THE NATURAL ECONOMIC SCIENCE

This page intentionally left blank

THE NATURAL ECONOMIC SCIENCE

Re-writing Economic Fundamentals

BY

PAUL FUDULU

emerald PUBLISHING

United Kingdom – North America – Japan – India – Malaysia – China

Emerald Publishing Limited
Howard House, Wagon Lane, Bingley BD16 1WA, UK

First edition 2019

British Library Cataloguing in Publication Data
A catalogue record for this book is available from the British Library

ISBN: 978-1-78973-220-7 (Print)
ISBN: 978-1-78973-219-1 (Online)
ISBN: 978-1-78973-221-4 (Epub)

ISOQAR certified Management System, awarded to Emerald for adherence to Environmental standard ISO 14001:2004.

ISOQAR REGISTERED

Certificate Number 1985
ISO 14001

INVESTOR IN PEOPLE

Contents

List of Figures *vii*

List of Exhibits *ix*

Acknowledgment *xi*

PART I: NATURAL ECONOMIC ASSUMPTIONS AND METHODS

Chapter 1 Introductory Notes: Failures and Puzzles *3*

Chapter 2 Preliminary Issues in Identifying a Natural Economic Axiom *9*

Chapter 3 The Singular Axiom of Natural Economic Science *33*

Chapter 4 The Methods of the Natural Economic Science *55*

PART II: NATURAL SOLUTIONS TO UNSOLVABLE PROBLEMS OF ORTHODOX ECONOMICS

Chapter 5 The Anti-entropic Formation of Human Ends *81*

Chapter 6 The Anti-entropic Formation of Preferences and Some of Its Implications *95*

Chapter 7 Rules and Institutions as Opportunity Cost Patterns *111*

Chapter 8 The Anti-entropic Theory of Culture Formation and its Fundamental Impact on Economic Performance *129*

Chapter 9 Externalities and Public Goods as a Cover-up for Coercive Actions *147*

Chapter 10 General Conclusions: Theoretical and Practical *163*

Endnotes *169*

References *181*

Index *187*

List of Figures

Chapter 5

Figure 5.1 The Taxonomy of Human Ends Based on the Anti-entropic Nature of Life. 82

Figure 5.2 From Primary Mega-ends to Derived and Sublimated Ordinary Ends.. 83

Figure 5.3 Passions and Their Relation to Mega-ends. 84

Chapter 6

Figure 6.1 The Relatively Low Opportunity Cost for Fish Results in a Relatively High Preference for Fish. 98

Figure 6.2 The Relatively High Opportunity Cost for Fish Results in a Relatively Low Preference for Fish. 98

Figure 6.3 The Consistent Choice of the Opportunity Cost Patterns. . . . 102

Figure 6.4 The Choice of the Institutional Setting Is Consistent with the Cultural Values. 103

Chapter 7

Figure 7.1 Rules and Opportunity Costs of the Mega-goods. 120

Figure 7.2 Perfect Relative Power Equality and Cultural Blindness. 122

Chapter 8

Figure 8.1 Greek, Roman, and Christian Cultures Expressed in Terms of Preferences for the Mega-ends Absolute Wealth (w) and Relative Power (r). 138

Figure 8.2 Greek, Roman, and Christian Cultures Expressed in Terms of Patterned Opportunity Costs (rule) for the Mega-ends Absolute Wealth (w) and Relative Power (r).. 138

Figure 8.3 Cultural Predetermination of Economic Performance. 141

Figure 8.4 The Alteration of Cultural Opportunity Costs by Climate. . . . 144

Chapter 9

Figure 9.1 The *Ex Post* Coercion. 160

Figure 9.2 The *Ex Ante* Coercion.. 161

List of Exhibits

Chapter 8

Exhibit 8.1 The Comparative Ability of Capturing the Features of Culture. 140

Exhibit 8.2 Correlations among Climate, Level of Relative Power, and Economic Performance. 142

This page intentionally left blank

Acknowledgment

I am indebted to many professors for finalizing this book by commenting on its parts or as a whole and being supportive of my perspective. I would only mention here Solomon I. Cohen, John Henry, and Geert Hofstede. For enhancing the presentation of my English and editing the whole book, my special thanks go to Colleen Spears.

This page intentionally left blank

PART I
NATURAL ECONOMIC ASSUMPTIONS AND METHODS

This page intentionally left blank

Chapter 1

Introductory Notes: Failures and Puzzles

Such a daring title and subtitle for this book require some explanation from the very beginning, although the reader will find plenty of support on almost every page. In very short and regarding its title, this book launches an economic theory which is a natural science as much as any of the classical natural sciences because it is based on or derived from one of the most important and comprehensive natural causal laws revealed by physics. In very short again, but regarding the subtitle, this book is a rewriting of economic fundamentals because it rejects and replaces almost all of the fundamental assumptions and methods of orthodox Western economics.

Here, in some detail, are the main failures and puzzles that triggered such a radical project. How is it possible to conceive of a universe which consists of two components – natural and social – that are run by wholly separate or inconsistent principles? How is it possible to assume causeless phenomena – such as the formation of human ends or a free-willed man – without being embarrassed about getting mystical, which annuls any pretense of a science? I can understand that for some time economists did not have a great support such as the anti-entropic definition of life, but there were great social thinkers who very accurately described the maximandum of general power – for instance, the Stoics and Hobbes – which is derived right from the anti-entropic behavior of living humans. Not even Smith, if understood according to what he meant to say rather than what orthodox economists were ready to interpret and pick up, would have not led us to an economics claiming principles and methods wholly inconsistent with the natural sciences.[1] It is not an exaggeration to assert that orthodox economics does not take over the best classical ideas at all. On the contrary, orthodox economics is more of a distortion of a rather solid start. What force was so overwhelming that changed the scientific course, which the great minds of the economic discipline should not have missed?

Economics, which for centuries has had the maximizing human individual as a fundamental principle, has not been able to identify a universally acceptable and thoroughly descriptive maximandum. Since the lately revealed anti-entropic nature of life confirms the maximizing logic of life, the problem is certainly located in identifying the true maximandum. The classical maximandum of wealth was not only incomprehensive but even impossible.[2] Satisfaction was not able to account for the formation of new ends. As for the scarcity principle, which would make a universal approach correct, it is only a false escape route: Scarcity is derived from the maximization, not the other way around, and as such we are back to the question, "Which is the proper maximandum?" This is not a sterile theoretical issue but a crucial one, because the nature of the maximandum determines the nature of the maximizing behavioral principles.

Economics, which is seen as a "science" about human conduct, is not able to say anything relevant about the most fundamental determinant of conduct: the formation of human ends. Although this is very frustrating, orthodox economists accepted that human ends are about "the most obstinately unknown of all unknowns" (2009, p. 120) – to use Knight's wording – and that economic regularities are only about form. However, the causeless human ends are only so because of the disconnection of humans and society from our "physical" external world which the orthodox perspective assumes. Human ends cease to be a troubling unknown as soon as we are prepared to accept that their formation is not about "within" but about the relation between physical and physical, between us human biological beings and our external physical world, both human and nonhuman.[3]

Once again the orthodox economists had solid knowledge available which could have changed their incorrect perspective, but in a manner strange for a scholarly stance, they ignored it. I am thinking at minimum about the debate between Knight and the anthropologist Herskovits. At that time Knight rejected with some hostility the solid fundamental arguments which could have changed the course of orthodox economics. The orthodox recourse to "understanding" in order to comprehend human ends is almost impossible due to *culture blindness* – a phenomenon the orthodox economists are not aware of – and it is also a confusing intellectual undertaking, as is shown in Chapter 4.

Although preferences and satisfaction play a major role in economics' explanatory model, there is no significant orthodox knowledge about their nature and formation. Becker's theory about the formation of preferences assumes an invariable extended utility function – which defies the adaptive role of all preferences. It is based on this highly unrealistic assumption that Becker gets a variable and as such more realistic description of less comprehensive preferences. Moreover, while using the fuzzy concepts of social and personal capital he avoids the fundamental economic reality of opportunity costs – whose hierarchy should be consistently formed with the hierarchy described by preferences. Consequently, it is no surprise that Becker's approach to preferences cannot go enough far to reveal the mutual conversion of preferences (values) and rules and support a theory of institutional choice or conceive of a theory of culture formation starting off from the crucial correlations revealed by anthropologists and social psychologists. Yet all of these can be done within an anti-entropic perspective on preferences and satisfaction.[4] It is also the anti-entropic absorption that makes it possible to clearly define satisfaction and preferences, while Becker has visible difficulties in defining the same concepts.

This incorrect orthodox economics perspective has dear consequences for its institutional component. The basic concept of a "rule" – which is crucial in defining institutions – lacks a definite economic meaning, and this makes it impossible to connect it to more fundamental economic terms such as opportunity costs and values (preferences), or to use it in relation to the economic choice model. The result is an economic theory of institutions without any choice of institutions at all. In a very strange turn what we get is "institutional change." For the same reason it is impossible for the orthodox institutional theory to tackle the very serious phenomenon of general or systematic corruption. However, the most spectacular failure of institutional economics is its inability to account for emerged interactive rules. This failure is even more damaging because it conditions understanding of the fundamental social phenomenon of culture. I cannot stand leaving this negative assessment without also mentioning its numerous disturbing internal inconsistencies.

It is not economists' job to study culture, but it is vital for them to have a sound comprehension of this fundamental social phenomenon. While we have to accept that the realm of culture pertains especially to anthropologists and social psychologists, economists should be able to decode it in proper or economically meaningful concepts and lay it at the basis of their models. What economics is doing cannot but intrigue and disappoint. Instead of decoding, the orthodox economists try by themselves to define this phenomenon about which they do not have any expertise.[5] Moreover, instead of taking culture very seriously and accepting tough changes in their models, the orthodox economists see culture more like a "disturbing force." Without exaggerating I found this topic as the one where orthodox economists' incompetence reaches its zenith.

The failure to properly understand the phenomenon of culture has dear consequences in several key components of economics. A very important one is the role played by wealth in the realm of human ends. Because culture is variable and comprehensive, that is it ranks everything, wealth itself is ranked; and because we can only rank something in relation to something else, culture is the best proof that wealth cannot be a general invariable end in any sense. The immediate consequence that follows is that economic growth or economic development cannot be equally important to all countries. Going even further, the economic system based on free markets cannot be universal. The same is true for all institutional settings that accompany free markets.

Conceiving of an explanatory economic theory while important components of economic reality are circumvented or ignored is impossible. Orthodox economic theory is doing just that. Relative power – or the end of absorbing negative entropy based on other humans – is ignored or, at best, is seen as a means to the assumed transcultural human end of wealth. If relative power is ignored, neither a coercive transaction nor a voluntary transaction can be defined. In the whole orthodox economic literature there is no one right definition of coercion. In such a situation, important economic phenomena cannot be seen and understood. The area of those impossible-to-understand phenomena is large because the forms of relative power that can be exercised vary between very cruel – cannibalism and bloody wars – and much milder – for instance, creating monopoly positions. Two important phenomena are connected to relative power and have created much confusion within orthodox economics.

First, regarding the problem of justice, while great social scholars have continuously tackled it and tried to understand the meaning of *just* – I am thinking, for instance, of John Rawls with his famous book *A Theory of Justice* – Hayek, who is a strong orthodox voice in matters of this nature, found the concern with justice to be a disguise for the undesirable feeling of envy and furthermore found the idea of justice impossible because what is seen as just varies across individuals and situations, or there is simply no one single idea of what is just. Yet even if the problem had been envy, Hayek would not have been able to say anything meaningful about the cause of envy. Envy as much as justice is derived from the human mega-objective of relative power and only when this is taken into account the two subjective feelings can be causally understood. The just ratio is derived from a comprehensive maximization operation when relative power is taken into account or becomes a maximandum component on equal footing with "wealth." To determine the just ratio – which cannot but be variable across individuals and situations – is certainly impossible within orthodox economics. The just ratio is primarily an individual magnitude. Many individual just ratios can form a statistical regularity – another orthodox unknown – which is what is called the socially just ratio or the state of social justice. Unlike orthodox economics, the natural economic science not only acknowledges the fundamental human concern with justice but proves that only a correct economic perspective can thoroughly account for the just ratio.[6]

Second, externalities, negative and positive, should be a coherent whole within orthodox economics. The benign state which belongs to a society characterized by cooperation – says the orthodox economic creed – has the role of internalizing externalities. While orthodox economists can find plenty of examples of negative externalities for which the state can play a beneficial role, it is a different situation regarding positive externalities. The state does not deal with positive externalities generally but only with infinite positive externalities or a special kind of goods which have a special nature: public goods. When thoroughly examined, both negative externalities and public goods do not correctly describe the situations they should describe. The negative externalities are not non-intentional, except in the case of accidents, and all the examples of public goods which orthodox economists presented were found to be wrong.[7] Besides, the public goods theory is imbued with inconsistencies so evident that there were even orthodox economists who had to signal them out. By all standards this theory is embarrassing and it should have stopped being a part of economic theory long time ago. Yet it has not been omitted at all: It is still present in all orthodox textbooks. What is the reason for such a paradox? There is a solid explanation if the orthodox perspective is abandoned, the coercive nature of the state is accepted, and the exclusive cooperative nature of human society is abandoned.

Let me end this short presentation of orthodox failures and puzzles with singling out the one issue alone which, in the wake of my analysis, has been responsible for all orthodox failures: control. The emphasis on this issue frees the author of this book of a likely charge of arrogance. It shows that the orthodox failures have not been in the main personal intellectual failures by orthodox economists; it is not plausible that so many great minds made so many fundamental intellectual errors. They could be taken as moral failures, but even this could only be true if the standard is absolute. In relative terms, economists' moral standards may not be considered lower than those of natural scientists.

It is said that science must help control and predict. As I will argue in Chapter 4 about prediction, theoretical economists should be involved in neither prediction nor in control. The reality I want to reveal here is that orthodox economists have not taken the control function seriously enough and have not revealed the dangerous aspects of control which might be supported by economic theory. Economists only exceptionally admitted that there can be full incompatibility between control and a positively scientific approach. Strangely, orthodox economists have not noticed that there is a fundamental difference between the control supported by the natural sciences and the kind of control which economic theory might be induced to support. The truth is that economic theory, as any other social discipline, can be engaged in manipulative control – that is, control exercised through false knowledge.

This possibility for manipulative control is made available by the non-neutrality of social knowledge as compared to natural knowledge. I do not know yet if it was the lack of sound study of the matter which entailed the manipulative control, or if the manipulative control prevented that study. The suggestion which is made by this book is tragic: Orthodox economic theory has been thoroughly hijacked by powerful cultural, political, and economic forces. Not long after it began, it was fully engaged in manipulative control. It is certainly not a positive science and it cannot be mended. It has to be completely abandoned in favor of a truly positive, natural economic science.