

## 2.5 Specific Principles at the Economic Level.

### 2.5.0 Definitions

Def. Political Economy: *The totality of the economic cooperation of all private and public economic subjects inside the economic area [being identical with the state's area]. Political Economy is not only the sum of its parts (economic subjects and single economies), but gets its peculiar feature, that differentiates it from other P.E. through the governmental economic policy and the given systems of law- and society as well as the natural endowment of the economic sphere and more. [Meyers grosses Taschenlexikon].*

In opposition to this general definition, that puts some emphasis on the specific characteristics of differing economic systems inside national borders, as between different nations, the basic economic principles are taken as universal. They are mainly two (s. below), namely a) to produce the largest possible amount of goods with a given amount of productive factors or b) to use the minimal possible amount of productive factors for a given amount of goods to be produced.

On those basic principles economics builds its theoretical frame: "The oldest and most commonly held argument is that economics must necessarily be a theoretical science because every economic phenomenon follows logically from a handful of elementary principles. The idea goes back to the classical school, which taught that all economic phenomena are grounded in "the desire for wealth" which characterizes any "sane individual" and are governed by only two general laws. The first is that "a great gain is preferred to a smaller"; the second is the propensity to obtain "the greatest quantity of wealth with the least labour and self-denial." [Georgescu-Roegen p. 323: uba]

This very limited base is accepted as base of the economic science even by more modern and more socially oriented economists. Silvio Gesell (1862-1930) condensed the relation between economy and development into: **"What does not bear the interest of the money stays unborn"**.

That the generalisation of such principles leads to problems is expressed by the term "ECONOMISM": [Greek] The term for social scientific theories and a political practical orientation, after which the economic causal factors alone or above all determine the development of society and the construction of social systems of order and personal motivation. [Meyers grosses Taschenlexikon].

The term shows how difficult it is for economics, to stay scientific in the classical way, and to keep away from "values".

After Schumpeter a theory is just "a box of analytical tools" [Piper p. 322:].

After Keynes [ibid fn 89:] *"the objective of [economic] analysis is not to provide a machine, or method of blind manipulation, ... but to provide ourselves with an organized and orderly method of thinking our particular problems."*

For Georgescu-Roegen himself, *"... theory means a logical filing of all extant knowledge in some particular domain such that*

every known proposition be either contained in the logical foundation or deducible from it." And "... the scope of economics is confined to the study of how given means are applied to satisfy given ends." [ibid p. 318:] After him there are two additional aims of economics, namely to improve qualitatively the existing means, and to increase the personal share. The second one is definitely a political one, as it contains the problem of equal and just distribution, a problem economics prefers to avoid. The difficult dialogue between politics and economics is not a result of the newest development of world trade and world market, but as old as the terms themselves.

### 2.5.1 Theories and Methods (chronologically, by author)

For Aristotle (384-322 BC) oikonomia was, in an embracing sense, a social, even a moral science. [ibid p. 320:] [No wonder that the father of the modern ecological concept of "internalisation of external costs", Arthur Cecil Pigou (1877-1959), studied history and moral sciences - of what economy was a part that time!]

For Thomas of Aquin (1225-1274) time belongs to God. That means that interest, seen as prize for a certain time span, the lender renounces the use of his money, would be an insertion into God's wealth.

Luca Pacioli (1445-1514) developed double-entry book keeping: "The merchant has only to compare income with expenditure, to look at both as rationally as possible and to calculate the profit."

Def: Mercantilism (16-18 century. from MERCARI = trading). The objective was mainly to further national wealth and development. For that purpose crafts and industry, especially export, were promoted and imports controlled. Population growth and immigration were encouraged, emigration forbidden, as workforce was seen as the main productive factor.

Def: The Physiocrats in the second half of the 18th century developed the first school of national economics. For Quesnay only agriculture was considered as productive. Everybody not occupied in agriculture was considered as "sterile class. The landlords, while not productive, enhanced money circulation by spending their ground-rent and should be available for the state's political duties". The existing system and order, governed by laws (positive system) should be replaced by the natural system (natural laws). Quesnay criticised the negative impact of not carefully thought-out governmental regulations and taxes - and was the first who came to the (most probably wrong) conclusion, that the abrogation of those rules, accompanied by a few measures as road construction, might solve all problems. (What represents the neoliberal credo.) [both from Meyers grosses Taschenlexikon].

For Adam Smith (1723-1790) [ibid p. 29:] economics is a theory of ethical feelings. For him the source of wealth was productive

human work, neither trade [mercantilists], nor nature, [physiocrats]. The national wealth is a product of the diligence and the skills of the workers. While he deplored their fate, having to share the product of their work with the landlords and the capitalists, he still saw "no need for a mighty institution that rules and controls with an iron fist the human passions." "If all systems of favourisation and limitation are removed, a clear and simple system of natural freedom will establish itself. As long as the individual does not infringe against the laws of justice, he is being given complete freedom, to follow his interest in a way appropriate for him." [ibid p. 30:] The sovereign has to dispose of all duties "for whose appropriate fulfillment no human wisdom and now knowledge would ever be sufficient" - the planning and steering of production. The market solves that much better, and competition is at the same time a mean to limit individual power." [after ibid p. 34:]

But even Smith's opinion on the aspiring class of the money, trade and industrial capitalists is ambivalent. On one side he sees them as the driving forces of progress. On the other side he is warning of their selfishness. The legislator should not listen too much to them. Their proposals are coming from a group of people, whose interest never coincides completely with the public interest and that, in general, are trying to disappoint the general public. [ibid p. 31]

Jean Baptiste Say (1806-1873) claimed, that there is no amount of capital that can't be used profitably in a country: "Each production creates its outlet & Products are bought with products and the money needed to buy these products has to come from other products". That means that the market is not only demand-driven, but can be enlarged by new offers infinitely. (No wonder that the first money-markets have started to develop in this time!)

Here seems to be the main base for world-trade - and probably the major and most dangerous error of the whole system. "Production" is regarded as mechanical procedure. The basic questions are neglected: What products are really needed and are they meaningful, does it make sense to produce them?

The answer, still valuable, was already given by John Stuart Mill (1806-1873): "Only in the underdeveloped countries of the earth the increase of production is an important aim: What is economically needed in the most advanced ones is a better distribution."

If Say's law would be right, the demand driven economic slumps, described by Lederer and Keynes, suffered nowadays by Europe should not happen.

In the 19th century the agricultural production changed, due to a strong population increase, to production for the market towns! Thomas Robert Maltus (1766-1834) is still known for his theory on unequal development of agricultural productivity and population growth. He thought (wrongly ... so far) that population is growing faster than the agricultural productivity. Mill was aware, that differing customs, traditions, mentalities created differing markets and differing economies. Only keeping an eye on society as a whole one might understand the economy of a country.

Karl Marx (1818-1883), the father of the centralistic state-economy was action oriented: "*Philosophers interpreted the world differently, it is important now to change it*". He was aware on the advantage of the competitive market - but as well about its limits. And it looks as if the time is already over, when the western world, after the crash of the socialist economies, could laugh about his predictions: overcapacities leads to depressions, mass-unemployment, crashes of less competitive companies and to a further concentration of capital. We are living in such a phase now!

Walras (1834-1910) considered economics as mathematical science. Values are subjective for him, depending on the use the consumer is expecting. This is the step from classical to neoclassical economics. He developed the concept of decreasing marginal utility (e.g. each additional piece of cheese or glass of wine is of less value than the preceding). The equilibrium of offer and demand is guaranteed on a competitive market. This is the core-theorem of the neoclassical economy and economical politics. The government has to create open markets, to ensure competition and to keep out of all other fields. Still, in spite of being the most reductionist of all economists, he declared that "*science has not only the duty to formulate the ideals of society, it must describe as well the ways and means leading to their realisation.*" And he was no of the opinion, that a just distribution will be produced by the market forces.

Carl Menger (1840-1921) came to the same conclusion, from which he developed his system: the base of price is - not as in classical economy, the cost of production - but the subjective value for the consumer. So psychology turned into a strong instrument for the economists.

Vilfredo Pareto (1848-1923) developed the theory of choice and the "Pareto optimality". That is an optimal distribution without external intervention that can't be improved without taking something away from somebody - but still a distribution that does not care for social justice and equality!

Alfred Marshall (1842-1924) is another neoclassical economist who is not expecting the solution of social problems by a change of conditions, but by a revolution of thought.

Thorstein Veblen (1857-1929) and Werner Sombart (1863-1941) have both been very critical towards the psychological and social base of economic progress. The VEBLEN THEOREM says, that rich people do not estimate expensive goods because of their usefulness, but because the poorer can't afford them. Opposite to the standard supply-demand curves, the demand for such goods will increase with the price. This type of demand is steered by advertising, propaganda and the artificial creation of fashions. After Veblen the cultivated people do not have some real needs, but nothing comforts them more than the envy of others. He sees ownership as the prime cause for the race for money.

Critical are his remarks on human behaviour as well for planning. "*People are in his eyes absolutely incapable to act rationally. Instincts and institutions are guiding the human action, create persistent conflicts, that logically the stronger decides in his favour.*" [ibid p. 220:]

Sombart detects the cultural base of capitalism not in the Calvinistic moral of work-save-and-invest, but in the develop-

ment of the courteous love. The need to maintain a second wife (courtesan), to represent a high living standard (villas, furniture, clothes, exotic food/spices ...), was for him the cradle of capitalism. *"In such a way luxury, itself ... a legitimate child of illegitimate love, created capitalism."* [ibid p. 194:]

In fact we see already two possible foundations of capitalism, either greed and envy (the curtailment of love and social relations), leading to accumulation of goods; or the free love and the wish for splendour. But, after Veblen, raise the elementary competition, the drive to outdo the others. *ibid p. 86: ]*

**Def: The Historical School:** On the theoretical level, the German economists, especially Schmoller (1838-1917), kept for a long time away from theories and claimed that the study of historical development is the only useful method to detect the empirical laws explaining social phenomena. This approach has been heavily criticised by F.A.v. Hayek as scientism and by Karl Popper as historicism. The historical approach grew out of the cultural sciences (Schopenhauer, Burkhardt, Nietzsche, Dilthey), but versed economists as J.S. Mills as well understood the importance of differing traditions, customs and mentalities.

Edgar Salin (1892-1974) approached economy with holistic thinking, based on Greek utopists, Platon and the humanists, because the neoclassical theory can only produce partial insights due to its premises.

Wesley C. Mitchell (1874-1948) made the importance of individual user values and of feelings for economy clearer. The cumulative effect of subjective (!) negative profit expectations can easily lead to recession by cumulative backfeeding. Economy is not (only) rational, but very sensible to irrational feelings.

Arthur Cecil Pigou (1877-1959) is the father of economic steering through ecological taxes, the "internalisation of external costs". As people value a profit today much higher than a future profit, raw materials (and forests) are overused and destroyed at the expense of future generations.

He is the founder of redistribution and negative taxes. From his point of view (marginal use) rich people have much less use for their income, so they will suffer less from taxes.

Emil Lederer (1882-1939) studied the effects of technical progress. He saw in unemployment the biggest danger for democracy and opposed the theory of neoliberalism, widely accepted nowadays, that unemployment can simply be fought by reducing wages: *"... the primitive imagination, one might at any time, when there is unemployment, reestablish equilibrium by reducing the wages, belongs into the junk-room of theory."* He describes the effects of innovation and productivity increase on employment - and was not too fond of an ever increasing growth and the constant strive for progress: **"The capitalist development is not only development, but in the same time destruction. ... not only elementary events as inundations, earthquakes, moreover wars, dominating all this, reduced the wealth of the capitalist world ever and ever again - the destructions, that are inevitably bound to the technical progress surpass this reduction of wealth most probably substantially, and this, because they act continu-**

ously."

His studies of the economic crisis of the Thirties would be very valuable today, as precisely the same discussions take place, over and over again. Not progress as such is a problem, but the rapid, work-saving progress, leading to capital concentration, monopolisation and unemployment. The speed of development reached such a level, that e.g. a university education is, if not professionally used, outdated faster than it takes to get the degree!

John Majnard Keynes (1883-1946) opposed the traditional opinion, that unemployment can be corrected by lower salaries. The recession of the thirties showed (s. Lederer) that a reduction of salaries on a large scale leads to a lack of demand and to a recession. As nobody wants to buy it does not make any sense to invest and to produce. In those cases the state should bridge recession phases by investments.

Joseph Schumpeter (1883-1950) saw markets not as an equilibrium, but in a constant change, driven by the pioneers, striving for new products, new production methods, new markets and new market structures. So innovation turns out to be the paramount fact of the capitalist society - and markets are chaotic and unpredictable. Equilibrium would be its end.

Walter Eucken (1891-1950) is the father of the social market-economy. If markets are developing following their proper laws, power (= money) is accumulating and concentrating. The companies will be able to blackmail governments - a situation we are already in. So government has the duty to limit the functions of such power groups or to dissolve them, to guarantee or reestablish competition and the really free market.

Piero Straffa (1898-1983) found that the curves of offer and demand are not independent. Prizes as rents are dependent on current salaries and production techniques. This has later on been further developed and resulted in the so-called **"Verdoorn Law": Productivity-growth is positively dependent on production-growth.** For the discussion of development, of the chance of underdeveloped countries to join the world market, this law is evidently setting strong limits, as those countries start off with a very low productivity, due to very small markets and so little potential to increase production and to reach a competitive productivity!

Gunnar Myrdal (1898-1987) proofed that the laisser-faire principle leads to an unstable order, to cumulative growth or decay. In spite of this, the "stable equilibrium" has become something like a general thought form. Instead of staying an arbitrary theoretical tool, it is loaded with teleological orientation and hidden values. It is dictating national policies! While "economic theory is only a segment of the total culture." [Myrdal (1957) p. 159:].] "Concrete problems are never simply economical, sociological, psychological, or political. A theory of underdevelopment and development which works only with "economic" variables is for logical reasons doomed to be unrealistic and thus irrelevant." [ibid p. 162:]

He is not alone with this opinion. Even Friedrich August von Hayek (1899-1992), who was a classical liberalist, said, that "who is only economist can't be a good economist." Economy is an integral science.

Nicholas Kaldor (1906-1986) recommended to lower interest rates instead of lowering salaries. It would lead to the same result.

Ronald Coase (1910-) explained by his transaction-cost model why companies can't grow indeterminately, as the hierarchy gets inflated and organisational costs are increasing.

Paul Anthony Samuelson (1915 -) developed the neoclassical tools at the Chicago School: the maximum of welfare is generated on free markets without governmental regulations. His description of economics shows the limits of science: "*Economics is as well art as science, as the behaviour of people and institutions are constantly changing - our theories have to change with them.*" [Piper p. 253: ].

For Milton Friedman (1912-) as well, who developed monetarism, it was obvious that: "*The best social policy is the free market economy.*" [He made about a million \$ per year].

Georg J. Stiegler (1911-1991) avoids to get aim-oriented (teleological) too: "*The true purpose of the economist is not to tell to society what to look for. It consists rather in assisting the society to reach its aims more efficiently.*"

John Kenneth Galbraith (1908-) accepted, that the functionality of the market is limited and said that "*one cannot squeeze economy into a single theory.*" [ibid p. 274:]

kalecki (1899-1970) found, that capitalism is based on demand, that demand (= spending) creates income. For him the theoretical system was as well difficult to formulate and he exclaimed, that "*the development of the theory of science looks like a fashion show*". [ibid p. 168:]

James Tobin (1918-) developed the portfolio theory, demonstrating that stocks and capital cannot replace each other, but are complementary. He criticises international speculation with foreign exchange, as it makes an independent policy of countries difficult. He wants to tax transactions (Tobin Taxes).

Mancur Olson (1932-) warned as well: "**All forms of market control must be a reason for concern, all.**"

For modern economists, especially those concerned with environment and the limits of growth (Hawken e.g.), the "base" and the whole system of economics "does not work". Competition, the pleasure to win, to beat the opponent, to prove ourselves - is an endless strive. The meaning and the objective of life is not only to earn money, it is not only a system of producing and selling. Hawken, as many other before, is very critical in what concerns distribution of wealth, as it "agglutinates" there, where stocks of it are already present, in rich families, towns, large (international) enterprises. International competition favours those companies that are best in avoiding to pay for environmental and social costs. For him, as for most environmentalists and ethically oriented people, not only the present, the social, distribution of wealth is a problem, but the fact that we are using up the wealth of future generations: "*The explosion of trade made metropolis, ruling families, mighty governments and an elite of joint-stock companies rich. That resulted almost automatically in a culture, dominated by economy, that is ruled by the conviction, that all social and material injustice can be overcome by development, inventions, large finances and growth, always more growth.*" [Hawken p. 21:] "No

empire - not the Greek, the Roman, the Byzantine, the British or any other - ever had that reach of the modern, globally acting joint-stock company, that can, searching for export markets, finances and profits, transgress borders, cultures and governments without difficulty." "I got to the conviction, that we Americans and the other industrialised western world do not know, what economy means and what it could be. Our knowledge ... concerning the question, what will lead to a healthy economy and what role economy should have in the whole of the society - is on a primitive level." [ibid p. 15:]

The toughest critics of "sustainable growth" (not sustainable development!) and the mechanistic concepts of economics have been published by the economist Georgescu-Roegen (1906-1994): "No other science illustrates better than economics the impact of the enthusiasm for mechanistic epistemology upon its evolution. Does the transforming of economics into "physico-mathematical science" require a measure of utility which escapes us? "Eh bien!" - exclaimed Walras characteristically- "this difficulty is not insurmountable. Let us suppose that this measure exists, and we shall be able to give an exact and mathematical account" of the influence of utility on prices, etc. ... [Georgescu-Roegen p. 40:].

#### 2.5.1.1 Economy and Planning

Trials to develop economy in an orderly, reliable manner, have not been limited to socialism. Planning for the future, one's own, one's children's future, is surely quite a common human wish. Wesley C. Mitchell (1874-1948), an American economist (!), said that "In the life of a nation planning plays the role that thinking plays in individual life." [ibid p. 188:]

Gunnar Myrdal, while studying the economy of underdevelopment, could prove precisely, that free competition has never existed and we are moving further away from it. Interested in "developing countries", it is very clear for him, that the starting conditions are different for different countries and even regions.

His thesis is, that a value-free economical theory is not possible! But to reach aims as equality and justice, topics evicted by "escapism in economic theory", economics can't do without politics: "In the sphere of production natural laws reigned, and policy interferences would only hamper production; distribution of incomes and wealth, on the other hand, was the sphere for policy where the equality doctrine had its legitimate space of validity." [ibid p. 114-5:] For him the existing economic theories have not been "found" or "developed" for the good of mankind - but for the good of specific economies:" ... it would be difficult to find a single case where English classical economists actually recommended that Britain should make a sacrifice for the welfare of the rest of the world. When, for instance, they recommended free trade as a general policy, it was not on the ground that free trade would be to the good of

the world but because it would be in the interest of their own country.

The important point I want to stress is that the English classical economist, when tackling international economic problems, did not set as their highest moral and political notion directing their analysis the welfare of mankind, but rather the welfare of the British nation." [ibid p. 146:].

Marshall had put forward a similar critique towards economists, for having worked out their "theories on the tacit supposition that the world was made up of city men". [Georgescu-Roegen p. 325:]

When the planned, in the meantime defunct, communist and socialist economies came into being, the centralists (Marx/Lenin) had won over the individualists (the social anarchists), and one, that a promising branch for development has been lost. Nowadays communism lost its clout - but on the other side, the "market anarchy" is losing all social regards and treats workers as "resources" that can be used, disciplined, deposed or "stored" - if unemployment insurance is available.

For the socialists the "political economy" was a set of rules, analogous to natural laws, whose use would guarantee the functioning of the economy. In opposition to the classical economy the socialist economy was not regarded as a self-regulating system, but it needed the correct application of the political-economical rules."

#### 2.5.2 The Historical Background as Factor of Economic Development

As communism and socialism failed, capitalism and world trade are nowadays the dominant ideologies. The idea, that a competitive, profit-oriented economy without limits and rules will be the best for development, had to establish itself over the time. What is easily forgotten by its prophets, is the fact, that it did not proof successful under all circumstances, for all cultures and nations. It is the ideology of developed countries. Even here it was often criticised, as it excludes more much more than it contains and explains, when made a world-system, a world view, an ideology: "Modern bourgeoisie grew up with the imagination of a true arrangement of the world with unlimited progress." [Karl Jaspers p. 480:] This ideology excludes first of all the fact, that nature is setting limits to development, that nothing like "sustainable growth" is possible. Eder sees the origin of that problem in the Protestant ethics: "Starting point of those considerations is the assumption, that the culture, determining our dealing with nature, is molded by the spirit of Protestantism. The rationality of this Protestant spirit determines as well our ecological reason. What counts for this spirit is the usefulness of nature. The symbolic meanings that we associate with nature lose their magic." [Eder p. 10:]

In the developed countries economy has taken the whelm from politics. "**Integrated production processes account for the largest percentage of social action**" [Wilkinson ] - that is what makes it the dominant factor of holosocial evolution, and that's

what should make it the major target of science and development. To make the strive for personal profits and welfare the base of social development ... can't work, what most economists, even the most crooked neoliberals, new and admitted. As well it was known to most of them, that economics do not care for natural, geographical, historical and socio-cultural limits - that market economy is not oriented towards justice or equality. On the following pages the historical conditions that led to the development of the market-economy in the west will be compared with the facts, that hindered the same development in the east, especially in Yemen.

For the analysis and characterisation of WORLD-SYSTEMS there are mainly two approaches [At present the best database and discussion forum on the historical development of economic systems can be found on the internet ("<http://csf.colorado.edu/wsystems/>)]:

Wallerstein uses a dialectical-historical approach. For him there are mainly two types of world-empires, either they are political and under central rule, or they are world-economies, without central rule. World-Empires were Persia, Egypt, Byzantium, Rome, China, the Turco-Muslim World, the Ottoman and Russian. "A world economy is an economy with many cultures, but without an encompassing state. Therefore the economy's processes are linked through a "market", rather than through a redistributive state [ibid. p. 35: (PWE 13, 15; TMWS1 15)]. *"There have been world-economies prior to the modern capitalist global world-economy. They were however highly unstable structures, very fragile, with life spans probably less than a century."* [:Indian Ocean, small city states in northern Italy, Flanders and North Germany - the predecessors of the world empires of Egypt, China, Persia, Rome, Byzantium]. [ibid p. 37 & (TMWS1 348, CWE 160. Wallerstein's analytical tool is the differentiation into core states and periphery. Core states have complex political structures, superior technology and are able to control production, transportation and communication, while periphery states have weak political organisations and an economy largely based on natural resources. Core states are so exploiting labour and material resources at the periphery and receive a disproportionately large share of surplus. The system develops into a hegemony - and their would be a political need to reduce polarization. The role of policy can't be replaced by economics. Wallerstein sees an end of capitalism through structural crisis and the creation of a (socialist) world government (what by some critics call "wishful thinking").

For Quigley the main instrument, a very helpful one to study world-systems, is the instrument of expansion. Its two major driving forces are the incentive to invent new ways of doing things and the accumulation of surplus.

By a historical analysis he found the following 7 development phases:

- 1 Mixture: Every society or civilisation begins with a mixture of two or more cultures. The zones of contact between cultures are often the origin of economic development. [What would be strong argument against a US-driven "world-cultu-

- re", as unification and dominance reduce variability - and so products - and so the overall productivity]!
- 2 Gestation: Surplus generated by production is accumulated - and reinvested!
  - 3 Expansion: the economic and/or political system is expanding, core and periphery are developing
  - 4 Age of Conflict: When expansion starts to decline, wars and monopoly-capitalism are emerging. Past ages of conflict were: 1300-1430 - the hundred years war, 1650-1815 and the twentieth century. More peripheral states dominate during this phase over less peripheral states. The reason is two-fold:
    - Material culture diffuses more easily than nonmaterial culture, so that peripheral areas tend to become more materialistic than less peripheral areas, while the latter spend much of their time, wealth, energy and attention on military, political and economic matters (Euro-America e.g.!).
    - The process of evolution is slightly earlier in central areas, so that those are more harassed by class conflict, inertia and obstruction of institutions. (s. Europe).
  - 5 Universal Empire [The Golden Age]: Ending of destruction, reduction of internal trade barriers, establishment of a common system of weights, measures and coinage, extensive government spending - but little expansion, as no real instrument of expansion exists!
  - 6 Decay: Economic depression leads to disinterest in political participation. Religious, intellectual, social and political levels of society begin to loose the allegiance of the masses of the people on a large scale.
  - 7 Invasion: more powerful civilisations take over.

Def. "Hegemony": "first among equals" - *can largely impose its rules and its wishes in the economic, political, military, diplomatic, and even cultural arenas and has an edge so significant, that allied major powers are de facto client states and opposed major powers feel highly defensive.*

*What has occurred in each historic instance of hegemony was that "enterprises domiciled in the given power in question achieved their edge first in agro-industrial production, then in commerce, and then in finance. ... Marked superiority in agro-industrial productive efficiency leads to dominance of the spheres of commercial distribution of world trade ... Commercial primacy leads in turn to control of the financial sectors of banking ... and of investment ... [Wilkinson p. 54:]*

The only other true social system besides world-systems is the "minisystem", the small isolated society with an autonomous mode of subsistence. This separation is very important in the case of Yemen, as until 1962 it was clearly and absolutely an isolated minisystem. Since the revolution it is struggling to get better integrated into the capitalistic world system. The rise of capitalism happened at different places, e.g. in pre-1860 Japan and in Europe after the 15th century, with a period of enormous

growth in the 16-17th century. The factors driving its expansion are:

#### 2.5.2.1 Technical Progress combined with Cultural Development

Technical progress, or what Georgescu-Roegen called the exosomatic evolution is most probably the most important factor in economic development.

If we look back in history, each of the following new instruments in dealing with the environment, each new skill was a major step in development. Stone knives, pottery (allowing storage and cooking - especially important in combination with the domestication of cereals, animals, and fruits), metallurgy (copper, bronze, iron), the wheel .... Each of those early inventions brought with it a large increase of instrumental powers, and each of those innovations demanded new skills. Here we find, already in ancient times, the origin of specialisation. A second step was the development of techniques that make other energies than human work-force available. Georgescu-Roegen called this development of instrumental powers "exosomatic evolution". But for him this evolution was never independent from its natural and socio-cultural environment: "exosomatic evolution worked its way through the cultural tradition, not only through technological knowledge." [Georgescu-Roegen p. 19]. Or, with the words of Rodinson: "Ideologies don't fall from the sky, they have their social roots." [Rodinson p. XV:]

For that reason "technical development" is conditioned - and it is conditioning the cultural environment. It is inducing changes. That the cultural traditions might be hampering economic development, has been evident for most orientalists. Rodinson said: "*The Europeans complain (quite hypocritically) about the lack of initiative of the capital owners of those countries, into which they came and colonised in cases. But they did not see, or did not want to see, that all the driving forces of capitalist dash had to fail due to the conditions of those countries, ...*" [Rodinson, p. 280:] "*We know, that the domination of capitalist production only comes into being, when there are real industries, factories, where machines rule, and not handicraft with little market production, as well not manufactures. So a superficial check of the facts is sufficient to recognise, that in Islamic countries the industrial development has only started recently*" [ibid p. 175:] and "*... in spite of the fragmentary character of the mentioned facts, it gets clear, that industrial capitalism in the Islamic orient was an imitation of the west.*" Al Tibi criticises the aspirations towards modernisation from the point of view of socio-cultural integration: "*The westernized and secularly oriented intellectuals want to introduce modern structures, for which the social base is lacking. A scientific-technically oriented culture cannot thrive in an agrarian or only periphery-capitalistic society.*" [Al Tibi, p. 199-200:]

#### 2.5.2.2 Local Conditions of Socio-Political Innovations (- the Development of an "Economic Culture")

The first case, the development of the Mesopotamian empires, led to the establishment of Witvogel's anthropological model of the "hydraulic society". In the neolithic period climate had turned more arid. Due to this and to an increasing population, agricultural productivity had to be augmented by irrigation. The best places to do that was close to the big streams, as the Nile in Egypt, the Euphrates and Tigris in Mesopotamia, the Indus in India and the Hoangho in China. The use of their water needed the organisation of big works as dams, ditches and channels. The regulation of water distribution made a centralised administration necessary. This led to high cultures with a knowledge of scripture and numbers, with some substantial common interest, a common language and thinking, to the protection of trade and to extra-territorial relations! Those centers developed into towns and society started to differentiate professions into: food production, defense, religion, handicraft, trade, technique and administration. Parallel with this differentiation went stratification and hierarchy: Up to the renaissance, rulers combined the power of religion with the one of arms. Priests and warriors have been the higher classes, followed by administrators, craftsmen, farmers and slaves.

Towns create a different culture. The need for representation enhances a different economy, an economy of luxury (s. Veblen & Sombart). Towns create needs that would not exist without them. The king's palace, the cathedral, the administration and especially the villas and the lifestyle of the "upper class" are setting up new models that the middle class tries to imitate. The establishment of large palaces demanded not only labour for construction, but as well as the trade of luxury goods (furniture, clothes, exotic food ...) over long distances. That made long term planning, and with it a credit system necessary.

Willkinson claims that even for the development of capitalism in Europe, the existence of towns and their new bourgeois strata was not sufficient. The process was enhanced by aristocratic landlords: *"Contrary to the idea that a progressive bourgeoisie overthrew a backward aristocracy, "historic capitalism was brought into existence by a landed aristocracy which transformed itself into a bourgeoisie" by radical structural surgery that significantly expanded its "ability to exploit the direct producers"*. [Wilkinson p. 44:]

The spread of "the open market ideology" in the orient was clearly assisted by imperialism: *"Egypt has been forced 1840 by Palmerstone and the British fleet to accept the contract of 1838 and Muhammed Ali had to bend under the religion of free trade. "I recognise the advantages of free trade, fixed in the existing contracts; radiating testimonies announce its achievements, and I can no longer deny, what looks now evident for me. Imperative conditions forced me to introduce the monopoly and to maintain it."* [Rodinson p. 168:] (uba)

The basic social conditions for a free development towards capitalism are not given - not because the people are lazy or fatalistic, but because God, the nature or however you want to call the origin of existing conditions, have not been and are not (with the exception of a few petrol producing states) in

favour of that. Even if the farmers of the Islamic countries are real fatalists, there is no irrational behaviour, but a precise valuation of the enormous (and discouraging) aleatory factors, that condition the success of their efforts. "Naturally one is fatalistic", exclaims the author rightly, and adds, that each traditional rural culture, taken those that have not been influenced by technical progress, is swimming in fatalism." [Destanne de Bernis. In Schluchter p. 156:].

The problem has an other facet too. The development of the rational type of administration had certain advantages - but there are disadvantages as well, that are constantly overlooked. Disadvantages that are especially outspoken, if this type of "thinking and acting" is used for economical purposes: "Bureaucratic organisation requires a >disinterested< impersonal devotion to a specialised task and a readiness to fit into the rational requirements of a complicated scheme of coordinated specialised activities regardless of tradition. This equally involves a rigid submission to discipline within the limit of the task. (uba) The spirit of capitalism is for Weber a special case of the >professional spirit< (BERUFGSGEIST) which is the specific attitude required for the efficient functioning of bureaucracy. It is the special case where the impersonal task, to which disinterested ethical devotion is directed, contains the unlimited acquisition of money as a basic component." [Talcott Parson. In: Schluchter p. 88:]

"The modern world is not to a higher degree rational, rule-bound, arithmetical or aim-oriented (and rather less reasonable) than each other, but the aim is only determined out of single action, not out of a higher ranking human aim: It turns cold, heartless, bureaucratic and meaningless." [Schluchter p. 310:] uba Bureaucratic rule as formal rationalisation of administrative staff is for Weber a key-factor of a cultural tradition, aiming at an empire. [Schluchter p. 89:] With this view Weber is in line with the above outlined theory of Wallerstein's world-system. Moreover there is the lack of corporate institutions, mentioned by Weber and Schluchter.

All those preconditions for capitalism are largely lacking in Yemen (- luckily some of their negative effects as well). In many Arab countries even larger towns (Sana'a e.g.) are rather large villages with very limited specialisation and accumulation of surplus. Administration and planning happen on a very low level. Most "business", commercial and governmental, is a matter of verbal communication, using eventually scraps of papers - but rarely registers or cadastres. Such can only be found in the capital and in a few larger towns - but never in the smaller ones, let alone in villages. In the rural areas "administration" and "documentation" is still mainly a matter of memory.

Moreover, those preconditions make the "development problem" clearer: Where capital is available, in larger accumulation, centralised, where information is available - the system is "backfeeding" (s. Myrdal). Centers attract capital and people - good economy makes better economy (what was the major argument of Mancur Olson). The "periphery" is used - but not developed.

It is not contestable, that development can't be done disregarding economic rules, but it is as sure that economy alone is not

sufficient to develop society - again an optimisation, and so most probably a political problem: *"One can only rule society, as well as nature, while obeying it. To change societies, one has to exercise an influence on the social forces they carry in themselves, one has to create institutions, that give certain of those forces the power to act, place the elements of new ways of action, and with all that to bow to the natural and social conditions, in order to be better able to rule them. The rest is empty talk or, at best, fine literature."* [Rodinson p. 251:]

#### 2.5.2.3 Yemen's Local Politics, Economy and Participation in Development

The dominating problems of Yemen's politics have been formulated by Prof. Abdulaziz Al-Saqqaf: *"Yemen needs politicians who are true to the ideals they propagate and accountable to the public."* *"At the economic level, we call for development through a free-market system that allows a fair distribution of income and wealth. What we have today is pre-capitalism where a small segment of the population exploits the large majority, and there is no way to control it.*

*At the political level, we call for a tolerant multi-party political system which is based on the virtues of the modern civilisation."* [Yemen Times July 18th 1993:]

Development, left to the driving forces of technical progress, is devoid of all non-technical reason and values, is devoid of justice. Those are left for the subjective and non-scientific sphere. [see Schluchter p. 267-69:] Especially in the case of Yemen, but not only here, the religious domain can't be neglected: *"If we bring to our mind, following Bloch, that the economical is not the exclusive motive of the human soul" and that "inclinations, dreams, serious pure emotions, aim oriented enthusiasm", that ever come back in religious texts, are nourished from other than pure need and still never insignificant ideologies", then we can recognise, that a simple socio-economic dealing with the third world is not sufficient. The study of the religious-cultural gets a central value."* (uba). Rodinson explained, that "it is of no use to look for economic instructions in the holy texts, as the can't be found or would be unfit. But one should take the moral teachings and make an organic synthesis of traditional and humanitarian values to further the economic development - the only mean, to guarantee members of the society a dignified life." [Tibi (1991) p. 120:]

Who is doing politics? How can the locals be involved in it? Politologists might answer by identifying the political institutions. But institutions are always to a certain extent centralised, conservative, and can only establish generally valid but rather minimal standards (s. e.g. GAT and environment). How can the locals make their voice heard, solve their own problems, if they do not participate in local politics? *"One must not misjudge, that the human being, as important he may be, acts in a given frame, that his ideas are - sometimes surely important - variations on ideas about his surroundings and his time, that the problems he tries to solve are set up by the conditions of*

his time. But he can only act, if he finds more or less larger groups, that accept his ideas and directions, that means that they recognise a value in it that is in line with their own interests." [Rodinson p. 254:] If politics on the local level do not exist, if policies are just being implemented by administrators and the locals can't participate in their making - the result is most probable that they won't participate in their execution. Administrators are bound to their oath, it is by no means their duty to develop policies - and most often they are no good at that: "The politician has to formulate his own cause, and to advocate it in a public struggle for proper power, the administrator has to subordinate his convictions to the duty of loyalty to his office and to stay out of the fight for his own power. Faithfulness towards his own cause or faithfulness towards the institution - that leads to completely different stereotypes of conduct, that make the politician unfit for the profession of an administrator, the administrator for the profession of a politician. Where administrators decide on the guidelines of politics, preservation of the system, conformity will be the content of politics."

An other steering force of social development would be the intellectuals. And not enough that honest politicians are missing in many Arab countries, there is a lack of intellectuals, deserving the name, interested in and devoted to development: "The Islamic ulama are an educated strata too in their society, but they have not been and are not up to now - intellectuals - in the sense of Antonio Gramsci, using the term in the context of the industrial "higher culture": "The characteristics of the new intellectual must not be eloquence, as external and momentary motive of affects and passion; he has to get involved much more into practical life as designer, organiser, >permanent convincer<, but not as a pure >orator<. Many would have a suspicion that this determination of the intellectual is a eurocentric view, because it originates from a European thinker. Without knowing Gramsci, the Malayan social scientist Al Atas adduces the lack of a "functionable intellectual group" as moment of underdevelopment and is pleading for the establishment of such a group, as far as this has to be seen as "development need". For Al Atas the capability to set problems, to define, analyse and as well solve them is the central characteristic of the intellectual; he ads, "the most important differentiating mark of the non-intellectual is the unwillingness to think, and the inability to see consequences."

"It should be clear now, that the described type of intellectual can't be brought up by a traditional education that is uncreative and exhausts itself in memorizing and reproducing." [Tibi (1991) p. 134 / 136:] (uba).

#### 2.5.2.4 Local Economy - The Accumulation of Wealth Against Tribal Equality

The Yemenis are surely running after money - as much as anybody else they value a big profit higher than a small one, a fast one higher than one needing time and investment. But - There are

certain culturally established patterns that are strictly anti-capitalistic. That are the tribal values of equality and generosity. Kopp mentioned very rightly [in Gerholm p. 70-71:] that there are "two major aspects of social inequality, i.e. wealth and status". Tribal norms try all to avoid social inequality due to wealth. Unluckily that often just transfers to an other form of power, to status.

#### Equality - demanding local rather than central rule

The priority of equality is not only tribal, but even fixed in the Quran: [53:39] *"Has he not been informed of what is in the pages of Moses and Abraham who fulfilled his word? - that no burdened soul shall bear the burden of another? And that man shall have only that for which he strives; and that his striving shall at length be seen?"* Other traditional means to ensure equality and submission to the community were ceremonies at the transition to adulthood: *"The law they learn in their pain, is the law of the primitive society, telling to each one: You don't value less than another, you don't value more than another. The law, written on the body, expresses the refusal of the primitive society to run the risk of a detached power, a power that would escape it. The primitive law, cruelly taught, is a suppression of inequality each one will remember."* [Clastres p. 158:] *"The mark on the body, the same on all bodies, spells as: You won't have the desire for power, you won't have the desire for submission."* [ibid p. 160:]

The painful ceremonies have in the meantime disappeared in Yemen. They have been forbidden by the late Imam, and disobedience was cruelly punished [s. W. Thesiger "Arabian Sands":]. While nowadays the tribal organisation seems to be hindering rational organisation and economic development, it guaranteed a majority of people a decent and free existence over almost two thousand years [A. Korotayev: 6-7 / *Foss, Gills and the 6th century ad world system crisis*. Internet: <http://csf.colorado.edu/wsyste.ms/>]: *"On the other hand, in the area where most of the population acquired the tribal organization it often permitted the existence of complex systems of non-oppressed agriculturalists (which is very difficult to find otherwise in the preindustrial world)." "... (most plough agriculturalists being armed honourable tribesmen), at the meantime securing the existence of an intense network of markets, towns, centres of learning ...."*

Islamisation did not only create a religious, political and economic empire, but it helped as well proliferating the tribal ethos (*al-qabaliyyah*) over almost all the Islamic area, removing some supra-tribal political structures (i.e. all those kings, chiefs and their retainers) which started posing a real threat to their very survival." [Koratayev 5.11.96:]

#### 2.5.2.4.1 The refusal of accumulation: subsistence economy & re-distribution of surplus

The tribal refusal of surplus production is beautifully des-

cribed by Geertz' description of the division of the world (heaven and earth) as seen by the Dinkas: "*The first man and the first woman lived of one corn of millet a day, they didn't need more, and more was not allowed for them. Out of greed the woman (naturally) one day decided to grow more than the allowed amount of millet, and in her greedy haste and working zeal, unluckily she hit the god with the handle of the hoe. Offended that one loosened the rope (the connection between heaven and earth. The auth.) and retreated to the far away heaven as it exists nowadays, while the people from now on had to work for their food, to suffer illness and death and to live separated from the origin of being, from their creator.*" [Geertz, p. 70 (retranslated from German)]

In the traditional societies rich people dominated decision making, as in our western society an anonymous "capital" does. Accumulation of wealth does not only mean security for the future, investment for productive purposes - it means power as well. Power is accumulating by the accumulation of money, and this power dominates social decision making - what is against any traditional (and religious!) rules. Up to the 15th century merchants might get rich - but little respected - as in Yemen and other tribal societies! In France during Henry IV. the opinion was: "*S'il-y-a mépris au monde il est sur le marchand.*" The most impressive destruction of such accumulation is surely the potlach of (American) Indian tribes. But as in Yemen, where capital is destroyed in qat sessions, "power" is returning through the backdoor as "personal prestige".

In Yemen we have different ways of preventing capital accumulation. The standard ways as state and religious (*zakat*) taxes, its advantages and disadvantages, are not discussed here, as such discussions can be followed in any newspaper all over the world. But Yemen has two "redistribution" channels, that are rather peculiar:

#### 2.5.2.4.2 Redistribution of Surplus

Qat (*Catha edulis*) is a mild stimulant, consumed in East-Africa and Yemen. The opinions on its economic advantage or disadvantage are controversial. GTZ once came close to recommend it as "democratic" plant. It has the advantage, that it can be grown, transported and sold by anyone anywhere, while coffee, as an "aristocratic plant", has to be commercialised through large, monopolised export companies.

Besides this, qat has some positive, as well as negative, social and economic effects. From the side of economists, developers and other intellectuals you will mostly hear about its negative impact on Yemen's economy and on the family budget. Each day some four to six hours are spent, using up about a third of the family budget. A situation totally absurd from the point-of-view of society geared towards market production and efficiency. But the prophets of the world-market forget, that those meetings are:

- a) knitting the social network and
- b) that Yemen's productivity is anyhow limited by natural conditions, mainly water.

An increased production means overuse of local resources. An other problem being the price. Qat produces locally a manifold of coffee - but no foreign currency. But even for coffee the problem is almost the same. Coffee can be sold on local markets for the double of the international market price (at least during the years 1990-1993)! This very special local economy allows the survival on subsistence-level of hundreds of thousands of small farmers, that would be unable to produce anything in demand for the "world-market" - where they have absolutely no competitive advantage.

Camel raiding was until recently rather common (s. Thesiger). In the north-eastern parts of Yemen it still is, but the booty consists nowadays in cars and not in livestock: "*The institutionalization of raiding other Bedouin tribes for camels, with its elaboration of tactics, etiquette, division of spoils, celebration in sacrifice and poetry and songs, strikes one as an elaborate "take-away" ceremony comparable to the "give-away" feasts of the northwest coast Indians of North America. Raiding, too, results in the reciprocal distribution of economic goods between societies*" [Sweet (1965) in Vayda, p 165:]. The major objective of raiding was to capture adult, female camels. The raided group was not completely wiped out or pillaged. Women and children had to be left with sufficient camels to get them to their nearest kinsmen.

#### 2.5.2.4.3 The Islamic Market-System, a Social and Socialising Market

Islamic economy, besides subsistence, consists of local and regional markets and, last not least, since over 6000 years, trade. The pre-Islamic system of sacred enclaves, regular pilgrimages to them with the regular fairs (*mawa:sim*) connected to it - resulted in "*rather effective intersocietal networks, of which best known is the Western Arabian religious-political area ... guaranteeing ... "manifold contacts, the exchange of the religious and cultural ideas, as well as the barter of products with only use-value. Furthermore, the various legal problems (armistice, debts, benefits, payment of blood-money, bailing out of prisoners, finding of clients, looking of disappeared persons, questions of heritage, etc.) of the participants were also settled there. This exchange of ideas and goods, as well as the spreading of legal customs and cults common to several tribes, that is, regular social contact in general, played no negligible role in the extension of particular tribal consciousness. (Simon, 1989, 90, also see especially Wellhausen 1927, 88-91). ... "Arabia, but also considerable parts of the other Arabian regions) cultural-political entity, which in the absence of any significant political centralization secured the existence of a huge cultural network within which a very intensive (and very productive) exchange of information, energy and matter took place." (uba)*

It shall not be denied, that the predominance of social relations over rational, price-oriented dealings, can have negative

consequences as well. "Looking rather attractive from inside they often looked entirely unattractive for their on-tribal neighbours, who often had to deal with rather destructive side-effects of their functioning." [after Koratayev 5.11.96] (see up e.g.) Those intertribal social relations, combined with an other redistributive mean of tribal societies, generosity, are other specialties that make understanding of and dealing with "tribal economy and politics" difficult.

### 2.5.3 The Critical Factors of the Economic System.

#### 2.5.3.0 Introduction - Complexity:

Economy is an extremely complex science, as it deals with any things and processes that can be labeled with a price. This complexity makes classification systems diffuse and unreliable. This is true since the very beginning of economy: "In the 5th century. B.C., to take an apparently extreme example of variety, but a binding one^: What was the Athenian economy? A slave economy (there was a very large slave population)? A peasant economy (most citizens were country-born and bred, and landowners, producing sheep, cattle, grapes, olives, grain)? A merchant capitalist economy (exporting wine and oil, providing coinage and a carrying trade)? An industrial economy (based on silver, lead, zinc and iron mines, importing grain)? With an industrial proletariat (slaves included skilled workers, free worker's wagers hovered at subsistence)? A world-empire (Athens imposed tribute on other states)? A welfare state (much of the population was on the public payroll via the mass-jury system)? A socialist state (massive expenditures on public works--harbors, fortifications, temples, naval expeditions)? Clearly something of all: a very mixed economy. And all this in a tiny fraction of the total area of Central Civilisation! [Cardulias p. 81:].

Luca Pacioli understood already in the fifteenth century, that: "In trade it is not possible to indicate rules and precepts point for point, as more points are needed to teach a merchant, than a doctor of law." [Piper p. 14:]

The following chapters are a trial to peel out the factors where economic and social development is overlapping and to check for common, as well for antagonistic, aims and for ways to guide development towards socially acceptable aims.

#### 2.5.3.1 Natural Resources

Use, processing and trade of natural resources was at the origin of economical development and from the beginning a critical factor for inequality of development. They facilitate or hinder economic development - and they are most probably the factor that will bring economic growth to a standstill. In Georgescu-

Roegen's [Georgescu-Roegen p. 14:] words: "Economists still do not seem to realize that, since the product of the economic process is waste, waste is an inevitable result of that process and *ceteris paribus* increases in greater proportion than the intensity of economic activity. ... that "bigger and better" washing machines, automobiles, and superjets must lead to "bigger and better" pollution."

Or as Willke formulated it [Willke p. 257:]: "What is really new under environmental aspects at the industrial system is not, that it has negative impacts on the natural environment, but that those impacts are so massive and global. When in a pre-industrial society a farmer (or a whole agrarian society) made mistakes in agriculture, this affected only a limited space and was often reversible, if agriculture was given up. In the worst case such a population had to emigrate or died out. But both did not have global effects." His conclusion is: "Yes, it can't be denied totally, that the infinitely difficult integration of the world to a world society might be forced through the ... overwhelming environmental problems." [ibid p. 156:].

### 2.5.3.2 Human Resources

The situation of human resources is different, as they are increasing rather than shrinking, but not less critical. In most countries there is too much work offered and the demand is insufficient, even decreasing. After Robertson [in Lederer, fn 12: D.H. Robertson "Wage Grumbles", in *Economic Fragments*, London 1931, S.42 ff, esp. p. 50/1] "the demand curve for work is, in a rationalised world, he says, of a very discomfoting shape; "nearly flat for part of its length, and then suddenly dropping almost vertically ". Therefore a totally rationalised world may offer a market situation for work in which a certain part of the workforce may find work for very high salaries, "while the remainder could hardly find it on any terms at all."" "If the number of workers surpasses a certain limit, with given equipment in soils and material means of production, the remuneration of work will in cases drop under the existential minimum and the excess will be expelled without pity." [Lederer p. 86: ].

#### 2.5.3.2.1 The Socio-Cultural Resources

The socio-cultural environment manifests itself in different forms. The main one of importance for economy is the formal one, state and administration. Mancur Olson's research [Piper p. 305] e.g. showed, that "differences in the speed of development are not retractable to the size of population, the religion or even race. Olson analysed, that the "institutions and the political regulations and rules in a country are the main determinants for the level of the per-head income." (uba) Gustav von Schmoller had already treated state and administration as an integral part of economy and stressed the relation between the system of law and what occurs on the market.

The second manifestation of "local culture", the non-formal,

non-institutionalised one, is neglected by economists as well as by developers. Georgescu-Roegen [Georgescu-Roegen p. 346:] uses the example of South-East-Asian feasts, where huge amounts of animals are slaughtered: "This is precisely why to an American farmer the behaviour of a Filipino peasant seems irrational. But so does the behaviour of the former appear to the latter. The two live in different ecological niches and each has a different WELTANSCHAUNG." Georgescu-Roegen worked out the importance of culture and cultural education for development: "And since he needs a code for guiding his complex social activity in a tolerable manner, man has had to produce it himself. This product is what we call tradition. By tradition man compensates for his "birth defect," for his deficiency of innate social instincts. So, man is born with an endosomatic (biological) code but within an exosomatic (social) one." [ibid, chapter "6. Man and His Tradition p. 359:] (uba). He and Veblen warn of economic innovations that are not well integrated into the local culture or world-view (WELTANSCHAUNG) [ibid p. 361: ]: "Anthropologists and historians have long since thought that the introduction of any economic innovation in a community is successful only if the community can adapt itself culturally to it, i.e., only if the innovation becomes socially approved and understood. Among the Anglo-American economists at one time only a rebel such as Veblen argued that it is dangerous to place modern machines in the hands of people still having a feudal economic ANSCHAUUNG." The opposite idea (termed "constructivism"), a bit the base of social engineering (s. social forestry, chapter 1.2.1) that social institutions have been created intentionally and can be changed willingly is considered as erroneous by Hayek. On the other hand even he had often emphasized the cultural preconditions for a capitalist market society. [Piper p. 107 & 111:]

### 2.5.3.3 The Influence of Economy on Society

That the effect of economy on society is not only positive, has been noticed by Burkhardt before over 100 [Burkhardt p. 50]: "Already more doubtful is the profit of the "acquirers "that are the progressive element and do, with elementary passion strive for: 1. an even much bigger acceleration of traffic, 2. on a complete removal of still existing barriers, that means towards the universal state. The punishment for that is the enormous competition from the biggest to the smallest and the restlessness. The acquiring cultural being would like to learn and enjoy quickly a lot of things, but with pain he has to leave the best for others; others have to be educated for him, as others had to pray and sing for the big patrons of the middle age."

A similar critique has in present times been formulated by Nicholas Georgescu-Roegen [Nicholas Georgescu-Roegen p. 264-5]: "The economy would be an absurd process, if the aim of production would really be the "products". Bread, newspapers and cars are not the main thing, but just helpers. The real "product" of the production is an "immaterial stream", that is to say "joy of life". It can origin from the goods themselves, but as well from

*the leisure time. The gross national product is after Georgescu-Roegen in fact the gross national costs of the zest of life.*" (uba)

I guess there are no real arguments against this opinion. So - why then does everybody always strive for more? Why and how always new products are developed and produced? Who drives "innovation"? Who is setting prototypes, ideals, models?

The market is using those existing forces: "There is an asymmetry of economy. The market is dependent on extra-market conditions. To those belong laws and rules, but as well the cultural and moral preconditions. "Market, competition and the game of offer and demand do not produce those moral reserves. They presuppose them and use them up." Röpke reckons among the norms of a market economy's ethic self-discipline, a sense for justice and community, honesty, fairness, respect for the human dignity of others. ... Family, church, true community and tradition." [s. Piper p. 206:].

The social values of a tribal society, representing a real community where each one depends on the other, is heavily differing from the type of society the competitive market needs and forms. Veblen characterised the "pre-rapacious savages" as skilled "good-for-nothing", weak, with insufficient efficiency, lack of initiative and inventive spirit, easygoing and idle gentleness." [after Veblen p.216-7:]. Those traits are important for the collective life, as important as truth-loving, peacefulness, good temper, interest in people and things that is not tainted from competition nor envy. "At the beginning of the rapacious phase, of competition, violence, selfishness, clique-spirit and dishonesty opens the door for cunning and trickery. The modern societies focus of interest is the industrial efficiency. The individual serves the society the better, the higher - to use a vulgar expression - its productive efficiency is."

On the other hand the individual interests are best served under the rule of competition by unscrupulous behaviour. The traits listed above do not serve, as the focus the energy on other aims than financial profit and because they tempt to search ones profit through the indirect and cumbersome path of work instead by means of irreverent tricks on the way of a free career. This homo oeconomicus, whose only interest is selfishness and whose only human attribute is cautiousness is of absolutely no use for the modern industry.

That one needs an impersonal interest in the respective work, not determined by envy. Without this interest the complicated work-processes would not be executable, well, might never have been invented. The interest in the work discriminates the worker from the criminal on one side and from the "industry captain" on the other." <sup>1)</sup> [ibid p. 232:]

So the financial professions, concentrating on ownership and acquisition came to dominate the industrial sector of handicraft and production. The rise to the idle class ensued from financial professions. [That has changed nowadays a bit to marketing]. For Veblen the financial man resembles the criminal in his temper. Both have a preference for sport and gamble, pleasure with competition for its own sake, superstitious trust in luck and fate (or a servile devoutness. [ibid p. 229:]

This type influences the economic life of the society in two ways, once what concerns the speed of economic development, and then, what concerns the results of this development. "The sly human has no economic value for society - except for the purpose of a deceitful behaviour towards other societies. His existence has no advantage for the life of the generation. ... Both barbarian traits, namely cruelty and cunning, determine the late-rapacious attitude or spiritual posture; they are the expression of a narrow, selfish habit of thinking. Both are of a high value for a life, that strives exclusively for a success tainted by envy, both have a high aesthetic value and both are enhanced by a culture based on ownership of money. And both are not of the slightest use for the purposes of the collective life." [ibid p. 263:]. This idle class is obstructing the cultural development 1. directly by its own immobility, 2. by its binding and generally valuable demonstrative extravagance and a conservative attitude, and 3. indirectly by this system of unequal distribution of wealth and ownership, that in fact forms its existential base." [ibid p. 200:]. "Since over hundred years witty commentators quivered in the face of the certainty that the industry will always do whatever is in its power, to earn money - even overstepping the limits of property and right [Hawken p. 250:]. This negative picture is not only literature but shows at present real effects. Hawken reports e.g. that "115 out of the "fortune 500" companies have been sentenced in the eightieth because of heavy crimes [ibid p. 157:] and that nine out of ten Americans believe, that companies are willing to lye, to deceit, to harm, to endanger or to cheat in order to make profit." [ibid p. 159:]

A major problem of the efficiency oriented society is the time. As "time is money" nobody wants to waste it and logically social relations are suffering: "One can't read a newspaper without hitting a description of a man or a woman "that made it", that works sixty hours a week, is member of several boards, dedicates himself to social welfare, is active in the local chamber of commerce, goes to the fitness club, has his own sailing boat, brings up three children and then probably applies for a public office." [ibid p. 166:] People using their time with utmost efficiency for activism loose many other aspects of life out of sight: ... but I had left a part of myself, and it was that one, that is shy, quiet and contemplative." So - time is lacking for social dealings, for politics, for the reinterpretation of aims. "The speed and the lack of time remove people from the nature and enhance a philosophy o life, that mankind can create its own world, removed from the rhythms and pulse of nature. We live in a commercialised culture. Industries have overcome traditions, often thousands of years old, that relied human well-being with Gods and the big law of nature. At their place they put a management system, showing how mankind can overcome and even replace natural laws by engineers' art, mechanics, technique and systems. The growing power of the large industrial capital companies is not founded in any embracing philosophy, nor ethical orientation. The creation of ever bigger wealth is valued as purpose for itself." [ibid p. 175:]

#### 2.5.3.4 Capital Resources

When trade moved from bartering, the exchange of goods, to a new medium, money, this brought with it the possibility of increased accumulation of wealth and - to use its power. "... money (the money-related and symbolic system) was developed very early as a medium to facilitate and steer economic dealings. The peculiarity of the different steering media is, that as symbolic system little by little they separate from the level of real, touchable objects and develop a specific proper dynamic. This dynamic turns relevant for steering, changes the quality of human relations in the related areas by abstraction, generalisation and the evolution of new systems connections. If not person-bound economic action but money, and at the end capital is the steering form of economic processes, then the criteria for decision and relevance separate from concrete persons and obey to different laws." [Willke p. 137:]

It was and is the monetarists who focus exclusively on this system, it was Keynes who showed to the economists that money is not a neutral medium, it can be the source of heavy and long-lasting disturbances. Gesell found already, that "The superiority of money on the market, in compared to goods and manpower, causes, that the money-sector can refuse at each time to fulfill the duty it is meant for." [Gesell p. 224:]

The duty it is meant for might be the critical point. For the capital owner the "duty" of invested money is to increase - from the point of view of other markets, mainly the labour market, the capital market is disruptive. For the steering of this sub-market, and of the export market, the exchange rate has been a useful tool. With the separation of money markets from the national (before long from regional) playground, an independent money policy of nations has become difficult. To restrict foreign currency speculations Tobin proposed a duty, the *Tobin-Tax*. [after Tobin, in Piper, p. 303:]

An other major problem is the concentration of the capital. Hawken reports that the major part of financial capital on today's world markets serves to finance the growth of multinational companies and that one percent of the American companies own sixty percent of the shares of capital societies and some forty percent of the total national wealth. [after Hawken p. 130:] Similar facts have been reported for Germany: "It is getting clear here, that rationalisation investments are strongly concentrated on large companies with over 1000 employees. Moreover, during the crisis a restructuring of single capitals through centralisation of capitals happens, having an effect on employment." [Altvater E., Hoffmann J., Semmler W. p. 296:]

This concentration of power in private hands is the major problem for a participatory planning of a common and sustainable future in the western world - as it puts decision making into the hand of an oligarchic plutocracy. This development is threatening democracy as the freedom of trade, the freedom for money, undermines free development and freedom for the people.

### 2.5.3.5 Dynamics [Economic Growth Factors]

The capitalist economy has to grow - or it will falter. Production, trade, transport, money, wealth - all has to increase constantly. The main factors that drive this grows are:

#### The Offer:

- 1 capital accumulation - and the need to reinvest / cheap capital
- 2 cheap labour

#### The Increasing Demand:

- 3 population increase
- 4 increased income of consumers
- 5 new products, interesting offers ... (= innovation)
- 6 new export possibilities, due to expansion of country, free market agreements ....

### 1 Capital Accumulation and Centralisation

This factor has been extensively discussed in the preceding chapters and is the base of Myrdal's critique of unequal development chances [Tobin, in Piper p 34]: "*... the higher the level of economic development that a country has already attained, the stronger the spread effects will usually be. For a high average level of development is accompanied by improved transportation and communications, higher levels of education, and a more dynamic communication of ideas and values ...* While criticising unequal offsets, even Myrdal never put into question the basic principle, the need for accumulation of capital [Myrdal II p. 82]: "*There is no other road to economic development than a compulsory rise in the share of the national income which is withheld from consumption and devoted to investment. This implies a policy of the utmost austerity- quite independently of whether the increased savings are engendered by high levels of profits to be ploughed back in industrial expansion or by increased taxation.*"

### 2 Cheap Labour

That capitalism is a demand-driven system has been worked out by Michael Kalecki (1899-1970): "*The capitalists earn what they spend and the workers spend what they earn.*" Robinson described the same dilemma. A behaviour that is completely rational for an isolated firm can be wrong, considering the whole economy. The enhancement of demand, on the other hand, is not easy as well, as a higher demand can easily shift to foreign markets and create a deficit in foreign trade. [after Piper p. 168]

To hold down wages was easy in the beginning of the industrial aera, as the population was rapidly increasing and the technical progress released large numbers of labour, especially from agri-

culture.

While during an economic slump the employers demand an adaptation of labour costs, what means they call for lower wages, the effect can be counterproductive, as the present situation in Switzerland shows. Lederer [Lederer p. 117:] showed this already in the Thirtieth: *"The salaries of workers as an average have to diminish in comparison with the other social strata. Would all or most incomes sink, what is the case in an extended and deep depression, would the fixed incomes of civil servants, pensioners, etc. be included in the process of decrease, the buying power, expressed in terms of money, would shrink. ... With that the elasticity of the demand is diminished and the decrease of the salaries will not show its full effect."*

Moreover he claimed, rightly as the past years showed, that decreasing salaries will have a very negative psychological effects on all consumers. The same is valuable for the masses of unemployed people. *"Now the static theory assumes, that the superfluous workers disappear by dying out and never resurging again, while in reality the superfluous workers are pulled along and stay on the market as a living argument against the optimistic and harmonistic conception of the equilibrium term."* [ibid p. 116:]

The big depression after the stock market crash in 1929 created a reorientation in economic theories (Keynes!). The fact that mass unemployment does not automatically disappear through the normal market forces, was in contradiction with the established theories about the functioning of the capitalist markets.

##### 5 Innovation: New Products, Cheaper Products, Interesting Offers

Innovation is unrenounciable, as otherwise the competition drives the profit down to zero, what would make accumulation impossible and lead to stagnation in investment and so to the standstill of the whole system. [after Lederer p. 92:] Innovation is (unluckily) not a steady process. Kondratjew traces back the economic cycles, called after him, to that cause [Piper p. 240:]: *For Kondratjew the long waves are not the result of external factors as wars, new markets, discovery of new goldfields, but the result of revolutionary changes of the productive forces and new social institutions. At the beginning stands in each case a new technological-economic paradigm with a bunch of basic innovations that turn into carriers of a new economic boom."* (uba)

Only a few economists asked the questions, if always more and new products are really needed. The most prominent of them, Galbraith, says [ibid p. 287: ] in "The affluent society": *"In spite of the fact that the modern industrial society is able to satisfy all true needs of the population without problem ... it is hunting after growth and creates for that new; so far never foreseen, needs. Expensive marketing is heating up the private consumption, while no comparable mechanism assists the public goods - especially the social costs. For that the "social symmetry" succumbs ... "*

##### 6 Increasing Markets due to the Increase in Population and Exports

Until the last century an expanding population pushed the economic growth process. Demand rose automatically with the population. In the twentieth century this expansion stopped in the western countries, and the demand had to be driven up by more products, new products, higher salaries, higher expectations and higher qualities.

An other way to drive up demand is to expand economic activities to other countries - or to import products that can't be produced in the own country (the origin of trade in Europe: colonial goods as pepper, coffee, tea ...) To be able to import, the importing country has to produce goods it can sell with a higher value (comparative advantage) on the international market. Lederer: *"theoretically the export goods produce the imports."* [Lederer p. 47:]

What is at present going on is not the same. At present the developed countries (especially seen from the Swiss point of view) export capital and establish productive industries in countries with cheaper labour. There is no innovation for the country of origin - only cheaper products. On the other side the demand slumps as work places are exported with the capital. The products are not principally intended for the home-market, but for the enormous new markets (especially in Asia), where the capitalist market system is just taking off.

Developing countries have the "advantage" of rising populations and there is no scarcity of unskilled labour. But technological improvement will transfer the advantages from the cheapening of production to the importing countries. *Since the demand is often inelastic the market will not be greatly enlarged. The advice and assistance - which the poorer countries receive from the richer is, even nowadays, often directed towards increasing their production of primary goods for export.* "A widening of markets often strengthens in the first instance the rich and progressive countries whose manufacturing industries have the lead and are already fortified by the surrounding external economies, while the under-developed countries are in continuous danger of seeing even what they have of industry and, in particular, small-scale industry and handicrafts, priced out by cheap imports from the industrial countries, if they do not protect them." [after Myrdal p. 51/2:]

#### 2.5.4 Development as Optimisation Between Economic Production and Democratic Decisionmaking on Social Values

The steering of economic development has been left by the "father of economy", Adam Smith, to the "invisible hand". Mancur Olson's central topic was that the result of economy, being human action, corresponds rarely to the original plans and intentions of the people. [after Piper p. 303:] The major reason behind this might be, that the strive for economic aims, for profit, does by no means include the strive for other, namely social and cultural aims, rather the opposite: *"This particular formula - as I argued elsewhere - reflects an institutional trait proper ... to the large urban communities of industrial-*

sed societies. The same is true of another cornerstone of standard theory, namely, the proposition that, for a seller, "gain is measured solely by money-profit. But - to recall Marx's protest - "the bourgeois reason is [not] the normal human reason." As Marshall carefully pointed out, it is not the general reason even in the bourgeois society. Still less can we expect it to be valid in all institutional settings. Actually, in peasant communities the happiness of the individual depends not only on the quantities of goods and services at his disposal but also on other social variables, and gain depends on other factors besides money-profit.

The statement that the fundamental principles of economics are universally valid, therefore, may be true only as their form is concerned. Their content, however, is determined by the institutional settings. And without this institutional content, the principles are nothing but "empty boxes," from which we can obtain only empty generalities." [Georgescu-Roegen p. 324:] (uba)

To fill those "empty boxes" with meaningful content, with "culture", a careful analysis of the environment - as well as a participatory (say "democratic") approach to decision making impose themselves. While Keynes' aim was to create jobs for all, the question, what should be produced, was and is still open. During the thirties it was answered by the upcoming war and the need for arms production. Seen from the point of corporate interest, a certain amount of unemployment is highly desirable, as it " ... is disciplining" - says Robinson - "It is the fear of unemployment that leads the workers to submit to the authority of their employers." [Piper p. 179-180:]

On the other side - arguments speaking against a planned economy are legion! Von Mises already recognised, that a planned economy must fail because of the absence of a free market and with it the lack of objective information on prices. As well there are no objective criteria to determine, how a social process should evolve. [after *ibid* p. 89:] Already Leon Walras (1834-1910), being highly convinced of the scientific (and so predictable?) nature of economy, admitted that "the free game of offer and demand guarantees a maximum of social welfare ... but the just distribution is as important and is not delivered automatically with this process". (uba) In his "ideal society" there are no taxes, the people can use freely the fruits of their knowledge and talents. Land is socialised, the state finances itself by the rent. Its most noble duty is it, to maintain schools and universities; ... [after *ibid* p. 63:] That is tough, from one of the most important theoreticians of economy, isn't it - to demand socialisation of the land property! That will give the state an important voice in development! But even with a strong political influence - discussions are endless, as the process of development is endless. In Germany e.g., where the effects of Schmollers thoughts are present up to now, the compromise between market, competition and efficiency on the one; state, regulation and redistribution on the other side has to be remodeled ever and ever again. [after *ibid* p. 137:]

The fact, that people can be superfluous for a company - but not for a society - has to be recalled ever again to the leaders. Myrdal spoke of "The convenience of ignorance:" "In every coun-

try there have been whole systems of psychological and ideological barriers, protecting the well-to-do classes from knowledge of social facts, which would be embarrassing to them."

And he showed how this "ignorance" has been and will be overcome: "The spread of embarrassing knowledge is one of the consequences of the greater articulateness of the poorer classes themselves, and of their organisation, under the shield of democracy, into pressure groups of various types for pleading their cause and fighting for it." [Myrdal p. 123:]

The social aspects of economy are not included in the scientific system of economy - but the social and cultural aspects are the base and, in fact, the ends of economic development. Luckily even some economists came to the same conclusion: "That is why an increasing number of economists share the view that macroanalysis, though it is only vaguely clear, is far more productive than the traditional microeconomics with its Ockham's razor. But, perhaps, the real reason is, that they have ultimately come to realize that the more significant variables pertain to society, not to the individual." [Georgescu-Roegen p. 339: ]

Economic development in the past decades results in an ever increasing difference between rich and poor, be it between countries, be it between citizens of one country. This is especially outspoken in countries with a liberal economy, as the USA. There the poorer half of the employed people had to accept a cut of 10% in salaries since 1979, a 20% cut for the poorest tenth, that have been replaced by more qualified people! No other country is in such a bad situation. In Germany the poorest 10% could profit from a real salary rise of 30% since 1983. [CASH 49, 6. Dezember 1996:]

The two-third society is in the meantime almost reality, the development seems to go in the direction of an 80/20-society. But while the two-thirds-society is real evil, as it can be democratically stabilised by a majority, the 80/20 model can't be sustained in a democracy.

#### 2.5.4.3 Development governed by intentional assumption of RESPONSIBILITY - by CULTURE

Business at present follows the Darwinian principle - survival of the fittest [ibid p. 56:], but on the long run profit-orientation and competition will leave such inequality and destruction behind, that new orientations and perspectives for society will have to be put into use. Freedom is nowadays equaled with size and power - but not with responsibility. [ibid p. 110:] To get closer to that aim we need a market economy, where business is flourishing when it assumes its responsibility towards society and environment. "In a preserving economy there will be a business practice that is developing in harmony with the natural and human societies it serves. That makes a high degree of cooperation necessary." [ibid p. 207: ] (ubo)

Cooperation can't be reduced to common logistics and accounting procedures. Cooperation depends on common values, on a common culture. As we have seen in chapter 3.5.2 on "world systems" variability, differing cultures, even different economic systems

do exist and they are prerequisites for economic growth: "Indeed, if man's economic actions were independent of his cultural propensities, there would be no way to account for the immense variability of the economic pattern with time and locality." [Myrdal p 342:]

At different places in the preceding text the importance of the interaction between the local culture and economic development has been stressed. Given the (almost) general understanding of its importance, it is all the more astonishing, how little respect economy and the economists pay to that factor: "Nothing is more natural than the inability of the standard economists to understand their German colleagues who insisted on bringing such "obscurantist" ideas as GEIST or WELTANSCHAUUNG into the economic science. On the other hand, it was equally normal for the German school to reject an idea which reduces the economic process to a mechanical analogue." [ibid p. 342:] "Leonard Doob, for instance, insisted that no planning can succeed unless it is based on a knowledge of the social environment, that is, of the tradition of the people who will be affected by it. An even stronger thesis is put forward by J.J. Spengler, who argues that the rate of economic growth depends upon the degree of compatibility between the economic and non-economic components of the respective culture. These observations should not be dismissed easily, for all analyses of why the results of our economic foreign aid often have not been proportional to its substance converge on one explanation: local mores. Actually, there are a few facts which suggest that the influence of the economic ANSCHAUUNG upon the economic process is far more profound than the authors quoted above suspected." [ibid p. 362-3:]

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