Economics and Society. Freedom-creativity and social justice

Abstract

The essay discusses the role and meaning of ethics in the working and organization of the economy and the relationships of this with other branches of social system; it seems to us this is the core of the ethical question from a scientific standpoint. The discussion drives to explore the logical possibility and, in some sense, the growing necessity to build up an economic and social system more appropriate to modern world than the current ones. In fact, if such possibility exists and is proved, it will be carried out sooner or later.

The paper starts from a crucial ethical question for the analysis and governance of societies and the understanding of growth process: the relations between diversity and equality and hence between freedom-creativity and social justice. It follows a brief historical perspective on outstanding civilizations and the advent of capitalism, directed to provide the analysis with depth and a wide generalization. Afterwards the essay concentrates on economics and its relationships with social system.

A main purpose of the study is to show the existence, in principle, of a large autonomy of income distribution from production, except the necessity of material incentives. This implies the possibility of largely subtracting production to the conditioning power of income distribution – a power that capitalism weakens trough unemployment- and a large possibility to perform social justice.

The topics above are strictly linked to the character of financial system and its relationships with production, mainly the paradoxical and ruinous hegemony of great finance on production, instead of being at the service of this.

We set out a schematic model on income distribution and finance devoted to overcome the drawbacks that the paper underlines

Angelo Fusari
via Voltaire, 18 00137 Roma, Italy
e mail address: anfusari@hotmail.it
1. Diversity and equality: a fundamental proposition

The treatment of this subject in a simple and easy to read way can opportunely begin with a deepening of the statement that follows: ‘Men are different and equal each other, different in skills and dispositions, equal in dignity’. It may seem that the two terms of this statement are in opposition. On the contrary, they are strictly and positively linked each other. The great equivocations and mystifications on the link have deeply influenced the characters and development of social systems and, more in general, historic processes. The statement on diversity expresses mere evidence, a character of human nature extremely important for its implications. Mankind’s skills would be very poor if men, by nature afflicted by heavy limitations, were identical each others. So many differences in men’s capacities and inclinations represent an immense patrimony of innovative and expressive skills, the main evolutionary power fueling social and economic development and, in particular, a basic propulsive force of modern world, provided that the expression of individual skills and attitudes is stimulated.

On the contrary, the statement concerning the equality in dignity is not a mere evidence but expresses an ethical principle having however a special status: it represents a necessary condition to the full expression of individuality, i.e. the dissimilar men’s skills and hence their evolutionary potential. This link of the moral principle on equality with the objective fact of men’s diversity means that the statement on equality cannot be considered in a relativist sense and as a matter of choice but is an ethical principle having an objective character.

The operation of men’s unlikeness, and hence of the connected evolutionary potential, have some other important ethical implications: they need tolerance, social justice, free thinking, action and expression. These requirements subtract also the mentioned ethical principles to the sphere of ethical relativism giving them an objective substance.

The equivocations on those principles, in particular the misconceptions on the relation between freedom-innovation and social justice, are largely present in the various branches of economics and are for the most linked to the question of income distribution and the relationships between production and financial system. It is often disregarded that, in the presence of heavy inequalities in personal wealth and income distribution, the equality in dignity is largely jeopardized thus obstructing the improvement and use of individual skills and squeezing innovation, hence economic and social development, mainly if
production is largely dominated by great finance with its speculations. It is necessary and urgent to manage for conciliating as far as possible both the terms of the initial statement, i.e. diversity and equality.

We shall see it is mistaken to think that social justice obstructs productive efficiency; if appropriately pursued (in particular without suffocating or exaggerating the role of material incentives and in the presence of a not pervasive financial system), social justice stimulates efficiency, for reasons going well beyond the possible need to stimulate effective demand in the presence of a deficiency of this.

J. J. Rousseau’s discourse on inequality set out, at the starting of the illuminist movement, a provocative and over simplified thesis that underlined a breakage between savage man ‘that after eating is in peace with the whole nature and is a friend of all leaving beings’ (the myth of the good savage) and socialized man, who is pushed by civilization towards great infamies. There is some truth in Rousseau’s denunciation of the corruptor effects of civilizations and it is easy to find a lot of confirmations in the course of history. But it is useless restricting to imprecate against civilizations. The true problem is to find the ways to make civilization a friend of Man instead of being a cause of affliction. A brief historic excursus on the subject, embracing different social systems, is indispensable to can correctly arrange the theme.¹

2. Equality and diversity in ancient civilizations
In the course of time, the binomial equality-diversity has caused acute contrasts among people and students and has taken various forms in the context of the relation individuality-organization-homologation; an impressing variety indeed, mainly in primitive societies. In the most advanced civilizations of ancient times, the relation equality-diversity was squeezed on its first term by the strength of organization and homologation; in fact, those civilizations were the outcome of great centralized empires (Eastern, American and central African empires), all condemned to a stationary state both by the suffocation of criticism operated by organization and command élites and a perfidious form of equality expressed by mass poverty. But two exceptions appeared that would have had a great future:

¹ What I’ll say here is widely considered, with many exemplifications, in my book (published in Italian) entitled ‘Human adventure: an inquiry on the pathways of people and civilizations’, SEAM, Rome, 2000, pp.780. The study starts from primitive ages and embraces the great Asian and Mediterranean empires and societies, Arab civilization, European Feudal and Medieval societies and Renaissance, till the beginning of the eighteenth century.
a) The ancient Greece, privileging heterodoxy and free enquire, with the enflamed disputes in the Agorà that pushed Greek thinking to anticipate with great versatility important contributions in an impressing variety of subjects, contributions resumed (sometimes unconsciously) by the subsequent development of human thinking. Greek world was distinguished by the prominent role of individual, but excluding consideration for personal dignity that was at all denied to slaves and in some sense to all foreigners, considered barbarians.

b) Judaic world, where a religious message appeared characterized by great consideration for individual and a strong statement of the equal dignity of all human beings as God’s sons. This message sanctified in the end the absolute respect for the person.

Some centuries later, the wedding of the prominent organizational skills of ancient Rome with the Greek cultural inheritance gave birth, in the Roman Empire of Principality, to an outstanding political and administrative organization directed by an efficient bureaucracy of little dimensions that was complemented by the municipal self-government of the decurions and defended by few legions. This administrative order, unequalled in ancient time and that unfortunately has had no replications everywhere in the World, did not generate a dynamic economy for various reasons: the transgression of the principle of equal dignity of men and the associated slavery, extensive large estate, the dominating stationary idea of circular time emphasized by Stoic philosophy. The malaise and contradictions caused, in the presence of such an administrative structure, by a long lasting stationary state pushed the agile and light organization of Principality towards dissolution. The disintegration of the Empire was prevented, during the tormented III Century after Christ, by the efficient bureaucratic and military order. This allowed the exceptional organizational skills of Romans to edify a penetrating centralized bureaucracy, the Empire of Dominate that similarly to all great empires of ancient times was appropriate to have long life in (and to maintain) a stationary state, but heavily transgressing the Greek message sub a.

Further, Greek and Judaic teachings sub a) and sub b) were recovered, in different ways, by the diffusion of Christianity. The rising Church established an ambiguous relation between the role of individual and organization, different in the two parts of the Empire. Such relation inclined, in the Eastern Roman Empire, toward the homologation aspect (with some remarkable exceptions, for instance the incessant and hypercritical censorship of Mount Athos monks’): the Constantinople patriarch substantially was an officer of the
Empire while the emperor was a kind of Supreme Pontiff that, indeed from the time of Constantine the Great and his heirs, had the decisive word in the resolutions of the ecumenical councils, if necessary drawing the sword.

On the contrary, the fragility of Western Empire, mainly due to the dominating presence of large estate and of senatorial oligarchy (polarization aristocracy/slavery), a subsidized urban populace and the geography of State boundaries making these difficult to defend, favored the dissolution of Roman State.

3. The advent of capitalism

The political and administrative fragmentation that followed the fall of Western Roman Empire and rooted, after Charlemagne, during Feudal parenthesis, started to restore the role of individual diversities but, differently from Classical Greece, taking them associated to the message that all men are equal in dignity and brothers being sons of a same Father. Individual diversities were exalted by Italian maritime republics and free commons, and by the free towns of Flanders. Individual’s role was also exalted by the new intellectual climate, mainly in monasteries and later with increasing vehemence by heretical movements. These events gave rise to capitalism that started to impress a strong push to the growth of material wealth and established the centrality of the economy.

This evolution took place through tormented spontaneous processes and in a condition of impressing administrative disintegration. Economic and social development would have been more rapid and less tormented if the great dash fueled by the explosion of entrepreneurship and the centrality of the economy had taken advantage of a light and decentralized political-administrative organization like that of the Roman Empire of Principality that, as previously seen, was condemned to death by the absence of a dynamic economy.

Differently from the centralized great empires, governed by omnipotent elites and bureaucracies endowed by great privileges and where all the remaining population was a ‘protected flock’ of poor men, in the rising of capitalism the inequalities in wealth were the outcome of the differences in trading skills, the propensity to innovate and to adventure. This fed the dynamism of production. But the large and increasing inequalities in income distribution generated by capitalism over time and that plainly violate the

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2 In the most efficient centralized society of the past, the Celestial Empire of ancient China, the Mandarines’ bureaucracy was selected on the basis of severe examinations devoted to make evident and reward knowledge, a culture and forma mentis appropriate to the administration of a stationary empire, while entrepreneurship was strongly suffocated.
principle of solidarity among men (notwithstanding cases of Mecenatism), served by a financial establishment that in the end has subdued production, have started to cause more and more destabilizing effects, suffocate the role of individual and hence the potential associated to the wide qualitative differences in skills that nature has abundantly endowed men.

The equalitarian reactions of last century have drawn the World from the frying-pan into the fire owing to a protracted darkening of diversities and the resurrection of bureaucratic centralized orders. In the end, Eastern socialist countries, defeated by the competition of Western decentralized capitalist World, have started to converge towards a kind of capitalism much worst of the Western one in terms of inequalities in private wealth, corruption and inefficiencies. These failures of the equalitarian reaction have discredited social justice. Nowadays global finance, with its enormous disposition power on material wealth, has in its hands the destiny of the World and its speculations cause impressive destabilizing movements. Therefore, some important questions arise: how properly combining the role of organization to the ontological imperative of individuality, as required by our initial assertion on the relation between diversity and equality? Are inevitable and indispensable the huge and growing inequalities in the distribution of material wealth and in power of disposition caused by capitalism? Or the contrary is true? In order to preserve and cultivate the rhythms of innovation and development that capitalism has fed till now, is it necessary to marry decentralization and free initiative to a much more fair income distribution, the principle of solidarity and bring back great finance to the service of production? Is that possible? These are central questions in the present age.

4. Some useful teachings: Keynes and Schumpeter

In the book on ‘Economic Theory and Social Change’1, Chapter VIII entitled ‘Toward a non-capitalist market economy: spontaneous order and organization’ I show the possibility to marry a high distributive equalization to innovation and development and bring back financial system to the service of production. I have also clarified the necessity of all that for giving full value to the variegated personal skills and avoiding that development is suffocated by paralyzing contradictions. The treatment of these subjects needs to pay a main attention to the economy, which plays a crucial role in the analyzed vicissitudes. The analysis may profitably utilize important standpoints of Schumpeter and

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1 See H. Ekstedt and A. Fusari, Routledge 2010
Keynes’ contributions, notwithstanding the harsh contraposition of the two students in the course of their life and in the interpretations of successors.

Keynes’ contribution is hinged on the role of demand of goods. He underlines that, in the presence of a deficiency of effective demand, redistributive policies, deficit spending and even wasting represent some obliged way to stimulate employment and production. But what to do if production is obstructed by high costs e.g. due to social conflict or other pressures from the side of income distribution, or bottlenecks in entrepreneurship etc.?

Keynes pays a little attention to the question of income equalization. Moreover, he disregards entrepreneurship and innovation that, on the contrary, are at the centre of Schumpeter’s teaching. But this author almost disregards income distribution; he had on the problem a position similar to the Neoclassic one and especially a great admiration for the Walrasian model of general equilibrium, notwithstanding this approach is in plain conflict with Schumpeterian economics centered on entrepreneurship and innovation.

In particular, both Keynes and Schumpeter do not deepen the possible degree of autonomy and separation of income distribution from production and hence the possible improvement of social justice without obstructing production but instead stimulating this. It may be useful and illuminating to combine some general and basic aspect of these authors’ teachings. This has not been done by post-keynesians and Schumpeter’s followers. In addition, a frequent misunderstanding has caused deep contrasts, not only among students: the idea that the entrepreneur and market are exclusively capitalist institutions.

These confusions have enabled the so called mainstream economics to easily consolidate its hegemony simply by taking care to recover and combine in surreptitious or merely formal ways some aspects of Keynesian and Schumpeterian teachings. In this regard, Hicks’ work on demand and money (IS-LM model) and some Neoclassical treatment on innovation and human capital as factors of development (Romer, Lucas) simply based on the addition of some factor in the production function, are emblematic. Neoclassical mainstream economics proclaims the natural character of the link between income distribution and production, through the notion of marginal productivity etc., a link that indeed is neither natural nor inevitable. And adds a notion of capital based on the Robinson Crosue’s metaphor.
5. Entrepreneurship, innovation and effective demand

We delineate here some congruencies between Schumpeter and Keynes’ teaching, but not according Neoclassical rationalization that, as just seen, has attempted to incorporate them by erasing their real meaning. We shall consider the relations between entrepreneurship, innovation and effective demand. Those relations have been extensively analyzed in our book on ‘Economic Theory and Social Change’, chapter V entitled ‘Innovation, uncertainty and entrepreneurship. Modeling the dynamic process of the economy’ also using a formalized quantitative model of the economy.

The success of product innovations concerning consumer goods mainly depends on expendable income and the propensity to buy new products. If expendable income is high and continues to grow, the saturation of the demand of preexisting consumer goods will be reached. The stagnation of consumption also implies the stagnation of the demand for capital goods and the entrepreneurs will be obliged to produce new goods to may sell. The sale of new consumer goods would be facilitated if families’ income will continue to be high that would cause a more rapid rise of logistic curve concerning the demand of new goods and thus contributing to shorten business cycle. But capitalism is subjected to a drawback: the stagnation of demand causes unemployment and hence the pauperization of population, so that the consumption of new products will depend on the preferences of very rich men, i.e. on income inequalities. This determines a positive correlation between the inequality in income distribution and innovation, being entrepreneurs obliged to innovate by economic depression (innovate or perish). But such positive correlation is not unavoidable. It would be much more natural if the expendable income of masses remained high (in the presence of low inequalities); in this case the success and diffusion of new products would be more rapid. Income inequalities are only required by the sale of high expensive goods, for instance Ferrari cars and Palladian country residences. Well, in a world with an income distribution not too much unequal, Ferrari cars would be bought for car racing and architectural arts should be mainly promoted through public buildings, while artistic production would not get very high prices. People owing rare qualities (e. g. managerial skills) have not a strict need of money incentives to be induced to use them being rewarded by their mere use: Modigliani painted for nothing and even tormented by hunger.

What about cycle?
Keynes’ short term analysis does not concern cycle properly. The attempts to combine, in a medium range perspective, Keynesian and Classical teachings (as in Pasinetti) take exogenously income distribution and innovation (or technical progress). For its part, Schumpeter’s analysis on business cycles disregards the problem of the degree of autonomy of income distribution from production and the possibility and way to carry out such autonomy outside capitalism but without refusing (and erasing) the entrepreneur and market. His work on ‘Capitalism, Socialism and Democracy’ would have had a completely different (and much more illuminating) content in the absence of such disregard and the assumption of the inevitableness of the bureaucratization of the economy through big business, a surprising Schumpeter’s landing indeed, since it contradicts the substance of entrepreneurship.

Before Keynes, so to speak, excess of Schumpeterianism was at work and this caused a catastrophic crisis due to demand deficiency. Capitalism accepted Keynesian recipe to avoid collapsing. An excess of Keynesianism has followed. The long term consequences of that (public debt, etc.) afflict nowadays Western economies and the whole modern world where a global finance is rolling in political fragmentation. Innovation and social justice, Schumpeter and Keynes, need to be combined. Welfare State has for long time favored innovation, not only in Scandinavian countries. This is no longer possible. In our time, a more articulated and comprehensive practice of social justice is required, flanked by a less pervasive financial system, to avoid that the great and beneficial diversities in natural skills among men determine huge and unnatural inequalities in the distribution of material wealth accompanied by growing destabilizing tendencies.

6. Some proposals on income distribution

Now let come to consider in some detail a crucial question implied by the initial assertion on diversity-equality: the degree of possible separation of income distribution from production.

1. We start from profit intended as a counterpart (and an effect) of entrepreneurship and hence excluding interest on capital. Is profit necessarily a category of income distribution? Yes and no.

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4 Such a surprising landing was mainly due to Schumpeter’s disregard of the role and the meaning of radical uncertainty.

5 This section and the next one draw on some parts of Chapter VIII of our book on ‘Economic theory and social change’, Routledge 2010, to which we refer back for a more detailed analysis.
Both in private and public companies (operating for the market), the only reliable indicator of success and hence of responsibility for action and decisions is the profit rate\(^6\). All other significant indicators refer only to particular aspects of entrepreneurial action; they are partial and may accordingly be misleading. Various economic theories maintain that the entrepreneur is interested in total profit, not in the profit rate. But total profit on each investment is not a ratio of return; therefore, it does not represent an indicator of entrepreneurial success. After all, the search for total profit demands that investments be ranked on the basis of their earning rate, if the global activity of the firm is constrained (as it always is) by the availability of some factor of production\(^7\). But the profit rate is a reliable indicator of success only if it is obtained in a competitive market, not through monopoly, since only competitive markets force the entrepreneur to engage in a ceaseless struggle for profit, and thus bind him to his function and responsibilities. To avoid misunderstandings on this crucial matter, a specification on the notion of competition is required: the competition based on the entrepreneur’s search for profit is the one considered here; it may be intended as a combination of Kirzner’s ‘market process’\(^8\) and Schumpeter’s ‘creative destruction’\(^8\).

At any rate, profit does not represent properly a component of income distribution among people in the case of the public firms operating for the market. But small firms, craft and commercial enterprises, whose success is difficult to monitor and hence to control, should be privately run and their profits privately owned. In fact, for efficient performance, these firms need the care of private ownership and private appropriation of profits. However, as these firms are small, they do not imply dominant positions.

2. The pursuit of the highest degree of social equality (and the independence of income distribution from production), which modern society may achieve, require the transformation of the market into a pure mechanism of imputation of costs and efficiency. Such a transformation needs the establishment of a special ‘fund of community wealth’; therefore some preliminary considerations are necessary to clarify the nature of the fund.

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\(^6\) The well-known Lange and Lerner’s rules, that should drive the entrepreneurial behavior in market socialism, make sense only in a static economy, that is, excluding innovation and uncertainty. Therefore, they cannot be referred to reality.

\(^7\) This clearly appears from the formulation of a problem of optimization under the constraint of the available entrepreneurial skills (or some other scarce factor).

\(^8\) An innovator’s monopoly does not properly cause restrictions to competition rather it is the engine of dynamic competition and will vanish as soon as the incumbent innovation is undermined by a superior one.
It will be proved that this fund is crucial to the achievement of four main aims: business efficiency, distributive justice, full employment, individual autonomy. We synthetically show how our model, hinging on the fund above, operates. In the model, the firm buys the goods, factors of production and services required by its productive decisions on the market, at market price, just as it does today. But it does not pay wages; instead it transfers in the fund of community wealth the price of labour as computed by work offices on the basis of the demand and supply of the various types of labour. However, the firm may pay incentives to its workers and also overtime, if it deems it advantageous. Moreover, companies will pay into the fund a penalty for any damages to the environment; conversely, they should receive contributions for any social benefits deriving from their action. Firms are also taxed. Finally, they may have to pay into the fund a surplus over regular labour cost to assist the transfer of workers from the district of origin. The purpose of this is to stimulate capital to flow toward labour, so as to minimize the effects of uprooting, congestion and urbanization generated by migration. At the end of the production phase, the firm will sell output at market prices. With the proceeds, it will cover constant and variables costs, including capital depreciation and costs on borrowing, as well as taxation. The difference between revenue and costs, divided by capital employed, yields the profit rate. In addition to incentives and overtime paid directly by the firm, workers are entitled to a portion of the fund of community wealth. The determination of this portion and its distribution among social groups will follow criteria defined outside the firms, in the political sphere and through negotiations among social groups and their representatives. The share of each occupational group in income distribution may also depend, in part, on supply and demand for each kind of labour specialization; that is, each group’s share may be augmented or decreased, depending on whether demand for that type of labour is greater or less than supply. In this way, the balance between labour demand and supply will be fostered by variations of supply, not only by the reaction of demand to changes in the price of labour. Each worker will be entitled to receive from the fund of community wealth a compensation proportional to his working time (but not overtime work, which as noted is paid by the firm) multiplied by the hourly compensation. To reduce transactions,  

\[9\] As is well known, demand and supply give, by themselves, relative prices. So, to obtain the nominal prices of labour it is necessary to refer to some labour price expressed in money units or, taking variations, refer to initial prices expressed in money units.
firms themselves may pay this compensation, deducting it from their payments to the fund of community wealth.

In this model, the market acts just as a mechanism of imputation of costs as expressed by the availability of resources; it has very little to do with income distribution. *It is crucial to bring income distribution outside the firm, as far as this is possible. This is indispensable to full employment and company efficiency consistent with social justice and individual autonomy. Trade unions should oversee health and safety at the work place. They should fight for the distribution of the fund of common wealth, but not for the company wage.*

Let me point out that the idea of the workers’ self-management of the firm is mistaken. And the workers’ remuneration based on firms’ results is a vehicle of inequalities and managerial degeneracy. Firms must be managed by entrepreneurs, and must not be involved in the struggle over income distribution. Entrepreneurs’ ability in decision-making and innovating must not be constrained by the decision-power of incompetent persons. The entrepreneur must be responsible in terms of results, i.e. profit rate, not subjected to the command of a non-entrepreneurial body. Besides, the rational organization of the economy requires that firms pay for the resources they utilize, including labour, at prices determined by supply and demand. This is a fundamental rule of efficiency, indispensable both to rational use of the resources available and to defeating unemployment. Income distribution is a totally different matter, one that concerns society as a whole. The usual forms of wage bargaining obstruct efficient utilization of resources, prevent farseeing policies of distribution of wealth and condemn labour to suffer the hegemon of capital. Such bargaining is the product of spontaneous evolution, a sort of rough organizational form of society. An advanced society should be able to supplant those institutions with better thought-out organizational forms.

3. Let consider now another important component of income distribution: interest rate. A lot of literature has treated this matter, frequently in apologetic or hypercritical ways. I would claim that we need an argument somewhat more stringent in this regard. Interest has not much to do with the equilibrium between supply and demand of capital that would give a price for the use of capital. As is well known, this assumption reflecting Robinson Crusoe’s metaphor on capital is contradicted, among other things, by the phenomenon of the reswich of techniques. In effect, far more than on interest, saving
depends on the amount of income gained and therefore on the level of production; on the other hand, the entrepreneurs’ demand for capital depends on entrepreneurship and the state of business, which is mainly expressed by profit expectations. In sum, interest rate is not a price devoted to equilibrate demand and supply of capital. The argument that the rate of interest is necessary in order to prevent ‘over-investment’ and the concomitant waste of capital is belied by the fact that such a role is as a rule fulfilled not by the interest rate but by profit rate. The considerations above mean that there are no technical impediments to the abolition of interest rate through legal prohibition, i.e. by defining as usurious a positive real interest rate. Of course, within a free international financial market, there would need to be a concerted agreement to abolish interest everywhere across the world.

However, zero percent interest might encourage the tendency to hoard money; but this could be opposed through a low rate of inflation or some sort of Gesellian demurrage scheme on cash money. At any rate, nowadays the tendency to hoard seems to be almost irrelevant, since the variety of modern banking services manages to keep private consumption flowing in a perennial and tumultuous flow.

It is indeed remarkable that on the shoulders of a variable, as unnecessary if not wholly pernicious, as the interest rate, has grown an enormous, complicated and rather obscure economic body mainly devoted to speculation and responsible for all the serious shocks and malfunctions of the global network.

7 About the financial system

There remains, at this point, to try to delineate a blueprint for a financing system of production shorn of the negative and pervasive presence of interest –a blueprint capable, among other things, of clipping the wings of financial capital, stimulating entrepreneurship and contrasting the deficiency of global demand.

A discussion on the procedures to modify the banking system in accordance to what will follow is not relevant in this context, and a detailed analysis of the tricks and abuses of that system may form the theme of another paper. The important point is, at this juncture, to stress that the central function of the banking system, when it comes to finance production, needs to be radically modified. Financial capital was born not to serve production but to enslave it, and exploit the toiling community into the bargain. This distortion needs to be redressed at once. Our proposal, born as a reaction against the
undue appropriation of wealth perpetrated by the financial oligarchy, is presented here in a fashion as simple and transparent as possible. Every year the community should define the share of value added to assign to consumption and investment, and to investment in selected strategic sectors. After that, care must be taken to ensure, through stimulus and instructions to the banking system, that these prescriptions are executed, as each investment is at the discretion of the businesses.

The capital required by the firms will come, in the first place, from profits. The non-invested portion of a firm’s profits may be set aside for future investment. But the financing of capital must generally exceed the reinvested profits, so as to allow the formation of new firms and the financing of the firms’ investment plans in excess of gross profit. Such extra accumulation may be covered in part by private saving, which should yield a real interest rate of zero percent. Note that a real interest rate of 0 per cent on saving would actually be a bargain for savers. These in the course of time have generally suffered a continuous devaluation of their savings owing to inflation, fraud and robbery, which in turn are mainly caused by speculation on financial markets. However savers should not be allowed to buy shares directly, since the stock exchange is much worse than a gambling house. The rest of the funds required to achieve the planned rate of accumulation will be provided by the fund of common wealth, which should channel the residual quota to the banking system, to be distributed among firms.

Each bank’s application to the fund for resources should be judged on the basis of the profit rate. In fact, bankers must be obliged to operate as entrepreneurs, and their commercial tenure must depend on business results. The more successful they are, as expressed by the profit rate, the more capital will be granted by the fund of common wealth via their commercial bank.

Banks’ profits should derive from the prices of the services that they offer to their customers; competition should keep these prices low.

A substantial feature of such a reform would be the creation of a mechanism directed to the achievement, through the firms’ investment, of the yearly rate of accumulation projected by the community, so that to avoiding or reducing substantially the possibility of a deficiency of global demand. It would also act as a stimulus to entrepreneurship. A major condition for the effectiveness of the mechanism is that bankers provide sufficient credit to firms to achieve the community’s projected accumulation rate. Therefore, if the banks’ requests for capital do not exhaust the fund set aside for accumulation, the
difference should be assigned compulsorily to banks (say in proportion to the amount each has requested), for distribution among investing firms. This implies that, if the propensity to invest is low, banks will be forced to lower the prices for their services so that all the funds allotted to them for investment may be placed with the applicant firms; and vice versa.

This guideline of equality between the allocations for saving and investment is of crucial importance for the control of aggregate demand; in particular, it moderates the cyclical effects of entrepreneurial euphoria or pessimism. Moreover, it stimulates entrepreneurship since, when demand for credit is slack, firms may obtain inexpensive loans, as banks are required to loan funds up to the accumulation target. So banks are induced to make golden bridges to entrepreneurship.

If the propensity to invest is low, banks’ duty to attain the established aggregate rate of accumulation may cause heavy losses to the banking system. But this does not represent a problem for public firms, as banks should be, for which the profit rate is only an indicator of success; in fact, the relative degree of success may also be expressed by the inverse of the rate of loss.

On the international plane, the absurdities of capitalism – and the urgency of a remedy—therefore appear even more starkly than do as when contemplated from the national angle. In fact, the growing integration of world markets, which has given rise to the global society, multiplies the distortions, opacity and larceny so characteristic of the “free market”. Speculation shifts enormous masses of capital instantaneously around the world. There isn’t any supranational authority deputed to discipline these activities or prevent the crises provoked by such massive transfers of ‘hot money’. Some codes of conduct have been devised as remedies, but unfortunately speculators are clever in crafting tricks to elude them. Moreover, the evolution of financial instruments and markets systematically makes these guidelines obsolete. In effect, it is most difficult to obtain reliable information and craft control instruments in a sphere dominated by uncertainty and rapid change to an extraordinary degree. As a consequence, the concentration of enormous wealth in private hands enables the holders to carry out gigantic frauds, e.g. the sale or dismemberment of healthy concerns at very low prices through manufactured crises. Public (entrepreneurial) ownership of large companies and the model of accumulation set out above would greatly facilitate the exertion of controls and impede speculation.