

Economics Explained

(Second draft)

by

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Ah Love! could thou and I with Fate conspire
To grasp this sorry Scheme of Things entire,
Would not we shatter it to bits -- and then
Re-mould it nearer to the Heart's Desire!

Quatrain 88
The Rubayyat of Omar Khayyam
Edward FitzGerald

Introduction

Economics is merely the way in which we interact with each other, and the environment.

If you can imagine seeing the world from a great height and looking down at all the people and their movements and interactions you are actually seeing the economy. The economy is the raw actions and interactions themselves, it is not the money or institutions that we currently let determine what those actions are.

Using simple language and self evident logic this short book will explain the key characteristics of the world economy today and what we can do to improve it for everyone.

Profits

Let us start by considering profits. What are they? A profit is simply the amount that you get from someone that is greater than what you gave them. You may have an item that cost you \$50 but you sell it for \$100. The person who buys it from you is only getting \$50 worth of goods but they are paying \$100. They are losing wealth in the process.

Every time you buy something that has a profit component built into it you are losing wealth. There are two ramifications of this.

Firstly wealth becomes concentrated in the hands of a minority as the profits flow into those who own the organisations that make the items that are being sold.

Secondly it makes enemies of us all. If you aren't making a profit yourself you are losing wealth to those who are, because most of your transactions will be taking wealth from you. You are continually on a sliding slope.

The end result is you have an unbalanced system of haves and have-nots.

The system continuously self corrects in order to maintain its own status quo. It is not in the interest of the haves to extract all the wealth from the have-nots, because then the have-nots would be unable to buy products from the haves, and thus the haves wouldn't be able to benefit from the lives and work of those below them in the economic chain ~ remember through profits they are extracting more from them than what they are giving them, and thus benefitting more from the work of those below them than those people are themselves.

The system settles on a state that gives the have-nots just enough to live and get by, no matter how stressful their lives are, whilst ensuring that the majority of the benefit of their effort goes towards the haves, who enjoy a significantly higher standard of living.

Is this even remotely fair? Of course not.

This system is a fairly classical Capitalist state, but it is also true of Socialist states as well, for reasons which I will explain shortly.

Most modern states now are a mixture of Capitalism with Government controlled regulations and social policies designed to counter the polarisation of the wealth to one degree or another. This arrangement can mitigate these problems but it is ultimately doomed to failure.

This is because in this situation the wealth that people enjoy doesn't come out of the system, and an equitable return for effort in their interactions with others, but rather from selling things on in the hope that a profit can be obtained which would then allow them to benefit from others more. This ultimately creates an ever expanding system whereby more and more raw materials are drawn out of the environment and built upon and passed

along because people are trying to use them to improve their own circumstances relative to others, by each transaction – and if you do this well enough eventually you'll have more wealth than you need and you can get others to work for you and freely benefit from their work because they are lacking wealth and need the money. All this comes at a great human and environmental cost, and the environment is limited and can't sustain this kind of onslaught and will eventually collapse under it, and just as we are biological beings if we bring the environment down we will bring ourselves down with it.

Secondly it is unsustainable because public policy initiatives like health are dependent upon a very unstable base – because they lose money, they don't make money – which in the context of a profit reliant economy is a major problem. This means things like public health can only exist if the state is making money through other things – but if the state is making money elsewhere then some other person or state is losing money and can't afford public health – it is not sustainable, and someone eventually is losing out themselves and providing a higher quality of life for others further up in the system.

Profits make enemies of us all, and a system cannot be sustainable if it is not fair for all.

It is immoral to have a system where some benefit by the expense of others. Some would argue a system like that is acceptable but it's not on moral grounds and it won't last either – because the have-nots will either rise up in revolution, or collapse down and die – neither of which is good for anyone or everyone.

We have this situation because people are thinking more about their immediate needs than the needs of the whole. We base our actions on our individual micro-perspective rather than a macro-perspective whereby we could do things that are not just good for us, but good for everyone.

Though not excusable it is understandable that people think this way, because it is happening in the context of an economy whereby you are continually losing – people are continually taking from you via profits and so if you don't take from others eventually everything will be taken from you, and you will eventually starve – and it becomes a negative feedback loop that has just spun out of control – and yet we have accepted this and call it normal everyday business.

Aside from profits, expenses are the other factors that are built into a sale price – but how can expenses, and thus profits, truly be calculated? Should a farmer be able to charge more for their work than a nurse? Should iron be worth more than zinc? A teacher more than an electrician? How do we quantify what things are worth?

It is impossible to do it accurately or fairly because we are continually comparing apples with oranges and having to make judgment calls and quantifying their worth – and this quantification itself brings a whole host of new problems.

Money

By quantifying wealth money creates a system that is easily abused – whether legally or illegally – because wealth is then tokenised, seen as an object and can be bought, sold, traded, inflated, deflated and stolen all well away from any thoughts of the people whom it effects. It takes on a conformed life of its own as if it were the truth – but still the reality is just people and how they are treating each other.

Under this system there's no great achievement in being wealthy it just shows that you know how to game the system so the net benefit of a lot of people's work flows towards you and not them, which is made so much easier by the liquidity and transportability of money, and the constant state

of need that people are in that keeps them wanting to do things for money.

Money only has value if people are prepared to do something for it. Money isn't money it's the ability to make people do something for you. And why should they? This is because of ownership – money without ownership is worthless because things could then be obtained freely without it, but by restricting what is available for free, people are then locked into an economy in which value is quantified by money and then taken from them by profits – for the benefit of those higher up the food chain, and thus most people lose and are in a perpetual state of need which only benefits those in possession of the profit making organisations, not themselves.

Capitalism

Because people are free to set up a business and take profits themselves it is the great myth of Capitalism that anyone can "make it", but by its very design not everyone can, this is because "making it" or having great wealth in Capitalism comes from the disproportionate power you have over others. If you have "made it" then by definition and design others haven't, and never will - because success in this system is built on, and requires, the exploitation of others – it is inherent in its structure – and the system could not exist if people weren't being exploited. Yet the myth that anyone can make it persists just because some can, which has blinded people to the fact that everyone can't ~ and just because some can is no justification for it, because of the wretched lives it forces many to lead.

However the myth that everyone can "make it" is part of the appeal of Capitalism, and helps it to spread. On the verges of developing countries many indigenous people still living subsistence lifestyles are drawn into Capitalist economies thinking it will make them wealthier. I've seen this in Papua New Guinea where people come out of the highlands and live on the edges of towns hoping to get work – but it is this hoping to be rich that actually makes them poor, as it takes them out of their communities and

draws them into a system where more value is obtained from them than given to them.

Socialism

Up to this point you're probably thinking I'm a Socialist or a Communist. I'm not.

There is no essential difference between Capitalism and Socialism. They are both systems where wealth is quantified as money and because of ownership, whether private or public, people then have to work for the things they need. The distribution of this wealth is also controlled by power elites. In Socialism these people are part of the Government, in Capitalism they are private individuals working in private organisations.

In both cases the power elites are hierarchies that wield power over the masses and each system is completely vulnerable to being exploited by those in the positions of power.

The very structure and nature of both these economies are defined by an imbalance of power between the individuals involved – whether that emerges naturally as it does in Capitalism, or in a mandated way as it does with Socialism – but the end result is the same – they are both *Unbalanced Economies* and have no important differences to each other.

A Capitalist democracy may have the advantage of an alternate voice being part of the political system (which makes a big difference in trying to remove corrupt elements of the government) but it is the hierarchical system itself that is the problem, and merely replacing who is in that hierarchy or whether the hierarchy is established by public or private means, doesn't solve the problem.

The hierarchy itself is the problem because by its very existence wealth and power isn't evenly spread, and by definition it has to be evenly spread for it to be fair. Furthermore hierarchies and power structures favour those most interested in, and able to attain, that power - yet by that very nature they are the ones least qualified to use it. The exertion of power over others is the problem and trying to use that power to solve it can never succeed.

Capitalist democracies have created more wealth than Socialist ones because they are a system that freely allows people to pursue their want to improve things for themselves ~ but the means under which that improvement comes about also ensures not everyone can achieve it, and this is ultimately the source of the failure of that system.

Socialist systems have struggled to create wealth because firstly people were forced into the system which destroyed their freedom of thought and action and individuality – and secondly because those systems have the same flaws as capitalist ones anyway - power elites benefitting from the work of many, who don't share equally in the benefits from their work.

Capitalism and Socialism have both been offered as antidotes and solutions to each other at various times – but the truth is they are both essentially the same and both fail for the same reason ~ wanting to freely benefit from the work and livelihood of others.

If something doesn't work for everyone it doesn't work for anyone.

Communism

Communism is the idealised end point of Socialism. Unlike Socialism in Communism there is no money, no government and no power elite to distribute wealth – however like Socialism there is no private ownership.

State based Communism has never existed on this Earth, and never will.

Socialist states that have attempted to evolve further into Communism have always failed. There are a number of reasons for this. One is that just with the establishment of Socialist states, the attempt to move to state based Communism, has been an enforced process – which again has destroyed people’s spirit and the want to do it.

State based Communism also faces issues to do with group size. Communism has worked in small scale hunter-gatherer groups, and there are a few reasons why it has worked on this level but not on a state level – the first of which is Dunbar’s Number.

Dunbar’s Number

Robin Dunbar is an English Anthropologist who was interested to find out how many people someone can have a meaningful ongoing relationship with at the same time. He studied primate social groups and found there was a direct correlation between the volume of the neocortex in the brain and the social group size of each primate species. Extrapolating this to humans he came up with the number of approximately 150.

This number has been found to correspond with the size of hunter gatherer groups and is also evident in a lot of modern social environments and systems. It is defined as the maximum group size in which every member can have a meaningful knowledge of, and relationship with, every other member in it.

In short our brains are hard wired for us to only be in a meaningful relationship with around 150 people at any one time.

Hunter gatherer groups all exist within this size and are communistic. When you freely share goods in this environment you get to see and experience the joy they bring to people that you already know and care for,

so you may not get any material return, but you get an emotional one, and this makes for a compelling reason to share.

Another reason why Communism works on the hunter-gatherer level is that because their resource demands are so low there is a seemingly endless supply of free naturally occurring wealth from the environment, which can be relatively easily obtained by individuals. It doesn't cost people as much to share in this environment.

In state based Communism or state based Socialism the resources that are needed are larger and take more effort to create or procure, and it is also a group where you don't, and can't, know everyone who the resources will be shared with. This has resulted in an unwillingness to share and is one reason why these states require coercion.

A smaller group with smaller resources where everyone knows everyone else and can deal directly with each other also means there is no need for a power elite to control the distribution of wealth – everyone can be involved in the process themselves – so it is a flat or cellular system.

The agricultural revolution simultaneously brought about an increase in produce and an increase in population numbers, each of which is required for the other. This meant that people were soon existing in groups of greater size than Dunbar's number. The larger amounts of produce involved meant some people were required to just manage that produce and thus hierarchies and power elites developed, which are vulnerable to abuses by those in those positions of power.

A larger group where you're not known by everyone also affords you anonymity whereby you can practice selfish acts against people you don't know or care for, and with far less chance of ever being caught or known for those acts by everyone else, or of you even seeing the effects of those acts on the group as a whole - and this is possible in all societies with a

group size larger than Dunbar's number.

In order for human groups to get to this size there also has to be other defining and conforming forces as well, to allow it to still behave as some kind of coherent group. This is where language, writing and taught (as opposed to experienced) cultural identity and religion come into play. Such a situation too can only arise in a society that has an agricultural base because otherwise there aren't enough people free to develop these cultural practices and institutions to maintain the conformity. However as the population level is higher the amount of resources required from the environment and the effort required to procure them is higher as well, and again people are less likely to want to freely share the benefit of their hard won work with people they don't know – yet it is required in order for the power elites to survive so it has to either be coerced out of them (as in Socialism) or taken from them in profits (as in Capitalism).

This is the world we have now – we exist in a society outside the bounds of Dunbar's number, but rapidly pushing the limits of the natural systems that sustain us. We have cultural movements towards inclusivity and acceptance, but a livelihood and economic systems that require the exploitation of others; and just as the inclusive cultural shift has stretched the basic workings of our economies there has been a push back by many in terms of nationalism and economic and political self interest. Our culture is evolving to the point where we want to exceed our economic bounds and have a more respectful and inclusive relationships with each other, but we don't have the economic or political systems that allow us to fully do that – because they are built on the benefit of the few at the expense of the many. And while all this is going on the clock is ticking – our environmental systems are getting depleted and the polarisation of wealth in our societies is increasing.

We are simply organised in a way that doesn't suit our natural needs as human beings, or the needs of the biological world we're part of.

So where to from here?

We need to move to a system that is for the good of all, without taking away *anyone's* freedom of thought, movement and ability to look after themselves. Remembering that the ability to look after yourself can't take away or diminish someone else's to do the same for themselves.

So what would such a system look like?

The Free Economy

It needs to be non-hierarchical, have no power elites, money or profits, but have private ownership and be voluntary – and in order to achieve this everything needs to be free ~ and this is exactly what The Free Economy and other similar movements do.

The Free Economy uses information technology to link supply and demand. Using a web interface (www.free-economy.org), or an app, people can give things away for free, or search and find free things. They can also request free things, and see what things other people would like to get for free.

The whole system is voluntary and people's personal property and private space is still respected – goods and services become offered to the public for free, and when they are given to someone they become the private property of that person.

The whole economy is powered just by charitable acts, and supply and demand is brought together by the information technology – it is a self directing, emergent system that is flat and cellular in nature. The

information technology means there is no need for a power elite to control the distribution of wealth because it gives everyone the ability to communicate what they need and can share, with everyone else, just like in a hunter-gatherer group, but in a way that overcomes the limits of Dunbar's Number.

In the Free Economy system people request things that they need for free and others go around fulfilling those needs for free, and of course their own needs are fulfilled for free by others in the system as well. A whole is created that everyone can contribute to and draw from. It is a self-correcting system as well because if people draw too much or don't contribute enough it will fail, but people are free to judge for themselves how much is too little or too much of each.

There is still a role for Government though – as some standards – for example the licensing of certain jobs – needs to be met.

The biggest challenge to the system is that it exists in a group larger than Dunbar's number – people are being asked to give resource intense items away for free to someone they don't know. The only reason they can ever truly do this is for the value of what it is they are doing itself. And in doing this they are tapping into, and acting from, the infinite potential of the human spirit to give and to love. They are acknowledging that the other person and their need is just as important as their own, and they are entering into a transaction where they are focused on what they can give to someone, not what they can get from someone. Because this is coming from the infinite goodness that is at the heart of human beings there is no limit to where this can take us as a society or a species.

The Free Economy is a Balanced Economy – whereby there is no exertion of power by one party over another, no matter how direct or subtle, and such truly balanced or equal interactions can only occur when everything is free and voluntary.

Hierarchical systems of organisation and management can be very effective in creating economies of complex specialisation and sophistication in which specific products are made or tasks carried out in a highly efficient manner – and that is alright and can exist within a free cellular economy as long as the adherence to the hierarchical system is done on a voluntary basis and there is no coercion of anyone involved to join the organisation, or to not leave it. Hierarchies should only ever be done for the practical benefits of whatever it is the hierarchy is making, and as long as that is never more important than the humanity of those participating in the hierarchy.

One of the biggest problems we have now is the environmental destruction and sheer waste in our current economy, this is because people are focused on what they can get out of an action, not what the action is itself. However because nothing material is derived in return from an action in The Free Economy (remember it is not barter) – things are only done for the good of what they are themselves and this will lead to far better and more harmonious environmental outcomes; as well of course the personal and social changes that giving brings.

We may one day live in a world where borders aren't needed, but that is not the case now as there is simply too much lack of respect and empathy for other human beings and a large wealth differential across boundaries with in and between countries. But sharing and giving heals these problems within both the receiver and the giver.

And without this we simply don't have a future as we are destroying ourselves and the biological basis for our own existence; however it cannot be done so we that survive ~ it can only be done for its own reason ~ if you're not giving something for the value of giving itself, you're not actually giving.

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