The Moloch of Theory

"People dealing with mathematics do not use, in order to establish mathematic truth, any algorithm which can be known to be correct."
Roger Penrose

The setup of the economy is a product of competing theoretical visions. Among other things which have been revealed by the current crisis, such as the inefficiencies of the policies for containing the recessive effects, we also find the structural inconsistency at the level of objective-functions of a real and nominal type, on one side, and these and the objective-function of the competitive market, on the other side. The context of the problem is assured by the fact that adversely defined theories provide essentially different axioms for the understanding of the functioning of the economy on the real and nominal levels, while the competitive market theory does not mediate the disputes and does not eliminate the alterations.

Circumscribing objective-functions with regard to output, though it seems to present a basis of a common denominator, does not lead to the harmonizing of the explicative rules in the areas of meanings (phenomena and effects) of the three objective-functions. The production function, as a formalization of the real economy, holds solutions of an extensive and/or intensive content which express growth. The objective-function of the real economy is dependent on the degree of permeability to the effects of the objective-functions of the nominal economy and those of the competitive market. In a primary (perhaps even primordial) way, the real economy invents the space for the nominal economy and for the competitive market. The performance of the real economy presupposes as a natural given the prompt (and positive) answer to demands coming from the nominal economy and from the competitive market.

Classical Economics has established this axiom through the theory of general equilibrium. Keynesianism has invented the most nuanced explicative model for the functioning of the three-part ensemble of economy. It must be mentioned that within the spectrum of meanings of the theory of equilibrium the output problem is permanently associated with the problem of the social finality of the three-part economic ensemble. In a subtle way, the classical vision bet on the sociality of output.

After all, classical Economics has as fundament the functional realization of the contradiction between the primal cause of an individual nature and the ultimate cause of a social consistency.

By keeping the order of preeminence and of prevalence, classical Economics has conceived it epistemic architecture centered on the real economy. The measuring unit of performance was extracted (and abstracted) from the substance which fills the space between reasonable needs and available resources.

In essence, in these limitations of sense, Economics respects the rule of the common sense. The theory of general equilibrium signified the most refined explanation – based on common sense – for the three objective-functions.

The great rift, equivalent to the exit from the logic of the common sense, took place when the order of preeminence and of prevalence among the three-part functions began to be constructed starting with the objective-function of the nominal economy. The climax of the separation was reached at the moment in which the monetary economy has surpassed the real economy in the amount of preferences for the methods of success. The premises were laid by the assumption of monetary theory regarding the neutrality of money and the construction of the methodological and institutional arsenal pertaining to indirect government.

The most advanced form of the new economic order emerged at the moment when the economic preference for fictitious money set the tone on the internationalized financial market. The significant result was that financial speculation stood out as an efficacious activity and the autonomy of the monetary economy was institutionalized.

The historical milestone of the separation is represented by the elimination of the gold-standard, the last methodological formula through which keeping the relation of equilibrium between the real and monetary economies was attempted. It is the milestone after which economic crises were initiated exclusively from the territory of the monetary economy.

From that moment on economic rationality has been judged by rules different from the previous ones, which emerged from common sense. The speculation has contaminated the real economy with the propensity toward rent-seeking, while on the territory of the market it supported the extension of the underground economy. Speculation has enforced competition in the area of the irrational fight for the absolute efficiency. The model of the casino-economy was imposed as standard.

The result was that the individual fundament of the primal cause has been transferred for the ultimate cause as well. The direct expression can be found at the level of the real economy in the resuscitation of self-consumption, at the level of the monetary economy in the growth of the stock of fictitious money and at the level of the competitive market in the rising relevance of the black market.

What seemed an innovation at theory-level has transformed in a Moloch at life-level.

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