His philosophy denotes the right to political democracy as rooted in freedom and the right to economic democracy as based in well-being (4.6). In this chapter, Gewirth’s concepts are drawn together along with the idea of units of human experience, which makes it possible to imagine an equilibrium that reflects an ideal optimum of human experience and knowledge that can happen if there can be a balance of freedom and well-being that is rooted in a mental equilibrium (see Appendix I).
Now it may be argued off-hand that industrial pollution and global warming are denigrating so much of the world environment that such a concept of equilibrium is now unrealistic. In response to such a protest, it is argued that in accordance with the PGC, we have a moral obligation to strive towards rehabilitation of the environment to ensure that there are life-giving conditions for humanity now and into the foreseeable future. As described in Gewirth’s theory of human rights, it is necessary to include thought and knowledge of the conditions of possibility that are required for purposeful action-taking. Not only is ongoing research is required to build-up knowledge about the relation between humans and the life-giving natural environment, but it is argued here that all prospective purposeful agents have moral obligations to support basic science, research as well as the dissemination of knowledge about global warming.

As noted above, the dialectical necessity of following the PGC in decision-making and action-taking happens by using the antecedentalist and consequentialist justifications. Discussion of the nature of actions in relation to one’s economic biography helps to show how Gewirth’s theory is of importance in explaining features of human experience that can potentially be commonly shared depending on environmental, historical, and personal circumstances. The space of common experience found in a Euclidean framework is normally expressed in terms of height, width, and depth as dimensions of matter. These dimensions are substituted here for the purpose of exploration, with the antecedentalist and consequentialist dimensions intersecting with the arc or dimension of time (as illustrated in Appendix II).

Gewirth’s theory describes in how any action requires both antecedentalist and consequentialist dimensions and happens over time because the dialectical necessity for thought

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55 The inclusion of circumstances is not limited to this list and may be extended to include more issues that explain a particular individual’s economic biography.
of others. The discussions of different economic biographies that are based on shared experiences ultimately lead to depiction of the relations between economics and conflicts.

6.1 Actions, Human Experiences and Economic Biographies

The framework is developed by introducing the concept of units of human experience\textsuperscript{56} with each unit in a given moment of time consisting of existential content related to both antecedental and consequential justifications. An individual’s units of experience accumulate over time to create his or her economic biography or life path.\textsuperscript{57} As described earlier, the economic biography evolves over time due to actions made possible by one’s physical, social, and personal environment as well as his or her purposiveness, understanding, and knowledge of life. Gewirth’s concept of the “sequence of the economic biography” reveals how human rights play a critical role over the course of one’s lifetime in relieving human suffering that happens due to inequality that creates conditions that infringe on freedom and well-being (Gewirth, 1986, 99). Decision-making and action-taking requires thought and awareness of reality.

It is possible to think about units of human experience by reflecting on the antecedentalist and consequentialist dimensions and the way these are related to one’s life path and economic biography. At the outset of life, a child is dependent on decision-making and actions of his or her parent(s), their economic biographies, along with social and environmental determinants. A human infant is almost entirely dependent on the conditions provided by a primary caregiver or other humans. In turn, parents must think of their children in making most day-to-day decisions. Parents’ actions are undertaken with intentions to provide antecedents and conditions required for the first part of life. A single parent may be more restricted economically in the range of

\textsuperscript{56} The concept of units of human experience were first introduced by Morley at in a Workshop, Science and Creativity, held at the National Research Council, Ottawa, 2000, and hereafter referred to as the Workshop.

\textsuperscript{57} A concept of a life path using purposive or teleological units and mechanistic units was also introduced at the Workshop.
decision-making in meeting basic material and non-subtractive goods of life required by children compared to a dual high income pair of parents. Parents who live in conditions of war or deprivation may face the greatest difficulties in providing conditions of survival.

The antecedents or conditions of possibility needed for childhood development include factors required for well-being such as clean air, water, as well as education and healthcare that are positive rights assured by duties carried out by good government. A lack of antecedents or degradation of conditions of possibility due to austerity, a poor or toxic environment, conflicts or war, diminishes or severely challenges well-being to the point where an individual may be unable to restore adequate health to be able to live normally. If the necessary antecedents required by all agents are lacking or degraded by industries that pollute neighbourhoods or by governments that neglect education and public healthcare, people face increasing degrees of need that may have severe impact on their lives and economic biographies. Human infants, children and youth may face the most severe impact on their economic biographies if conditions of possibility are lacking. The empirical research of the WHO on the determinants of health noted earlier (0.2) support Gewirth’s analysis and description of conditions of possibility that affect the entire economic biography over an individual’s life time. The fact that a life path requires well-being over time means that an economic biography cannot remain too close to the antecedentalist dimension or life itself ends.

Life for people caught in circumstances of material deprivation, face risk factors and behavioural conditioning that are very difficult to overcome and lead to chronic illnesses and social exclusion (Irwin et al., 2006, 749). Life in conditions of material deprivation or in impoverished neighbourhoods that lack sewage treatment facilities or are located near polluting industrial or toxic sites, all increase likelihood of chronic illnesses for people. Gewirth
emphasizes the critical importance of government fulfilling its duties to provide the generic
duties to provide the generic
rights to freedom and well-being and the necessary conditions of possibility.

Although a person may have a period of consequentialist action-taking, the impact of
difficulties that may restrict economic well-being. The potential of shifting or moving an economic biography to
early in life are known to produce health issues and create other difficulties that
a new position, further away from the conditions related to unfulfilled needs requires life altering
events. For example, for a refugee, a life altering event may involve a chance to gain citizenship
in a new country with different political, economic, and social conditions.

However, generally speaking, the continuity of an economic biography of a person who
faces challenging circumstances in childhood that impacts his or her economic biography that
evolves in proximity and dependence to the antecedentalist dimension. In other words, people
living in poverty are more likely to experience subjugation to circumstances and environmental
conditions such as housing, geographical location and the efforts required to fulfill needs. An
individual who faces poverty early in life may likely face a lifetime of struggles with limited
resources and potential to carry out actions that have far-reaching consequentialist impact. This
experience is illustrated by considering the empirical continuity that shapes an economic
biography or life path. The economic biography for a person facing such challenging
circumstances is likely to make consequentialist action-taking more difficult. This person, called
Agent A in this account, faces great struggles to acquire basic needs for well-being and freedom
required for meaningful productive agency. Life for Agent A is poor, nasty, brutish and short\textsuperscript{58}
and his or her economic biography evolves in close proximity to the environmental conditions
and the antecedentalist dimension, as depicted in Appendix II. Successful purposeful action-
taking happens but is restricted if there are inadequate conditions of possibility.

\textsuperscript{58} As written by Thomas Hobbes in 1651, see Hobbes, T. (2005).
Living without decent conditions of possibility can create such difficulties in day-to-day life that these may hinder parents from providing “effective love” or the meaningful human bond(s) and supports that people need especially in childhood (Gewirth, 1996, 22). In experiencing this sort of economic biography Agent A may crave productive agency and seek out unrealistic risk-taking in order to escape deprivation. Such risk-taking requires thought that imagines consequential actions that are counted upon to create a change in economic biography. Risk-taking for an individual living in poverty, may involve spending one’s income on a lottery ticket or taking-on work that carries health risks. The stereotypical “American dream” narrative of people who go from rags-to-riches by taking risks being innovative and entrepreneurial may also shift an individual’s economic biography towards the consequentialist dimension. However, if fulfillment of such a narrative were widely possible in resolving poverty, extreme inequality in society would not have happened. Individual intelligence, innovation and entrepreneurial spirit still require some luck with historical conditions for individuals to shift their life paths. For many, the reality of an economic biography of life in poverty may severely restrict purposeful productive agency and the risks involved in striving for meaningful change may be undefined in nature. This is due to the fact that the units of experience determined mainly by antecedentalist conditions are bound to involve large risk-taking that is required to achieve any purpose to attain higher well-being. This phenomenon is seen for example in the risks taken by many poor people who wanted to have homes and took out mortgages offered by sketchy predatory lenders. The risks and ultimate consequential benefits were negative. Another example of human struggling to exercise consequentialist productive agency by an individual facing difficult conditions, could involve selling CDs or cigarettes on a street corner, taking huge risks in personal physical safety while likely making little gains in terms of the wealth needed to improve well-being. The most

59 An undefined risk would be expressed in terms of one’s mental experience in attempting a purpose that has some large consequential outcome relative to the antecedentalist conditions and current valuation of life.
extreme may be when someone leaves a war-torn village, walks thousands of miles and goes into
debt to travel in a dingy across the Mediterranean Sea in the hopes of finding a new home.

It is also possible to imagine, in contrast, the economic biography for an individual who
is born into a wealthy family and provided with good conditions of possibility. We call this
individual, Agent B. The infancy of someone living in conditions of possibility positions his or
her economic biography to consist of greater content for well-being. We imagine an individual
who has a youth phase of life with some consequentialist action-taking and development of
productive agency. For example, we imagine a young person who has conditions that allow
youthful productive agency with of lemonade stands, part-time work or shovelling snow. This
helps lead to a mid-life with purpose-filled action-taking, followed by a period of aging,
retirement, and then, end-of-life. Such a person may experience and enjoy meaningful productive
agency.

Agent B may face serious struggles, however, if there are conflicts over claim rights that
result in lost life savings in a pension plan, for example. A range of other events may also cause
severe alteration of Agent B’s economic biography if other persons’ economic decisions
involving claim rights result in a spike in interest rates that leads to for example, financial
problems, lost income or mortgage foreclosure. Efforts to resolve conflicts over claim rights may
end up in cost legal battles. Agent B may take risks in trying to increase opportunities for
productive agency. For the moment, we imagine a life path and economic biography for Agent B
that is in the proximity of optimal or maximal amounts of antecedents based on freedom and
consequentialist elements based on well-being, in relation to time, as depicted in Appendix II.

The economic biography for a third individual involves conditions of possibility that help
launch an early start to business success followed by a life of consequentialist business activity.
We call this individual Agent C, who has an economic biography that is in the proximity of the
consequentialist dimension. Kalecki shows how investment activity is altered by increasing degrees of risk that come along with business cycles. During these periods, investors such as Agent C can deal with degrees of increasing risk by reducing investments that use their own savings and adjusting conditions to be able to save more of their own money, allowing capital equipment to depreciate, abandoning factories, laying-off employees or other actions that reduce costs and risks. Given financialization and securitization of financial products, investors now have additional opportunities that allow profit-making during downturns, so a wealthy investor likely quickly returns to profit gaining consequentialist activities after any economic challenges.

It is important to note that each person’s economic biography is uniquely mapped out to reflect how all humans have their own individual personalities, talents, interests, capacities and needs that shape their thoughts, decisions, actions and accumulation of knowledge over a lifetime, and real-life paths. Where human individuality and knowledge have little effect in shaping one’s economic biography is during war or loss of democracy in conditions of totalitarian or fascist government when people lose freedom. All people share generic features as human beings and thus have basic needs that must be met in the conditions for life that are given by the environment along with basic social conditions. Humans who deal with illness or severe handicaps need additional social supports in order to allow participation with meaningful purposive action-taking and productive agency in community life. Discriminatory policies that involve loss of civility and respect for others can lead to cuts in government programs and reduced social supports for someone who suffers illness. Such discrimination against persons with disabilities generates an economic biography that may be similar to Agent A. People who are hurt by the impact of racism may be forced into workplace positions of lower social status, experiences and day-to-day pressures that may also force an economic biography towards the antecedentalist dimension. An individual, who experiences repeated situations that involve
racism, sexism or other forms of discrimination, may also live through injustices that have harmful impacts on an economic biography.

In contrast, a political and economic democracy, predicated by Gewirth on the “mutuality” of respect among people assures that people do not suffer short, nasty and brutish lives. A mutualist community of rights ensures that there are institutions supporting welfare, education and healthcare. These must be available to provide the positive rights required for the development of productive agency. An economic democracy has institutions that are developed to care for the conditions of possibility and foster mutuality. These are institutions, such as central banks and government departments that employ agents who understand and support mutuality among people in society and conditions of possibility for all. The most generic features of human experience are thus shared by people living through historical events particularly if these have enduring effects.

6.2 Mental Disequilibrium, Actions and Economic Cycles

A basic action involves awareness and thought about others. The nature of this thought involves a cycle from a purposive thought, to consideration of antecedents, to return to purposive or consequentialist action-taking. Such action-taking is required in the cycles of day-to-day survival and fulfillment of purpose in life. Action-taking therefore, has a direct role in the formation of daily cycles. Actions based on the turning of a need into purposeful action-taking involves thought about conditions, the use of resources and the efficient cause or generating process, as well as the potential effects on others. The transformation of a need or a want into purposeful thought, then into thought about specific conditions of action-taking, and then into purposeful action-taking that leads to fulfillment of the need or want involves a cycle. The cycle links the conception of the object through the thoughts and action-taking that carries through to
attaining the object. The cycle happens over the course of time that is required for the thought and action-taking required to acquire the object.

In reality, therefore, actions involve much more than simple, instantaneously represented choice vectors reflected by prices, as depicted in the orthodox economics models discussed earlier (3.1). Instead, it is suggested here that an individual’s action taking is more realistically envisioned as an encompassing circular formation that happens over time. Actions take on a circular function in day-to-day life as they contribute to what may be imagined as an encompassing accumulation of actions that shape day-to-day existence and the economic biography. An individual’s ‘world’ of knowledge may also be imagined as an accumulating function that forms along with an economic biography.

In day-to-day life, human actions lead to various forms of production and consumption that also require thought and effort to meet needs and fulfill purpose based on antecedentalist and consequentialist justifications. Individual thought that results in action-taking based on the two justifications may provide mental equilibrium between freedom in terms of one’s conditions for life and well-being in terms of fulfilling purpose. If one experiences difficult conditions in trying to attain productive agency and reach objectives they may endure mental disequilibrium.

Living life as an investor who is mainly focussed on the consequentialist dimension as in the economic biography for Agent C is likely to lead to some mental disequilibrium. This could be due to loss of experiential knowledge that is logically optimized with a full balance between antecedentalist and consequentialist dimensions. However, human awareness and knowledge are not logically enclosed and human imagination and intelligence may help extend thought beyond material and social constraints of an economic biography.

Mental disequilibrium might also result, for example, for the individual who believes that his or her acts of utility maximization or self-interest are benefitting everyone in society when in
fact they may be causing harm. For the fundamentalist features of such belief may well come at the expense self-honesty and knowledge. As a result, it is necessary to imagine how different economic biographies may be approximately assessed to reflect economic biographies of groups at the macroeconomic level (see Appendix III). The impact of economic business cycles means that the underlying dynamics also shape the economic biography of society as a whole. As in the tradition of Kaleckian economics, all of these sorts of factors need to be seen as endogenous to economic thought.

6.3 Aggregative Consequentialism and Disequilibrium

At a macroeconomic level, it is possible to imagine the aggregate representation of the main groups in society. Identification of low and high income groups are especially pronounced when extreme economic inequality persists. Chronic extreme inequality can be represented with a sketch of an aggregate life path of people experiencing pressures in life that are due to decreasing real incomes and other events that are shaped by availability of different government welfare programs or decreased pensions. History reveals how long wave shifts in decline may involve changeovers from conservative to liberal or labour oriented political parties shaping policies, such as with the New Deal efforts in America in the 1930s..

At a societal level, the fall-out and after effects of institutional policies based on competitive egoism of the atomistic agent is bound to spill-over into loss of scientific, cultural, and societal equilibrium. This is due to the excess in skewed expression of life experience centred on wants and economic biographies that are in the proximity of the consequentialist dimension. We note that experiences that are ideologically reduced to the consequentialist justification of property such as for the wealthiest 1% of humanity may have diminished understanding and knowledge that encompasses the economic biography that is being forced to
slope towards the consequentialist dimension of life. After all, ideological dedication to consequentialism may shut-out consideration of antecedentalist matters. It is possible to imagine the aggregate of wealthy investors’ economic biographies as drawn-out close to the consequentialist dimension.

There is likely to be imbalance in the ratio between consequentialist and antecedentalist dimensions that shape one’s economic biography that is recurrent due to the shifts in life conditions. The flow of an economic biography reflects how individuals’ may struggle over time with changes in their own purposive abilities and changes to social conditions for possibility that give value to abilities and productive agency. An imbalance due to excessive consequentialism may perhaps be overcome using leverage of thought in relationship to action. As a result of this intricate link between knowledge and life, there is individuality that shapes each unique life path entailed by economic biography. Consideration of the mental equilibrium of any one individual is a personal unique complex function that is not represented in the concept of an economic biography and philosophical discussion must avoid projections, blaming and shaming. The uniqueness of each person’s economic biography is also individually defined in relationship to his or her world of knowledge and understanding. However, this does not deny the features of universalizability that are drawn from Gewirth’s theory of human rights.

When many people experience mental disequilibrium that happens because of their life experiences entrenched in either increasing needs or overabundance of wealth, there is reason for public concern. For, the disproportionate allocation of earnings and wealth accumulation in the hands of the very rich can have chronic adverse effects on conditions of possibility, the freedom and well-being of others, culture and threaten democracy. This takes place when investors’ accumulation of claims to wealth disrupts the productive agency of others.
It is possible to imagine *claims* to wealth being accumulated and held by large institutions overseen by a central bank. Financial accumulation may allow savings needed for future spending, such as for retirements, as well as the creation of large loans for important investment projects that often benefit all of society. As discussed earlier, wealth accumulation also includes claims to wealth based on securitized products and derivatives that may target specific groups as seen in the U.S. housing market crash (2007 – 2009). Financial accumulation may be imagined as a spiral to represent the aggregated actions that are in the claims to property, assets and liabilities as a function that happens over time (see Appendix III).

The banking process of creating and managing levels of assets and liabilities that produces claim rights that support all sorts of investments of varying degrees of usefulness in society, and contribute to aggregate accumulation of wealth. However, we also know that the problem of business cycles results from imbalances in the balance sheets tracking assets and liabilities in the accumulation of wealth that can threaten economic systems-at-large.

The accumulation of claims to wealth involves the antecedentalist dimension and *needs* such as in pension plans, as well as the consequentialist dimension and *desires* or wants in material goods as well as in forms of financial instruments designed to make profits. These are fundamentally different sorts of claims that must be differentiated in terms of valuation in society that is reflected in a unit of currency. Therefore, the value of a unit of currency is affected by claim rights shaped by *both* antecedentalist and consequentialist dimensions. The value of the claim rights change over time depending on the conditions of possibility or needs and on the consequentialist features based on wealth. The unit of currency, in turn has power to sharply affect freedom and well-being of many people in society. The valuation of money can cause it to vanish in sectors of society such as when currency values were fixed to support the standard of gold during the Depression. Balance sheet disruptions and the failure of traditional economics,
the ideal of market equilibrium to provide conditions of possibility cannot be ignored by policy-makers. If needs are not met in a society due to market redistribution of money to support wealthy claims or property rights such as to gold, human rights can be violated and money or units of currency function mainly to serve claims based on consequentialism and financial machinations that may be given importance. Orthodox economics gives priority to consequentialist claims to wealth without any theoretical concern or capacity to account for needs-based rights.

Keynes’ idea of wage-units did not provide a basis from which to discuss the different functions of money in a society. In reality a currency functions first, as a medium of exchange meeting needs in the conditions for action-taking and secondly, as a store of wealth since it reflects the value of contributions from consequentialism in the value of savings from work done in the past, as well as from activities in financial markets. It is also possible to consider a currency that functions to serve antecedentalist functions such as to service debts of society without leaving any potential for savings for future investment. The loss of any possibility for a consequentialist role for a currency means that its valuation is primarily determined by its functioning as medium of exchange. This occurs in situations of hyperinflation such as in post-World War I Germany, where the crashing value of the German mark meant that it could no longer function as a store of wealth for any future action-taking, and eventually, could hardly function as a medium of exchange due to spiraling market values. Investors’ wealth becomes worthless as the currency deflating in value during an inflationary economic time is dumped in exchange for other currencies that have reliable value. The two functions of money have interrelations with the antecedentalist and consequentialist dimensions that together may be able to help deepen understanding of how financial market activities affect people’s lives and human rights.
It is suggested here as a matter for future study that the two functions of claim rights that shape valuations may be regarded in a complex ratio. Perhaps a complex ratio could be developed to explain additional dynamic relations between people and financial events. Additional dynamical foundations could help to support the importance of the capital to income ratio as discussed by Piketty (2014) noted earlier (1.1). Placing needs and wants into a functional understanding of money also requires the consideration of all the relations in economic processes providing for needs and wants. In particular, the provision of conditions of possibility, freedom and well-being that are required for political and economic democracy call for the development and functioning of morally based institutions. Ignoring human needs, leads to violations of rights and to the sort of situations that happen when ignoring democratic institutions as described by Minsky, Arestis and Sawyer and other post-Keynesian economists.

The political and economic disequilibrium that underlies disruption of the capital to income ratio may be described in philosophical terms. If there is over-emphasis with consequentialist investments and people are forced to accept decreasing income, human *productive agency* can be denied and human creativity may be stifled – and this marks violations of rights. The over-emphasis of the consequentialist dimension results in our current situation in which investors’ over speculation in securitized instruments can lead to neglect of the conditions of possibility for workers as well as for other investors in society. Over or under-emphasis of one dimension over the other creates disequilibrium related to freedom and well-being of people. We recall that Gewirth’s starting point is in the mental disequilibrium that human beings experience if they are deprived of voluntariness by being subjected to abuses of power, or, if they are involved in activities where they are engaged in risks of self-contradiction, overemphasizing their own self-interests. But in resolving such imbalances, the presence of unmet needs and
degrees of needfulness must be recognized by all rational humans capable of understanding the PGC.

6.4 Political and Economic Democracy and Conflicts

In our current historical conditions, in which decision-makers rely on orthodox economics, policies based on preferences and judgements will *cause disequilibrium* between antecedentalist and consequentialist functions of money. This is due to the fact that orthodox economics favours investors’ rights whilst full employment policies have been sidelined along with Keynesian theory. In other words, orthodox economics involves a generating process that results-in and requires conflicts over rights to resolve imbalances. Noting again, since orthodox economics treats such conflicts as *exogenous* they are left subject to free market forces, judgements made by courts or government bailouts. People end-up in conflicts when education and healthcare are threatened by orthodox economic austerity policies. Such arrangements that support economic elites increase the power of businesses over the valuations of labour. The orthodox economic arrangements create another generating process related to human rights to clean air, water and food that are threatened by big business decisions, as people end up in conflicts as they are forced by conditions to have to fight for their rights. The adversarial conception of the relation between rights and community at the foundations of orthodox economic creates a need for conflict studies.

Philosophical struggles within economics have influenced conflict studies. As noted earlier (1.2) the greed versus grievance debate emerges out inability of economic theory to recognize how needs are different from desires. Gewirth’s philosophy deals with the greed versus grievance debate by providing a framework that calls for analysis of both political and economic needs and wants that are involved in conflicts. The concepts of the PGC based on
generic rights to freedom and well-being along with degrees of need that help to sort through various claims that can become part of conflicts.

This thesis also discussed how philosophical struggles in economics to explain cycles helped kick-start the monetarist versus Keynesian theory debates. The rise of monetarism led to degeneration of Keynesian policies through privatization, and diminishment of social programs and redistributive policy-making. Global warming and the risks to food supplies along with mass migrations due to war and hunger pose new risks of conflicts. The concept of political and economic democracy is important in prioritizing rights that need to be protected in order to ensure conditions of possibility and reduce conflicts. A re-thinking of the meaning of full-employment based on a shortened work-week is urgently called for particularly as global warming and automation of production processes bring into question how people can exercise productive agency to earn income that allows meaningful social existence.60

In the meantime, however, conflicts are further encouraged as orthodox economics ignores the role of antecedents, and the historical events over time in which people deal with increasing degrees of needfulness, while the wants and desires of wealthy investors are upheld as benefitting all of society. Extreme inequality fuels conflicts as increasing numbers of people need to fight for their basic rights to conditions of possibility.

This can be illustrated with a spiral of conflict, as part of the aggregated economic biography of a society (illustrated in Appendix III). The spiral of conflict, discussed earlier (1.2) happens due to the culmination of action-taking in ongoing conflictual situations and escalating disagreements over rights and diverging ideological views about the future of political democracy. The aggregated spiral of conflict for society-at large reflects the mounting conflicts over time, with each conflictual event tying into another. The orthodox economic assumption

60 For more discussion based on restoration of concern for virtues and the meaning of the good life in re-thinking the meaning of work, see Skidelsky R. & Skidelsky E. (2013).
that market forces will resolve conflicts in orthodox economics further fuels the disequilibrium since market forces based on consequentialist decision-making do not involve knowledge, awareness and understanding of duties. The spiral of conflict in a situation of extreme inequality can be avoided through awareness of the role of morality in action-taking along with mutuality and shared understanding of the need for conditions of possibility for all people.

The antecedentalist and consequentialist dimensions also provide a foundation for philosophical discussion of the relation between human rights, valuations, and the environment. The orthodox emphasis on the good of the consequentialist dimension and human desires may overwhelm reasoning about the relation between humanity and global warming, possibly encouraging people to doubt the science of climate change. As part of the ratio of antecedentalist to consequentialist dimensions, the role of the life-giving environment in supporting all human action-taking cannot be overemphasized. Human needs and rights to clean air and water are critical to the conditions of possibility and the ongoing existence of humanity. Human action-taking is impossible without a life-giving environment. A society that ignores such needs ends up with economic biography that is skewed towards the consequentialist dimension. High valuations of consequentialist claims can result in degrading valuation of claims to needs-based rights through abuse of power relations. Consequentialist fundamentalism can erode pursuit of knowledge, science and result in confusion over such matters as discussions of equilibrium in relation to well-being. Such consequentialism generates an economic biography of undefined meaning in relation to the environment. Wealthy citizens can enjoy an economic biography that is skewed in its dependence on the consequentialist dimension. At the same time, the inegalitarian harm that is caused by egotistical investors supporting toxic polluting industries, can lead to a schism in economic biographies of the wealthy and poor. The poor people who suffer violations of basic rights to income security and clean air, water and land, depending on
where they live, share an economic biography that is skewed towards the antecedentialist dimension as their day-to-day lives are increasingly focussed on matter related to survival, dealing with illness and struggling to earn income.

In a society that is shaped by economic inequality, there is a splitting of aggregated economic biographies for the main groups of wealthy and poor classes. Each of these economic groups’ biographies is evolving away from a balance in the rights to political and economic democracy. Thus, it is necessary to recognize the expanding chasm or space between the wealthy elites and masses of poor people. This space is filled with action-taking that becomes part of struggles over various claims. These conflicts are the exogenous events that orthodox economics is unable to explain as part of the equilibrium economic model. The masses of people experiencing job losses or other economic struggles get increasingly engaged in conflicts to defend their rights to well-being and turn to groups that can help them protect their sense of identity. The wealthy groups defending traditional property rights and consequentialism that are perceived to be of greater importance than the rights of the masses, cling to the fundamentalist view that their economic well-being must prevail, at whatever cost, especially if they also believe-in their own “natural superiority” along with Pareto optimality and the notion that their success is somehow automatically beneficial for society-at-large. Given these battle lines, conflicts over claims accumulate over time and fill the chasm between the different social groups. The split of economic biographies and the growing spiral of mounting conflicts over rights are illustrated in Appendix III.

In contrast to a conception of a conflictual relation between rights to basic needs and nature, equilibrium of political and economic democracy offers a different approach. For, rights based on equilibrium of antecedentialist and consequentialist dimensions in people’s lives may be
expressed as being in *unity* with our encompassing environment. The fragility of life and the political and scientific struggles with the complex meaning of equilibrium need to integrate understanding relations between society and nature. Perhaps studies of how human social existence can continue without further exacerbation of threats of mass extinction could be helped if there are more complex approaches to the nature of equilibrium that are related to human rights. Gewirth’s understanding of political and economic democracy offers pathways to working with natural sciences concerned with understanding our life-supporting relation to the environment.

Gewirth’s epistemology certainly provides a foundation for viewing the inextricable links between political and economic democracy rooted in freedom and well-being. The disruptions caused by the accumulation of investors’ action-taking that involve repeated risks of self-contradiction by not bearing any concern for how one’s action affect others, ultimately do hurt people in society-at-large. The required market corrections lead to austerity, increased unemployment levels and devaluations of assets with harmful impacts on people’s economic biographies as well as upon society’s economic biography. A society that allows unbridled investment activities that can violate the rights to freedom and well-being of others then has to deal with the serious complications and costs related to mental disequilibrium, costs of conflicts and threats to political and economic democracy.

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61 There is unity since the environmental conditions of existence in the antecedentialist dimension are in balance with the consequentialist dimensions in equilibrium.
Conclusion

This thesis has discussed theoretical divisions and difficulties in explaining relations between economic disequilibrium, property rights, inequality and democracy. A number of problems in economics hinge on the difficulties of integrating human rights and action-taking, history, time, and money in a coherent conceptual framework. The task seems so enormous that efforts to delimit economic thought by making property rights, conflicts, unexpected events, and shocks exogenous to economic theory may appear reasonable. However, the effects of making rights and conflicts exogenous to economic theory introduce complications with serious political and social repercussions. Since traditional economic theory regards human rights and needs as exogenous to the field (as discussed earlier (0.1; 3.4) professional economists may be trained to avoid thinking that they have responsibility for accounting for human needs. A multitude of different approaches to economics try to deal with the methodological difficulties. Yet textual evidence shows how social choice theory, chaos theory, systems theory, and behavioural economics, all end up integrating foundations that may readily include traditional property rights and the competitive self-interested individual. Economic and political approaches end up involving the indeterminacy of Keynesian preferences in order to explain social and moral problems. As a result, the economic approaches discussed in this thesis end up relying on the adversarial conception of the relation between rights and community that stems out of economic philosophy of the atomistic competitive self.

Macroeconomics, social choice theory and sophisticated econometric models such as are used in policy-making by governments and central banks end up relying on preferences as a foundation for decision-making. Evidence shows how the Arrow – Debreu model is used in different theories, from both right and left wing approaches to describe how different groups’ preferences enter into the social and political sphere. In addition, the trend in the humanities and
social sciences to denounce liberal individual rights has further encouraged scholars to discuss rights in terms of groups’ cultural preferences which also end up supporting the Arrow – Debreu model which is central to orthodox economics.

Analysis of the Arrow – Debreu model, however, exposes how it harbors a simplified understanding of choices that end up reflected in market-determined prices. Human action-taking is collapsed into a choice vector that does not require consideration of antecedentalist and consequentialist justifications that are required according to the PGC. The value of an action is simply expressed in terms of market-determined prices. Scholars working in economic and political fields also use the Arrow – Debreu model to analyse groups’ preferences in relation to rights. As a result, the traditional view of property rights remains unchallenged at the foundations of economics without much notice or academic concern. The orthodox notion of property rights is available for use without consideration of how actions impact others. Evidence demonstrates how large investors can use algorithms that stake out claim rights to wealth in financial markets, housing markets and in any economic sector that offers goods that can be securitized. The algorithms are also unleashed in social media platforms on the World Wide Web to gather-up information about preferences. Other algorithms can then be used to influence and manipulate the preferences. The detailed information about people’s preferences may then be used to satisfy the particular wants and desires of powerful agents, groups and investors. However, such desires can involve all manner of racist or political power-seeking that can add to social conflicts.

The indeterminacy surrounding the definition and use of the traditional concept of equilibrium creates complications. Kaleckian economic approaches reject the notion of equilibrium and argue in defense of social institutions that are required to ensure employment levels, healthcare, and education.
However, neoliberal ideology supports mathematical models built-up around equilibrium analysis, with models proposing austerity policies to allegedly benefit everyone. The economic models may involve judgements and preferences that gloss over the potential for racism, abuse of power, and conflicts that stem from traditional property rights. Implicit assumptions about property rights may still be used in economic interpretations and place outcomes ahead of any concerns about inequality or human rights and democracy that can even be labelled a myth (1.1). It is therefore, no surprise that the economic events of the past decades have unfolded in a manner that undermines and threatens democracy.

The consequentialism of orthodox economic approaches that safeguard traditional property rights may use the idea of Pareto equilibrium to insist on the notion that ever-greater support for investors’ action-taking is required for the good of society. Policy efforts by central banks and governments ensure the liquidity and wealth required for ongoing investors’ action-taking and exchanging of claim rights to wealth. Automatic mechanisms guide policy-making to assure that government spending is cut as soon as problems with debts may arise (3.3). Analysis of central bank and government policies for emergency actions to bail out private institutions reveal how readily investors’ liquidity shortages are compensated while human rights to basic needs and democracy can be ignored. The historical evidence analysed in the Financial Crisis (2007 – 2009) shows how the actions of private investors and institutions can easily overpower the claim rights of individuals (1.1). Indeed, this underscores how government institutions have moral duties to ensure that public institutions carry out democratically mandated programs such as management of funding for workers, pensioners or homeowners facing loss of employment, income or homes.

Given the push for independence of central banks, particularly in America, as described by Palley (3.1), there is ever-growing concern about how monetary policies could undermine
democracy. The role of the Bank of Canada shows somewhat less concern for independence than what Palley describes for the Federal Reserve in the United States. To the extent that policy arrangements were made to buy-out all the bundles of mortgages that could no longer be traded privately, that were held by Canadian banks, perhaps stands as an example of how the Bank of Canada is concerned for democracy and rights of home owners.

The obstacles facing central banks that are concerned about democracy and rights are growing, particularly in light of the role of privately developed financial instruments based on algorithms that contribute to AI. Moreover, in light of the historical evidence around the 2007-2009 Financial Crisis that shows how algorithms were used as part of economic violence, the risks of AI being used by powerful financial interests to the detriment of the masses ought to be a concern in conflict studies and economics. As well, given the current malleability of public preferences that are at risk of being increasingly managed and manipulated by private interests, it may well be that orthodox economic trends to privatize government programs and institutions may continue to expand. Quests to take over government programs and compromise the duties to provide the positive rights in welfare, healthcare and education must be stopped, especially in light of blatant moral hazards of private interests pushing for privatization of public services.

All the evidence supports the conclusion that there is a moral duty to urgently and belatedly address the dangers related to traditional property rights and equilibrium that support 19th century racism, abusive business opportunities created around the basic human rights of citizens, and outright disregard for democracy. Gewirth fully understood how traditional economics could lead to extreme social and economic inequality. His inegalitarian harm thesis describes how abuse of power and egoistically based actions can result in deprivation of human needs that deny people their rights to productive agency. Moral rights, said Gewirth, must support laws or people are morally justified in ignoring the laws (0.2).
Gewirth also foresaw how legal conflicts related to inequality could be further fuelled by the use of communitarian theories relying on the adversarial conception of the relation between rights and community, with group identities being reinforced in the face of racist policies. The confluence of communitarian theories of rights and social choice theories all lead to ever-greater competition based on preferences. Such competition seems to only boost the functioning of traditional property rights and equilibrium.

At the same time, if governments turn to purely socialist prescriptions with technocrats prescribing all decision-making that denies consequentialist potential altogether, this can quickly lead to totalitarianism which also denies democracy. In such circumstances, rights to freedom of speech, thought, and expression are denied along with the voluntariness in actions required by the PGC and rights to productive agency. The political risks of racism and fascism that have already proven to stem out of relativist philosophy, magnify the urgency of Boylan’s (2016) appeal to philosophers who dismiss the importance of Gewirth’s concept of the pain of self-contradiction. Given that historical evidence from the early 1900s shows how the ideas of relativism could dismiss liberal democracy and lead to conflicting views about rights in the face of mounting inequality, provides reasoning for concern about how to avoid repeating the mistakes of the past historical cycles. Philosophers, who may deny the importance of the PGC and the pain of self-contradiction, such as noted by Boylan (2016) may believe-in relativist foundations and may well personally experience the burden of bearing the pain of self-contradiction.

Historical economic cycles such as experienced in the decades leading to the World Wars demonstrate how society is vulnerable to political and economic turmoil as extreme inequality takes hold. Democracy is threatened by inequality as people find great appeal ideological views and explanations of socio-economic problems that blame scapegoats. Scapegoats are likely to be
used because ideology stems out of failed theories. Yet such failures may only serve to increase fundamentalist thought by groups of decision-makers and academic leaders who may feel desperate to avoid or eliminate unwanted forms of challenging questions in order to defend the meaning and importance of their work that exists within increasingly tight boundaries. Moreover, academic leaders have a duty to protect their income which may be threatened by a degenerating democracy run by populist anti-intellectual government, which may add further pressures that stifle freedom of thought. This sort of erosion of democracy only emphasizes how academics and citizens have a moral duty to challenge ideologies and question theories used in economic and public institutions.

The suggestions offered in this thesis (6.1; 6.2; 6.3), have built-upon Gewirth’s concept of economic biographies that rely on the vital functioning of the antecedentalist and consequentialist justifications. These justifications lead to the development of Gewirth’s description of political and economic democracy that are central to the community of rights. The all-important degrees of need as well as Kalecki’s degrees of risk are considered in a dialectical relation in time within Gewirth’s conceptual framework. The antecedentalist and consequentialist justifications for decisions and actions allow philosophical discussion based on a more realistic understanding of the self than is possible using orthodox economics.

The research findings of this thesis magnify the urgent need to address orthodox concepts of property rights and traditional equilibrium that need to be replaced with more realistic and morally grounded concepts. Gewirth’s philosophical framework of a balance in the rights to political and economic democracy provides an alternative understanding of equilibrium for society. A different view of equilibrium provides a new basis for justice that can serve the need for democracy and help avoid the harm and violations of rights caused by economic disequilibrium.
Gewirth’s property rights grounded in both antecedentalist and consequentialist justifications may allow a deepening of theoretical understanding of the functioning of money. For, the determination of prices and values of currencies consist of action-taking and rights to claims that include both justifications, based on thoughts, decisions and efforts to fulfill both human needs and wants. An overemphasis of consequentialist action-taking in financial markets based on the satisfaction of wants can lead to action-taking that engages in degrees of risks in self-contradiction by ignoring the PGC.

Investment actions involving self-contradictions accumulate and are visible in the growing inequality and conflicts that threaten democracy. Philosophical analysis and understanding of self-contradictory actions in economics helps to deepen understanding of the contradictions of capitalism. Self-contradictions that are based on implicit assumptions of traditional property rights can lead to violations of rights and cause human suffering. The aggregated self-contradictions are part of the dynamics that underlie economic and financial cycles.

Historical evidence describes how cycles can exacerbate social problems and human suffering due to inegalitarian harm as seen in the Great Depression and the Financial Crisis (2007 – 2009). The problems of overuse of wealth for consequentialist investment activities in financial markets, and particularly the self-contradictory investment actions that are harmful to other citizens may hopefully be better identified, tracked and prevented in the near future, particularly in light of the positive uses of algorithms and AI. Gewirth’s philosophy offers a systematic approach to potentially analyse the dual functioning of wealth and money in economic exchanges that are tied to human needs and wants. This potential stands as the subject matter for future research.
Evidence suggest that the use of Gewirth’s conceptual framework to help deepen understanding of the relations between human rights, action-taking, and a balance of political and economic democracy provides new avenues to understanding the nature of historical economic cycles and the underlying power relations that threaten civil peace.
APPENDIX I

Gewirthian Political & Economic Democracy
APPENDIX II

Gewirthian action theory in thought-space-time
Accumulating Actions Leading to Extreme Inequality and Conflict in Society

APPENDIX III

Spiral of Accumulation of Claims to wealth

Increasing Degrees of Risk for Investors

Orthodox Economics

Approximation of Economic Biographies of shared Investors’ Experiences with Increasing Wealth Accumulation

Time

Economic Biographies of Society in Conflict over Rights

Life-giving Environment

Approximation of Economic Biographies for people sharing experience of decreasing Real Income

Increasing Degrees of NEED for People in Society

Spiral of Conflict

Antecedentalist Dimension

Consequentialist Dimension

Communitarian Theories

50yrs

Theories
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_____ (2009)


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