

Economic Theory – Ethics – Stability

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Abstract

The neoclassical theory, if it shall be of scientific relevance, must assume that we live in an eternal general equilibrium. This is a necessity since the theory lacks specification of prices outside general equilibrium and consequently it is not possible to define any convergence process towards a new equilibrium.

This means that the question of stability of the economy is wholly dependent on the socio-political environment of the economy. Furthermore, there are no unique price vector thus prices are only temporal and local and are poor measures of values in a general sense. This implies that money as we understand it in everyday use becomes a store of values by its liquidity which is obvious but when we come to its role as a medium of valuation in an inter-temporal sense when it concerns historical and future assets and liability it becomes obscure. The issue of economic growth becomes dependent on the choice of the commodity basket used and that is sensitive to the changes in the dimensionality of the commodity basket. Thus, we in certain cases juxtapose changes in the dimensionality of the commodity basket with variations in inflation by using the standard technique of estimating inflation. This might imply that a strict inflation norm may have the effect of killing growth.

Thus, considering asset/liabilities in a temporal sense must theoretically be measured with respect to a real basket of commodities. So, the future value of a paper asset must be measured in a future commodity basket. If we now maintain a strict austerity policy to protect the value of money debts at the price of growth of welfare and employment, what is then the value of the future commodity basket?

We then arrive at a nasty question for economic policy which in the end is of pure ethical character: Is it possible to protect the future value of paper assets and liabilities at the expense of real growth?

If we answer “yes” to that question we must ask what and who we protect. We perhaps can say that we protect a financial wealth at the price of a shrinking production system and we then also create a process of unlimited concentration of economic wealth. Whether this is socially/culturally/ethically sustainable must then be answered by economists and politicians.

Keywords: Neo-classical Theory, Equilibrium, Growth.

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