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The Rule of Money

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The nineteenth century was notable for persistent anxiety about the social and moral implications of economic development. Perhaps the writers of fiction are now better known and loved than the social and political thinkers, but throughout the century a current of opposition ran against the materialist-rationalist view of the world of which Adam Smith is the emblematic economist and René Descartes the seminal philosopher. For example, Adam Müller [1] in the 1820s rejected Smith's economic individualism in favour of a system based on ethics and a strong nation state, whilst John Ruskin later criticised *laissez faire* economics for allowing bad work to drive out good and developed ideas for what evolved into the social economy. This opposition was not merely romantic: often it was based on insights into the ways in which economic affairs contribute to the worth of human life that would later become entirely marginalised - the preserve of a few dreamers who are tolerated so long as they don't hinder the business of business.

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As Tony Curzon Price has noted on oD, there seems to be a new interest in meta-economics [2]. Karl-Heinz Brodbeck's huge work of theory and history of ideas, written over 20 years, has two key purposes: first, to show that mainstream economics fails to explain what money is and how it works. Because money is the central economic phenomenon, we must question the coherence of the whole discipline. Secondly, and more interestingly for the general reader, he shows how the conventions that permeate monetary societies have infiltrated our psyche and shaped our moral landscape. In his view, the pursuit of money inherent in competitive market economies de-moralises the social space that markets occupy. As market logic spreads through our societies the places where exchanges based on other codes (e.g. sympathy, hospitality, potlatch, charity, sharing, love) can take place become increasingly cramped.

Some commentators, for example Robert Shiller [3] or John Mauldin [4], point to the persistent inability of economists and statisticians to describe, let alone predict anything. These failures and the efforts the economics profession has made to explain them away are by turns laughable and depressing. Brodbeck seeks, however, to show *why* economics has done such a bad job - how a discipline with scientific pretensions has got into such a muddle. Because the conceptual framework underpins the cultural-political aspects I'll refer to later, it's worth trying to sketch it out here.

Brodbeck develops an account of human interaction as a social process that has meaning insofar as the parties reach an agreement about something. The process of reaching agreement itself constitutes the object agreed upon, which has no meaningful existence outside an interaction.

Dr Karl-Heinz Brodbeck is professor of economics, statistics, and creativity at Würzburg Technical College [5] and the Politics School of Munich University. He initially trained in electronics and electrical engineering at Siemens, before studying economics and philosophy at the University of Munich. Alongside many articles, he has published several books, including (titles translated) *Creativity as a success factor: the future of the market economy* (1996), *The questionable foundations of economics - a philosophical critique of modern economic science* (1998), *A critical introduction to ethics and morality* (2003), *Profit and morality: essays on the ethics of financial markets* (2006), and *The rule of money: theory and history* (2009). Karl-Heinz Brodbeck has also written extensively about Buddhism, ethics, and culture. His home page is here [6]

A social *inter*-action involves an exchange of information that has possibly very different meanings to each participant (as we know from everyday conversation). It will also include many levels of feedback, information loops, association, and possibly misunderstanding that inform the meaning gained by the participants and may engage new participants. Human relations also display endless inventiveness and unpredictability - the sources of wholly new ideas. All these relationships and communications *are* the content of a social interaction, and can't be perceived from the outside looking in. Detached observation of its externalities can therefore never reveal what an interaction means to the participants as they participate. (Jane O'Grady made an analogous point on oD in the context of experiences and brain states [6].)

The social sciences must therefore abandon the Cartesian method of detached analysis and self-observation that underlies much of their theory. The fact is, we never can be detached and the method is an illusion. Descartes' rationalism requires the tools of social communication such as shared language and cultural identity to argue that truth can be established without reference to them. In seeking to be detached it disregards those elements that are meaningful to the parties concerned. Furthermore, we must consider the relationships of the protagonists with with us as observers. By observing we become part of the system observed - a condition recognised in fields from psychiatry to quantum physics.

This insight is of profound importance and central to Brodbeck's argument. The Cartesian axiom that truths can be objective and value-free is false and the laws of economics - from clichés such as ‘market forces' onwards - are in fact moral prescriptions disguised as objective statements about the world. Some of these moral prescriptions are powerful, but none of them is necessary.

These distinctions are common in other fields. For example, in working through a dilemma in medical ethics, principles take us only so far: we also need a rounded view of the people involved and their different perspectives. Our conclusion may not be formally true or wholly consistent, but it's more likely to be *right* than the abstract principle alone.

Interestingly, the defence of the status quo is often quasi-theological: "I believe in competition", or "we must let the market take its course" (translated from "as God wills"), or "the competitive market will find solutions [e.g. to climate change]" (maybe "Consider the lilies etc"). Notice also, in passing, how far churches, particularly those on the Christian fundamentalist right, espouse market fundamentalism too. But markets do not just exist and we are entitled to examine these claims of higher authority, at least if we live in a tolerably free society.

> "... the American requires the daily support of an energetic passion; that passion can only be the love of wealth... The American lauds as a noble and praiseworthy ambition what our own forefathers in the Middle Ages stigmatised as servile cupidity." - Alexis de Tocqueville *De la démocratie en Amérique / Democracy in America* (1835), Volume 2, Section 3, Chapter XVIII.

To return to money. What kind of phenomenon is it? Traditional explanations suggest money was invented or discovered to meet some pre-existing monetary need. But this is circular. Money is a new social interaction that arises with the competitive market and is inseparable from it. It is any unit of exchange that market participants use and what turns products into economic goods. Money only exists and has value if it is accepted as a unit of calculation, and it is only accepted if it is believed to have value. If we stop using it, it ceases to be money: the value is in the repeated use alone.

If money is not an objective, material thing, what happens to monetary theory? For a start, concepts such as ‘money supply,' ‘velocity of circulation,' and ‘price level' lose any clear meaning. Irving Fisher [7]'s famous formula MV=PT is true by definition but empty. Furthermore, distinctions between a real and a money economy are false. Money is the social glue that holds the real market economy together and can't be abstracted. It has no existence without the real economy and monetary problems can't be tidied into a corner and fixed separately.

Money embodies the Cartesian idea of making rational calculation the measure of our desires and needs. For this, only its quantity is important, and since we need money to participate in markets we must constantly replace what we spend on things, sustaining the illusion that money has objective value. These factors unite to reduce a complex multitude of desires to a single desire for money. An irrational passion - avarice - masquerades as perfect rationality. In this way, how we use money reflects how we think.

Now ‘avarice' is an emotive and tellingly archaic term, but the point is that it is not just an unfortunate moral blemish: it is built into a world where social exchange is done with money.

The central expression of avarice, however, is interest: the exchange of money for more money. Interest subverts the social function of money as a unit of exchange, and this is why many early societies instinctively forbad usury. The taboo on taking interest was gradually and casuistically lifted, to the point we have now reached, where the business of taking interest - from consumer debt and company loans to derivatives and futures - has become the crowning achievement of our economies. Brodbeck shows that, as with money, there is no coherent naturalistic explanation of interest. It is a social convention driven by avarice and applied to money that is so engrained that we can't imagine life without it.

Authors from Aristotle and Acquinas to Marx and Keynes were acutely aware that our economies had evolved to give greed a free rein and that this was harmful. Many hoped it might be possible to tame the beast. Keynes, writing after the Crash and partly in political opposition to communism, thought that better social control might enable capitalist markets to produce desirable outcomes without the drawbacks. There has been much talk about this recently too, but little evidence that the system can be tinkered into a better shape. Why? Were the adjustments *bound* to fail, or were they just not quite right?

The prospects for a better capitalism are not good. The logic of competitive greed is to circumvent rules by any means possible so long as there is a right to free contract, and a right to free contract is the foundation of markets. For this simple reason, avarice (what we now call a culture of excess), may be obstructed but can't be prevented by *regulation*. Only banning certain kinds of contract - in effect eliminating the associated markets - can make a difference, and this would be fiercely resisted. Politics has no appetite to take on markets.

This matters, because markets are self-contained, indifferent to the fate of those outside. The purported laws of the market drive companies to the wall, people out of work, destroy the environment, and leave five sixths of the world's population in avoidable poverty. These things happen because the kind of calculation that goes on in markets is just the kind of calculation that *only* goes on in markets: the rational maximisation of personal utility, measured in money. This conjuring trick is the moral content of markets.

Brodbeck reserves an especially trenchant critique for Bentham's *Defence of Usury*. Adam Smith had clung to a traditional view that taking interest for money was wrong, but Bentham showed that Smith's position was inconsistent. He swept aside moral scruples about usury by asserting morality itself to be only a matter of calculation of relative pain and pleasure. He elevated accounting - the embodiment of Cartesian indifference - to the centre of our spiritual and social life. It has been there ever since and pervades liberal economics, game theory, rational expectations theory, business schools, and everyday conversation. I hope at some point to be able to translate this passage for oD.

So what does this book mean?

Brodbeck's approach and conclusions will be unwelcome in universities and was certainly discouraged in my day. It crosses into other disciplines and threatens vested interests. It requires great effort from the man-in-the-street and impossible courage of the politician. An interest in the metaphysics and sociology of economics is foreign to the Anglo-American tradition and many of the key texts, written in German or French, have not travelled well. And stripping back the conceptual discussion, we might think that the essence here is in some ways simple, even naïve, paradoxically something that can be left to professional thinkers and of no interest to men and women of the world. But these are pragmatic objections and the critique remains powerful and important.

Is it surprising that the money economy, founded on a universally shared irrational passion for a non-existent thing, should continue? Even in the recession and financial crisis plainly caused by it no one has proposed an alternative. Economies have not evaporated. Instead, no effort or taxpayer dollar has been spared propping up the current system and its prime (or should that be sub-prime?) architects, the banks. The social costs of the crash for whole world are a 'price worth paying.' In spite of the horrific instrumentalisation of people this demonstrates, the trivial reason nothing has changed is that too much is at stake.

The power of markets, particularly financial markets, whose objectives and modes of thinking pervade society and its elites, makes change extraordinarily difficult. If we continue to believe that we can improve the system at no cost (measured in money, of course), we will keep going round in circles. Practically, the current crisis has produced some vote-catching initiatives whilst everything else is rebuilt as before. That won't stop the next crisis. It is necessary, as was done after the Crash of 1929, permanently to prohibit large swathes of financial markets activity that are superfluous to the economy as a whole.

This book has a wider political dimension too. We can step outside the circle to think and act differently. It is a matter of consciousness and conscience. That calls for a public metaphysics of economics: an examination of what economic activity is, what we want from it, and what that means for us and our world. Above all, we must make the moral content of economics explicit. Unrealistic? Possibly.

But consider the alternative. As I was finishing this piece I caught an interview with the chairman of a major UK bank. Several times he said, "The market dictates ..." in relation to some business policy or other. Think what this really means. We have created a social institution and now proclaim our own subjection under it. That the market and money have been vested with totalitarian power in countries that parade their democratic freedoms is a staggering paradox.

Brodbeck offers no recipe for a different economic order, and I think this is right. That would be another Cartesian fallacy and an invitation to tyranny. Instead, he hopes for what might be referred to as economic enlightenment. The economic system has been widely assented to, though it is built on an enslaving illusion. It could be *fundamentally* different. We cannot know what it might become, and when. But a precondition of change is that we all start to think for ourselves about the relationships we want to have with our fellow human beings and our environment - relationships that may not be computable economically and that certainly do start from ethics and consideration of others - and then act. If we accept this view of economics, it would be immoral not to start this journey. The implications are revolutionary for practical politics and economics alike.

> "*Enlightenment is the emergence of a person from self-inflicted immaturity. Immaturity* is the incapacity to use one's understanding without another's guidance. This immaturity is *self-inflicted* if it is caused not by a feeble understanding, but by lack of resolution and courage. Dare to know! Have the courage to use your *own* understanding! These are the mottos of enlightenment." - Immanuel Kant *Beantwortung der Frage: Was ist Aufklärung? / An Answer to the Question: What is Enlightenment?* (1784)

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