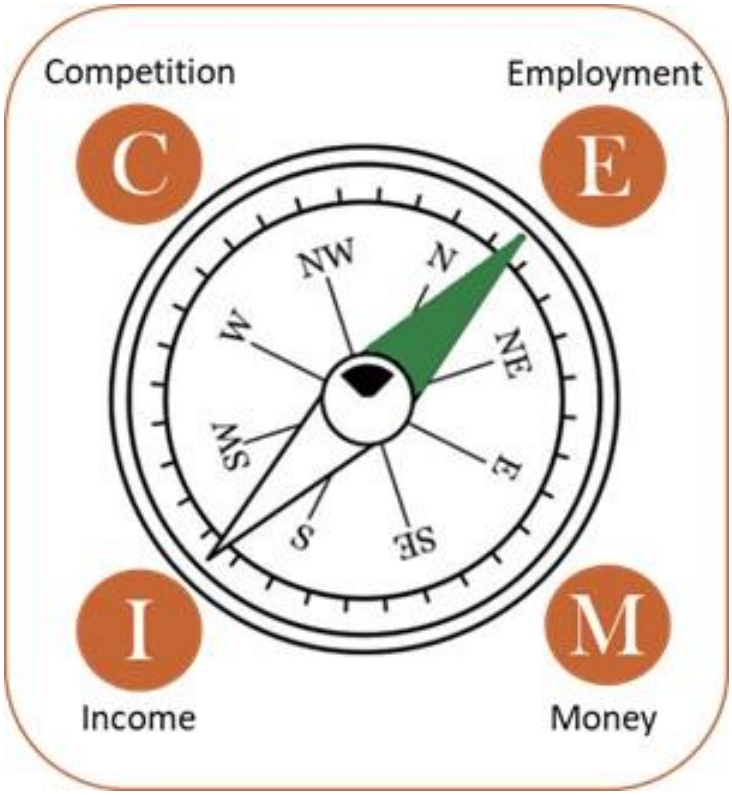
Foundations for an Objective Political Economy

Preface by Jacques Bichot



Foreword

Paul Fabra's "*Essay on the Rehabilitation of Political Economy*" (described by Raymond Barre in 1974 as a “prolific” Essay) aims at nothing less than a complete reversal of perspective in contemporary economic thought. This shift proposes a systemic political economy grounded in a realist, formally definable framework of the world, in contrast to subjectivist approaches. More profoundly than it first appears, this concept emancipates economic thought from a hegemony that originated as academic neoclassicism and evolved into political neoliberalism.

1. In economics, mathematization that is not sufficiently constrained by the precise ontology of objects and acts is based on the inadequacy of the primitive analysis of facts.

Basic economic theory can however be constructed by means of definitions that are admissible in formal ontologies based on type theory and set theory. Neglecting it exposes us to errors that are all the more serious because they are essential. “Part I – Introduction to the Objective Political Economy”, the first part of this endeavor, and then chapter 1 of its second part, “Part II – Political economy propositions”, argue this choice of method.

2. Economics is fundamentally concerned with the market-based exchange (called economic-exchanges) of commodities, most often facilitated by money.

Political economy defines a commodity functionally: it is any good or service offered for sale. This makes commodity the precise generic term for the non-monetary item in any economic exchange.

A rigorous, formal definition of a commodity is only possible if it facilitates a complete taxonomy of economic exchange. This theoretical necessity is met by grounding economic science in a proper theory of the commodity, as undertaken in chapter 2 of “Part II – Political economy propositions”. This foundational clarity is essential to avoid several categorical errors, such as the mistaken classification of labor (as the expenditure of human energy), knowledge, natural resources in their raw state, and money as commodities.

3. A more issue lies at the very heart of price theory.

It originates from a question that seems reasonable: what causes the varying prices of goods and services exchanged for money or through barter? The common answer, rooted in the neoclassical school of thought—scarcity—is a prime example of this error, as it often serves as an unproven assumption.

The remedy is to replace this overly general question with an analysis of prices across each category of commodities, beginning with primary commodities that generate true income. However, a robust theory of the commodity alone is insufficient for this task. It must be built upon three other properly defined foundational concepts: the enterprise, accounting, and capital.

4. Economic policy is the natural child of economic science.

The prerequisites that have just been indicated open the way to discerning what is assuredly true not only about profit and employment but also about the total distribution

of income, about wages, about interest, about the prices at which enterprises sell, about money. Once this path has been made, at the time of the formulation of an economic policy, the essential aspects of what is specific to economic exchanges and transfers are better held together, at the same time as the reasons why the errors and shortcomings of the basic theorization of the economic system make the government of the latter a dispenser of perverse effects and collective errors emerge more clearly.

The foundational concepts just outlined enable a clear understanding of what can be objectively verified—not only regarding profit and employment but also the total distribution of income, wages, interest, enterprises' selling prices, and money. Once this groundwork is laid, the core mechanics of economic exchanges and transfers integrate more coherently into policy formulation. This clarity also reveals how errors and omissions in the fundamental theory of the economic system lead to governance that generates perverse outcomes and leads society astray.

Dominique Michaut

Preface by Professor Jacques Bichot

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A very useful conceptual clarification

Dominique Michaut has undertaken a work of public salvation: to restore order, method, and above all common sense, to the anarchic conceptual proliferation that characterizes economic discourse today, and even, to a rather large extent, economic science itself.

Statistics and the models that use them are plethoric. As the capacity to process digital data has grown exponentially, economists – and others who like to talk about economics – are having a field day. But the quantity of data does not always go hand in hand with its quality. The ready-to-wear of the economic figure comes out of workshops whose often prestigious name hides the lack of professionalism from the untrained eye.

Why is that? Because numbers are only of interest if they measure a correctly conceptualized reality. Unfortunately, reality is often poorly conceptualized. Statisticians frequently calculate and disseminate sums that bear a certain administrative label without checking too much whether this label corresponds to a well-defined, reasonably homogeneous reality, defined by a clear concept.

For example, international comparisons relating to wages, wages, or labor costs. Prestigious organizations, such as the OECD, widely reported by the media, base themselves on gross wages, as if employers' social security contributions were not part of wage-earners' compensation. This is because, administratively, the said contributions are deemed to be paid by the enterprise, but not by the wage-earner. This leads to considerable errors in diagnosis, as the financing of social security is distributed very differently between employers' contributions, employee contributions and taxes depending on the country. It is therefore of the utmost importance that voices be raised to call a spade "a spade", even if reputable bodies and eminent personalities persist in referring to it as a dog.

It is this immense and salutary task that Dominique Michaut has tackled. His *Introduction to Objective Political Economy*, the first part of his *Précis of Systemic Political Economy*, has precisely the object and merit of carefully defining the words used to analyze economic phenomena. He took seriously Albert Camus' warning, which he is careful to quote: "Not naming things correctly adds to the misery of the world." And he introduces us to a universe in which concepts, and their names, are used to name things, at the end of a reasoning intended to determine what deserves to be measured because it has meaning and consistency.

This universe can be observed, to a large extent, with the help of accounting. This discipline holds a large place in Dominique Michaut's work, because accounting data is our number one source of information: it is very important that by putting on accounting glasses we do not become colorblind, myopic or hyperopia! When we see the absurdities committed in

the context of public accounting, where, for example, the expenses of a financial year are calculated partly in accrual accounting, and partly in cash accounting, we understand how important it is to be perfectly clear about this tool, which is a central part of the apple of our eye as economists.

But Dominique Michaut does not limit himself to building good instruments of observation and analysis. It advocates rules of conduct – which is why the third part is entitled *Major Economic Policy Guidelines*. And the most central of his recommendations, which links him to Paul Fabra, is the increased use of capital as a means of financing economic activity.

Dominique Michaut does not plead for speculative capitalism, for which our contemporaries seem to have an extreme attraction, and others an inveterate hatred. He proposes a yield capitalism, in which the providers of capital would be rewarded not by the hope of capital gain, but by the almost total distribution of the profit made. Self-financing, greatly reduced, would be replaced by share issues: shareholders would be free to reinvest or not the dividend received; they would thus regain the power that has been confiscated from them by the technostructure and the businessmen. Corporate income tax could therefore disappear, replaced by shareholder income tax.

This original proposal, which is the opposite of the usual pleas in favor of a corporate tax system that encourages them to finance themselves, is of the same inspiration as the plea that Dominique Michaut, like myself, makes in favor of the "truth payslip", i.e. the absorption of employers' social protection contributions (social security and supplementary schemes) by employee contributions. In both cases, it is a question of returning to the people who make the enterprise operate, ordinary shareholders and wage-earners, the responsibilities that have been in a way confiscated from them: ensuring the financing of the investments necessary for the development of the enterprise; pay the insurance premiums that provide them with social security coverage.

The analytical and conceptual part of Dominique Michaut's book therefore leads, as should always be the case, to proposals for structural and, above all, structuring reforms. By basing these projects on strict intellectual discipline, it gives these recommendations a coherence and solidity from which we would all benefit greatly if our rulers and future rulers were inspired by them.

Jacques Bichot, August 2016

The alarm signal of individual shareholding in France

[Three months after writing the preface to this book, Jacques Bichot took the opportunity of information to publish the following column**.** DM]

According to recent information (*Les Echos,* 18 November 2016), the number of natural persons holding shares seems to have halved since 2008. Parallel to the disaffection that affects the trust granted to political leaders, this disaffection is worrying: it shows that the population is distancing itself from both economic and political institutions.

Not investing directly in at least one enterprise is a bit like not going to vote: you leave it to others to take care of choices over which you feel you have little influence. Of course, owning a few shares, like a ballot slipped into the ballot box, does not make it possible to

change the course of things on one's own, but small streams make great rivers, and if streams dry up, rivers quickly turn pale.

Participating creates a bond

This is a problem of collective action. Let us consider a crowd that gathers to shout its indignation after a serious attack: each participant in the demonstration is, like the shareholder, like the voter, a mere drop of water, but he wants to be that drop of water, he wants to participate in this current. What for? Because this action makes sense, because it creates a link between these human atoms that aspire to form a community, a society, or even a people. Participating is a rewarding process. Feeling solidarity is more than a pleasure, it is the satisfaction of an existential need.

Less participation in elections, less direct participation in the capital of companies, less participation in religious ceremonies, all these "minuses" go in the same direction, that of a weakening of the bond. What unites human beings is to have something in common, whether it is a good, a goal, a feeling, a collective action. Sometimes this "something" is an ideology, but it is more often a reality that is both ideal and tangible, like this "carnal homeland" celebrated by men as different as Charles Péguy, Marc Augier, Jean-Luc Mélenchon and Jean Raspail. This "something" must have a consistency, a somehow palpable attraction.

Disembodied finance kills the link

The problem with stocks is that they have become abstractions. The majority of large groups have lost what could have aroused a kind of corporate patriotism among shareholders and wage-earners alike. During its recent capital increase, Air Liquide saw a flood of requests well beyond the amount proposed: why? This is not only because this enterprise is well regarded by rating agencies and by the majority of financial analysts; It is also because it has for several decades associated its shareholders with an industrial and commercial history in which each of them can be proud to participate, and that the purpose of the operation

– acquiring an American company operating in the same sector – corresponded to his image of competence and seriousness. But Air Liquide is unfortunately an exception.

Fast-saving undermines individual shareholding

The rule that increasingly governs the world of the enterprise is that of abstract, disembodied financial markets. In these markets, "financial products" are bought and sold. Regardless of what these products correspond to, the only thing that matters is the hope of returns, and especially of capital gain, that they arouse. As in the minced meat served by fast food restaurants, the consumer does not have to know the ingredients. The saver is directed towards fast-saving where he will be sold a product that is not necessarily bad, but devoid of character, purely utilitarian, incapable of arousing a real attachment.

The fall in individual shareholding is due to the unstoppable rise of fast-saving. No need to know what you are financing; you are immersed in an abstract universe where the prospects of return and capital gain are provided by econometric models that the client will obviously

not evaluate. All you need to know is what you're promised: it's up to you to choose the most advantageous, the most appropriate for your needs, without worrying about what your money is used for.

Fast-saving merchants have proliferated in the manner of McDonald's and Speed Burgers, and the result has been a significant replacement of direct ownership as well as traditional restaurants. But there the similarity ends. Because you can have a pleasant conversation, with family or friends, in a McDonald's: the destruction of the link with the producer has not led to the destruction of a very important bond, the one that unites the commensals. Whereas Burger savings weaken, or even destroy, the economically and socially important link between investors and enterprises.

Diagnosis

The saver was a provider of capital to enterprises; He has become a client of the financial industry that sells him services. This reversal of the situation of savers is harmful: if we want to give direct shareholding a real chance, it is this that must be stopped being promoted.

Let us begin by examining a very important case of shareholding other than the ownership of shares by individuals: that of pension funds, institutions that are essential for organizing funded pensions. These funds can act either as stable shareholders or as businessmen who stock exchange. Unfortunately, they have evolved, on average, from the first formula to the second, considerably increasing the speed of revenue from their portfolios. What for? This is largely because managers are judged on their short-term results: they must therefore realize their capital gains quickly, and hedge against capital losses, instead of acting as loyal shareholders of companies with which they would establish lasting relationships. Tackling this problem of short-termism of pension funds is a priority, as they have the size to lead by example.

Regarding household shareholding, it is first necessary to understand why it has declined. It is not inherently less efficient than the savings channeled by institutions that manufacture financial hamburgers intended for savers transformed into consumers of financial services. To increase their market share, these institutions have an interest in the direct shareholding being less efficient; And they have found an effective way to do this: to make the markets technically complicated, and very volatile, which goes hand in hand. These two characteristics distance households from direct shareholding and lead them to become customers of intermediaries, who employ specialists and practice hedging techniques.

The vicious circle works very well: more volatility leads to more hedging, therefore to more recourse to derivatives, therefore to more complexity and more mimicry causing crazes followed by sudden disaffections, in other words more volatility.

What to do?

To break this vicious circle, it is necessary to focus on returns rather than capital gains. Of course, investors in young shoots and start-ups are forced to bet on the strong capital gains of a few enterprises, which compensate for numerous and often total losses. But the Dupont household does not invest in start-ups: it provides resources to fairly large companies, or to

a small enterprise that it directly manages. The strategy to follow is then not to favor capital gains over returns.

An enterprise that distributes most of its profits, and issues shares when it wants to increase its equity, will have "quiet" shareholders and therefore – if it is listed – a less erratic stock market behavior than those whose reference shareholders rely on capital gains, favoring the use of self-financing. The first thing to do is therefore to introduce a tax system that does not disadvantage dividends Dividend compared to self-financing, nor the distribution of free shares compared to the hope of capital gains, nor capital increases compared to borrowing.

Other measures must be taken, in particular to limit the use of derivatives, which have become a kind of drug for the financial markets and more generally of business. Without going into technical details, let's say that these products, which are increasingly sophisticated, have become much more harmful than useful by proliferating: they create more instability and risk overall than security.

Weaning is always a difficult operation, but it delivers from a kind of slavery. This is one of the efforts to be made to establish what Dominique Michaut calls yield capitalism as opposed to capital gain capitalism, which is too inclined to flirt with speculation.

Jacques Bichot, November 2016

Part I – Introduction to the Objective Political Economy

Defining the scope of economics

Sapere aude!
"Have the courage of your own understanding."

Kant adds: "*This is the motto of the Enlightenment.*" This is found, in fact, in his *Answer to the Question: What is "The Enlightenment"?* of December 1784[1].

Despite its modern advancements, economic thought remains heavily influenced by archaic assumptions such as “that which is expensive is scarce”, that stifle rational analysis. This work argues that the alternative of an **'Objective Political Economy**' is both a methodologically robust and politically viable solution.

Social exchanges

Our most comprehensive dictionaries catalog the vast spectrum of human exchange. These interactions range from the symbolic—words following handshakes, gifts cementing occasions—to the foundational, where the exchange of intentions solemnizes marriages and contracts. We cultivate affinities through traded affections and rally around sports built on the exchange of a ball. Yet this tapestry also includes darker threads: accusations that fray commitments, and the professed necessity of exchanging blows by military and police. For many, politics itself is constituted by the exchange of promises for votes.

Amid this entire ecology of social exchange exists the distinct **subtype** of offers made in return for money. Due to its profound consequences, both beneficial and harmful, this monetary domain has achieved a position of overwhelming dominance.

Economic exchanges

For the sale of any good or service, the legislator has established that monetary payment is non-refusable—and often mandatory. While a barter transaction involves no direct exchange of money, the monetary economy remains **functionally identical** to a system of universal barter. This is because all goods and services sold are ultimately, and exclusively, traded for other goods and services. This principle is an inviolable, universal law. Consequently, social exchange consists of transferable-goods and services being traded against each other, a process typically mediated by money.

Now, the set whose only elements are these exchanges, including barters, possesses the remarkable property of being strictly formalizable.

Although these transactions could justifiably be termed "economic exchanges," we adopt the more fundamental label of economic exchanges. This choice is methodological: it

[1] Quote by Pierre Manent in his book « *Cours familier de philosophie politique* » (p. 170 en collection Tel de Gallimard).

provides a sharp delineation within the universe of social exchanges, circumscribing those—and only those—that constitute the proper domain of the economy.

Economic transfers

Gifts, taxes, and most thefts are also economic acts. The word "transfer" is well suited for their generic labeling, subject to three conditions, however:

- First, a transfer" is defined by a one-way change of property, unlike an economic exchange, which requires a reciprocal swap of property between two parties.
- Second, the term “transfer income” must be seen as contradictory. A person who earns an income is one who works in exchange for a wage or places their savings in exchange for the receipt of interest or profits.
- Third, a transfer is rightly considered economic only if it involves an object that can be the subject of an economic exchange: namely, money, a good, or a service.[2].

Labeling an allowance a "minimum income" or "solidarity income" demonstrates how the confusion between transfers and exchanges is harmful. Receiving aid and receiving a job offer are never equivalent. Blurring this distinction is unfair to those who work to relieve the community of their burden. Income is one thing, a subsidy is another.

Economic exchanges and economic transfers, while both being economic transactions, are fundamentally different in nature. This is because only economic exchanges result in the creation of new economic wealth.

[2] Example of an economic transfer by providing a service: the farmer who uses a tractor with ad *hoc* equipment to voluntarily clear snow from the public road. Another example: individuals and associations who take on the chore of collecting rubbish in a place for a walk, on a beach or a playground, which is also voluntary. These services are of such a nature that they can be sold to a public body or another owner.

The tax is a transfer: what has been owned by a taxpayer becomes the property of the public treasury. Contributions to a so-called pay-as-you-go pension scheme are also transfers: what was owned by the contributors becomes in the first instance the property of the scheme which, after deduction of management fees, uses this levy to pay life pensions; the contributing generations are to the generations thus pensioned like children who support their parents, which is different from what happens for so-called funded pensions; In principle, these are formed through economic exchanges and not through transfers. But this last point is rejected by those who insist on the refusal to include dividends in an economic exchange between the capital agents and the operators of this placement. The objective political economy (OPE) shows that this refusal represses a recognition that considerably cleanses the system of economic exchanges: see, taking the time to immerse oneself in it, the arguments for this consolidation in the form of primary propositions of economic science and major orientations of economic policy. This is all the more important because there are transfers that do not appear to be transfers: capital gains and losses are transfers made by means of an exchange.

Framing the ontology of political economy

"Senseless research is related to unforeseen discoveries. The role of the non-existent exists; the function of the imaginary is real; and logic teaches us that the false implies the true. It seems, therefore, that the history of the mind may be summed up in these terms: it is absurd by what it seeks, it is great by what it finds. »

Paul Valéry[3]

Eight main questions

Four cardinal points

In an Objective Political Economy (OPE), the four cardinal points are, in alphabetical order, competition, employment, money, and income[4]. At each of these points, two questions of general interest arise.

- On competition: is the market's regulatory force not driven by price comparability? That is, can prices — wages and dividends included — be effectively compared without complex calculation, thereby enabling the freedom of choice?
- On employment : what is the dynamic between capital accumulation and profit that guarantees a state of full employment? Which rules of public financial management best provide for obtaining this benefit?
- On money: how do these public financial management rules, coupled with price-comparability-driven competition, provide what is necessary to preserve the long-term purchasing power of placements in savings accounts, loan securities, shares of corporate capital, and the capital of individual enterprises? What about exchange rates with the currencies most used in international trade, as well as national trade balances with *The Nagging Problem of the Balance of Payments* (the title of a book published by Jacques Rueff in 1965)?
- For incomes, what trends normally affect their national totals? If the complete distribution of these totals is not regulated by a tamper-proof key, where is there an arbitrary division and what does it imply to assume it?

Economy and justice

The two questions just raised about income — which trends normally affect its national totals, and where an arbitrary share arises once the full distribution of those totals is fixed by no inviolable key — are, at bottom, questions of justice. Two assertions answer them.

The economy can be just. Its own species of justice is commutative justice — the justice whose object is exchange. An economic exchange is a commutation of transferable properties, and where the price rests on an objective value each co-exchanger gets his money's worth; the exchange thereby produces honesty. This answers those who hold the

[3] Dans *Variété - Études philosophiques*. The underlining is by Paul Valéry.

[4] Hence in the logo of onto-economy-politics, the letters arranged around a compass: **C** for competitions, **E** for jobs, **M** for currencies, **I** for income. The magnetic needle points to **E**

economy to be, strictly speaking, *amoral*[5] — a field carrying no justice of its own, so that justice must be founded on bases external to it. On the income side, those external bases are the progressive tax scale, the redistribution of working time, and the transfer that goes under the name of a "universal income"[6]; yet they rest on no firm ground of their own. Article 13 of the Declaration of the Rights of Man and of the Citizen of 1789 requires that —

> *"For the maintenance of the public force, and for the expenses of administration, a common contribution is indispensable; it must be distributed equally among the citizens, according to their capacities."*

— and everything turns on that one word, *equally*: in proportion to income, or graduated through progressive scales? The things that are seen and the things that are not seen (Bastiat) make it doubtful that a progressive average rate of tax serves the common good, and the sufficiency of receipts, better than a proportional one; and redistributing working time shares, not work, but unemployment. Resting on dominant opinion rather than on criteria, these rival bases of justice deliver an arbitrary, interventionist settlement in want of a ground.

The economy alone does not deliver social justice.[7] The distribution of the national totals is a matter of distributive justice, which exchange does not adjudicate but which falls to the balance of the EPCE relation kept on *sufficient profit* rather than on capital gain — the condition of full employment and of secure funded pensions (chapters 7 and 12) — and to collective subjectivity, the natural manager of the distribution of total labor income (chapter 9). The Initial Propositions of Economic Science set out below supply, for economic exchange, the criteria of the equity of the price proper to each of its categories, and hand the distribution of the totals back to the political community, to be assumed in full knowledge of the facts.

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[5] On the moral status of the market economy, the contemporary debate runs between two poles. On one side, the thesis that the economy carries no justice of its own and must be bounded or corrected from outside: André Comte-Sponville, Le capitalisme est-il moral ? (Albin Michel, 2004), for whom capitalism is amoral beneath a "juridico-political order" — see the annexed article by Paul Fabra; and, among Anglo-Saxon authors, Michael J. Sandel, What Money Can't Buy: The Moral Limits of Markets (2012), for whom market norms corrupt certain goods. On the other side, the thesis that commerce is itself a school of virtue: Deirdre N. McCloskey, The Bourgeois Virtues: Ethics for an Age of Commerce (2006), and Jason Brennan & Peter Jaworski, Markets Without Limits (2016). In France, Gaspard Koenig renews classical liberalism by holding the market to be a space of liberty and cooperation; his signature proposal, however — the "universal income" (Liber, 2015) — is, on the criterion used here, a transfer rather than income, close kin to the negative income tax (Milton Friedman, Charles Murray), and so belongs among the external, redistributive bases of justice, not the justice proper to the economy. The position defended here coincides with none of these poles: within its proper domain — the exchange of reproducible commodities — the economy possesses an objective justice of its own, commutative justice, whereas the delimitation of that domain and the distribution of the totals belong to the political community.

[6] In the terms established here, a "universal income" is not income but a universal transfer — a subsidy financed outside exchange. Income proceeds only from the exchange of elementary commodities; an allocation received by an individual is a transfer, and the phrase "transfer income" is a contradiction that blurs what is proper to income (see the proposition on economic transfers). The term is kept here solely to be marked as a misnomer, never as validated

[7] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 330–331. Fabra separates two dimensions governed by distinct principles: the production of wealth through exchange, best organized by competition, and the redistribution of wealth, whose object is to correct the inequality of income distribution. Exchange guarantees no justice by itself; justice, in turn, cannot be pursued in ignorance of the law of exchange.

Public life bears the consequence. An organic law governing public finances, and a tax reform whose stated grounds make no explicit reference to the economic theory that inspires them, are democratically defective, since they carry out a concealed political project. The same holds, mutatis mutandis, for the platforms of political parties and of the unions, employers' organizations included. "Social dialogue" and "social refoundation" are, before anything else, matters of economics — and of the justice proper to it.

Four scientific on-call duties

Definable set logic

The logic of finite sets is based on the axiomatic specifications of each of the two possible definitions of any such set:

- "in extension" by an **exhaustive list** of the elements of the whole under consideration;
- "in intention" by a statement of a property common to these elements **and** to them **alone**.

Conceptual Foundations of Accounting

The acquis is that of the conceptual foundations of double-entry accounting. The distinction between stock (balance sheet) and flow accounts (income and expenses) is fundamentally objective. It logically implies other distinctions, two of which are particularly important for both practical and theoretical purposes: the distinction between stocks which are of financing (liabilities) and investment (assets), and the distinction between expenditures which strictly speaking are either expenses or investments.

Economics can be the subject of an exact science

The refusal that also helps a lot to bend to the methodological rigors of objective political economy is that of a systematically negative answer, to the question: can economics be the subject of an exact science? Answering in the affirmative does **not at all** imply the assertion that any phenomenon qualified as economic can be accurately described and predicted by this science!

On the other hand, only the accreditation of the idea that economics can be the subject of an exact science, however limited the field, will lead to the recognition of a great historical fact. Economic theory has been scientifically misled. By his claim to make his conception of the human condition prevail, his space for investigation has been too extensive. His terminological flippancy has made it a kind of phlogiston, the fluid that the ancient chemists had imagined to explain combustion, right down on some of its fundamentals (marginal usefulness, especially in its neoclassical version). His postulate that all prices have in common more than being economic exchange-values has led to the error of reasoning called ‘petitio principii’; if this is really so, it is to be deduced from an investigation of the formation of prices by category of economic exchange, and not to be taken as proven before it has been proved.

A set of initial economic propositions

Political economy

Since the first twenty years of the nineteenth century, and at the initiative of the Frenchman Jean-Baptiste Say and then the Englishmen Robert Malthus and David Ricardo (before John Stuart Mill and Alfred Marshall, among others), the titles of treatises on economic theory often include the expression "political economy" (*Traité d'—*, 1615, Antoine de Montchrestien).[8]

Etymologically, a theory is a continuation – from the Greek *thêoria*, "procession, parade".

Logically, such a sequence is made up of propositions – in the sense of the Latin *propositio*, "statement". Under these conditions, rehabilitating a political economy or undertaking to reconstruct one better shaped by assembling a set of primary propositions, is part of a tradition; with the merits of the latter, on the one hand, and methodologically perfectible on the other.

The basis of a theory of the commodity

Without having a theory of the commodity as its basis — an intentional definition of the commodity, a taxonomy of all commodities into subtypes that are themselves intentionally definable — a theory of commodity exchange is constructed as if taking into consideration the classes of objects exchanged could not avoid truncating and biasing primordial economic reality. Since the first chapters of economics textbooks do not yet include a theory of the commodity, an original gap is perpetuated, while it is obvious that mistaking bladders for lanterns constitutes a permanent danger when it comes to exchanges and transfers of objects that make their owners more or less comfortable. Etc.

[8] Malthus, Thomas Robert, 1766-1834. Say, Jean-Baptiste, 1767-1832. Ricardo, David, 1772-1823. Karl *Marx*'s Critique of Political Economy, 1818-1883, appeared in 1859, *Capital - Volume 1* in 1867.

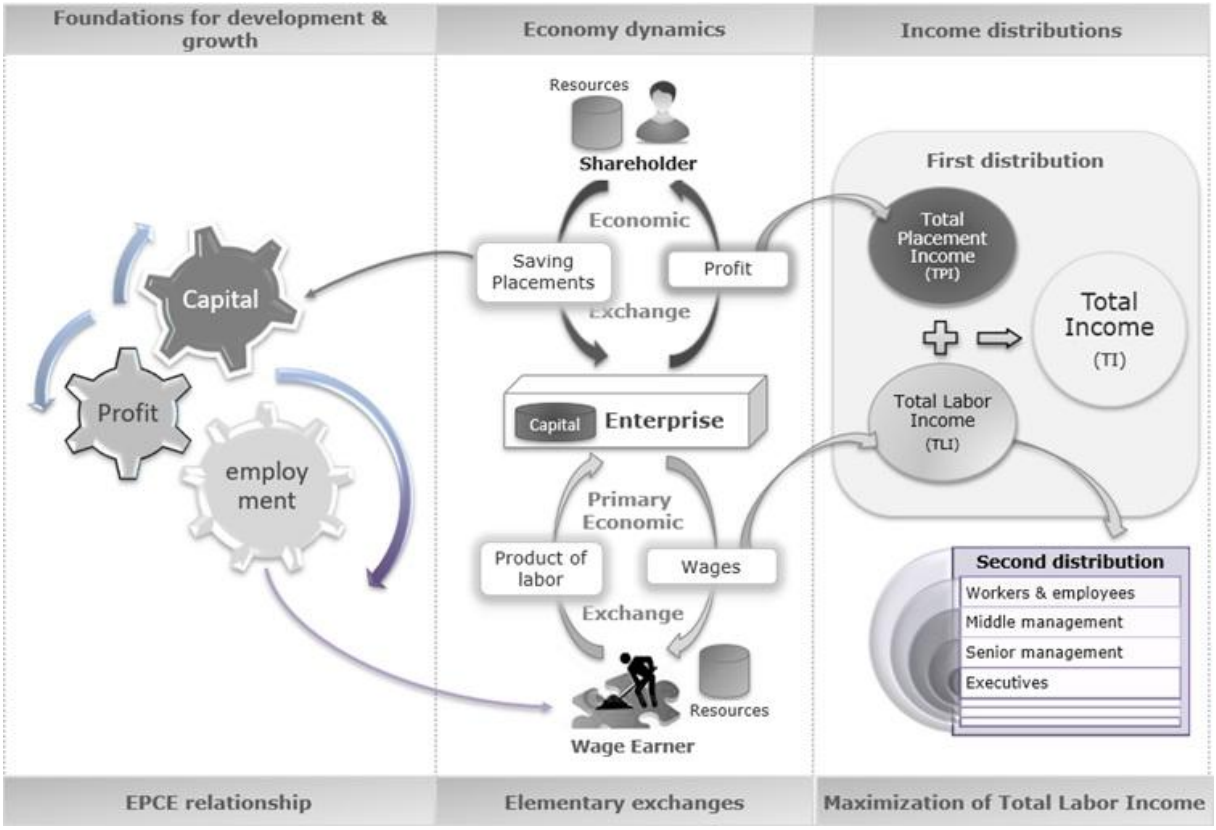

Figure 1 – General operating model of the economy

The income generator and its two controllers

The income generator

Within each nation, whether it is confederal or not, the income itself is exclusively labor income for some and placement income for others. They are generated by all economic exchanges, both domestic and cross-border. Downstream of the generator, all economic transfers constitute an additional distributor, ultimately financed entirely by levies on income as well as legacies.

Bequests, including inheritance taxes and, when this levy is deemed to be too little to reduce the disparity of private assets, the addition of a wealth tax with its perverse effects, the use of which pays the price. The creation of economic wealth is exclusively provided by the generator which, at the same time, provides for the distribution of income before any redistribution. This leads to a problem as crucial as it is one of civilization: what are the mechanisms of distribution before any redistribution? Are they, for some of their cogs, intangible and, for others, modular? Does Yield capitalism tend to make the effects of these mechanisms more justified than the priority given to the race for capital gain? Is the maximization, in the natural (logical) slope of the market economy, that of placement income and the assets that provide it, or that of total labor income? It is impossible for a defense of the general interest and an economic policy to be as relevant as possible without having correct answers to these questions in their foundations.

In the generator, two interconnected controllers are integrated. For those who have studied them closely enough, their acronyms EPCE and RPP' remind us that the initial E and the final E of one are those of Employment — Employment > Profit > Capital > Employment

— and that the initial R of the other is that of rate of return, R, productivity P, profitability P': RPP'.

The EPCE controller — Employment > Profit > Capital > Employment

The EPCE controller can be represented by an isosceles triangle, inscribed in a circle, with its vertices labeled Employment (E), Profit (P), and Capital (C). The system operates in a clockwise direction, following a steady clockwise rotation.

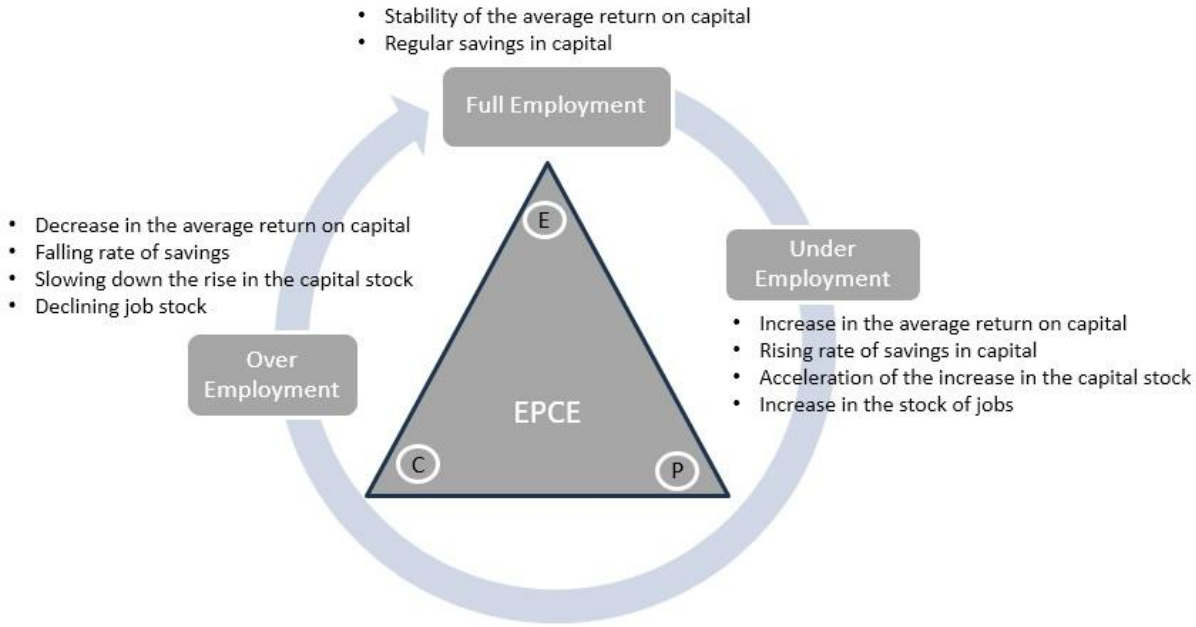

Figure 2 - EPCE regulator

This model reveals a powerful dynamic: the controller restores full employment more rapidly when its impulses are strengthened by avoiding self-financing from undistributed earnings. By shifting away from undistributed earnings, we directly enhance the appeal and variability of new placements in capital (C), as their effective yield becomes the primary driver of such placements. This creates a virtuous cycle, making capital injections more attractive and responsive than when their returns are diluted — even if this means the prospects for capital gains (capital gains) are less spectacular or, as in the case of cooperatives, entirely excluded.

The RPP' controller — rate of return R, productivity P, profitability P'

As for the image that best gives the idea of what the RPP' relationship is, it is that of a Roberval balance whose beam pivots on an axis mounted on a jack. The first pan is that of the rate of return R; the beam pivots on productivity P, which technical progress raises; the other pan is that of profitability P'. The definitions of R, P and P' are such that any rate of return R is equal to a productivity P multiplied by a profitability P'. It is as safe as when, on a bank statement, the sum of the debits is different from the sum of the credits, then the final balance is different from the initial balance.

The RPP' controller adjusts the profitability levels P' to the rate of return constraints R and the productivity performance P, the rate of return constraints R coming largely from the EPCE controller. National productivity P controls the evolution of the national total income. The

increases in other productivity P are reflected in the decrease in competition in the sales profitability P' of enterprises.

Adam Smith, Jean-Baptiste Say, David Ricardo and Karl Marx have pointed to the tendency towards the equalization of return (rate of profit on capital) between the sectors of enterprises of the same nationality (mining, manufacturing, finance, transport, wholesale and retail trading, among others). Today, this teaching is in disuse.[9] This does not mean that the trend in question is no longer a natural economic law. The objective political economy holds that RPP regulation intervenes not only between sectors of enterprises and enterprises in the same sector, but also down to the supplies of the same systemic level sold by the enterprises; see Chapter 11.

The asymptotic decline in national profitability P' makes the market economy a producer of the maximization of total labor income under the constraint of a sufficient average rate of return R on placements. Then this maximization is joint:

1) full employment longer than underemployment.
2) the incessant approximation of the prices at which enterprises sell to their sufficient level.
3) income from real placements as a gradual replacement for pay-as-you-go pensions which, for reasons set out in Chapter 7, have the incorrigible disadvantage of not participating in the extension of periods of full employment.

The desired shift from capital gain capitalism to yield capitalism

But there is a general condition for obtaining these results. The full and prompt operation of the generator's controllers must, deliberately, be preferred to the race for capital gain. Yield Capitalism, in which cooperatives have their place, must, politically, have prevailed over the business of capital gain. In other words, the capitalism of sufficient profit and full employment must have stopped the acceleration of the race for maximum enrichment for the big landowners, senior executives and higher-ranking politicians.

Chronic underemployment may be mainly due to a public levy (taxes + loans) that is so heavy and growing that it increasingly hampers the functioning of the EPCE relationship, with the result that the national stock of capital is not up to the level necessary to increase the stock of sustainable jobs (capital, within the meaning of commercial company law: the contributions of the members). In this case, it is distressing to have to note that the political class, which has its hands on the levers of such a country's economic policy, is proving incapable of explaining to its voters why public expenses (operating expenditures, subsidies, debt amortization) must be reduced, vigorously and sustainably: because they have become a main cause of underemployment. It could not be more logical that the prescription for the activation of the EPCE and RPP controllers should include what has been too quickly called

[9] Piero Sraffa is the major twentieth-century exception. In *Production of Commodities by Means of Commodities* (Cambridge University Press, 1960, ch. II), a rate of profits uniform across industries is a defining condition of the price equations. Sraffa posits this uniformity as a property of the price system; the Objective Political Economy states it as a law of tendency produced by competition, observed through the RPP' relation and extended from sectors down to every same systemic level within the enterprise (chapter 11, Proposition 11.9). See the appendix Objective Political Economy and Sraffa.

"the golden rule", i.e. the concomitant compliance with two rules of public financial management – see economic policy 2.

The avenue of sound economic exchange

Defiance and weariness on the one hand, self-protection through silence on the other

Frédéric Bastiat formulated a social law of selection when he noted: "The public is made in such a way that it distrusts what is simple as much as it tires of what is not." To this mistrust as well as to this weariness, the academic authorities, the editors-in-chief and the highest elected authorities contribute as long as they refrain from openly taking sides for or against the innovation of the Objective Political Economy or any other attempt to publish the product of a really fundamental economic research but, a suspicious omen in many eyes, not yet academic or otherwise endorsed by a well-established institution.

This circumspection, which is very much in line with one of Auguste Detoeuf's impeccable aphorisms, "*The human being who has arrived no longer* moves",[10] is all the more prudent because there is something much more compromising in the innovation of the Objective Political Economy than the theoretical rupture. From the first chapter, on growth, of the *Major Economic Policy Guidelines,* which take up the organic reforms detected during the assembly of the *Primary Propositions of* ***Economic*** *Science*, the implicit criticism of imperatives jumps out at the eyes, cruelly for those who are willing to remember having proclaimed that the provisions to be replaced by better or no ones were the right ones or the right ones. only possible.

By and for the euthanasia of rentiers, ostracism against the impartial spectator

We have overlooked the point of view of the impartial observer. We have clung too much to biased observations and errors of reasoning that create mirages. We have relied too much on the balance of power as the main line of conduct. We have been too satisfied with expedients, including compassion that gives a clear conscience when in the end it often proves to be counterproductive. In what we have inherited that is most solid, we have sold off too much. We have not had the courage to fully assume that in peacetime financial crises are above all the result of intellectual errors that lead to major management errors.

The precedent of ordoliberalism, born in Freiburg in the 1930s

The breakthrough of a new grand boulevard is nevertheless within our reach. Calling it "the avenue of sound economic exchange" will not, today, make its project more often enthuse than it will leave indifferent, or that it will excite here and there pre-programmed hostility. Coming from the left and the right in the democratic symbolism of today, the best socialism and the best liberalism converge economically and politically towards an *Ordoliberalism.* The latter is of the type that some twenty young professors and researchers of law and economics at the University of Freiburg began to cultivate in 1932, and which, from 1948 onwards, had as its fruit, by means of the *Soziale Marktwirtschaft*, what is retrospectively called the "German miracle".

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[10] Propos d'Octave-Louis Barenton, confiseur, ancien élève de l'école polytechnique.

Seven retrograde taboos

Economically, liberal socialism and social liberalism must take part in overthrowing seven taboos, so as to minimize structural unemployment, maximize total labor income, and secure the wage differentials deemed appropriate. Each taboo pins a real ill on a false cause; in every case the true cause is a distortion of economic exchange — a departure from sound economic exchange:

Taboo 1. The claim that robotization and globalization are why fewer and fewer jobs provide those who hold them with a decent income. The real cause is a distortion of economic exchange, not the technology — for example the distortion of commodity futures markets, whose financiarization detaches price formation from supply and demand, and thus from the decent income that sound economic exchange affords. Paul Fabra pressed this diagnosis against the globalization "alibi" (see «Pouvoir d'achat et mondialisation», Les Échos, 16 May 2008, reproduced in the Appendix).

Taboo 2. The claim that inequality cannot be reduced without at least as much, or more, monetary redistribution through public finances. This overlooks the distribution that sound economic exchange performs of its own accord, upstream: the wage differentials it sets before any fiscal transfer.

Taboo 3. The claim that there is no employment without employer contributions, and no dividends without a substantial share of earnings diverted to the enterprise's self-financing. A double distortion of economic exchange: the former distorts the wage exchange, the latter the shareholder exchange.

Taboo 4. The claim that rentiers must be minimized — save through pay-as-you-go pensions, held to cushion competitive shocks. This distorts economic exchange; within sound economic exchange the shock-absorbing role is better served by à la carte retirement with actuarial neutrality and funded placements.

Taboo 5. The claim that there must be no major privatization — least of all of medical care and its insurance — and no substantial reduction of the welfare state, except through IPOs and enterprises of enterprises. This distorts economic exchange; sound economic exchange can furnish these economic securities through insurance-type exchange and actuarial mutualization — with refundable shares as collective property — rather than fiscal transfer.

Taboo 6. The claim that sufficient growth now requires a large buffer of subsidies and of the finance costs of public debt. This distorts economic exchange; sound economic exchange sustains growth by linking it to placements in share capital and to a public levy disciplined by two rules, not to a subsidy-and-debt buffer.

Taboo 7. The claim that no country secures its population's prosperity without enterprises bent on maximizing "creation of value for the shareholder." What its advocates leave unsaid is that this so-called value creation is mainly, or only, capital gain — a highly pernicious distortion of economic exchange, to be distinguished from yield.

Five healing wounds

Politically, turning one's back on the sound-exchange economy is an increasingly disastrous mistake in the long run:

1) It is taking a step backwards in the application of the principle of subsidiarity, making civil society less and less able to take charge of itself.
2) It transforms the contribution to the common good of the political class on the one hand into a skin of sorrow in terms of its usefulness, and on the other hand into a flying carpet at the expense of the community in terms of the wages and allowances of elected officials and senior executives of the public service.
3) It perpetuates and multiplies social fractures.
4) It makes immigration too tempting and integration too difficult.
5) It increases the use of propaganda to pretend that these evils were only in adaptation to globalization and the overcoming of xenophobic nationalisms.

Establishing trust in Objective Political Economy

Although Ricardo's very substantial contribution to an objective economic analysis ultimately fell short, it was not a complete failure. His framework, however, was systematically dismantled on fundamental points by the subsequent exploitation of his work by both Marxism and marginalism (cf. Paul Fabra's seminal work)[11]. The specific lacunae in Ricardo's rigor that prevented economic thought from crossing the threshold into a hard science has since been obscured by poorly framed questions and biased answers. For two centuries after the 1820s, the intellectual climate remained unready for his level of analytical clarity

Objective Political Economy establishes a fundamental distinction between economic accumulations (the aggregation of properties with economic exchange value) and economic gains (the increase of monetary sums). It posits a viable foundational principle for economic systems: the endorsement of the former, coupled with the rejection of maximizing the latter. Crucially, this endorsement does not prescribe the collectivization of property. The prohibition on maximizing gains pertains foremost to enterprise profit margins, upper-echelon wages, and the multiplication of redistributive or punitive fiscal sanctions.

A significant school of thought within liberalism champions the pursuit of economic gains while rejecting the legitimacy of economic accumulations. This view holds that the race for maximum gain is essential to competition—particularly when competition is framed as a Darwinian struggle rather than a principle of social organization. Proponents argue that this very process, by accelerating general prosperity, automatically safeguards the minimal requirements of social justice.

Automatically attributing to individuals a universal will to maximize their personal gain **is not a liberal principle**.[12] The foundation of a free society is that every person—natural or legal—bear full responsibility for their self-determined goals. Theorizations and practices that impose a single, rigid objective on entire categories of economic agents are inherently

[11] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, ch. 3, pp. 66–74. Fabra shows there that the Marxist "theoretical revolution" rests on a misreading of Ricardo, and that Marxism and marginalism share a common pre-Ricardian ground.

[12] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 8–10 (section "Is the Liberal Economy Individualist?"). Fabra contrasts the classical economists' concern for the long term with a want-based doctrine oriented toward immediate gratification.

illiberal. A society can only be considered maturely open when it rejects such teleological generalizations and the mathematical models derived from them.

While claiming the mantle of methodological individualism[13], fundamentally subjectivist and behaviorist approaches to economics reduce individual and entrepreneurial rationality to a set of arbitrary, self-serving assumptions. Consequently, these frameworks are not only pseudo-liberal but also socially divisive.

[13] See the definition of "methodological individualism" in Wikipedia.

Paul Fabra's major works

"The only liberating path open to us is to bring the economic — and political — system back to objectivity. It would then cease to put pressure on us, at every moment of our existence, by processes of psychological action calculated to suggest to us needs that bind us. Finally, freed from the continual solicitations of state propaganda or the commercial and advertising apparatus, the imagination could unfold in complete freedom in its own universe (art, love, leisure). It is by restoring social life to rationality, that is to say, to reality, that we will be able to once again open up the field of possibilities where such a field exists for good."

Paul Fabra[14].

The refounding of political economy

Capital for Profit is the title of the English version of *Anticapitalism,* written by Paul Fabra from 1969, published in 1974, republished in 1979, revised again in 1989 and 1990 for the English edition published in the United States in 1991. The author, at the end of his *Preface to the English Edition*, indicates that he now considers this version to be the most accomplished —

> *"I now consider the English version (which incorporates some changes) to be the more authoritative".*[15]

The chapters, grouped into two parts, are composed of passages generally titled, in other words sections. For example, in *Capital for Profit there are* four sections in the first chapter, seven in the second, and so on. In *Anticapitalism, including* the *Preface* and the appendices, there are a total of 140 sections. For the English edition and excluding the two presentations of its own — *Foreword by Michael Novak* (3 pages), *Preface to the English Edition* (8 pages) — the same count gives 109 sections. In number of characters, the shortening is about a quarter.

Capitalism with Capital: The Recipe for Full Employment

In A4 format, this book in English is 33 pages long[16].

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[14] *L'anticapitalisme - Essai de réhabilitation de l'économie politique*, p. 33 of the first edition (1974, Arthaud), p. 37 of the second edition in French (1978, Flammarion). In *Refonder l'économie politique* Third paragraph of the section *À bas la révolution ! of* chapter 1. In the English edition (*Capital for Profit*, Rowman & Littlefield, 1991), the passage stands on p. 7, in the section "Down with Revolution" of chapter 1.

[15] P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, Preface to the English Edition, p. xx.

[16] Télécharger l'intégralité de cet ouvrage

Part II – Political economy propositions

Can an exact science whose object is what we call "economics" on a daily basis be articulated? If so, does this science, however partial it may be achieved by objectivity, provide certain solutions to practically essential problems that the current theorization has only apparently solved? These questions can only be examined in a constructive mode by means of **primary**, experimentally verifiable, selected and articulated propositions, with the initial option of a common-sense prescription set out by Paul Fabra:

"*Far be it from me to think that mathematics is not indispensable to political economy as it is to the other sciences; But the use of mathematics must be preceded by a close analysis of the concepts used. If the equations we use are inconsistent, we can develop all the equations we want, but we will end up with inconsistent results. Too often, in the humanities, we are satisfied with the appearance of scientific language.* ".[17]

In economic analysis, as in other disciplines, the most justified criticisms are milestones of what must be either avoided or succeeded. They do not, however, provide the certainty of having drawn from reality all that is necessary for the establishment of an **Objective Political Economy** (OPE). OPE is grounded on the SysFEAT upper ontology where concepts of structure, context, individual and changes are defined. It provides robust foundations for the proper definition of economic concepts.

Basic economics in twelve chapters

In the long-term competition of general theories of economics, the objectivist approach is still, after all, only at the stage of its prototyping[18]. In particular, it has to prove its ability to explain normal price formations, from the prices that provide placement income and labor, to the prices at which enterprises sell. In other words, the objectivist approach must clarify the question of economic exchange values, despite the overly global answers that the history of ideas has bequeathed to us (value-utility versus value-labor). The same revision should also provide experimentally verifiable answers to two other fundamental questions: 1) what is the normal course of income distribution? 2) what are the main factors in the relative stabilization of legal tender currencies?

The economy, the commodity, the enterprise

The first chapter, entitled *The Economy*, defines the scope of the economic science strictly as the subject economic exchanges analysis. The second chapter formulates a theory of *the commodity* by enumerating it five properties, .which exclude money and the three elementary means of production (knowledge, natural resource and human labor as effort) of the set of commodities,.

[17] Refounding Political Economy, chapter 1, "The Reversal of the Foundation of Political Economy," first section, "Political Economy Has Regressed to the 'Pre-Classical' Age," end of the eighth paragraph. The bold emphasis is my own. On the same topic, see Walras as Read by Valéry.

[18] Reprint of an article originally published by economiematin.fr le 29 décembre 2016

The third chapter examines the enterprise, starting from the observation that it is the sole entity which exists exclusively to engage in economic exchange. Contrary to the deeply ingrained belief that an enterprise's purpose is profit maximization, this notion is not merely an oversimplification—it is, in Peter Drucker's terms, "irrelevant" and "harmful." No enterprise is inherently defined by this motive.

This fundamental misconception is profoundly damaging, as it obscures three critical facts:

1) The enterprise is not a taxpayer in its own right: they collect taxes that individuals ultimately bear (3.5, 7.6; Guideline 7).
2) Enterprises only sell composite commodities.
3) Only enterprises are purchaser of the elementary commodity known as placements in capital.

The enterprise chooses none of its goals; its purpose is the production of the capabilities carried by the products it sells (3.3).

Accounting, capital, profit

The fourth chapter a general theory of economic accounting. This is necessary because a fundamental part of the economic vocabulary is derived from accounting categories. However, the economic accounting of states, households, and enterprises each possess distinct characteristics. A general theory must therefore provide a unified framework capable of defining and contrasting these different accountings

The fifth chapter (capital) and sixth (profit) rigorously redefine their core concepts, overturning common assumptions in the process. They introduce a crucial distinction between capital and quasi-capital to counter the harmful concentration of indirect enterprise ownership. Supporting this, the work differentiates tradable shares from redeemable shares. It concludes by establishing two new forms of public information to enable the continuous sanitization of financial markets.

Employment, distribution, wage

The seventh chapter deals with *employment* in the light of what has been previously admitted. Barriers to the full exercise of feedback between the state of employment and the stock of capital via profit are counterproductive. Their lifting has effects in which the social treatment of unemployment is not even a good placebo. What is at stake in this matter is that national economies are provided with a **permanent stimulus mechanism**. Failure to comply with two rules of public financial management also harms employment. This is why the seventh chapter ends with the specification of these rules.

The eighth chapter, on the *Distribution* of Total Income, first establishes that total labor income is what remains of total income after placement income has been accumulated. Then, this chapter intersperses between the concepts of rate of return and profitability (decanted in the sixth chapter) a strict definition of productivity. So the interpretation of the equations shown that **the distribution of total income lends itself to the maximization of total labor income**. In many countries, including France, public opinion remains convinced

that the natural tendency of the market economy is in the opposite direction and that consequently it is necessary to compensate for it through power relations and redistribution.

The ninth chapter deals with wages as the generic term for labor remuneration. Concerning these payments, no one can repeal three fundamental laws. Country by country, they are:

- The average wage is a collective outcome.
- Wages depress the average income of those who earn less and elevate the average income of those who earn more.
- The distribution of total labor income is regulated by collective subjectivity.

The ninth chapter deals with *wages* as a generic name for labor remuneration. Regarding these remunerations, **no one can repeal three laws**. Country by country: 1) the average wage is a collective outcome; 2) Wages depress the average income of those who earn less and elevate the average income of those who earn more; 3) The distribution of distribution of total labor income is regulated by collective subjectivity.

Interest, prices, money

The tenth chapter sees interest as a price to be subordinated to the national average rate of profit. The goal of this principle is not simplistic reversal, but to **make finance inherently subservient to the objective of job creation**.

The prices that the eleventh chapter studies are those at which enterprises sell. One conclusion of this study is that most of these prices each have an underlying value that is objective. The norm that governs this value is expressed by means of an expression not yet referenced in the economic vocabulary: **the equalization of direct rates of return of the same systemic level**. This norm is in fact a law established by competition when it is purged of what makes it more verbal than real. The final conclusion is far-reaching: the systemic viability and moral viability of the market economy become significantly greater than it has been if market authorities disallow the exercise of this law.

Of the twelfth chapter, on *Money*, I indicate here only two things. It is intelligible only in the light of what precedes it. It is a transition with the part on economic policy.

Chapter 1 - The Economy

The introduction to the Objective Political Economy above partly overlaps with this first chapter. The methodological choices are, however, argued below in a more complete manner, the field of study is more precisely delimited, and the hypothesis of monetary perfection is posited until its removal in the final chapter.

Whatever one does, a political economy is shaped by its starting point in such a way that crossing the threshold of an exact science will prove either possible or impossible. For this to be possible, it is necessary in particular that at the outset the object of study receives a formal definition, which OPE accomplishes using the SysFEAT formal ontology.

1.1 For its logical coherence, economic thought must rely on definitions that are valid within the framework of a formal ontology

Dictionaries, lexicons and glossaries provide information on meanings that are not, most often, statements that conform to the definition of the mathematical definition of finite sets.

1. **The definition of the mathematical definition of finite sets can be summed up in three propositions.**

   1) A finite set is definable in extension or intention.

   2) An extension definition lists all the objects that are part of the set under consideration.

   3) A definition in intention states a property or properties that all the elements of the set under consideration and they alone possess.

2. **It is to be expected that the definitions of economic objects and acts will be for the most part understood.**

The statement of a definition in intention can often be intertwined with a partial enumeration. For example, economic wealth is the product of human labor, such as tools, food, and clothing, which is most often exchanged for a quantity of money and for the rest directly among themselves. The partial enumeration could be the beginning of an extended definition if all tools, food, and clothing were traded economically. However, this is not the case because of those that their owners have produced and that they keep to themselves, among other reasons. By this kind of impossibility, in economics the definitions admissible in the logic of finite sets are for the most part comprehensible. This fatality increases the need to bring great care to this discipline beforehand with literary mathematics.

3. **Definitions that are admissible in set theory, other observations of reality, and reasoning use semantic conventions.**

This is why economic thought is only brought to its highest point of rigor by explicitly mentioning the major naming conventions it uses. The most typical verb clauses in economic theory are reputed to be "all other things being equal" and "sooner or later". In fact, the clause most necessary for the elaboration of genuinely scientific economic theory is: "let us agree to call..." – followed by a word or expression – "the whole..." – followed by an acceptable definition in the logic of finite sets.

4. Despite the propensity for relativism, the principle of the search for truth is simple.

A theory is a series of statements that express a relationship between several terms. In other words, a theory is a series of propositions. A proposition that describes an aspect of reality is true when this description is in accordance with the facts. A theory, however partial, is itself completely true when none of its propositions is contradicted by a true proposition, whether or not the latter is part of the theory presented. Karl Popper included *A Supplement to the Critique of Relativism* (1961) at the end of *The Open Society and Its Enemies*[19]. It reads:

> *"The main philosophical disease of our time is intellectual relativism and the moral relativism which, at least in part, stems from it. By relativism, or skepticism if one prefers this term, I mean the doctrine according to which any choice between rival theories is arbitrary: either because objective truth does not exist; either because, even if we admit that it exists, there is in any case no theory that is true, or (without being true) closer to the truth than another; or because, in cases where there are two or more theories, there is no way to decide whether one is superior to the other. Some of the arguments advanced in support of relativism flow from the very question, "What is truth?" to which the convinced skeptic is sure there is no answer. But, to this question, one can reply in a simple and reasonable way – which would probably not satisfy our skeptic – that a statement or statement is true if, and only if, it corresponds to the facts*[20]*. / What does it mean to "correspond to the facts"? Although a skeptic or relativist may find it as impossible to answer this question as it would the previous one, it is actually as easy and even almost trivial. For example, every judge knows well what a witness means by truth: it is precisely what corresponds to the facts. We must make a clear distinction between knowing what truth means and having a means, a criterion, to decide whether a statement is true or false. Most of us don't know the criteria for determining whether a banknote is genuine or fake. But if we found two notes bearing the same number, we should have good reason to declare that one of them [at least] is false: an assertion which would not be deprived of meaning by the absence of a criterion of authenticity. It is, in my opinion, the requirement of a criterion of truth that has led so many philosophers to believe that it is impossible to answer the question: "What is truth?" But the absence of this criterion does not render the notion of truth meaningless, any more than the absence of a criterion of good health renders the notion of health meaningless. In the absence of any criteria, a sick person may seek to regain his health, and a human being who has made a mistake may seek the truth. / One of the direct results of Tarski's work on truth is the logical theorem: there can be no general criterion of truth. This theorem is well-founded, and it is based on the very notion that truth is the correspondence with facts: that is, on a notion for which we have no criteria. The unreasonable requirement of the philosophies of the test, if it had been complied with in this case, would have prevented us ever from arriving at this logical result – which is of great importance. Certainly, there is a kernel of truth in skepticism and relativism, namely that there is – in fact – no general criterion of truth. But we have no right to conclude from this that the choice between rival theories is*

[19] Seuil 1979 for the abridged French translation. The cited passages are taken from this translation, pages 186 and 188 of volume 2.

[20] Emphasis added by Popper. The same applies to the emphases that follow.

arbitrary. It simply means that we can make a mistake in this choice: that we are fallible. / ... / It is an illusion to believe in scientific certainty and the absolute authority of science; Science is fallible because it is human. But this does not give reason to skepticism or relativism. We may be mistaken, of course; It does not follow that the choice we make between several theories is [inevitably] arbitrary, that we cannot learn, and get closer to the truth. »

5. The selection of scientific ideas is, in the long term, rational.

At the beginning of 2008, Raymond Boudon enriched the encyclopaedic collection *Que sais-je? Presses Universitaires de France* by *Le relativisme*[21].The observation that there are no general criteria of truth and scientificity is exposed, with a philosophically more prestigious and didactic reference to peddle than the one used by Popper in the excerpt quoted above. Boudon does so in a passage[22] deserves to be quoted here in full (the footnotes are additions for the purposes of the present quotation, the underlining is by the author cited):

"Two main arguments can be made against cognitive relativism[23].

"1 / As Kuhn indicates[24], the selection of scientific ideas reveals the action of irrational factors in the short term. This does not exclude that, in the long term, this selection will be rational. Lavoisier is objectively right against Priestley, even if the discussion of Priestley's theory of phlogiston[25] shows that the positions taken by the scientists involved in the debate were often inspired by irrational motivations. It is therefore only if the distinction between the short and the long term is neglected that the principle of the excluded third can be applied[26] and declared that since the discussion between scientists is not exclusively rational, the selection of scientific ideas must be regarded as irrational. But, once this distinction is taken into account, the question of whether discussions between scholars are rational or not is disqualified by its very formulation.

"2/ The same applies to the conclusions that have been drawn from the powerlessness of the philosophy of science to determine the criteria for demarcating science and non-science. We have never been able to identify the criteria in question. But one can apply to scientificity a decisive remark of Kant's on truth[27]; it is not because there are no general criteria of truth that it does not exist. To seek the general criteria of truth, he ironically, is to seek to milk a goat. However, truth is not an illusion.

"Kant means that there is no finite set of criteria that can be applied in the manner of a checklist to determine whether a theory is true. On the other hand, in many cases

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[21]Emphasis by Popper. The same applies to the following underlines.

[22] N° 3803

[23] Cognitive relativism: negation of the possibility for knowledge to access reality

[24] Thomas S. Kuhn, 1922–1996, American philosopher. The *References* of the work by R. Boudon refer to *La structure des révolutions scientifiques*, 1962, Flammarion.

[25]

[26] Fire considered as one of the materials or principles of the composition of bodies. Joseph Priestley, 1733-1804, Antoine Laurent de Lavoisier, 1743-1794.

[27] The principle of the excluded third, also known as the excluded middle: between two contradictory propositions, one is true and the other false if, and only if, the exclusion of a third proposition is admissible.

one can decide with certainty in favor of one theory against another. This is what the history of science teaches us. We can accept the theory proposed by Torricelli and Pascal of the physical phenomenon that was to give rise to the barometer and reject the theories of Aristotelian inspiration because the first better accounts for the phenomena observed and does not introduce the idea that nature abhors a vacuum. In other cases, other criteria will make it possible to decide between competing theories. Thus, the criteria that make it possible to choose between the theories explaining the extinction of the dinosaurs are partly different from those that make it possible to decide between the theories of Priestley and Lavoisier. It is precisely because it is possible to determine on the basis of solid reasons whether one should prefer one theory to another that some theories irreversibly disappear in favor of theories deemed preferable in the light of well-defined criteria that vary from one case to another.

"Kant's remark on truth can be applied to scientificity. There are no more general criteria of scientificity than of truth. As soon as theories can give rise to comparisons leading to an indisputable arbitration, they give the impression of being scientific. But it is difficult to go beyond in terms of precision. There are no general criteria for scientificity, but scientificity exists. ».

6. What is true for truth and scientificity is valid for objectivity.

The most damaging consequence of the negation of the possibility for knowledge to access reality is to eliminate from the field of consciousness the cultivation of the virtues of objectivity. This regression is aggravated by the undue attribution, but as a rule in subjective political economy, of an economic exchange value to knowledge in itself, in other words to knowledge in itself (more on this subject in the next chapter).

7. Pseudo-definitions are the basis for petitions of principle.[28]

The pseudo-definition favors the petītiō principiī, i.e. the reasoning that holds as true what is to be demonstrated[29]. The effort to pay attention to the facts required by definition, in the sense of this concept in mathematical logic, opens the way to demonstration, whereas the petītiō principiī obstructs this path. Let's take an example. I hold it to be true that the law of supply and demand mainly governs the formation of all prices. I derive curves and equations from it, and other kinds of considerations, and then I say to myself that it is "therefore" quite true, although I have not demonstrated it, that the law of supply and demand mainly governs the formation of all prices. The avoidance of this petītiō principiī comes of itself as soon as the attention has been sufficiently sharpened by the effort of true definitions. The understanding then lets slip that: 1) "mainly" does not mean "complementarily"; 2) it is all the prices and not a part of them that are in question. This "mainly" and "all" are not in line with the facts.

[28] Fabra applies the same requirement to value: the concept of value is to be constructed first and then used to explain prices, instead of being defined by its symptoms. See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 248.

[29] L'extrait cité comporte ici une parenthèse donnant, en allemand, une référence précise dans l'œuvre d'Emmanuel Kant, 1724-1804

8. **In other words, an agricultural commodity whose price falls when its supply exceeds its demand and rises when it does not.**

Noting this in no way prevents us from asking: what determines the objective exchange value of this commodity when there is neither an excess nor an insufficiency of its supply over its demand?[30] The same question is formulated in another way: what does the objective exchange value represent at which there is possibly an underbidding or overbidding?[31] The answer to this question completes the avoidance of the petītiō principiī of the law of supply and demand which is supposed to govern **mainly** the formation of **all** prices. A theorization by means of pseudo-definitions, petitions of principle and abuses by excluded third parties[32]reinforces prejudices which in turn facilitate its accreditation. Claims about what economic theory cannot have in common with the "hard sciences" are inadmissible in the light of what these sciences admit is methodologically more elementary: knowing what exactly is at stake.

9. **The proper use of the rule of three is not as simple as it seems.**

The rule of three is widely used in economics, as in the work of the engineer, the cook and the doctor, among many others. In Le relativisme, a work cited above, Raymond Boudon helps us to realize that there is every reason to expect that this use lends itself to established consensuses on misconceptions.

> *"In a famous experiment, J. Tooby and L. Cosmides[33]asked doctors the following question: 'A disease has a prevalence rate of 1/1,000. There is a test to detect its presence. This test has a 5% false positive rate. An individual is subjected to this test. The result is positive. What is the probability that the individual is actually affected?" / The question elicited false and yet widely shared answers. A majority of doctors believe that, under the conditions described, the subject who tests positive has a 95% chance of actually being affected by the disease. If we average the doctors' responses, the subject who tests positive is assigned a 56% chance of being sick. As for the correct answer..., it is given by just under one in five doctors, exactly 18%. / … The prevalence rate being 1/1,000, per 100,000 people there are an average of 100 sick and 99,900 healthy subjects... However, these 99,900 non-sick people have a 5 out of 100 chance of being declared positive. Hence it follows that there are a little less than 5,000 "false*

[30]It is often useful, even essential, to specify that the **concept** of a petition of principle is distinct from the **notion** of a position of principle. A **position** of principle is based on considerations among which there may or may not be one petition of principle or several. A petition of principle is always either a paralogism — an error of reasoning in good faith — or a sophism — an error of reasoning in bad faith... but quite obviously the *Petition of principle* of *Sophisme.com* is quite in good faith and in the best of what is on the same subject on the internet.

[31] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 208–210 and 229. Following Smith and Ricardo, Fabra distinguishes the market price from the natural, or necessary, price; agricultural price stabilization aims at keeping the market price close to a guide price that expresses the average cost of production, profit included.

[32] To speak, in this context, of "demand" is a convenience in distinguishing one of the two offers present. Commodity demand, as a general category opposed to commodity supply, does not exist, contrary to the illusion given by the use of money. Let's talk about supply and demand, but when it comes to economic exchanges, let's not forget for a moment that it is always a question of supply in exchange for an offer.

[33] In footnote 46 of the cited work, references to a study published by these two researchers in 1992.

positives" among the 100,000 people. Thus, the probability of being sick when you are positive is 100 / (5,000 + 100), i.e. a little less than 2%. »

In economics, there are many comparisons of percentages that do not have the same base 100; the proportions in relation to aggregates that make it possible to reduce or increase them; correlations that give the impression of cause-and-effect relationships that do not exist or that include a decisive intermediary that is not reported; distribution problems deemed to have no objective solution when they have one. The adage is well known: you can make numbers say anything, sometimes including the truth; to numbers and equations, as well as to econometric models. One of the keys to more relevant political economy, and therefore to economic policies that are themselves more relevant, is of course to pay more critical attention to what is most commonly said on the one hand, and the most cleverly on the other.

10. Scientific law is rigorous.

I have the right to say, if I am convinced, that this phenomenon, whatever its nature, participates in the configuration of economic activities or results from it. On the other hand, I never have the scientific right to affirm that this phenomenon is inherent in all or part of these activities without demonstrating it in one way or another. There is no economic science epistemologically worthy of the name unless it is bound to respect this discipline for all that it admits of principality. A particularly important application of this rule is this: no one has ever demonstrated, and never will demonstrate, that the inclination to maximize profit is inherent in the commercial enterprise. Whether skilfully articulated or spontaneous, a theorization of economics that is based on the affirmation of this inclination is not scientific on this key point. If we add to this the fact that definitions, in the sense of this concept in the logic of finite sets, are only found in a residual way, or even are not found at all for all that is accepted as principal, then there is no doubt that this theorization is fundamentally unscientific.

11. An economic theory is established as rationally as possible by being formally made up of propositions that are not only explicitly stated but also stated before their argument.

The key observations, the articulation of which constitutes a theory, are made by dint of looking with one's own eyes and through reading, of thinking pencil in hand, of losing one's way until one finds landmarks lost to sight. For each of these observations, there is no other way of methodically putting it to the test of reason than to formulate it as concisely and precisely as one is capable of in order to verify its admissibility several times by the argumentation that authorizes it.

Of the "*rational selection of ideas*", Raymond Boudon notes that it "*unfolds... necessarily slowly for an essential reason, namely that the criticism of an idea has little effectiveness in itself as soon as it comes up against 'opinion' and 'social power'*."[34] Once again, we can illustrate Tocqueville's analysis with an example that came after him in order to underline

[34] The opinion and the social power in the sense of these words in Tocqueville's work, and particularly in the second *De la démocratie en Amérique*. The cited passage is found on pages 189 and 190 of *Tocqueville aujourd'hui* by Raymond Boudon, published by Odile Jacob. The emphasis is mine.

the importance of his thought for the intelligence of our societies: that of the countless critical essays, from Viktor Kravchenko to Alexander Solzhenitsyn, which denounced the Soviet system, its efficiency and its cruelty. They only shook the non-believers: those who were not convinced that the communist system was a real alternative to the liberal system, both viable and preferable to the latter.

1.2 Let us define a market (or economic) exchange as the exchange of a good or service for a quantity of money, or for another good or service.

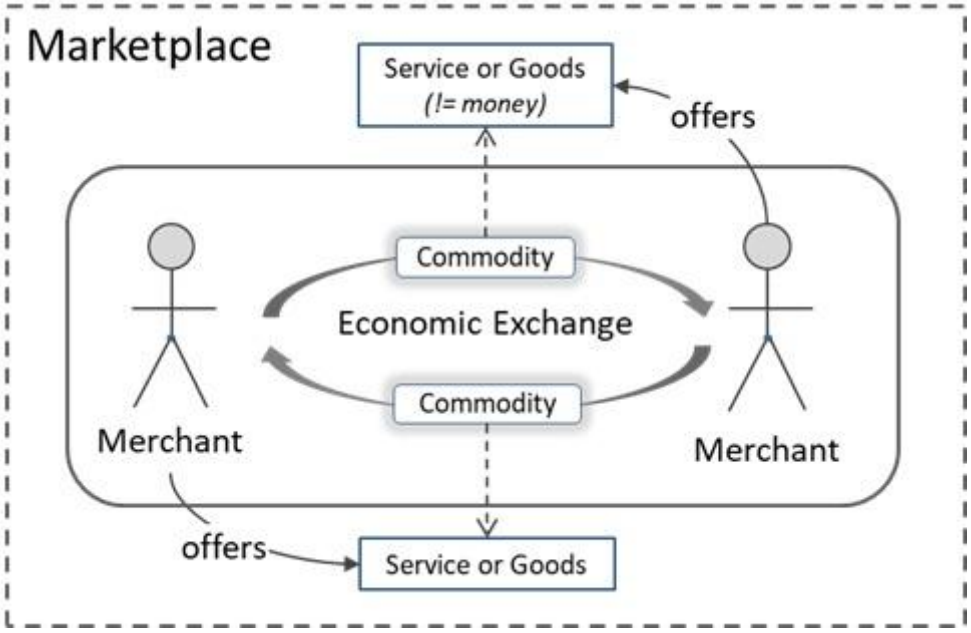

Figure 3 - Economic exchange

1. **To support this proposition, let us examine type X and type Y exchanges by considering an example of each.**

Andrew does the dishes for Paul's restaurant in exchange — a type X exchange — for food or money. Dishwashing is a service rendered; its counterpart is a transfer of property in the form of food or money. James gives.

James gives John bread in exchange for wine or a sum of money. In this exchange — a type Y exchange — there are reciprocal transfers of two goods.

2. **A type X or type Y exchange is a barter when the counterpart is not money,.**

It is partly a barter when the counterpart is not solely money. In an economy where the practice of barter has become very marginal, a slightly shorter statement of proposition 1.2 becomes almost sufficient: let us call any economic exchange when one of its terms is a service or property other than money, and the other term is money.

3. **Type X and type Y exchanges belong to the same subtype of contracts entailing reciprocal obligations for both parties.**

Andrew does the dishes for Paul's restaurant in exchange for money that he later uses to buy an item from James, who in turn uses that money to engage in a type X or type Y exchange, and so on.

4. **Economic exchanges are a subset of social exchanges.**

All economic exchanges are social; not all social exchanges are economic. Apart from exchanging one sum of money for another, every counterpart given in exchange for money is a commodity.

5. **But what exactly is a commodity?**

And what are the different categories of commodities? A theory of commodity exchanges, i.e. of the exchange of commodities, is too little developed as long as it is not based on a theory of the commodity, or the theory of services and goods that have an economic exchange value.

6. **Drawing up an inventory of the kinds of counterparts in exchange for a quantity of money divides all commodities into subtypes.**

This division is superfluous if the main determinant of any price, or exchange value, is always the same. Otherwise, the main determinant is likely to vary from one kind of commodity to another.

7. **To be sure, a method is necessary: postulate the opposite case, even if it means having to conclude that the main determinant is always the same.**

So don't dwell on the question: where does the (exchange) value of everything that is sold and bought come from? To prefer it: where does the value (always exchange) of each great kind of thing that is bought and sold comes from? By avoiding any petītiō principiī, including the one, as has already been noted, of the law of supply and demand as a controller of price formation in all circumstances.

8. **Economic exchange is an act whose morality is as positive as that of a gift.**[35]

Conversely, the economic gift is an act whose morality is potentially as positive as that of economic exchange (1.3). The justice proper to exchange is commutative justice (Part I, "Economy and justice").

1.3 Any gift, voluntary or forced, of a quantity of money or of another thing having a market value, is a transfer of an item of economic exchange.

Any such transfer is economic, and any economic transfer is of this kind. The concept of economic transfer is inseparable from that of economic exchange because the latter participates in the definition, in the logic of finite sets, of what an economic transfer is and is not.

1. **A property, or a provision of services, has a market value, i.e. an exchange value, when it is of a nature that it can be sold.**

The verb "sell" and the expression "market value" [36] used in relation to non-monetary terms of economic exchange only and not also to means of payment. In what economic assets include are the credit balances of bank accounts and cash, which are means of

[35] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 11: treating exchange as a relationship of equality restricts the field of self-interested action regarded as legitimate.

[36] It is only in a figurative and pejorative sense that the adjective « vénal, ale », in the literal sense of that which sells or can be sold, is used to qualify a behavior: a venal judge, a venal love, a venal pen, etc.

purchase and donation. The use of language is limited to the respect of a distinction whose theoretical validity is patent, despite the petītiō principiī of the so-called supreme law of supply and demand. This invented supremacy leads to maintaining, against the facts, that money is an economic wealth like any other, on the grounds that it is offered and demanded.

2. **To speak of a "transfer of property" instead of a "transfer of a economic exchange term" is also appropriate when there is no doubt that the property in question is an item of economic exchange.**

Moreover, it is self-evident to speak of a transfer in a context where there is no doubt that it is the transfer of a economic exchange term. Moreover, it is more relevant to speak of a transfer as a whole than of "transfer income". This expression conflates one thing with one of its opposites: the counterpart in exchange and the subsidy.

3. **Any transfer of money or other property with market value is a subsidy.**

A subsidy is a transfer of purchasing power. A tax is a subsidy that the legislator obliges to provide and that is used to carry out economic exchanges and to grant subsidies.

4. Transfers **made compulsory by the legislator are not necessarily public.**

This is the case, for example, with the maintenance obligation and the eponymous pension. Moreover, the legislator requires economic exchanges, for example the subscription of a car insurance contract if necessary. Family life imposes the need for parents to provide for their children, as well as, sometimes, for children to provide for their parents. Other circumstances make it essential or desirable to practice the subsidy on a private basis of subsidy. It is as much part of the fundamental freedoms as the practice of economic exchange.

5. **A compulsory contribution to a family allowance scheme is a transfer.**

On the other hand, a contribution to a compulsory insurance scheme, in particular health and unemployment insurance, is not a transfer but a premium in exchange for guarantees.

6. **A contribution to a pay-as-you-go and points-based pension scheme is not a transfer since there is in return the payment, when the time comes, of a pension proportional to the number of points purchased.**

This type of pension is quasi-placement income that is just as much an annuity as placement income. Life annuities by a pay-as-you-go pension scheme **other than by points** are nevertheless pensions by transfer.

1.4 The object of the Objective Political Economy (OPE) is that which is specific to economic exchanges and to the transfer of the terms of these exchanges.

1. **Economic exchanges and the economic transfers of the terms of these exchanges form a system.**

The economic system is not closed, although commodities are exchanged, most often by intermediary money, only for commodities[37]. In addition to the incessant creation of new commodities[38], technical knowledge and legal apparatus are part of the environment of the economic system and participate in its steering. In turn, the operation of the system alters its environment.

2. **Economics has as its object the open system that the practice of economic exchanges and transfers of market terms of trade establishes.**

A major characteristic of the economic system is that it has as its subsystems a monetary organization and a fiscal organization, with all that these devices entail in terms of empirical approximations. This is one of the reasons why the notion of equilibrium applied to the economic system is unrealistic.

3. **There are no specific subjective causes for the practice of economic exchanges and transfers.[39]**

Subjective causes which would concern only the economic aspects of social life would exist if the appetite for purchasing power were of a different nature from the appetite for power; the desire to possess through commodity exchange or the capture of an economic transfer of a nature other than that of the desire to possess; the need satisfied by means of commodity exchange of a different nature from the need satisfied by the self-consumption of its production; the mentality of a different nature from the social mentality; Homo *economicus* a real constituent of homo *sapiens*.

4. **Since Jean-Baptiste Say, it has been repeated that the economy is the production, distribution and consumption of wealth.**

This assertion, even when it is specified that the wealth in question is only that which has an economic exchange value, and therefore does not include "human capital"[40], peddles a pseudo-definition of the economy. The argument in the following proposition explains why.

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[37] Argument for this statement in the next chapter, proposition 2.11. By atavism, the word "commodity" first evokes a material object. The services exchanged for remuneration must nevertheless be seen as commodities, otherwise one thing and its opposite are maintained: yes, these exchanges are marketable, as evidenced by the fact that they determine the existence of markets; No, because in each of these exchanges one of the two terms is not a commodity.

[38] Any new commodity is not a new material object (see previous note).

[39] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 3–4 and 9. Smith and Ricardo set political economy on firmer ground than the subjective assessment of wants: a commodity must be useful to have a market value, but its value does not derive from its utility. By defining exchange value through use value, the marginalists brought economics back to its preclassical age.

[40] Between the economic analyses and prescriptions that make use of the notion of “human capital” and those that refuse to do so, there is in any case a rupture whose consequences cannot be merely venial.

1.5 The field of the Objective Political Economy comprises exactly two types of production and excludes consumption.

1. **For insurers, "production" refers to sales.**

The sale in question is that of guarantees provided in exchange for premiums. In enterprise management, the use of the expression "production of sales" is very widespread, while in enterprises, other productions are economic by destination. In accounting, a "product" always comes from a sale made (exchange) or from a subsidy received or to be received (transfer).

2. **Two productions are in the field of the Objective Political Economy.**

One of these outputs is that of sales, in the first place by individuals (work, and placements when they are in exchange for their remuneration); in the second place by enterprises where it leads to the production of margins (positive, zero or negative). The other production is that of transfers, in particular those from individual to individual (inter vivos gifts, inheritances); those organized by the public authorities to provide for their financing and the aid they grant; those from individuals to non-commercial associations.[41]

3. **Human beings do nothing without producing and consuming.**

But if producing something other than an economic exchange or transfer and consuming anything are acts recognized as being of an economic nature, then every human act is economic. However, if every act of human is more or less reputed to be economic in scholarly circles, the distinction between a subset of economic activities within human activities is erased in these circles.

4. **The distinction between the economic and the non-economic is respected on a daily basis.**

From the age of reason, we all consider that economic life is only one aspect of life in society, because we find that our actions and those of our fellow human beings are not all related to money and the means of obtaining it. The intuition of the existence of a homogeneous sphere of which money is a main instrument is of course accompanied by remarks that make extensive use of the qualifier "economic", facilitating the accreditation of formulations that are not true definitions of what this sphere is but which nevertheless function as realistic assertions.

5. **A large part of human consumption is of economic origin.**

Purchased goods and services enter this share, after selling services and goods or receiving a subsidy. **This does not mean that consuming is an economic act.** Whoever considers that

[41] Sraffa likewise excludes utility, demand and consumption from the determination of prices. His Preface states that the investigation concerns properties of an economic system that do not depend on changes in the scale of production or in the proportions of the means of production, and therefore requires no assumption on returns (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, Preface). The two constructions diverge on the root of the ontology. Sraffa's production is physical: commodities used up as means of production and a surplus defined by the technique in use. In the Objective Political Economy, the two productions in the field are sales and transfers, and producing, as such, is not an economic act (argument below). See the appendix Objective Political Economy and Sraffa.

everything that takes part in the possibility and decision of buying and consuming, or that is capable of taking part in it, remains consistent only by admitting that everything is economic, since anything is capable of taking part in this possibility as well as in this decision.

6. **Production and consumption are very often made possible only by economic exchanges and transfers.**

Admitting that producing and consuming are not, in themselves, economic acts does not negate this obviousness. The qualities and quantities produced and consumed depend largely on the organization of the practice of trade and economic transfers. The object of study and reform constituted by this organization is sufficient to make the proper and useful and important of economic science.

7. **This delimitation not only does not detract from the specificity, usefulness, or importance of economic science, but on the contrary reinforces them.**

Starting from considerations on the human condition and on the notion of utility in order to draw the elucidations expected from economic science exposes not only the risk of philosophizing badly, but above all of failing these elucidations.

8. **A doctrine of the subjective causes of the practice of economic exchanges necessarily makes great deal of the notions of need, scarcity, utility, desire, pleasure, and pain.**

When a theorization of economics is based on such a doctrine, the statements that serve as the definition of economics are extracted from it. These statements do not define anything because all human activities satisfy a need by filling a lack; provide pleasure; give pain. By conflating arbitrary notions, the economist inevitably comes to the economy, which is everything and, therefore, nothing in particular, contrary to what happens on a daily basis. The doors are then wide open to imaginary constructions by means of petitions of principle. In any case, the economy, which is everything, is nonsense.

1.6 The Objective Political Economy must first be studied under the assumption of monetary perfection.

1. **The economy is very largely monetized.**

The use of money is indispensable for commodity exchanges, just as monetary transfers are the norm for subsidies. This convenience is vital, as it overcomes the considerable inefficiency inherent in a system of generalized barter or payment of taxes in kind.

2. **This convenience has disadvantages which would disappear only if the currencies in circulation were so good at preserving exchange value that a loss or gain of purchasing power would never result from their use.**

Should economic science be built first on the hypothesis of monetary perfection in order to later bring to light, among the monetary organizations observed and conceivable, the most adequate? The negative answer diminishes, or even annihilates, the ability to find the best way.

3. **The model of pure and perfect competition and the hypothesis of monetary perfection do not have the same status.**[42]

The model of pure and perfect competition reduces the regulation of the freedom to offer by the freedom to choose to what it does not have to be in order to exist, as Schumpeter was one of the first to show. The hypothesis of monetary perfection neutralizes a variable until it is discerned that currencies that are legal tender should disrupt as little as possible.

4. **The principle of legal tender is so simple that we tend to lose sight of it.**

In the geographical area where a **currency is** legal tender, **no payment may be refused on the grounds that it is made in that currency**. In this way, a currency that is legal tender is endowed with an unquestionable discharging power in law.

A currency is forced tender when it is inconvertible into gold or any other metal that can be used to calibrate it. Legal tender and forced tender of a currency are combinable and separable.

1.7 Let us distinguish, as scales of observation of economic phenomena, mesonomy, macronomy, and micronomy.

1. **The history of economic theory has dictated that microeconomics has its own macroeconomics.**

It also wanted Keynesian macroeconomics to be erected into a corpus that was supposed to be largely self-sufficient, both for econometric (national accounts) and political (economic stimulus) purposes.

2. **The reality established by the practice of economic exchanges and the transfer of terms of these exchanges determines the existence of scales of its observation and exploitation.**

It is in fact to distinguish two of these scales that the notions of microeconomics and macroeconomics are now used spontaneously.

3. **The investigations reported in this book use three scales.**

In order not to cause confusion, neologisms are used to designate these scales: mesonomy for the average, macronomy for the largest, micronomy for the smallest.

4. **Since the enterprise is the only institution that exists only for economic purposes, let us align the mesonomic scale with the enterprise.**

The concepts of commercial general accounting are mesonomic. The enterprise as a legal entity and its capital are, among other things, mesonomic objects.

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[42] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 207–212 (section “There Is No Such Thing as Perfect Competition, Even in Theory”). Perfect competition is an inaccessible limit; classical price theory locates the dynamism of the system in the constant gap between the market price and the necessary price.

5. **When economic analysis takes into account what is happening in a geographical area, it is macronomic.**[43]

While the rate of profit on capital of an enterprise is a mesonomic quantity and controller, the average rate of profit on capital for all enterprises in a country is a macronomic magnitude and controller. The global stock of capital and that of jobs are also macronomic quantities and controllers. The phenomenon of the distribution of total income is macronomic.

6. **Cost accounting concepts are micronomic.**

Several of these concepts are defined and used in Chapter 11, on the prices at which enterprises sell. The problem of the fraction of common costs to be included in a full cost price is micronomic.

7. **We will see that this problem is wrongly reputed to have no objective solution.**

The scope of this micronomic solution, as we will also see, is mesonomic and macronomic. A homogeneous and complete theory of prices is made up of normative observations, some of which are macronomic, others mesonomic, and the last micronomic. The theory of economic exchange values accepted in Objective Political Economy must go as far as the calculation of the objective selling prices of industrial commodities (not scarce) marketed by enterprises. This is proof of its usefulness, its coherence and its completeness.

[43] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 16, 24 and 141, note 1. Fabra observes that the classification of an item — monetary holdings, a patent — changes with the scale of observation: legitimate at the level of the enterprise, it ceases to hold at the level of the national economy. On p. 321 he traces an error to the confusion between the macroeconomic viewpoint and the individual viewpoint.

Chapter 2 – Commodities

To better understand economic exchanges, we must consider items of exchange other than monetary quantities. Classifying these items of exchange generically as "commodities" provides an accurate framework for economic exchanges, so long as two conditions are fulfilled:

- The properties that qualify an item for membership in the set of commodities must be fully enumerated.
- The taxonomy of this set must be sufficiently advanced to constitute a partition of all economic exchanges into homogeneous subtypes.

A coherent ontology of commodities —encompassing all tradable goods and services — is the indispensable foundation for a sound theory of price formation. Such a theory is vital not only for effective macroeconomic policy but also for microeconomic enterprise strategy, as it directly enables accurate cost-of production analysis and a true assessment of the rate of return.

2.1 Every commodity is the product of an expenditure of human energy.[44]

1. **A commodity only exists when it is offered for sale.**

However, even when the item for sale was the result of transfer, the act of selling it still requires effort (expenditure of energy). Therefore, every commodity is the product of expended human energy, if only for the service of its sale.

2. **Every commodity is the product of human labor.**

But it must then be pointed out that, in such a statement, the word "labor" is used in one of its three main meanings. "Labor" means:

- either an expenditure of energy;
- or the product (outcome) of such an expenditure;
- or an employment.

[44] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 57–58 and 71: labor is an expenditure of human energy, measurable in calories and not in money. On p. 203, Fabra treats human labor power as a source of energy that the economic system draws from its natural environment.

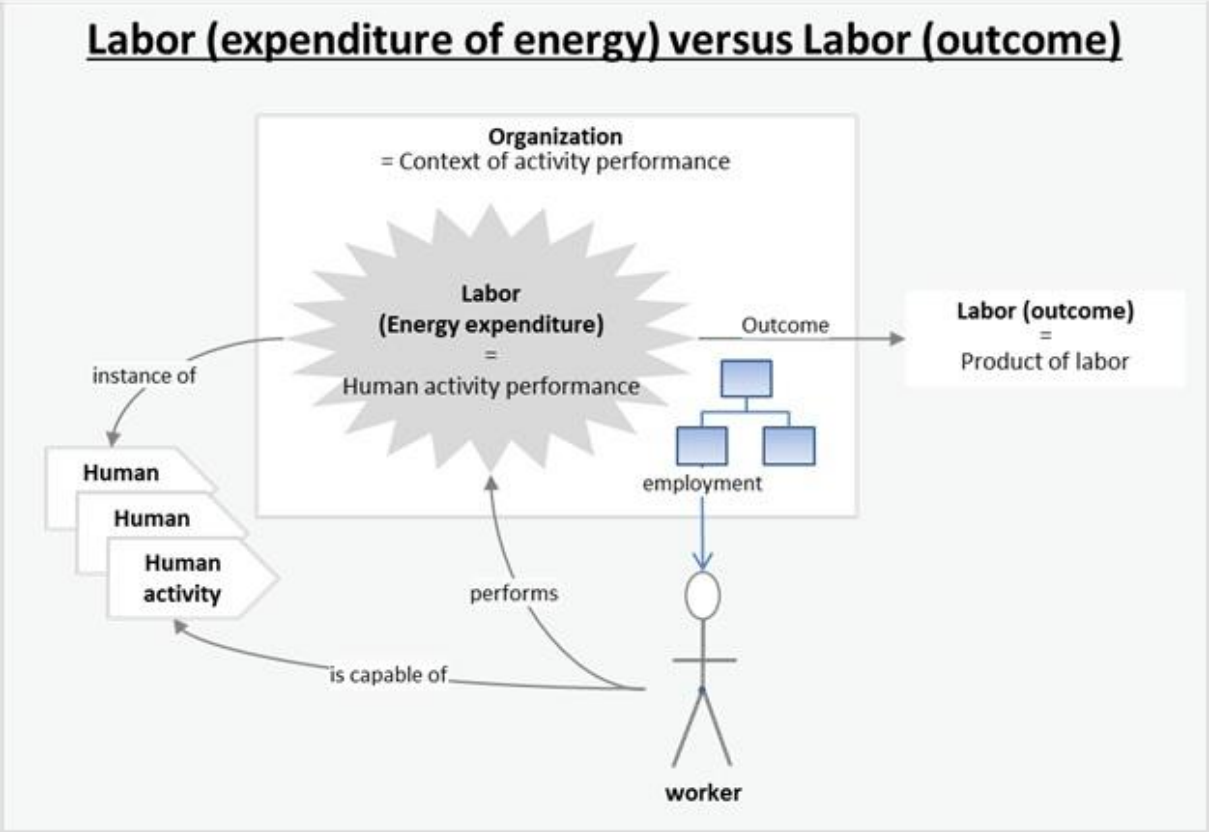

Figure 4 - Labor expenditure of energy vs product of labor

3. **The greatest source of conceptual confusion lies in conflating labor as a human activity (the expenditure of human energy) with the product of that activity.**

- The worker's activity: the expenditure of human energy, encompassing fatigue, wear and tear.
- The product of this activity: the outcome of the work performed.

4. **Status of automated labor**

Automation does not change anything. All commodities will remain the product of a human activity, even in the case of automatons assembled, programmed and repaired by other automatons. At the top of a line of robots and automated processes will, in fact, always be at least one product resulting from an expenditure of human energy.

Under these conditions, what is the price of a wage? Fatigue and wear and tear, or the labor? What does the employer buy from the wage-earner (and the enterprise in its own name from its owner in his capacity as a wage-earner)?

5. **Not every product of human labor —every piece of work— is, for that reason alone, a commodity.**

Myriads of products created by human energy are never commodities. Many of these, as we will later discuss, act as factors of production—both for commodities sold by enterprises and for non-commercial services, whether public or private.

6. **Rampant commodification has an antidote.**

The antidote is a rigorous ontology of commodities, one that provides a complete partition of all kinds of commodity based on their formal definitions.

2.2 Labor as an expenditure of human energy is not a commodity.[45]

1. **Labor, as the expenditure of human energy, is an indispensable means for economic exchanges and transfers.**

This indispensable means, however, is never itself a commodity for the simple reason that it is a product—a result—of an expenditure of energy and time which is exchanged for money or directly for another result—another product of an expenditure of human energy.[46]

2. **The distinction between labor as an expenditure of human energy and labor as an exchangeable commodity is fundamental and substantive.[47]**

The fact is that there are two realities here, certainly linked but nevertheless distinct. Let's consider an example. A very large wedding cake was ordered from a pastry chef. The latter begins manufacturing the evening before the day of delivery. He spends the whole night there, in the basement, because that's where his laboratory is located. In the morning, the customer who placed this order arrives at the store. The pastry chef's wife warns her husband from the top of the stairs. The pastry chef, who had just dozed off, woke up with a start and began to bring the product of his work to the shop. Badly awakened and too tired from his night's work, he misses a step, the wedding cake rolls down the stairs, the dog attracted by the windfall immediately gobbles up a large slice of the cake, in any case smashed by his fall and riddled with porcelain debris. As a result, there has indeed been an expenditure of human energy but there is no longer any product of this expenditure in exchange for its payment by the customer.

3. **The terms "price of labor" and "cost of labor" mean nothing when it comes to labor as an expenditure of human energy.[48]**

They only take on a meaning when it comes to labor as product of labor provided in exchange for a wage. This is done for the most eminently practical as well as theoretical purposes.

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[45] On the labor theory of value and on profit as unpaid labor (Ricardo, Hodgskin, Marx), see the appendix *Cost of capital, CAPEX and OPEX*, section 1.

[46] Sraffa's equations contain labor only as physical quantities, and the wage only as a share of the annual product; labor never figures among the commodities that serve as means of production. P. Fabra reads in the very title of the book the intuition that labor as such does not enter the circuit of exchange. He also notes that Sraffa takes "the quantity of labor that can be purchased by the Standard net product" as the measure of value (§43), which treats a quantity of labor as a commodity and contradicts that intuition (see *Capital for Profit*, Rowman & Littlefield, 1991, ch. 4, n. 19, p. 130, and "Notes on Piero Sraffa's 'Prelude'", pp. 335–338). The Objective Political Economy settles the point by distinguishing labor as an expenditure of energy, which is never a commodity, from the product of labor, which is the primary commodity (Proposition 2.3). See the appendix Objective Political Economy and Sraffa.

[47] Of labor, Fabra writes that "for the purposes of economic analysis, it is not a commodity at all" (*Capital for Profit*, Rowman & Littlefield, 1991, p. 57). On p. 38, Fabra adds that if the theorems of political economy held only by treating human labor as a commodity, another system with different axioms would have to be sought.

[48] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 55: for neither the employer nor the employee does the wage represent the value or the price of labor; and p. 64, on the persistence of the erroneous expressions "price of labor" and "labor market".

4. **Often, the wage does not only include what is paid directly to the wage-earner.**

In this case, there is also what is paid by the employer on behalf of the wage-earner as such. Of this part, it can be said, in distinction from the share directly paid to the wage-earner, that it is indirect. The entire wage is then the sum of its direct and indirect shares.

5. **One way to get comfortable with one of the most basic economic realities is to talk about the "cost of labor" as if it could be anything other than the entire wage.**

A brake on more objectivity in economic relations qualified as social is thus kept tight, and all the more firmly because the relative shares of indirect wages are large in relation to the direct wage and the complete wage. This is a very important point. Major economic policy propositions must hold it back as long as the fiction of the employers' reputed shares of the entire wage remains.

2.3 The primary commodity is labor as the product of an expenditure of human energy.[49]

"Once one attributes a 'market value' to labor, there are no longer any limits to the distortion of concepts. If labor had a 'value' and were itself an object of exchange, wouldn't it then be the designated standard of values? This was what Smith believed and, following him, Malthus. The influence of the labor-as-standard idea reappeared in the twentieth century: it became official doctrine under Nazism, and it resurfaces in a different form in Keynes.

PAUL FABRA – Capital for profit

1. **The products of labor, in exchange for which workers receive wages, are part of all the commodities sold by the enterprises.**

This is one of the reasons why these products, which are services, are the primary commodity. Another reason is that this same commodity enters the production of public administrations and non-commercial associations. And to these two reasons is added a third: all organizations, including families, which employ personnel, buy primary commodities.[50]

[49] Since labor as a product is a commodity and labor as an expenditure of energy is not, the premise of spoliation falls; on this point, see the appendix *Cost of capital, CAPEX and OPEX*, section 1.

[50] Sraffa calls basic the commodities that enter, directly or indirectly, into the production of all commodities (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, §6). In his system, labor is not a basic, since it is not a commodity, and the wage is paid post factum as a share of the annual product, "thus abandoning the classical economists' idea of a wage 'advanced' from capital" (§9). In the Objective Political Economy, every enterprise purchases the primary commodity and it enters every composite commodity (Proposition 2.14): it holds the systemic position of a universal basic. The wage is accordingly a cost of the enterprise (Proposition 2.24), and part of the exploited capital serves as a wage fund (Proposition 6.6). Fabra objects that Sraffa's post factum wage implies that the sums paid in wages earn no profit in the current year (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

2. **Every holder of income from product of labor derives it from the sale of the primary commodity**[51]

Including when this holder is not aware of being a merchant, economically speaking. Radical and unjustly inspired criticisms of economic life would not remain so frequent if those who peddle them would admit that the remuneration for their work also makes them merchants.

3. **Many of these merchants are unwilling, but it is in avoidance of the worst.**

Giving exclusivity to the practice of subsidies (gifts, transfers), would lead to prohibit economic exchange and, consequently, to the prohibition of the wage system, in all its thus severely undermining the exercise of fundamental freedoms.

4. **Since the primary commodity is the service of labor in exchange for its remuneration, the primary market is the labor market.**

If this market is, for whatever reason, economically immature, then it may be practically futile to work to clean up other markets before having, even in theory, made progress in recognizing what makes the labor market more objective and impartial, and therefore less paved with injustices. Whether it is accepted or not, the Labor Code is in fact the first book of the Commercial Code.

5. **A political economy is only realistic if in its initial expectations it admits the primacy of the labor market.**

The primacy of the labor market is fundamental because it is where the primary commodity—product of human labor itself—is exchanged, forming the very basis of all economic activity. When a political economy, through its dominant theories and policies, obscures or represses this reality, it severs us from the true nature of value creation. This distortion weakens our collective capacity to form sound economic judgments, leaving us vulnerable to policies and practices that generate systemic harm.

6. **It is not because the primary commodity is the service of labor that there is not another category of elementary commodity.**

The other category of elementary commodity that the service of labor is, as this chapter returns to later, the service of the placement of savings in exchange for its remuneration. The basic markets are those of labor and savings placements. The absence of full employment is likely to be due more to the state of the savings market than to the labor market, given that corruption by habit and inadequate legal provisions of only one of these two markets is unlikely.

2.4 A commodity always includes the supply of a service.

The service always provided is that of putting it up for sale.

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[51] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 81: following Ricardo, labor produces only products of labor, never labor itself; and p. 39: when the bargain is struck, the worker sells a product or a service, the outcome of his labor.

1. **Goods have characteristics that services lack.**

They are storable and transferable. This is why "wealth" is spontaneously associated with the possession of goods. But, as a general rule, what really makes the owner of an extraordinary property rich is not this property alone; it is just as much the number and variety of persons employed, in one way or another, to serve this owner and his family as well as to work for the maintenance and beautification of the property.

2. **Services have characteristics that goods lack.**

They are well as to work for the maintenance and beautification of the property.

3. **In economic discourse, the expression "goods and services" is often used.**

The term " **services and goods** " better reflects a basic economic reality. As previously noted, the primary commodity is a pure service.

4. **Raw materials and foodstuffs, semi-finished and finished products: will we come to the point where it is no longer these objects of economic exchange that the word "commodity" first evokes?**

Everything that enterprises sell is, in the last resort, produced only by means of two services: the labor service and the placement of savings service.

5. **So labor and capital?**

Product of labor and placements of savings. We shall see further on that in Objective Political Economy it is better to designate by the noun capital only one of the placements in capital.

2.5 A commodity has a use value and an exchange value.

1. **The distinction between use value, or utility, and exchange value in price formation, was introduced into economic thought by Adam Smith during the second half of the eighteenth century.**

It was in the following terms:

> *"It must be observed that the word value has two different meanings; sometimes it signifies the utility of a particular object, and sometimes it signifies the faculty which this object gives of purchasing other commodities. One can be called value in use and the other value in exchange."*

Immediately afterwards, Smith rejects the systematic attribution of dearness to utility:

> *"Things that have the greatest value in use often have little or no value in exchange. […] There is nothing more useful than water, but it can buy almost nothing; there is scarcely any way of getting anything in return. A diamond, on the other hand, has almost no value as to use, but it will frequently be found to be exchanged for a very large quantity of other commodities."*

2. In the second half of the nineteenth century, the marginalist revolution occurred.

Those who are convinced of the validity of marginalism have their own way of reading "the old authors" (Professor Jean Marchal). On the *Paradox of Water and Diamonds*, here is what Professor Frédéric Teulon wrote about it in the 1990s[52]:

> *"This paradox can be explained using the concept of scarcity. Water is a vital but abundant good, so the marginal utility that an individual derives from the consumption of the last amount of water he uses is very small. Water will therefore be marginalized, with little value, despite its immense usefulness in terms of the survival of the species. »*

The validity of Adam Smith's rejection of the attribution of dearness to utility is nevertheless easily verifiable and largely verified. By circumventing it by subterfuge of the utility of the last quantity, marginalism reduces scarcity to the rank of universal determinant of price formation and economic "science" to sophistry: *what is scarce is expensive, what is expensive is rare*.

3. This is in contradiction with Adam Smith and then David Ricardo, who judged that the relative quantities of labor play a major role in terms of price formation.

In the first quarter of the nineteenth century, David Ricardo endorsed this judgment, but excluding commodities that were permanently or temporarily scarce, as well as taking into account what some economists have called "capital intensity", which could be very different from one commodity production to another – that of coal mining and that of wicker baskets or shoes Like what.[53]

4. In reality, and in a competitive situation, the prices of tap or bottled water depend above all on production costs and profits.[54]

These costs themselves depend very much on the quantities of labor, new and past. The profits are at a normal height, variable in time and space, under the conditions set forth further in the Objective Political Economy. Ricardo states very clearly, in the first paragraphs of chapter 1 of his *Principles*, that there is no common determinant of all commodities of their exchange values. Again, it is because of those of these commodities which are scarce— as distinct from others which, in greater numbers, are "reproducible at will by human industry."

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[52] Economic vocabulary, PUF, coll. Que sais-je ? n° 2124, page 88 de l'édition 1996.

[53] Sraffa gives this Ricardian point an exact form: when the proportions of labor to means of production differ between industries, a change in the distribution between wages and profits changes relative prices, with no change in technique (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. III). Fabra accepts the result and rejects Sraffa's account of its mechanism, in which "deficit" and "surplus" industries cede value to one another (§15 ff.), as a reprise of the transformation of values into prices of production of volume 3 of Marx's *Capital*. For Fabra, prices form first in the market, where exchange may also eliminate the competitors and the equipment that a higher rate of profit makes unprofitable (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

[54] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 230–234 (section "The 'Water and Diamond Paradox'"). Fabra shows that the marginalist solution of the paradox extends to all commodities a determinant — scarcity — that Ricardo confined to scarce commodities.

5. **Nothing, apart from the habit that has been adopted, allows us to prejudge the existence of a universal determinant of price formation.**

It is only after the observation of the formation of prices in each main category of commodities that it becomes a good method of pronouncing on this existence. Thus *ex post* and not *ex ante*, failing which a petītiō principiī is committed by asserting an existence which it is precisely necessary to demonstrate that the practice of economic exchanges establishes it. No petītiō principiī is scientifically acceptable. This is one of the reasons why the marginalist solution to the so-called water and diamond paradox is unscientific. Since it is not possible to prove that this solution is part of the reality established by the practice of commodity exchanges, it is the uselessness of marginal utility to found a general theory of economic exchange that reason obliges us to stick to, until the eventual *ex post* proof that the universal functions attributed to marginal utility and scarcity really exist.

6. **From this last consideration follows the reason why the division of all services and marketable goods into homogeneous sub-assemblies is an irreplaceable prerequisite.**

A theory of economic dearness that is not based on this prerequisite is condemned to be at least partly imaginary. Yet, of course, the more unrealistic the theory that guides the choice of an economic policy, the less adequate this policy will prove to be once implemented.

7. **In Objective Political Economy, the expression "exchange value" and the word "price" designate exactly the same relation.**

This ratio is that of quantities exchanged on a commercial basis, the most convenient and widespread use being by far to express this ratio by a quantity of money (money). Let us repeat this, because neglecting it leads backwards: it is not just after having made the distinction between two kinds of value that it is possible to investigate with fairly good knowledge of the facts the question of whether or not all commodity values have more in common than being prices.

2.6 Money is not a commodity.

1. **Money is an instrument whose purpose is to be accepted in exchange for a commodity and, more generally, in payment.**[55]

The use value of current currencies is reduced to the fact that they have an exchange value and, more broadly, a liberating power. Many transfers of purchasing power are made, and often can only be made, in monetary terms.

2. **The utilities of commodities are not reduced to the fact that they have an exchange value.**

The usefulness of current currencies is reduced to the fact that they have a discharging value and that they can be exchanged for other currencies that are current.

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[55] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 16: money is not wealth employed in production but an instrument for appropriating wealth; p. 95: by blurring use value and exchange value, modern theory classes money among economic goods. Fabra's chapter 11 seeks to make gold an ordinary commodity, which presupposes its demonetization (from p. 279).

3. **The usefulness of a currency that is current lies in the fact that it is not a commodity.**

A wad of banknotes can be transformed into a commodity if it is put under glass and in a frame these notes, and then the object thus made is sold. If this work finds a buyer at the asking price and if this price is paid in money, then the latter is used as an instrument, which is not a commodity since its utility, or use value, lies entirely in its exchange value.

4. **Banknotes, coins and other payment instruments that are no longer in circulation become commodities when they are offered for sale to collectors.**

A conception of economics that admits that currencies in circulation are commodities like any other, or almost like any other, is based on the incomplete transformation of the notion of commodity into a concept properly so-called.

5. **In the *Economic Vocabulary* cited in argument of the previous proposition, there is no entry "Commodity".**

In the index of each of the two volumes of Raymond Barre's *Political Economy*, there is also no entry for the word "Commodity". In the *Economic and Financial Dictionary* published by Le Seuil, the same is true[56]. Etc., etc., etc. It is to be believed, against all evidence, that economic exchanges do not have as their own terms either one commodity and a quantity of money, or two commodities in the case of barter. It is also to be believed that there is no logical necessity in using in economic science, in the same sense, the expressions "commodity exchange", "commodity exchange", "economic exchange", without which a true definition[57]of the object of this science is inarticulable.

2.7 The elementary means of all human production are accumulated knowledge, natural resources, new labor.

1. **The techniques and theories taught to apprentices are accumulated knowledge.**

All know-how and theories are means of production. The fact that a theory is more radically false than true does not change anything. Economic theories or so-called economic theories are no exception.

2. **The natural resources exploited by mankind provide energy and materials.**

By expending their own physical and mental energy, humans extract energy and materials from solar radiation, flora, arable land, fauna, subsoil resources, wind, and water. All living beings must consume natural resources ceaselessly in order to stay alive and, in the case of mankind, to transform their conditions of life.

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[56] But as early as its first edition in 1975, there is an entry “Marchandisage”… which refers to “Merchandising — Adjustment of the characteristics of a product for marketing purposes.”

[57] [2]A sense of the word “economy” that conforms to what a definition is in the logic of finite sets. This conformity is indispensable to fixing what economic science has, as its own, to treat and economic policy, as its own, to manage – and thus what political economy has, in life in society, as its own to study and to guide.

3. **In the museum of natural resources, famous in the history of economic thought, one finds among others air, water, diamonds, and gold.**

Air is there because it is free, in ordinary circumstances, while its usefulness is vital. Drinking water and diamonds are found there because of the lower cost of water, whereas its usefulness is vital and that of diamonds as an ornament is not. Gold is there because of its monetary use as a standard for all other economic exchange values. None of this, however, makes air, water, diamonds, or gold a commodity in themselves.

4. **New human labor means a new expenditure of human energy.**

In everyday life, work is opposed to leisure. It's inevitable. However, this should not be deceived. Leisure activities also require labor, as an expenditure of energy and exposure to fatigue for those who engage in them. And even sleeping, that's labor! Often the result of leisure activities is not only the pleasure they provide. Services and goods are produced there, without entering the economic circuit as long as they are not put on sale, given away or stolen.

2.8 None of the three elementary means of production is a commodity.

Labor as an expenditure of human energy is not a commodity, as already stated above.

1. **X has two loaves of bread and one piece of knowledge; Y lacks bread and does not possess this knowledge.**

X offers Y, or Y asks X, for one of the two loaves of bread and knowledge. The other party agrees. Whether the bread is sold or given by X to Y will not change the fact that the ownership of this bread will pass from X to Y. But what about knowledge? The knowledge that X has transmitted to Y **will remain in the possession** of X and Y will have the ability to transmit it to Z without being able or having to renounce its possession.

2. **Knowledge is not in itself a commodity.**

Knowledge is not in itself a commodity because merely possessing it never suffices to make it an object of commerce. New labor must always be added — if only to find a buyer or a recipient, and then, very often, to be in a position to deliver the agreed-upon thing. Consider a person whose body of knowledge and art of drawing from it particularly clear and convincing presentations are extensive. Such a person can derive income from their knowledge and talent only by publishing, teaching, or advising — all activities that require new labor on their part.

3. **A candle offered for sale or given away is an economical object.**

From Joseph E. Stiglitz, in *Another World*[58]

> *"... Because knowledge is what economists call a 'public good': potentially, everyone can benefit from it. [...] Thomas Jefferson, the third president of the United States, said it much more poetically when he likened knowledge to a candle: when it lights another, its light does not dim*[59]*.*

[58] Fayard, 2006.
[59] Pages 160 and 161.

While a candle offered for sale or given away is an economic object, knowledge is not in itself an economic object because of the difference indicated above, in 1.

4. **A natural resource is not in itself a commodity.**[60]

As if to know, a natural resource is never enough to be able to make it an object of trade. Even if it is only necessary to gather or fish and then to put on sale or to give away, it is still necessary to have the new labor of gathering or fishing and then offering for sale or transferring. Etc.

5. **In other words, a village located in the only place that allows you to admire an exceptional natural landscape.**

Its inhabitants realize that they could derive substantial income from this gift that nature has given them. At the end of a Homeric legal battle with the supervisory authorities of their commune, they obtained permission to install and put into service tolls at the entrances to their village. After several years during which it was necessary to amortize on the one hand the bills of the lawyers who won the legal battle, and on the other hand the investment required by the installation of the toll booths, their joint venture became profitable. The exceptional landscape proved to be a natural resource which, like any other natural resource, was not in itself sufficient to make it an object of trade.

6. **Should we therefore consider that all natural resources are a public good?**

In truth, no natural resource is in itself an economic object, like all knowledge. Declarations and negotiations on the economic objects constituting private and public assets must take this truth into account, otherwise they are tainted by two untruths: not only is no elementary means of production in itself an economic object, but also there are economic assets only made up of economic objects, that is, things that have an economic exchange value.[61]

2.9 A commodity is a supply that has been offered for sale and has not yet found a buyer.

Services exchanged for labor income are economic supplies, as are savings placement services exchanged for their remuneration.

1. **A supply that can be sold but is not offered for sale is not a commodity.**

And a supply which, after being put up for sale, has found a buyer is no **longer** a commodity. There is, however, one notable exception: when the purchase is made by an enterprise in order to make all or part of it for resale.

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[60] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 187: natural resources become economic goods only through the labor that makes them usable; and p. 39: the triad of capital, labor and natural resources as factors of production may stem from a confusion of concepts.

[61] See more on natural resources in the glossary.

2. **Haggling is systematic where always asking the seller for a discount, even if it means postponing the purchase until it is obtained, has either become part of the way of life or has remained commonplace.**

The propensity for bargaining[62] is fueled by the accreditation of two **arbitrary and illiberal precepts** (see below), held in subjective political economy to be inherent in the practice of economic exchanges: 1) the aim of non-cooperative private enterprise is, it is claimed, to generate the maximization of profit[63] ; 2) The law of supply and demand mainly or exclusively regulates the price of all commodities, including in the first place the price of labor in exchange for its remuneration, it is assured.

3. **These two precepts and the pseudo-definitions of economics stir up unlimited commodification.**

The word "commodification," which appeared in the French vocabulary according to Le Robert in 1978, tends to be used in the same sense as "commercialization," as in preparation for the sale of natural organs of the human body and surrogacy, among other dangerous extensions of the catalog of economic objects.

2.10 Any supply that is a commodity has five properties.

The services of the savings placement exchanged for their remuneration are economic supplies, just as are the services exchanged for labor income.

1. **A commodity is a supply that has the following properties:**
   1) to be the product of an expenditure of human energy
   2) always include the provision of at least one service
   3) to have a utility other than being an instrument of exchange
   4) not being an elementary means of production
   5) to have been put up for sale and not yet to have found a buyer.

2. **The following are excluded from the set of commodities:**
   1) Labor as an expenditure of human energy;
   2) Money that are legal tender;
   3) Knowledge;
   4) Natural resources.

3. **There is no so-called "knowledge economy".**

The expression "knowledge economy" is unfortunate as knowledge itself is not an economic object. The dynamic it describes is, in strict economic terms, simply an increase in the proportion of commodities whose production, marketing, and use require previously non-existent skills. This observation is also valid for robotization, that also applies to robotization, despite speculative proposals like paying wages to robots.

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[62] A word one of whose senses is : an illegal contract by which a sub-contractor undertakes to have work carried out by a labor force recruited for the purpose, without supplying materials.

[63] A cooperative managed so as to generate the maximum of rebates to distribute to its members adopts this aim *ipso facto*.

4. **Health, life, education and justice are priceless, in the economic sense of the word.**

In principle, they are not **commodities at any time**. And yet they have, oh how much, their respective uses!

However, priests, presidents, professors, policemen, notaries, ministers, soldiers, doctors, mayors, magistrates, nurses, bailiffs, guards, educators, deputies, councillors, lawyers – except in cases where they carry out their duties **without** being paid – are nevertheless **all merchants,** sellers of their services in exchange for a wage, even though it is said of the latter that it constitutes emoluments, fees, wage, pay, etc. When this is understood, it is easier to arrive at a single "social regime".

5. **The economy, improperly called "health" economics, involves the provision of care by means of economic exchanges and economic transfers.**

The concept of "health economics" frequently leads to conceptual errors within the medical profession. One such bias is the persistent use of the term "patient" for an individual who functions economically as a client. From a strictly economic perspective and, excluding charitable care provided in keeping with the Hippocratic Oath, medical services are commodities. Their price is a market reality, and the role of insurance is not to artificially distort this value

2.11 Commodities are exchanged exclusively against other commodities, most often through the intermediation of money.

1. **In Chapter 1, the second proposition sets out the object of political economy: economic exchanges of services or goods.**

In the same chapter, the fourth proposition lays down the convention of the object of the Objective Political Economy.

2. **It goes without saying that a service rendered must itself be a commodity in order to be the end of a commodity exchange.**

It is by conventions of designation that commodities are ultimately exchanged only for commodities. But since these conventions take into account indisputable realities, it is certainly true that commodities are ultimately exchanged only for commodities.

3. **This truth establishes three others.**

These other truths relate to subsidies (4 below), primary commodities (5 below), supply and demand (6 to 8 below).

4. **Subsidies transfer purchasing power that in one way or another comes from the sale of commodities.**

In other words, for there to be purchases, there must first have been sales. Or, with "demand" for "purchases" and "supply" for sales, for there to be demand, there must first have been supply. More precisely, for there to be a demand for finished products, there must first have been the supply of the primary commodity, that is to say, that of jobs in exchange for wages[64]. Even more precisely, for there to be more demand for finished products, there

[64] See 3.1 : enterprises create outlets.

must first and foremost be more job offers that provide purchasing power that is itself on the rise.

5. **The lasting increase in the volume and quality of market trade depends on the sustainable increase in the volume and quality of trade in the primary commodity.**

There is only real economic growth when there are at least as many new jobs as there are disappearances **and** when the purchasing power of wages increases. What is the most appropriate way to achieve this? The relevance of an economic theory and policy depends very much on the answer they give to this question.

6. **The parties involved in economic exchanges are both bidders and demanders.**

This is totally and immediately obvious in the case of barter. This remains true when one of the two terms of economic exchange is a quantity of money. In the latter case, for one of the two parties, the supply consists of a commodity and the demand of a quantity of money. For the other part, it is the opposite: supply is made up of a quantity of money and demand is made up of a commodity.

7. **In the case of the employer and the wage-earner, who is the provider and who is the requester?**

The employer is a requester of a service and a wage provider. The wage-earner is asking for a wage and offering a service. Since usage emphasizes more the wage than its counterpart, it is agreed that the provider is the employer and the applicant is the wage-earner or the job seeker. In reality, both are suppliers and demanders, one of a commodity, the other of its payment.

8. **In many economic discourses, "supply" means "production" and "demand" means "consumption".**

By virtue of these meanings, some consider that supply is the generator of economic exchanges. Others say it's the demand. The question is to know how and where the exchange of commodities for commodities is constantly restarted. Ambivalent notions of supply and demand do not provide the best answer with certainty because they are ambivalent.

2.12 The commodity root taxonomy consists of two subtypes: elementary commodities and composite commodities.

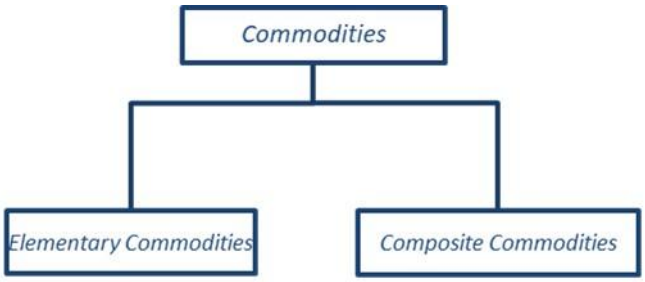

Figure 5 - Top level ontology of commodities

1. **On the next section, proposition 2.13 defines the subtype of elementary commodities as an extension.**

Proposition 2.14 defines the subtype of composite commodities in terms of intention.

2. **A commodity is either elementary or composite.**

By distinguishing between elementary and composite commodities, the set of commodities is completely partitioned into two subtypes. This is a first step in establishing the ontology of commodities.

2.13 There are two kinds of elementary commodities, one supplied by the workers, the other by savers.

In other words, an elementary commodity is either a primary commodity or a savings placement.

1. **The primary commodity is one of the two kinds of elementary commodity.**

The primary commodity consists **only** of the services exchanged by the workers for wages. This last specification, "against wages", is however only quite true when the economic concept of wage is taken from the legal framework where it is amputated by the criterion of the relationship of subordination[65]. **All the names given to the remuneration of labor are wages, economically speaking.** Wages, attendance fees, freelancing in some cases are, among other things, wages. Freelancing in other cases and the fees of the liberal professions are revenues. A doctor, a lawyer, an architect, etc., allocates part of this revenue to the remuneration of his labor, i.e. to his wage and, if applicable, to those of his wage-earners. The employer of a "self-employed" worker is his or her enterprise.

2. **On the economic scene, actors frequently play several roles.[66]**

In the past, distinguishing the landowning class from the capitalists and the working class was in accordance with social reality. Since then, assigning these **roles** to categories of the population has appeared to be less and less in line with the facts. Wage-earners Workers are also employers of domestic staff. Their role as employers is nevertheless distinct from their role as wage-earners. workers are also shareholders. Their role as shareholders is nevertheless distinct from their role as wage-earners, as well as from their role as customers of enterprises and taxpayers.

3. **In economic analysis, it is better not to consider that every set aside constitutes "savings".**

Layaways made by an individual and an enterprise are only apparently comparable to each other. A household's hoarding is savings, but they do not invest.

4. **In the first approach, let's only call savings those of these layaways that are made by individuals.**

When an individual invests in exchange for interest or profits, it is in his role as a saver that he becomes a supplier of one of the two kinds of elementary commodity. If we look more

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[65] The subordination link is an extra-economic criterion because, in all commercial exchanges—including that between an employer and an employee—the contract is synallagmatic. This means it entails reciprocal obligations and, consequently, a state of mutual subordination in both law and fact..

[66] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 183: one and the same person may be both wage-earner and capitalist; the categories designate capacities, not persons.

closely, we will note in the rest of the previous chapter the existence of a different category of savers than individuals[67].

5. **The initial creators of economic wealth, i.e. of economic exchange value, are individuals.**

Of course, organizations, including enterprises, are essential means of this creation. But it is the industrious abilities of a population that are first and foremost at the origin of its prosperity, which does not prevent many bosses from affirming that enterprises are the only creators of economic wealth — propaganda, when you hold us.

2.14 Every composite commodity is produced by means of the purchase of several other commodities, one of which is usually the labor supplied by at least one individual.

Using the terminological conventions laid down above, we can just as easily say: every composite commodity is produced by means of the purchase of several commodities, one of which is generally the primary commodity, always exchanged in exchange for wages.[68]

This observation is, of course, to be compared with the already made and more general observation that commodities are exchanged for commodities.

6. **Contributions in kind and in industry to a commercial company, new or already constituted, are the creation of commodities.**

This commodity[69], exchanged for a fraction of the ownership and earnings of the enterprise, enters into (participates in) the composition of the commodity sold by the enterprise.

7. **Example of civil servants**

Françoise and François sell a portion of the harvest from a garden they cultivate. In doing so, they create composite commodities and, whether they recognize it or not, an enterprise that will endure as long as they continue to sell that share of their product of labor. The additional income this generates is a creation of economic exchange value. The part of the harvest they consume or give away does not enter the circuit of economic exchanges. In an Objective Political Economy, it need not be included in an economic aggregate; in a sprawling economy, by contrast, it finds its place alongside monetary evaluations of the same kind.

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[67] This other category does **not** include enterprises, **all** financial institutions included.

[68] This proposition echoes the title of Sraffa's book, *Production of Commodities by Means of Commodities* (1960). Both conceptions are circular: commodities are produced by means of commodities, in contrast with what Sraffa calls the "one-way avenue that leads from 'Factors of production' to 'Consumption goods'" of modern theory (Appendix D). The two conceptions place the circularity at different levels. In Sraffa, it is a technical interdependence between industries, recorded in physical quantities of means of production used up. In the Objective Political Economy, it runs through purchases, that is through economic exchanges recorded in the accounts of enterprises, and it includes the two elementary commodities: the primary commodity and placements (Proposition 2.13). Fabra locates the weak point of Sraffa's analysis exactly there: it does not show how price and profit interrelate with exchange (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 335). See the appendix Objective Political Economy and Sraffa.

[69] Apports en nature : biens corporels (terrain, immeuble, machine, etc.) et incorporels (brevet, créances, clientèle, etc.). Apports en industrie : ceux d'une activité professionnelle que l'apporteur a déjà exercée.

8. **This poses a fundamental political and ethical problem.**

Do we want to push the economy to become as defined or as sprawling as it is possible to make it?

2.15 Enterprises sell only composite commodities.

1. **A movable or immovable property offered for sale by the individual who owns it is a composite commodities.**

Enterprises legally established as such do not have the exclusive right to sell composite commodities. This is in no way incompatible with the fact that all enterprises, including those that are usually not declared as enterprises – in particular because they only last for the duration of a single transaction – only sell composite commodities.

2. **The set of commodities is only defined if all the enterprises are defined.**

In objective political economy definitions must conform to what a definition is in finite set logic. If this is not the case, political economy, as objective as its architects apply themselves to making it, is more vague than what is in reality specific to the practice of economic exchanges. Hence, here, the next chapter on the enterprise, with in mind a definition of the object called "enterprise" that is not yet common.

3. **On this economic point as for several others, the public administration which by necessity is as close as possible to the real market is that of taxes.**

To achieve this, this administration uses the "de facto enterprise" categorization. For example, a tax inspector will readily consider that a private individual who regularly sells vegetables to his neighbours that he grows in his garden has set up and operates an enterprise.

4. **It happens that the same supply is either an elementary commodity or a composite commodity.**

It depends on the provider. If it is an individual who asks only for wages in exchange, the service he sells is elementary commodity. If it is an enterprise, the service it buys is composite commodities. For example, if I employ a person who cleans the windows of my home, I buy elementary commodities; On the other hand, if the same service is provided to me by a cleaning enterprise, I buy composite commodities.

5. **Like all other enterprises, financial institutions only sell composite commodities.**

Or a borrower who can be loaned a sum of money against interest by an individual or by a financial institution or another kind of enterprise. If the borrower chooses to contract with the individual, he is buying a basic commodity. If he chooses the enterprise, he buys a composite commodity.

2.16 Only private individuals sell both kinds of elementary commodities.

1. **The primary commodity is one of the two kinds of elementary commodity.**

The primary commodity is the service of the work provided, in exchange for its remuneration, by an individual. **Only private individuals sell the primary commodity.**

2. **The other basic commodity is the savings placement in return for its remuneration.**

Many individuals provide this service, but they are not the only ones. Non-commercial associations, including foundations, are doing the same. That is why the whole of the suppliers of both kinds of elementary commodities includes only private individuals.

2.17 Only individuals and non-commercial associations have income and save.

The arguments below are common to those in Proposition 8.1 below: Let us call the sum of the total placement income and the total labor income the total income.

1. **Let us call income only the counterpart of the exchange of an elementary commodity.**

The elementary commodity is a service either of labor or of the placements of savings. When this commodity is the service of labor, its counterpart is labor income, generically called wages. When it is the service of placement, its counterpart is income from savings. Interest or profits constitute this second kind of income.

The distinction between income and transfer is necessary for a compelling reason. The flow of donations, made up largely of those who are forced by means of taxes and compulsory contributions, comes from **levies** on the income itself. The term "transfer income" is contradictory because in the economy of a household a product, in the sense of that word in accounting, is always either an income obtained in exchange for the provision of a service or a subsidy.

2. **Labor income is only received by individuals.**

Treating an enterprise's sales proceeds or tax receipts as income obscures what is specific and fundamental about personal income. The same is true of calling a benefit received by an individual a (transfer) income

3. **Only individuals and non-commercial associations save.**

To equate the reserves built up by enterprises with "savings" makes us lose sight of what is specific and essential about the savings of individuals and non-commercial associations.

4. **Only individuals and non-commercial associations receive income from savings.**

Individuals and non-commercial associations sell the placements of their savings. This sale is that of an elementary commodity. The revenue of enterprises comes from the sale of composite commodities; to say that these figures are the income of enterprises blurs the perception of economic reality. Tax revenues are imposed transfers and not counterparts of economic exchanges; to say that these revenues are the income of the civil service blurs the perception of economic reality.

5. **A key reality is related to income.**

The economy exists for individuals and their non-commercial associations and by them, first and last resort – by and for individuals and families. The attribution of the prerogatives of suppliers of basic commodities to other organizations, including enterprises, elementary commodities contradicts reality. Reason must reject these attributions all the more because their political undertones are very clumsy.

2.18 The set of elementary commodities that are placements consists of two subtypes whose counterparts are interest and profit, respectively.

1. **Let's look at two cases of a placement by an individual or a non-commercial association X.**

In the first case, X lends a sum of money or some other kind of object in return for the commitment made by borrower Y to return the loan to X on the agreed maturity. In the second case: X brings to enterprise Y a sum of money or some other kind of object which gives it either partial or total ownership of enterprise Y or only the status of member (cooperatives). In both cases, X remains the owner of what he has invested.

2. **In both cases, the service provided by X to Y is the end of a economic exchange only if Y provides X with the remuneration constituting the other term.**

The service provided by X to Y is not the end of a economic exchange between X and Y when the following happens. Y considers it normal that the remuneration for the service provided by X should come at the time of the liquidation of his placement to Z. To make the exchange between X and Z a **substitute** for the exchange between X and Y constitutes an infringement of exchange capitalism, in other words of Yield Capitalism, as distinct from capital gain capitalism.

3. **In the case of a loan, the placement is temporary and subject to a commitment that the borrower will return the loaned item.**[70]

In the second case, the placement is permanent, with no commitment to return at a predetermined term. To speak of loan and **credit** in the first case and of capital or equity contribution in the second case seems to be the vocabulary convention most spontaneously used to account for this difference. Let us stick to this convention, even if it means supplementing it if the need arises.

4. **A placement in the permanent financing of an enterprise is therefore the end of an economic exchange only if the distributions of all or part of the enterprise's earnings remunerate it.**

We will agree more before we call **these** distributions profits. At the same time, we will resume the custom of talking about its return on an interest-bearing yield.

2.19 There are two kinds of composite commodities: scarce commodities and industrial commodities.

1. **Composite commodities can be reproduced at will by human industry, while others are not.**

This observation was introduced into economic theory by David Ricardo (17721823), in the first paragraphs of the first chapter *On the Principles of Political Economy and Taxation*[71]. Neoclassical (marginalist) political economy ignores this observation, which there is no

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[70] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 167: in a loan, the borrower sells a claim on himself, which the lender buys with the money lent; and p. 77, note 21: a bank deposit is likewise the purchase of a claim repayable on demand.

[71] First edition in 1817, third and last during its author's lifetime in 1821

doubt is so fundamental in Ricardo's work **and in the facts** that its proponents go too quickly when they consider themselves to be continuators of this work. Logically, and because of the observation very explicitly introduced by Ricardo, see quote below, neoclassical theorization is in contradiction with classical political economy, Ricardo's version[72].

2. **Ricardo provides an exemplary model for deriving economic scarcity from the wider notion of scarcity.**

From the fourth to the sixth paragraph of section 1 of his chapter 1, *On Value,* of *On The Principles of Political Economy, and Taxation*, Ricardo wrote: [73]

> *There are some commodities, the value of which is determined by their scarcity alone. No labor can increase the quantity of such commodities, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labor originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.*
>
> *These commodities, however, form a very small part of the mass of commodities who are daily exchanged on the market. By far the greatest part of those commodities which are the objects of desire, are procured by labor; and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labor necessary to obtain them.*
>
> *In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.*

3. **A commodity is economically scarce only when it cannot be produced permanently or temporarily by human industry.**

Land and real estate, as soon as they are put up for sale and expropriated for which the public authorities compensate, constitute a scarce commodity whose social importance and economic benefits are considerable.

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[72] The observation on scarcity introduced by Ricardo played such a great role that the verbatim of this introduction appears twice in this site.

[73] n the final edition published during Ricardo's lifetime, Chapter 1 contains 7 sections. Section 1 itself comprises 21 paragraphs. It is therefore at the very beginning of his Principles of Political Economy that he placed his observation on scarcity, which has played a major role since time immemorial through the syllogism—as famous as it is logically untenable: since what is rare is dear (expensive), dearness (high price) proceeds from scarcity.

Other resources that cause economic scarcity include fossil minerals and fuels. Their farms create and maintain **windfalls** at the expense of buyers: who nowadays has never heard of oil rents?[74]

4. **In the light of the foregoing considerations, we agree to say that composite commodities, of which no industry can increase the quantity they form, the subtype of scarce commodities.**

Symmetrically, we agree to say that the composite commodities which are produced or duplicated in series by human industry form the subtype of industrial commodities.

5. **Almost all collectibles become, when they are put up for sale, scarce commodities.**

While the sole or main determinant of the price of a scarce commodity is the process of selling to the highest bidder or the quickest acceptor, the effective prices of commodities of such a nature as to be reproducible at will are brought back to their sufficient levels, under several conditions which are set out in the following (Chapter 11, in particular).[75]

6. **Price theories are articulated as if only scarce commodities existed.**[76]

Within the commodity ontology there is a subtype of elementary commodities and a subtype of composite commodities. Within the composite commodities set there is a small subtype of scarce commodities and a very large subtype of industrial commodities. Ignoring this ontology of commodities pave the way to make scarcity the *deus ex machina* of the economic system — see textbooks for secondary and higher education in "economics" "See secondary and higher education textbooks in 'Economic Sciences' that intone this refrain from their very first pages and return to it incessantly.

2.20 Some industrial commodities are mass-produced and others are serial-duplicated.

Industrial commodities: composite commodities that human industry can produce without any assignable limit as long as it gives itself the means to do so.

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[74]The rent earned by a household from its investments and the oil rent—or formerly the land rent received by large agricultural landowners—have only one thing in common: they are still referred to by the same word. This is unfortunate. In the rent drawn from letting out a property, there is no capital gain. In the rent that an individual derives from investing their savings, a capital gain does not necessarily enter into it. In the case of oil rent, as in other rents generated by economic scarcity, what it contains is primarily or exclusively capital gain. One way to distinguish these two kinds of rent is to speak of the “oil windfall / stock-market windfall / real-estate windfall / gold-price windfall / etc.” so that *rent* becomes more narrowly associated again with another noun derived from it: rate of return.

[75] Sraffa restricts his price equations to commodities produced, and reproduced, by means of commodities: Ricardo’s restriction to commodities that human industry can multiply at will. Land and other natural resources enter his system as non-produced means of production; they have no production equation and receive a rent that the system determines (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. XI). This agrees with Proposition 2.8 (a natural resource is not in itself a commodity) and with the present proposition. The taxonomy of the Objective Political Economy contains, in addition, the subtype of scarce commodities, whose price the sale to the highest bidder determines; Sraffa’s system has no counterpart to it. See the appendix Objective Political Economy and Sraffa.

[76] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 232: for Ricardo, scarce goods were the exception; the marginalist school made the exception the rule. On pp. 315–316, Fabra describes marginalism as a misinterpreted extension of the Ricardian theory of rent.

1. **The production of ten thousand identical cars or computers requires, after the studies and tests that led to the development of the model, ten thousand assemblies of the same object.**

Automobiles and computers are mass-produced. On the other hand, the production of ten thousand copies of the same software package requires assembling a duly tested copy and then having it copied ten thousand times. Similarly, the production of ten thousand copies of a book requires a set of proofs to be drawn up and then ten thousand copies to be printed and bound. Software packages and books are duplicated in series.

2. **The sale of mass-produced industrial commodities transfers a right of ownership that the seller renounces.**

This is also the case for the sale of certain mass-produced duplicated commodities. But for others, the right transferred is strictly limited to the use of the product. To illustrate this point, let's compare what the rights of the buyer of a book are and the rights of the buyer of a software package.

- The buyer of a book on paper does not have the right to make a complete copy of it, but he has the right to resell the book.
- The ultimate purchaser of a software package generally has the right to make copies of the package for its own use only (backups), but not the right to resell the copy it has purchased or a copy of that copy.

3. **For an industrial product that is duplicated in series, the notoriety that the most influential prescribers give it often plays a more important economic role than for a mass-produced industrial product.**

Let us compare, for example, what happens in the case of software packages and books on the one hand, and computers and furniture on the other. For software and books, the quantity sold is highly dependent on the appreciation of the most influential prescribers. Their price, as long as it remains below the level considered excessive by these prescribers, often has only a marginal effect on the quantity sold.

2.21 The taxonomy of commodities consists of six concrete sub-types.

In each of the categories noted below 1) to 6), how are the prices formed? Do the prices of all commodities, whatever their category, have the same determinant?

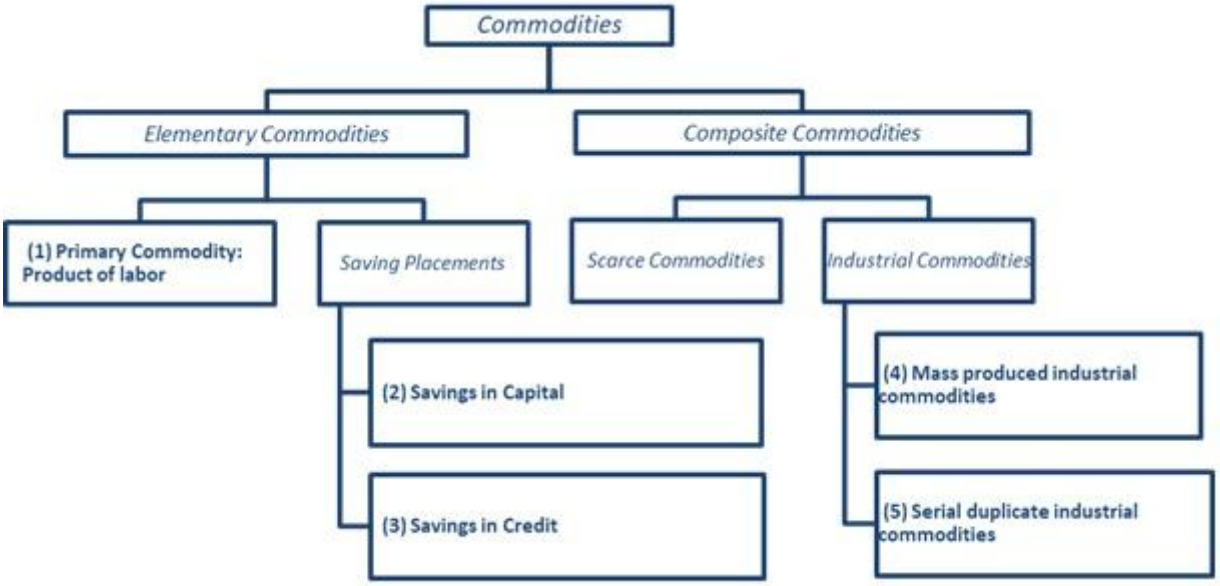

Figure 6 - Commodity ontological taxonomy

1. **Primary commodity: product of labor for Wage**[77]
2. **Placement of savings in Capital**[78]
3. **Placement of savings in Credit**[79]
4. **Scarce commodities**[80]
5. **Mass-produced industrial commodities**[81]
6. **Serially duplicated industrial commodities**[82]

2.22 The categories of economic exchange are the same as the categories of commodities.

1. **Three economic classifications are identical.**

The **nomenclature of commodities** is the same as the **nomenclature of commodity exchange** and the **nomenclature of prices**, when the latter word designates the values of economic exchange.

77 Product of labor as defined in proposition 2.13.

78 "In capital", that is, in the form of permanent financing of an enterprise. This can apply either to an enterprise being created or to one being transformed so that it is no longer indebted. To achieve this, it is essential that its financing (that is, the liabilities side of its balance sheet) consist chronically of nothing but capital, with no credit whatsoever (loans, leasing, or trade credit), and likewise no factoring on the assets side of its balance sheet.

79 In credit, that is, in repayable deposits remunerated by interest rather than by distribution of earnings. Bonds are placements in credit. Trainers, bankers, and journalists enamored with "modern finance" tend to claim that credit is merely a form of capital, and vice versa—this conflation exposes the economy to numerous crises.

80 Proposition 2.19.

81 Proposition 2.20, argument 2.

82 Proposition 2.20, argument 1.

2. **One of the differences between capital (standing advance) and credit (temporary advance) is that only the former is essential financing for the creation and operation of an enterprise.**

This is why a price theory that does not have in its elements a theory of the normal rate of return on placements in capital is defective. The provision of the financing essential to the creation and operation of an enterprise is part of the general scheme of economic exchange. This is particularly evident in the case of commercial companies which, by their articles of association, make it their rule: to you, the providers of my permanent financing, the remuneration of your service by a share of my earnings. The rule to which credit institutions adhere is just as logical and necessary: to you, my customers, the repayable advances that I provide you, to me the interest with which you remunerate my service.[83]

2.23 Whether a single determinant governs all prices is a question resolved through the categorical analysis of commodities.

This crucial point of method is mentioned in Chapter 1.

1. **Is the main determinant of any economic exchange value, or price, always the same?**

To detect this, a method is necessary: throughout an investigation of the formation of prices of each homogeneous category of commodities, postulate that this is not the case, even if it means having to conclude that the formation of all prices is the same determinant.

2. **If all prices have in common that they are only exchange values, then there are no other primordial realities to be retained in the economic theory of value than those described in this chapter.**

The primary and elementary commodities are provided by the worker in exchange for remuneration for his or her service. The other basic commodity is provided by the saver in exchange for the remuneration for his or her service. The prosperity and quality of life of a population and of each of its individuals depend very much on the quantity and quality of the labor and savings placements of its members.

3. **The labor of human beings is the general fact to which it seems most realistic, the most objective and the most necessary to associate money, and more broadly with economic life.**

In many words and behaviors, money is not associated with human's labor or is very weakly associated. Every sum of money is nevertheless a purchasing power which is the product of the old and new labor of humans. There is nothing ideological about it, in the pejorative sense of this adjective.

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[83] By this criterion, Sraffa's price theory is open. Once the wage is added as a variable, his system has one more unknown than it has equations and moves with one degree of freedom (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, §12). Sraffa closes it by taking the rate of profits as given from outside the system of production (§44) and offers no theory of its normal level. The Objective Political Economy supplies this element: a published national average rate of profit on capital, the NARP (Propositions 6.8 and 10.3), sufficient for full employment through the EPCE relation (chapter 7). See also Proposition 8.4. See the appendix Objective Political Economy and Sraffa.

4. **Which economic mentality best provides for the improvement of the quality of life?**

Is it the one that puts the most emphasis on the subjective, or objective, determinants of economic exchange values? Which option favors both seriousness in the management of public affairs and the longevity and other qualities of manufactured products? Would the political skepticism of the electorate be what it has become if the current answers to the two previous questions were different from what they are?

2.24 Differentiating prices from costs answers a necessity.[84]

1. **"Price" for the exchange value requested or accepted by a seller, "cost" for the exchange value offered or accepted by a buyer.**

An exchange value accepted by a seller is, for that seller, revenue, in the accounting sense of the word. An exchange value accepted by a buyer is, for that buyer, an expense, in the accounting sense of the word, with one exception: the remuneration of a placement in capital, which the enterprise settles by an allocation of its earnings (Proposition 6.3).

2. **The vocabulary of accountants and management controllers frequently uses the distinction between price and cost.**

The same is true in everyday life. Sellers' prices are, once the exchange is concluded, costs for buyers.

3. **Using the words price and "cost" as just said is not only convenient.**

Some speak of the "cost of capital", but refuse or are reluctant to speak of the "price of capital". Others admit that a rate of profit distributed over capital is a price, but refuse or are reluctant to speak of the "cost of capital."

The reality of economic exchanges means that every price is, for the co-exchanger, a cost. Since the exchange value of every commodity is a price and a cost, every remuneration of labor and of placement in capital is a price and a cost. In this sense, cost names the exchange value borne by the buyer, and expense names its accounting recognition. The two coincide for every purchase except the placement in capital, whose cost the enterprise bears out of its earnings.

4. **Starting from the observation that the prices of composite commodities tend to be sums of costs begins an explanation.**

The level of dearness of these commodities, often produced in large series, is not arbitrary. But what are the determinants of the remuneration of savers and workers? In order for the explanation to take shape, it must include two elucidations, one on the formation of the prices of the elementary and primary commodity that is the service of labor in exchange for its remuneration, the other on the formation of the prices of the service of placements in capital.

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[84] The remuneration of a placement in capital is a cost for the enterprise, never an expense; on this point and on the cost of capital in corporate finance, see the appendix *Cost of capital, CAPEX and OPEX*, Statements 1 and 2 and section 4.

5. The formation of the price of capital comes first: the cost of capital enters into the formation of the price of labor.

First of all, the elucidation of the formation of the price of labor, or first of all the elucidation of the formation of the price of capital? Does the cost of capital play a role in the formation of the price of labor? Or is it on the contrary in the formation of the price of capital that the cost of labor intervenes?

Every elementary exchange is oriented. The saver and the worker each sell a service; the enterprise buys both (Proposition 3.1). The remuneration of a placement in capital is a price for the saver and a cost for the enterprise; the remuneration of labor is a price for the worker and a cost for the enterprise. Three established facts fix the order of elucidation.

First, placement in capital is the only financing indispensable to the creation and operation of an enterprise (Proposition 2.22, argument 2; Proposition 5.5). An enterprise buys labor once it exists, and it exists through a prior placement in capital.

Second, the national stock of capital governs the stock of employment, and the average rate of profit on capital governs the variation of that stock (Propositions 7.2 to 7.6, EPCE feedback). The price of capital thus governs the quantity of labor bought.

Third, at the macronomic scale, total placement income is formed first, at a sufficient level, and total labor income is the remainder: TLI = TI – TPI, with TPI = ROP × PS (Propositions 8.3, 8.4 and 8.10). Hourly wage differentials then regulate the distribution of this remainder among wage-earners (Proposition 9.6).

The relation runs in one direction: the sufficient level of the national average rate of profit varies with the state of employment (Proposition 7.8), independently of the cost of labor. This order is macronomic. At the mesonomic scale, the earnings and profits of a given enterprise leave the wages of its staff free to rise (Proposition 8.4, argument 5); at the micronomic scale, the truly complete cost price of a composite commodity incorporates both costs (Chapter 11). For this reason, Chapters 5 to 7 (capital, profit, employment) precede Chapters 8 and 9 (distribution, wages).

Chapter 3 – The Enterprise

The effects of the dominant conception of the enterprise (enterprises exist for profit) resonate incessantly. Yet the objective raisons d'être of this organ and its other main specificities are still too often passed over in silence. A few observations establish that this repression is neither desirable nor inevitable:

- The enterprise is the only entity that exists only for the practice of economic exchanges.
- Enterprises are not inevitably enslaved to a maximum to the advantage of their owners or managers. Maximum profit and maximum capital gain are not part of the standards that the market economy obliges enterprises to respect. The goal of maximization of profit is useless and dangerous; to consider it an imperative is illiberal; the alternative of maximum capital gain is even more questionable. The "social refoundation" without a refoundation of the doctrine of profit comes up against an impossibility.
- Entrepreneurs have economic responsibilities that are all social.
- Enterprises are not taxpayers in their own rights (3.5).
- Enterprises have two other specificities (3.6, 3.7).

3.1 The enterprise is the only entity which exists exclusively to engage in economic exchanges.

We may equally say: the enterprise is the only entity whose raison d'être is economic exchanges.

1. **This proposition is a definition in the vocabulary of economics, in the type-theoretic sense of SysFEAT.**

The definition of the type of enterprises, by a property that every enterprise has and that enterprises alone have, applies to any enterprise regardless of the following characteristics, each of which partitions the type into subtypes:

- its legal status ;
- its duration of existence ;
- its sectoral affiliation: agricultural, artisanal, financial, industrial, liberal, among others;
- its ownership, private or public or mixed;
- its registration or non-registration as an enterprise.

Since a definition is also a vocabulary convention[85], let us reserve, in economics, the unqualified term "enterprise" for the commercial enterprise, whose other main specificities are reviewed in the rest of the chapter.

[85] Definition, designation | In SysFEAT, a definition introduces a type by the property that characterizes its terms. It is stated in dependent type theory and written in Agda, where it binds an identifier to that type. The identifier is the designation: renaming it leaves the definition unchanged, so the choice of a name is a convention, and several terms may suit equally well. The choice still matters: in this corpus, designations are

2. Not all human enterprises are commercial.

Families do not exist solely for the practice of economic exchanges. Human beings engage in other kinds of exchange. Their enterprises are far from all being commercial. States do not exist solely for the practice of economic exchanges.

3. The state cannot be treated as an enterprise.

Economic exchange is not the raison d'être of the state (preceding argument). The state buys labor, supplies and credit, but these exchanges are means to it. It does not buy placement in capital, the elementary commodity that only enterprises buy (3.7); it therefore has neither capital (5.7), nor profit, nor earnings. Its resources come mainly from the public levy, that is, from taxes and loans, and loans are repaid out of taxes. A tax is a forced transfer (1.3), which only the public authority has the power to levy[86].

It follows that the management rules of the enterprise that derive from its economic character—rate of return, profitability, earnings targets—do not apply to the state. Applying them confuses rate of return, which relates a margin to investments, with the effectiveness and efficiency of the public authority: the attainment of its objectives, and the relation of this attainment to the levies consented to.

This assimilation nonetheless remains frequent, because the specificities of the enterprise are still little recognized. The enterprises that the state owns or operates (3.1; 3.8; 4.1) fall, for their part, under the rules of the enterprise: they remain distinct from it, as every enterprise is from its owner (3.6).

4. Enterprises are crossroads of markets.

Savers make placements in it in return for income. Workers provide services in return for their wages. Other suppliers supply it. Customers buy from it what it offers for sale. Only in enterprises are there economic exchanges of these different categories.

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fixed by the French–English terminology mapping, so that enterprise and enterprise designate one and the same definition.

[86] On the state as a tax state, financed by taxes rather than by the sale of what it provides, see Joseph A. Schumpeter, Die Krise des Steuerstaates (1918), a founding text, with the work of Rudolf Goldscheid, of fiscal sociology.

French public law grounds the power to levy in the public authority (puissance publique, in the doctrine of Maurice Hauriou) and in the consent to taxation (Declaration of the Rights of Man and of the Citizen, 1789, arts. 13–14; Constitution of 1958, art. 34).

Public finance explains why the services financed in this way are not sold (Paul A. Samuelson, “The Pure Theory of Public Expenditure”, 1954;

Richard A. Musgrave, The Theory of Public Finance, 1959). The opposite thesis, that public administration should be managed like an enterprise, founds New Public Management (Christopher Hood, “A Public Management for All Seasons?”, Public Administration, 1991; David Osborne and Ted Gaebler, Reinventing Government, 1992). After three decades of such reforms, Hood and Ruth Dixon conclude that UK central government “cost a bit more and worked a bit worse” (A Government that Worked Better and Cost Less?, Oxford University Press, 2015).

Ludwig von Mises had already distinguished profit management from bureaucratic management, which economic calculation cannot check (Bureaucracy, 1944).

In France, article 30 of the LOLF (2001) aligns the State's general accounting on that of enterprises, “except by reason of the specificities of its action”, while its performance framework measures socio-economic effectiveness, quality of service and efficiency, not rate of return. Public audit expresses the same triad as economy, efficiency and effectiveness (“value for money”).

5. Enterprises create outlets.[87]

This creation is carried out through three types of offers. The first are made to savers, the second to workers, the third to customers.

These offers are indispensable to the increase of the purchasing power in circulation, whose makers are, in the last resort, savers and workers. Managers are its organizers.

Enterprises are economically indispensable because of the outlets they create and maintain.

6. Wealth extends beyond economic exchange value, and creating that value is not the preserve of enterprises.

When enterprises are said to create wealth and value, the wealth meant is market wealth, and the value is economic exchange value, joined to utility, or use value. Market wealth is a part of wealth: the tools, food and clothing that their owners produce and keep for themselves are wealth that never enters exchange (1.1). Enterprises take part in creating market wealth and its value: they buy commodities and sell composite commodities (2.14), which carry utilities. This participation makes them economically indispensable. But **the act that creates** economic exchange value is the exchange of elementary commodities, labor and placements (2.13): the wage-earner or the saver who supplies one in exchange for its remuneration creates exchange value (5.5). The population derives its income from the sale of these commodities (2.17). Enterprises are not their only buyers: households, non-commercial associations and public administrations also employ wage-earners (2.13, 9.8) and buy placements in credit when they borrow. To call enterprises the creators of wealth and value is therefore tendentious: it turns the enterprise into the deus ex machina of economic life, one of the faults of economism.

7. The morality of an enterprise lies first in the equity of its exchanges.

Economic exchange and the economic gift have a morality that is potentially as positive in the one case as in the other (1.2). Since the enterprise exists solely for economic exchanges, its morality lies first in the equity of the exchanges it practices: wages, prices, interest and profit (Part I, "Economy and justice"; 6.3). Management that fails to recognize this looks for morality outside exchange and manages exchanges as if they had none. Several current practices follow from it: – philanthropy, sponsorship and social-responsibility programs are presented as the moral part of the enterprise, while its wages, prices and dividends are judged by financial yardsticks alone: the end, a good use of the money, would justify the means (3.2); – wages are managed as a "cost of labor" to be minimized rather than as the price of an elementary commodity owed in fair exchange (chapter 9; Guideline 4); – earnings are retained and placers in capital are left to be paid by a capital gain: the placement is used

[87] The term follows Jean-Baptiste Say, Traité d'économie politique (1803), book I, chapter "Des débouchés", source of the loi des débouchés, known in English as Say's law of markets: "it is production which opens a demand for products" (C. R. Prinsep's translation, A Treatise on Political Economy, book I, chapter XV, "Of the Demand or Market for Products"). OPE restates this law in its own terms: commodities are exchanged only for other commodities (2.11), and the outlets for composite commodities open through the purchase of elementary commodities, labor (outcome) and placements, whose remuneration makes up the purchasing power in circulation (2.11; 3.1). The formula "supply creates its own demand" is not Say's but Keynes's summary of the classical position (The General Theory, 1936, ch. 2); in this corpus, supply designates the fourniture.

without being paid for (3.2; 3.7); – labels such as “fair trade” or “social and solidarity economy” stand in for selling prices close to their sufficient levels, which are fairer for customers, wage-earners and placers in capital alike (11.11; Guideline 7). Conversely, a gift is not moral by nature either: public subsidies to enterprises, sought as support, are transfers that distort the exchanges they accompany (Guideline 4).

3.2 The enterprise is not mandated by the market economy to pursue maximization of profit or capital gain as a binding standard.

This observation is one of those that today's dominant economic thought represses. What are enterprises for? The most common answer springs up: to make as much money as possible for their owners and heads! Many who see things this way consider morality preserved, provided that this money is put to good use, but without explaining why in such a matter the end would justify the means.

1. The goal of maximization of profit is useless and dangerous.

The “pope of management", the American Peter F. Drucker wrote the following about maximization of profit[88]:

> *Asked what a business is, the typical businessman is likely to answer, “An organization to make a profit.” The typical economist is likely to give the same answer. This answer is not only false, it is irrelevant.*
>
> *The prevailing economic theory of business enterprise and behavior, the maximization of profit—which is simply a complicated way of phrasing the old saw of buying cheap and selling dear—may adequately explain how Richard Sears operated. But it cannot explain how Sears Roebuck or any other business enterprise operates, nor how it should operate. The concept of profit maximization is, in fact, meaningless.*
>
> *<..> the opening pages of the chapter are reproduced in the appendix: What Is a Business?. <..>*

2. The imperative of maximization of profit is anti-liberal.[89]

Freedom of enterprise entails the free choice of lawful ends. When maximum profit is raised to the rank of an imperative, the free choice of ends is exercised less, and the exercise of freedom of enterprise is impoverished. Restrictions of competition proliferate, because they are indispensable to keep an enterprise subservient to the maximum enrichment of its owners and managers.

3. The alternative of the maximization of capital gain is even more questionable.

Consider a property owner who rents out their asset. If the tenant unilaterally decides to pay only a fraction of the agreed rent, justifying this by stating that the owner's enrichment

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[88] *Management : Tasks, Responsibilities, Practices*, first published in 1974 by William Heinemann Ltd. The quote is taken from chapter 6.

[89] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 11: the concept of profit maximization derives from that of optimum satisfaction and is characteristic of neoliberal economics.

is already ensured by rising property values, the absurdity and unacceptability of this breach of contract become self-evident.

However, this is precisely what a current of doctrine encourages commercial companies to do: limit dividends to a small fraction of earnings, or forgo them entirely. This strategy relies on using—and, wherever possible, covertly manipulating—market mechanisms to ensure that the capital gain realized upon the liquidation of the placement reaches a level that is, at a minimum, comfortable and at best, fabulous.

4. **Presenting profit as the purpose of the enterprise harms the quality of "social dialogue"**

Statements such as "The enterprise is an association for profit" (Medef, 2007) reinforce the belief that profit is the purpose of the enterprise. They define that purpose by the lure of gain, that is, by what all gains have in common: being a goal for someone, being pursued to the maximum, entailing a risk, being regarded as a reward. What holds for every gain defines none of them: such statements say nothing of what is specific to profit, namely who receives it and in exchange for what. This belief supplies arguments to the advocates of class struggle, even in its most reformist form, and of economic war, even in its most policed form. As Peter Drucker observes, the profit motive and its offspring, profit maximization, are "*in large part responsible for the prevailing belief that there is an inherent contradiction between profit and a company's ability to make a social contribution. Actually, a company can make a social contribution only if it is highly profitable*."

Profit, the distributed part of earnings, is the price of placement in capital, one of the co-producers of the enterprise: it is neither its goal nor its purpose.

5. **The distinction between "internalities" and "externalities" serves to avoid questioning marginalist axioms.**

In *The Theory of Corporate Finance* (2006, Princeton University Press), Professor Jean Tirole (Nobel Prize in Economics 2015), after recalling on page 57 "that prices reflect the scarcity of resources, that management should aim at maximizing shareholder wealth", states (same page, first paragraph of section 1.8.1): "An economist would rephrase the position of the proponents of the stakeholder society on the recommendation that management and directors internalize the externalities that their decisions impose on various groups". In other words, the maximization of "shareholder wealth" is at the forefront of internalities, but it must be tempered by taking into account the externalities that constitute the "stakeholder society".

Economists on this line say to the officers and directors of enterprises with negotiable shares, on the stock exchange or over-the-counter: take a broader view of what is at stake. In doing so, these economists implicitly recognize that the axiom of prices, always a function of scarcity, as well as the axiom of maximizing shareholder wealth, may not be objective realities that enterprises and nations can ignore with impunity because they are "internal" – inherent – to the economic system. To see scientifically where this hypothesis leads, a whole reconstruction is required, one that refuses to presuppose in particular:

1e) that there is a common determinant of all prices – while accepting that the study of price formation in each of the main categories of economic exchange leads to the finding of the existence of such a determinant –;

2e) that the economic system rules out, as regards profits, the possibility of a sufficient price for the placement of savings in shares of share capital – this is false, as can be demonstrated –;

3e) that, as regards wages, the economic system rules out finding an objective sufficiency in their national averages – as though their insufficiency held everywhere and always –;

4e) that the economic system, also as regards wages, rules out that wage gaps are keys to the distribution of total labor income – it is in truth unjust to disregard, from the stage of the theory of the price of labor, the fact that the highest wages reduce those below them – ;

5e) that the normal effect of the market economy is the maximization of placement income by compressing small and medium labor incomes – the opposite is demonstrated with the help of concepts that are admissible in the logic of finite sets: the normal tendency in a competitive economy is the maximization of small and medium labor incomes through the sufficiency of placement income;

6e) that capitalism dominated by the search for capital gain is necessarily the nec plus ultra of economic liberalism;

7e) that yield capitalism deserves the contempt in which it is held because its systemic properties are not superior to those of capitalism dominated by the search for capital gain. Peter F. Drucker, an economist by training and then a very committed actor, repeatedly declared his conviction that great progress remained to be made by daring an objectivist new beginning of basic economic theory.

3.3 An enterprise is a market, organized by a natural or legal person: the entrepreneur.

1. **The defining characteristic of the enterprise is to buy in order to sell.**

An individual who, on occasion, buys in order to sell thereby creates an enterprise, however ephemeral it may be. Whether or not the tax authorities recognize it as such does not change anything. Non-profit associations which, in addition to their main activities, buy in order to resell operate an enterprise in this capacity, as does a parish that buys candles and resells them.

2. **This defining characteristic makes the enterprise a market.**

This does not mean that every market is an enterprise. The organization and policing of a market, whether local, national or international, often falls to the public authorities, which are not required to make it an object of trade. The labor market and the placement markets are institutions of this kind because of the legislative provisions that govern them.

3. **In the market that every enterprise constitutes, economic exchanges are between itself, the enterprise, and several economic roles.**

These roles include that of capital providers, that of workers hired by the enterprise, those of other suppliers, and that of customers. This makes any enterprise destined to last a hub of markets.

4. **At the head of an enterprise, there is a person, natural or legal: the entrepreneur.**

When the entrepreneur is the sole owner of the enterprise, it is customary to call the enterprise individual or in a personal name. But the enterprise is often a legal person, i.e. a commercial association with a corporate name (raison sociale), a domicile, and the capacity to sue and to acquire assets. In this case, the entrepreneur owns either nothing of the enterprise or only a greater or lesser share.

Entrepreneurs are individuals or *ad hoc associations*. Savers are individuals and **other** non-commercial associations, including families and foundations. Workers paid in wages in the full economic sense of the word (Chapter 9) are individuals, nothing but individuals.

5. **The entrepreneur and the enterprise are not one.**[90]

The entrepreneur, individual or collective, chooses the goals of the enterprise and revises them at will. The enterprise, which is a thing, chooses none: it pursues those the entrepreneur assigns to it. These goals have a common property, the capability carried by the supplies it sells; production of this capability is the purpose of the enterprise.

A goal is a production outcome obtained within a given period; an objective is a production outcome that requires several periods and is reached through successive goals. Both bring the enterprise, step by step, closer to the expected capability.

The definition of the enterprise (3.1) fixes the genus of its purpose: to produce a capability sold through economic exchange. The entrepreneur chooses its species: which capability, for which customers.

The remunerations of wage-earners, of capital and credit placers, and of other suppliers are not purposes of the enterprise. They are the prices of its co-producers, owed in exchange, and the goals of those who receive them. Sufficient earnings are the condition of viability of this production and its test; they are not its purpose.

The whole is embedded in a social environment: every economic act of the enterprise is social or has a social effect (3.4), and the enterprise is subject to the law and to the discipline of sound economic exchange.

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[90] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 215: capital comes to the entrepreneur rather than the entrepreneur to capital, so that the function of saving is almost wholly separate from the use of savings; and p. 218: the power of the owners of capital is to demand an account of the management, including the right to dismiss those in charge, for ownership is a right, not a function. On p. 91, Fabra holds entrepreneurial capacity to be a decisive factor of economic progress.

6. Company S is the legal owner of an apple orchard.

The decision on the mode of operation is the responsibility of the shareholders of S's capital. The decision to sell the apple orchard is also theirs. The status of a legal person does not confer any autonomy in relation to the holders of the shares in its capital, in principle.

In principle only? An enterprise manager is recruited. A wage is negotiated with him. Delegation of powers is given to him. The effective powers of the members may be reduced as a result. But if this reduction becomes effective, it is the result of abandonment and abuse. The members will have abdicated some of their powers. The head of the enterprise will have abused the powers delegated to him. The refusal of a discipline will persist: that of sound economic exchange, a concept that the objective theory of prices brings out, as we shall see further on.

7. The enterprise is just as conducive to the exercise of devotion as public administration, its elected personnel fully included, and as private associations whose principal object is not commercial.

Two currents of thought nonetheless oppose this parity of treatment, each in its own way.

- The first, stemming from Marx, attributes to the enterprise — by virtue of his theory of profit as the appropriation of surplus value produced by insufficiently remunerated labor[91] — a structural incapacity to contribute to the common good otherwise than by accident, since the accumulation of capital requires, by construction, the extraction of surplus labor.
- The second, stemming from libertarianism and methodological individualism[92], symmetrically denies to any authority other than the market — public administration foremost — the capacity to contribute usefully to the common good, for want of the profit-and-loss test and on account of the capture dynamics inherent to bureaucracies and interest groups[93].

These two currents, which from opposite directions exclude devotion a priori from one of the two spheres each denounces, proceed from one and the same economism: both subordinate the whole of social life to a single economic category — the relation of production for Marx, self-interested calculation for libertarians — and thereby exhibit what observation refutes: the propensity to devotion, like the propensity to pursue personal ends, is a property of the individuals who animate an institution, and holds regardless of that institution's legal status or economic sector.

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[91] Karl Marx, Capital, Volume I, Part III (on the production of surplus value) and Part V (on the rate and mass of surplus value). See also, within the present corpus, proposition 3.2's discussion of the maximum-profit doctrine, where the vocabulary of "class struggle" and "economic warfare" is already identified as belonging to the same interpretive tradition.

[92] See the definition of "methodological individualism" in Wikipedia (already cited at note 13 above). On the libertarian current proper: F. A. Hayek, The Road to Serfdom (1944) and The Fatal Conceit: The Errors of Socialism (1988); Ludwig von Mises, Bureaucracy (1944); Murray Rothbard, Man, Economy, and State (1962).

[93] James M. Buchanan and Gordon Tullock, The Calculus of Consent: Logical Foundations of Constitutional Democracy (1962) — the founding text of public choice theory on the self-interested behavior of bureaucrats, elected officials, and interest groups.

3.4 The main responsibilities of entrepreneurs are economic and, in so doing, social.

1. **What applies to the economic responsibilities of entrepreneurs applies to those of savers and wage-earners.**

The economic responsibilities of the public authorities **are** also **social responsibilities**. On the other hand, social acts are far from being all economic. Family life is not the only one to attest to this.

2. **While not all social acts are economic, all economic acts are social or have a social effect.**

Hiring and laying off are economic acts, as more generally are selling and buying: hiring is beginning to buy, laying off is ceasing to buy. Hiring and laying off are among the social acts that are economic, as more generally are buying, selling, and transferring money or a saleable thing. Placing savings in the financing of one enterprise rather than another is an economic choice. This choice has social effects. Remunerating contributions of permanent enterprise financing more or less generously is an economic choice. This choice also has social effects. Etc.

3.5 Although enterprises serve as conduits for the collection of tax revenue, they are not taxpayers in their own right.

1. **The legislator can use enterprises as collectors of tax revenue.**

What ways of doing this are good economic organization? Enterprise earnings belong to the providers of their permanent financing in the strict sense (see the chapter on capital). In other words, these earnings belong to those who derive from them, or are likely to derive from them, income from placement in capital, in the unequivocal sense of this last word agreed further on.

2. **The ultimate taxpayers are individuals and private associations with a non-commercial purpose.**

Some taxes paid by enterprises are added to the prices at which they sell. This is particularly the case with VAT. These indirect taxes are openly borne by ultimate taxpayers. Other taxes paid by enterprises have an effect when they appear or change, and another after them. Corporate income tax is one of them. Initially, these other taxes modify the earnings of enterprises. Sooner or later, their incidence is passed on in the prices at which enterprises sell. This is a consequence of the enterprise's exclusively commercial economic status.

3. **All tax levies paid by enterprises are borne by ultimate taxpayers[94].**

Parliamentarians, senior civil servants and economists who fail to take this into account take part in a cover-up.

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[94] Mainstream public economics states the same principle: “People pay all taxes. When the government levies a tax on a corporation, the corporation is more like a tax collector than a taxpayer. The burden of the tax

4. **Equality before income tax has more virtues than its opposite.**

Approval of the progressivity of direct income tax is so widespread that it is necessary to hasten to specify what equality is involved. A short sentence is enough. All income is taxed at one or more identical rates, regardless of whether this income is from labor or placement. The civic virtue of this equality is not the least.

3.6 Only enterprises sell composite commodities.

1. **Any natural or legal person who undertakes to sell composite commodities thereby creates an enterprise.**

An individual owns a property. He puts it up for sale or rent. If he finds a taker, he creates an enterprise. Some enterprises are very short-lived. For example, when I decide to rent a space at a flea market to sell objects cluttering my home. Enterprises are also nestled within associations. A charity's second-hand clothing shop is not an enterprise, but it becomes one by virtue of what it sells. Etc.

2. **The enterprise in a personal name is an entity that is economically distinct from its owner and boss.**

This owner *exchanges* his capital contribution with his enterprise for all or part of the net earnings of this enterprise. This boss *exchanges* with his enterprise the service of his labor for the remuneration of this service. If the personal accounts of the boss and those of his enterprise are one, this is in itself a management fault.

3. **The status of owner or member of an enterprise and that of wage-earner of this enterprise are distinct.**

The practices of enterprise life are economically mature enough only if they include mechanisms for *separating the respective roles and powers* attached to the qualities of owner, or member, on the one hand, and wage-earner on the other. The rule is the same if the same individuals perform more than two roles. This is particularly common in some cooperatives where members are both customers and wage-earners of the enterprise.

3.7 The elementary commodity that only enterprises can purchase is placement in their capital.

Enterprises only buy this commodity when they distribute at least part of their earnings to the contributors of their capital. Where disregard of this rule prevails, the Salairesexchange economy runs at low speed. Since jobs are themselves economic exchanges, their insufficient creation and excessive precariousness may largely stem from the fact that the only elementary commodity purchasable exclusively by enterprises is in reality too seldom bought.

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ultimately falls on people—the owners, customers, or workers of the corporation" (N. Gregory Mankiw, Principles of Economics, 4th ed., chapter "The Design of the Tax System"). Likewise: "ultimately, only people can pay taxes" (Rob Norton, "Corporate Taxation", The Concise Encyclopedia of Economics, Library of Economics and Liberty). The adage "corporations don't pay taxes, people do" sums up this consensus. Objective Political Economy departs from it on the channel only: incidence studies share the burden among owners of capital, workers and customers, whereas 3.5 holds that it is passed on, sooner or later, in selling prices.

3.8 Anyone who rents out constitutes an enterprise.

1. **The leasing of fields, meadows, and woods played a great part in the history of economic ideas.**

The political economy of the eighteenth and nineteenth centuries admitted, in fact, that the distribution of income was carried out between three social classes, the landowners, the capitalists, and the workers. In reality, incomes proper turn out to be of two kinds: those from placements and those from labor. Nevertheless, classical political economy considers that the distribution of income constitutes the main part of what economic science must succeed in elucidating (Ricardo's preface to his *Principles*).

2. **Many commercial enterprises sell and manage rentals.**

The generic product that these enterprises market is the composite commodity constituted by the rental service.

3. **The other lessors are individuals, private associations, and public entities.**

A lessor who does not make his trade the object of a legally constituted enterprise has nevertheless established a **de facto enterprise**.

4. **Letting a property and keeping it let entail costs.**

Every letting must be managed, and all management has a cost. Although a rented plot of land may entail only taxes for several generations, most real estate requires periodic major maintenance. Where applicable, finding a new tenant also has a cost.

5. **For the lessor, rent is a revenue and not an income.**

The lessor manages his business well only by seeing in the rent he receives a revenue item from which expenses are to be deducted.

6. **The earnings of the lessor are placement income.**

It is once all expenses have been deducted from revenue that, as in any enterprise's income statement, a margin appears, which is earnings when it is positive. Only the distribution of earnings to the owner of the enterprise, or to his co-owners, constitutes placement income.

7. **Placement income from renting out takes part in the distribution of total income.**

Further on, Chapter 8 theorizes the distribution of total income. Let us consider here only one of the most obvious aspects of this problem. If total placement income increases durably faster than total income, then, but only then, does the share of total labor income fall in total income. If total placement income increases durably more slowly than total income, then, but only then, does the share of total labor income increase in total income. Moreover, in the latter case, the rate of increase in total labor income is greater than the rate of increase in total income.

Chapter 4 – Accounting

It is a truism to say that economic accounts use economic principles. But, after all, what principles are we talking about? And how could an exact economic science be achieved without having in its pillars proven principles of economic accounting?

Political economy was born **before** all the founding concepts of economic accounting were brought to light. To the old confusions that persist, the economic vocabulary in use today adds new and often misleading categorizations, like conjuring tricks.

The evasion begins with the concept of economic accounting. Although its existence and precise definition are indisputable, it is set aside. This makes it possible to repress the division of all economic accounts into homogeneous sub-assemblies, but different on a few crucial points. Instead of making progress in eliminating the denial of elementary economic realities, we maintain amalgams of variable geometry according to the ideological ends pursued.

4.1 The general theory of economic accounting is mesonomic.

1. **The most general meaning of the notion of "accounting" is: recording of quantities.**

The concept of "economic accounting" is extracted from this notion by the definition set out below, then argued. By logical and practical necessity, this concept is cardinal in objective political economy.

2. **The characteristic of economic accounting is to record economic exchange values.**[95]

Monetary amounts express these values, which remain exchangeable even in the case of the use of only an account currency.

C1 is a tax amounts account, C2 is a tax-free purchase amounts account, C3 is a sales amounts account. These three accounts are just as economical as each other. C4 is a cash or bank account with its initial balance, its inflows and outflows, its final balance. The C4 account is just as economical as the previous three. All these accounts, and many others, record economic exchange values, it being understood that a tax or a gift or a theft is, for one of the parties, an expense with no purchase in return and, for the other, a revenue with no sale in return.

3. **A "stock accounting" is one of the instruments used in management, both of enterprises and of other entities.**

In a material accounting, non-monetary quantities are recorded: numbers of pieces, weights or volumes, meters, etc. In this record there is always a record of a starting stock (if necessary zero) and often of the quantities entered. When the recording of the quantities outflowed is added to this, the device is said to constitute a permanent inventory. During the period under consideration, how much of this item came into stock and how much left it? And how much, at this moment, remains in stock? A stock accounting provides the answer, which is accurate in the absence of error or embezzlement.

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[95] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 136: a primary aim of any accounting system is an evaluation of trading results as objective as possible.

Although a stock accounting can contribute a lot to better keeping an economic accounting, it is not an accounting. The keeping of economic accounts, often called "general accounts", is only quite frequently ensured by means of one or more stock accounts.

4. **At first glance, the categories of economic accounting are the same as the levels of economic observation.**

The most global level is that of Macronomy A **national accounting** system is macronomic. Regional accounting is also required. The intermediate level is that of mesonomy. The **so-called general commercial accounting** is mesonomic. The finest level of economic accounting is that of micronomy. **So-called analytical accounting** is micronomic.

5. **Commercial accounting and public accounting are two of the four types of mesonomic accounting.**

The other two kinds of mesonomic accounting are associative accounting and personal accounting.

Family accounting is associative accounting. Transfers of income from parents to the family unit are often implicit. But they become explicit when the spouses keep separate personal accounts and together family accounts.

6. **The distinction between the categories of mesonomic accounting is necessary.**

In a family that operates an enterprise, family accounting is one thing, enterprise accounting is another. Similarly, in a public entity that operates an enterprise, the accounting of the entity is one thing and the accounting of the enterprise is another. A specific provision for commercial accounting is nevertheless now applied in associative and public accounting. A lack of economic discernment is being peddled.

7. **The theory of macronomic accounting is derived from the theory of mesonomic accounting.**

Macronomic accounting is conceived, and maintained, by means of mesonomic accounting and any other statistics. Historically, the design of national accounts has derived more from commercial accounting than from any other kind of mesonomic accounting.

8. **The correct theory of national accounts is based on the theory of associative accounting.**

The assimilation of a nation to an enterprise is wrong. A **national accounting system** is **economically ill-conceived** when it is based on this fault. The assimilation of a nation to a non-commercial legal entity is economically just. The most appropriate conceptual model of national accounts is associative accounting.

9. **An economic accounting standard is or is not a good one.**

It is good when it helps to avoid making mistakes about the economic situation of the entity in question.

The compliance of economic accounting with the standards in force is verifiable. The complete good quality of economic accounting is not and never will be, while changes in accounting standards for ideological reasons distance us from Systemic Political Economy.

10. On what indisputable axiomatic should the general theory of economic accounting be based?

Well established, this theory provides an indispensable instrument for Systemic Political Economy. A small number of statements provide for its articulation, as shown below in propositions 4.2 to 4.7.

4.2 The distinction between stock and flows is an axiom of economic accounting.[96]

1. The distinction between stock and flow is also an axiom of material accounting.

On an aerial photograph, I count a number of parked vehicles. This count is a stock measure. Using a video surveillance device, I count the entrances and exits of a car park. This counting is a flow measure. Measuring inventory is a snapshot. But this observation does not define what a stock is. The measurement of a flow relates to a duration. But this observation does not define what a flow is. Cash balances[97] and revenues are nevertheless different realities. Revenues are flows, cash balances are stocks, etc., etc.

2. The assimilation of economic circuits to hydraulic devices is often used.

Water reservoirs are stocks, water currents are flows. The reservoirs and economic currents are of commodities, debts and currencies. Schemas of this kind, however, can be used to mask a primordial reality. One of the stocks of receivables is like a water tower whose function justifies calling capital.

3. The first tool of economic accounting is a nomenclature of accounts.

It is now customary to say that such a nomenclature constitutes a chart of accounts[98]. Titles of classes of accounts and accounts are included. Some of these classes and accounts are flow, and others are stock.

4. The second tool of economic accounting is the double part[99].

The accounts that a bank provides to its customers are among those that most clearly show the need for a "credit" and a "debit", mentioned more and more frequently in the "amount" column by a positive number for a credit and a negative number for a debit. Ensuring that a debit or credit amount can be recorded in any account is one of the features of double-entry economic accounting. Another system consists of balancing any credit by a debit of the same amount and any debit by a credit of the same amount, within the same accounting. The **equality between the sum of the debits and the sum of the credits** attests to the arithmetical accuracy of the balance carried out and, within the framework of duly standardised procedures, to its economic correctness (principle of this correctness in point 6 below).

Consider Bank B's account C1 in the double-entry books of entity E; the C2 account of entity E in the books, also kept in double entry, of Bank B. The direction of the writings in C1

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[96] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 25, on the confusion between income flow and capital stock, a mistake Fabra calls familiar to economists.

[97] Cash holdings :see the definition of the Académie française.

[98] See the definition on the site plan comptable.

[99] See the definition on the site plan comptable.

and C2 is reversed. This inversion exists between any supplier and any customer, as more generally between creditor and debtor.

5. **The double-entry recording reverses the algebraic sign of a balance depending on whether it is a flow or a stock.**

A balance is the result of an algebraic addition. For example, (+3) + (+2) + (-1) = 3 + 2 - 1 makes a positive balance of 4; and (-3) + (-2) + (+1) = -3 - 2 + 1 makes a negative balance of 4. A **positive balance is a credit when it is in flow, a debit when it is in stock**. Conversely, a **negative balance is a debit when it is in flow, a credit when it is in stock**. We become all the more familiar with this rule if we already have in mind the general scheme of the income statement on the one hand, and the balance sheet on the other (on these diagrams, see the rest of this chapter).

6. **The balancing of a credit by a debit of the same amount is economically relevant.**[100]

Entity by entity, any commodity exchange or transfer of a commodity term has an effect on a stock of currency, receivable[101] or commodity. The simultaneous recording in an entity's accounts of a credit or debit flow and an increase or decrease in inventory makes the double entry economically relevant.

Depending on whether the movement in question is an outgoing flow – debit – or an incoming flow – credit – a stock is reduced – credit – or increased – debit. In practice, it is sufficient to remember that by convention of use of the words "debit" and "credit":

- a debit outflow has as its counterpart a credit in stock;
- a credit inflow has as its counterpart a debit in stock;

7. **For example, work is provided in exchange for his remuneration by cheque or transfer.**

The employer's double-entry accounting records this remuneration by a debit and a credit: the debit is from a flow account – wages paid –; The credit is from a stock account – bank. The wage-earner's double-entry bookkeeping records this same remuneration by a credit and a debit. The credit is from a flow account – income – the debit is from a stock account – bank.

8. **The generalization of the use of double-entry economic accounting constitutes a gigantic work of civil engineering.**

Understandably, trade and industry were the crucible for the development of this book. The latter is nevertheless constituted by the adjoining use of the different kinds of double-entry economic accounting. It should be noted that the peddlers of denials of economic reality willingly dispense with admiring the work of civil engineering, and progress, that constitutes the generalization of the use of double-entry accounting. This helps them to tell themselves that the systematic use of the adjective "accountant" in its pejorative sense is honest.

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[100] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 81 and 141: double-entry bookkeeping supplies the strongest evidence for Ricardo's thesis and offers a better introduction to economics than Hegelian dialectics.

[101] See the definition of "claim" on the site jurislogic.fr.

4.3 The stocks of mesonomic entities are for financing and investment.

Mesonomic entities: public administrations, non-profit associations, enterprises of any legal form, individuals.

1. **An entity's financing stock is its liabilities.**

In the financing stock of a mesonomic entity there is almost never anything but the amounts owed. But liabilities in the *strict sense* have given the whole, the stock of financing, its still most frequent name of use.

2. **An entity's investment stock is its asset.**

An investment, regardless of the nature of what it contributes to producing, **increases the wealth of the entity that made it**. I will come back to this in connection with the essential distinction between expense and investment.

4.4 Financing stocks generally consist of a non-borrowed part and a borrowed part.

1. **The existence of non-borrowed financing is easily seen in the case of private non-commercial associations.**

Or one of these associations, which can be a family. Since its creation, it has had a total of revenue greater than its total expenses. This provided it with a positive stock of non-borrowed financing. This stock is also that of the savings of this association. It was built up thanks to debt. For example, credit has been obtained to finance the purchase of a property.

2. **Non-borrowed financing and net worth refer to the same difference.**

By entity, this difference is observed between the amounts of two stocks. One is that of investments, or assets, and that of borrowed financing, in other words debts, liabilities in the *strict sense*.

3. **Any mesonomic entity is exposed to the risk that its net worth will become increasingly negative.**

If the causes of this deterioration persist, the spiral of growing over-indebtedness leads to a tutelage that replaces the independence that the absence of debt provides with its opposite. An increasingly negative net situation is a cause of **exponential over-indebtedness** for any mesonomic entity, including first and foremost states.

4. **The positive net position of a mesonomic entity other than an enterprise is the same as its equity.**

Equity: funds that, literally speaking, ultimately belong to the entity in question and to it **alone**. Individuals with a positive net position have equity. Under the same condition, non-commercial legal entities have their own funds, such as foundations. All equity is by definition non-borrowed financing. However, not all non-borrowed financing is equity, in the sense defined above.

5. **The positive net position of a legally incorporated enterprise is the same as its permanent funds.**

In any legally constituted enterprise, the stock of **non-borrowed and permanent financing** is equal to its net position provided that the latter is positive. In an enterprise constituted as a company, the non-borrowed and permanent financing is equal to its **actual working capital**, which in turn is equal to its net position. "**Permanent funds**" is certainly a little longer to say and read than "equity", but still accurate when the subject is enterprise financing.

6. **Not paying cash is a way of borrowing.**

However, the cash discount system is only fair under narrow conditions. Let A and B be the customers of supplier F. The discount for cash payment is, let us assume, 2%. Customer A gets to pay at 30 days and customer B at 90 days calculated in the same way. In both cases, the cost of the loan seems to be the same: the renunciation of the 2% reduction in the amounts to be paid. However, the payer at the latest is at a substantial advantage. The cost, in relation to the sums borrowed respectively, is in fact three times less for B than for A.

7. **This is just one example of the countless economic anomalies to which the ways of financing lend themselves.**

Finance, the indispensable form of finance, is obviously not in itself an economic anomie. But how can its violations of the rules of economic fairness be fought victoriously other than by making these rules the cornerstones of the theory of the market economy?

4.5 An entity's investment stock often includes placements and almost always equipment.[102]

1. **Investing a sum of money is providing a service.**

However, this service is only the end of an economic exchange when it is remunerated.

2. **The "financial assets" of account plans are investments.**

Some of these investments do not yield anything. This is often the case with security deposits.

This is always the case with a free loan.

3. **Non-financial fixed assets are equipment.**

The acquisition by an enterprise of a patent or a trademark is an intangible asset[103]. It is part of the equipment together with tangible fixed assets[104].

[102] On equipment expenditure and on the external notions of CAPEX and OPEX, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

[103] See the definition of intangible fixed assets in plan comptable.com

[104] See the definition of tangible fixed assets in plan comptable.com

4. Equipment **is usable for at least one year.**

There are many easy-to-remember illustrations. A pan is a piece of equipment, what you cook in it is not a piece of equipment. Cloth tablecloths and napkins are equipment, their paper ersatz are not. A boiler is equipment, a fuel purchase is not. Etc.

5. **In theory, any stock that has a market value is an asset.**

In practice, exceptions are allowed. Neglecting, on the day of the closing of the accounts, small stocks of supplies gradually modifies the result as well as the net position. This is all the more acceptable since the accounting principle of the permanence of methods is applied.

6. **The distinction between investment and expense is essential.**

An investment increases the stock of assets owned by the entity that makes it. An expense is a flow. Investments are always made in view of what is expected from them; an expense, too, is incurred for what it will make obtainable in the medium or long term. The confusion between expense and investment stems from an insufficiently thorough distinction between flows and stocks. An economic vocabulary that strives to fit as closely as possible the reality in which it specializes achieves this better by making expenditure a hyperonym[105], as lexicographers say, of "expense" and "investment."

7. **In any management of economic affairs, the amalgamation of expenses and investments is prone to errors.**

Expenses and investments are, of course, both expenditures. But a reduction in expenses accompanied, in due proportion, by an increase in investments keeps total expenditure unchanged. In economic policy, opinions resting on the amalgamation of these two subtypes of public expenditure are still rarely criticized for it.

4.6 A balance sheet[106] is the summary of the stock accounts.

1. **"Bilan" comes from the Italian *bilancio* " balance".**

In all the balances of amounts recorded for an entity, the balance sheet is, on D-Day, the **summary of the inventory accounts**, with on the one hand those of financing, or liabilities, and on the other hand, those of investment, or assets.

The historical part of the article "Accounting" of the *Dictionnaire encyclopédique Quillet* states, in its 1953 edition (the bolding is my doing):

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[105] See the definition in WordNet.

Translator's note: the hyperonym *expenditure* renders *dépense*; its subtype *expense* renders the accounting *charge*, a flow recorded in the income statement. This pairing follows standard accounting English: the IASB Conceptual Framework for Financial Reporting (2018, § 4.69) defines expenses as decreases in assets, or increases in liabilities, that reduce equity, excluding distributions to holders of equity claims; profit, an allocation of earnings, is therefore no expense. The same word *expenditure* renders *dépense* in "expenditure of human energy" (Proposition 2.1), a double use that French and English share. Capital expenditure (CAPEX) and operating expenditure (OPEX) belong to external vocabulary: the corpus says equipment expenditure and operating expenditure, because capital is reserved for the permanent financing provided directly by savers (Proposition 5.1).

[106] See the definition in PlanComptable.com.

*"The first treatise is by Luca **Pacioli** (1494) (Tractacus de computis Scripturis), for whom balance means balance. There is the double part[107]. In 1594, the Belgian Dashier **Goessens** established the **principle of the inventory**. In **1605**, a Dutchman, **Stevenin,** showed the necessity of the **annual balance sheet** and established the rules of the inventory. In 1675, Savary published The Perfect Merchant, a book that has never been surpassed. In the 18th century, accounting made no progress. The large enterprises relied on the central power and the sovereign authorized them to violate the rules of accounting. This regime aroused such criticism that during the Revolution, public opinion demanded the elaboration of practical and precise provisions. The **French Commercial Code of 1807** laid down the regime applicable to companies[108]. The Minister of the Treasury, **Mollien**, imposed a double share on the public finances; it revealed numerous deficits and falsifications. Since then, accounting techniques have progressed in parallel with the development of trade. »*

2. **A ratio summarizes the principal of an entity's financing structure.**

The numerator of this ratio is the amount of funds not borrowed. Its denominator is the total amount of the financing stock. What it measures is a **degree of independence** as well as resistance to economic downturns. Competition based on the comparability of offers plays an irreplaceable role. But the degrees of financial independence of enterprises substantially configure the course of business. Expecting competing offers to have the same controlling effects, regardless of debt levels, is very unrealistic.

3. **An entity's stock of financing, in other words the liabilities on its balance sheet, can almost always be reduced to two masses by the criterion of the duration of the financing.**

One of these masses is that of permanent financing and debt with a maturity of more than one year. The other mass is that of financing with a maturity of less than or equal to one year or payable at any time (overdraft). Accounting favors the estimation of these two assets. One of its rules is, in fact, the classification of the liabilities headings in order of exigibility. The first mass is often said to be that of "permanent capital" (an unfortunate name, we will see later why) and the second that of "short-term debts" or operating liabilities.

4. **An entity's investment stock, i.e. the assets on its balance sheet, can also almost always be reduced to two masses by the criterion of the duration of the investments.**

One of these masses is that of investments for a period of more than one year, the other for a period of less than or equal to one year. The classification of asset headings in ascending order of liquidity facilitates the determination of the amounts of these assets.

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[107] More precisely, it is the distinction between **debit** and **credit** set out by Pacioli. The systematization of the distinction between stocks and flows was yet to come, introduced a century later by Goessens (1594) then Stevenin (1605).

[108] Not only to companies : the obligation of the annual inventory applies to sole proprietorships.

5. **Several pairs of expressions are used to designate the two types of investments.**

The most widely used in economic theory and financial analysis have so far been the pairs of fixed capital/ circulating capital or fixed assets and current assets, or "net fixed assets/ going concern values". These designations should not make us forget that in enterprises, all the assets participate in the maintenance of the flow of sales. Here the ratio between sales and total assets constitutes a stock rotation, a rotation that I will show later is a measure of productivity.

6. **The difference between financing and investments with a maturity of more than one year constitutes working capital.**

The difference constitutive of working capital is by definition equal to the difference between investments and financing with a duration of less than or equal to one year. To call this complementary difference the "working capital requirement" (WCR) is often misleading. A decrease in the WCR does not result in an increase in working capital. The rationale for positive working capital is the same as for a high ratio of financial independence.

7. **The benefits of inter-enterprise trade on cash terms are massive.**

But the less inter-enterprise trade is on cash terms, the more what this state deprives it of is silenced. It considers that the search for the longest payment terms is part of the normal laws of commerce. So working capital is calibrated accordingly, which makes insolvencies more contagious. Employment suffers as a result.

4.7 A profit and loss account[109] is the synthesis of revenue and expense flows.[110]

1. **In the charts of accounts, one class of accounts is allocated to revenue and another to expenses.**

The difference between total revenue and total expenses is the resultComptabilite_ProduitComptabilite_ChargeComptabilite_Resultat. The term "income statement" given to the summary of flows, previously divided between the "operating account" and the "profit and loss account", comes from this.

2. **An [111] entity's primary product is specific to its category.**

In the sense of the word "product" in economic accounting[112], the main product is normally:

- in associative accounting, transfers obtained;
- in commercial accounting, sales made;
- in personal accounting, income;
- in public accounting, taxes.

[109] See the definition of “income statement” in PlanComptable.com.

[110] Profit is an allocation of earnings and belongs to no subtype of expenditure; on the taxonomy Expenditure = Expense + Investment, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

[111] See the definition of “income” (produits) in PlanComptable.com.

[112] This sense is not yet mentioned by the most recently revised French-language dictionaries. Patience?

3. Expenses always include operating expenditures.

Equipment expenditures, by contrast, are investments. The accounting of an operating expenditure entails, on the expense side, a debit to a flow account. The accounting of an equipment expenditure entails, on the investment side, a debiting of the stock account (balances recorded in the balance sheet are debit on the assets side, accounts payable on the liabilities side).

4. Equipment or debt amortization allowances are expenses.

In enterprises, equipment depreciation **allowances** are part of the expenses. **Debt amortization** expenses, including interest and principal repayments, are in fact expenses **outside of enterprises:** individuals, non-commercial associations, public entities[113].

5. An expenditure is either an expense or an investment.

In this respect, all economic entities are in the same boat. Whoever buys equipment makes an investment that increases his stock of assets – which **increases his wealth**. Whoever buys a supply consumed by this equipment makes an expenditure that is an expense[114]. In no budget do variations in expenses of any kind have the same immediate and future effects as variations in investments.

6. Income and cash flows are usually different.

The events generating the profit streams are exchanges or transfers. The generating events for cash flows are receipts and disbursements. Period after period, these flows are rarely identical. They differ in particular in the case of investment. While the latter is not part of the expenses, the disbursement of its cost is part of the cash outflows.

7. The universality of the principle of calculating the result should not be deceived.

The result[115] is the difference between revenue and expenses. This principle applies to all economic entities. When the difference is negative, calling it a "loss" or calling the result a "loss" is always appropriate. However, this does not mean that using the noun profit or earnings and the qualifier "surplus" to designate the positive difference between revenue and expenses is always relevant.

8. The result is savings or dissavings for only two categories of entities.

An individual who keeps his accounts in double entry records a periodic result, correct in his calculation principle if, in the case of a current loan**, a debt amortisation allowance is deducted from the expenses**. Depending on whether the result calculated in this way is

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[113] For enterprises alone, a repayment of borrowed principal is a cash movement, with no effect on earnings. **Whereas understating an enterprise's earnings by entering such a repayment among the expenses would be fraudulent, elsewhere the opposite is a lie by omission**… a lie still practiced by any number of politicians, senior officials, bishops, statutory auditors, presidents, and economists. Let us then see what happens when one of them goes, in a personal capacity, to their banker to obtain a loan for a real-estate purchase or for major maintenance and improvement works. The banker takes stock of the client's financial situation by counting, among the client's current and future expenses, all the debt-amortization installments, principal repayments included. This way of drawing up the income statement of any economic actor other than an enterprise is incontestably realistic, to the point that it would oblige economic science to regard it as the right one even if no one used it.

[114] See also the definition of "charge" (expense) in Plan Comptable.

[115] See also the definition of "earnings" in Plan Comptable.

positive or negative, there has been savings or dissavings over the period under consideration. The determinants of the result of a non-commercial association are the same as those of the result of an individual. Depending on whether the result is positive or negative, it increases or decreases the **equity** of the association or individual – the net position of the association or individual.

9. **A surplus or deficit is either a cash surplus or deficit, or an earnings surplus or deficit.**

It is according to its calculation by cash accounting or by an income statement. In the first case, the surplus or deficit is a cash one and not an earnings one. The distinction between the two types of surplus or deficit is still too little practiced in the art of well-explained accounts.

4.8 In general accounting, depreciation of equipment is only relevant to enterprises.

1. **Reminder: equipment depreciation, often called industrial, is distinct from debt amortization, often called financial.**

A borrower receives from the lender, at the entry into force of the contract that reciprocally binds both parties, the payment schedule of his debt, including interest and principal. This amortization plan is for financing and not for equipment.

2. **Depreciation of equipment consists of spreading out the reconstitution of its acquisition value.**

Let us note E the equipment considered. Let us also denote D the total duration of the spreading. D is composed of short periods P, all of which are at most equal to one year. At each end of P, a depreciation expense of E is recorded. The amount of this periodic allocation is debited from an *ad hoc expense account*. The counterpart is a credit to a fixed asset account, this account being the one where the acquisition value of the equipment already appears, in debit.[116]

3. **This double-entry entry is necessary to preserve the value invested.**

However, it is not enough. The provisions made must be placed in an interest-bearing bank passbook. In this case, cumulative depreciation allowances are recorded as a financial asset. If it does not go that far, current cash is supposed to provide for the preservation of the invested value. But this is contradictory: well managed, current cash is in small surplus.

4. **It should be emphasised that the value invested by provisions is only effective if they constitute a cash investment.**

This investment is liquidated to pay all or part of the provisioned replacement. In such corporate financial management, the operating cash flow is coupled with an investment cash flow. This doubling of cash flow is a step forward because the avoidance of misappropriation of industrial depreciation promotes the maintenance of employment.

[116] This practice replaced the one that consisted in crediting a provision account whose balance was listed among the financing stocks, on the liabilities side of the balance sheet accordingly.

5. **This management system is not yet considered normal.**

To set it up, you need a fairly positive working capital. The solidity of the enterprise's financial situation is thus reinforced by the renunciation of the misappropriation of industrial depreciation, in particular to make it a means of debt amortization.

6. **Enterprises have among their expenses finance costs and industrial depreciation expenses.**

In fact, indebted mesonomic entities other than enterprises have debt amortization expenses among their expenses.

7. **In other words, a non-commercial association.**

Its managers use a structural ratio. They set it at 60%, but for the explanation to follow, it doesn't matter if it's not more or less. The numerator of this ratio is the annual total expenses. Debt amortization expenses are part of these expenses. No industrial depreciation expense is recorded as an expense. The denominator is the annual total revenue in the income statement. The association's managers are therefore aiming for an average annual result of 40%. If this percentage represents an amount greater than the equipment expenditure of a year, the difference is placed. Such an association manages its results as prudently as the enterprises that best provide for their financial solidity manage their industrial depreciation.

8. **The net position of any mesonomic entity depends on the market value of its fixed assets.**

But only enterprises have a market value and **only enterprises have earnings to distribute in exchange**. This is why it is essential to include industrial depreciation in the expenses in their case. This is also why such a count makes no sense for non-commercial associations and individuals.

9. **Many cost calculations require an estimated depreciation.**

Among these calculations, there is of course that of the full cost price of an item sold by an enterprise. There are, however, many others. Some are common to all categories of entities. This is particularly the case when a choice of equipment is to be instructed.

10. **For example, between three boilers and in this case, what will be the full cost of the thermal energy produced by each one?**

The answer lies in estimating equipment depreciation. However, the presence of industrial depreciation among the expenses is only necessary in the general accounts of enterprises, just as the presence of debt amortization among the expenses is only necessary in the general accounts of an entity other than the enterprise, when this other entity is indebted.

Chapter 5 – Capital

In economic science and policy, the term "capital"—used to mean capital, a capital, or some capital—seems at first glance to pose few problems. Upon closer examination, a consistent and unambiguous definition emerges that clarifies its role in the economic landscape, including the modalities of ownership of enterprises (see negotiable versus refundable shares).

Full employment and the avoidance of financial crises depend more than any other magnitude on capital as permanent financing of enterprises. This leads to a system of weights and measures that provides controlling and emancipatory instruments.

5.1 Let us reserve the term capital for financing that is, strictly speaking, permanent and provided directly to an enterprise by one or more savers.[117]

1. **Makes the meaning of the noun "capital" unequivocal.**

In this sense, capital contributions are made solely by savers, in the sense specified in the previous chapter: individuals and private associations with a non-commercial purpose, exclusively.

2. **One implication of this unequivocal definition of capital is also an unequivocal definition of credit.**

Let us only call credit financing other than a capital contribution. Later in this chapter, the distinction between capital and quasi-capital leads to the completion of the definition of credit: other than a capital or **quasi-capital contribution**.

3. **It would be of great advantage to have at least two different words to designate capital depending on whether it is in an active or passive position.**

Paul Fabra remarked on this in *Various Meanings of the Word "Capital",* second appendix to chapter 5 of *Refounding Political Economy*. "Active position" means: part or all of the investment stock, or asset. "Passive position" means: part or all of the financing stock, or liabilities. However, despite its name, liabilities are economically **essential**, for two peremptory reasons: 1) Financing is essential for any investment. 2) Inappropriate financing structures lead to exponential over-indebtedness.

4. **Why was double-entry accounting historically established with the "Debit" column to the left of the "Credit" column, and not to the right?**

The first double-entry accounts were those of customers who started with a duty, in the "Debit" column, after which the settlement is recorded in the "Credit" column. Then came the balance sheet invented a century later, on the side of the inventory accounts whose balance is debit (a customer owes, debit balance), then mechanically took position to the left of the Liabilities, on the side of the inventory accounts whose balance is credit (a supplier has made credit, credit balance).

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[117] Reserving the term capital for financing excludes the phrase capital expenditure; on this point, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

5. **The "Credit | Debit" order is economically more relevant in languages that are written from left to right and from top to bottom.**

If this order is completely declined, the "passive" positions (financing) are stated **before** the "active" positions (investments) – before: above or in the left column. It is economically more relevant.

6. **In an enterprise, the most capital form of capital is the financial one.**

Whether this permanent financing is contributed in cash, in kind (land, buildings, machinery, goodwill), or in industry (patents, know-how) makes no difference. The objection that this capital is 'merely' financial does not hold. The enterprise is the only institution that exists solely through and for the practice of economic exchanges. It therefore exists solely through and for the financial flows between itself and its suppliers of every kind (including contributors of capital and wage earners) on the one hand, and its customers (who are often or exclusively other enterprises) on the other. Even if all of this were conducted entirely through barter, these flows would retain their financial reality through the unit of value used to account for them — and then to determine whether the enterprise preserves or erodes the savings placed in the capital it operates

5.2 Strictly speaking, "permanent" is that which lasts until the end.

The meaning of the Latin verb *permanere* is: "to remain to the end".

1. **For an enterprise, what persists until its disappearance is permanent.**[118]

For an enterprise, the non-credit portion of its financing is strictly speaking permanent, until it closes. The practice, which has become quasi-official, is to say that this part is its capital.

2. **Any permanent enterprise financing contribution has an owner.**

When the enterprise is in a personal name, the ownership of the enterprise and that of its capital are one. When the enterprise is a company, other than a cooperative or a mutual society, the co-ownership of the enterprise and that of its capital are also one. When the enterprise is a cooperative or mutual society, its members hold shares in its capital without being co-owners: in the event of liquidation, any bonus is transferable to one or more other legal persons of the category specified in its articles of association.

3. **To call an enterprise's liabilities of more than one year "permanent capital" is unfortunate.**

Short-term debts are part of financing with a maturity of less than one year. Medium- and long-term debts are part of financing with a maturity of more than one year. The latter expression, **financing for more than one year**, is less confusing. Capital is financing of a different nature than debt, including in the medium and long term.

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[118] Fabra defines capital as a permanent advance (*Capital for Profit*, Rowman & Littlefield, 1991, pp. 165–166), a notion that belongs to his theory of capital exchanged for profit over time; the OPE does not adopt that theory. Permanence here designates the duration of the financing until the end of the enterprise.

5.3 A univocal use of the noun capital is both possible and desirable.

1. **The uses of 'capital' as an adjective remain entirely unaffected.**

The *Grand Robert dictionary* of the French language recalls the historical primacy of this adjective. It was borrowed around 1200 from the Latin capitalis*, meaning 'of the head,' derived from* caput — 'head' (whence 'chief'). Its earliest use was specialized in legal language, carrying the meaning 'that may cost one's head, mortal' — capital punishment. In 1567, a substantivized masculine form, capital*, appeared in economics — destined, no pun intended, to make its fortune. It may have originated directly in French, or it may have been borrowed from the Italian* capitale*, denoting the principal part of a loan. In what has become its primary sense, the essential part of any reality is capital. In other words, what is most important is capital.

2. **The question of what is capital in economics calls for an answer.**[119]

That answer leads, step by step, to a single object: the permanent financing of the enterprise. The practice of economic exchange is capital, because it alone generates income, which in turn funds the greater part of economic transfers — and, above all, enables placement in capital. The enterprise is capital to the practice of economic exchange, while the structure of an enterprise's balance sheet determines its solidity and its capacity to sustain employment. Permanent financing is capital within the balance sheet, because the solidity of an enterprise and its capacity to sustain employment derive primarily from the adequacy of its permanent financing relative to its investments.

3. **Economic science must, when put to the test of practice, prove sound on what is capital to its subject matter.**

Its building materials must therefore carry as few ambiguities as possible. The required discipline is well known and has proven successful in other fields: concepts must be extracted from notions. The principal tool of this extraction is definition by comprehension of a finite set.

4. **Any sum of money can easily be distinguished from capital.**

What is commonly referred to as 'capital' or 'capitals' often designates something other than permanent financing of enterprises. In many such uses, the word fund is a more accurate substitute.

5. **The repayable part of a credit is designated without ambiguity by the word 'principal.**

In French, the use of this word in this sense appears to predate the substantive 'capital' itself.

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[119] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, Appendix 2 to chapter 4, “Various Meanings of the Word ‘Capital’”, pp. 140–141. Fabra separates the economic meaning of capital, the accumulated product of labor, from its accounting meaning, a claim on the company entered on the liabilities side of the balance sheet; on p. 131 he uses the word in the legal or accounting sense, as the extent of the owner’s rights over the assets. The OPE retains a single meaning, consistent with the accounting one (Proposition 5.1).

6. **The notion of "human capital" contravenes the abolition of slavery.**[120]

Through it, men once again become assimilable to commercial wealth. With them, their knowledge becomes so too. Excessive commodification and financialization triumphed. The improvement of working conditions suffers as a result.

7. **Pascal advanced physics decisively by forging the univocal concept of 'pressure.'.**

Economic thought that makes capital a univocal concept achieves a progress of the same kind.

5.4 Let us call Quasi-capital permanent corporate financing that reaches the enterprise other than directly from a saver.

1. **Intermediation in savings placements in permanent corporate financing confiscates power.**

Companies A to G have shareholders who are all savers. As a result, the latter have powers. But now company G, by means of an increase in its capital, has taken complete control of A. It then successively acquired companies B to F. Impulses given, arbitrations made and sanctions pronounced in the past by savers have disappeared.

2. **. The freedom of entrepreneurship does not inherently provide its own limits.**

It tends to reduce the freedom to choose. Once the need to oblige comparability has been admitted, competition refers to **the** freedom to offer regulated by the freedom to choose.

3. Shares **held by an institutional investor are quasi-capital.**

This is, more generally, the case for shares held by any enterprise. The **public ownership** of all or part of an enterprise is an instrument of quasi-capital, not capital in the sense defined above.

4. **The necessity of the distinction between capital and quasi-capital is certain.**

Extensions and retractions of the use of quasi-capital, instead of capital in the sense defined above, have systemic effects, as do any other decrease or increase in competition.

5.5 Credit and capital are opposites in many respects.[121][122]

1. **There is no repayment term attached to placement in capital.**

The credit is attached to a repayment term or the exigibility at any time of a total or partial repayment.

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[120] Fabra rejects the expression as well: capital is wrongly mistaken for its user, man, and *human capital* is a phrase he calls hazy and empty of substance (*Capital for Profit*, Rowman & Littlefield, 1991, p. 16); ownership bears on the disposal of things, not of persons (p. 221, note 9). The OPE rejects the notion of human capital: it contravenes the abolition of slavery and the definition of the commodity.

[121] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 170: once debt loses its artificial support, it ceases to dominate the financing of economic activity, and equity regains its place.

[122] The Modigliani–Miller theorem denies this opposition; on the theorem and its assumptions, see the appendix *Cost of capital, CAPEX and OPEX*, section 3 and Statement 4.

2. **Excluding cooperatives and mutuals, placement in capital provides ownership or co-ownership of an enterprise.**

The only property that placement in credit provides is that of a receivable.

3. **The income consisting of all or part of an enterprise's earnings is attached to placement in capital.**

The payment of interest is attached to credit financing. The price of the loan is likely to be fixed, once concluded. The income from a placement in capital varies according to the enterprise's results and cash flow. Hence the distinction between bonds, securities for placement in creditPlacement en Credit, and shares, securities for placement in capital.

4. **An enterprise's recourse to credit contributes to the reduction of the enterprise 's capital.**

Conversely, the use of an enterprise to increase its capital contributes to the reduction of the enterprise's debt.

5. **The repayment of the principal of a loan constitutes a cash outflow.**

Less credit for more capital reduces cash outflows.

6. **A capital increase is a sustainable contribution to the increase in production capacity.**

The loan that goes into the financing of an enterprise is a temporary contribution. Surplus value, whether it is obtained by leverage or otherwise, **is a transfer and not a creation of purchasing power**. I will come back to this point.

7. **Only the supply of a new elementary commodity creates exchange value.**

Whenever there is a supply of an elementary commodity in exchange for its remuneration, a wage-earner or a saver creates exchange value. The composite commodities that enterprises buy and sell open up and maintain outlets that feed the demand for elementary commodities and consequently the incessant creation of exchange value in the form of income.

8. **Placement in credit and in capital have two features in common.**

Both are financial and speculative. **Two kinds of financial speculation exist**, however. They become easy to distinguish upon close observation of a particular form of credit sale: one aimed at purchasing something expected to be worth more tomorrow —a capital gain — than it is worth today.

9. **Let's give the floor to a seller of this form of credit.**

"Buy this thing, which is worth 100 today, with the loan of 100 that my institution is going to give you. In a year, this thing will be worth 115, while over a year the credit of 100 will cost you 5. You will therefore have enriched yourself by 115 minus 100 minus 5, or 10". In this process, seller V makes to customer C an offer of economic exchange, credit in return for the payment of interest. But it is by transferring the assumption of the cost to a putative third party, the next buyer of the thing acquired by C by means of V's offer. The financing sold by V does not take part in any creation of market wealth, which creation exists only in the event of the supply of at least one new elementary good (paragraph 7 above). We are in the presence of an unenriching speculation of the entire population.

10. In the provision of permanent or temporary financing to an enterprise, there is a shift in the cost of this supply.

It is on the enterprise's future customers. But the essential difference is that it is through the purchase of new products of work for the enterprise's staff. In this case too, financial speculation intervenes, but it creates exchange value. Labor income and the income from placements of savings provided by enterprises is by means of this speculation rewarding.

5.6 An enterprise's equity ratio is more important than the amount of its capital.

1. Let us call the equity ratio of an enterprise the ratio between its capital and the total of its balance sheet (= total liabilities or assets).[123]

The mathematics of exponential accumulation does not enter into the determination of this ratio.

2. The replacement of the mandatory mention "Company with capital of..." by "Company capitalized at... % (... €)" has two advantages.

The equity ratio provides better information about the financial strength of an enterprise than the amount of its capital. Comparisons of equity ratios are likely to contribute to the increase in their averages.

3. A young farmer buys a farm entirely on credit.

Legally, he is the new owner. Economically, it becomes so as its debt is amortized.

4. The capital contributor of an enterprise in its own name is the economic owner of only a proportion of the assets listed on the balance sheet.

Holders of shares in the capital of a commercial company, other than a cooperative or a mutual society, are in the same situation. The proportion is the equity ratio. Depending on whether, for example, this rate is about a quarter, a half or a three-quarters, all credit providers hold the additional amount economically.

5. The security of placement in capital depends on many variables.

Nevertheless, a placement in capital yields an annual profit of 9%, with an equity ratio of 40%, while another yields an annual profit of 6%, with an equity ratio of 80%. Which one has the best combination of efficiency and safety?

6. The profit rate products by the corresponding equity ratio provide an index.

In the previous numerical example, the lowest index is 360 (9 times 40) and the highest index is 480 (6 times 80).

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[123] The equity ratio (ER) shares nothing with what Fabra calls the “rate of capitalization”, the reciprocal of the rate of profit read as a duration (*Capital for Profit*, Rowman & Littlefield, 1991, pp. 104, 144). That notion belongs to Fabra’s theory of deferred exchange, which the OPE does not adopt (see the note to the argument of Proposition 6.2 on the reconstitution of placements).

5.7 In an Objective Political Economy, capital is exclusively that of a commercial company.

1. **Law and accounting describe the capital of a commercial company as "social".**

On this point, as on many others, the Objective Political Economy follows the practice enforced by enterprise law and the standardization of corporate accounting. This usage applies to legally so-called civil enterprises.

2. **A capital is divided into shares held by its shareholding or into shares subscribed by its member.**

Shareholding would be, like the co-ownership of an enterprise in a general or limited partnership, eminently "capitalist". The cooperative or mutualist membership would be "solidarity". A cleavage is perpetuated without subjecting it to the verification of its economic reality.

3. **Facts impose a starting point for this verification.**

Any share is *de facto* a social share. Every shareholder is *de facto* a member. Let's first look at what is common to all shares of capital. Let us only then consider what makes the main economic difference between two kinds of share.

4. **The exploited value of a share is equal to the division of the capital by the number of shares.**[124]

The capital taken into account is increased by reserves, both mandatory and otherwise, and less any losses. The balance of unallocated earnings ("carry-forward") is therefore taken into account in the calculation of the exploited value per share. In contrast to the emission value, the exploited value varies over time.

5. **Of the amount of capital used to calculate the exploited value per share, we say that it is the capital-operated.**

In the case of enterprises whose shares are listed on the stock exchange, the market capitalization is likely to be more or less different from the **capital under cultivation**.

6. **An increase in capital through the issuance of new co-ownership shares reduces the relative share, per share, of the enterprise and its earnings.**

It therefore reduces the potential for tradable capital gains per share. These reductions are said to be dilution.

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[124] In Objective Political Economy (OPE), the exploited value per share (VEPA) is the standard book value per share — (shareholders') equity divided by the number of shares — since proposition 6.6 states that a company's capitaux propres and its capital exploité are the same object. The recognized Anglo-Saxon names are therefore adopted: book value per share (VEPA), dividend on equity, DOE (the annual dividend rate, TADD), and equity ratio (the capitalization rate, NTDC; nationally, the national average equity ratio, NAER). Equity is preferred to capital here precisely because, as OPE stresses, these funds belong to those who place them, not to the enterprise — which is what equity denotes. This equity is neither the bank-regulatory capital ratio nor capital employed (equity plus long-term debt, as in ROCE). OPE's foundational capital — opposed to credit, and distinct from quasi-capital — is this permanent, risk-bearing equity.

7. **The acceptance of dilution promotes the deconcentration of corporate co-ownership.**

It also promotes the increase in the capital base of the enterprises where it is practiced.

5.8 Let us call refundable shares those whose only method of liquidation is their redemption by the enterprise that issued them.

1. **The shares that constitute "refundable shares" are redeemable and non-negotiable, therefore, not listed on the stock exchange.**

The articles of association of the company, known as "variable capital", as well as the diligence of the board of directors and the general management, govern the terms and conditions for the redemption of these shares and the permanent issuance of new shares. In some cases, the reimbursement only takes place once a year. In others, the time between the application and the actual repayment is very short, which makes this method of liquidation more convenient for the saver.

2. **A placement in share capital through refundable shares is deprived of the possibility of a capital gain.**

The possibility of a capital gain generated by the sale of a share of the capital is inherent in negotiable shares (following proposition). Moreover, a capital gain or a capital loss on sale is certainly the result of an economic exchange – the sale of the transferred security – but it is also a transfer between the buyer and the seller[125].

3. **The deprivation of the possibility of a capital gain can be reconciled with protection against currency depreciation.**

Discounting the exploited value per share and aligning the liquidation value with that exploited value can be used for this purpose. The distribution of free shares is also important. For 20 years, I have been a member of an enterprise with variable capital. In addition to the annual interest on my placement, the enterprise informed me every 3 to 5 years of the revalued amount of my shares or distributed free shares to me. These measures have reduced the exposure to monetary erosion of my placement.

4. **No shareholder of an enterprise whose shares are all refundable holds more than a capped fraction of the capital.**

Typically: the fraction of the capital that a member holds at most is limited to 5%, i.e. a member of at least 20 members. In addition, and as a general rule, the company only remains well managed if it maintains the issuance of new shares and the opening to new members in order to compensate at least for the liquidations that have taken place. This is why French legislation uses the expression "with variable personnel and capital" to

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[125] | Capital gain | Transfer | Let us observe the effect of a rise in negotiable assets, that of real estate for example, when it is markedly higher than that of incomes over several consecutive years. During this period, the state of the market puts sellers in a position to impose on buyers a level of dearness that provides sellers with a capital gain. The dearness from which a capital gain arises then generates a transfer of economic exchange value, which goes from the buyer to the seller to the amount of the capital gain. By the successive definitions whose starting point is those of economic exchanges and transfers, **incomes come exclusively from exchanges of elementary commodities whereas the capital gains generated by asset sales constitute a category of transfers.**

characterize this type of company, the "variable personnel" being the number of members[126].

5. **By means of refundable shares, the increase in the capital of an undesirable member is completely controllable.**

This is the case if the articles of association provide for a procedure for the approval of new members and the liquidation imposed on the member who contravenes the conditions of his approval. This makes it possible to reconcile the protection of the *affectio societatis* with the constant opening of the capital to a greater number of shareholders.

6. **Historically, in terms of voting rights, the rule that has most often been associated with the practice of refundable shares is "one man, one vote".**

This rule replaces, where it is statutory, the rule of a number of votes equal to the number of shares held. This replacement is nevertheless based on a denial of reality. In other words, a member who sticks to holding a very small number of shares, well below the ceiling set by the articles of association. He has the same power at the general meeting as another who contributes more to the permanent financing of the company. We can say what we want, but this other is in reality more supportive.

7. **The "one man, one vote" rule is more secondary than often considered.**

It is secondary to the method of liquidation of the shares. It is also secondary in terms of the level of profit per share. Over the long term, the viability of **the business model of the company with refundable shares** essentially depends on three conditions:

1) Whenever the results before any other distribution so permit, the enterprise pays remuneration for contributions of capital at the rate prevailing on the capital market (for this rate, see the chapter on employment below).
2) The company shall keep active the method of liquidation and the issue of new shares in the capital, through provisions which shall be the subject of recurrent publicity.
3) The distribution of free shares compensates for the effect of currency erosion.

5.9 Let us call Negotiable shares those whose most common method of liquidation is their sale to a buyer.

1. **Listed stocks are the ones with the most open tradability.**[127]

The liquidation of unlisted negotiable shares is generally more difficult, if not very difficult. In companies that are companies in name only, the majority co-owner and head of the enterprise uses statutory limitations on the transferability of company shares, as well as blank powers, so that the enterprise remains, in fact, in its own name. This disguise has as

[126] The introduction into French law of the "company with variable membership and capital" dates from the middle of the 19th century. Analogous legislative measures were taken at the same time throughout Europe.

[127] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 269: on the stock exchange, supply is limited to the shares currently on offer and share prices depend solely on the interplay of supply and demand; the stock market, which Walras took as the archetype of a competitive market, is in fact a monopolistic one (see also p. 278, note 7).

its counterpart the companies with refundable shares whose managers have put on hold the method of liquidation specific to this kind of capital.

2. **Advertising the exploited value per share reinforces the link between this value and the share price.**

Currently, the number of shares is shown in the published quotes. On the other hand, neither the amount of the capital exploited nor the division of this amount by the number of shares is included. The market authorities are not yet doing anything to ensure that the exploited value per share becomes the level, variable over time, around which the price of a listed share oscillates.

3. **Let us assume that this value and the rate of distributed earnings relative to this value are published in force.**

So the comparisons to which each of these ads lends itself reinforce two trends. The differences in the rates of earnings on equity are narrowing more quickly. The prices of tradable shares oscillate more closely around the corresponding exploited values.

4. **The market capitalization of an enterprise is equal to the product of its share price by the number of its shares.**

In the lexicons that are now provided on sites dedicated to the stock market, we find the term "shareholder value" as "value creation by the enterprise" or "creation of value for the shareholder". Often, this "value creation for" refers more to the capital gain than to the income from the placement in capitalPlacement en Capital. This "value creation" never refers only to dividends.

5. **The purpose of negotiable shares is the same as that of refundable shares: the permanent financing of an enterprise constituted as a company.**

Tradable stocks are **not** for gambling, although they can be used to engage in it. A placement in capital has the rate of returnRendement on what it pays in dividends. The distinction between capital gain and rate of return is all the more important since the capital gain is only received when the securities that provide it are liquidated, whereas dividends are only received while the securities are held.

6. **Let us repeat that capital gains are transfers and not value creations.**

There is the creation of economic exchange value only through the remunerated supply of an elementary commodity (Chapter 2 At the same rate of distributed earnings on book value, the refundable and negotiable shares contribute equally to this creation. A capital gain, the result of an excess of offers to buy over offers to sell, displaces purchasing power without being in itself a creator of it. This makes it a transfer[128].

7. **The stock *option process* is not used in the sound-exchange economy.**

This process amounts to saying who this form of giving wage-earners a stake is aimed at: "I employ you so that your work contributes to creating value for the shareholder. In practice, this means: to give current and potential shareholders the feeling that the capital gain in constant monetary units is, on our shares, a tree whose growth will be endless." In the

[128] As shown in the first footnote of the argument of the preceding proposition.

economy of sound exchange, this statement becomes: "If you want to become a co-owner, it is under the same conditions as anyone else, whether or not anyone is a wage-earner of the enterprise".

8. **The separation of economic roles is cleaning up the markets.**

But, like the political separation of powers, it is applied by prohibitions. **The requirement for banks to** be either retail or investment is one of the separations that provide for the consolidation of the market economy.

9. **Financial techniques other than *stock options* are not used in the sound-exchange economy.**

Debt **securitization** and **interest rate derivatives** are ways of multiplying the number of transactions likely to generate capital gains while minimising the equity ratio. The prohibition of these techniques is one of the characteristics of an economy in which exposure to capital losses and the possibilities of capital gains are reduced to what is necessary for two purposes. Rising equity ratios increase resistance to insolvency outbreaks. This same increase contributes mainly to the establishment or restoration of full employment (see the chapter on employment below).

10. **Which shares, refundable or negotiable, are the most favorable to deconcentration, disintermediation and the rate of return of placements in capital?**

Deconcentration: more savers have become and remain shareholders. **Disintermediation**: the share of quasi-capital in the financing of enterprises, including financial institutions, is declining.

Process of realizing return: placement in share capital becomes a source of annuities that can be passed on from one generation to the next after payment of inheritance tax.

11. **Only negotiable shares can be used to transfer shares in the co-ownership of an enterprise.**

The refundable shares of a company make it possible to transfer, with the agreement of this company, the status of member and the rights attached to it. But the receipt of an unlimited series of periodic profits, constituting an annuity, is one of these rights in all cases of placement in capital.

12. **Two advances make the question of the respective virtues and complementarity of refundable and negotiable shares relevant.**

One is the less biased organization of the placement market. The other is the acquisition of the status of annuitant in addition to or in replacement of a pay-as-you-go pension, i.e. by transferring today's contributors to today's pensioners. Under these conditions, how would an economic policy that misses the possibility of this progress be sufficiently relevant?

5.10 Capital standards are necessary for the permanent consolidation of the market economy.

1. **Two advertisements are prescribed above.**

One is the equity ratio The other is exploited value per share.

Their promulgations bring about an organic reform of the capital market, including its stock market compartment.

2. **Following a loss-making financial year, the opening capital for the following financial year is *de facto* reduced.**

In the case of an enterprise, it is better to take note of a decrease in the exploited value per share, commensurate with the loss. Conversely, a profitable financial year is likely to increase the exploited value per share.

3. **Other capital standards are needed.**

They are concerned in particular with ratios of which capital is one of the two terms. We will see later that the most important of these ratios belong to families, the largest of which are three: rate of return, profitability, productivity. By sticking to definitions that are acceptable in the logic of finite sets, a closer look at them gives the observation of what is specific to the practice of commodity exchanges a **conceptual precision that is otherwise unattainable**.

4. **Divergent positions do not prevent agreement on economic reforms.**

Many opinions judged liberal or illiberal by those who take them and who oppose them leave a space in which to rebuild by common agreement the best economic organization. Paid placements, like paid work, respond to objective needs, recognized as such by a large majority of our fellow citizens. The Objective Political Economy helps to free these necessities from the fears that distract from this progress. The inevitability of markets arranged as they are does not exist.

5.11 The four basic economic regimes

A general taxonomy of economic regimes is part of the implications of the definition of capital.

1. **The most complete centralism is established by the nationalization of all enterprises.**

The permanent financing of a 100% nationalized enterprise is totally quasi-capital.

The danger of centralism is highlighted by Lord Acton's famous phrase :

Power tends to corrupt, and absolute power corrupts absolutely'

2. **Private corporate ownership is subject to centralism when the rules of competition are distorted.**

The formation of trusts, cartels and holding companies, with permanent financing of companies of companies by quasi-capital and possibly cross-shareholdings, centralizes economic power.

3. **The most accomplished liberalism is based on the direct ownership of all enterprises.**

In economic liberalism that is not amalgamated with another regime, there is no quasi-capital at all. In such a configuration, inter-enterprise cooperation makes massive use of franchise agreements.

4. **Centralism and liberalism are the poles of a typological axis.**

Depending on whether the frequency of exclusively direct ownership of an enterprise is greater or less and extends to the largest commercial enterprises, the degree of liberalism is more or less high. The lower the degree of liberalism thus appreciated, the stronger the degree of centralism and vice versa.

5. **Another typological criterion of economic regimes is the average equity ratio of enterprises.**

When this rate is below 50%, more credit than capital is used to finance enterprises. The neologisms creditism and créditist can be used to designate this type of economic regime.

Conversely, when the average equity ratio is above 50%, more capital, and, more or less marginally, quasi-capital than credit participates in the financing of enterprises. The noun "capitalism" and the adjective "capitalist" can be used to designate this economic regime.

6. **6. Creditism and capitalism are the poles of a second typological axis.**

The indication of a percentage makes the use of the distinction between creditism and capitalism more precise. Average equity ratios of 20% or 40% make a credit of 80% or 60%. Average equity ratios of 60% or 80% make capitalism at 60% or 80%.

7. **These considerations lead to a four-class typology of economic regimes.**

1) Creditism centralism aka centralized credit
2) Capitalist centralism aka centralized capitalism;
3) Social Credit Liberalism aka Liberal Social Credit;
4) Capitalist liberalism aka liberal capitalism.

8. **Liberal capitalism is the regime least exposed to crises of financial origin and the most capable of providing full employment**

Liberal capitalism is the richest in independence. Its structures provide it with many more watertight bulkheads than any of the other regimes. Is it sufficient, however, to provide full employment more often and for a longer period of time than underemployment? Three other essential criteria come into play:

- The choice of the distribution of created wealth between labor income and capital income (see Chapter 8).
- Sound monetary policy (see Chapter 12).
- Sound management of public finances (see Part III).

Chapter 6 – Profit

Profit *— "The difference between an enterprise's total revenue and all of its expenses related to the production and sale of its goods and services. / Schematically, profit can be considered as "what remains" to the enterprise once it has paid the prices of its factors of production and, generally, all of its expenses. The existence of a profit naturally presupposes that all of its income (measured approximately by its revenue) is greater than all of its expenses"*[129]

Another work of economic vocabulary, after having taken up: "Profit — Difference between the total revenue and the total cost of an enterprise",[130] states in line with the prevailing economic teaching: "Profit is an objective to be achieved, which sums up all the goals that are pursued by the firm.[131] ".But in this "summary", what about the maximization of profit? The propositions and arguments to be followed are, of course, in line with the statement stated above: enterprises are not inevitably enslaved to a maximum to the advantage of their owners or managers.

Here is a political economy that makes profit first and finally the end of a commodity exchange. Here is another one that does not, as is still the case today for the most taught. On this point, one breaks with the other. The one who does so pursues an overtly normative project that is very different from the apparently descriptive project of the other. By means of the methodological options from which the one who does so derives his capacity for objectivity, the atavistic and contradictory feelings that the notions of profit and capital continue to excite are stepped over. This is in order to base the primitive analysis of economic facts on concepts that are sufficiently defined and indispensable for their use to become impartial. The alternative, which is still the most commonly used, is the dead-end damnation of responses to ideology with ideology, in the pejorative sense of the word.

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[129] *Dictionnaire économique et financier*, Yves Bernard, Jean-Claude Colli, and Dominique Lewandowski, Inspectors of Finance, Éditions du Seuil, first published in 1975. In this quotation, "receipts" are the income (produits), in the accounting sense of the word, made up entirely of revenue in enterprises that, over the period considered, received no subsidy.

[130] *Vocabulaire économique*, Frédéric Teulon, Agrégé de l'Université, Presses Universitaires de France, coll. « Que sais-je ? » n° 2624, 1996.

[131] Same source as the previous quotation, with between these two excerpts: "*Profit has three functions: – it remunerates the providers of capital who have taken risks and who have made contributions in labor; – it represents an efficiency constraint; – it makes it possible to free up resources to finance investments* ". In this assertion, "functions" is a disguised way of saying "reasons for being", for one must divert attention from the logical status of the assertion that follows. To say, indeed, that profit "*sums up the whole of the firm's aims*" is logically admissible only if it is a hypothesis **demonstrated** by the doxa. Since this is not the case, and since it will surely never be the case, because the enterprise is one thing and there are in reality only people who have aims, this assertion conveys an untruth administered by begging the question.

6.1 Let us reserve the term profit for distributed earnings provided in return for a placement in capital or quasi-capital.[132]

Definitions of capital and quasi-capital: see the previous chapter.

1. **The Objective Political Economy gives the noun "profit" an unequivocal meaning.**

In this sense, profit is the effective remuneration for the permanent financing of an enterprise.

2. **The profit thus defined is always a financial product for those who receive it.**

However, this financial product is only income when it is in return for a placement in capital. The profit received in return for a placement in quasi-capital is onlyCapital Quasi Capital a financial product, and not also an income.

3. **Profit thus defined has a status and functions of its own.**

The economic status of profit thus defined lies in the fact that it is the end of a commodity exchange whose other term is the putting into capital or quasi-capital. The functions that this status confers are part of what economic science must elucidate. The remuneration of placement in capital or quasi-capital raises the following three questions:[133]

- Is the level of this remuneration the variable of a systemic relationship?
- Does this relationship have the effect of regulating this level?
- Does income from placement in capital reduce labor income?

6.2 Profit is the dividend in the case of commercial companies of any kind.[134]

Civil, professional and real estate companies in particular are part of the economically commercial companies.

1. **In the division of 8 by 4, 8 is the dividend, 4 the divisor, 2 the quotient.**

The dividend is strictly speaking the total to be divided, but when it comes to the distribution of a company's earnings, the quotient is often called a "dividend". The distribution of the dividend itself is effected by a more complex key than a single division in the case, which is in no way compulsory, of so-called preferred shares, or of preference, or of priority for distinction from ordinary shares.

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[132] Profit and interest are the prices of two opposite placements; on the weighted average cost of capital (WACC), see the appendix *Cost of capital, CAPEX and OPEX*, Statement 4 and section 4.

[133] Sraffa's "rate of profits" r is a different object: a rate, uniform across industries, applied to the value of the means of production of each industry, counterpart of the part of the surplus that does not go to wages (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. II). In the vocabulary of the Objective Political Economy, r is a rate of return on investment at the scale of the industry (Proposition 8.6), not a rate of profit on capital. Sraffa's system distinguishes neither placement in capital from placement in credit, nor earnings from their allocations (Proposition 6.3), nor the saver who sells the placement service from the enterprise that buys it. Fabra credits Sraffa with having restated the problem of profit and price in terms of cost of production, free of marginalist analysis, and reproaches him for not having put profit back into the general mechanism of exchange (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

[134] The opportunity cost belongs to the saver, not to the enterprise; on opportunity cost and on profit as a risk premium, see the appendix *Cost of capital, CAPEX and OPEX*, section 2 and section 4.

2. **The enterprise in its own name lends itself to the amalgamation between Wage the wage of the operator and the profit of the owner.**[135]

To avoid this confusion, the owner and operator must divide his deductions between two accounts: one for the earnings distributed to the owner, the other of the operator's wage. As the service of the labor provided by the farmer is exchanged for wages, the service of placement of savings in capital provided by the owner is exchanged for profit. In both cases, the co-exchangers are the enterprise and one of its suppliers.

3. **Let us insist again: capital gain and profit are different realities.**

Capital gain and capital loss are respectively a gain or loss that a **liquidation** provides. Profit is the product of **conservation**. The sale that provides added value is certainly a economic exchange. Nevertheless, capital gain as such is not a term of economic exchange, whereas profits and interest are, as such, terms of economic exchange.

4. **Profit is a rent, in the primary and most essential sense of the word: periodic income, whether fixed or variable, yielded by a placement in capital.**

Interest received by individuals and non-commercial associations is also rent. Pay-as-you-go pensions are de facto life annuities. The periodic income that profit provides is variable, although in very different proportions depending on the type of enterprise that serves it and the economic policy that prevails.

5. **"Rents received constitute the revenue of an enterprise.**

The remuneration received by the owner of a leased property is only profit when it is equal to or less than the earnings, all expenses and provisions deducted, of the enterprise that the rental constitutes. The determination of such earnings requires the keeping of complete accounts, which is difficult to make sufficiently far-sighted. This is why the fractions of real estate rent that constitute capital income are often overestimated.

6. **Profit is not a contribution to the reconstitution of the placement of savings in capital.**[136]

Profit has, on this point, the same status as interest. The latter is, in honest trade, a price that presupposes the repayment of the principal. Profit is, in honest trade, a price that presupposes the preservation of the savings placed in capital by the enterprise that this placement finances. This retention is due to the depreciation of assets and the revaluation of the balance sheet due to currency depreciation, not to profit.

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[135] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 221, note 10: the owner-entrepreneur distinguishes, within his earnings, the profit on his capital from his wage as manager, and the distinction appears in the accounts.

[136] Fabra develops a theory of capital and profit as a deferred exchange between invested saving and future profit: capital is exchanged for profit over time (*Capital for Profit*, Rowman & Littlefield, 1991, pp. 95–104), through a capital renewal cycle (pp. 118–120) in which profit is the phased reconstitution of earlier savings (pp. 159–160); capitalized cost and the permanent advance are presented as confirmations (pp. 145–148, 165–166). The OPE does not adopt this theory, which merges the reconstitution of the value of equipment, the object of depreciation, with the remuneration of the placement.

7. **Since profit does not have as its raison d'être the reconstitution of a placement in capital, the duration apparently expressed by a rate of profit is economically senseless.**

The period at the end of which a cumulative profit equalizes the amount of savings placed in capital is only the inverse expression of the average annual percentage of profit on capital. For example, when this term is 12.5 years, the average annual profit is 8%. But what does such a long period mean? Does the placement no longer have to earn a rate of return when it is maintained beyond the end of this period? That would be fraudulent. In the points of economic logic called upon to govern these matters, the following two can never be repeated too often. Profit only remunerates the service of placement in capital, but for as long as this service lasts. The only two means of economic accumulation by an individual are enrichment by inheritance and his savings fed by his income and capital gains derived from the liquidation of his placements.

8. **The losses are on several points asymmetrical with the profits.**

As defined here, profit does not necessarily have the effect of increasing a stock of savings placed in capital. The loss instead of a profit necessarily has the effect of reducing such a stock by the same amount. Despite the still widespread illusion to the contrary, such a reduction can only be erased by a new placement, just asPlacement en Capital a dilapidated property can only be erased by new works. The absence of profit is a loss of income for the underwriter in equity or quasi-capital. However, it is not, in itself, a loss for him. On the other hand, the absence of profit is a definitive loss of earnings: whatever happens next, the long-term accumulation of profits received will be lower than in the absence of a period without profit.

6.3 Profits are one of the allocations of enterprise earnings.[137]

1. **The enterprise earnings considered here are those whose complete partition comprises at most four portions.**

One of these at most four portions is an allocation to the self-financing of the enterprise, including allocations to the mandatory reserves — portion hereinafter denoted **A**. A second portion is a wage supplement paid as earnings-sharing, through which some or all of the staff share in the enterprise's earnings — portion hereinafter denoted **I**. A third portion is a profit for the effective remuneration of placement in capital — portion hereinafter denoted **P**. A fourth portion is an **overpayment** returned to customers in proportion to their recorded purchases — portion hereinafter denoted **T**.

2. **The partition doctrine that prevails today is the three-portion doctrine.**

One of the three portions is allotted to the enterprise: self-financing **A**. Another is allotted to some or all wage-earners: earnings-sharing **I**. The third remunerates placement in capital: profit **P**.

[137] Distributions to holders of equity claims are not expenses (IASB, Conceptual Framework, 2018, § 4.70); on the capital charge of EVA, see the appendix *Cost of capital, CAPEX and OPEX*, Statement 2 and section 4.

3. The predetermination of the proportions of the portions is often taken for granted.

To consider that the most consistent with distributive justice[138] is that these three portions are equal is to prescribe such a predetermination. Another way of predetermining the partition of net earnings is to set quotas, at least one of which is different from the others, for example 40% for portion **A**, 30% for portion **I,** 30% for portion **P**.

4. Which justice or justness is more appropriate in this matter?

Economic exchanges are commutations of transferable properties. This is why commutative justice[139] is intended to govern these exchanges, if not in full, at least in large part. Based on this observation, the partition of enterprise earnings raises fundamental questions. What in this partition is the least arbitrary? Is it to hinder as little as possible the stimulating and regulating functions of profit? Is the importance of these functions, for the economy in general and for the wage-earning workforce in particular, of primary importance over the long term?

5. Discrepancies give us pause.

In the case of a partition into three equal portions, one of which is **P** (the other two being **A** and **I** according to the prevailing doctrine), the rate of profit on capital is one third of the rate of earnings on the same base. For a **P** of 4% on the operating capital paid to shareholders, 12% of net earnings (3 times more) is then required – and 24% of gross earnings with a tax deduction of half of the net earnings. The prevailing opinion, led by authoritative voices, is to perpetuate both portion **I** and the subjection of enterprises to a tax on their earnings. Such an opinion is inconsistent when it judges that a double-digit rate of gross earnings on capital is too much in favor of shareholders.

6. Earnings and profits are not mere remainders.

For the purpose of calculating an absolute profit target, a board of directors or a self-employed entrepreneur applies a rate that it deems appropriate to the amount of capital. The objective thus set is not the result of a subtraction. In the forward-looking management of the income statement and balance sheet, profit and earnings are not remainders. The portion of earnings included in a forecast and truly complete cost price is not a remainder. It is only in general accounting and ex-post management control that earnings or loss, as well as all other margins, are only subtractions. A price theory built on the idea that corporate margins are constantly just leftovers is unrealistic, but no such untruth is enough to disqualify an economic theory academically.

7. Portion I has a significant disadvantage, but it is easy to remedy.

Earnings-sharing I, as a wage supplement, has an effect that is all the more important because it is relatively high: different wages, as received on a month-to-month basis, are no longer exactly comparable. The "thirteenth month" (or more) has the same effect, as well as other bonuses and benefits in kind. Chain adjustments are more approximately and slowly made. But the remedy is obvious. The bases of comparison must be the annual all-inclusive

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[138] See the definition of “distributive justice” in Wikipedia.
[139] See the definition of “commutative justice” in Wikipedia.

wages, even if it means dividing them by twelve or by an annual number of hours of work so that their orders of magnitude are more significant for everyone.

8. **The generalization of portion I will have the effect that portion P will remain one of the allocations of an enterprise's earnings.**

By definition, portion I exists only when there are earnings. Its generalization will therefore have the effect that earnings will, most often, remain to be partitioned into at least two portions: portion I and portion P.

9. **Portion T, that of the overpayment rebated to customers, is fallacious.**

In order for an enterprise to be in a sustainable position to give its customers a portion of its earnings, the provision of this discount must be included in its selling prices. Insofar as this enterprise claims to provide its customers with fair prices through this rebate, it is fallacious because of the provisioning that has just been said. Only an overpayment **occasionally** returned to customers can be economically true . This point is justified by what is explained further in Chapter 11.

6.4 Profit is an objective necessity.

1. **In an Objective Political Economy (OPE), the subtype of so-called market services and trade is the same as the subtype of so-called economic services and trade.**

Market acts are nevertheless a subtype of economic acts. By definition, no economic transfer is a commercial act.

2. **Profit makes the service of placement in capital marketable.**[140]

Like the service of labor and wages, a placement in credit and the interest it earns are the two terms of a commodity exchange. A placement in capital or quasi-capital and the profit it is likely to bring are similarly the two terms of a economic exchange.

3. **The necessity of profit flows from the necessity of capital.**

Capital savings are necessary for the creation and development of viable and autonomous enterprises, a necessary condition for raising what is usually called "the standard of living". Whoever is opposed to the very principle of profit is only consistent if it is also opposed to the principle of interest and that of wages, since all three respond to the same necessity: to remunerate useful services.

4. **Losses reduce capital and the lack of profit blocks a dynamic.**

Losses instead of earnings reduce capital, until it becomes more and more negative. Insufficient earnings compromise the sufficient return on capital. The dynamic then blocked is the one that allows the enterprise to adapt its offers to the incessant transformations of techniques and outlets.

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[140] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 89–90 and 134: exchange does not generate profit, yet there is no profit without exchange. Fabra's merit is to have placed profit back into the circuit of exchange; the OPE retains this point, not his theory of deferred exchange (see the note to the argument of Proposition 6.2).

5. **Sufficient earnings are the constraint that economic objectivity forces to make the most ubiquitous in enterprise management.**

Sufficient earnings, and hence sufficient profit, are a vital **constraint** to which the enterprise is subject, **regardless of anyone's psychology**.

6. **An enterprise does not economically own its earnings.**

For what remains after wage-earner earnings-sharing, the earnings of an enterprise belong to the person who provides it with its capital. To see in the earnings or loss of an enterprise a difference of the same nature as that between the income and expenses of a household or a non-commercial association is an error of economic analysis.

6.5 The full distribution of distributable enterprise earnings is sound.

A return as quickly as possible, a return to full employment whenever it is compromised, is the great result to be obtained.

But where is the master key? One avenue is the financing of enterprises. The remuneration of the most stable part of this financing can only be ensured by earnings. Let us look at the partition of earnings.

1. **Let us consider again the doctrine of earnings partition that prevails today.**

This doctrine is the three-portion doctrine. One portion goes to supplement wage, another to remuneration for placement in capital, the third to improve the enterprise's financial situation.

2. **Another solution is the full distribution of distributable annual earnings.**

In this solution, the distributable earnings — what remains of net earnings after wage-earner earnings-sharing and, where applicable, the allocation to the reserve imposed by the legislator — go entirely to the effective remuneration of placement in capital.

3. **Let's compare this solution.**

The E1 and E2 enterprises have a capital that does not include quasi-capital. They allocate the same proportion of their earnings to the earnings-sharing of their wage-earners. Their earnings per euro of capital are very much the same. They remain so throughout the multi-year period in question. For E1 and E2, the number of shares, all negotiable[141], and the amounts of capital are the same at the beginning of the period. For E1 and E2 respectively, Let us call R1 and R2 what remains of net earnings after wage-earner earnings-sharing and allocation to the mandatory reserves. The profits paid throughout the period under consideration are half of R1 for E1, the whole of R2 for E2.

4. **Year after year, E2's dividends are roughly double those of E1.**

E2 uses this superiority to increase **the capital each year** in excess of E1's undistributed earnings. While the number of shares of E2 increases, that of E1 remains stable.

[141] The comparison is transposable to cases in which the shares of one of the two companies, or of both, are refundable. For each of these transpositions, the conclusion remains the same.

5. **The board of directors of E1 does not want to imitate that of E2.**

The main argument put forward by the E1 board is the rejection of dilution. But thanks to the other solution, E2 has managed to grow its capital savings mobilization faster than E1. In this way, E2 has also been able to grow its assets and sales faster than E1.

6. **E2 has been more job creators than E1.**

This was due to higher growth in assets and sales through higher capital savings mobilization. When one of E2's minority shareholders decides to liquidate its position, it is easier than its E1 counterpart to have it taken over. This is due to the rate of return on E2 shares, double that of E1 shares, as well as the strength of the balance sheet and the growth of E2.

7. **The comparison between E1 and E2 suggests that the alternative solution is more economically relevant.**

But it is generally only so if a macronomic feedback provides for it. We will see in the next chapter that such feedback exists.

8. **Taxation offers a means of forcing the full distribution of distributable earnings.**

This means consists of increasing the tax on undistributed earnings to 100%, unless there is a contribution to the reserves made compulsory by the legislator. One way to do this is as follows, the tax in question is only the tax that enterprises pay on their earnings. Over several consecutive years, the tax rate on **distributed** earnings is lowered. Symmetrically, the tax rate on **undistributed earnings** is increased. At the end of this reform, the first rate is zero and the second is 100%.

9. **The full distribution by an enterprise of its distributable earnings establishes sound shareholder exchange.**

Through this sound economic exchange, from year to year, each shareholder grants or not to the enterprise a fraction of the capital increase that the management and the board of directors request. He disposes of what belongs to him as he sees fit. Through his placements in capital, he arbitrates more. The freedom to choose better regulates the freedom to offer.

6.6 Standardizing the publication of rates of profit on capital is possible and necessary.[142]

1. **The argument to be followed complements that of proposition 5.10.**

Capital standards contribute to the permanent consolidation of the market economy.

2. **The equity of an enterprise and the capital operated by that enterprise refer to the same purpose.**

Contrary to what the expressions "equity" and "equity" taken at face value mean, these funds do **not** belong to the enterprise (real equity only exists on the balance sheets of individuals and non-commercial associations). In both a sole proprietorship and a commercial enterprise, the capital worked is equal to the capital shown on the balance

[142] On the comparison of the rate of profit with the rate of interest as two prices, see the appendix *Cost of capital, CAPEX and OPEX*, section 2.

sheet, plus reserves and losses for the previous financial year, if necessary. It is therefore the amount that contributes to the constitution of the working capital, the difference between financing for more than one year and investments tied up for more than one year. In this regard, it should be noted that the working capital must be positive for part of the capital exploited to be used as wage funds.

3. **The same rate of profit on capital applies to all commercial companies as well as to all enterprises in a personal name.**

The base 100 of this rate is the exploited capital.

4. **For a corporate enterprise, the rate of profit on capital worked and the dividend rate relative to the value of the enterprise are the same.**

The numerator of the second rate is equal to dividing the numerator of the first rate by the number of shares. The denominator of the second rate is equal to dividing the denominator of the first rate by the number of shares. The two rates are equal.

5. **The annual rates of profit on capital-operated are comparable with each other and with annual rates of interest.**

All these rates are prices. However, true economic competition requires easy price comparison. The organisation of a market economy remains too roughly established in the absence of a standard for the publication of the rates of profit on capital, symmetrical to what the APR, the annual percentage rate of charge, is for interest. The returns on capital and credit placements (passbooks, bonds) must be easily comparable by savers.

6.7 A rate of profit measures rate of return or profitability.

1. **The expression "rate of profit" itself is often confusing.**

This is particularly the case in a context that does not indicate whether the rate of profit in question is on capital, revenue or value added.

2. **Let us agree to say:**

With **C** of capital, **V** of sales or value added, **P** of profit:

- the rate of profit on capital (**P**/**C**) measures the return on capital (also called return on equity);
- the rate of profit on sales (**P**/**V**) measures the profitability of the activity in question.

3. **This choice of vocabulary makes it easier to take into account two facts.**

First fact: since the P/**C** and **P**/**V** rates have the same numerator, a third term regulates their ratio: **P**/**C** = **P**/**V** times **V**/**C**.

Second fact: there is no reason to admit that a rate of profit **P**/**C** varies in all circumstances in the same direction as the corresponding rate of profit **P**/**V**. Their **V**/**C** ratio measures a productivity whose evolution allows the long-term tendencies that affect each of the two rates of profit to often be in the opposite direction.

4. **As there are two rates of profit, two families of margin rates exist.**

One is that of **the margin rates on stock**, the other is that **of the margin rates on flows**. Since profit is a terminal margin, a profit on capital rate is a ratio of the inventory margin rate family and a profit on sales rate is a ratio of the flow margin rate family.

5. **The use of the word "rate of return" to refer to a ratio of both the first and the second families is confusing.**

One way of distinguishing what needs to be distinguished is the word "return" by following it with a qualifier. Rates of margin on stock, and with them the rates of earnings and of profit on capital, are said to be "financial returns". Margin rates on flows, and with them the rates of earnings and of profit on revenue, are said to be "economic return" or "economic".

6. **These qualifications are misleading and ineffective.**

The financial is, for better or for worse, a strict subset of the economy. What is commercial is not non-financial, even in the case of contributions in kind and barter. In reality, there are still many cases in which a margin expressed as a proportion of a stock or a flow continues to be called rate of return itself. For example, low margins on sales are often considered to be the least profitable, whereas the rates of these same margins on investment are often the highest.

7. **It is better to come to call rate of return only a ratio of the family of margin rates on stock and profitability than a ratio of the family of margins on flows.**

In this agreement, earnings and profit on capital are rates of return, as are gross margin rates on inventory in retail or wholesale trade. The same earnings or profit relative to revenue or value added are a profitability, just like a unit gross margin rate on the purchase or sale price.

8. **We will see later that these definitions of rate of return and profitability help to identify two economic laws of great importance.**

At first glance, these definitions help to avoid mistakes that are still very common in enterprise management. Pushing the activities with the highest profitability exposes the enterprise to an increase in the relative share of the activities with the lowest rate of return. Faced with the resulting erosion of the rate of earnings on revenue, it is then the elimination of jobs to redress the situation that can finally be imposed.

6.8 The publication of average rates of profit on capital is the responsibility of the public authorities.

1. **Especially when the full distribution of distributable earnings is in force, the returns on capital fluctuate from year to year.**

This occurs without a downward trend in the average return on capital over a long period (several generations). The issue of divergent trends that normally affect the average return on capital and the average profitability of sales of enterprises is discussed in the next chapter.

2. **These fluctuations better regulate employment and the prices at which enterprises sell when the publication of average annual rates of profit on capital is part of the system of weights and measures.**

The next chapter explains it for employment, and more in Chapter 11 for the prices at which enterprises sell.

3. **The rate of return of hospitals (which are all, in fact, enterprises) chronically lower than that of the pharmaceutical industry has harmful effects, as well as the rate of return of farms chronically lower than that of car manufacturers, etc.**

On the one hand, sectoral returns on capital, which are significantly lower than the national average, threaten jobs and compress incomes when they are significantly lower than the national average. On the other hand, sectoral returns on capital, which are significantly higher than the national average, indicate higher margins, contrary to what would generally be produced by a better organization of competition.

4. **All commercial companies compete in the market for their permanent financing.**[143]

The general organization of competition remains too incomplete if, enterprise by enterprise, the rates of profit on capital are part of the business secret and if the average return on capital by sector of activity is a blind spot in the statistical apparatus.

5. **An additional consideration is even more decisive.**

Suppose a country where enterprises are divided into two sectors. The average return on capital in sector 1 is 4%, in sector 2 12%, in these two sectors combined 7%. If the average return of sector 2 is lowered to this average, i.e. from 12% to 7%, this sector **remains** attractive for placements in capital. If, at the same time, the average return of sector 1 is raised to the average of 7%, this sector **becomes** more attractive for placements in capital. In the end, **more capital becomes available as the equalization of sectoral return progresses**. An algebraic calculation shows that what applies in this respect to two sectors applies to as many sectors as it is necessary today to distinguish between them in the country in question. Hence the following generalization:

6. **The reduction in the dispersion of sectoral profit-on-capital rates promotes the growth of the national capital stock.**

This is one of the major reasons why the organization of the publication of the average rates of profit on capital is at the forefront of the economic duties of the public authorities.

[143] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 214: the saver is free to choose where he places his capital, and Fabra calls this freedom fundamental.

Chapter 7 – Employment

In all phases of fluctuation in economic activity, the full exercise of EPCE feedback, **Employment > Profit > Capital > Employment, is possible. Moreover, it is necessary, because the rapid return to full employment whenever it is compromised depends primarily on it.**

One of the main obstacles to this full exercise lies in the reduced remuneration of the capital savings placement — cut or outright evaded to complete the euthanasia of the rentiers by the glorification of the harvesters of capital gain. Another main obstacle comes from public finances when their management does not comply with two rules.

The last section of this chapter explains these two rules. The closer we get to it, the more the deterioration of public finances leads to more job destruction than creation. This occurs through a mechanism that is elucidated by consideration of EPCE feedback.

The "market finance" that took off in the 1980s reinforces the two main obstacles to the exercise of EPCE feedback. Let this exercise finally come to the forefront of the common goods in the public mind! Under the effects of the most devastating crashes, legislators will tighten the regulation of modern finance to the point of making it unrecognizable from what it was at its worst. The abandonment of designs full of perverse effects is largely at stake in what the refreshed political economy will manage to make commonly understood.

7.1 Capital increases are the healthiest means of job creation by enterprises.

1. **A healthier way than any other is established by comparisons.**

Two enterprises or two geographical areas are compared for a decade. At the beginning of the decade, the two equity ratios average in the case of geographical areas, were identical or closer than they were going to become. In the first third of the decade, one of these rates rose significantly, thanks to more capital savings being mobilised than recourse to credit. The other equity ratio remains stable or decreases. In the course of the decade, the rate has risen significantly and has remained stable or increased.

2. **The end-of-decade employment results are most often very different.**

In the first half of the decade, balance sheets were able to grow in the same proportion and this growth may have had about the same effect on employment. Then, a stall begins and increases. The higher equity ratio is more appropriate for the expansion and opening of outlets that provide increases in sales at a sufficient margin, as well as for timely reconversion in the face of closing outlets. Higher equity ratios encourage managers to look further ahead and to recruit more willingly on permanent contracts.

3. **Raising an average equity ratio has the same effect on employment as the creation of viable enterprises.**

The viability of a new enterprise obviously does not depend only on its equity ratio. The sufficiency of the latter is nevertheless a necessary condition. A new, highly capitalized enterprise becomes a good employer more easily. However, drawing the full consequence of these obvious facts does not yet prevail in economic science and politics as well as in the art of enterprise management.

4. **If the comparison is based on national economies, the results on employment are the same.**

The rise in the average equity ratio in a national economy, while this same rate is maintained or crumbling in the comparative national economy, has the same effect. In the former, job creation by enterprises becomes more sustained than in the latter.

5. **What happens in the countries where the lack of jobs is most prevalent reveals the existence of two economic laws.**

1) - The population of these countries is seeking by all means at its disposal to **create new enterprises**, even if they are very precarious and very low-remunerative.

2) 2 - The reduction of this precariousness and weakness is best achieved by **more permanent financing** than by debt.

6. **6. The rest of this chapter shows that a country-by-country feedback between the state of employment and the level of the capital stock via profit is normal.**

Two conceptions of the market economy are at odds when one admits this normality while the other's postulates on profit and on a common determinant at all prices prevent it from doing so. The matter is not minor. Wanting the feedback between the state of employment and the most active capital stock possible is in the general interest, dispensing with it protects particular interests.

7.2 The possibility of a close relationship between the national stock of capital and the state of employment is certain.

1. **The relationship between the sum of the financing used by enterprises and the number of jobs in enterprises is certain.**

Since capital is part of this sum, the existence of a relationship between the national stock of capital and the state of employment is certain, although more or less close.

2. **The inclination to "support demand" through dissaving eludes the obvious.**

Of course, dissaving through purchases from enterprises supports market activity, but placements of savings in capital support it just as much at first and then for a longer period of time. Initially, these placements finance purchases from enterprises and contribute to wage funds that allow them to hire. For a longer period of time, the wage funds constantly replenished by sales help to maintain jobs.

3. **Savings in capital co-finance or finance the creation of jobs.**

The greater the share of capital – in the financing of enterprises, and therefore in their liabilities – the closer the relationship between the national stock of capital and the state of employment.

7.3 The level of the national capital stock may be the main determinant of the size of the stock of employment.[144]

1. **This possibility varies according to the average equity ratio.**

In a country, the higher the equity ratios, the more the national stock of jobs depends on the national stock of capital.

2. **The national capital stock can only be the main determinant of the stock of jobs in enterprises.**

But enterprises, including those of the self-employed, have such a significant weight in the economy that the jobs they provide are the ones on which the overall state of the labor market depends the most.

3. **The revival through more placements in capital does not have the perverse effects of the increase in public expenses.**

Nor does the revival through more placements in capital have the perverse effects that a greater proportion of loans generates in the financing of enterprises.

4. **The qualitative consequences of the level of capitalization must be taken into consideration.**

Working conditions depend to a large extent on the financial situation of the employer, whoever it may be. Chronically too small cash flows are sources of tension and evasion. In enterprises, deadlines are more easily met when the equity ratio is high. The quality of life at work is affected. The proponents of the minimum capital in order to maximize rate of return do not like to be reminded of it: quality of life deteriorates or improves according to the fall or increase in equity ratios.

7.4 The change in the average rate of profit on capital may contribute to the change in the capital stock.

1. **The relationship between the change in the average rate of profit on capital and the change in the capital stock is flexible.**

To receive profit is one act, to invest again is another. The annual total of new placements in capital may be higher or lower than the annual total of profits. The general interest requires that in times of underemployment, new placements in capital should be greater than profits.

2. **The greater the enterprise earnings allocated to self-financing, the more distorted the prices of placement in capital.**

The so-called employer contributions also distort elementary prices. They distance the wages deemed gross from what they are in reality. The employers' representations have so far remained in favor of both. However, in primary markets (labor, capital), the freedom to choose tightly regulates the freedom to offer only under the following conditions. The hard

[144] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 24: Ricardo and Marx agree that the level of employment depends on the quantity of capital that pays wages; and p. 123: full employment requires the prior accumulation of the means needed to equip the available labor.

and fast counterpart of the labor service is its full remuneration. The hard counterpart of the service of placement in capital is its full remuneration, as is that of the service of placement in capital.

3. **The long-term trends in national average rates of earnings on capital and national capital stocks are different.**

Over a period of at least fifty years of a national economy where the purchasing power of low-wage earners has increased significantly, the average rate of earnings on capital fluctuates. The trend around which these oscillations are inscribed is towards stability. Over the same long period, the national stock of capital is on the rise, except for the catastrophes that result in its temporary collapse.

4. **The priority given to the appreciation of placements in marketable shares of capital rather than to their return stretches the relationship between the average rate of return on capital and the capital stock.**

This priority ultimately makes this relationship disappear. In both politics and economics, the general interest is that of the social body. While the standardization of the publication of the rates of profit on capital is feasible, its neglect goes against the general interest.

7.5 Nation by nation, a relationship between the state of employment and the average rate of profit on capital tends to be established.

1. **A high level of structural underemployment favors a high average rate of earnings on capital.**

A high unemployment rate compresses or even blocks the increase in the purchasing power of the greatest number of wages. The nations with the highest unemployment rate tend to be those with the highest rates of earnings on revenue and capital.

In relation to exploited capital, in the sense of this designation previously stipulated (Chapter 5), a high average rate of earnings does not necessarily result in a high average rate of profit, in the sense previously attributed to this word (Chapter 6). It is all the less so since the boards of directors of corporate enterprises favor self-financing through earnings.

2. **The decline in structural underemployment tends to lead to a decline in the average rate of earnings on capital.**

As full employment approaches, the brakes on increases in the purchasing power of the greatest number of wages are loosening. As a result, the average rate of earnings on capital falls, then it stabilizes.

During this decline, the decline in the average rate of profit on capital is all the more possible and postponed in time as the boards of directors of enterprises constituted as companies favor self-financing through earnings. We are then in a configuration of the financial economy where profits are assimilated to bond interest.

3. **The state of employment cannot be the sole determinant of the average rate of profit on capital.**

Even if the self-financing of enterprises constituted as companies is reduced to the depreciation of their fixed assets and more frequent capital increases have taken over, the

rentier function of the savings placement in permanent enterprise financing makes it **impossible for the state of employment to be the sole determinant of the average rate of profit on capital**. For the reasons summarized below and too often overlooked, this function is neither parasitic nor obsolete.

4. **Savings in capital provide income other than that of new labor.**

Within this income, there are placement-based retirement pensions that supplement or replace transfer-based pensions. This other function is such as to determine a threshold below which an average national rate of profit on capital does not fall.

Typically, we invest an increasing fraction of our income in the second half of our career and beyond. This fact increases the importance of the threshold below which the national average rate of profit does not fall, even in periods of structural full employment.

5. **The rentier function of permanent corporate financing can, however, contribute substantially to enough savings placed in this financing to establish structural full employment and then restore it whenever it is compromised.**

Corporate governance, riveted to the satisfaction of immediate interests, evades part of its civic responsibilities, just as public power, alternately prey to visceral anti-capitalism and subjectivist capitalism, avoids its economic responsibilities. The euthanasia of pensioners by holding shares in the capital is contrary to the general interest.

6. **The relationship between the state of employment and the average rate of profit on capital can be strengthened.**

This reinforcement would be unachievable if there was nothing to strengthen! It is because this tendency tends to exist, even when it is totally unexploited by economic theory and policy, that the following propositions and their arguments can show that this strengthening is feasible and maintainable.

7. **Of course, the self-financing of enterprises through their earnings creates jobs.**

But less self-financing for more earnings distributed to capital placers – more profit (Chapter 6) – **ultimately creates more jobs when, as a whole, savers invest more than the profits they received in capital increases**.

We can speak of **it as the most job-creating detour and the best controller of the level of rate of return** around which it is necessary for economic equity and efficiency that all enterprises be kept in competition.

7.6 The activation of EPCE feedback is a major act of economic policy.

In the abbreviation EPCE, the first and last E are the initial of the word Employment[145].

The letter **P** is the initial of Profit, **C** the initial of capital, with each term defined unequivocally in its respective section.

[145] See the definition of "employment" in Wikipedia.

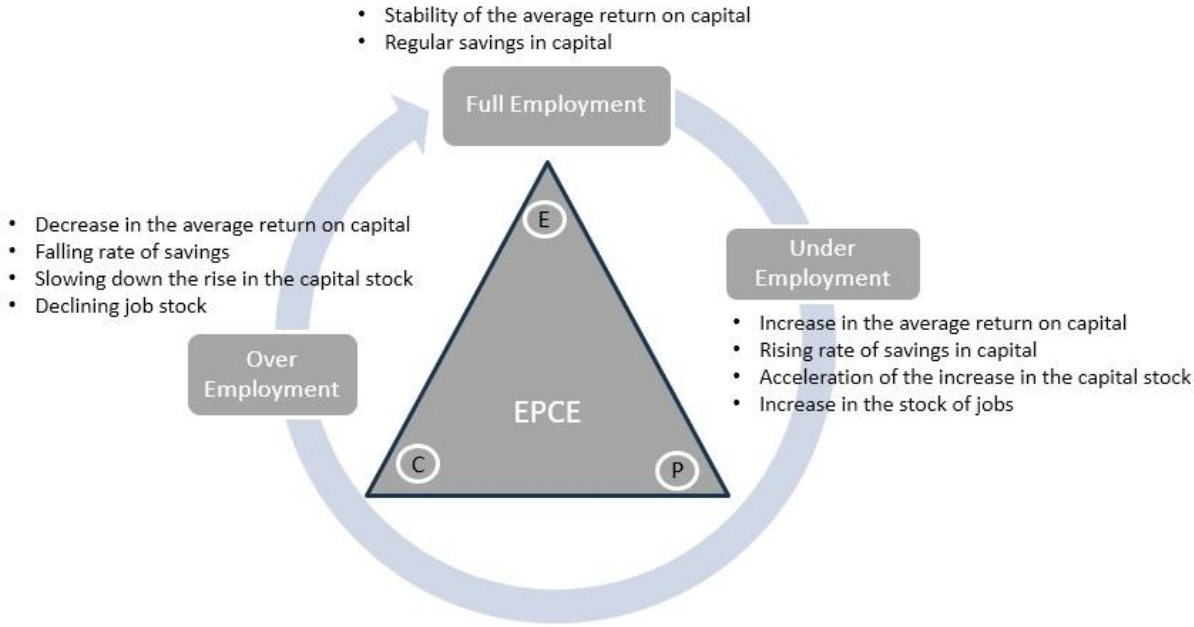

Figure 7 - EPCE regulator

1. **In times of underemployment, the EPCE feedback accelerates the growth of the national capital stock.**

The deterioration of employment **E** has the effect of increasing the average rate of profit on capital **P**. This increase accelerates the increase in the national stock of capital **C**. This acceleration itself has the effect of improving the state of employment **E**.

2. **In periods of full employment, the EPCE feedback slows down the growth of the national capital stock.**

The approach and the attainment of full employment have the effect of reducing and then stabilizing **P**. The increase in **C** tends to slow down. The risk of a deterioration in employment **E** increases – but this risk decreases if the social body anticipates it by an increase in placements in capital.

3. **Successive states of employment have causes other than the more or less good functioning of the EPCE feedback.**

The entanglement and variability in space and time of these other causes, however, leave a fatality intact. Full employment follows structural underemployment only by a fairly sharp increase in the national capital stock.

4. **Self-financing through undistributed earnings hinders the full exercise of EPCE feedback.**

Self-financing through undistributed earnings reduces and smooths the rates of profit on capital. However, the latter are systemically more effective detectors than enterprise rates of earnings. This stems from the fact that profit, as defined here is palpated, in the literal and slang sense of this verb, by those who perceive it and who are likely to perceive it.

5. Losses **that have been carried forward again are detrimental to the full exercise of EPCE feedback.**

When, for an enterprise, the result of the financial year is a loss, de ***facto*** the capital has been reduced by the amount of the loss during that financial year. To act as if this were not the case is to distort the figures and, with them, the arbitrations.

6. **The lack of a universal standard of profit on capital hinders the full exercise of EPCE feedback.**

A market works much better when a universal system of weights and measures applies to the transactions that take place in it. In a market economy, a structural defect persists in the absence of a standard of profit on capital applicable to all enterprises.

7. **The introduction of equity ratio advertising contributes to the full exercise of EPCE feedback.**

The publication of equity ratios introduces more attention to the proportions of capital that finance enterprises. Its introduction, even if it results in a very slow increase in the average equity ratio, makes the EPCE feedback more active.

8. **A diversified offering of placements in variable share capital contributes to the full exercise of EPCE feedback.**

The abundant placement offer of refundable sharesAction Restituable as long as their average rate of return is at the same level as that of negotiable shares increases the national capital stock. In doing so, it contributes to the full exercise of EPCE feedback.

9. **The taxation of placement income and work at different rates hinders the full exercise of EPCE feedback.**

For EPCE feedback to work best in a nation, the public must have **full** control over it . The taxation of placement income and labor at different rates erodes this control. It is then elected officials who, under the impetus of pressure groups, manipulate the uses of savings through taxation.

10. **The imposition of a tax on enterprise earnings is incompatible with equality before the taxation of placement income and work.**

As enterprise earnings are the economic bases of profits, a tax system that is far too complicated is needed to enable everyone to understand and verify that profits and Wage wages are taxed equally. Better no tax paid by enterprises on their distributed earnings and income tax on all profits.

11. **The first condition for the full exercise of EPCE feedback is the propagation of one's will.**

Nothing in the economic aspirations and rejections of society stands in the way of its acceptance of EPCE feedback. It remains to be proposed an economic policy aimed at the full exercise of this feedback, with explanations to support it.

7.7 EPCE feedback provides a permanent stimulus to the market economy.

1. **The EPCE feedback is an ongoing stimulus mechanism through new placements in capital.**

The revival through new placements in capital has no perverse economic effect under two conditions. No new placement in capital comes from a debt taken out in order to make it. Enterprises raise or maintain their equity ratio at a high level. In particular, start-up enterprises keep this rate as close as possible to 100% until they cross the threshold at which they are structurally profitable.

2. **The worst that can happen because of new placements in capital is obvious.**

Collectively considered underwriters lose the bulk of their stake. To the extent of this largest, the **supply-side stimulus** has degenerated into **a demand-side stimulus**, after injecting into economic activity the purchasing power lost by savers. Too many economists and politicians still pretend to be mistaken about the consequence of the revival by new placements in capitalPlacement en Capital, which has been a failure: the transformation, on the basis of this share, of savings into expenses in exchange for the loss of these savings by their holders.

3. **The worst that can happen because of new placements in capital is no less a blessing.**

Lost capital reduces the mass of loans whose principal is unrecoverable. Savers impoverished by the loss of all or part of their placements in capital find at best little reason for consolation. The general interest nevertheless requires that the accumulation of false rights (Jacques Rueff) be restricted, which constitute irrecoverable debts. In the absence of sufficient preventive restructuring, increasingly sophisticated financial engineering makes it less and less avoidable to eliminate false rights other than through large-scale crises.

4. **Creditism distracts from the full exercise of EPCE feedback.**

Yes, say the advocates of the minimum capital per enterprise, new placements of this kind are good when only they serve as a basis for credit leverage. They consider the maximization of earnings and capital gains inherent in the market economy. They push the idea of the rate of profit on capital to a level sufficient for the return to full employment or its maintenance.

5. **Centralism distracts from the full exercise of EPCE feedback.**

In economics, centralism has the cult of the power of large enterprises, preferably with several world firsts. Keeping the floodgates open to palliative and incentivizing interventions by the public authorities is part of its DNA. Remotely guided by pressure groups, these interventions are the instruments of an "economic and social engineering" in which **the EPCE withdrawal has all the less place since its full exercise is an application of the** principle of subsidiarity[146].

[146] See the definition of “principle of subsidiarity” in Wikipedia.

6. **A Social Credit and centralist government apparatus is doubly inclined to hinder the EPCE feedback.**

A Social Credit and centralist financial apparatus is also doubly inclined to hinder the EPCE feedback. The removal of these obstacles may therefore prove impossible without a **profound change in political philosophy, including its economic aspect**.

7.8 The activation of the EPCE feedback reinforces the tendency towards equalization and sufficiency of the rates of profit on capital.

1. **Four devices make EPCE feedback more active.**

- The normalization of the costing of the rate of profit on capital.
- The reduction of enterprises' self-financing to their depreciation of assets and to the contribution to increases in working capital made mandatory by the legislator.
- The indication, also made mandatory, in the announcement and service of a dividend of its normalized rate.
- The production of statistics and the publication of average rates of profit on capital.

2. **Implementing these measures reinforces the tendency towards the equalization of the rates of profit on capital.**[147]

Inflows of placements in capital where their rate of returns are highest sooner or later cause these rates of return to fall. Conversely, where the returns on placements in capital are the lowest, let alone zero, conversions and closures sooner or later have the effect of increasing these rate of returns. This convergence is becoming all the more a norm since the competition administration receives from the legislator the task of cracking down on abuses of dominant position.

3. **The adequacy of a national average rate of profit varies according to the state of employment.**

In a period of growing underemployment, the sufficient level of the national average rate of profit on capital is higher than what it actually is. In a period of decreasing underemployment, the sufficient level is at least equal to what this rate actually is. In periods of structural full employment, the sufficient level is equal to or lower than the effective rate.

4. **The activation of the EPCE relationship has the effect that the rates of profit on capital tend to equalize around the sufficient level of their average.**

The gravitation of the rates of profit on capital around their sufficient level also participates in the regulation of the prices at which enterprises sell (more on this point in Chapter 11).

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[147] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 210: with Ricardo, the inequality of profits moves capital from one employment to another; p. 178: an activity yielding a higher-than-average rate of profit attracts a continual inflow of capital; p. 213: wherever rates of profit differ, the payment of rent restores their equality.

7.9 In public finance, non-compliance with two management rules is detrimental to employment.[148]

1. **The basic problem of public finances is the same as that inherent in the finances of non-commercial associations.**

Even if economists, auditors, senior civil servants and politicians were all convinced that the basic problem of public finances and that of the finances of private associations are different, the opposite would continue to be true. Here's why.

2. **Households are private associations.**

Let us see, then, what is valid as well in the household bursar's office as in the bursar's office of any other kind of association, provided that it is not a enterprise. It does not matter whether or not it is a foundation and whether its purpose – provided that it is not commercial – is artistic, charitable, religious, educational, electoral, environmental, recreational, scholarly, sporting, trade union.

3. **For any entity, an expenditure is an investment when it increases fixed assets on its balance sheet, otherwise it is an expense to be included in its income statement.**

Strictly speaking, a stock of consumable supplies is an economic asset. Calling only longer-term investments "fixed assets" makes it easier to keep double-entry bookkeeping. This does not detract from the fact that economic investments are stocks, called assets, and that they are uses of the financing that constitutes the stock called liabilities. An expense, on the other hand, does not increase any stock of assets.

4. **The depreciation that is part of the expenses of a household as well as of any other non-commercial entity is not the same as that which is part of the expenses of enterprises.**

In the expenses of enterprises there are periodic allocations for investment depreciation, often called industrial depreciation. The expenses of enterprises also include financial expenses, which include the interest due over the period in question. In the expenses of households and all other non-commercial associations that are in debt, there is in fact another kind of depreciation. The loan instalments that are due over the period in question constitute provisions for debt amortisation, interest and principal repayment.

5. **In the expenses of a non-commercial association in debt, not including debt amortisation is wrongful.**

Here is a couple who are asking a bank for a loan. The bank takes stock of the couple's financial situation. It asks the government what its income and expenses are, and the maturities of current loans are included in the expenses. This is as normal as it is necessary.

6. **In public finances, the most important budgetary result is given the allocation of the period to debt amortisation.**

Not including in the expenses the allocation of the period to the amortisation of the debt makes it easier to camouflage an eviction effect**.** The chronic deficit of the largest budgetary

[148] On the partition of expenditure into expense and investment, and on depreciation according to the type of entity, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

result captures funds that could have contributed to retraining and job creation through their placement in permanent financing of enterprises (see above, starting with proposition 7.1.

7. **Hence the rule: to hold the largest budgetary result with a chronic surplus.**[149]

The objection to this austerity is that job creation and the rise in labor incomes will be held back. However, the opposite will happen, all the more quickly and substantially as economic policy is focused on the full exercise of EPCE feedback and a different rule of public financial management is applied.

8. **The other rule is: to make the weight of public investment oscillate according to the economic situation.**

The explanation of this rule, followed by the more detailed explanation of the chronic surplus rule mentioned above, can be found in the second part of this report. A country that moves further and further away from respecting these two rules can, over time, only sink deeper into underemployment and corruption. Theory keeps him waiting and experience confirms it. Not recognizing this is undoubtedly a political mistake of the first magnitude.

[149] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 306: public expenditure whose purpose is not to earn an income is logically to be financed by taxation rather than by borrowing.

Chapter 8 – Distribution

On a country-by-country basis, the highest level distribution is that of total income between placement income and labor income. Year after year, what is the share of total income that the market economy tends to maximize? Is it placement income or labor income?

- If it is that of labor income, then the increase in average labor income is not only faster than that of total placement income, but also even faster than that of total income.

The study of the distribution of total income, based on definitions that are acceptable in the logic of finite sets, shows which is the most important economic aggregate, country by country. It is conceptually simpler and fiscally more honest than GDP.

The OPE examines two other distributions:

- One is in the next chapter, Chapter 9, the distribution of total labor income. It is more and less and less unequal. But the evidence that makes it so is not part of the doctrine in force. A power that the economic system confers on the social body is usurped.
- In Chapter 11, the other distributions are, in the selling prices of enterprises, those of common costs and contributions to the final result.

A new way of examining the problem of the latter distributions finally solves a problem of principle and identifies a general law. The problem is that of the objective exchange value of most of the services and goods sold by enterprises.

- This general law is that of the tendency, engendered by competition when the market authorities want it, to equalize the rate of return of the same systemic level. Many prices then become closer to their target level.

The distribution of private wealth gradually becomes less unequal when each of the three distributions studied in chapters 8, 9 and 11 follow their normal course.

- But this normal course is inherent only to the market economy in a regime of sound exchange, first of all both in terms of shareholders and wages.

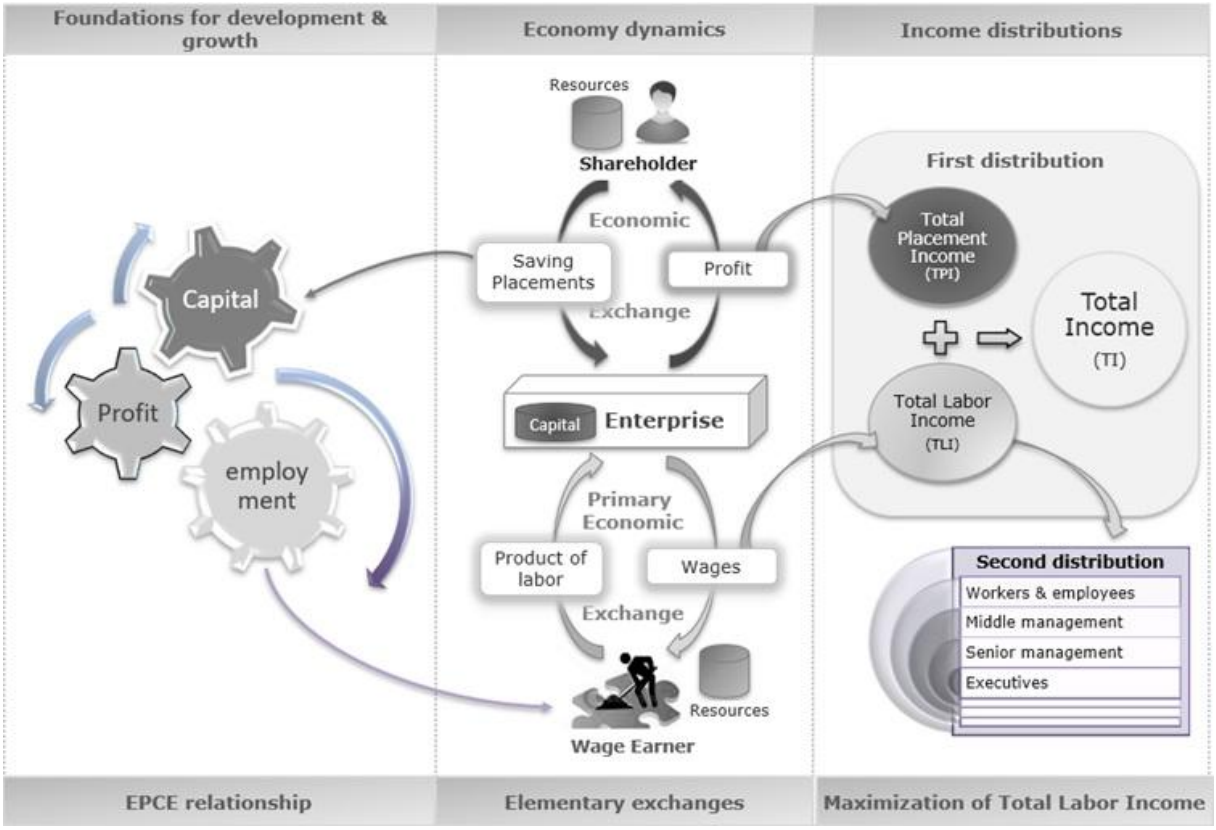

Figure 8 – General operating model of the economy

8.1 Let us call total income (TI) the sum of total placement income (TPI) and total labor income (TLI).

The first argument below is numbered 5 because it follows the four arguments in support of proposition 2.17: only individuals and non-commercial associations receive income and save.

> **Total income (TI) is, by definition, equal to the sum of total placement income (TPI) and total labor income (TLI).**

Noting TI = TPI + TLI does **not however** mean that it is the addition of TPI to TLI that **determines** TI.

1. **Any variation in TPI relative to TI is accompanied by a variation in the opposite direction of TLI relative to TI.**

If, for example, the TPI goes from 15% to 10% of the TI and then goes back up to 20%, then the TLI goes from 85% to 90% and then goes back down to 80% of TI.

2. **Let us call wages the total labor income (TLI) and, for a moment, "profits" the total placement income (TPI).**[150]

More Profits makes fewer wages, and vice versa, on the macronomic scale of total income (TI). **But this is only at the level of a country or a group of countries.** Larger or smaller earnings do not always mean less or more wages on the mesonomic scale of an enterprise, or a group of enterprises. It is not by anomaly that quite often wage increases granted by an enterprise contribute to an increase in that enterprise's earnings, both in absolute and relative terms. A theory of wages that does not take these realities into account is false.

8.2 Total placement income (TPI) can be made sufficient.

1. **"The population and the political class of a free country wish that a significant number of adults be able to live substantially on their placement income.**

These adults are those who are unable or unwilling to provide labor in exchange for labor income while owning assets that provide them with placement income.

2. **At the forefront of the conditions under which this collective desire is economically viable is compensation for monetary erosion.**

In a country with full EPCE feedback, placements in share capital protect against monetary erosionCapital Social through the distribution of free shares.

3. **Let us call rents by exchange those which a patrimony of value procures, and rents by transfer those which are provided by allowances and pensions by distribution of contributions.**

Annuities by transfer have the advantage and disadvantage of not mobilizing a placement estatePatrimoine Economique. This is an advantage at the time of their establishment. This

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[150] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 215: gross product is necessarily shared between wages and profit, which does not mean between wage-earners and capitalists. Fabra's profit is here the broad income from capital, the counterpart of total placement income (TPI).

is a disadvantage because of the retraining and job creation that require new placements in capital.

4. **The social body can adjust the mass of rents by exchange to its needs.**

Once the full exercise of EPCE feedback is established, the average on placement estates rises above the exchange annuity requirements rent by exchange during periods of structural underemployment. As full employment approaches, the average yield falls to the level sufficient for the sole satisfaction of the rent needs by exchange. The two refusals mentioned in the following proposition contribute to this.

8.3 Two long-standing refusals of change govern the distribution of total income.

1. **The social body refuses to allow the rates of return on placements to rise from generation to generation.**

If this were to happen, the fact that **total income (TI) is the sum of total placement income (TPI) and total labor income (TLI)** would cause the relative share of TLI in TI to decrease. However, the periods of a few quarters (or years) during which this decline is initiated inevitably lead to reactions that stop the increase in the relative share of TPI in TI.

2. **The social body refuses that if the total income (TI) increases, the average labor income does not also increase.**

Common sense knows, through reasoning and experience, that it is always new labor that makes placements in market activities profitable.

3. **The theory of the distribution of total income, TI, contributes to the realization of these two refusals by making them normative pivots.**

Pivot **1**: **TPI** should be considered potentially **sufficient**.

Pivot **2**: **TLI** and the average wage must be considered irremediably **insufficient**.

8.4 Total labor income (TLI) is what remains of total income (TI) once total placement income (TPI) has been formed.

1. **Since by definition TI = TPI + TLI, one of the two proportions determines the other.**

Solution **1** : the TLI / TI proportion **determines** the TPI / TI proportion.

Solution **2** : the ratio of TPI / TI **determines** the proportion of TLI / TI.

2. **Only the second solution is consistent with what the previous proposition indicates.**

This indication is that of the two refusals by which society governs the distribution of total income (TI) over the long term. This is why TLI **is a remainder, because of the insufficiency inherent in it: TLI = TI – TPI.**[151]

[151] This closure of the distribution coincides with the one Sraffa proposes. Marx, and Ricardo as commonly read, take the wage as given and profit as the residue. Sraffa reverses the order: the rate of profits, "as a ratio, has a significance which is independent of any prices, and can well be 'given' before the prices are fixed", and the wage becomes the residue (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge

3. **The methodological and policy status of the equation TLI = TI – TPI is the same as that of the EPCE feedback.**

This status is also the same as that of the previous proposition: **normative**.

4. **To consider that profits cut wages by the same amount is correct on one condition.**

It is on a macronomic scale that this happens. There, the total profits contribute, together with other placement income, to the reduction of total labor income, including that received by wage-earners other than those of enterprises.

5. **The earnings made by an enterprise, and therefore the profits it pays, do not necessarily reduce the wages of that enterprise's staff.**

Here we are on the mesonomic scale. The wages paid by an enterprise may have been and remain at the level of those of the employers who pay their staff the most. Enterprise by enterprise, there is not necessarily more reduction of earnings by any increase in the wage bill.

6. **The macronomic proposition "total placement income reduces total labor income by the same amount" is correct.**

But the mesonomic proposition is false: "the profit distributed by an enterprise reduces the enterprise's payroll by the same amount".

8.5 An equation other than TLI = TI - TPI regulates the distribution of total income.

1. **This other equation is a rule of three.**

Its form is A = B times C, each of the three terms A, B and C being a ratio between two of the three variables: x / y = z / y times x / z. For example, 8 / 100 = 400 / 100 times 8 / 400, or 8% = 4 times 2%.

2. **The discoverer of this application of the rule of three was, to our knowledge, the American Donaldson Brown.**

Brown devised the formula in 1914 as Assistant Treasurer, working under John J. Raskob (Hagley). **Brown's formula is none other than that of the now famous ROI and ROE**, ROI being the acronym for *Return On Investment* and ROE for *Return On Equity.*

3. **The conventions laid down in the following three propositions are of great help in formulating and interpreting this rule of three.**

The first and third of these conventions complete what has been previously admitted about rate of return and profitability in relation to the rates of profit. The second defines the concept of productivity.

University Press, 1960, §44). The two constructions diverge on what fixes the given term. Sraffa suggests “the level of the money rates of interest”. The Objective Political Economy fixes it by the sufficiency of total placement income (Proposition 8.2) and the two refusals of the social body (Proposition 8.3), and makes the rate of profit on capital the director of interest rates (chapter 10). Fabra sides with Ricardo: the rate of interest is determined by the rate of profit, not the reverse (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

8.6 Let us reserve the term rate of return for a rate of income or margin relative to a stock.[152]

1. **In this definition, "stock" is used in its broadest economic sense.**

A stock is contrasted with a flow, as recalled in proposition 4.2. Balance sheets are stock accounts. Assets and debts of household are, among other things, stocks, whereas incomes are, among others, flows.

2. **Let's use the letter G, for gain, to algebraically denote a placement income or margin.**

Profits are entirely income but income from placements in capital. Wages are also entirely income but labor income. It is customary to call margin the difference between a sales flow measured at its price-value – the revenue – and this same flow measured at its value-cost – a cost-of-sales price. What is conventionally called value added is a margin[153].

3. **Margins are sometimes called contributions.**

When the "cost-of-sales price" is the purchase cost of the commodities resold, the margin is often said to be gross[154]. When the cost considered is direct, qualifying the margin as direct is substantial. Earnings and losses are also margins.

4. **Only a ratio between an income or a margin G and a stock S is a rate of return R such that R = G / S.**

It follows from this definition that no relationship between an income or a margin and a flow is rate of return.

5. **-A rate of profit on capital is a ratio of the family of rates of return.**

The relationship between the income of the placements in capital and the value attributed to these savings is one as well. Also, among others, rates of return are gross margin rates on average inventory and direct margin rates on direct assets.

6. **Making the family of rate of return logically homogeneous avoids misunderstandings and errors.**

X says that over the long term, the rate of return of enterprises decreases. Y asserts that this tendency is, on the contrary, towards stability. Both may be right... and wrong to contradict each other. When X talks about the rate of return of enterprises, the rate he is thinking of is earnings on revenue while for Y the rate he is thinking of is also earnings, but on capital or assets.

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[152] The rate of return replaces the residual “value created” of EVA-type measures; on this point, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

[153] No income (including profit) is, in the hands of those who receive it, a margin. More generally, not every amount of a sale is a margin.

[154] But there is no universal definition of what a gross margin is, any more than a semi-net and net margin.

7. **Very famous economists have predicted the tendency of the rates of profit to fall.**[155]

Learned discussions on this point have remained unresolved because of definitions that are not definitions. The asymptotic fall in the rate of profit on sales does not exclude the stability of the rates of profit on capital.

8. **In other words, an enterprise where, as is still very common, we do not force ourselves to the unequivocal use of the concept of rate of return.**

The margin rate on revenue for activity A is significantly lower than for activity B. It is better to get rid of activity A, according to management, in order to increase the enterprise's rate of return. In reality, in the unequivocal sense given here to the concept of rate of return, and as often happens, it is the direct rate of return of activity A that is greater than that of activity B.

9. **Many decisions, with serious consequences, particularly on employment, are taken with regard to rate of return.**

Unfortunately, this does not mean that it is almost always an element of the rate of return set when this set satisfies what a definition in mathematical logic is (proposition 1.1 For both theoretical and practical purposes, however, it is necessary, otherwise economic reality is neither observed nor treated for what it is on a key point.

10. **Let us make use of what the French language has bequeathed to us that is economically insightful.**

In French, rentabilité evokes the rente set against the value attributed to the placement that procures it. This reconciliation constitutes a relative value, which can always be expressed as a percentage per year. This relative value is, so to speak, the mother of rate of return in Objective Political Economy and good management.

8.7 Let us reserve the term productivity for a ratio between the monetary amounts of a sales flow and a stock.

1. **Enterprises' revenue (sales revenue also) is the monetary amounts of their sales flows.**

Of these amounts, we can say that they are at their "price-value". A flow of sales by an enterprise is also expressible at a "value-cost", the difference between the sales at value-price and the same sales at their value-cost being a margin.

2. **Placement income is a flow of sales.**

Labor income is also a flow of sales, but the services that provide it are not savings placements.

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[155] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 190–193: the so-called law of the declining rate of profit, formulated by Smith, Malthus and Marx before Keynes, rests on a misreading of Ricardo and signals a divergence from the logic of capitalism rather than its hallmark; and p. 117: technical progress does not invariably lower the rate of profit.

3. **In objective economics, only a ratio between a flow F, other than a margin, and a stock S is a productivity P such that P = F / S.**

A productivity P measures what a stock S has produced or is likely to produce at market value, the expression of this flow F of production and this stock S being itself exclusively monetary. Productivity defined in this way measures a rotational speed.

4. **A yield per physical or hourly unit is not productivity.**[156]

A yield per hectare, a revenue per square meter, a tonnage or a number of pieces per hour, etc., are not productivity in the unequivocal sense attributed to this concept by the statement: Let us call productivity only a ratio between the monetary amounts of a sales flow and a stock.

5. **A yield is a ratio between a result and a means implemented to achieve it.**

The numerator and denominator of this ratio are, of course, different depending on whether it is a question of, for example, the yield of agricultural land, an investment, such and such people in a particular activity, a boiler, an engine, etc., without an assignable limit. A revenue or added value per person employed is a yield.

6. **The ratios between the monetary amounts in a sales flow and a stock are a defined subset of the infinity of yields.**

Productivity does not meet this definition whenever it refers to output per person employed.

7. **A "productivity per factor of production" would exist.**

Let us look at the case of a farmer who works alone. In the stock that the farmer's work employs are machines, as well as other "factors of production" such as a wage fund, because the farmer who works alone is nevertheless economically a wage-earner. How much of this farmer's production is attributable to his status as a wage-earner? What other shares are attributable to machinery, crop varieties, fertilizers used, the land itself, climate, etc.? ? These questions will forever remain unanswered, because any process of producing anything **never implements factors independently of each other.** It is the combination that is productive.

8. **The following quotes are from recent economics textbooks.**

To affirm that productivity is a "ratio between a volume or value of production and a quantity of a factor of production" reflects an acceptance. Valid for any efficiency, this meaning is not a definition in the sense of this concept in the logic of finite sets. The fact that no specific properties of yields called "productivity" are specified attests to this. In this vein, to argue that "it is productivity gains that make it possible to improve the standard of living of the population" is to note that the increase in average per capita income depends on higher yields. This truth does not in any way authorize the untruth of the existence of productivity by factor of production.

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[156] Fabra uses *productivity* in its common sense of output per worker or per hour (*Capital for Profit*, Rowman & Littlefield, 1991, pp. 34, 50–54), while questioning the classification of capital, labor and natural resources as factors of production (p. 39). The OPE reserves *productivity* for a ratio between the monetary amount of a sales flow and a stock.

9. **Among the fundamental questions to which economic science must provide a clear answer are the following three:**

Question 1: Does one "factor of production" have a more initial ripple effect than the others so that the increase in per capita income has the minimum of perverse effects?

Question 2: Which yield is the most decisive of the level of the per capita income?

Question 3: Are the "productivity gains", implied by labor, to be shared?

10. **Does one "factor of production" have a more initial ripple effect than the others so that the increase in per capita income has the minimum of perverse effects?**

The three preceding chapters, successively on capital, profit and employment, establish that this "factor of production" is capitalization, the latter concept in the unequivocal sense set out at the beginning of chapter 5.

11. **Which yield is the most decisive of the level of the per capita income?**

"Economic science" in its current state answers: this yield is that of labor. This response is also that of the boss who strives to make the work productive enough in terms of sales and margin. These sources do not guarantee that this view is the most accurate.

12. **Are the "productivity gains", implied by work, to be shared?**

In reality, total labor income (TLI) can increase sustainably faster than total income (TI). The rest of this chapter demonstrates this. What is to be shared between the wage-earners as such, including the self-employed, is not the TI, but the TLI, according to the modalities indicated in the following chapter.

8.8 Let us reserve the term profitability for a rate of income or margin relative to a flow.

1. **The G for gain is used again below.**

It is already so in the argument for the definition of rate of return (proposition 8.6). In this chapter, it continues to denote exclusively a placement income or a margin, even when negative.

2. **Let us denote P' all profitability.**

The argument of the previous proposition assigns productivity the productivity generic notation **P**.

3. **Only a ratio between an income or a margin G and a flow F is a profitability P' such that P' = G / F.**

Any relationship between an income or margin G and a stock S is a rate of return R such that R = G / S and not a profitability P' such that P' = G / F.

4. **The monetary amounts that determine these three ratios are themselves three.**

The consequence, in addition to being algebraically obvious, x / y = z / y times x / z, is economically so far-reaching that an initiation into economics that does not mention it represses essential reality.

5. **The numerators, denoted G, of a rate of return and the profitability corresponding to it are the same.**

The denominator **S** is the same for rate of return and productivity that correspond to each other. Productivity has the numerator **F** and the corresponding profitability has the denominator **F**. The application of the rule of three that is established is, with these notations: **G / S = F / S times G / F**.

6. **A good habit is to be adopted.**

It consists of asking yourself the following question. As soon as a ratio has as its numerator an income, including profit, or a margin, including enterprise earnings, is it certainly or probably a rate of return or a profitability, in the absence of any indication of the denominator, both at the same time?

7. **Two uses in particular should be avoided.**

One is to say that a rate of profit on capital measures profitability instead of saying that it measures rate of return. The other consists, conversely, in saying that a rate on the price-value or the value-cost of sales measures rate of return.

8.9 Let us call the RPP' relationship the fact that every rate of return equals a productivity multiplied by a profitability.[157][158]

1. Let's generalize Brown

With:

R for rate of return;
P for productivity;
P' for profitability;
G (of gain) for an amount expressed in the quantity of money of an income or a margin;
S for an amount expressed in the quantity of money of the stock that made it possible to obtain G;
F for an amount expressed in the quantity of sales money, which is property income when S is a placement made by a saver.

$$\boldsymbol{R} = G / S$$
$$\boldsymbol{P} = F / S$$
$$\boldsymbol{P'} = G / F$$

2. G/S = (F/S) x (G/F).

Any rate of return **R** is equal to a productivity **P** multiplied by a profitability **P'**. This statement defines the RPP' relationship.

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[157] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 221, note 6: a faster turnover of capital maintains a satisfactory rate of return while lowering the profit margin relative to gross product, for the individual enterprise as for the economy as a whole.

[158] On the RPP' relation as the instrument of management that replaces the cost of capital, see the appendix *Cost of capital, CAPEX and OPEX*, section 5.

3. **The RPP' relationship is active at the micronomic level, that of the products sold by enterprises.**

At this scale, the rate of return **R**, the productivity **P** and the profitability **P'** are direct, i.e. before any distribution of common costs, and, for the rates of return **R** and the productivity **P**, the asset to be taken into account is also direct (the concepts of direct margin and direct asset are defined further in Chapter 11).

4. **The RPP' relationship is active at the level of the mesonomy, that of the enterprise as a legal entity.**

At this scale, the rates of return 'R' are those of the capital and all the assets of the enterprise. P productivity is the ratio of value-price (revenue) or value-cost (cost) sales to capital or assets (numerator identical in both cases). The profitability **P'** is that of these same sales.

5. **The RPP' relation is active at the scale of macronomy — that of total income and its distribution.**

With :

TI : Total Income ;

TPI : Total Placement Income;

TLI : Total labor income ;

PS : Placement stock ;

ROP : Return on placements ;

PP : Placement Productivity;

P'TI : Total Income Profitability;

At the scale of national and regional macronomy (supranational and subnational), the RPP' relation takes the following form:

ROP = PP × P'TI

TPI / PS = (TI / PS) x (TPI / TI)

6. **RPP' relation are myriad**

The RPP' relations that are active or potentially active in the economy of a country would number in the billions, or even trillions, were it possible to count them. They bring to mind the synapses of a vast nervous system stimulating and regulating the alveoli of a gigantic lung. These relations regulate and stimulate more effectively than any dirigisme ever could, however armed with computers and databases — provided that sufficient care is given to the bounding of the freedom to offer by the freedom to choose.

8.10 Country by country, total labor income (TLI) is determined by the return on placements (ROP) and placement productivity (PP).

1. **The determination of total labor income (TLI) must be understood on a country-by-country basis.**

This geopolitical limit is a consequence of the nature of the variables of this determination. Everything that makes a population more or less skilfully industrious affects what total income per capita is for it, this income per capita being always liable to be more or less different from one country to another.

2. **With "=" meaning "is determined by", we have shown that TLI = TI – TPI.**

It should be remembered that it is the long-term problem of the distribution of total income that is considered here.

3. **By definition of return on placements (ROP), total placement income (TPI) is equal to multiplying ROP by the amount of placement stock (PS).**

TPI = ROP × PS

By definition of placement productivity (PP):

PS = TI / PP TPI = ROP × (TI / PP)

4. **Since TLI = TI – TPI:**

TLI = TI – [ROP × (TI / PP)]

Total labor income (TLI) is determined by a difference whose variables are total income (TI), return on placements (ROP) and placement productivity (PP). QED.[159]

5. **From the equation TLI = TI – [ROP × (TI / PP)] all cases of progression, stagnation and regression of the TLI can be deduced.**

In particular, there is an increase in total labor income, TLI, when there is simultaneously:

1) increase in TI, 2) stability in ROP, 3) increase in PP.

8.11 The normal trend of the return on placements (ROP) is toward stability.

Return on Placements: ROP

[159] Dividing by TI gives TLI / TI = 1 – ROP / PP. This equation has the form of Sraffa's relation between the wage and the rate of profits in the Standard system, r = R(1 – w), that is w = 1 – r / R (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. IV, §30). Term by term: the return on placements ROP corresponds to r; placement productivity PP corresponds to the Standard ratio R, ratio of the net product to the means of production; total income profitability P'TI = TPI / TI corresponds to r / R, the share of profits in the net product; TLI / TI corresponds to w. The status of the two equations differs. Sraffa's straight line holds when wages and prices are measured in the Standard commodity, for a given technique and with no change in output. The RPP' relation is an accounting identity in money, valid at every scale (Proposition 8.9), and the Objective Political Economy attaches dynamic trends to its terms: stability of ROP, rise of PP, fall of P'TI (Propositions 8.11 to 8.13). Sraffa's construction thus provides an independent, physical counterpart to the macronomic RPP' relation. See the appendix OPE and Sraffa.

1. **One may equally speak of Placement Yield.**

In certain contexts, 'yield' conveys more clearly than 'rate of return' that the numerator of this ratio, as it operates in the distribution of total income, contains only placement income, to the exclusion of any capital gain.

2. **Reminder 1 (argument of proposition 8.3): the social body refuses to allow the rates of return on savings placements to rise from generation to generation.**

If this were to happen, the equality between **total income (TI) = total placement income (TPI) + total labor income (TLI)** would cause the relative share of TLI in TI to tend to fall. Periods of a few quarters or years when this decline has begun inexorably lead to reactions that halt the increase in the relative share of TPI in TI.

3. **Reminder 2 (argument of proposition 8.3): society refuses that if the total income (TI) increases, the total labor income (TLI) does not also increase.**

Common sense knows, by reasoning and experimentally, that the increase in TI has two causes: enough new placements giving effectPlacement en Capital to new labor. Both this refusal and the previous one are satisfied when the long-term trend of the return on placements (ROP) is one of stability.

4. **Around its tendency towards stability, the ROP oscillates.**

Fully exercising the EPCE relationship reduces the time between the highs and lows of the ROP oscillations.

5. **Exiting the era of polluting energy production may require an increase in the trend towards stability in ROP.**

This will be the case if the new energy mix requires, in total, much greater investments than before.

6. **Drying up the financing of pensions through the raking of capital gains may require an increase in the trend towards stability in the ROP.**

This sweep is a cause of volatility that is detrimental to full employment and the improvement of the quality of life. If the average yield on placements in share capital provesTaux de Profit sur Capital to be too low to put an end to it, the only solution will be a structural increase in this rate.

8.12 The normal trend of placement productivity (PP) is upward.

Placement productivity: PP

1. **Technical innovations that have the effect of raising yields are a cause of the increase in the PP.**

This is so well known and proven that it is not worth insisting on here. Among the techniques that increase yields are those of marketing and administration, alongside those of manufacturing.

2. **Quality improvements contribute to the increase in the PP.**

Competition between suppliers on a commercial basis concerns the relationship between quality and price. Quality improvements, more than proportional to the price differentials of the offers compared, raise the PP.

3. **Diminishing rate of returns do not *ipso facto* slow down the increase in placement productivity.**

Diminishing rate of returns increase investments and costs. Through diversification of production and markets, but often through job destruction, quality improvements contribute to the increase in PP.

4. **Competition doesn't just drive higher yields.**

It stimulates diversification and the opening of outlets as well. By means of them, new contributions to the slowing down or acceleration of the general increase in productivity are provided.

5. **The desire to increase the purchasing power of wages contributes to the increase in the PP.**

The causality that the equation TLI = TI – [ROP × (TI / PP)] accounts for is known to the populations that have lived, and continue to live, the overtaking by low wages of their levels so miserable that life expectancy is greatly affected. Through this experience, these populations are disposed to the myriad of entrepreneurial initiatives that contribute to the increase in PP.

6. **The increase in PP is sustainable over a very long period.**

The multiple causes of PP increases mean that, in countries with the highest per capita income, a sustained trend towards stability or decline in PP is unlikely.

7. **From one country to another, percentages of increase in the PP can temporarily go more than double.**

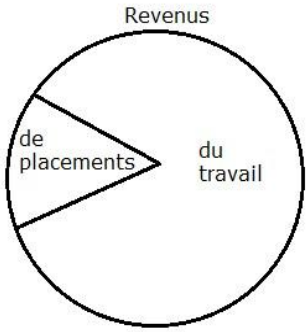
In an open economy, it cannot be expected that the PP of a country where per capita income is currently significantly higher than in another country can ordinarily rise as much as in that other country in the take-off phase.

8. **Free trade in international trade establishes and maintains the upward equalization trend of domestic PPs.**

This trend does not imply the standardization of all morals. On the contrary, too much standardization reduces the quality and variety of what human genius produces.

8.13 The normal trend of total income profitability (P'TI) is downward.

1. **Total income profitability, P'TI, is by definition the share of placement income in total income.**



2. **The trend in total income profitability (P'TI) is the result of the respective trends in return on placements (ROP) and placement productivity (PP).**

The equations:

ROP = PP × P'TI P'TI = ROP / PP

are always satisfied by the definitions from which they proceed.

This is why the trend towards stable return on placements (ROP) and the upward trend in productivity of these placements (PP) results in a **downward trend in total income profitability (P'TI).**

3. **Expressed as a percentage, P'TI is the complement to 100 of total labor income, TLI, relative to total income, TI.**

With:

TLI: Total Labor Income,

TI: Total Income

TPI: Total Placement Income,

since TLI = TI – TPI:

(TLI / TI) × 100 = 100 – [(TPI / TI) × 100]

Since the percentage (TPI / TI) x 100 is an expression of P'TI, it is the complement to 100 of the percentage of the TLI in relation to the TI, (TLI / TI) x 100.

If, for example, P'TI is 15% of TI, the TLI is 85% of the TI.

4. **The decrease in the relative value of total placement income (TPI) relative to total income (TI) is consistent with an absolute increase in the TPI.**

There may very well be, in particular, an increase in the TPI, **less than proportional** to TI. So the weight of the TPI in the TI decreases, while not only does the weight of the TLI in the TI increase, but also the increase in the TLI is **more than proportional** to that of the TI.

The argument of the following proposition includes a numerical example.

8.14 The dynamics of the distribution of total income lend themselves to the maximization of total labor income (TLI).[160]

TI: **Total income**, **TPI : Total placement income**,

TLI: Total labor income **= TI – TPI**

ROP: **return on placements**, **PP**: **placement productivity**,

P'TI : **total income profitability** **ROP = PP × P'TI**

When is there maximization?

There is maximization of one of the terms of a relation when its increase tends to be normally greater than that of the other term or of each of the other terms.

5. **The argument of the previous proposition demonstrates that maximizing total labor income, TLI, is possible.**

This possible maximization is not only in relation to total placement income, TPI, but also, contrary to what is often estimated today, relation to total income, TI. Its main constraint is the adequacy of total placement income, TPI, in order to restore or maintain full employment.

6. **Let us illustrate numerically the dynamics of distribution when it maximizes total labor income, TLI.**

For this numerical illustration, let us use a table containing a reminder of the meaning of the abbreviations and formulas used in this chapter:

TI: total income, TPI: total income from placements, **TLI : Total labor income = TI – TPI** **ROP : return on placements, PP : Placement Productivity,** **P'TI : total income profitability ROP = PP × P'TI**			
	Year		% change
ROP			
PP			
P'TI			
PS			
TI			
TPI			
TLI			

[160] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 215–218: classical political economy admits no determinism in the distribution of gross product; part of the net product may go to the workers, and only access to the net product makes them participants in accumulation.

7. Let us consider a period of forty years and enter four data relating to year 1:

TI: total income, TPI: total income from placements, **TLI : Total labor income = TI – TPI** **ROP** : return on **placements, PP** : **placement productivity,** **P'TI** : **total income profitability ROP = PP × P'TI**			
	Year		**% change**
	1		
ROP			
PP			
P'TI			
PS	**200**		
TI	**300**		
TPI	**20**		
TLI	**280**		

These data are consistent: 300 – 20 = 280

8. Let's calculate the relative values for year 1.

TI: total income, TPI: total income from placements, **TLI : Total labor income = TI – TPI** **ROP : return on placements, PP : placement productivity,** **P'TI : total income profitability ROP = PP × P'TI**			
	Year		**% change**
	1		
ROP	**10%**		
PP	**1.5**		
P'TI	**6.7%**		
PS	200		
TI	300		
TPI	20		
TLI	280		

ROP % = (20 / 200) x100;

PP = 300 / 200 ;

P'TI % = (20 / 300) × 100.

9. Let's fill in the "Year 40" column.

TI: total income, TPI: total income from placements, TLI : Total labor income = TI - TPI ROP : return on placements, PP : placement productivity, P'TI : total income profitability ROP = PP × P'TI			
	Year 1		**% change**
ROP	10%	**10%**	
PP	1.5	**2**	
P'TI	6.7%	**5%**	
PS	200	**250**	
TI	300	**500**	
TPI	20	**25**	
TLI	280	**475**	

The figures for year 40 are as consistent with each other as those for year 1.

10. Let's calculate the changes from year 1 to year 40.

TI: total income, TPI: total placement income, TLI : Total labor income = TI - TPI ROP : return on placements, PP : placement productivity, P'TI : total income profitability ROP = PP × P'TI			
	Year 1		**% change**
ROP	10%	10%	0
PP	1.5	2	+ 33
P'TI	6.7%	5%	- 25
PS	200	250	+ 25
TI	300	500	+ 66
TPI	20	25	+25
TLI	280	475	+70

In income (last three rows), the largest change is in total labor income (TLI).

11. The divergent evolutions of TLI and TPI are experimentally verified.

In a country such as metropolitan France, the average or median wage, expressed in kilos of white bread or in the number of consultations with a general practitioner, in 1800 and 2000 respectively, is close to what the variation in the TLI has been in two centuries. This positive variation is out of all proportion to what the positive variation in the ROP over the same period may have been. For this not to be the case, it would have been necessary, for example, if, for example, the average or median wage expressed in kilos of white bread or in

the number of visits to a general practitioner had been multiplied by 50, the ROP would have gone from the year 1800 to the year 2000 from 4% per year to an order of magnitude of 200% per year.

8.15 A pay-as-you-go pension provides its beneficiaries with a substitute for income rather than income proper, because it operates by transfer.

1. **The so-called "pay-as-you-go" pension is by transfer.**

This transfer comes from the contributors and goes to the pensioners, making them a kind of life prebendaries.

2. **The so-called "pay-as-you-go" pension is opposed to the so-called "capitalization" pension.**

It too can be more accurately designated: retirement by exchange of the placement service for its remunerationPlacement_en_CapitalRevenu_de_Placement.

3. **One of the two types of pension provides its beneficiaries with income, the other an income substitute.**

The kind of retirement that provides its beneficiaries with income is that by exchanging the placement service for its remuneration. The other type provides its beneficiaries with pensions that function as income, as any tax administration is led to consider in its definitions of tax bases.

4. **It is by no means certain that the potential benefits of swap pensions will be less than that of transfer pensions.**

But we can expect that the potential benefits of swap pensions will be out of reach without the reforms that tip over into **a sound-exchange economy**.

8.16 Total income ranks first among the most significant economic aggregates.

1. **Let us no longer make income the "new monetary resources that allow us to consume without becoming poorer, with a constant patrimony".**

This statement can be found in the economic vocabulary handbooks under the entry "**Income".** Thus the amalgamation of income proper with transfers is peddled. The income itself is in exchange for the service of a job or a placement. The contradictory term "transfer income" contributes to the repression of the **primordial distinction between economic exchanges and** economic transfers[161].

2. **Economic exchanges are vectors of transfers in the form of capital gains and capital losses.**

Among these exchanges, in addition to those involving works of art and other rarities, are real estate and stock market transactions. For the latter, it is as if it were now written in stone on the tables of economic laws that profits are not enough to make attractive the placement in capital of companies whose co-ownership securities are listed. By the reforms constituted

[161] Contrary to what the above quote suggests, all or part of an income can be earned by barter. One case in which this is still commonly practiced is that of fractions of full wage, which are made up of "benefits in kind".

by the introduction of the advertisements indicated in the preceding chapters, on capital and profit, the pre-eminence of rate of return over capital gain can be established.

3. **To report "primary income" is only apparently in line with reality.**

"Primary income", as indicated in the summary cited in this argument, is the "total income received by households in return for their productive activity" – received in the form of products from their sales of elementary commodities, in reality. Making "primary income" a category would only be justified if, in truth, "secondary income" existed. The other "new monetary resources" come without exception from transfers of which any capital gain is a part.

4. **The holder of a so-called "income" of solidarity or substitution is a beneficiary.**

It is only by means of income proper that allowances can be provided, without becoming a cause of public debt by excess of burdens on the proceeds of taxes. The transfers received by the holders of life pensions provided by a pay-as-you-go pension scheme are also allowances and not income in the strict sense.

5. **"National income" is the "sum of all primary income received by households".**

This is what we read in the précis as in many other textbooks, as well as on the INSEE website. In other words, "national income" is total income (TI), probably as close as it is statistically possible to estimate.

6. **« National accounts – All the accounts of the nation presented in a standardized Keynesian framework. »**

This emphasis is my doing. In the national accounts thus standardized, there are aggregates not only of "product" but also of "production". Let us not dwell here on what leads us to specify that "national production is opposed to domestic production", as indicated in the précis cited. It should be noted, however, that, since there is no production without a product and vice versa, one must ask ourselves to what extent the "standardized Keynesian framework" is specious.

7. **What then is "production" in this context?**

The quoted summary answers: "The socially organized activity intended to create goods or services usually exchanged on a market and/or obtained with the help of factors of production exchanged on a market". The "and/or", which I have just underlined, indicates where the dividing line is between "product" without economic exchange and "production" with... but not always; It is easy to get lost.

8. **A "national product" aggregates with the "value added" by enterprises a monetary valuation of the "product" of the general government and of any other non-enterprise employment.**

This is done by taking into account, in particular, "the services rendered by wage-earners of national public administrations evaluated on the basis of the wages and benefits paid to them and the social contributions paid for them".

9. The very idea of valuing the "product" of general government in terms of a monetary unit is not economically relevant.

The monetary unit is that of the measure of economic exchange value. The output of public administrations has a use value. This does not mean that it has an economic exchange value. The very fact that it is not sold means that it does not have such value. Moreover, the "domestic product" of the standardised framework does not include the "product" of general government, which is aggregated only to the "national product". The general government wage bill is nevertheless a sum of labor income and, therefore, a creation of economic exchange value, in other words of economic wealth (more on this point below).

10. Opaque base 100 is put into circulation.

Voters and elected officials who want to understand in what sense national accounts – "in a standardized Keynesian framework" – use the notion of "product", and what possibly differentiates it from the notion of "production", often end up giving up on it. Gross or net, a "domestic product" and a "national product" make the base 100 opaque. But, with the help of panurgism, this frame of reference is law, particularly in the form of the sovereign GDP, the "gross domestic product", which came into the world in English under the name of GDP (*Gross Domestic Product*).

11. The production of market wealth has only two origins.

One of these origins is the service of labor, the other the service of the placements of savings, when both are in return for an income. Who or what creates product? A creation is a production, a production is a creation. The expressions "commodity wealth creation" and "wealth production" refer to exactly the same economic reality. The rest of human production, including that of sovereign public functions that cost money as it costs money to support a family, is **by definition** non-marketable, not only on paper but first and foremost in reality. The same is true of all natural production apart from human production[162].

12. The production of commodity wealth has only one destination.

Income and nothing but **income** **is the common destination of the two origins of the creation of market wealth**. This stems from the fact that commodities are only exchanged for commodities although this is most often by intermediary money, and on the understanding that in truth enterprises are the only entities that owe everything they own. Neoclassical theorization and macroeconomics of Keynesian origin, in order to see money as a commodity like any other (almost or completely according to the authors), cannot include, without contradiction with their subjectivist postulates, either the definition of the commodity or the distribution into homogeneous categories which is logically associated with it, nor a conception of the enterprise enslaved to what is objectively specific about this entity. More generally, they cannot, without denying themselves, bind themselves to the discipline of the logical definition of finite sets.

[162] One wonders if one has to be an economist not to see it, and then to miss what it results from strictly speaking economic.

13. One result of one of the origins and the sole destination of the creation of market wealth concerns civil servants as such.

Civil servants and other wage-earners of the public service, as well as domestic workers, for example, **participate** alongside the wage-earners of the enterprises and **as much as** they do in the creation of market wealth, i.e. in the **creation of economic exchange value**, in their capacity as suppliers of the service of the labor exchanged for its own money.remuneration.

14. What has been the evolution of country P's contribution to the creation of economic wealth?

In view of the observations that have just been set out, the answer is obvious: the evolution of the sum, for country P, of the real income of its nationals and their non-commercial associations, on the basis of the returns on their placements alone.

15. Public expenses must be capped at a percentage of total income (TI).

In order for the discussion of this ceiling, which is obviously a collective choice of great importance, to be open to all, it is better that the total of taxes be also brought closer to the total income (TI). The reality is not as close as possible when **the expression as a percentage of public debt does not also have the total income (TI) as its base 100**.

16. The sanctuarization of GDP has been backed neither by a structural remedy for mass unemployment nor by a clear theory of the distribution of total income (TI) and total labor income (TLI).

The sanctuarization of the TI can be backed on the one hand by a clear theorization of the normal trends in total placement income (TPI) and total labor income (TLI). On the other hand, it can be done with an employment policy based on the removal of obstacles to the full exercise of the EPCE relationship.

17. Favoring total income among the macronomic aggregates is a message sent to one's compatriots.

It is also a position that breaks with the state of mind that has produced the opaque cult of GDP: "The production of economic wealth in our country is the sum of our income and that of the placements of our non-commercial associations, nothing more, nothing less".

Chapter 9 – Wages

In economics, wage is the generic name for all labor income, which is itself distinct from placement income.

Wages are the subject of two iron laws. One is that which determines total labor income by the distribution of total income (previous chapter). The other is also distribution, but only of total labor income.

As much as the distribution of working time **is an illusion**, which can only turn into the sharing of structural unemployment before contributing to its aggravation, the sharing of total labor income is a reality. The inequalities and inequalities of wage levels by professional qualification and then of individual wages govern this sharing. The denial of this reality has, of course, its reasons for being, the first of which are the following two:

- It is impossible to fit the true determination of the prices of labor, with all its specificities, into a scheme in which all price formations are explained in the same way.
- Admit that the highest wages lower the average level of those below them contravenes such a scheme.

The invisible hand is more subtle. It introduces into the economic system levers of command that the social body can, country by country, push and pull so that marketable exchanges produce the effects it wants. But the progress that will be made by the conscious use of these levers is only achievable. As long as economic theory and policy leave this progress unaccomplished, remedies that aim to relieve the social body in order to ultimately degrade its health will come out of the Pandora's box of redistributions forced by the legislator.

9.1 Let us call wages all labor income and labor income alone.

1. **Income-generating work is the work produced by an individual by means of the expenditure of his energy and time.**

This is a reminder of what is admitted in Chapter 2 about **work**, with the distinction between work-expenditure (the means) and work-work (the result).

2. **Labor income is generically called wage in economics.**

Wages, emoluments, wages, attendance fees, tips, wages, and wages are, among other things, Wage. **But** fees, fees, freelancers are often revenue as are always the rents received.

3. **Only labor income constitutes wages**

This definition excludes from wages all interest, profit and capital gain. Only individuals receive wages.

4. **The distinction of roles improves economic theorization and organization.**

The worker and owner, or member of the enterprise that employs him, is, on the one hand, a wage-earner and, on the other hand, an usher. The assimilation of a social class to an economic role is based on the atavistic idea that the practice of economic exchanges induces irremediably contradictory interests.

9.2 The status of wage-earner is not economically defined by a relationship of subordination.

1. **Historically, wage-earning employment has involved the subordination of the wage-earner to the employer.**

But history is one thing; the logic of economic exchange is another. The subordination link is an extra-economic criterion because, in all economic exchanges — including the one between an employer and an employee — the contract is synallagmatic: it binds each party to the other, so that each owes the other reciprocal obligations and, consequently, in law and in fact, is under a reciprocal subordination.

2. **The statement "a wage-earner is required to obey orders from his employer" is not an economic statement.**

Economically, the employer is the wage-earner's client, and their relation is an economic exchange defined by reciprocal obligations. The orders in question are therefore of two kinds. Either they are of the same kind as those a customer places with a supplier — in which case they belong to the economic exchange and are reciprocal, not a subordination — or they carry injunctions of a different kind, which fall outside the economic exchange and are, precisely, extra-economic.

3. **The purpose of the employment contract is to provide a service in exchange for a wage.**[163]

This remains true when the employer is a public administration. A civil servant is, in his capacity as a wage-earner, a merchant who sells the product of his work to his employer. Any other wage-earner for profit is in the same position.

4. **Making the relationship of subordination the criterion of the status of wage-earner has unfortunate consequences.**

The labor market is divided into categories that fall under different regimes. This results in distortions of competition, unjustified inequalities and a proliferation of administrative complications. We must ask ourselves whether a completely decompartmentalized labor market is one of the characteristics of a deideologized economy.

5. **The labor market is better organized if all labor remuneration is easily comparable.**

Currently, and especially in France, this is not even the case for all jobs governed by law by a relationship of subordination. This is even less so when the comparison is extended to other forms of remuneration for work, such as that of the liberal professions and self-employed people, for example.

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[163] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 89: in his contract with the employer, the worker delivers neither his labor nor his labor power, but the product of his labor. On p. 129, note 11, Fabra suggests that the real raison d'être of wage-earning is the elimination of risk for the worker.

9.3 The average hourly wage varies by country according to the total labor income of the country in question.

1. **A national average hourly wage is the quotient of total labor income divided by a number of hours worked for remuneration.**[164]

The variation of the divisor – the number of hours worked – has a much greater effect on the variation of the dividend – the total labor income – than on the variation of the quotient – the average hourly wage. This is why the most important determinants of average wages, country by country, are the same as.

2. **Savings placements in enterprise financing**Placement Epargne **and public investment fuel the growth of the average wage in the country where these investments are made.**

However, this is because the productivity of the national stock of investments increases thanks to the implementation of techniques that improve quality/cost ratios, including in the area of public services. Moreover, any way of producing anything is, in the end, a positive or negative contribution to the evolution of the real average wage, the one measured in purchasing power.

9.4 The employer's share of social security contributions levied on wages is a harmful fiction.

1. **In paid employment, whatever is classified as 'employer-paid' is in fact part of wages, and whatever is classified as 'wage-paid' is in fact employer-paid.**

Paid employment is an economic exchange, which is **therefore always** a market, between an employer and a wage-earner, who is also always an individual. When the employer is apparently the same individual as the wage-earner, the exchange is in reality between the enterprise that belongs to that individual and the latter as a wage-earner. Even if the self-employed person keeps the accounts of his enterprise and his own together, in truth these separate accounts exist. This does not imply that every employer is an enterprise. There is no such thing as non-market paid employment, but employers are not just enterprises. While all employers are bosses, everything that is employer is far from being *ipso facto* entrepreneurial.

2. **Any recurring expense paid by an employer in respect of a job is an element of the wage of the worker who occupies that job.**

This is rightly the rule that is followed for 'benefits in kind': the provision of a service or good to a wage-earner by his or her employer is an element of wage. The employer's shares of the contributions based on wages are a supply of this kind. Pretending they were subsidies is a fiction.

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[164] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 34–35: the minimum wage a population accepts depends on the habits and customs of each country and period; in the poorest countries, low output per worker goes with low wages and a small proportion of wage-earners.

3. **Deemed employer contributions that are made to pay a wage are wage-related.**

These contributions are part of the complete wages – full wages. The cost of labor is the sum of the net wage – the one that the wage-earner receives in cash – and the indirect wage – the supplies paid for by the employer that are part of the whole wage. In both general accounting and cost accounting and management control, the personnel costs counted among the costs are full wages, including the employer's deemed contributions.

4. **The repeal of the employer's share of contributions based on wages does not change anything in net wages, on one condition.**

This condition is, of course, that gross wages are increased by the employer's deemed contributions.

5. **Before this repeal, Jacqueline's wage deemed to be gross was 100.**

Of these 100 deemed gross contributions, the net of employee deemed contributions is, for example, 80 and the employer deemed contributions are 30. Jacqueline is, by this measure, encouraged to consider that her social security coverage costs her 20. In reality, it costs him 50, since the 30 deemed bosses are part of his wage.

6. **After the repeal, Jacqueline's gross wage was increased to 130.**

His wage net of employee contributions remains at 80 (130 minus 50). A substantial fraction of wages loses its **usurped reputation** as a subsidy.

7. **The fiction of employers' contributions blocks self-regulation, because it puts the insured in a position to abuse and allow benefits to be abused.**

Compulsory insurance schemes financed by a large proportion of employers' contributions are exposed to becoming and remaining structurally loss-making. The reason for this is quite simple: their beneficiaries do not realize what it costs them. A management link consubstantial with the very principle of mutualisation is untied.

8. **The fiction of employer contributions provides employers with a usurped title to participate in the administration of considerable funds.**

However, these funds really come only from the real contributors, who are all individuals and none of whom are an enterprise or any other kind of employer. Their administration, entrusted to companies with refundable shares, is all the more difficult to exclude as it is likely to become exemplary in the sound-exchange economy (on what are refundable shares, see the chapter on capital).

9. **Compulsory levies have one thing in common with their part consisting of taxes in the strict sense.**

They are, in reality, the sole responsibility of individuals and their private non-commercial associations, regardless of the methods of their collection.

10. **The fiction of employer contributions also has the disadvantage that a large number of wage comparisons and negotiations relate to lower prices.**

Moreover, when there are different social security schemes, particularly between the private and public sectors, a large number of wage comparisons and negotiations relate to unequally lower prices.

9.5 Making wages comparable within a country improves the functioning of the labor market.

1. **Revenue comparisons require the use of time units.**

Placement income is compared with each otherRevenu de Placement over periods of the same duration. The same is true of labor incomes between them.

2. **The period over which all labor incomes are most exactly comparable with each other is the hour.**

All wages are in exchange for work, but all work that can be exchanged for wages is obtained by means of labor time – time devoted by the worker to this work. This has the effect of leading to the de facto existence of hourly wages, some of which are effective and others maximum (see below).

3. **The hour of work is a unit of work and not the work itself.**

This applies to all human work, whether or not the person who does it derives an income from it.

4. **Hourly wages are for some effective.**

A case of effective hourly wage is one for which pay slips are established on the basis of a variable number of hours worked. Another case of effective hourly wage is the one for which pay slips are established on the basis of a monthly lump sum, in return for an effective working time to which the wage-earner and the employer adhere. The effective hourly wage is then equal to the lump sum divided by the working time.

5. **Hourly wages are for other maximums.**

In other cases, the wage shown on the payslips is also a lump sum, but with a minimum working time. The maximum hourly wage is then equal to the lump sum divided by the minimum duration.

6. **It is frequently by annual quantities that hourly wages are most accurately calculated.**

A thirteenth month or more, an annual or half-yearly earnings-sharing scheme, as well as bonuses, make the gross monthly wage (including employer contributions as long as there are any) an incomplete numerator for calculating the hourly wage.

7. **The difference between gross and net wages disappears when the contributions that constituted it are deducted from the wage-earner's current account.**

This solution is no longer administratively impracticable, although it can probably only be implemented in stages.

8. **The publication of hourly wages and the coefficients of the difference between them improves the functioning of the labor market.**

The hourly wage gap coefficients, both effective and maximum, which are most suitable for the uses that can be made of them are those based on the statutory minimum hourly wage. Their publicity, together with that of hourly wages, improves the functioning of the

labor market for the simple reason that negotiations and other debates on wages take place with better knowledge of the facts.

9. **A statutory minimum hourly wage benchmarks the comparison of wages.**

This consideration would be sufficient if it were the only one in favor of the establishment, country by country, of a legal minimum hourly wage. But this minimum does not play its benchmark function well when only the lowest wages are expressed by the hour.

10. **The following proposition draws attention to the fact that hourly wage differentials regulate the distribution of total labor income.**

This economic law, which is one of the most fundamental, **reinforces the need** for a legal minimum hourly wage. Country by country, society wants to see a change or a maintenance of the gap between the highest and lowest wages. Depending on what happens, the increase in the minimum wage becomes **a ceiling, a floor or a standard of increase** for the mass of other labor remuneration.

9.6 Hourly wage differentials regulate the distribution of total labor income.

1. **The distribution of total labor income can only be changed in one way.**

Over the period and geographical area considered, nominal wage variations are or are not uniform. While uniform, hourly wage differentials have remained constant and the distribution of total labor income is stable. If nominal wage changes are not uniform, wage differentials and the distribution of total labor income change. From these observations results an **iron law,** that **of remuneration for work**.

2. **Higher wages than others reduce the average of those below them.**

If it were otherwise, the distribution of total labor income would not be modifiable by modulating changes in nominal wages differently. And it is. An increase in the gap between the highest and lower hourly wages is necessary and sufficient for the highest wages to increase faster than total labor income in the country under consideration.

This relationship holds because the distribution of total labor income is responsive to variations in nominal wage growth. It follows logically that an increase in the wage gap is the necessary and sufficient condition for top-tier wages to rise more rapidly than the country's total labor income.

3. **Higher wages reduce the average of those that are lower.**

An increase in the gap between the lowest and higher hourly wages is necessary and sufficient for the highest wages to rise faster than the total labor income in the country under consideration.

4. **A large variation in the gap between the highest wages and the average of the others has a big effect on this average.**

If 2% of hourly wages have an average 40 times higher than that of the average of the other 98% of hourly wages, at constant payroll, how much could the average of the other 98% be increased from 40 times to 20 times – thus lowering the average of the top 2% hourly wages by 50%? It is expected to increase by 41%:

98 wages with an average of €100 = €9,800;

2 wages with an average of €4,000 = €8,000;
payroll = €17,800.

The distribution of this mass would become:

2 wages of €2,000 instead of €4,000 each = €4,000 instead of €8,000;
Share of the payroll that can be allocated to the other 98 wage-earners:

€17,800 - €4,000 = €13,800;

This share has increased from €9,800 to €13,800, increasing by 41%.

9.7 Governing the distribution of total labor income is the responsibility of collective subjectivity.

1. **Wage inequalities encourage people to take responsibility.**

In other words, inequalities in the remuneration of work encourage the assumption (the act of assuming) responsibilities, with all that it costs in general and specialized learning efforts.

2. **wage gaps are limited by two refusals.**

The social body rejects too little wage inequality Wage because too little would defuse incentives that it empirically finds to be necessary. He also refuses to allow the wage gap to increase, not only more and more, but also far beyond what he deems sufficient.

3. **On the evolution of wage gaps, the social body shows in one way or another its approval or disapproval.**

Scholarly opinion pushes for the establishment of two habits, if it admits that the total income of labor is the subject of a distribution whose natural manager is collective subjectivity. One of these habits is the periodic publicity of hourly wage differentials and their developments, the other is the repeated consultation of public opinion on the subject.

4. **Collective wage bargaining, and other tariff revisions, take into account the majority opinion.**

But the negotiators agree to take full account of the majority opinion on the equality and inequality of labor pay only if the prevailing doctrine of wages teaches what has just been said and what follows.

9.8 The price adjustment of supply and demand for employment plays only a complementary role in setting wages.[165]

1. **More demand than offers of high-wage jobs are not a cause for reducing these wages.**

This would not be the case if wage inequality came mainly from a price adjustment between demand and supply of employment. Explicit and implicit demands for high-wage

[165] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 53–54: the marginalist link between the wage level and the employment level is too rigid to hold; and p. 58: the rule that wages must in every case vary with productivity derives from the conception of labor as a commodity.

jobs are always more numerous than offers, without this being a cause of reducing the gap between high and lower wages.

2. **In other words, there is a shortage of managers and other wage-earners who speak, read and write fluently in both good French and Russian.**

As long as this shortage lasts, it can be expected that managers and wage-earners who have this qualification will tend to be paid more than their counterparts who speak, read, and write fluently in only one of these languages. If such a case arises, it is one of those in which wage inequalities have as their complementary cause an adjustment by the price of supply to the demand for employment.

3. **In other words, good salespeople and good accountants who are also paid.**

Suppose that the recruitment of a good salesman becomes more difficult than that of a good accountant and that this circumstance puts an end to the previous equal pay. This case is also one of those that shows that wage inequalities have as a complementary cause an adjustment by the price of supply to the demand for employment.

4. **The existence of a common performance for all jobs is imaginary.**

Mentioning the productivity of labor can give the illusion of this. But this is a verbal set-up and not a reality. Within an enterprise, revenue or value added per person employed is a quotient that lends itself, albeit within relatively narrow limits, to meaningful inter-enterprise comparisons. However, it is not an average around which the "productivity" specific to each person employed would be dispersed. In addition, there are the following two. Not all employers are enterprises, far from it. For many professions, there are no economic returns per person employed: justice, police, army, education, among others.

9.9 Compensating for low wages through redistribution is temporary.[166]

1. **Jack and Peter are wage-earners.**

Jack' wage is at the lowest level while Peter's is that of a senior executive. Now, to compensate for the relative weakness of the lowest wages, the legislator is introducing public redistribution. At first, the ratio between James' and Peter's wages remained the same.

2. **But on the other hand, the adjustment of the distribution of total labor income continues.**

In the considerations taken into account for this adjustment, over time, the redistribution of the relative weakness of low wages. The narrowing of the wage gap between Jack and Peter is slowed down or replaced by its opposite.

[166] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 324–330: schemes guaranteeing a minimum income to all, such as the negative income tax, introduce steep progressivity at the bottom of the income scale, where the disincentive to work is strongest, and tend to swell the number of the poor; Fabra relates them to the English Poor Laws criticized by Ricardo.

3. **The disadvantages of compensating for the low wages by redistribution last as long as this redistribution.**

The costs of administering the device are one of these disadvantages. In addition, there are the perverse effects inherent in employment subsidies (next proposition).

4. **Compensation for the low wages of low wages by redistribution is not an organic necessity.**

It could be so if the distribution of national labor income were not adjustable by the social body by means of different rates of wage increases according to their levels.

5. **The gradual repeal of redistributions motivated by low wages is possible.**

This is, however, on condition that we go hand in hand with a faster rise in low wages than in high wages, until the resulting tightening is the adjustment desired by collective subjectivity.

9.10 Employment subsidies reinforce disabilities and distort particularly important prices.

1. **"The best solution is to subsidize low-skilled and low-paid jobs by paying a bonus to bosses for each full-time hire."**

This is what Edmund Phelps, Nobel Prize in Economics 2006, prescribed in order to no longer "exclude the least qualified from employment" as much[167]. The French schemes of "lowering charges" and "employment bonus" are subsidies for the employment of "the least qualified".

2. **Employment subsidies reinforce disabilities that are not inherent in the market economy.**

They make the whole hourly wages less comparable and thus the adjustment of their differences by the social body more approximate.

They act as if the distribution of total income does not tend to maximize total labor income and as if the latter is not subject to another distribution.

They reduce employers' responsibilities and encourage employers to beg for more direct and indirect subsidies.

They create thresholds that increase the cost of wage increases.

They are a last resort in the face of too little job creation due to a lack of savings placed in permanent enterprise financing .

They make it more difficult to achieve a balanced budget (public expenses, annual debt-amortization installments included, entirely covered by tax receipts).

3. **Low wages are particularly important prices.**

Low wages, and particularly the hourly minimum wage when it exists, participate, within each national economy, in the calibration not only of higher wages, but also of many other prices. However, this benchmark is all the more approximate as there are many employment

[167] Op-ed published in *Le Figaro* on 23 June 2006.

subsidies. Conversely, the less approximate this benchmark is, the better collective subjectivity resolves inequalities in labor remuneration with full knowledge of the facts.

4. The best response to job destruction is well-funded investment.

On-the-job training is most effective when its full cost is part of an ongoing investment. Subsidies for post-school training for jobs in enterprises are also a last resort in the face of too little job creation: nothing sufficient can replace the lack of savings placed in permanent enterprise financing. The opening up of new outlets is first and foremost a matter of creativity and fairly wisely calibrated funding, not of pre-existing demand.

Chapter 10 - Interest

Calling interest the price of providing credit has long been systematic. No longer calling the remuneration of placement in capital this way is more recent and not yet systematic in economic theory. However, the clear distinction between credit and interest on the one hand, and capital and profit on the other, leads to the possibility of a general adjustment of interest rates which is most favorable to employment.

By prioritizing rates of profit on capital over interest rates as directors, this approach curbs the excessive financialization that breeds enrichment through capital gains. Consequently, it provides the market economy with a degree of systemic stability and clarity that is currently lacking — a fact evidenced by the recurrence of major financial crises.[168]

10.1 Interest is the price paid for the provision of credit.[169]

1. **The price of providing a credit is expressed by an interest rate.**

Whatever the duration of the credit, making its price easily comparable to that of another credit offer requires expressing the price in terms of an annual interest rate.

2. **Saving placement incomes are either profits or interests.**

The tax authorities, for audit purposes, have no difficulty in getting taxpayers to declare their placement income, which is on the one hand interest and on the other hand, profits.

3. **A major difference between placements in capital and saving in credit is growth.**

Consider two countries in the same currency area. The stocks of placements in capital are about the same amount, and the weights of public expenses and public investments are very similar. But in one of the two countries, the proportion of the stock of savings placed in capital is much higher than in the other. The growth of the country's economy will be higher. What is valid in this respect for two countries during the same period of time applies to one country from one period of its history to the next.

4. **Partly because of this difference, a clear distinction between capital and credit and interest from profit must be made in economic theory and policy.**

Conversely, anyone who considers it unfortunate that growth is fuelled more by new placements in capital than by a greater opening of the credit tap is inclined to pay little

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[168] Here the Objective Political Economy reverses the suggestion of Sraffa, for whom the rate of profits is "susceptible of being determined from outside the system of production, in particular by the level of the money rates of interest" (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, §44). Sraffian authors developed this suggestion into a monetary theory of distribution, in which the interest rate policy of the central bank governs the normal rate of profit (C. Panico, *Interest and Profit in the Theories of Value and Distribution*, Macmillan, 1988; M. Pivetti, *An Essay on Money and Distribution*, Macmillan, 1991). In the Objective Political Economy, the national average rate of profit on capital (NARP) is the director, and interest rates are set below or above it (Propositions 10.4 to 10.6). Fabra holds the same position on Ricardian grounds (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

[169] Interest is an expense of the borrower, whereas profit is an allocation of earnings; on their averaging in the WACC, see the appendix *Cost of capital, CAPEX and OPEX*, Statement 4, section 3 and section 4.

attention to this reason. The major credit providers are pushing to spread this point of view, which is favorable to increasing their importance.

10.2 Let us assume that the collective will for a high national average equity ratio (NAER) has been established.

1. **What we call the equity ratio is, enterprise by enterprise, a ratio of financial autonomy.**

As discussed in the chapter on capitalan enterprise's capitalization ratio is more important than the amount of capital.

2. **What applies to an enterprise on this point applies to all enterprises domiciled in a country, whether they carry out their activities in whole or in part.**

Companies that are more or less completely owners of other companies mean that, for such a group, the addition of capital and those of the balance sheet totals (assets or liabilities) are not relevant. The relationship between these two sums is no less significant of what the national average equity ratio (NAER) is in this country.

3. **For the NAER to rise, one national stock must increase faster than another.**

The national stock of corporate capital must grow faster than the national stock of corporate debt for the NAER to rise. If, on the other hand, it is the second of these stocks (that of debt) that increases faster than the first (that of capital), the NAER falls.

4. **Wanting a strong NAER is the result of a choice of economic regime.**

In this regime, the preference for capital over credit in corporate finance plays a major role. Under the impetus of the legislator, commercial enterprises distribute all of their distributable periodic earnings while accompanying this distribution, as a general rule, with an offer for an increase in capital.

5. **A characteristic of this scheme is that it is directly financed.**

At the limit, all the savings placed in capital are placed directly in capital on the one hand, and in interest-bearing savings accounts on the other.

6. **Direct funding redistributes powers.**

Under the direct financing system, the powers of guidance and arbitration, previously monopolized jointly by financial intermediation and the public authority, are vested in the population itself. It then exercises its governance according to what it appears to be its interests, in an economic system whose normal circuits it better understands. It makes up too little of the savings it has invested to finance job creation and to obtain a further increase in per capita income. It understands better why monetary unbridling and the stimulation of consumption are at the forefront of the means of robbing it of its economic powers.

10.3 Let us suppose that the periodical publication of the national average rate of profit (NARP) has been introduced.

1. **The numerator of the NARP is the sum of the earnings distributed by the enterprises over the period considered.**

Obliging enterprises to distribute all of their earnings remaining after wage-earner earnings-sharing, while subjecting these earnings to tax only from those who received them, makes the numerator of the NARP known for tax purposes.

2. **The denominator of the NARP is the sum of the exploited capital of enterprises at the beginning of the period considered.**

Above, the arguments in propositions 5.7, 5.10 and 6.6 include a definition of the concept of exploited capital. The publication of the NARP assumes that the normalization of the rate of profit on capital is established, by means of the base 100 which constitutes the exploited capital.

3. **What does a commercial company do when it distributes all its distributable earnings year after year?**

It gives each of its shareholders the power to make individual decisions on the allocation – or lack of allocation – of more or less than their full share of earnings to the purchase of new shares. While putting itself in a position to raise its equity ratio more quickly, and then to keep it high, it contributes to providing the social body, via savers who invest in capital, a greater role in the management of the economic system.

4. **In both economics and politics, the general interest is that of the social body.**

In the principles whose application makes this interest prevail in economics are the following two.

The minimum of confiscations of arbitrations directly rendered by the population, as is the case in universal suffrage.

The maximum number of comparisons of remuneration and other prices that precise obligations put within everyone's reach **without having to make any calculations**.

5. **A market economy where the key rates are profit-on-capital increases the economic power of the social body.**

Compared to this model, financialization at key interest rate set by the central bank reduces the economic power of society.

10.4 Public borrowing by means of a passbook alone with interest at a rate lower than the NARP encourages a high NAER.

NAER: national average equity ratio **NARP**: national average rate of profit

1. **Let us call this method of financing a public treasury passbook.**

The administration of this passbook is the exclusive responsibility of the Public Treasury. With the latter, individuals and private non-commercial associations create, increase, reduce and settle their deposits.

2. **The rate of return on these deposits is kept below the NARP, the national average rate of profit.**

   Neither they nor their remuneration provide a tax exemption.
   Interest transfers to the account are weekly.
   The annual rate is always mentioned next to the amount of interest paid.
   This rate remains variable at all times depending on whether the total deposits tend to be insufficient or excessive in relation to the borrowing needs of the public finances.

3. **Investing in permanent enterprise financing is generally much more profitable.**

This is in application of the collective will of a strong NAER, in order to shorten the duration of the return to full employment.

4. **The Treasury adjusts the total savings it mobilizes by varying the interest rate and the ceiling of the passbook.**

By these variations and on the orders of the electorate through the intermediary of the legislature, the public treasury limits the savings it mobilizes to the financing by borrowing a fraction of public expenditure.

5. **No money creation is used in this method of financing public borrowing.**

Placements in capital, in the unequivocal sensePlacement en Capital used here, also provide financing without creating money when they come from the equity of those who make them.

10.5 Interest paid to savers at rates below the NARP encourages a high NAER.

NAER: national average equity ratio **NARP**: national average rate of profit.

1. **The clear superiority of the NARP over the interest rates paid to savers encourages the latter to invest in capital.**

This is why this superiority applies the collective will of a strong NAER.

2. **One way to ensure this superiority is to cap the interest rates paid to savers at a fraction of the NARP.**

But the first means is the full exercise of EPCE feedback, described in Chapter 7.

3. **Corporate financing through bonds subscribed by savers poses a problem of its own.**

Maintaining its authorization, even if it is strongly regulated, pulls down the equity ratio of the enterprise, and therefore the NAER. Moreover, financing by any kind of bond, as an alternative to a capital increase, diminishes the stimulating and regulating power of profit since the burden constituted by the interest due to bondholders reduces earnings by the same amount, whereas the most significant profit is a fixed share of earnings. For savers who contribute to corporate financing through their direct placements in capital, the situation is clearer when they do so with enterprises that do not supplement their financing with bonds subscribed by savers.

10.6 Interest charged by enterprises at rates above the NARP promotes a high NAER.

NAER: national average equity ratio **NARP**: national average rate of profit.

1. **Central banks are not among the enterprises in question here.**

On the other hand, any financial institution other than a central bank is included. The interest rates charged to their customers by financial institutions tend to regulate the interest charged by other enterprises to their own customers.

2. **Suppose a financial institution whose outstanding loans are capped at the amount of its capital.**

For this institution, the return on its capital can only be close to the NARP if the weighted average of the interest rates it charges is higher than the same NARP.

3. **This financial institution participates in two ways in the increase of the NAER.**

One is the structure of its own financing; the other is because of the loans it grants to other enterprises, the relative high cost of these loans leading to a preference for capital increases.

4. **This model reduces exposure to financial economic crises.**

But it can only be generalized gradually, or even very gradually. Although the expansion of the financial industry, chronically faster than the growth of the rest of the economy, causes more harm than it provides benefits, too much remains thought and done as if this invasion were unstoppable.

10.7 The centralization of banking management implies a strengthening of financial regulations.

NAER: national average equity ratio **NARP**: national average rate of profit.

1. **Monetary zone refers to a territory with three characteristics.**

One or more nations make it up.
A currency is legal tender: no payment in this currency can be refused.
A central bank is established there.

2. **The degree of centralization of monetary management is adjustable.**

This degree is increased to its maximum when only the central bank is able to legally create or destroy money in the zone. In this case, the central bank is better able to contribute to the weakness of currency depreciation, while **also having** the task of contributing to the increase in the NAER, or in the case of a plurinational currency area of the CNMTs. It is as the main means of establishing or re-establishing full employment.

3. **To make the latter contribution, the central bank needs an extension of its regulatory powers.**

This extension relates to interest rates, **ceilings** for the collection of savings, **floors** for loans granted by financial institutions. The indexation of these ceilings and floors to the NARP means that they are likely to be different by country in the case of a plurinational currency zone.

4. **The greatest possible increase in the NAER(s) in a currency area requires a change in the most key rates.**

When the most key rates of the economy of the currency zone become profit-on-capital, the rise in the NAER is the subject of more attention. It is, once again, as the main means of establishing or re-establishing full employment.

5. **Both for security reasons and in order to make competition more regulatory, the compartmentalization of the financial industry is necessary.**

The race for capital gains and dominant positions leads to demands for their lifting. Once obtained, the same cause leads to opposition to their reinstatement. The chronic excess of public expenses over the revenue from taxes pushes in the same direction.

Chapter 11 – Prices

Because an exchange, in its essence, is a relationship of equality where the subjectivities of the contracting parties neutralize each other. The objective price (as opposed to "subjective") is established by the very mechanism of the market: no enterprise can sustainably sell below its cost price, and competition prevents it from selling above it.

Paul Fabra – Capitalism without Capital

Prices are merely as exchange values quantified in monetary terms, which make supply and demand only a secondary controller of prices. In terms of micro-economy, the emphasis made on the law of supply-and-demand and the intertwined marginal cost theory have disconnected economic science from managerial and accounting practices. In the later field, fully allocated costs and margins are the main drivers. The Objective Political Economy provides a theory of price that connects back accounting practices to forward looking of managerial decisions based on true ROI, based on actual solution on cost of production, and the allocation of common costs bounded to enterprise investments (see equi-management).[170]

11.1 This chapter deals only with prices, other than interest, at which enterprises sell their products.

1. **The previous chapter deals with interest, the price of credit service.**

Before that, two other chapters also deal with a price. Profit when this word refers to the remuneration of the placements in capital, is the price of a service. Wage i.e. remuneration for labor, are also the price of a service.

2. **These prices have their own determinants and functions.**

Placement returns, depending on whether they are capital or creditCapitalCredit, have determinants specific to the prices they constitute. Their controlling and stimulating functions are also unique to them. Remuneration for labor also has determinants specific to the prices it constitutes. In the same way, the distributive function of the latter determinants belongs only to them.

3. **The prices other than interest at which enterprises sell also have their own determinants and functions.**

This chapter situates these determinants and functions. In doing so, it brings to light the principle of the objective distribution of common costs. The law that is discerned from this is circumventable, but it is by making many prices more arbitrary that they could be.

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[170] Within academic theory, Piero Sraffa first exposed this disconnection in "The Laws of Returns under Competitive Conditions", *Economic Journal*, 36 (144), 1926, pp. 535–550: in industry, unit costs are constant or decreasing over the relevant range of output, and what limits the output of a firm is the market for its products, not a rising marginal cost. Fabra sees in the article the first blow to the marginalist doctrine and judges the critique incomplete, because it did not show that the hypothesis of diminishing returns served to justify the psychological conception of value (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. xxii and pp. 315–316). See the appendix Objective Political Economy and Sraffa.

11.2 The immediate relationship between supply and demand governs only some of these prices.

1. **The neoclassical theory of prices is a circular argument.**[171]

Léon Walras' Elements of Pure Political Economy[172] outline the *magna carta* of the marginalist revolution, the founder of neoclassical price theory, says Mark Blaug[173]. However, Walras, from the very first chapters of his book, maintains that the way in which the price of a stock is formed is valid for any price. Not only did neither he nor his successors demonstrate this, but also "the primitive analysis of facts which must precede mathematical analysis", leads to the observation of the impossibility of this demonstration. The *magna carta* is a case of circular reasoning (*petitio principii*).

2. **Markets par excellence exist only on paper.**[174]

To postulate that all economic exchange values have more in common than being prices, and then to take this for granted without having really demonstrated it, is as wrong as any other petītiō principiī. This error, inadvertently (paralogism) or deliberate (sophism), leads to the conclusion that in markets some are so par excellence. The accreditation of the assumption of supply and demand as the primary controller of all prices makes stock exchanges and auction houses look more than most others to be real markets. These so-called markets par excellence have a characteristic normally absent from other markets of great importance. Unlike the labor market and the markets for most products sold by enterprises in particular, they give access to the realization of capital gains, i.e. to transfers by means of exchanges.

3. **In the real estate market and on the stock market, the intermediaries are enterprises.**

On the markets for prestigious and second-hand collections, intermediaries are also enterprises that sell a service. The prices of these services are likely to be regulated by the rate of return of these enterprises. On the other hand, **the prices of the objects on which the transactions relate are governed solely or mainly by the immediate relationship between supply and demand, with no other regulation than the sale to the highest bidder.**

4. **On raw material markets, particularly from agriculture, mining, forestry or fisheries, inter-enterprise sales to the highest bidder are also practiced.**

The prices resulting from these sales are also governed by the immediate relationship between supply and demand. They have nevertheless another controller of their level. The sellers are indeed enterprises. When the rate of return of a sector made up of these enterprises proves to be significantly and durably higher than the NARP and when entry into

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[171] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 239–241: the demand curve presupposes the scale of prices it claims to explain; the marginalists devised it to reassert the “law” of supply and demand.

[172] See the reference to "Léon Walras" in Wikiliberal.

[173] See the reference to "Mark Blaug" in Wikipedia.

[174] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 207 (perfect competition does not exist, even in theory) and p. 269 (the stock exchange, often taken as the archetype of a competitive market, is its exact opposite).

this sector remains open, competition from new entrants has the effect of bringing the rate of return of the NARP closer together.

5. **In other markets supplied by enterprises, competition tends to eliminate sales to the highest bidder.**

When buyers in one of these other markets can opt for one of the sellers' competing offers, less haggling becomes advantageous. The time taken by transactions is reduced, the buyers' mistrust of sellers is less, and trade can become more industrial. Enterprises that make these advantages characteristics of their offer come to be more profitable than those that focus on selling to the highest bidder, where competitors have established that its abandonment succeeds.

6. **The bulk of enterprises' sales are in markets where competition has eliminated best-selling sales.**

As a result of this elimination, the prices charged on these markets are not governed by an immediate relationship between supply and demand. Rate of return then becomes, insofar as competition is organized for this purpose, more closely regulating these prices, as we will establish in the rest of this chapter.

7. **The regulation by rate of return, in the unequivocal sense recalled below, of the greatest number of prices at which enterprises sell, is potentially much finer than economic theory has admitted so far.**

However, this controllery law, set out later in this chapter, only works at full capacity if competition between enterprises is organised for this purpose. To cite just one case here, it is under this law that the ban on commercial banks from being both "retail" and "investment" enhances the viability of the market economy much more than it undermines it.

11.3 A legally constituted enterprise almost always has a tree structure of enterprises in the enterprise.

1. **The different types of legally constituted enterprises are well known.**

The enterprises with which the sales of their suppliers (including wage-earners and financiers) and the purchases of their customers are contracted, are for some in their own name and for others legal persons. To any contractual enterprise, because it is legally constituted, a sign is associated with a brand and, when it is a legal person, a corporate name. It is not only "the house" with which sellers and buyers contract, but also the scope of a general management as well as the keeping of standardized general accounts.

2. **The sales of a legally constituted enterprise are also, most often, those of enterprises within the enterprise.**

As soon as an enterprise sells several supplies[175], each homogeneous class of these supplies determines the **existence of a de facto enterprise within the de jure enterprise**.

[175] Any supply sold is a commodity by definition, between the time it is offered for sale and the time it finds a buyer. Every supply sold by n enterprise always includes that of at least one service, the sale, but not

This observation is fully established after showing that to these classes belong directly a fraction not only of the sales of the contractual enterprise, but also of the costs and assets of this same enterprise. First, it should be noted that the homogeneous classification of the supplies of a contractual enterprise is obtained by decomposition, going from the general to the specific until the inventory is exhaustive.

3. The enterprises in the enterprise form a tree of belongings.

In large-scale retail trade, as in many wholesale trades, the first level of breakdown is established between departments; the second level into departments within each department; the third level into families within each department; the fourth and last level into articles within each family. In any other contractual enterprise, whether with fewer than four levels of decomposition or with more, a complete classification of this kind is used or will become used for the automated processing of management information. These classifications describe membership trees. In the example given, the sale of an item increases the sales of a family, a department, a department, and the contractual enterprise to which these divisions belong.

4. Enterprises as legal-entities are also of the same systemic level.

Legally constituted enterprises belong to all the enterprises with which buyers and sellers contract. It is in this sense that their systemic level is the same. Each enterprise in the enterprise also has the same systemic level as its sisters – and they alone. According to the above terminology given as an example, two rays of different departments are not of the same systemic level, as two families of two different departments and two articles of different families. For the reasons that will be explained in the rest of this chapter, the concept of identical belonging – same belonging – allows us to identify a general law of tendency. The reduction of rate of return differentials, as a result of competition, between legally constituted enterprises is only the highest level of application of this law.

5. Let us call corporate service another component of the enterprise.

At the head of an enterprise is at least one person or body that may include, in addition to holding general meetings of members, a board of directors and its chairman as well as a general management and its first-rank delegates. At least part of this head constitutes a corporate service. Accounting, controlling, personnel administration, information technology and other functions are also often specializations, at least in their centralized parts, which are assumed by the same number of corporate services. In one way or another and for different purposes (setting margin targets, calculating unit costs), corporate service costs, often seen as "structural", must be distributed.

6. Let us call a workshop a third component often present in the structure of enterprises.

A constituent part of a contractual enterprise is likely to be neither an enterprise within the enterprise, because it is not this part that sells, nor corporate services by the technical nature of what it produces. It sometimes takes the form of an entire plant, divisible into

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necessarily that of a good. In this chapter, we use the word supply to refer to what enterprises sell, it being understood, but it is obvious, that enterprises do not have the exclusive right to be suppliers, particularly in terms of services exchanged for their remuneration.

homogeneous cost sections. When it is internal to an enterprise within the enterprise, its costs are completely part of the direct expenses of the enterprise of which it is a division. When it provides several enterprises in the enterprise, its costs must be distributed.

7. **From the present proposition to the end of this chapter, cost accounting and management control in enterprises have been the subject of a conceptual contribution which makes them more relevant.**

By means of postulates held to be demonstrated without having been demonstrated[176], petitions of principle have functioned as a general theory of the values of economic exchange. These constructions, which exclude the fact that all exchange values can only have in common that they are prices, have diverted attention from the full scope of Brown's equation, in other words of the RPP' relation.

11.4 Like legally constituted enterprises, enterprises within the enterprise have direct costs and generate a direct margin.

1. **At this level of analysis, Let us call the legally constituted enterprise its parent and the child of each of its sales producing divisions.**

Let's also call "parent" any child who sells several supplies to the customers of the contracting enterprise, because it is legally constituted. **The sibling children are also of the same direct systemic level**. For example, a contractual enterprise has the highest level of breakdown of its sales in sections A to G. Each of these sections has its own highest level of breakdown of its sales from subsections. Let us designate two of these subsections by the letters AA and GC:

sections A to G have the same parent and are of the same direct systemic level;
subsections AA and GC do not have the same parent and are therefore not of the same direct systemic level.

2. **Within a legally constituted enterprise, the number of direct systemic levels can be very large.**

Each reference in the assortment sold is, in fact, the child of a parent, itself a child of a parent, as many times as this path of the tree structure of enterprises in the enterprise has levels.

3. **The number of direct systemic levels is also that of the copies of the nested table located on the same path.**

On a copy of this table is the revenue of the child identifiable by a reference of the assortment – an article – and the revenue of the smallest group which is the parent of this child, like this with more than two children as many as necessary:

	Has	B	C
	Child 1	Child 2	Parent

[176] Alleged universal scarcity, maximization of profit elevated to the rank of imperative imposed on any contractual enterprise other than "social", in particular.

2	Turnover	500	400	900

On a higher-level copy of this same table is the revenue of the smallest grouping, child of the most immediately large grouping which is its parent, again with as many children as necessary.

And so on, up to the table whose largest grouping is the contractual enterprise, the root of the tree of enterprises within the enterprise

4. **Children and parents have direct costs.**

The direct costs of a contractual enterprise are all of its expenses, as established by the general accounts. **The direct costs of a subset of a contractual enterprise are those that would be waived or otherwise employed if that subset were removed.** The purchase prices of products resold as such are, among other things, direct costs. The entire wage of a department or department head is a direct cost of the department or department. Depreciation of fixed assets is part of some direct costs. In economics, there is no organ without direct cost.

5. **The sum of the direct costs of children of the same parent is not necessarily equal to the direct costs of the parent.**

On a path of belonging, the direct costs are also nested. For example, the full wages of department heads in a department are direct costs of the department, but in these there is also the complete wage of the department head. The same applies to other costs. This is why in the table below, and then in its more complete plots, in cell 3C (row 3, column C) the amount is preceded by the character "{" meaning: **this is only the sum of the amounts shown on the left on the same line and not necessarily the amount of the parent's direct costs**:

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540

The amount of the parent's direct costs is either greater than the sum of the amounts of the children' direct costs, or equal, never less.

The existence of

6. **direct costs determines the existence of direct margins.**

A direct margin is the difference between a revenue and direct costs:

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540

4	**Direct margin**	200	160	{360

In cell 4C (row 4, column C), the character "{" also means: **this is only the sum of the amounts shown on the left on the same line and not necessarily the amount of the parent's direct margin**. As a rule, the amount of the parent's direct margin

- Parent enterprise is less than the sum of the amounts of the children' direct margins
- Child Enterprise. This is how direct margins, often called gross margins, make the lowest level margin by successive aggregations and subtractions of costs, which is the earnings or loss of the contractual enterprise.

7. In the complete layout of the nested table, the amount of the parent's direct costs does not appear.

It is not necessary. Let's show this by taking the example of departments and departments. Going from the general to the specific:

On the table where the parent is the contractual enterprise, the children are the departments and the amounts of their direct costs are there.

On each of the tables where the parent is a department and the children the departments in that department, the amounts of the direct costs of these departments are shown.

Etc.

8. The rest of this chapter completes the nested table in several stages.

After a further analysis of the direct costs due to the possible existence of internal workshops supplying several centres producing sibling or cousin margins (proposition below), the next stage of construction of the nested table takes into account the existence of common costs which generally contribute to the determination of the direct margin of the parent:

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
8	**Common costs**			340
9	**Direct margin** (C4 – C8)			20

9. This modelling of the formation of the final result of a contractual enterprise does not take into account a reality that is nevertheless essential.

What is left aside means that only one of the three ratios of Brown's relationship, above called RPP' is estimable (lending ourselves to errors of judgment, we will recall later why):

the profitability P', in this case the ratio between each of the direct margins and the corresponding revenue as in line 7 below.

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
7	Direct profitability	40%	40%	{40%
8	**Common costs**			340
9	**Direct margin** (C4 – C8)			20

In cell 7C (row 7, column C), the character "{" means: **the relative value that follows is the weighted average (360/900) of those on the left of the same row**. In this numerical example, the direct profitability P' of the parent is 2.2% (20 in 9C / 900 in 2C).

11.5 The distribution of the direct costs of an internal workshop in proportion to physical quantities is objective.

1. **Let's consider again the top of the nested table of analysis:**

	Child 1	Child 2	Parent

- children are the enterprises in the parent enterprise.
- A parent always has at least two children and most often more.
- A legally constituted enterprise is the parent of children who are themselves parents, etc., so that in each case the complete set of nested tables consists of at least three copies and, depending on the width and depth of the assortment sold, up to tens of thousands.
- Parents and children are margin-producing sections and no other division that is part of a contract venture is such a section.

		Has	B	C
		Child 1	Child 2	Parent
3	**Direct costs**	300	240	{540

2. **The nested table also analyses the costs of margin-producing sections:**

The total direct costs of the parent are:

at least equal to the sum of the children' direct costs;
often greater than this sum;

always higher than this sum when the parent is the contractual enterprise (more on this subject in the argument of the following proposition).

3. **A contractual enterprise is likely to have one or more internal workshops.**

A factory which, within a contractual enterprise, supplies products **for sale** to sister or cousin margin-producing sections (with different degrees of kinship) constitutes what we call an internal workshop, comprising, if necessary, a chain or a tree structure of workshops in the workshop.

It is customary to say that several kinds of internal workshops are laboratories, as in bakery, this place where the production of margins is done at the counter or during deliveries and not in the bakery. A maintenance service included in the organisation of a contractual enterprise is not an internal workshop in the sense we give to this name:

it does not provide anything to be sold by the contractual enterprise;
Its economic status is the same as that of the general accounting department, or the research and development department when the latter's mission is to initiate production and not to produce what it has initiated.

4. **The direct costs of an in-house workshop result in the existence of unit costs.**
   - If the workshop produces only one product, the unit cost of this product is, over the period in question, equal to the sum of the direct costs of the workshop divided by the quantity produced.
   - If the workshop develops several products, they have in common a unit of work which is often, but not exclusively, a production time. **In this case, each of the unit costs is the result of the rule of three: (sum of direct costs / total number of units of work) x number of units of work of the product.**

5. **The unit costs of a supplier shop in a margin-producing section are part of the direct costs of this section.**

These unit costs are not yet full cost prices, and they are often far from being so. Nevertheless, these partial unit costs:

Ensure a full breakdown of direct internal shop costs.
participate in a conceptually accurate estimation of direct margins;
provide an objective basis for determining the truly complete cost prices, i.e. not only including all expenses but also the earnings of the legally constituted enterprise included.

6. **The costs, whether they are of a workshop or a margin producing section or of a contract contract, are for some variable and for others fixed.**

It should be remembered that we call profitability exclusively a ratio of the family of those that appear on **the following extract** of the nested table, in lines 7 and 12:

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900

3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
7	**Direct profitability**	40%	40%	{40%
8		**Common costs**		340
9		**Direct margin** (C4 – C8)		20
		If the parent enterprise is the legally constituted enterprise:		
12		its profitability (C9/C2)		2.2%

The distinction between variable and fixed costs – fixed in a range of quantities sold – makes it possible to estimate a **threshold** at which the direct margin of a child becomes positive or the final margin of the legally constituted enterprise becomes profitable. These break-even estimates obviously have their reasons for being in enterprise management.

Unit cost prices vary all the more according to the quantities produced or sold the higher the proportion of fixed costs. These variations justify the quantitative discounts introduced in the sales tariffs, although this is according to scales that are often very expensive to estimate precisely.

11.6 Within legally incorporated enterprises, enterprises within the enterprise have common costs.

1. **Let us consider again an excerpt from the nested table:**

		A	B	C
		Child 1	Child 2	Parent
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
8		**Common costs**		340
9		**Direct margin** (C4 – C8)		20

When, in such a table, the parent enterprise is legally constituted enterprise then over the period considered:

- in line 9, the direct margin is the earnings or loss of that enterprise;
- the total expenses of this enterprise – in other words, costs, including depreciation of fixed assets – are equal to the sum of the amounts in cells C3 and C8;
- This sum is the direct costs of the contractor, including all its organizational divisions, including internal workshop(s) if applicable (previous proposition).

2. **Costs common to sister margin-producing sections are direct cost components of the sisters' parent.**

The full wages of the management of a (parent) margin producing department by several departments (children) are:

the costs common to children that the rays constitute;
of the direct costs of the parent that this department constitutes.

Costs that are common at one level become direct at a more aggregated level. Conversely, costs that are direct at one level become common at a less aggregated level.

3. **Overhead costs are common.**

This is particularly clear when the copy of the painting in question is the one in which the parent is the contractual enterprise. Consider the case of a company such as:

- The administrative costs upstream of the general management are part of the common costs: general meetings, boards of directors (including directors' fees), statutory auditors.
- The costs of the Directorate-General and the possible General Secretariat are part of the common costs.
- The costs of the top or the entire sales department, as well as institutional advertising and public relations budgets, are part of the common costs.
- The common costs also include personnel costs and depreciation of equipment for the administrative and financial directorate, the human resources directorate and the information systems directorate (IT).

4. **In forecasting management and unit cost calculations, common costs raise the problem of their distribution.**

All along a chain of nested tables, from the one where the parent is the contractual enterprise to one where the children are products sold by the contractual enterprise, common costs are to be distributed in a cascade. At the end of the chain where the parent enterprise is the contractual enterprise, the latter's earnings, i.e. its direct margin, is to be divided with the common costs. In the end, these successive allocations can amount to more than 80 or 90 % of the selling prices excluding VAT of part or even the entire range, with a significant effect on competitiveness for the reasons that we will examine in the rest of this chapter.

11.7 Enterprises within the enterprise are the object of direct investment, all financed in exactly the same way.[177]

1. **Let us continue to complete the nested table.**

Let us add line 1, which has been skipped until now, allocated to direct investment:

[177] Note du traducteur. Dans cette section (§ 11.7 et suivantes), « direct investment » rend « investissement direct » : les actifs directement affectés à une entreprise interne (rayon, département, filiale). Ce terme est distinct de « direct placement in capital » (« placement direct en capital »), qui désigne l'apport d'épargne au capital d'une entité par un souscripteur. Les deux notions, homonymes en anglais, ne doivent pas être confondues.

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
7	**Direct profitability**	40%	40%	{40%

Investments and assets refer to the same stock, because of what a balance sheet is in economic accounting proposition 4.6 While this stock is matched by another of financing, costs of all kinds are load flows (proposition 4.2.

Lines 2 through 4 are flow data. In line 7, the most significant ratio between these flows is from the P' profitability family. Distinguishing this family from that of rate of return R and productivity P is in itself a progress that is accomplished by calling exclusively:

- **rate of return** a ratio that has a margin (or income) as its numerator and a balance sheet item as its denominator – a stock: either part or all of the financial resources (capital, liabilities), or part or all of the uses of these resources (assets);
- **productivity** is a ratio that has a flow other than a margin as its numerator and a stock as its denominator;
- **profitability** a ratio that has a margin (or income) as its numerator and another flow as its denominator.

2. It makes economic sense for a stock to be at the top of the table.

The flows of revenue, costs and margins **come from** stocks. Balance sheets are stock accounts, income statements are flow accounts. When diagnosing the health of a legally constituted enterprise, economic logic requires that the current state and the recent past be examined: **firstly**, its balance sheets and, where applicable, its off-balance sheet commitments; **secondly**, its income statements.

3. When the parent enterprise is the legally constituted enterprise, the existence of direct investments is self-evident.

There is no legally constituted enterprise without a balance sheet that is periodically updated by the inventory of its assets. This is why, from its first edition, the French Commercial Code made it an obligation to establish such an inventory at the end of each financial year. It is not customary to qualify the investments of a legally constituted enterprise as direct, because this goes without saying: these investments belong to the contractual enterprise for which a balance sheet of at least an annual report is produced. They are nonetheless direct investments because they would be reallocated to another owner or destroyed if that contractual enterprise were to disappear.

4. **An investment I by a legally constituted enterprise E is also likely to be a direct investment by several enterprises internal to E.**

An example can be seen when going shopping in a large retail store. When this supermarket is a legally constituted enterprise (although its brand is possibly that of a chain of franchised stores), all its layout and all the stock of goods are part of its assets, in other words its investments. At the same time, some of these arrangements and stocks constitute direct investments by one of the departments. Within each department, the same applies to the departments: their direct investments are part of those of the department to which they belong. The stock of a product sold on one of its shelves, including any quantity in reserves, is a direct investment by the enterprise in the enterprise that the sale of this product constitutes.

5. **The sum of the direct investments of the children is often less than the direct investments of the parent.**

This is the case whenever a direct investment by the parent is not also a direct investment by one of the children. For example, in a self-service store, the trolleys made available to customers and the checkouts are not direct investments of a department, nor of a department made up of several departments. The numerical illustration which serves as a common thread here takes this fact into account, with an amount in cell C1 (column C, row 1) that is higher than the sum of cells A1 and B1.

6. **The most current value of an investment is its replacement cost.**

But, experts in these matters will object, traditional cost accounting and management control as it is most practiced today take into account investments by including their depreciation in the costs, in the same way as in general corporate accounting periodic depreciation of fixed assets are part of the expenses, as well as any other expenses provisions. This last point is unquestionably correct, definitively correct. However, it does not allow the perpetuation of three errors of analysis.

Firstly, the depreciation of investments are provision-toppings for the renewal of these investments. Taking account of this need, which is essential in order not to overestimate final margins or underestimate cost prices, does not, however, exempt us from assessing returns on investments, in other words rate of return in the sense defined above (point 1). Of two children who have the same direct profitability, as in the numerical illustration of the nested table (row 7, columns A and B), only one thing guarantees that they also have the same direct rate of return: the replacement value of their direct investments is identical (in the numerical illustration and as in reality very often, this is not the case: row 1, columns A and B).

Secondly, not all fixed investments can be amortised. This is particularly the case for land when it is not that of a quarry in operation. However, the value of these investments is part of what is, if necessary, to be taken into account when comparing direct rates of return. For example, child A may require the use of a land area for completely separate storage, while child B only needs a pallet store located in the main building where all purchases and sales are made, for both A and B.

Thirdly, two sets of investments may be subject to identical depreciation allocations even though their replacement values, the basis for calculating direct rate of return, are different. It depends on their weighted average amortization periods. Conversely, and for the same reason, two lots of investments may be subject to different depreciation allocations even though their replacement values are identical.

7. Depreciation and rate of return are not the same thing.

Confusion is still very common. Indeed, we often hear comments such as: "This investment has been/will be amortized in so long, so it has been/will pay for itself at the end of this period". It is also a mistake in enterprise management: it is not because a piece of equipment has been depreciated that it is without damage, that its rate of return is zero or, even more so, negative!

8. Rate of return does not express a duration.

Let F be the cumulative monetary depreciation-adjusted amount of a series of annual dividends from a share A. There comes a time when the value of A, also corrected for currency depreciation since its acquisition, is equal to F. From this equality, it does not follow that the investment constituted by the acquisition of A is amortised. It follows even less that, after this moment, it becomes superfluous for the preservation of A to procure dividends. A rate of return proper is a ratio between a win and a bet. When a rate of return itself is on average 5 or 10% per year, this does not mean 20 or 10 years, whereas a straight-line depreciation of 5 or 10% per year is over 20 or 10 years. The famous price earning ratio (PER)[178] expresses a duration instead of a rate of return. The smaller it is, the greater the rate of return, at least in relation to the share price, which may be significantly higher or lower than the exploited value of this share. The P/E atrophies the comparison of the rates of return expressed upside down, in the same sense as the interest rates and profit on capital of unlisted companies, including cooperatives. However, in all markets, competition works at its best, with comparisons that do not require calculations to be made. This is a strong argument in the examination of what is public policy in terms of financial ratios of greater use, including of course in the most speculative markets. Only investments to be renewed can be amortised. It is not in the nature of a placement in capital to be of this kind.Placement en Capital[179]

9. No subset of a legally constituted entity has a complete balance sheet.

A complete balance sheet includes assets and liabilities. Only legally constituted entities have one. This is because a subset of a legally constituted entity cannot be declared insolvent, i.e. filed for bankruptcy. This impossibility, which is a matter of public policy (recall of this point below), has an econometric consequence. On paper, it is always possible to

[178] See the definition of "Price Earning Ratio" in Wikipedia.

[179] Sraffa treats fixed capital as a joint product: each year the partly worn machine comes out of production alongside the product, and its value declines with its age (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. X). Fabra rejects the consequence Sraffa draws, that the product a machine yields must decrease as its price falls: profit remunerates the saving, not the particular asset bought with it (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 338). The Objective Political Economy reaches the same conclusion through the distinction drawn here between depreciation, which provides for renewal, and rate of return, which remunerates a placement in capital for as long as it lasts (Proposition 6.1). See the appendix Objective Political Economy and Sraffa.

match the direct assets of a subset of a legally constituted entity with liabilities of the same amount. But this exposes us to distorting reality. For example, in a newspaper kiosk, the stock at the beginning of the day of the daily newspapers on sale. The supplier of this inventory invoices by weekly statement payable at 15, 30 or 45 days, for an additional 0.5% if it is at 30 days or 0.75% if it is at 45 days. It seems to be clear that the current assets constituted by this stock are financed only by supplier credit. However, it is wrong for the following reason. **A legally constituted enterprise has more or less recourse to supplier credit and any other debts depending on what the relative amount of its capital to the liabilities of its balance sheet allows.** Drawing as much as possible, moderately or not at all, on the supplier credit, as on any other cash flow "facility" (discounts, overdrafts, factoring), is only determined by the relative amount of the net capital (if applicable, losses from previous years deducted) to the liabilities of its balance sheet.

10. The direct investments of children A and B are financed by the same proportion of capital and credit.

When the direct rates of return of two children are:

- their contributions to the rate of return of the capital of the legally constituted enterprise are equal;
- unequal, their contributions to the rate of return of capital are in proportion to these direct rates of return: if, for example, the direct rate of return of child A is twice as high as the direct rate of return of child B, the contribution to the rate of return of capital of child A's legally constituted enterprise is twice as high as that of child B.

11. The allocation of revenue to a due is not enforceable against a creditor.

This rule is a matter of public policy for at least two reasons[180]. It limits the contagion of misfortunes to the inevitable. It facilitates the honest contractualization of economic relations. However, on this second point, there is a flaw when the entity managed is a private non-profit association or a public authority. The former can call for donations that it announces are allocated to a part of its works; however, the only way to guarantee that this will be the case is to create an association solely dedicated to this part. The second can oblige donations, by creating or increasing a tax that it announces is dedicated to a new or increased expenditure; but the only way to ensure that this is the case is to create an agency which, via the public treasury, is credited with this levy and with it alone. Otherwise, there is a breach of the honesty of the economic relations between the voters (now all taxpayers) and the public authorities. Since the allocation of revenue to a due is not enforceable against a creditor, **the allocation of a supplier credit to the sole financing of what has been purchased from this supplier is an expedient and not a sound management rule**. On the

[180] Léon has not paid his last mortgage instalments as well as his last electricity and gas bills. Previously, he paid these disbursements through rent that he received. But the tenant no longer pays. A judge is seized of Léon's case. The latter, who has not hired a lawyer, pleads: "I can no longer pay these instalments because I am no longer paid the sums with which I used to." The judge began by opposing him that a way of managing his affairs was not enforceable against his creditors. In saying this, in his heart of hearts the judge once again ruminates that politicians who allocate public revenues to categories of expenditure contravene a duty that the law orders.

other hand, increasing the direct cost of providing financial costs generated by the way in which it has been paid is good management.

11.8 Direct rates of return, productivities, and profitabilities belong to the same systemic level.

1. **The matrix of the complete table has nine or twelve rows.**

Lines 10 to 12 are supplemented only on the condition indicated: in this case, the parent enterprise is the legally constituted enterprise, i.e. the one with which suppliers and customers contract. When this is not the case, the parent is one of the margin-producing units of the legally constituted enterprise.

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
5	Direct rate of return **R**	200%	80%	{120%
6	Direct productivity **P**	5	2	{3
7	**Direct profitability P'**	40%	40%	{40%
8	**Common costs**			340
9	**Direct margin** (C4 – C8)			20
	If the parent enterprise is the legally constituted enterprise:			
10	its rate of return R (C9/C1)			4.4%
11	its productivity P(C2/C1)			2
12	its profitability (C9/C2)			2.2%

In lines 10 and 11 above, the rate of return and productivity are those of the investments of this enterprise. If the latter is, for example, a company whose share capital is equal to 70% of the investments, i.e. **315**, then its **largest RPP'** is as follows:

9	**Final margin** (C4-C8)	20
10	**Return on capital** R (C9/315)	6.4%
11	**Productivity of capital** P (C2/315)	2.9
12	**Profitability of sales** P' (C9/C2)	2.2%

2. **The rate of return, productivity and profitability of legally constituted enterprises are of the same nature:**

If, in the case at hand, the number of legally constituted enterprises is one million, then **on** this basis alone competition is likely to regulate, encourage and deter by a million RPP' relationships. Anyone who has not seen this is exposed to misjudging the machinery that constitutes a market economy because all legally constituted enterprises of the same nationality are potentially **all** competing on the capital market through their rate of return.

3. **The direct rate of return, direct productivity and direct profitability of the margin production centres internal to legally constituted enterprises are in clusters of the same systemic level.**

If the average number of margin production centres per legally constituted enterprise is one thousand and the number of these enterprises is one million, then competition is likely to regulate, encourage and deter by a thousand and one million RPP' relationships. This only reinforces what has been estimated above: those who have not seen this are exposed to misjudging the machinery that constitutes a market economy because all the entities recursively producing margins, positive or negative, and from the creation to the disappearance of each of them, are potentially subject to a normal level of direct rate of return.

11.9 Competition is failing when it does not reduce the inequalities of the direct rates of return of the same systemic level.[181]

1. **Unequivocal meanings help to bring out what is in reality obvious.**

With:

M margin (earnings are a margin);
I of investment (fixed assets and other **investments**);
V of sales (revenue):

M / I = (V / I) x (M / V)

Rate of return = Productivity x Profitability

RPP' relationship.

When we call rate of return only a ratio of the M/I family, productivity only a ratio of the V/I family, profitability only a ratio of the M/V family, the role that the RPP' relationship plays in the regulation of the prices at which enterprises sell becomes indisputable.

[181] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, p. 208: outside monopoly or oligopoly, market forces constantly bring the effective price down to the natural price; and p. 214: a surplus profit signals a monopoly, even a temporary one, at the expense of the consumer.

2. **In the numerical illustration used in this chapter, the direct rate of return of child 1 is very different from that of child 2.**

Children: ranges or references that produce margins and whose parent is (pastry and bakery are, for example, children of a baker and pastry chef).

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
5	**Direct rate of return R**	200%	80%	{120%
6	**Direct productivity P**	5	2	{3
7	**Direct profitability P'**	40%	40%	{40%

The weighted average rate of return of child 1 and child 2 is shown in the "Parent" column: 120%. The rate of return of child 1 is 1.7 times (200/120) greater than the weighted average. The rate of return of child 2 is 1.5 times (120/80) smaller than the weighted average.

3. **In wholesale and retail trade, the direct profitabilities of two items from the same family in the same department are often identical.**

This does not mean that the stock rotations that make up their direct productivity are the same. However, as soon as direct productivity is different while direct profitability is the same, direct rate of return is different.

4. **At a manufacturer of metal garden tools with universal handles, the different models of handles or metal parts are items from the same family.**

Currently, the selling prices of this manufacturer can be such that the direct profitability of these two families is the same. This does not mean that their direct rates of return are the same. The phenomenon is similar to higher and lower levels. It is not because two legally constituted enterprises have the same final profitability (same rate of earnings on revenue) that they have the same final rate of return (same rate of earnings on capital). Nor is it because rakes, hoes and tines that can be mounted on the same universal handles have the same direct profitability that the direct rate of return of the sale of these tools is identical.

5. **The figures in the previous table describe an initial situation: one in which the direct profitabilities of the children are the same or slightly different.**

The equality of direct profitabilities **of the same systemic level** is often initial because in enterprise management, the easiest ratios to budget for and exploit are profitability and not rate of return.

To budget average profitability rates, knowledge of the selling prices of competitors or similar enterprises and the refinement of the income statement (e.g. operating

account) are sufficient, all the more so since what this account has been over the last few years is known and has been the subject of drawings of profitability ratios (gross margin rate, semi-net margin, net margin, as long as these are evaluated in relation to revenue or a cost-of-sales price).

To exploit average profitability objectives, it is sufficient to use multiplying coefficients of purchase or cost prices, in other words direct costs.

In the numerical illustration, the direct cost multiplier is 1.667 (line 7 below), since a margin on revenue (on sales price) of 40% is 66.7% on cost (on purchase or cost price):

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
7	**Direct profitability** P' (4/2)(4/3)Multiplier (2/3)	40%67% 1,667	40%67% 1,667	{40%{67% {1,667

6. **Suppose mineral waters, fruit juices and soft drinks, beers, everyday wines and fine wines, all sold by the wholesale and retail trade at the same profitability – at the same mark-up rates.**

The direct productivity of these items is, at the distribution stage, stock rotations. The quantities sold mean that these rotations, or productivity (capacities of 1 € or $ etc. of stock to be produced, n € or $ etc. of revenue per year), are unequal. The highest are those of mineral waters. The lowest are those of fine wines. The rotations of fruit juices, sodas, beers and common wines are lower than those of mineral waters, but significantly higher than those of fine wines (and spirits). As long as for all these families of items the profitability is initially equal or very close, the rate of return is directly proportional to the productivity, by the mechanical effect of the RPP' relationship. Selling mineral water then has a markedly higher rate of return than selling fine wines, although it is just as profitable.

7. **All the more quickly as prices are set and new beverage shops are free, profitability tends to become inversely proportional to productivity.**

If, at the wholesale and retail stage, buying and selling mineral water has a markedly higher rate of return than buying and selling another beverage, then sooner or later a merchant increases his sales of mineral water by reducing his margin rate on this family of items. Initially, the stock revenue of this family – the main or sole constituent of its direct productivity – can be increased so much that direct rate of return also increases. From this new level, an increase in the quantities sold and the margin generated in absolute value can

be attempted by lowering profitability by one notch – the average multiplier coefficient applied to purchase prices. The freedom of supply establishes and maintains by successive attempts the dispersion of direct profitabilities of the same systemic level by making the latter more and more inversely proportional to the corresponding productivity. Of course, some of these trials are always susceptible to poor calibration, but it is those who succeed that make the law. In the numerical illustration used here, as soon as competition influences the evolution of the direct profitabilities of children 1 and 2, the latter tend to become inversely proportional to their productivity. As a general rule, with the exception of obstacles to entry into competition and the comparability of offers, **the highest productivity goes hand in hand with the lowest profitability and the lowest productivity with the highest profitability**.

8. **By making the profitability P' inversely proportional to the corresponding productivity P, competition sanctions the refusal to equalize the return on capital of the same systemic level.**

Where the comparability of enterprises' offers to their potential customers is not hampered, the market economy is governed by a natural (logical, systemic) law of a tendency to equalize the direct rate of return of the same systemic level[182]. From the level of comparison at which legally constituted enterprises of the same nationality or internationality are located (European car manufacturers, North American telecommunications operators, Asian computer manufacturers, for example), this law of trend and sanction is at work. Those of these firms whose rates of return are the highest are seeing competition increase in their core business. They then avoid the sanction of too large a loss of market share only by accepting a drop in their profitability, until their rate of return is brought back to its sufficient level. Selling price decisions that stay closer to equalizing profitabilities than to equalizing rates of return lower competitiveness compared to what it would be by taking the opposite side.

9. **The result of the statistical checks of the tendency towards the equalization of direct rates of return of the same systemic level is not in doubt.**

In the manufacturing distribution sector, average margins on sales are very generally lower for products with a high stock revenue than for those that sell more slowly. In industry, these same average rates are very generally lower for the 10 to 20% of products that account for 90 to 80% of sales. The reduction by free entry into the markets of the dispersion of the rate of return of legally constituted enterprises is only one of the effects of the general law of reduction by competition of the return on capital of the same systemic level.

[182] Sraffa's prices of production rest on the same equality: one rate of profits, uniform for all industries (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. II). The Objective Political Economy differs on three points. The equality holds here at every same systemic level, down to the margin-producing centres within the enterprise, on direct investment valued at replacement cost (Propositions 11.7 and 11.8), a valuation Sraffa shares, since his means of production are valued at current prices. It is a tendency produced by competition and sanctioned by the loss of outlets, not a postulate of the price system. And it operates through the market, which Fabra calls the place of greatest transparency, whereas he reads in Sraffa, as in Marx, a cession of surplus from "surplus" to "deficit" industries (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338). See the appendix Objective Political Economy and Sraffa.

11.10 The most competitive distribution of direct margins, and thus of common costs, is often in proportion to direct investment.[183]

1. The nested table can be used for forward management.

The starting point for this use is a copy of the most aggregated table of the tree in question, based on the model of this one:

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	500	400	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	200	160	{360
5	**Direct rate of return** R	200%	80%	{120%
6	**Direct productivity** P	5	2	{3
7	**Direct profitability P'**	40%	40%	{40%
8	**Common costs**			340
9	**Direct margin** (C4 – C8)			20
	If the parent enterprise is the legally constituted enterprise:			
10	**Return on capital** R (C9/315)			6.35%

[183] The truly complete cost price includes the remuneration of placement in capital as a share of earnings, not as an expense; on this point, see the appendix *Cost of capital, CAPEX and OPEX*, Statement 1 and section 5.

2. In forecasting, the table is filled in from bottom to top.

The following are successively introduced:

a) Line 9, an amount of margin to be released.

When the parent is the legally constituted enterprise, a rate of return is first introduced in line 10. Then the application of this rate to the amount of the capital (315) gives the margin to be made available (20).

At the following levels, the amount shown in line 9 is the carry-over of a direct margin of a child, this direct margin having already been budgeted at a more aggregated level.

Line 8: an amount of common costs (340).

Line 4, column C: The sum of the amounts in lines 9 and 8 (360).

Line 3: the direct costs of children (300, 240).

Line 1: direct investments by children (100, 200).

3. When the margin plus common costs is distributed in proportion to the direct investments of the children, the direct rates of return of the latter are equal.

The direct profitability objectives of the children are then inversely proportional to the corresponding productivity:

		A	B	C
		Child 1	Child 2	Parent
1	**Direct investment**	100	200	450
2	**Turnover**	420	480	900
3	**Direct costs**	300	240	{540
4	**Direct margin**	120	240	{360
5	**Direct rate of return** R	120%	120%	{120%
6	**Direct productivity** P	4.2	2.4	{3
7	**Direct profitability P'**	28.6%	50%	{40%
8		**Common costs**		340
9		**Direct margin** (C4 – C8)		20
		If the parent enterprise is the legally constituted enterprise:		
10		**Return on capital** R (C9/315)		6.35%

Line 2 then follows: each child's turnover equals its direct costs plus the margin allocated to it (420 = 300 + 120; 480 = 240 + 240). This forecast turnover is the *truly complete cost price* of each child's sales: it covers the direct costs, the share of common costs and the share of earnings that the target rate of return requires. The truly complete cost price is thus

derived from the target rate of return, and the rate of return is never derived from it. Profitabilities and productivities follow from the RPP' relation (P' = R / P).

4. **Reducing the dispersion of direct rates of return of the same systemic level improves competitiveness.**

As a result of this reduction, profitability is lowered and raised the more productivity is higher or lower than its average (row 6, column C). **What competition tends to establish is better anticipated.** Supply is more competitive because the best-selling products are at prices that subsidize less, or not at all, the least-selling products.

5. **The reduction in the dispersion of direct return on capital of the same systemic level makes the final rate of return less dependent on changes in the sales structure.**

In other words, a legally constituted enterprise whose sales prices are constantly adjusted in such a way that there is as little inequality as possible in the direct return on capital of the same systemic level. **So for the rate of return of this enterprise, it becomes irrelevant if the sales structure changes.** There are no longer any sales in this enterprise that massively subsidize others. The selling prices are as fair as those of two enterprises that each sell only one supply and whose rate of return is equal to each other and to what is nationally necessary to restore or maintain full employment.

6. **The distribution of a margin, or even only common costs, in proportion to direct investment is useless when the productivity of sister P is equal.**

In such a case, the rate of return **R** and the profitability **P'** of the same systemic level are all in the same ratio, since by definition **R** = **P** x **P'**. So, distributing direct investments in proportion to the same as doing it in proportion to direct costs. In the long term, the evolution of productivity P of the same systemic level is nevertheless to be monitored, as it is always likely to be affected by changes in the structure of sales, increasing where sales are concentrated and remaining stable or decreasing on the rest of the supply. Knowledge of direct investments, even "ladleful", is essential to the exercise of this surveillance, otherwise the productivity of the same systemic level is invaluable.

7. **Some sales have direct profitability but no direct investments and therefore no direct rate of return and productivity.**

For example, consider how certain sales are made in the trade in medicines and spare parts, as well as in general the subscription of insurance policies. They are part of transactions carried out without tying up a direct investment by the seller, because either the seller passes on a buyer's order to another supplier, who therefore does not tie up any stock, or the nature of the service sold makes it so. Direct profitability from these transactions exists in the form of gross margin rates or commissions, these rates being applied to the amounts sold. But these profitability P' are not matched to rate of return R or productivity P, as long as their aggregation does not reveal the immobilization of at least one investment and a relationship RPP'.

8. **The distribution of the number of replenishments per item is made economically optimal by the application of a theorem.**

This application optimizes the value of the average stock, and thus the productivity (of stock revenue) of an assortment: for any other distribution of the total number of restocks between items, the average stock is higher and its revenue is a little to much lower. Let be, in fact, a series of fractions N (numerator) over D (denominator). The numerators N are positive numbers and these numbers are known. In contrast, for the denominators D, only their sum S, which is also positive, is known, and each element of this sum must itself be positive. The problem is to determine each denominator D that makes the sum of the N/D fractions minimal. This is the case when only the sum S is distributed among the Ds in proportion to the ratio between the square root of each N and the sum of the square roots of the N (note: the sum of the square roots of the N and **not** the square root of the sum of the N). This theorem is proved by double derivatives, but a spreadsheet makes it possible to empirically establish by means of arbitrary numerical series that there is indeed an optimal distribution law.

9. **The optimal distribution of a total number of orders among the items in the same assortment is an application of the theorem indicated above.**

The number of fractions is equal to the number of items. For each item, the numerator N is the product of its quantity sold (or consumed) by the unit cost (the purchase price). S is the total number of orders. The ratio of the square root of N to the sum of the square roots of the N is the distribution key of S, article by article[184].

10. **To calculate, on the basis of a margin objective, unit prices that tend to equalize the direct rates of return of these items, it is sufficient to use the ratio between the square root of N and the sum of the square roots of N.**

For each item, the absolute margin to be assigned to it is equal to this ratio applied to the total margin, also in absolute value. Thus, the items with the highest revenue (productivity) are those to which the lowest sales margin rates (profitability) are assigned and, conversely, the items with the lowest revenue are those to which the highest sales margin rates are assigned. It can then be verified experimentally that the prices calculated in this way are those that competition tends to form. In other words, we verify experimentally that these prices are those that tend to equalize rate of return (productivity times profitability) item by item.

[184] Wilson's model (the formula), which is all the more a great classic in manuals on inventory management and operational research because its graphic representation is spectacular (see **page 7** of this document), has as its mathematical foundation the theorem that has just been stated, without its designers and then its users having realized it to our knowledge. This can be deduced algebraically. It should be noted that in terms of supplies and stocks, the notions of acquisition cost and cost of ownership lend themselves to mismanagement, and more broadly to economic reasoning. In the case of a quantity discount, reconciling the lower cost of acquisition with the additional cost of ownership does **not** indicate which is the most **cost-effective** solution. The latter is, in fact, the one that provides the best margin return on invested stock. Far fewer circumstances than are generally accepted justify a slowdown in stock revenue, in other words productivity. Just-in-time is often a remedy that consists of curing a headache by cutting off the head, with the resulting commercial and environmental damage.

11. Instead of using the square root of each N, the product of the quantity sold (or consumed) by the unit cost (the purchase price), we can also use the power of 0.5 of this amount, which is mathematically equivalent.

By making this power an exponent **e** (with **e** = 1), the profitability, i.e. in this case the margin rates on the selling price, are identical while the competition tends to disperse them – with, as already noted, the smallest profitability for items with the largest stock revenue, as a general rule. With **e** = 0.1, on the contrary, we obtain profitability that is considerably more dispersed than the competition tends to make them. It is most often with **e** between 0.6 and 0.8 that we obtain the price line closest to that which competition tends to prevail. And it is also, more often than not, with **e** = 0.5 that we obtain the price line that best anticipates future price decreases on the best-selling items. This would not exist if competition did not tend to equalize the direct rate of return of the same systemic level[185].

12. The "pure and perfect competition" of neoclassical theory is unachievable.

Strengthening the trend towards equalization of direct rates of return of the same systemic level is achievable.

11.11 The prices at which an enterprise sells are sufficient when, for that enterprise, the direct rates of return of the same systemic level are equal.

1. Let us place ourselves in an economy where the level of the NARP, the average rate of profit on capital, which is sufficient to establish or maintain full employment, is known.

This is the case if the conditions for the full exercise of the EPCE feedback have been met for several years.

2. Let us consider three groups of legally constituted enterprises, according to the level of their rate of return over the previous seven years.

In the first group, the level of rate of return is significantly lower than the level of the NARP. In the second group, the level of rate of return is significantly higher than that of the NARP. In the third group, the level of rate of return is of the same order of magnitude as the level of the NARP.

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[185] What is fully demonstrated is the law of tendency towards the equalization of **all** direct rates of return of the same membership, as long as the comparability of remuneration of the same category (wages, dividends, interest) is freed from obstacles to competition) and other prizes. This ranges from the sectors of entrepreneurial activity to the products sold individually to their end buyers. A people who want the full exercise of this law has chosen capitalism to maximize labor incomes, under the constraint of saving placement income sufficient for structural full employment, rather than the mercantilism of capital gain which can and does not want to contribute to less structural underemployment than by reducing the lowest wages. By agreeing on this preference, the people of the said people are working effectively for the establishment of more commutative and distributive justice. As long as he does not take the economic means of this efficiency, how could it be that he does not dissipate too much of his energy in illusions that lead him to despair of his elected representatives and, sooner or later, of his own sovereignty? Where are the other treatments he has at his disposal to reduce the damage that businessmanship inflicts? Education, of course, but on condition that it does not consider the market economy to be fatally mercantilist, as almost all our citizens do when the question "what is an enterprise in general?" is put to them. The prevalent answer is indeed of the kind "an organ whose aim is the maximization of profit and capital gain", just as the prevalent answer to the question "what does the market economy naturally maximize?" is of the same barrel.

3. **The price level at which the enterprises in the third group sell is sufficient.**

But this is not sufficient to establish the dispersion of direct rates of return of the same systemic level in each of the enterprises in the third group.

4. **Within a legally constituted enterprise, persistent inequalities in direct rates of return of the same systemic level indicate that the sales with the lowest rates of return are subsidized by the sales with the highest rates of return.**

As a general rule, comparisons of the profitabilities of the same systemic level do not reveal these internal subsidies, nor do they allow them to be quantified. **The smaller the subsidies, the closer prices are to their sufficient levels.**

5. **Loss of outlets can be avoided by voluntarily reducing inequalities in direct rate of return of the same systemic level.**

Where sales whose rate of return is insufficient are massively subsidized by sales whose rate of return is excessive, on supply open to competition, competition sooner or later erodes the excess rate of return. **It may then be too late to raise the rate of return of the sales that have been subsidized. This trap is all the more formidable as the margin production with the highest rate of return is frequently the one with the lowest profitability.** A general management, failing to commit itself to practising and having practised within the enterprise the distinction between profitability and rate of return, is exposed to doing, in good faith, the opposite of what would be healthiest, namely: investing more in the margin production with the lowest profitability but the highest rate of return, and withdrawing from the sales with the highest profitability but the lowest rate of return after having sought how to raise their rate of return.

6. **A deliberate internal subsidy is a direct investment of the parent enterprise in one of its children; it is sound when it is budgeted, bounded in time and recovered.**

Let us partition internal subsidies into two subtypes. A *persistent internal subsidy* has neither a measured amount nor a term: it results from selling prices that equalize profitabilities instead of rates of return (Proposition 11.9), and competition sanctions it sooner or later (argument 5 above). A *deliberate internal subsidy* is decided, quantified and bounded in time: the launch of a product, the entry into a new market, the ramp-up of a new margin-producing section.

Within a legally constituted enterprise, nothing changes owner: an internal subsidy is a reallocation of margin between enterprises within the enterprise, the internal analogue of a transfer between entities (Proposition 1.3). The analytical accounts treat the deliberate subtype as an investment, not as an expense (Propositions 4.5 and 4.7). The shortfall between the direct margin of the subsidized child and the margin that would equalize its direct rate of return with those of its siblings is a direct investment of the parent in that child, financed by the margins of the siblings. In the nested table, this shortfall is added to the direct investment of the child (line 1). The child then owes a rate of return on it, like on any other direct investment.

Three conditions keep a deliberate internal subsidy sound. Its amount is budgeted in the nested table before the selling prices are set. Its term is fixed in advance. At that term, the direct rate of return of the subsidized child reaches that of its siblings, the accumulated

subsidy included. Past its term, a deliberate subsidy becomes persistent, and argument 5 applies. Where a combination of activities or outlets enables an enterprise to sustain it durably, it falls under dumping (Guideline 9).

Equimanagement provides the instrument of this distinction (see the appendix Paul Fabra – Equimanagement). Allocating common costs in proportion to direct investments makes every internal subsidy measurable as a gap between direct rates of return of the same systemic level, which comparisons of profitabilities do not reveal (argument 4). A deliberate subsidy is then a managed quantity: the enterprise knows what it invests in each child, for how long, and at what rate of return it expects the investment to be recovered.

7. **The evolution of its sales structure becomes indifferent to an enterprise that manages to equalize its direct rates of return of the same systemic level.**

Whether the customer base of such an enterprise increases or decreases its purchases on a particular section of its offer has no effect on the rate of return of the entire offer. This is one of the main conditions under which enterprises make the highest level of their social contribution.

8. **Entrepreneurship that wants to be fair, without integrating into its management the conditions under which an enterprise's prices are sufficient, relies too much on its good feelings.**

An enterprise that is verbally managed to generate the highest possible earnings may in fact be managed, year after year, to achieve as closely as possible the final result objective established by its general management at the beginning of its process of budgetary decisions and setting objectives. If in this enterprise, the slightest dispersion that brings its sales prices closer to their sufficient levels is allowed, then its management is likely to prove to be fairer for everyone (customers, wage-earners, shareholders in capital) than where the banners of the "social and solidarity economy" and "fair trade" fly at the bow and stern of the ship.

11.12 All prices, including wages and profits, have in common only that they are economic exchange values.[186]

1. **In all markets, including the labor market, trade is by definition marketable.**

The prices at which these exchanges are regulated can be said to be both market **and** economic **exchange values**, it being understood that the whole of these exchanges is a defined subset of social exchanges The economy is not limited to what is related to these exchanges because some of their terms (money, goods) are massively transferred.

2. **Labor remuneration has its own determinants.**

Chapters 8 and 9 above, respectively on the distribution (at the highest level, country by country) and on wages all remuneration for work), set out what these determinants normally are, for the most part. The price adjustment between the supply and demand of jobs **is not** the main determinant of labor compensation. On the other hand, an economic

[186] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, ch. 10, pp. 274–277 (section “Prices Are Not Determined by One Another”).

law that a people gains from voluntarily making work is that of sharing the total income of labor through the distribution key that constitutes wage equality and inequality.

3. **Placement remuneration has its own determinants**Revenu de Placement**.**

Chapters 6 and 10 above, respectively on profit (enterprise earnings) and interest (when their key rate is profit), explain what these determinants are. The price adjustment between supply and demand for investments **is not** the main determinant of placement returns.

4. **Ricardo was the first to derive the concept of economic scarcity from the general notion of scarcity.**

From the fourth to the sixth paragraph of section 1 of his chapter 1, *On Value,* of *On The Principles of Political Economy, and Taxation*, Ricardo wrote (below in italics):

> *There are some commodities, the value of which is determined by their scarcity alone. No labor can increase the quantity of such commodities, and therefore their value cannot be lowered by an increased supply. Some rare statues and pictures, scarce books and coins, wines of peculiar quality, which can be made only from grapes grown on a particular soil, of which there is a very limited quantity, are all of this description. Their value is wholly independent of the quantity of labor originally necessary to produce them, and varies with the varying wealth and inclinations of those who are desirous to possess them.*
>
> *These commodities, however, form a very small part of the mass of commodities who are daily exchanged on the market. By far the greatest part of those commodities which are the objects of desire, are procured by labor; and they may be multiplied, not in one country alone, but in many, almost without any assignable limit, if we are disposed to bestow the labor necessary to obtain them.*
>
> *In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint.*

5. **A commodity is economically scarce when it cannot, permanently or temporarily, be produced at will by human industry.**

Land space, and more generally real estate, as soon as it is put up for sale and expropriated for compensation by the police, is a scarce commodity with considerable social importance and economic benefits. Other resources that cause economic scarcity include, of course, in addition to valuable Peters, minerals and fossil fuels. Their operations create and maintain manna at the expense of the buyers of the products derived from these resources: who nowadays has never heard of oil rent and has never seen several times some of its effects?

6. **The price formation of a large number of commodities sold by enterprises is, unless there are obstacles to competition, brought back to its sufficient level by equalizing the return on capital of the same systemic level.**

At these sufficient levels, the price formation of a large number of commodities purchased from enterprises are in proportion to the quantities of labor and investment.[187] The political lesson to be drawn from this is undeniable. The organization of savings placement markets and those on which enterprises sell must have the effect of removing the obstacles to the equalization of the rate of return of the same systemic level.

7. **To attribute scarcity as the cause of all commodity exchange value and the adjustment between supply and demand as the universal instrument of its determination is pseudo-scientific.**

David Ricardo was right to add to the distinction between use value and exchange value, identified by Adam Smith, the observation of the difference between scarce commodities and commodities that can be reproduced at will by human industry. The neoclassicists have circumvented both of these distinctions, thinking that they are thus advancing political economy, but unfortunately without seeing that their subjectivist mathematization distances them from true economic science. The latter does not contravene any verifiable reality when it teaches that all prices expressed in a quantity of money have nothing more in common than that they are commodity exchange values.

[187] Sraffa gives this statement an exact form: the price of a commodity equals the sum of the dated quantities of labor that enter its production, each multiplied by the wage and compounded at the uniform rate of profits, $p = w \cdot \Sigma L_n (1 + r)^n$ (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. VI). Prices are proportional to quantities of labor when the rate of profits is zero; for a positive rate, they depend on the time profile of labor, that is, on the investment it requires. Fabra objects to the form of this equation, which implies that the wages of the current year earn no profit (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 335–338); the Objective Political Economy, which computes the rate of return on the whole direct investment, stocks included (Proposition 11.7), meets this objection. See the appendix Objective Political Economy and Sraffa.

Chapter 12 – Money

At the pediment of the theorization presented in chapter 1 to chapter 11 is logically "the economy of sound exchange". However, in this last chapter, it remains to dismantle the very unrealistic.

The reader will be pleased to note that the currencies considered in this chapter are only those that are legal tender.

Even in times of increasing misguidance in monetary management, two obvious facts remain, even if their neglect has become universal:

A legal tender money without a legal and political basis cannot be possible.
Economic exchanges and transfers, including savings placements among these exchanges, and whose taxes among these transfers, which would no longer have legal tender as their instruments, **would become so much less convenient to practice that, sooner or later, these instruments would be re-established.**

12.1 As an empirical instrument and one that can only remain so, money is subservient.

1. Currencies are instruments.

Currencies[188], both in their metallic (coins, ingots) and fiduciary (notes) and scriptural (bank accounts) forms, are **instruments**:

- for **economic exchanges and transfers:** on the one hand, exchanges of commodities for commodities by intermediary money[189], on the other hand, transfers of purchasing power (donations, taxes, legacies, thefts) as an alternative or complementary to the transfers of other objects that have a economic exchange value;
- **for measuring economic exchange values** [190] , an expression strictly synonymous with economic exchange values, and therefore as such an instrument of measurement of prices in the economic sense of this word –

[188] More colloquially it says **money**, a word that in this use has a rich palette of slang synonyms: wheat, embers, flouze, fric, galette, grisbi, rushes, maille, sorrel, pèpètes, pèze, picaillon, pognon, ronds, sou, thune, clover (*Le Robert*, entry Argent, II).

[189] The expression "exchange of commodities for commodities" gives a fairly complete account of an elementary economic reality when, as recalled at the end of the next point, only are the services of labor and investment provided in exchange for their respective remuneration expressly recognized as commodities. See Chapter 2 where it is also explained why currencies are not commodities.

[190] Sraffa seeks an invariable measure of value in a different instrument: the Standard commodity, a composite commodity built so that the price movements measured in it originate in the commodities measured and not in the standard itself (P. Sraffa, *Production of Commodities by Means of Commodities*, Cambridge University Press, 1960, ch. IV). Fabra sees in it an answer to Ricardo's problem of an invariable standard (P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, ch. 9, n. 6) and distinguishes this theoretical construct from the proposals to make the whole set of commodities the monetary standard, which he rejects as circular (ch. 11, section "Old Ideas Back in Vogue"). The Objective Political Economy requires no invariable measure: all prices have in common only that they are exchange values (Proposition 11.12), and money measures them as an empirical instrument. See the appendix Objective Political Economy and Sraffa.

prices, including those of individual supplies of labor services and placements in exchange for their remuneration;[191]

- **for storing purchasing power**, this reserve function being all the more poorly fulfilled because, over time, the monetary unit quickly loses its exchange value through nominal price increases that are referred to as inflation (from the Latin, by English, *inflatio* : inflation), but which nevertheless constitute a monetary depreciation, generalized or niche (real estate and other investments).

2. There is no orthodoxy in monetary matters.

This statement is from Jacques Rueff[192]:

> *"Contrary to what laymen believe, **there is no orthodoxy in monetary matters**. A large number of systems can be conceived, which are distinguished by their own virtues. It is only in relation to the ends that are assigned to society that one of them can appear preferable to the others. ".[193]*

Three paragraphs later, Rueff explains:

> *"The **extreme types** of monetary systems are: the **'realist',** where each unit of money has as its counterpart in the balance sheet of the issuing institution an asset that can be sold on the market for an equal value, and the **'nominalist**', where money is only a sign empty of substance. It is **between these two models** that **all the systems** that have been, are or will be in force are scaled. »*

Paul Fabra, in *The Best System for Getting Rid of Gold*, notes that "*a monetary system being by destination empirical in nature, it can never be entirely rational*[194]" and concludes one of his analyses with: "*In a rational monetary system, the sign is as abstract as possible but the value it represents is as real as possible.*[195] ".

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[191] On the fact that economic exchanges, in other words economic exchanges, are a finite subset of social exchanges, see Introduction to the Objective Political Economy / Defining the scope.

[192] Jacques Rueff: see wikiliberal.org.

[193] Monetary Regulation and the Institutional Problem of Money, first published in 1953 in the Revue d'économie politique, section VIII – The Institutional Problem of Money, first paragraph. The following quotation from Jacques Rueff is the fifth paragraph of the same text.

[194] The best system for getting rid of gold is the title of chapter 13 of the Essay on the Rehabilitation of Political Economy entitled Anticapitalism (15 chapters). The phrase quoted is found under the subtitle Qu'est-ce que l'étalon or?, page 280 of the Arthaud edition (1974), page 334 of the Champs Flammarion edition (1979).

[195] Page 290 in Arthaud, page 345 in Champs Flammarion, where this sentence, underlined by its italics, is the last of a paragraph of which the first half is as follows:

"In this day and age, the idea that the reference to gold is a relic of the past is firmly anchored in most minds. Those who support it [...] draw from an indisputable fact a consequence that is foreign to it. I will call this reasoning "Professor Triffin's illusion" because it was the famous Yale University professor who made the most systematic exposition of it, consisting in "proving" that gold will be gradually eliminated from the international monetary system in the same way and for the same reasons as it has already been in the monetary circulation of each country. The indisputable fact on which Professor Triffin relies is that men are using more and more abstract instruments of payment. Metal money was gradually replaced by banknotes, then fiat money ceded most of the ground to scriptural money with the generalization of payments by set of entries and the more frequent use, for current expenses, of credit cards. This evolution has certainly not yet come to an end. It clearly reflects a progress in economic rationality. But this same rationality requires [...] that the principle of

3. **A currency inspires all the more confidence when anchored to strong economic policy points.**

It is also in this sense[196]that, as Jacques Rueff has said many times, money is served. To the extent that a country is able to maintain or re-establish economic policy strengths as quickly as possible as if by an innate mentality, protection against inflation, deflation and imported recessions of financial origin is raised to its highest level in that country. The history of people, even in its most difficult to recognize underground courses, means that some countries are more apt than others to economic practices that bring to the highest level the protection just mentioned and that protectionism in the **sense attributed to this word in economics** does not provide.

4. **The highest level of monetary protection depends only in part on the governance of the market economy.**

What is the burden of military expenditure for the country in question and its allies, both in terms of investments and expenses? And what is the weight of prestige expenditure? These and other burdens, including those of so-called social transfers, can be so high that they have become an abundant source of currency depreciation – as far as military expenditure is concerned, the greatest wars have administered the most resounding examples[197]. The prevention of these risks depends only, subsidiarily or very subsidiarily, on international agreements on good practices in the governance of the common good of the whole of humanity, which is the market economy.

5. **The calibration of economic exchange values by economic policy strengths cannot be excluded.**

The highest protection against inflation, deflation, and imported financial recessions is also contingent on exchange rate manipulation, which disrupts transcontinental and intercontinental trade flows. But succeeding in overcoming this obstacle is possible where, from one monetary zone to another, economic exchange values become calibrated by policies all endowed with the seven strong points that the propositions to be followed review. In the case of a monetary area common to several nations, such as those that are

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equality be respected in exchange. Now, how can we expect exchange to become value for value if the instrument through which it normally operates does not have an objectively determined value? »

The "objectively determined value" that Fabra referred to is a fixed price, between a very close high and low, of a "quantum of the commodity chosen as a standard". In favor of such a pegging to the conditions that were fulfilled from 1870 to 1914, there is a great reduction in the fluctuation of exchange rates, which has all the more repercussions since international trade is a major provider of jobs and enrichment. However, this is not the only way to achieve less currency depreciation and, in so doing, less monetary disturbance of prices, in any case gradually anchored to those of them which are the minimum hourly wages of the countries from which what is sold comes. By refuge in real estate ownership in particular, the leakage of investments most exposed to currency depreciation is a loss in the healthiest financing of job creation, a penalty aggravated by the increase in housing costs resulting from these losses.

[196] Fabra: "The 'objectivists' think, according to Jacques Rueff's strong expression, that money is served, in the sense that its demand is and must be subordinated to the impulses of economic life. The 'subjectivists' are inclined, like Keynes, to see in money an 'elixir' that should be injected into the economic body in order to stimulate its activity" (page 295, Arthaud, page 352, Champs Flammarion).

[197] And the lavish spending of Louis XIV at Versailles, unrelated to the genesis and course of the French Revolution? The Concorde, the liner France and the Plan Calculus, unrelated to the mediocrity of the economic results of the Fifth Republic, since the 1970s and until now? Etc.

part of the euro area, it is all these nations whose economic policies must have these strengths.

6. Achieving such a convergence can only be very laborious.

Will giving each of the currencies most used in international trade a fixed price for the same product of human labor prove to be less laborious?[198]. In terms of economic exchanges and transfers, the duration of the emergence of a change of guiding ideas is likely to be counted in generations, for many because of the affects that reason struggles enormously to reduce in everything related to money.

12.2 Growth linked primarily to direct placements in capital is a strong point.

A country that manages to achieve the growth of the overall per capita income is, with the incessant creation of as many jobs as the population wants, in any economic situation linked primarily to direct placements in capitalPlacement en CapitalCapital Social, has a strong point.

12.3 The growth linked secondly to compliance with two rules for the management of public levies is a strong point.

A nation which, not being in the grip of a war that threatens its existence, manages to ensure that the growth of the overall per capita income and the incessant creation of as many jobs as the population desires is linked**, secondly**, to the respect of levy has a strong point in its economy – secondly: after the implementation of a permanent stimulus ensured by the removal of the obstacles to the full exercise of EPCE feedback, it being understood that in the activation of EPCE feedback is what is dealt with in Chapter 10 on the subject of interest.

12.4 Sound wage exchange and the assumed distribution of total labor income are two strong points.

The reforms that consist in eliminating the fiction of employers' contributions, with all that this implies in terms of institutional consequences, establish sound wage exchange.

The official recognition of the fact that it is the responsibility of collective subjectivity to regulate the distribution of total labor income by maintaining and changing wage equality and inequality implies that the purchasing power[199] of the lower wages of labor can and must be maintained higher or equal to that of the highest.

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[198] For more on this subject, read the entirety of chapter 13 of Paul Fabra (work cited above) or chapter 11 of Capital for Profit (1991, Rowman & Littlefield Publishers, Maryland), pp. 279–300, bearing in mind that the author stated: "I now consider the English version (which incorporates some changes) to be the more authoritative."

[199] |Growth| The growth in the purchasing power of an income is not only about the quantity of services and goods that can be purchased. It continues to exist when it is only about the quality of the services and goods that can be purchased.

|Decay| Wherever the decrease in quantities consumed is an increase in quality of life, long live this degrowth!

A country that carries out these reforms and gains this recognition endows its economy with two strong points.

12.5 Activating the tendency of rates of return of the same systemic level to equalize strengthens the economy.

Return on capital of the same systemic level: chapter 11.

1. **Let's consider two countries, A and B.**

In both A and B, entrepreneurial activity is, let's admit it, divided into twelve sectors. In A, the average rate of return of four of the twelve sectors is three times higher than that of the other eight sectors. In B, there are also four sectors at the top of the ranking and in order of decreasing rate of return, but their average rate of return is only one and a half times greater than that of the other eight sectors.

2. **B has an advantage over A in its most profitable sectors.**

As the most profitable sectors in B are less profitable than in A, export outlets in these sectors are more open and domestic outlets are less exposed to the best quality/price ratios of foreign competitors.

3. **B also has an advantage over A in its least profitable sectors.**

In B, the sectors with the lowest rate of return have a higher one than in A, because more effort is made than in A to raise it. In A, average rate of return, all sectors combined, is more difficult to raise and maintain at its sufficient level at full employment. In B, the proportion of enterprises whose rate of return is insufficient is lower than in A. In A, the resistance of the entrepreneurial fabric to times of economic downturn is weaker than in B.

4. **With a per capita income that is more or less the same in A as in B, life is cheaper and the need for pensions by transfer is lower in B than in A.**

The differences in the direct rates of return (a concept defined in the previous chapter) of services and goods, depending on whether they are the most or least purchased, are smaller in B than in A. As a result, life is cheaper in B than in A. The need for pensions by transfer is less in B than in A, for two reasons: first, in the stock of capital, the proportion that returns to savers is greater; second, the sum of profits is higher than it would be if the rates of profit on capital of enterprises were more dispersed around their average than they are. as can be demonstrated algebraically.

12.6 The exchange rates between currencies A, B, etc. vary all the more slowly as in countries or currency zones A, B, etc., the five strong points are established.

Reminder: the currencies in question are only those that are legal tender.

In the five strong points of economic policy, three come close to full economic exchange.

The growth engine formed by direct placements in increases of share capitalPlacement en Capital requires **sound shareholder exchange** to work at full capacity. The repeal of employer contributions – the truth pay slip – establishes the complete exchange of wages. The competition that reduces inequalities in rate of return makes **sound**

economic exchange between enterprises and their customers more frequent. The stabilisation of exchange rates from one currency to another is a step in the same direction.

5. **By sound economic exchange is meant an exchange free of the biases that mask the true terms of a transaction.**

The shareholder exchange is only complete under its own conditions. The same applies not only to the wage exchange, but also to the exchange between the enterprise and its customers. Public opinion has never wanted to depart from the notion of **fair prices**. This is one of the points on which objective economics shows that it is right. Complete exchanges give back to individuals, through their cumulative qualities as workers, agents and customers, powers of arbitration and impetus that entrepreneurship and civil service tend to erode, as history proves.

6. **Sound economic exchange is compatible with several political philosophies.**

Liberty, equality (equity), fraternity (solidarity) are each a dominant part of a political philosophy. Objective Political Economy is compatible with many of these philosophies, as are so many other forms of knowledge, such as the uses of the rule of three, the hydraulic piston and binary calculus.

Part III – Major economic policy guidelines

As long as underemployment, public over-indebtedness, and the widening of labor-income inequality remain structural in a country's economy — and even when only one of these ills still prevails — systemic reforms are required. Well designed, over the years they form a coherent whole that restores soundness to growth, competition, the terms and level of the public levy (the sum of taxes and new public debt), shareholding, wage-earning, pensions, privatizations, and the provision of economic securities — labeled "social" as if to conceal what they in fact are: exchanges of premiums or contributions for benefits, pooled on actuarial lines, and not gratuitous transfers.

The growth in question is that of individuals' power of exchange and economic transfer. Its definitive raison d'être is to raise the quality of the services and goods supplied — whether sold on the market or provided publicly. To conceive such growth on a contrary model is socially and ecologically absurd; wanting it to reduce inequalities still requires, first, helping to steer the mechanics of that growth well, by way of a first lever and a second. Firstly: link growth to direct placements in new share capital — renewal driven by capital. Secondly: link growth to the public levy, held by common agreement to two rules — a chronically-in-surplus budget result and the counter-cyclical modulation of public investment. The aim is a state in which every guideline and provision conforms to this course of action. At the level of a nation, of a group of nations, or of many other geographical areas, an economic policy concentrates public authorities and private initiatives on what is essential in this matter only insofar as it stipulates by which actions the ceaseless revival of growth is to be ensured — by which permanent actions, then[200].

A regenerative therapy can be administered, but it runs against the grain of two atavisms — one statist, the other employer-side — across which, in many countries, the keys to blocking and unblocking systemic economic transformations are distributed, the two camps overlapping considerably. So long as the statists and the employers oppose it by tacit agreement, sound shareholder exchange — the full distribution by an enterprise of its distributable earnings — will not come into force.

On the wage side, the counterpart is the instituting repeal from which sound wage exchange proceeds — the abolition of the fiction of employer contributions — likewise part of the regenerative therapy, and a lever for freeing the nation from public over-indebtedness. Here too, so long as the employers, the wage-earners' unions, and the public authorities oppose it by tacit agreement — statism aiding, and whatever the reservations of the public authorities and the unions on this point — sound wage exchange — the true wage revealed, freed of the charges that mask it — will likewise not be implemented.

[200] Without solid foundations, economic policy slides into a politics of expedients — a string of stopgaps that keeps missing the deep reforms the general interest requires.

Economic policy guidelines

The assumed sharing of total labor income, through wage equality and inequality, has been repressed, since the 1970s and up to the present. This assumption (in the sense that we speak, for example, of the assumption of a risk) is no less fundamental both in terms of commutative justice and economic efficiency.

Reducing so-called pay-as-you-go pensions (as if to hide the fact that in reality they are economic transfers) to a single points-based system will contribute very substantially to greater economic equity and individual freedom.

Excessive nationalisation, a scourge inevitably infected by chronic public deficits, has **economic subsidiarities** as its antidotes. It is not inevitable that the economic security systems themselves are reduced to a mere scoundrel, just as putting an end to structural "social" deficits can only be achieved through monopolies or oligopolies exploited by listed groups.

The fourteen prescribed economic policies set out and argued below are relatively quick to review. But how can we accurately characterize their whole? We only let ourselves be thrown out of smoke and mirrors for the time, it is true that it is sometimes long, to start deploring it bitterly or even desperately...

Public opinion will follow as more and more economists teach that sound economic exchange, not only exists conceptually, but is highly favorable to full employment and, on top of that, has other social virtues. However, until this conversion, which may only begin very slowly, a verdict must be presented to public opinion. It concerns a characteristic that sums up the political project of the sound-exchange economy.

The economy of direct financing will only prevail when economic exchange is made sound. Conversely, the economy of sound exchange will only become the norm by granting savers a complete economic vote, a right that the ideology and techniques of modern finance have too largely confiscated. On the one hand, enterprises organized as companies of all kinds and sizes, whose equity (more precisely, permanent financing) comes entirely or mainly from capital (and not from quasi-capital mean that subscribing or not to their increase, proposed at the same time as the payment of dividends, is the expression of economic suffrage. On the other hand, public debt financed exclusively by savings accounts, the outstanding amount of which is intended only for this purpose, also gives society the economic power to change the relative shares of investments as it sees fit, depending on whether they are public or private. On the last point as on the previous one, the political class is, so to speak, the boss, and it will remain so, being all the less inclined to promote direct funding because public opinion does not aspire to it, for lack of professors and publicists who argue that this is one of its major interests.

Five main principles

A nation binds itself to what is most constantly necessary and healthy in economics by applying five precepts:

1) First, link development & growth to direct placement in new capitalCapital Social.
2) Secondly, link development & growth to public levies, governed by two commonly agreed rules.
3) Adjust the scale of public investment according to the economic climate.
4) Maintain the key budgetary balance in a state of chronic surplus.
5) Break the link between growth and competitiveness on the one hand, and the precaritization of employment and reduction of labor costs on the other.

The primacy given to these precepts constitutes a rigor. A nation that, for whatever reason, fails to comply with them condemns itself to the accumulation of disparate tactics and corrupt expedients that serve as economic policy. The latter tends to be what, in this art, is likely to become positively and durably appreciated by public opinion only if three preferences that complement each other determine it: the preference for the general interest to the detriment of sectional interests, the preference for the essential to the detriment of the accessory, the preference for the structural to the detriment of the ephemeral and the sensational.

Aspirations for greater economic equity without a sustained effort of conceptual rigour and political vigour push to the bottomless wells of ever more compassion that does not remedy the causes to be reduced.

Always austerity in economic administration at all levels consists for many in refusing to do or to continue to do. But the lavish or harmful character of a refusal or an acceptance is only relative to at least one of the constitutive precepts of the policy to which one adheres. The shortcoming of a power that sees itself as too little "pedagogical" is that of its politics. And the zero point of convincing the defense of a government course of action is: there is no other way.

What is a candidate preparing for election or appointment to a high office when he campaigns with his arms full of intentions, but with a vague and often incoherent mind about the principles that will guide him once elected or appointed? He reduces his ability to make the general interest prevail over the individual interest, including his own. He is undermining what his authority will be.

From an electorate, little or badly trained in discerning the general interest in the maze full of perverse effects of the economy, inevitably emerges a body of elected officials in its image. The political responsibilities of the teaching bodies are considerable.

Better administration, or as one wishes to manage better, as well as better training, without recourse to more rigorous designations and more vigorous rules, quickly reaches its limits. Sufficiently elaborated that its basic doctrine is composed of primary propositions of economic science and major orientations of economic policy, Objective Political Economy,

or objective economy for short, is a reservoir from which to draw rigour and vigour. What do those most inclined to reject the offer of this exploitation intend to preserve?

1. First, link development and growth to direct placements in new capital.

1) **If linking development first** to a specific action is good policy, then it is also good to link employment to this same action.

The social treatment of unemployment is an illusion if it takes the place of employment policy. The latter only completely absorbs structural unemployment if it is a development policy.

2) **Growth and employment are consequences, as are** competitiveness and the general state of the economy.

More competitiveness and a better overall state of the economy go hand in hand with more growth and job creation. Growth, employment, competitiveness and the general state of the economy are interdependent and have common determinants.

3) **In these common determinants**, neither the rigor of analysis nor the vigor of action allows us to exclude that there is one that is more important than the others in all places and at all times.

The "circularity of economic exchanges does not justify the pitiful parable of the chicken and the egg."[201].

4) **The most decisive cause is necessarily rooted in the primordial reality** that the system of economic exchanges establishes, in terms of employment, growth and competitiveness.

Let's take a step back and see. **New elementary commodities** are constantly being injected into the economic system[202]. Paid work services are included, as are placement services in enterprise working capitalPlacement en Capital. To obtain as much paid work as full employment requires, these placements must be sufficient. This is economically essential.

5) Voters who do not **trust** the essentials make elected officials who evade them. Let's give ourselves over to an experiment.

"To what is it more relevant to link the best state of the economy first and definitively?" Let's ask this question around us and also look for the answer in broadcasts and other publications. When there is an answer, what is it worth? Is it the vague product of vague

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[201] Paul Fabra, *Refounding Political Economy*, Chapter 6, Last Section. "Faced with the complexity of economic phenomena, modern economists often resort to the easy parable of the chicken and the egg. What is the cause and what is the effect? The circularity of the exchange provides them with an additional, and apparently peremptory, argument for refusing to answer. (… : …) **What characterizes modern political economy is its renunciation, open or concealed as the case may be, of the principle of causality.** This last underline is my doing, as it is obvious that the renunciation identified by Fabra plays a decisive role in the inability to peg a stable framework of economic policy. In the English edition (*Capital for Profit*, Rowman & Littlefield, 1991), this section closes chapter 6, pp. 193–195.

[202] Even in times of non-expansion, including in the depths of the worst recessions.

judgments? Does it suppose that the problem has been solved? What does it reveal about our mentalities?

6) An individual P, or a non-profit association A, places money. This placement is directPlacement en Capital when no intermediary (a mutual fund for example) interposes itself between P or A and entity E, which makes it an element of its financing and which will ensure its remuneration, as well as its repayment if necessary.

P, or A, subscribes to the capital increase or the issue of bonds of a financial institution. It is a direct placement. P, or A, is placed in a savings account managed by an intermediary, or even by a cascade of intermediaries. It is not a direct placement.

7) **Financial** intermediation **increases the risk of systemic crisis.** The greater the share of financial institutions in the financing of the economy, the higher this risk.

Well-designed and strictly enforced, regulation of the financial industry reduces this risk. But, collectively, relying too much on it is unwise. However, this is all the more true given that there is a decline in the share of direct savings placements in the financing of enterprises and public debt.

8) **The extension of the practice of direct financing is technically possible.** This is one of the consequences of the intensive use of telematic means by legal persons, private and public, as well as individuals.

This significantly reduces the cost of a direct relationship between an organization and a large number of potential and active subscribers. The techniques that can be used for this purpose make relationships more continuously interactive.

9) **A society that makes extensive use of direct placement**Financement Direct **increases its economic power.** One of them is that of the arbitrations that, in a longer circuit, financial intermediation captures. Another of these powers is that of managing the share of its income allocated to financial placements with better knowledge of the facts.

In this respect, the convergence of individual interests with the general interest is obvious. However, it is only raised to its highest level through the collective recognition of an undeniable reality: **the insufficiency of the money invested in working capital of enterprises slows down the creation of sustainable jobs**.

10) **Direct placements do not create money**Financement Direct**.** As a result, these placements are not a cause of currency depreciation.

A public levy (taxes + loans) that no longer increases as a proportion of total income is also no longer a cause of currency depreciation. The smaller the depreciation, the easier it is for anyone to build a portfolio of direct placements, the basis, or all, of which has two qualities: it is low-risk and its return is positive, despite the currency depreciation. In addition, and this is not negligible, this portfolio is transferable to the heirs of its owner.

11) **Thanks to my placements in capital, I participate in the creation of capital**. This contribution is a placement in new capitalPlacement en Capital.

I subscribe to a capital increase. This contribution is also a placement in new capital. I sell shares. The placement of their buyer(s) never constitutes new capital.

12) **The market cap has increased.** The placement flow of new listed capitalPlacement en Capital may not have changed from before.

The market cap has declined. This does not mean that there has been a net destruction of the capital exploited by the enterprise whose title to the property is listed on the stock exchange.

13) Contributions **of new capital** increase the national capital stock. At the same time, this stock is constantly affected by losses.

The redirection of the savings thus lost to consumption participates in the creative destruction. This is on one condition: savings must be invested in capital again ; this is necessary so that destruction, often through obsolescence, goes hand in hand with creation. It is also necessary, in abundance, for this creation to be solidly financed.

14) **One advantage is undeniable. Growth**, which is mainly fuelled by savings placed in new capital, is only supplemented by public levies (taxes + loans).

In order not to see this as an advantage, we must overlook three certainties: the persistent inflation of the public levy suffocates growth; the structure of its financing conditions the solidity of an enterprise; the subset that most creates and destroys stable jobs is that of small and medium-sized enterprises.

15) **One objection does not hold.** The conditions under which people's savings would be massively attracted by the placement in capitalPlacement en Capital could not be met.

This will remain true as long as the **remuneration**, **security** and **settlement of placements in capital**Capital Social have not been substantially improved. The objection of conditions being too unattractive would only hold if this improvement were forever unfeasible. This is not the case.

16) **Direct placements limit speculative bubbles**.

Speculative bubbles are obviously **all the more devastating** because they are massive. And they are all the more so **because** credit **contributes to their growth**. When, moreover, this credit is itself massively instilled by money creation, full employment more often than underemployment is at the end of a path so undermined that it becomes impossible to achieve it in the long term. This is why it is necessary to clear this path through reforms.

17) **Popularizing** what capital shares **are does not present any difficulty.** However, this popularization is impartial on a condition that is not commonly respected today.

Some of these shares are negotiable and others refundable. Only negotiables have a liquidation value that is varied by offers to sell and purchase requests. There is less casino economy if the advertising of the exploited value per share is introduced. **The relative proportion of investments in refundable shares is extendable, provided that it is accepted that the remuneration of these investments must exist, but that it is also attractive.**

18) **What makes** placements in capital **more or less well treated also lends itself to their popularization.** For this to be effective, we must not consider usual practices as inviolable, including in tax matters, of course.

In addition, there are two other innovations, in the current state of economic discourse. One concerns the "first": "should job creation be ensured **first**... ». The other concerns the "direct": "... by your direct placements_ in new shares of capital? ». Both help to dispel denials of reality and feasibility.

19) **Companies of companies move the initial capital provider away from the end use of his placements.** Through this distance, *ad hoc bodies* are capturing power to their advantage and laying the groundwork for endogamous and robotic finance.

This endogamy and robotization are problematic. Such recordings should not be encouraged. It is even less desirable that they be systematized. The legislator can effectively oppose this, by establishing and gradually increasing the proportions of capital held directly by individuals. The services of placement advisors, who practice this profession in complete independence, have their raison d'être. But pretending that these services can be provided for free opens the door to scams. There is no shortage of convincing arguments in favor of direct placementsFinancement Direct, managed by means of new communication techniques and duly supervised by the legislator who ensures that they are countered.

20) A **population**, when its quality of life is severely damaged by the lack of jobs, expects first and foremost that this lack be remedied. It then hopes that this remedy will be compatible with a range of variations in the weight of the public levy that suits it.

The remedy exists. The possibility of making it more active through the full remuneration of placement in share capital is a reality. Even if the reluctance to use it persists, because it disturbs ways of seeing and doing, it will continue to exist.

21) **In other words, a country** where, over the last twenty years, economic growth has been so weak that structural unemployment has increased. But now permanent stimulus through direct savings placements is finally becoming a deliberate practice.

This is done through the reforms described below – *Cleaning up the capital market*, guidelines 6 to 10. Twenty years after the entry into force of these changes, in the financing of enterprises: 1) the total loans, in absolute value, have remained constant, 2) the share of capital has increased significantly.

22) **While the latter increase** was quite substantial, the growth rate rose and the unemployment rate fell. It is so certain that it is necessary to draw brutal conclusions.

A government which considers itself competent in general economics shows that it is mistaken as to what is most elementary and less doubtful in this matter if it refuses, or if it does not occur to it, to link growth and employment primarily to direct placements in new capitalCapital Social. The citizens of a country whose government is making this mistake are doing no better than it is if they refrain from demanding more and more insistence from it an economic policy which makes it a rule to link growth and employment first to direct placements in new capital.

23) **The crucial law of economic policy**, set out here by Guideline 1, contributes to the objectification of economic policy decisions, thus strengthening the social body.

Whether within a nation or in international relations, the enslavement of the subjectivity of some by the subjectivity of others narrows the field of effective freedoms and fuels

violence. More objectivity has the opposite effect. A government that believes it is working towards greater social cohesion and international understanding without strengthening common objectivity is deluding itself. Awareness of the crucial law of good economic policy is, in itself, a constructive step forward. The ideas which lead to the rejection or degradation of this law, which is precise, in order to indulge in the ease of imprecise formulations, are fantasies, either by the methodological subjectivism from which they proceed even when they have been given the reputation of being the products of an authentic science, or else by the fears which they turn into reactions of self-defense.

2. Secondly, to link growth to the public levy, which is subject by common agreement to two rules.

1) **The** public levy **is the sum of taxes and new public debts**. Securities acquired through insurance premiums and pension contributions are excluded.

Some of these acquisitions are part of the compulsory levies. Subscriptions to public debt securities may also be part of the compulsory levies. **Public levies and compulsory levies are nevertheless two different realities** and therefore, in good econometrics, two distinct aggregates.

2) Linking growth firstly to the direct placements of savings in capital implies reducing or stabilizing the public levy. Reducing, when over-indebtedness and other drifts have made this levy exponential; stabilizing, once the path to full employment is (again) clear.

When reduction is called for, **expecting the exit from crisis only from this reduction is often neither necessary nor sufficient**. It is not necessary as long as there are savings to place, or to redirect, into capital. It is not sufficient when it diverts from removing the obstacles to those placements and redirections.

3) A government obliged to reduce the public levy has the duty to explain before and while it acts in that direction. But this duty is one of the hardest to fulfill, particularly in a country where the dominant mentality has led to exponential over-indebtedness.

The explanation bears, indeed, on what a national economy in good health is. Action concentrates first, let us repeat, on removing the obstacles to the direct placements of savings in capital. The preparation that puts a nation in a position to succeed at this exercise can prove very long, while being punctuated by contradictory turns.

4) **The reduction of the public levy succeeds only in relative value of the sum of the incomes from labor and from placements.** This is why this success is the more likely the more the stimulus through direct placements of savings in capital is activated as a priority, should it prove to be obstructed.

The neglect of this possibility of stimulus has its reasons. Not disturbing established allocations of power is one of them. Financial intermediation strengthens some powers and weakens others. The same goes for self-financing through undistributed earnings.

5) “Should job creation be ensured first of all by your direct placements in new shares of capital?” A referendum on this question seeks a mandate delivered by universal suffrage to its elected representatives.

If yes wins decisively, the order is given to **make additional public levy only a temporary and complementary means of stimulus**. All the more so since polls confirm that this yes remains clearly in the majority; successive governments are inclined to stick to the usual general management of this levy. But is the question posed too technical or too insidious to be put to universal suffrage?

6) **"First of all" and "firstly" do not mean "exclusively."** And "secondly" — linking growth secondly to the public levy subjected by common agreement… — means neither "incidentally" nor "optionally."

Pretending that employment does not depend first of all on targeted collective action is a denial of reality. That this action must concern the birth and growth of enterprises is obvious. That its first point of application is the financing of these births and growths is common sense. That this financing should be done, secondarily, only through credit seems, at first sight, hard to make consensual. But what is the aim? **If the aim is to reach the largest possible number of open-ended jobs, this objective is more likely attained through financing of enterprises that is itself mainly open-ended** — mainly through capital, secondarily, let us repeat, through credit.

7) A public levy adrift necessarily has, as its cause, a failing national economic understanding, does it not? Is it not the same if there is more unemployment than in a neighboring country?

By managing to agree on what a national economy in good health principally is, political parties and unions address to the whole country a prescription of common understanding. This prescription can then be made more relevant through public discussion of what it requires. The aptitude for full employment of a country where freedom of labor prevails, and that country's mastery of its public levy, are so substantially interdependent, beneficial, and collective that it is **calamitous to want them ideologically stamped**.

8) Freedom of labor **implies** freedom of enterprise**.** Exposure to a shortage of open-ended jobs is inherent in these freedoms, which are but one.

Mastery of the public levy reduces this exposure by letting more private financing devote itself to the birth and growth of enterprises, in a fiscal environment that this mastery makes it possible to stabilize, or even to lighten beforehand. The job creation resulting from this additional financing in turn contributes to this mastery. The latter may, however, have been so far lost that it cannot be regained without first making the financing of the birth and growth of enterprises more attractive.

9) **Step back far enough, and it becomes obvious.** Freedom of labor exposes one to a shortage of work as little as possible, on two conditions.

One falls to enterprises: paying dividends on average markedly higher than the interest rates on savings accounts. The other falls to public authority: its mastery of the levy it operates. **Both are under the sway of national understanding and, in Europe, under the common denominator of national understandings.** Freedom of labor is part of these understandings, though it is uncertain that eliminating exposure to a shortage of work by abrogating this freedom no longer has any advocates. Let us also doubt that flexibilizing employment and securing career paths are in truth the "firstly" and the "secondly" of

reducing this exposure. The continual increases in this flexibilization and this securing are no more sustainable than those of the public levy, whereas those of the stock of capital and of wages are. France will remain haunted by the fear of its decline as long as a significant number of its most prominent economists, editorialists, politicians, and union leaders do not persistently share with it the **two conditions for the full enjoyment of freedom of labor** and intelligent explanations bound up with **their interdependence**[203]. If this is done, this doctrine of virtuous growth will also be a contribution to Europe's strengthening of its federating impulse.

10) The two rules for managing the public levy have, respectively, as their object public investment and the most important budgetary result. Each of these two rules is the subject of the two following sections.

3. Vary the weight of public investment with the business cycle.

11) In both private and public management, a new investment increases the inventory of the entity's properties. An expense, whether recurring or new, has no such effect.

The rule on budgetary results, the next directive, concerns **exclusively** public revenues and public expenses, the latter understood to include the periodic allocations for amortizing public debt[204].

12) **At the scale of national economies, the most significant base 100 is total income before taxes.** The weights discussed here are assessed against this total, for which GDP serves as an approximation.

Placement income is the smallest part of this total, and labor income the largest, once enough growth has produced this effect, as set out in the chapter Distribution. But if this effect, and another distribution — that of total labor income, set out in the chapter *Wages* — are kept outside what a nation's economic policy and public-finance management take into account, then public redistributions inevitably proliferate in that nation, working against what makes distribution through income proper both just and beneficial[205].

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[203] In the Economic Science part of this work, the chapter on wages deals with the distribution of total labor income. The key to this distribution is the inequality of the remunerations of labor. Not to recognize this, by defending the doubly false idea that wages, like all prices, are governed principally by the law of supply and demand, is a denial of reality. The national understanding that refutes this denial, replacing it with the observation that high wages reduce those below them and that low wages raise those above them, confirms that there is an inevitable sharing and objectively recognizes the necessity of establishing a national minimum wage.

[204] The label "operating expense(s)" has the drawback of suggesting that nothing relating to investments belongs among expenses. Generally, the most relevant breakdown of expenses is by nature of cost. In every kind of management, finance costs may always be one of these breakdowns — one of the expense items. But as regards amortization, the argument of the next directive, on budgetary results, points to a difference — highly important for the truth of the accounts — between managing an enterprise and managing any other entity, public bodies and households included.

[205] Income proper, then, by definitions that truly are definitions, before any transfer and solely through economic exchanges. How is the distribution of total income governed by the system that these exchanges establish? And what, in turn, do the inequalities in the remuneration of labor govern? The economists who answer these questions most accurately give parties and political figures a competence indispensable to the soundness of their economic doctrine. It is not credible that the electorate should remain lastingly indifferent

13) **Public expenditure consists of expenses and investments.** Only an entity's investments, let us recall, increase the properties — the assets — of that entity.

Let us also recall that amortizing public borrowing — that is, repaying the principal and paying the interest — belongs entirely to public expenses. This amortization, which comes after the loan is subscribed, takes nothing away from its immediate crowding-out effect: at the moment they are subscribed, public loans reduce by as much the placements financing private investment, lowering the contribution of those investments to growth and job creation.

14) As long as the permanent stimulus through new placements in capital remains obstructed, the priority for growth is to remove these obstacles. They persist as long as the full remuneration of placement in capital has not been established.

How to bring this about is set out in the next chapter, against the belief in the systemic viability of a capitalism with the minimum of capital, the maximum of self-financing, the employer contributions — that fiction which helps lend credibility to the perpetual demand for a lower cost of labor —, the highly toxic tangle of derivative financial products, and money creation to defer the assumption of responsibility. Although the reforms prescribed in the chapters that follow are curative, they do not prevent periods in which unemployment rises again, as it did before they were carried out.

15) A temporary increase in the weight of public investment helps shorten the periods when unemployment rises. Then, despite the savings mobilized to finance this temporary increase, the permanent stimulus described above speeds the decline of unemployment.

For savings, and the fractions of them placed in debt and capital securities, are elastic. They are all the more so when the remuneration and the security of these placements are raised to levels that make them honestly attractive while keeping them little exposed to losses. They are all the more so, too, when eliminating the excess weight of public expenses removes the expectation of a rising tax burden.

16) The shift into declining unemployment makes possible a cyclical reduction in the weight of public investment. Using this possibility is sound economic policy, for the following reason.

A country's prosperity reaches its peak by avoiding both the atrophy and the hypertrophy of public services, taken as a whole and by category of service (hence trade-offs that show governing and legislating are no sinecure). While unemployment is falling, reducing the weight of public investment helps avoid the hypertrophy of state services. At full employment, stabilizing that same weight helps avoid their atrophy.

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to these answers and to what they imply. What makes the market economy systemically beneficial can be rejected only by those who judge it doomed to ruin, however it is practiced. Let the others ask themselves this: must economic science clarify the division of total income between its two components, and the division governed by wage inequalities? Is that not indispensable for avoiding error about what makes a market economy well regulated? Is a nation's government economically competent if its doctrine is marred by such an error?

17) Fluctuating the weight of public investment with the business cycle yields the structural stability of that weight. Explicitly embraced and actually achieved, such stability builds confidence in the soundness of a national economy.

Alongside the permanent stimulus through direct placements in new capital, this long-run stability makes lighter public expenses, and refusals to make them heavier, more bearable — another major contribution to avoiding the hypertrophy of public services and of the public levy. This stability must, however, be secured at a high enough level to eliminate the most damaging delays and to prevent, in decreasing order of public usefulness, the accumulation of others. Statism and individualism, raised to the level of a categorical imperative, rest on unrealistic foundations.

18) Choosing the countercyclical oscillation of the weight of public investment is a fundamental option of economic policy. A nation's political class is the more strongly driven to adopt it the more public opinion calls for it.

Why political figures fail to build clear public majorities on the major technical options of economic policy is no mystery. Their speeches are too evasive and their views too unconvincing, both on what a national economy in good health is and on the dynamics that make it so.

No communication campaign can make up for a lack of clearly defined concepts and for ill-tuned resolutions.

4. Maintain the largest fiscal result with chronic surplus.

19) **Chronically, in this matter: at least four times over seven consecutive years.** Since budgetary information, in the service of the general interest, must be understandable to every voter, the main conventions used should be simple to explain and impartial.

Mobile seven-year spans (one year fewer and one year more in the following vintage), without a single turn in the business cycle, may never become the most frequent. Should that happen, however, it would call for adjusting — replacing, for instance, the seven-year spans with decades — since the amounts of budgetary revenues (mainly tax receipts) and of a larger or smaller part of budgetary expenses vary in different directions and magnitudes with the cycle. Lengthening them — or shortening them to five-year spans — would change nothing in the fact that, for an economically meaningful accounting result, "chronically" does not mean "always." Enterprises, families and private non-commercial associations must not be constantly in deficit. The rule in question here concerns the aggregations of a category of public bodies of the same nationality. This level introduces no exception. In the statement of the rule, "chronically in surplus" does not mean "never in deficit."

20) There is no enterprise within the well-drawn budgetary perimeter of this category of public bodies, and their national aggregations are not themselves enterprises[206]. Treating tax proceeds as sales of services disregards the distinction between a transfer of economic

[206] In this perimeter, and according to a typology of French public law, there is no Industrial and Commercial Public Establishment (EPIC); but there are, besides the parliamentary bodies and the central and territorial administration, the Administrative Public Establishments (EP[C]A) — an organizational chart of the Leviathan beside which those of the largest private enterprises are light.

exchange value — which is what a tax or a subsidy is — and the economic exchanges for which enterprises' sales and income proper are the counterparts[207].

As for asserting a radical difference between the economic best and worst for a nation, on account of its public finances on one hand, and for a private non-commercial association on the other, that assertion is in truth unjustifiable: it requires at least a begging of the question or an objectively inadmissible conflation. Seeing, on the contrary, what this best and this worst have that is radically alike guards against the temptations of misusing public goods: "do not do to this good what you would not want their stewards to do to the said associations (families being among them)." Public finances are far more than appendages of politics raised to the art of making society, in peace and prosperity.

21) Amortizing a loan consists of installments which, once met, will mean that the whole of the interest and of the repayment of the principal will have been paid to the lender. Whereas in enterprise management only the interest is an expense, elsewhere the repayment of principal is likewise an expense, and not merely a cash outflow, for the reasons summarized below.

The depreciation entries **for fixed assets** recorded in general accounting have their place only in enterprise management. They are at once acknowledgments of depreciation and provisions for renewing equipment. They entail a corresponding increase in expenses. They are imperative, because without them the result would be overstated by the amount of the depreciation, and the provision that depreciation makes necessary would not be set aside[208]. Outside enterprise management, adding fixed-asset depreciation to expenses degrades the relevance of the income statement; it is accepted that, without recording depreciation of this kind in general accounting, nothing prevents introducing it into estimates of cost price. The most relevant annual budgets of families and of charitable, sporting, and religious associations, among others, contain two subtotals and the difference between the first and the second: A) revenues, B) expenses, C) surplus or deficit, according to whether the difference between A and B is positive or negative. Among the expenses, there is indeed amortization, but only of loans. **What is most decisive is captured, and far more clearly than pretending the entity to be managed were an enterprise**. An enterprise is a sellable organ. No other social organ, as such, is. Ignoring this difference produces a denial of reality.

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[207] A) Taxes, sales, voluntary gifts, and thefts; these other kinds of transfer nonetheless share the feature of being, in accounting terms, credits for the entities that receive their proceeds — hence the apt generic term "revenues" (produits) and the deplorable use of "income" (revenus) instead of "revenues," which is merely a confusionist anglicism. B) Every paid public job is a market transaction, like every other paid job. The effective abolition of economic exchange in respect of paid labor is unworkable. An official prohibition of the market economy is inevitably followed, sooner or later, by the no less official re-establishment of a market economy. C) Eliminating the dictatorship of the financial markets through reforms — including those bearing on the general management of the public levy — takes part in the transformation of one market economy into another. But when will we have a budgetary policy whose statement of motives has more breath to it? Let us show that in this matter, at the crossroads of several problems, there is enough to instill in the nation a great ambition, good for it and for the unions of which it is a member.

[208] That this provision is then well managed is another matter. Too many enterprises that have duly amortized their fixed assets find themselves unable to self-finance a substantial part of their modernization.

22) **In public finances too, the most important result is the difference between revenues and expenses.** Revenues are, as everywhere else, exclusive of any loan (even interest-free). Expenses, which include loan amortization, are exclusive of any investment but also, contrary to what is required in the enterprise, of any fixed-asset depreciation[209].

Everywhere, a slice of borrowing becomes over-borrowing when, for whatever reason, the debt already contracted can no longer be amortized without borrowing anew — and at a level that makes a total of expenses exceeding the total of revenues less and less avoidable. A chronically growing share of revenues absorbed by debt amortization is a symptom of over-indebtedness. This is why the budgetary result as just defined is the most important. When it is in deficit, it weighs down future expenses and moves closer to over-indebtedness (or worsens it). When it is in surplus, it can be applied to lightening the public debt and, with it, the future burden of amortizing that debt. A family, or any other non-commercial association, better avoids over-indebtedness, or escapes it more easily, if it entered it knowing the difference between its revenues and its expenses (including the amortization of its loans), and how that difference evolves as a proportion of revenues. **The same holds for any nation, on account of its public finances**, France being one of those whose leaders and senior officials spare their fellow citizens from facing the reality that the budgetary result and the major items of public expense, as a percentage of revenues, constitute year after year — the tax levy being by far their largest part — rather than the statistical construct that is GDP, whose base 100 is today the most used because it seems, wrongly, that there is none more appropriate[210].

23) It is desirable that the meaning of the expressions “budgetary result,” “budget deficit,” and “budget surplus,” used about public finances, become unambiguous. Let us not doubt that it will take much perseverance; but let us also measure what giving up this apparently minor advance would imply.

Whoever holds a concept true whose definition is the product of an effort to eliminate errors and gaps in observation aims at a collective victory over what keeps us from that truth and its use. The absence of a true definition of the budgetary result in public finances is inconceivable, as is the absence of a true definition of income, among other primordial economic realities. To truth and effectiveness, the unambiguous is consubstantially tied, where the equivocal leads away. In our textbooks and our laws, several definitions of the budgetary result in public finances, with no verdict on which is judged the most appropriate, make us more incompetent rather than more intelligent. Let us not be so faint-hearted as to

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[209] In France, the organic law on finance laws (the LOLF of 1 August 2001) prescribes the annual publication of three results for the consolidation of the general budget, the annexed budgets, and the special accounts: the “budgetary result,” the “result in general accounting for the financial year,” and the “cash result presented in the financing table.” The “budgetary result” is the balance of expenditures actually disbursed and receipts actually collected: cash accounting only, as a bank statement shows what it consists of. The “result in general accounting” is the difference between the revenues and the expenses of the year “at the moment service is rendered,” on account of revenues that have not been recovered and expenses that have not been paid during the year. Making this latter result become and remain fully consistent with the definition to which this note is attached does not plunge us into an abyss of administrative complexity.

[210] French leaders and officials are not yet troubled by the announcements to the public of Social Security “deficits,” without specifying whether these negative differences are between cash inflows and outflows or between revenues and expenses. If it is the former, why are the latter passed over in silence? To hide the fact that the general management of Social Security, whose budget is very heavy, is gravely deficient?

shrink from telling the truth and from holding more important what we cling to, in our conscience, at the risk of having to repudiate a misplaced belief. Political courage needs the support of intellectual courage. The only budgetary results, surpluses, and deficits discussed below are those defined above (first paragraph of point 4).

24) **In years with a budget deficit, the amount of loans exceeds that of investments.** Drawing on a reserve, or selling public assets, can reduce or avert this excess; but what follows holds naturally.

Short of erasing over-indebtedness (start of the second paragraph of point 4) — whether by voluntary or forced waiver of claims, by monetary depreciation (generalized or pocketed inflation, devaluation), or by both — so that loans do not chronically exceed investments, budgetary results must become chronically in surplus. If they are merely chronically balanced, they reveal three eminent weaknesses: they do not allow escape from the over-indebtedness that results from the chronic excess of loans over investments, because of budgetary results too frequently and heavily in deficit; they make less secure than they would be if in surplus the direct placements in the public treasury account — placements chronically dedicated, thanks to budgetary results themselves chronically in surplus, to financing public investment without bank intermediation; they leave the political class too able to be prodigal and manipulative at the community's expense, too beholden to the financial industry, and too little disposed toward the asymptotic decline — like that of a train's speed during normal braking — in the weight of the tax levy (more on this in point 8).

25) **GDP growing faster than the stock of public debt does not bring escape from public over-indebtedness.** This growth differential does lighten the proportion of sovereign debt relative to GDP; but it is not by a percentage that every country must observe to become monetarily virtuous that a nation's escape from public over-indebtedness is precisely established, or the avoidance of its entry into that over-indebtedness which, once structural, condemns it to systematically settling the whole of its public expenses through more loans than investments — where are the sound macroeconomic and political arguments for the benefit of the **structural** over-indebtedness of a nation on account of its public finances?

Lightening the weight of sovereign debt relative to total income — by approximation, GDP — contributes less to growth than a reliable prospect of escaping over-indebtedness or of avoiding entry into it. This is a virtuous circle. Such a prospect makes the population more assured of the soundness of the national economy. The course of business is thereby better sustained, even during cyclical slowdowns. The consolidations of public finances and of growth come earlier and stronger. A cardinal law of political economy can be stated in one sentence: **the contribution of the budgetary result to growth is highest when that result is chronically in surplus, smaller when it is chronically balanced, and increasingly negative when it is chronically more and more in deficit**, all else being equal as regards public investment.

26) **More reduction in public expenses than increase in the tax levy slows growth less than the reverse.** This “more” gives reason to hope for a lighter tax levy; the reverse gives reason to fear a heavier weight of public expenses.

A political party and a government that take no position on the long-term trajectory of the weight of the tax levy evade one of their duties of state. That trajectory will necessarily turn

out to have been upward, stable, or downward. Only chronically surplus budgetary results, without reckless speculation and after escaping over-indebtedness, provide the means of an asymptotic decline in the weight of the tax levy — like, as already noted, the fall in speed during a train's normal braking. Once that means has been obtained through more reduction in public expenses than increase in the tax levy, a mechanism of **long-run political justice** becomes more readily operable: pursuing the **adjustment of the tax levy to the public expenses judged, through adversarial debate, the most indispensable and the least corrupting**. Whoever favors this adjustment stays consistent with that choice only by also favoring chronically surplus budgetary results — not only because such results provide the means of the adjustment, but also because the effort to obtain them sets taxation and public expenses on a course oriented toward fewer invasive actions and less disabling assistance. Whoever, like most ecologists and environmentalists, refuses to admit this adjustment and the chronically surplus budgetary result into their normative views — does that person not become, all in all and usually in spite of themselves, an advocate of a politics of the worst?

27) **Expenses include subsidies granted.** Whereas public subsidies contributing to private investments are public expenses, subsidies granted by one public administration to another — to a town hall, for instance, through a contribution to a public investment — are not expenses but **new investments**, loan amortization being an expense bequeathed because of **past spending** which, at the time it was made, already contributed to the effect identified by the cardinal law stated above (point 7, second paragraph, last sentence) and continues to do so through that amortization.

Through heavier public expenses, the lightening of employer contributions — and, more broadly, the lightening of the "cost of labor" (of whole wages, in fact) — is a public subsidy. Judging it beneficial, entrepreneurs entrench themselves in asserting a "yes to lighter public expenses and to the freedom to undertake, provided that public subsidies to enterprises and other private employers are maintained," and a "no to recognizing that these subsidies stoke statism." And all of it placed in the bundle of "social" public spending! Reducing and abolishing public subsidies whose recipients are enterprises and other employers is sound economic policy — but only by likewise loosening the obstacles to the direct placement of savings into capital increases, or by refraining from restoring them. Another way to improve the budgetary result is to reduce and then abolish tax incentives, beginning with those that cause artificial rises or falls in prices. It is also fitting to trim tax credits for gifts that are partly charged to the community, instead of leaving them entirely private — these deductions having been introduced by overlooking what is especially corrupting about this kind of subsidy: the associations authorized to use this aid lie when they deny that the deductible portion of the tax on these gifts is a public subsidy. The profusion of fiscal and commercial fictions creates a society that flees economic truth and honor. The more this ill spreads, the more that frank commitments to reducing public expenses and the most corrupting tax incentives help push it back.

28) Two further major means of lowering and stabilizing the weight of public expenses are, on one hand, abolishing the fiction of employer contributions and, on the other, privatizations. These means, even added to the two preceding ones, in no way dispense with the changes to organizational charts and the modifications of status and procedure that are sources of savings.

Prevailing conformisms divert from abolishing the fiction of employer contributions and from privatization. This is why we have judged it preferable to devote to this abolition the first of our major directives on wages, and then the last directive to privatizations.

29) **Giving priority to growth makes the asymptotic decline in the mass of public expenses more tolerable.** Two earlier recommendations bear on this priority — a priority whose most decisive reasons are social and environmental, but which, if not managed with enough sagacity, locks nations into the calamitous triangle of over-financialization, overconsumption, and underemployment.

One of these recommendations is the rule of the countercyclical oscillation of the weight of public investment around a tendency toward stability at a level high enough to eliminate the most damaging delays and to prevent, in decreasing order of public usefulness, the accumulation of new ones. The other recommendation is the permanent stimulus through direct placements in capital. How to bring this stimulus about must be recalled (recalled because the analyses that lay out its systemic logic are set out in the part *Economic Science*). Reducing the mass of public expenses becomes more tolerable to those it affects if underemployment is receding, because this "how" has been put into practice — just as reducing the tax levy likewise becomes more tolerable to those it worries, on the same condition. Leaders, and those seeking to become leaders, take a risk when, knowing this "how," they judge it inadequate because it disturbs the unifying ideas of their supporters. Their competitors, having caught wind of that judgment, then do well to denounce it with carefully chosen arguments, so that their good sense and breadth of view strike home in public opinion. The likelihood of this is increased by the teachers who explain and endorse the method of activating growth prescribed in the next chapter and the two rules framing budgetary policy set out here. Editorialists who come out in favor of these endorsements, and return to them whenever the news gives them the chance, work in the same direction.

30) Bringing public expenses and the forms of the tax levy back to those that are the most indispensable and the least corrupting is largely a matter of collective mentality. Economists and politicians bear a great responsibility here: having, where needed, given up the imagined primacy of demand over supply, let them state clearly the most certain and decisive relationships among investments, taxation, savings in every field, and the best state of the economy.

The surest path to this better state does not run through the marshes of fiscal proliferation, budgetary laxity, monetary overabundance, and incompletely assumed distinctions. Since 1950, the last two cycles of change of course in economic mentality do seem to have been thirty-year ones: the glorious *a posteriori* ones were followed by the deceptive ones, swelling public over-indebtedness and over-financialization and then depressing employment. If, after 2040, it turns out that since about 2010 these swellings and then this depression have progressively been halted, and the decline of overconsumption firmly begun, the following recognition will only have helped considerably. The rule of the chronically surplus budgetary result and the rule of varying the weight of public investment with the business cycle help establish an economic policy that produces more prosperity and quality of life than before, while reducing inequalities that undermine social cohesion — thanks to what orients it on two distributions whose ignorance or denial makes union leaders and senior officials, as well as governments and political parties, economically incompetent: the distribution of total

income that maximizes total labor income; and the distribution of the latter through the key of equalities and inequalities in wages (see, in the part *Economic Science,* Distribution and Wages). Amending the forms of the tax levy and the capping of public expenses in the light of a political economy that misses the reality of these distributions condemns us to retentions and modifications ill-suited to the full exercise of the social body's industrious vitality, and disappointing to those who sense that it is high time to "change the software."

5. Development, growth and competitiveness should not be tied to job insecurity and lower labor costs.

We commit a political fault when we tie, even secondarily, the growth and competitiveness[211] of a country's economy to job insecurity or to lowering the cost of labor. There are three reasons for this, all decisive:

1) Job insecurity worsens and recedes according to the evolution of the general state of the national economy. Now, to make this evolution favorable, there is a firstly and a secondly.

The **firstly** is an increase in the stock of capital[212] sometimes markedly stronger than that of the stock of enterprises' debts, sometimes at least equal. Just as necessary, the **secondly** is the long-run application, by common agreement, of two rules for the general management of the public levy.

A poet warned: "Art is long and Time is short."[213]. We will sharpen our economic strategy by concentrating on this "firstly" and this "secondly." On the scale of the long term, many undertakings will surely appear as bouts of ideological fever that do not remedy their causes. In recent decades, the course set on maximizing shareholder value and on incessant public borrowing to make ends meet (which is typical of over-indebtedness) have been, among other things, the effects of such bouts.

All paid jobs are economic exchanges, though they are never limited to being only that. Since time immemorial, it has seemed merely shrewd always to buy as cheaply as possible and to sell as dearly as possible. If this tropism, disastrous for the environment and harmful to the quality of social life, still justifies the positions taken by the most influential employers' unions and groups of economists, it is high time they stopped passing off as sound modernity

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[211] |Competitiveness| Let T be the world total of exports, P the share of that total originating from the national territory. The competitiveness of the national economy has risen, stayed stable, or fallen according to whether the relative share P/T has risen, stayed stable, or fallen. The competitiveness of an enterprise is defined similarly, with the total T of the market on which the enterprise sells and the share P of that market that the enterprise's sales constitute.

[212] If a tax return contains the entry "Acquisition of shares of capital," what is meant will generally be judged clear. Only commercial and civil companies (real-estate, land, professional) have capital. Not every stock-exchange placement is in capital — notably because of listed bonds — and not every placement in capital is necessarily on the exchange, or in negotiable shares. The distinction between shares of capital, or shares, according to whether they are negotiable or refundable, remains to be popularized and better exploited, although it is widely practiced (the public limited company or limited-liability company versus the cooperative with variable capital, in particular). The distinction between capital and quasi-capital is even less known, though highly important.

[213] Baudelaire, last line of the first stanza of the eleventh poem of Les Fleurs du mal, Le Guignon — that is, bad luck, ill fortune, hard luck.

the drifts that came back in force from the 1980s and provoked a severe replica of the great depression of the 1930s, barely more than three quarters of a century later.

The illusion of competitiveness regained through lowering the cost of labor, as through monetary depreciation, masks the fact that leads to sustaining it. A precept of commercial wisdom prescribes: “Sell products that will not come back, to customers who will.” The fact, still masked to this day, is the under-capitalized application of this precept. This shortfall, through the working-capital tightness it produces, makes deadlines so often stressful that lowering the cost of labor becomes a soothing obsession. It is not, then, more credit — especially short-term credit — that durably loosens the grip. It requires the systemic therapy of the “firstly” and the “secondly.”

2) The true economic laws of employment and of its prices remain excluded from the most authoritative doctrines, in our country as elsewhere in the world. Our reluctance to concentrate our efforts on the therapy of the “firstly” and the “secondly” comes largely from that.

The main relationship between the current and future state of employment runs through the earnings distributed in exchange for capital contributions for the permanent financing of enterprises. But the conditions for the full operation of this relationship run counter to the atavisms that seal our prejudices. Yet it is when they are fully satisfied that the increase in the national stock of capital brings about the necessary increase in the stock of lasting jobs.

As for the prices of employment — that is, wages, in every kind of remuneration of labor — they continue to be the object of two mystifications. Their inequalities are said to come from determinants that would govern the formation of all prices. In reality, these inequalities have the specific feature of being keys for distributing total labor income. Through these keys, the social body is able to take part in setting the parameters of the economy. The most just way of collectively managing the remuneration of labor, nation by nation, rests on this recognition. Ever more redistribution through public finances absolves responsibilities, over-bureaucratizes, and does not eliminate the inequalities that destroy social cohesion. Assuming the distribution of total labor income through the equalities and inequalities of wages makes renouncing this “ever more” acceptable.

Wages, officially termed gross — from which the net are derived after subtracting the contributions officially deemed employee contributions — would be the prices of labor. Adding to these gross amounts the contributions officially deemed employer contributions would determine the costs of labor. These costs would be compressed at the base of the pyramid of staff expenses in order to improve competitiveness. In truth, the official designations just mentioned are mendacious language games. The price and the cost of labor are obviously one and the same: the whole wage, in other words the complete wage, the one that, once the transfer of employer contributions into employee contributions takes effect, will become the gross. For in fact, employer contributions are wage-based, entirely wage-based… just as the complete wage is also entirely employer-borne!

Yes, let us reform the labor market — but first by abolishing the fiction of employer contributions. Then this market will at last be regulated by its true prices, which will have become more easily and exactly comparable. In the same move — the one goes with the

other — let us reorganize the financing and management of the so-called social economic protections, where employers, as such, usurp the patronage they have carved out for themselves and where colossal sums of money are handled, while also providing a great many direct and indirect jobs. Once the fiction of employer contributions is officially abolished, the demand to lower the cost of labor will appear in broad daylight for what it is: the offloading onto public expenses of part of the price of labor, in disregard of what indispensable mutualist self-regulations lose thereby. In disregard too, just as perniciously, of the increased difficulty of establishing the most important, chronically surplus budgetary result — the one whose "secondly" explains what it is and why this surplus, more often than a deficit, can and must go hand in hand with a high level of public investment — explanations that are so many elements of civic instruction meant to better inform voters on what they have to judge.

3) Tying growth and competitiveness to job insecurity and to lowering the cost of labor runs counter to the emergence of a collective will. Whatever the detractors of every form of market economy may say, the market economy is the most appropriate to maximizing total labor income under the constraint of the sufficiency — with regard to the state of employment in particular — of the average yield of placement in capital[214].

On the crucial point of the general distribution of incomes, all that remained, in sum, for economic theory was to explain properly the maximization whose coming into force became manifest, in retrospect, from the first industrial revolution onward. This is now done, thanks to the most universal rule of three that governs economic exchanges. It is in the nature of total placement income to be able to be sufficient, and in that of total labor income never to be. In a certain way, **the maximization of total labor income can and must be**.

It is, however, only under a whole series of conditions that the will to this maximization is most effective. Investments are foremost among these conditions. They multiply economic activity all the more as they are financed in the best way. The best financing of public investment is through the duly remunerated accounts of the public treasury, held by a great many individuals and by non-commercial associations, serving only exceptionally to supplement taxes in paying the expenses of the current budgetary year. The best financing of enterprise investment is through issues of shares of capital, which is attractive and equitable only if these shares pay dividends when there are earnings.

Deploying these forms of financing is no sinecure. Flexibilizing the labor market, raised to the rank of a panacea, reduces the effectiveness of introducing the maximization of total labor income into the common good. The same goes for offloading onto public expenses a part of the complete wages of the private sector. Another swelling works in the same direction, with the falls it causes or aggravates: that of the banking industry, fed by enterprises in every sector that are insufficiently capitalized, by massive public over-indebtedness, and by even more massive monetary doping aimed at avoiding deflation — but at the cost of a pocketed inflation that swells speculative bubbles, one of whose most

[214] As long as structural underemployment advances, an ever more pronounced rise in the average yield of placement in capital; as soon as structural full employment draws nearer, an asymptotic decline in that same yield.

damaging effects is the rise in real-estate prices, rents included, faster than that of total labor income.

The strategy of the firstly and the secondly carries more benefits than appear on first examination. Apparatuses and corporations will nonetheless see in it, quickly and rightly, threats to their powers, to the point of spending much effort so that it is never applied — or even academically studied. 4) **By better harnessing our economic ideas to our civic aspirations, and conversely, we work obstinately.** "To lift so heavy a weight, Sisyphus, your courage would be needed! Though one's heart is in the work, Art is long and Time is short[215]." By better harnessing our ideas, we work both for the rise of our prosperity and for the pacification of the world through the victory of the coalition of democratic nations. For this Herculean accomplishment, this coalition will have to, through hard struggle both within itself and with its adversaries, satisfy the aspirations of the peoples that make it up, so as finally to extract currencies from the arsenals of offensive and defensive weapons — which they have been since Croesus at least.

Every mind sees the necessity of this conquest, after having reflected deeply and independently enough on the lasting conditions of fair international trade, of the environmental cleanup prescribed by ecologists and increasingly necessary, and of peace between nations and within each one. *Si vis pacem, para bellum*, " if you want peace, prepare for war." Let us prepare and wage war on all the fronts where we must fight coherently to avoid Pyrrhic victories, such as those of a finance based on securitizations, derivatives, continuous quotation, public over-indebtedness, and monetary doping. Let us make wealth less arrogant and poverty less frustrating. Let us lift one another toward approval of the economic and geopolitical strategy of the "firstly" and the "secondly," so that governments that continually implement it become less improbable.

[215] Baudelaire, Le Guignon, first stanza.

Cleaning up the capital market

So long as capital gain capitalism continues to prevail over **Yield Capitalism**, four actions to clean up the capital market are required:

1) Introduce three advertisements and two series of statistical analysis on rate of return and enterprise financing.
2) Reduce the rate of tax paid by enterprises on their distributed earnings until this rate is zero.
3) Establish quasi-capital ceilings and then gradually lower them.
4) Disaggregate and prevent concentrations that stand in the way of equalizing the rate of return of the same systemic level.

The social utility and systemic solidity of the capital market require two advances in the general organization of this market. One is to generalize the full distribution of distributable earnings, that is, of all earnings remaining after wage-earner earnings-sharing and allocations to mandatory reserves: the sound shareholder exchange. The other takes advantage of the lower costs of data capture, processing and dissemination to increase the holding of registered shares by individuals and private non-commercial associations.

The fight against unemployment is based on the valorization of Yield Capitalism to the detriment of capital gain capitalism. Both of these forms of capitalism configure the dominant mentalities differently, in terms of entrepreneurship and patrimonial assets, as well as wages and taxes, in particular.

6. Implement three advertisements and two sets of statistical analysis on rate of return and enterprise financing.

1) **Make the BVPS, book value per share, a disclosure obligation.** This value is the quotient of dividing the capital, including reserves and retained earnings, by the number of shares, in other words by the number of shares[216].

Françoise and François buy negotiable shares in company S. These shares have been held, since their issue, by at least one previous shareholder. The purchase price is €70 per share. How many of these €70 are exploited by company S? Perhaps anywhere from somewhat to very markedly less or more than the BVPS.

The concept of exploited capital holds both for negotiable shares and for refundable shares, cooperatives included. For listed shares, the BVPS contributes to cleaning up the market by serving as the basis for calculating the yield of holdings, this yield then becoming exactly **comparable** with that of unlisted negotiable shares and with that of refundable shares[217].

[216] It remains ideologically taboo to say that certain shares of capital are stock. Let us press on.

[217] This yield, in this case a rate of return, is distinct from any capital gain or loss. The rate of return of a rent for the lessor of a movable or immovable asset is distinct from the possible capital gain or loss that the sale of the asset yields, a sale that will put an end to that gain — to that rent in the original sense of the word.

2) **Make the DOE, dividend on equity, the counterpart of the APR, the overall effective annual rate of a credit.** As the base 100 of the APR is the principal of the loan, the base 100 of the DOE is the BVPS (see above).

The APR, established by a European directive, now appears on advertisements and preliminary credit offers. Dividends will continue to be announced and paid without indicating a rate of return, as long as disclosure of the DOE has not likewise been made mandatory. The comparability of credit offers matters, hence the APR. The comparability of the rates of return on placements in share capital matters just as much, in order notably to provide for the coexistence and joint contribution of these placements, depending on whether they are in negotiable shares conferring the right to realize a capital gain on sale, or in refundable shares not conferring that right, but likewise able to be protected against monetary erosion, by means of the free distribution of shares following a balance-sheet revaluation.

3) **Make the ER, equity ratio, a disclosure that every commercial or civil company[218] must carry out.** The opening balance sheets of a financial year summarize enterprises' financial situations at those dates.

From one financial-year opening to the next, an enterprise's financial situation is new, even if it differs little from the previous year's opening. Among what characterizes this situation is, notably, the ratio between the net position, in other words the top of the balance sheet on the liabilities side, and total liabilities, the sum of the net position and all debts[219]. **It is this ratio that we call the equity ratio.**

No absolute value is significant of the structure of an enterprise's financing. This is why disclosing the amount of capital is not significant. It becomes much more so, for creditors and all other suppliers — including shareholders and wage-earners — when it is accompanied by disclosure of the equity ratio.

4) **The DOE lend themselves to statistical analysis.** Let us not enter here into the specification of such an analysis, but let us note that two of its results can and must be: 1) what is called, in Chapter 10 of the first propositions of economic science, the national average rate of profit (NARP); 2) its evolution over time, correlated with the variation in the unemployment rate.

These two results, and others wholly or partly from the same source, are part of what sound economic policy requires to be made, or kept, public — ensuring that the media relay this information, as long as it is judged too specialized to reach the general public. Abstaining from this is systemically at fault. Such abstention means, in effect, the absence of any will to let the most important profit rate, the DOE, play its full role as: 1) a stimulator and director of placements of savings in capital; 2) a regulator of the prices at which enterprises sell, these prices being acts of commutative justice only when they have the effect of constantly

[218] Civil real-estate, agricultural, and professional companies, notably in French company law.
[219] Including debts from bond issues.

reducing the rates of return of the same systemic level[220]. Entrepreneurship, when it advises against activating these stimulations, orientations, and regulations, takes account only of its own interests and habits. The general interest commands all the more that they be overridden, since doing so makes the general course of business better assured and the level of structural unemployment lower.

5) **The ER lend themselves to statistical analysis.** Let us not enter here into the specification of such an analysis, but let us note that two of its results can and must be: 1) what is called, in Chapter 10 of the first propositions of economic science, the national average equity ratio (NAER); 2) its evolution over time, likewise correlated with the variation in the unemployment rate.

These macro-results are likewise part of what sound economic policy requires to be made, or kept, public — ensuring that the media relay this information, as long as it is judged too specialized to reach the general public. Here too, not using this instrument of economic policy is systemically at fault. A rise in the national stock of capital weaker than that of enterprises' indebtedness is not only financially dangerous but also unfavorable to raising the stock of lasting jobs. Wage-earner unions serve their members more than their possible ideological biases when they push for a rise in the national average equity ratio, with all the less aversion to a rise in the mass of dividends as the mass of enterprises' finance costs will thereby be reduced and the mass of wages, initially not penalized, will rise even faster than that of placement income[221].

7. Progressively reduce the tax rate on enterprises' distributed earnings until it is eliminated.

1) **It is a question of dividends here, not of capital gain.** An economist, modern finance expert, researcher, and university professor, publicly stated in the early 2010s[222] :

> *"A second reason is that, for more than fifteen years now, on the financial markets, there is this kind of diktat which would have it that an enterprise not returning 15% yield on shares per year would be an enterprise worth little. When you have monetary liquidities circulating around the planet, why would you want them to go and invest in the real economy, here at home, in our small and medium-sized enterprises for instance, when on the financial markets they earn yields of 15% per year?? In fact, looking more closely, the yields are even much higher: there is what is called leverage, that is, what you can gain with a small capital contribution and by borrowing money. Leverage is far above 15%. You have leverage of 100, 150%: that is enormous!"*

[220] In the Economic Science part, Chapter 11, Prices, establishes the normality of this permanent reduction in a market economy, thus contributing to the demonstration that this economy is, under certain conditions, a highly refined instrument of commutative justice.

[221] Chapter 8, Distribution.

[222] This economist is French; the address from which the paragraph reproduced without any alteration or omission is taken was delivered in French.

We must not be taken in by it. *The yield of a placement is one thing; the financing of that placement, and the capital gain or loss at the liquidation of that same placement, are two others.*

True, mixing these three things yields enormously, where it occurs. That does not in any way authorize uttering falsehoods. Which share portfolios, over the past ten years, have returned a dividend averaging 15% a year? And which, over the same period, have yielded an average dividend of 6 to 9% a year? The diktat of 15% and more has reasons that could not be more obvious. Relative to capital and per year, a gross operating surplus of 15% or more of capital and a distribution of dividends of 3 to 5% leave a margin that lets top management obtain very high remuneration from the board of directors. Moreover — the one helps the other — the dilution of relative ownership shares is easier to avoid or limit by means of self-financing through undistributed earnings. That makes two breaches of economic normality, concealed by financial engineering in the service of extending capital gain capitalism through the eradication of yield capitalism[223].

2) **Let E be an enterprise constituted as a company.** In what follows, what holds for E holds for all enterprises constituted as companies, including those whose capital is entirely made up of refundable shares (cooperatives included, therefore).

The DOE, the dividend on equity as defined above, is only one of the two most important relative values in the distribution of earnings to the holders of shares of capital. The other is the share of distributed earnings relative to total earnings.

Let us call this share the DPR, dividend payout ratio: earnings distributed to the holders of shares of capital relative to total earnings.

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[223] The extension of capital gain capitalism at the expense of yield capitalism led Pierre Manent astray when, around the year 2000, he invited his students at the Paris Institute of Political Studies to recall "how the prodigious growth of stock-market capitalization seemed in recent years to be on the way to reconstituting that class of rentiers which the progress of industry and democracy had appeared to have condemned" (Cours familier de philosophie politique, Gallimard, Tel collection, p. 69). This was a contribution to peddling the conflation of rent with capital gain. The growth of stock-market capitalization is a product of, and in return produces, speculation destructive of the common good. This speculation, superadded by pension funds to the speculation whose social contribution is positive (by tending simultaneously toward the yield of a prudent family man and of the widow of Carpentras), procures rent for people who have reached the end of full-time professional activity. The belief that "the progress of industry and democracy" has the effect of eradicating the "class of rentiers" belongs entirely to economic pseudoscience, for three reasons:

I/ Political economy can be objective only by replacing the distinction of social classes with that of roles, since the same individual — and all the more the same household — fills several roles, and impartiality does not allow one to wish that one be sacrificed for the benefit of another (for example, an employee and shareholder should not normally receive, for each of these titles, remunerations that offset each other, nor see his prerogatives reduced or increased in one of these roles because of the other).

II/ Each of these roles is a means of exercising economic democracy.

III/ In all socio-professional categories, estates too weakly made up of placements in shares of capital that pay dividends — that is, rent properly so called — disserve "the progress of industry and democracy." Democracy, by means of two facts:

the choice of one placement rather than another is the economic counterpart of the vote cast in elections by universal suffrage;

to placements in shares of capital are attached voting rights — rights for which it is entirely logical that, even in a cooperative setting where the number of shares per member is capped by statute, one who holds n times more shares has n times more votes than another.

3) **These two rates are the more calamitous the closer they come to zero.** Yet the opposite is often maintained today when E is a company with negotiable shares and the prospects of a capital gain on the sale of these shares are positive.

There are many objections to the preference for capital gain capitalism at the expense of yield capitalism. Let us put forward two of them here: capital gain capitalism cannot be universal; the technostructures that play the card of capital gain at the expense of yield favor their own interests, throwing a pseudo-rational veil over an economically immature mode of enterprise management.

4) **The main reason capital gain capitalism cannot be universal is established experimentally.** With the extension of this capitalism comes the compensating alternative of the sector clumsily called, in France, the "social and solidarity economy."

That does not mean that there prevails spontaneously, in this sector, the recognition that dividends are counterparts, equitable in principle, of the placement of savings in shares of capital. Likewise, it is not spontaneously that the refund, within short delays, to members who request it, of part or all of their stake, is assumed. Moreover, savings thus placed are managed ethically only if they include at least partial protection against monetary erosion through distributions of free shares to members.

5) **Self-financing through undistributed earnings is in principle economically immature.** For any enterprise E constituted as a company, it is admitted, in fact or by statute, that its managers do or do not have to force the hand of the capital contributors.

Self-financing through undistributed earnings forces the hand of the contributors of capital by implicitly telling them: "If, after this distribution, nothing remains in the common pot, new shares of capital will have to be issued in order to provide for the development of the enterprise and its inevitable, more or less complete, reconversions." As a consequence of this line of conduct, current and potential shareholders perceive the rate of return of this placement less concretely. Yet the undistributed money belongs to the shareholders, who, if they receive the whole of the share owed to them, are on the whole more disposed to put back into the pot.

6) The effective average price, year after year, of placement in capital is the dividend on equity, not a statistical abstraction. Yet today, even more than before, it remains very commonly accepted that this price be arbitrarily understated by boards of directors.

As in economic reality, there are whole wages — the sum of the net pay and of all the contributions for which each wage is the base, including the contributions artificially called employer contributions — as well as whole dividends. Keeping in the background the whole wages hampers an economically logical regulation. In parallel, keeping in the background whole dividends hampers the regulation of the national stocks of capital so as to bring them to the levels required by full employment Chapter 7 – Employment.

7) As long as whole dividends are not more usual than arbitrarily understated dividends, raising the rates of earnings distributed to capital placers will not require a general rise in enterprises' margins. That raising will therefore not require downward pressure on the general level of real wages (purchasing power), contrary to what growing structural underemployment inevitably does.

On the other hand, it is hard to see how this raising could occur, in many countries, mainly through empiricism. The general distinctions between capital gain capitalism and yield capitalism, partial dividends and whole dividends, plenary exchanges and arbitrary exchanges[224], are landmarks for action. Without them, trying to make the economy more normal is like lecturing an engine that runs badly.

8) **What does a reduction in the tax rate paid by enterprises on their earnings bring about?** One of the least negligible consequences is the reduction of a tax receipt.

In a national economy in good health, tax receipts cover the totality of public expenses, debt amortization included[225]. Until the true budgetary result — the difference between public receipts and expenses — is once again structurally in surplus, the reduction of one tax inflow generally calls for compensation by the increase of another. A budgetary policy whose aim is not the chronic surplus of receipts over expenses across the whole non-market public sector infantilizes citizens, for, all things considered, in the long run, greater prosperity for everyone depends on reaching this aim[226].

9) As long as enterprises are subject to paying a tax on their earnings, is it judicious that this be at the same rate whether the earnings are distributed or undistributed? Encouraging the distribution of as little of enterprises' earnings as possible, or on the contrary as much as possible, is an essential choice of economic policy, because of the regulations and stimulations it thereby hampers or releases.

The proponents of "as little as possible" often favor a tax paid by enterprises on their earnings at a rate **raised** for **distributed earnings** and **lowered** for **undistributed earnings**.

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[224] Arbitrary on the labor market through employer contributions; arbitrary on the capital market through self-financing by undistributed earnings; arbitrary on the markets where enterprises make their sales and their margins through many devices of commercial promotion (including gifts, which are not gifts) and, increasingly until now everywhere, with prices less and less comparable. More genuine competition, exclusively in a context of globalization, is highly doubtful, especially under a regime of volatile exchange rates and of priority given to capital gain over yield.

[225] These amortizations are the interest payable to lenders plus the repayments of borrowed principal. When tax receipts cover the totality of public expenses, debt amortization included, new public borrowing serves only to finance public investments. In public finance, as in the management of a private association whatever its aim, compressing expenses does not necessarily go through cutting investments. In theory and in practice, the distinction between expenses and investments is as fundamental as the broader one between flows and stocks. An elected official who says "We must reduce public expenditure, and therefore accept, for a time, lower public investments" is making a fallacious statement.

[226] Reach this aim by focusing public action on the least wealthy majority as regards "greater prosperity"? And, or first, by reinforcing public aid to the most deprived? The narrowing of the range between the highest and lowest wages net of income tax, as well as between the highest and lowest pay-as-you-go pensions also net of income tax, does not fall within what a budgetary policy is responsible for producing. Raising the prosperity of the least wealthy majority faster than that of the wealthiest minority is better achieved by sorting out the natural responsibilities of the different economic roles than by believing, or letting it be believed, that it suffices to take from the wealthiest to redistribute to the least wealthy. Now this belief, real or feigned, plays a large role in public opinion's endorsement of the very principle that enterprises pay a tax on their earnings. That liability is nonetheless counterproductive, and it is to be distinguished from the tax levy in the hands of the holders of property income; failing this distinction, too little effort is made to sort out the economic roles — those of enterprises and those of individuals and non-commercial private associations that place in the capital of enterprises are, in particular, different. Public opinion's endorsement of the very principle that enterprises pay a tax on their earnings will recede once it becomes common to explain why this practice harms full employment, increasing only illusorily the public funds allocable to aid for the most deprived and to other works of collective enrichment.

The proponents of "as much as possible" make the opposite choice of a rate **lowered for the distributed portion**, and **raised for the undistributed portion**. Today, among those who clearly come out in favor of one or the other of these options, the proponents of as little distributed earnings as possible are by far the **more** numerous, though for divergent motives.

10) **What are the arguments of the proponents of as little distributed earnings as possible to shareholders?** The undistributed earnings to shareholders are a source of self-financing that adds to asset amortization and to allocations to mandatory or exceptional provisions.

Among the proponents of as little distributed earnings as possible, some hold this view chiefly because it seems to them socially just: in their eyes, "growing rich while sleeping" is to be thwarted rather than favored, enterprises' earnings becoming, in their view, morally positive only if they contribute as quickly as possible to the financing of investments and of job creation. For others, the option of as much self-financing as possible through undistributed earnings imposes itself because it lies in the logic of maximization of capital gain while reducing, or avoiding, the dilution of relative co-ownership shares in non-cooperative companies [227]. To this is added that self-financing through undistributed earnings opens a wide window for boosting the highest remuneration of top management: "Thanks to us, the gross operating surplus after asset-amortization allowances has risen (will rise) to 15% of capital which, given dividends of 3 to 5% of the same base, releases an after-tax result of at least double, a result on which a substantial share comes back to us"… QED! — this argument is equally usable when the company is a cooperative.

11) **What are the arguments of the proponents of as much distributed earnings as possible to shareholders?** They are the considerations that lead to the preference for yield capitalism, as distinct from the priority given to capital gain, inevitably créditist so as to fuel, in particular, the development and acquisition of enterprises through leverage[228].

All economists rightly agree in considering that wages and interest rates are prices. By contrast, still few are those who likewise see a price in a dividend rate — this rate, relative to the capital whose dividends remunerate the supply and procure in exchange its effective yield. Failing to recognize this utterly factual point avoids confronting an anomaly heavy with consequences: the price of placement in capital is today administered, forced; it is not as fluctuating as the input and output impulses of a systemic regulator must be; it makes for a so-called capitalism whose key rates are rates of interest and not of profit, which is in itself contradictory[229]. For boards of directors tacitly agree to keep dividends at levels, and along

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[227] The fraction of the capital supplied by a single member to a cooperative is capped by statute, generally in the form of a maximum number of shares per member.

[228] A leveraged buyout, *LBO*, consists in financing a large fraction of a company's takeover through bank or bond debt. The interest and the principal repayments on this debt are then drawn from the cash of the acquired company. With the many equivalents for stock-market ends, and public over-indebtedness, the occurrence of financial crises that generate economic crises is made inescapable. It is these crises that regulate créditist liberalism, but at the cost of social damage.

[229] There is true capitalism only when the fraction of enterprises' financial resources (hence of their liabilities) made up of placements in capital is generally greater than that of credit in all its forms (bonds included). Now

smoothing paths, consistent with the theorization they endorse. Now in that theorization, there is as much gain as possible the moment it comes within reach, and as a result profit is kept from its proper status as a term of a economic exchange that feeds the regulations EPCE and RPP' of the generator of economic wealth.

12) **Under what conditions are the acts of saving and placing prerogatives that civil society exercises freely?** Here we give the fiscal answer alone, while first noting that: 1) any amount of placed savings supports economic activity at least as much as the same amount allocated by its owner to the purchase of a consumer or capital good; 2) the exercise by individuals and foundations (among other non-commercial associations) of their prerogatives as savers and placers springs from a freedom all the more manipulated by public authority in that the legislator saw fit to establish tax bonuses and penalties which, besides their management costs, unequally distort what these placements yield *ultimately*, thereby contributing to making even more arbitrary the price referred to in the preceding paragraph.

When the income tax schedule is the same whether the income is from labor or from placement, fiscal considerations weigh all the less on the placement decisions made by individuals and non-commercial private associations as the schedule in force comes down to a single rate (*flat tax*). Reducing the rate of the tax paid by enterprises on their earnings — and, all the more, coming to abolish that tax — can be offset by more tax receipts from the tax on placement income.

13) In reality, the tax paid by enterprises on their earnings does not durably fall on the enterprises. Indeed, if this tax is, for example, a third or a quarter of earnings, what happens?

Earnings targets after payment of this tax are coupled to their pre-payment equivalents, the latter being higher by a third or a quarter than the targets net of tax. The margins further upstream of reaching this target (hence costs and selling prices) are calibrated so as to allow this target to be met. In the end — and all the faster the better the enterprise is managed — everything happens as if enterprises re-invoiced to their customers all the taxes to which they are subject. Since enterprises are not, properly speaking, taxpayers in their own right, exempting them from paying a tax on their earnings merely removes a pretense: a fiction that was fiscally convenient but has proved to run counter to the general interest, by helping to make people believe that what enterprises pay to the Treasury relieves citizens by that much — which is false — while prompting many of them to demand ever more coverage by public finances.

14) **A** tax ruling[230] **on the taxation of enterprises' earnings can be addressed to civil society:** the public authorities bind themselves to abolish, and to uphold the abolition of, the taxation of earnings of enterprises, through a procedure that prudence advises against immediately coupling with a complete timetable.

As the rate of the tax paid by enterprises on their distributed earnings is lowered, until it reaches zero, the rate of this same tax levied on enterprises' undistributed earnings is raised,

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the logical counterpart of these placements is the distribution of profits whereas the remuneration of the credit service is ensured by the payment of interest. In true capitalism, the major key rate is normally one of profit and not of interest. In creditism, it is the opposite.

[230] See the definition of "tax ruling" on the tax authority's website.

until it becomes wholly confiscatory by being brought to 100% for earnings remaining after tax-exempt allocations to mandatory reserves. In parallel, the rate of the income tax on distributed earnings is progressively adjusted so that it ends up the same as that on labor income[231]. But this arrangement, especially once it reaches its term, infringes the free exercise of a property right — so it will surely be objected. One will then have to recall, if need be *ad nauseam*, that:

- ➞ The sole owners of the earnings of commercial companies (in law or in fact) are their shareholders[232].
- ➞ In the financing of enterprises, the rise in the proportion of capital — and hence the fall in the proportion of credit — will be favored[233]; which, joined to a rise in the national stock of capital, will have a positive effect on employment thanks to a better functioning of the EPCE feedback.
- ➞ Inter-enterprise trade will make less use of long payment terms, which will bring it closer to a cash economy — one better immunized against the spread of cash-flow difficulties and insolvencies. For employment, this matters a great deal.
- ➞ Through the tax ruling whose content has just been summarized, popular sovereignty and public power have at their disposal the lever that lets them set in motion the transition from creditism driven by capital gain, an inevitable purveyor of underemployment, towards yield capitalism, better suited to full employment — a capitalism of which cooperatives are naturally part in a free economy, alongside the other entrepreneurial statuses.

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[231] The mechanism of Guideline 7 belongs to the family of proposals known in the United States as corporate tax integration, which aim to tax business income once rather than at both the corporate and the shareholder level. The U.S. Department of the Treasury, Report on Integration of the Individual and Corporate Tax Systems: Taxing Business Income Once (1992), examined the main variants. It favored a dividend exclusion, which taxes business income once at the level of the enterprise, and rejected the dividends-paid deduction. The American Law Institute's Reporter's Study of Corporate Tax Integration (Alvin C. Warren Jr., 1993) recommended a shareholder credit (imputation) that turns the corporate tax into a withholding tax on income distributed to shareholders. Guideline 7 takes the direction opposite to the Treasury's: earnings are taxed once, at the level of the ultimate taxpayer, at the rate applied to labor income. Its zero rate on distributed earnings amounts to a full dividends-paid deduction, a variant combined with withholding on dividends in the Senate Finance Committee's 2014 staff study and 2015 working group report (Michael J. Graetz, testimony before the Committee, 17 May 2016). Its rising rate on undistributed earnings has a partial precedent in the U.S. accumulated earnings tax (Internal Revenue Code §§ 531–537), which penalizes earnings retained beyond the reasonable needs of the business.

[232] Let us recall that we reserve the term "shareholder" for any holder of a share of capital (share capital, since it is that of a company), whether or not this share gives access, at its liquidation, to a capital gain (the mere offsetting of monetary erosion through distributions of free shares is not a capital gain), according to whether the shares are negotiable or refundable (cooperatives, mutuals: in French law, companies with member-employees and variable capital).

[233] Françoise and François are shareholders. Since the delivery to civil society of the tax ruling on the taxation of earnings of enterprises, they receive markedly more dividends than before, including as remuneration for the placement in shares of capital of cooperative companies. Moreover, the supply of dividends is: 1) at last accompanied by the indication of a yield rate — the equivalent, for placement in capital, of the APR (TAEG) for credit (see 2.2.1); 2) increasingly often paired with an offer to subscribe to an increase of capital. The improvement in the average yield of Françoise and François's share portfolio can only have, as consequences: 1) a greater proportion of share placements in their assets; 2) a markedly increased ease for commercial companies — whether agricultural, industrial, or tertiary — in mobilizing capital and creating durable jobs; 3) a retreat of capital-gain mercantilism through the rise of yield capitalism.

8. Establish quasi-capital ceilings and then gradually lower them.

1) We reserve the term quasi-capital for permanent enterprise financing whose direct provider is not a saver. This statement is, however, an admissible definition in the logic of finite sets only under two conditions.

The first is to grant that "permanent" applies only to what lasts until the end (see first proposition 5.2). The other condition is to agree, likewise, to reserve the term "savers" for individuals, families, foundations, and other non-commercial associations.

2) It then becomes clear that permanent enterprise financing is not the same depending on whether it is supplied by savers proper or by other entities. When one of these entities becomes a holder of shares of capital (*capital)*, fewer powers of impulse and arbitration are exercised by savers proper, as indicated in the argument of proposition 5.5.

3) To counter confiscations of power and reductions of competition by means of quasi-capital, provisions are needed that restrict the use of this endogamous mode of permanent financing. A company composed of companies should no longer be seen as systemically equivalent to a company whose shareholders are individuals, families, foundations, and other non-commercial private associations.

The differentiation is introduced when the legislator takes on the setting of ceilings of quasi-capital, by broad sectors of activity but without distinction of enterprise size.

4) **Endogamy through companies of companies can be reduced by the progressive lowering of the ceilings of quasi-capital.** What the exchange of placements in capital for their periodic remuneration brings to the common good, when one of the two parties is a saver proper, is thereby increased.

Proportionally, the more voting rights at the general meetings of incorporated enterprises are held by the first suppliers of capital, the more the population weighs on the composition of boards of directors and the directions taken by these enterprises. When earnings, after allocations to mandatory reserves and wage-earner earnings-sharing, are entirely distributed to shareholders and at the same time capital increases are opened, an additional vote of confidence is added: its score is the portion of the capital increase subscribed by the members who received the dividends.

5) Through less and less quasi-capital, country by country the self-regulating relationship between the stock of capital and the stock of jobs is strengthened, until full employment finally becomes the norm and underemployment the temporary exception.

Employers can hardly be blamed for not spontaneously favoring this course, which reduces their prerogatives. But the governments that work in the service of the general interest are those of nations where, in economic matters especially, that interest is discerned clearly enough by the majority of voters.

9. Disaggregating and preventing mergers that impede the equalization of return on capital of the same systemic level.

1) An enterprise that, in its offer, voluntarily reduces the dispersion of the direct rates of return of the same systemic level brings its selling prices closer to their sufficient levels. How

these rates of return are assessed — which are only exceptionally margin rates on revenue or value added — and why the deliberate reduction of their dispersion anticipates what competition tends to establish, is set out in chapter 11 of the first propositions of economic science.

The rate of return of a legally constituted enterprise is at its sufficient level when its height is the one required, today, in the country in question, for the restoration or maintenance of full employment through EPCE feedback.

2) For a monopoly established by the legislator to sell its supplies as close as possible to their sufficient prices, its supervisory authority must not only require it to generate a sufficient rate of return. It must also ensure that, within this enterprise, the equalization of the direct rates of return of the same systemic level is pursued continuously.

A further condition is that employment in such a monopoly be on the same terms as those in force with most other employers, through employment contracts that carry the same reciprocal commitments, notably as regards whole wages.

3) Suppose that activities A and B are carried out, for the first time, by a single enterprise E, legally constituted. The rate of return of E remains comparable to that of any other legally constituted enterprise, including for monopolies established by the legislator.

But the new activity A, though markedly less profitable than the new activity B, proves to have the higher rate of return of the two. By altering its selling-price schedules and through other measures, enterprise E opens up the possibility of reducing the rate of return of activity A and raising that of B. In doing so, E will become more competitive in A while reducing and then eliminating the subsidization of B by A.

4) Among the practices that constitute dumping are those that consist in selling well below or well above the truly complete cost prices (earnings included) that equalize the direct rates of return of the same systemic level. As soon as the combination of activities or outlets enables an enterprise to sustain, over the long term, dispersions of direct rates of return of the same systemic level, authorizing such a combination contravenes the regulation of prices by competition.

Agreements whose object (or means) is the offsetting of rates of return of the same systemic level reduce competition. The market authorities and legislative bodies that make the equalization of rates of return of the same systemic level a norm of the sound-exchange economy acknowledge this.

5) Foremost among the most harmful concentrations is the so-called model of the universal bank**.** Aggregating “investment banking” onto “retail banking” makes sense only where it yields, from the whole, a contribution to the general interest greater than the one that prohibiting the combination of these two activities provides.

The same holds for aggregating onto “retail banking” another business line such as that of insurer or, conversely, for aggregating a bank or a credit institution onto an insurance company or a chain of stores:

- If the aim is to have the whole yield a rate of return higher than the average rate of return these activities would have when the legislator makes them non-

combinable, this can be achieved only through institutionalized dumping that obstructs the market law of the tendency to equalize the direct rates of return of the same systemic level.

- With the pursuit of very high profits through the combining of business lines characteristic of the universal bank, there inevitably come the blurring of risks and the organizational opacity that result from calamitous governance[234].
- It is particularly inconsistent to let a network of cooperative banks be topped by a stock-exchange-listed holding company, so as to turn this network (its own holding company included) into a universal bank.

6) Entrepreneurial deconcentration contributes to the deconcentration of the ownership of enterprises, and in so doing to a less unequal distribution of wealth. For the same reasons, the same holds for the blocking of entrepreneurial concentrations on grounds of obstruction of the equalization of rates of return of the same systemic level.

The preceding action — establishing quasi-capital ceilings and then progressively lowering them — works in the same direction.

7) **Taxation is not the most appropriate means of deconcentrating the holding of shares of capital.** And this seems to hold particularly for progressive taxation and the wealth tax.

In any event, the best studies of this economic-policy problem are necessarily those that set at least one scenario for reducing wealth concentration through fiscal measures against a scenario seeking the same result through organic measures that establish sound exchange on the primary markets — shareholding, see above; wage-earning, next chapter — and on the markets where enterprises sell to their customers. But this comparison is all the harder to conduct well when the fiscal scenarios are framed in the light of one political economy and the sound-exchange scenario in the light of another.

Cleaning up the labor market

To see in the reduction of the labor cost of the lowest-paid wage-earners more advantages than drawbacks is one of the expedients that delay the adoption of three reforms that are, by contrast, fundamentally sound and coherent:

- repeal the fiction of employer contributions;
- assume the sharing of total labor income through wage gaps;
- bring transfer-based pensions back to a single points-based system.

Sound wage exchange proceeds from the same spirit as sound shareholder exchange. Both advance toward greater objectivity of final prices (those at which enterprises sell to their customers) while reducing abuses of power. The population and, through it, the markets arbitrate with better-informed judgment. Society is the better for it.

The currents of economic analysis that are classic today (the most widely taught) have turned attention away from primordial truths. One of the most important is that, country by

[234] "Blurring of risks" and "organizational opacity" are two expressions used by Armand Hatchuel, professor at Mines ParisTech, in his column published in *Le Monde*, Tuesday 15 July 2014: *BNP Paribas, la débâcle de la gouvernance*.

country, and even in certain nations region by region, the total labor income is subject to a distribution:

- regulated by the equalities and inequalities of wages;
- governed by the collective will insofar as this prerogative is not confiscated from it.

The exercise of this prerogative, through periodic negotiations in which no one any longer denies that the highest labor remunerations reduce those below them, makes it contradictory and counterproductive to rely on redistribution to correct distribution. Where the latter still appears, or once again appears, poorly regulated, it is the regulation of distribution (currently called primary by econometricians) that should be revised first.

A people that has become aware of all the principal prerogatives that the system of plenary economic exchanges confers on it learns to put them to use in favor of its interests, which are not those of an oligarchy, nor of a bureaucracy, nor of any socio-professional category. The principle of taxation proportional to the taxpayer's income contravenes Article XIII of the *Declaration of the Rights of Man* of 1789 only in the light of the erroneous theorizations of income distribution, both general (placement vs. labor) and specific to labor income.

10. Repeal the fiction of employer contributions.

Jacques Bichot is the author, and Arnaud Robinet the co-author, of the excerpts[235] that the following argument comprises, developing what the first proposition of economic science 9.4 summarizes: The employer share of contributions assessed on wages is a damaging fiction.

1) **Keynes judged that monetary gold had definitively become a "barbarous relic."** Be that as it may, employer contributions are even more surely a barbarous relic:

> *"It is the worker who insures against the risk of having to pay for costly care, not the enterprise or the administration. We will observe this for each branch of social security: the existence of contributions partly borne by the wage-earner and partly by the employer is a survival from the past. This relic no longer has any usefulness, any meaning, and it generates serious problems. In particular, it makes the functioning of the labor market problematic and conceals from wage-earners the true price they end*

[235] All these excerpts are taken from *La mort de l'État providence : vive les assurances sociales !*, by Jacques Bichot and Arnaud Robinet, Manitoba / Les Belles Lettres, Paris, 2013, 178 pages, chapter *La fiche de paie vérité*, pp. 59–70, then later in the present work, chapter *Retraites : passage à un système unique par points pour une plus grande justice sociale*, pp. 135–151. Once this book has been read, and above all in the light of earlier and later articles by Jacques Bichot, it appears that a different title would have better conveyed the substance of the argument: ***La faillite contagieuse de l'État providence : vive les sécurités économiques !*** The employer shares of contributions assessed on wages are a fiction that distorts economic exchange all the more as it bears on considerable sums (of which the part going to transfer-based retirement pensions contributes heavily to less freedom and responsibility than after **reconstruction** of the system so as to make it fundamentally equitable and financially unsinkable — which is in no way irreconcilable, provided one steps out of the box of ill-conceived economic redistribution).

up paying for their social protection. The shift from the welfare state to genuine social insurance therefore includes the abolition of employer contributions."[236].

2) **Economic securities have a history**[237] **whose knowledge does not dispense with the logical analysis of what the content of the remuneration of labor.** This remuneration would, as a general rule, necessarily have an employer share and an employee share. Its employer share would be the one the worker does not receive in money. But that is merely a play on words. Everything that the remuneration of labor in fact comprises — everything that is part of the "cost of labor," in other words everything that is an element of the wage bill as recorded by the employer's general accounting — is thereby wage-related, entirely wage-related, since it pertains to the wage, all elements included.

"The first reason [the] employer contributions must be abolished is that their existence blurs our perception of very important economic realities. Beginning with the remuneration of wage-earners: is it the net wage, the gross wage, or the super-gross wage (the sum of the gross wage and employer contributions)? Many wage-earners think it is their net wage, what is paid at month's end into their bank account. The employment contract, for its part, sets the gross wage, on which employee contributions are withheld at source by the employer […]"[238]

3) **Everything that falls within the scope of the remuneration of labor is entirely wage-related and employer-related:** wage-related since it pertains to the wage, employer-related since it pertains to an exchange contract in which the employer is a party.

"If the wage-earner received in their bank account the entirety of their super-gross wage and directly paid the entirety of the social-insurance contributions owed (the sum of the present employee and employer shares), would the result not be exactly the same? Payment would generally be made by direct debit, as for many recurring bills […]; it would be clear that the remuneration of labor is the super-gross wage, and that the worker pays the totality of the social contributions."[239].

4) Through the fiction of so-called employer shares of contributions that are in reality entirely wage-related, employers grant themselves a power. They take part in the management of bodies whose expenditures are in reality covered either by wage-earners alone, or additionally by taxpayers, while practicing "*a strategy aimed at bringing in the public authorities to neutralize*" as far as possible the increases in the gross wage that they grant:

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[236] First paragraph of the chapter *La fiche de paie vérité*, page 59. The first sentence of the following paragraph is: "This operation can be carried out very simply, without changing the cost of labor for the employer, the wage net, or the resources of the social security funds."

[237] Jacques Bichot and Arnaud Robinet give an excellent overview of this history, in the two passages respectively titled *Le paternalisme patronal, ancêtre de la sécurité sociale* and *Les cotisations patronales, survivance d'un passé révolu*, from the bottom of page 59 to the top of page 63. As far back as there are written traces of what domestic-service contracts were, it emerges that in-kind provisions by the employer (food, lodging, even clothing) constituted part of the employer's burden in performance of the employment contract, with the ever-present temptation for the employer to regard this part as a gift when it is in economic exchange for the services provided by the employee.

[238] Page 63, under the title Les cotisations patronales, miroir déformant de notre vision des choses.

[239] Page 63.

> *"The neutralization technique is simple: replace employer contributions with taxes whose proceeds will go to social security. It then becomes possible to raise the gross wage, the object of negotiations between employers and wage-earners, more than the super-gross (the cost of labor), leaving it to the State to levy more on the net wage to finance the welfare state. If the public authorities fall into the trap […], the unpopularity falls on the governing officials rather than on the employers."*[240]

5) **Through the fiction of so-called employer shares, wage-earner unions postpone the drying-up of a source of conflicts.** The limited eagerness of employers' unions to repeal this fiction is only the less perspicacious for it:

> *"The existence of employer contributions encourages unions to demand ever more social benefits, financed by these contributions, because they can make their members and other wage-earners believe that this is the right way to obtain more from employers. The belief that the worker pays the employee contributions, and the enterprise the employer contributions, is fairly strong; it rests on a very visible fact: in the immediate term, the day after an increase in an employer contribution […], the net wage does not change, the additional cost falls entirely on enterprises. This is as plain as the nose on one's face.*
>
> *"What is not seen is what comes afterward: the reinforced resistance that enterprise managers put up against demands for increases in the gross wage. The econometric studies carried out on this phenomenon show that it takes about two years to erase the advantage initially obtained by wage-earners from the fact that a contribution increase is borne by the employer rather than the wage-earner. The benefit to wage-earners is therefore entirely temporary. The damage to everyone, by contrast, is considerable: two years of skirmishes, of labor disputes, of wage-earner discontent at not obtaining the increases they believe they are entitled to. If one wanted to fan the class struggle one would not go about it any differently. And all this because the public authorities leave in place an antediluvian system that gives wage-earners the impression that their remuneration is limited to the net wage, or at most the gross wage, far below the cost of their labor to the employer — the super-gross wage, which is their true remuneration!"*[241]

6) The fiction of employer contributions blocks a self-regulation, for it puts the insured in a position to abuse and to let benefits be abused. In so doing, it is a cause of abuse on the part of benefit providers.

Insurance schemes, when they are financed by a large share of employer contributions, are liable to become and remain structurally in deficit. The reason is very simple. Their beneficiaries do not realize what it costs them. An indispensable management link, yet consubstantial with the very principle of mutualization, is not formed.

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[240] Page 65, last paragraph of the passage titled Les cotisations patronales, portes d'entrée de regrettables stratégies.

[241] Pages 69 and 70, first two paragraphs of the passage titled *Éviter les conflits sociaux stériles*.

Through employer contributions, as through third-party payment when it is practiced in such a way that the insured is no longer the one who authorizes the settlement of the total invoice amount — an amount of which they are then, more and more often, unaware — the providers of medical and paramedical care, pharmaceutical laboratories included, are likewise encouraged not to form an economic link with their customers when these are insured individuals. Everything then happens as if it were no part of their responsibilities to do their best on the quality/price ratio of their supplies. Abuses of prescription inevitably result, as do remunerations and earnings that largely escape regulation by comparison with what obtains in other activities whose economic organization makes who pays what clearer.

7) **Administratively, a single simplification suffices for the abolition of the employer shares.** Where there was such a share, the amount recognized as borne by the wage-earner is increased accordingly and the "Employer share" column is removed from pay slips:

> *"Technically, the principle of replacing employer contributions with employee contributions is very simple. Take, for example, a gross wage of €2,500, giving rise to employer contributions at a rate of 40% (i.e., €1,000) and to employee contributions at a rate of 20% (i.e., €500). The net wage comes to €2,000 and the super-gross to €3,500. The social security, supplementary-pension, and unemployment funds receive the difference, i.e., €1,500. To obtain the same result while abolishing employer contributions, it suffices to raise the gross wage to the level of the super-gross, i.e., €3,500, and to set the contribution rate (employee, of course) at 42.86%."*[242]

> *"From then on it would appear clearly, indubitably, that social contributions (now exclusively employee contributions) are the worker's payment for the social insurance they benefit from; the gross wage (equal to the present super-gross) would appear just as clearly to be the wage-earner's remuneration, and thus the price of labor both for the seller and for the buyer."*[243]

8) **The provision of economic securities is reoriented by the reform of the "truthful pay slip."** The spirit of the common law in this matter becomes the one that Jacques Bichot and Arnaud Robinet summarize as follows:

> *"There is nothing like telling the truth to defuse sterile conflicts, which puts the players in the economic game face to face with their responsibilities. Workers want more social protection? Very well — it is as if they wanted more comfortable housing, or more sophisticated cars, or piano lessons: it is up to them to alter the allocation of their budget according to their preferences; it is not the employers' business. […] Let the legislator not keep households in a kind of tutelage, let it not stuff them with social protection by making them believe they can have their cake and eat it too […]. This lie poisons relations between wage-earners and management; we must get out of it, and the way out is simple: the truthful pay slip."*[244].

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[242] Page 66, first paragraph of the passage titled Comment se passer de cotisations patronales ?
42.86% of the whole wage wage (1,500 / 3,500) = 75% of the net of contributions (1,500 / 2,000)
[243] Page 69.
[244] Page 70, last paragraph of the chapter *La fiche de paie vérité*.

9) **Whereas sound wage exchange has as its instrument the complete wage, sound shareholder exchange[245] has as its instrument the complete dividend.** The concomitant establishment of these two instruments changes the devolution of economic powers, extending — through the abolition of employer and State privileges — the responsibilization of income holders.[246].

Subject to one further condition, this change tips the economy into a far more capable regime, one suited:

- to full employment,
- to immunization against inflation and deflation,
- to raising the quality of life of the entire population.

The further condition — but a primordial one when the year-on-year worsening of public debt has become the major cause of a high structural level of unemployment — is the application of ??.

11. Assume the sharing of total labour income through wage gaps.

In matters of economic exchanges, labor income and "remuneration of labor" denote the same counterpart, the latter understood as including the employer shares so long as there are any[247].

1) **Between supplier and customer, the normal relations are ones of reciprocal subordination.** An employment contract is no exception, provided it respects what an economic exchange truly is[248].

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[245] The shares of capital of a cooperative or a mutual are in fact shares, but refundable instead of negotiable. Sound shareholder exchange is fully established only when it is practiced in all enterprises constituted as companies, cooperatives and mutuals included.

[246] The set of holders of income proper has as its elements the individuals who draw an income from their labor, the same and other individuals who draw an income from their placements, and public and private associations, families included, all non-commercial, among them foundations, which likewise draw an income from their placements. No enterprise is part of this set. The life annuities of pay-as-you-go pensions are treated as income, although they are not, since they are paid through transfers of the proceeds of contributions, these contributions not being contributions to job creation as subscriptions to capital increases are.capital.

[247] Every effort deserves a waget, as the saying goes. Literally speaking, this is not true, for two reasons: what is exchanged for a wage is the service provided by an individual by means of the effort they have taken, and not the effort itself. Not all the services an individual takes the trouble to provide are in exchange for a wage and it often happens that it is services of this kind that prove to be the most precious. Between a political economy that neglects these facts and another that explicitly takes them into account, a conceptual rupture is set in motion. Throughout the respective theoretical paths of these two distinct economies, this rupture can only become more pronounced, particularly when it comes to the remunerations that constitute incomes proper.

[248] A "social model" whose pillars are the artifice of the subordination link, the fiction of employer contributions and the progressivity of "compulsory levies" instead of their proportionality to income, can only prove, in the long run, riddled with perverse effects, because it contravenes too much not only elementary economic realities but also the full working-out of political equality through the contribution to common charges "apportioned equally among the citizens according to their means," the last phrase of Article 13 of the *Déclaration des droits de l'homme et du citoyen* of 26 August 1789. When this "equally" is interpreted as meaning "at progressive rates" and not at identical rates for all, the will expressed is that of maintaining or reinforcing the balance of power between the wealthiest and the least wealthy, even at the cost of reinforcing segregations.

It is only in law that the subordination link of the wage-earner to the employer makes wages a subset of labor remunerations. As soon as there is a labor income, there is a wage economically speaking, whatever the name given to that remuneration[249]. Although, in the case of the labor income of the owner of a sole proprietorship, there is manifestly no subordination of one person to another, whether natural or legal, this income is in reality a cost of that enterprise, including when this owner calls themselves, or is called, a "self-employed worker" or a "sole trader."

2) Three magnitudes structure labor incomes. This holds in every country and permanently.

One is the median labor remuneration. By the definition of what a median is in statistics, the labor incomes below or equal to the median remuneration are as numerous as those above it. In national and sectoral economic statistics, the difficulties of estimating it do not prevent it from existing.

3) **The purchasing power provided by the median labor remuneration is bound to grow.** This is one of the points on which a consensus on the wage component of an economic policy must rest.

More broadly, a consensus, both on the wage question and on the other components of an economic policy, is solidly established only when it is grounded in the experimentally verified theorization of the principal distributions of flows that the practice of economic exchanges tends to establish. This is why what follows rests notably on the content of chapter 8[250].

4) The rise in the purchasing power of labor remunerations is borne by employers. The dynamics of this rise are, of course, conditional.

To generate the rise in the purchasing power of labor remunerations, a current of technical innovations is needed, broad and continuous enough to raise the average productivity of investments. Admittedly, it is not often the employers as such who are the inventors of these innovations. But it is they who open up outlets for them, through their financial management, including outside the enterprise, as well as throughout the public sector. It is potentially all employers and not only entrepreneurs with, currently, still — be it said in passing — their tendency to suppose, exaggeratedly, that "wealth creation" is the preserve of the market sector — in fact, every paid job takes part in the ceaseless creation of economic exchange value.

5) **Another magnitude that structures labor incomes is the minimum labor remuneration.** A significant proportion of jobs that, in France today, provide those who hold

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[249] Salaries, fees, commissions, royalties, emoluments, wages, sales bonuses, attendance fees, freelance fees, tips, bonuses, payments, pay, stipends, hourly fees. "Fee notes" and "statements," likewise, are in reality invoices that make up a revenue of which only a part will be allocated to the remuneration of labor.

[250] The principal distributions of flows inherent in the practice of economic exchanges are three in number: the distribution of total income (chapter 8), the distribution of total labor income (chapter 9), and the distribution within enterprises, among the margin-production centers of the same systemic level, of the remuneration of capital and of the costs that are common to them (chapter 11). Inequalities between private wealth holdings vary, in the long run, largely as a function of these three distributions.

them with only, or barely more than, the minimum hourly labor remuneration has always existed and will continue to exist.

Once there is growth in the purchasing power of the median labor remuneration denoted C1, the growth in the purchasing power of the minimum labor remuneration called C2 may be lower than, equal to, or higher than C1. Those who hold that full employment is obtained by making C2 lower than C1 have not understood that it is heavily counterproductive totie growth and competitiveness to the casualization of employment and to the reduction of the labor cost[251].

6) The third magnitude that structures labor incomes is the series of labor remuneration gaps. Between each labor remuneration and the median remuneration, the gap is negative, zero, or positive.

These gaps can be seen in two ways. Either they are regarded as the consequence of an economic law common to the formation of all prices, making differing labor remunerations as inevitable as the differing dearness of foods, clothing, and housing. In that case, the assumption (the act of taking on), nation by nation, of the sharing of total labor income would be incongruous: the future of attempts to alter this sharing would be that of the sandcastle facing the rising tide, driven by the economic law that would be common to the formation of all prices.

7) **Or else the gaps between labor remunerations have a function of their own.** This is the thesis maintained here: the specificities of labor incomes make the assumption, by the social body, of the sharing of their total both possible and beneficial.

This possibility and this benefit are nested at the heart of the market economy, that general regime whose acceptability they considerably increase… which does not suit anyone who has decided to hold economic liberalism to be either antisocial, or condemned to be asocial in order to exist fully.

8) **What can happen with any employer of more than one wage-earner reveals the existence of a possibility.** Both the minimum remuneration and the median remuneration, and the gap between the highest and lowest remunerations, can be modified at any moment, whether or not the weight of the wage bill in the total of the employer's costs changes.

It is generally once a year that decisions are made to increase, freeze, or reduce labor remunerations (reduce, because there are frequently variable earnings-sharing components on top of the "base wage"). When the decision is the same for all wage-earners, from the least to the most highly paid, the gaps within this wage bill remain unchanged. When the

[251] Let us add here that estimating a larger gap between the median and minimum labor remuneration would be just: 1) if the scope of the law of supply and demand were as broad as it is traditional to believe; 2) if it were most often by buying at the lowest price and selling at the highest that an enterprise makes itself viable; 3) if the lasting competitiveness of exporting enterprises depended chiefly on the minimum labor remuneration to which these enterprises have access; 4) if lowering the weakest labor remunerations could bring about a recovery of investments; 5) if, in the event of unemployment, the relief designed and managed so as not to become lasting substitutes, and on-the-job training, could not appreciably improve the employability of those who struggle most to be hired.

decisions differ by subset of job positions, gaps are modified. Especially viewed over the long and very long term, the possibility of taking on the sharing of the wage bill is beyond doubt.

9) The equalities and inequalities of labor remuneration are distribution keys of the wage bills. The possibility described in the preceding point reveals the existence of a genuine economic law.

Wages are prices whose ratios to one another remain modifiable by the social body. To be sure, these modifications cannot be abrupt, failing which they reduce incentives too quickly or reinforce deterrents too imprudently. But also, the chaining year after year of these modifications makes it possible to pursue the adjustments that will be perceived, collectively, as felicitous and "decent" in matters of equalities and inequalities of labor income. Increasing the distribution of national labor incomes through the modulation of wage gaps is one of the major treatments of "the social question."

10) **The weight of a national wage bill cannot be modified by the public authority.** Such a bill being nothing other than the total labor income, its most significant weight is understood relative to the national total of incomes, including those provided by placements.

Whether or not under the heading of an "incomes policy," attempts to force up this weight all end in failure. Either the forcing is of the nominal level of low wages and, through a general rise in the price level, no lasting increase in purchasing power results; or the forcing is, through regulatory capping, of placement incomes, and the incentive for the acquisition of shares of capital is too weakened for the creation and reconversion of jobs not to be themselves too weakened (with the consequence that the increase in primary purchasing power, the one that incomes provide, is itself slowed, blocked, or reversed into its opposite).

11) **Raising the purchasing power of the median labor remuneration is within the reach of every nation.** But not within that of its governments, which claim to provide it to the nation, without the nation being able to procure it for itself.

In this great work of civil engineering, the "social model" may become a cause of failure. It suffices for it to be built on economically unsound mechanisms. Then a refounding is required. For the social partners and the public authorities to fully take on the sharing of labor income through the reduction of wage gaps where they are very widely judged indecent does not suffice for this refounding. But it bears on a central point that no sound argument permits treating as if it were subsidiary or beside the point: the distribution of labor incomes by occupational-qualification group. To err about it is all the more formidable in that it results in too much recourse to redistribution, which inflates the public levy to the point of making it stifling.

12) **High labor remunerations cut into those below them.** Relative to the common acceptance of this truth, the techniques to be used by the social partners and the public authorities are secondary to bringing the whole of civil society to consciously take on the

distribution of total labor income through wage gaps, where it judges it beneficial to reduce or increase them[252].

The cutting, by high labor remunerations, into the incomes – themselves also from labor – that are below them is not only inevitable but also necessary. But why act as if this cutting did not exist? To do so is to help make it, within a few generations, ever more calamitous, since, from a growing gap between the highest and lowest wages, the victims are necessarily more numerous, far more numerous than the beneficiaries. It is to persist in defending privileges through a denial of reality: whatever one does, high labor remunerations lower the purchasing power of the remunerations below them.

12. To reduce pensions by transfer to a single points-based system.

Jacques Bichot is the author of the following excerpts, all taken from the chapter *Retraites : passage à un système unique par points pour une plus grande justice sociale* of *La mort de l'État providence / Vive les assurances sociales !* (2013, Manitoba / Les Belles Lettres)[253]. That, in matters of pensions said to be by distribution — so as not to overemphasize the fact that they are by transfer — a single system is preferable to a profusion of special schemes around a general scheme is no longer a mystery. It is surely more equitable and potentially far more economical in management costs. To say of this single system that it must be "by points" is, however, precise enough only if it is specified, as Mr. Bichot does explicitly, that it must be a system of à la carte retirement, with actuarial neutrality**,** for reasons of which one of the least negligible is the certainty of its **financial balance**.

1) "Inequitable and liberticidal annuities, or the injustice of the system

> *"The so-called "annuity-based" systems give an important role to the insurance period. Moreover, in many countries (France, the United States, Canada, etc.) a very important role is played by the "reference wage": the pension is proportional to this quantity. In France, a private-sector wage-earner who has, at the legal age, the insurance period required for the "full rate" receives as a pension half of this reference wage, equal to the average of the revalued capped wages of the 25 best years; for civil servants, it is the average wage (excluding bonuses, but also without a cap) of the last six months, and the "full rate" is 75%; for the other special schemes, it is also the end-of-career wage[254] with generally a full rate of 75%. In Belgium, all years are taken into*

[252] These techniques must be non-fiscal. What is to be increased is the social body's mastery of the distribution of the shares of total labor income, as far as needed by abolishing its confiscation by a bureaucracy over which the holders of the highest labor remunerations inevitably end up gaining the upper hand. Redistribution, especially when pushed toward a negative-income-tax scheme, can only have the effect of taking part in this confiscation and of making taxation a tool whose complexity obscures economic relations and reduces the rise of all labor incomes, beginning with the weakest. To try to correct through redistribution what is manifestly badly done in distribution is, economically as much as politically, an infringement of the general interest.

[253] Pp. 135–151. The chapter from which excerpts are cited has eight sections. The excerpts retained in the present argument are taken from the first four sections and placed under their original titles. The titles of the four other sections are (5) *La souplesse des points : réponse au besoin du quotidien* (6) *Les points, meilleurs amis des couples* (7) *Comment passer des annuités aux points ? Le timing* (8) *Sans technique, le timing n'est rien !*

[254] Note 1, p. 136 of the cited book. For example, at the SNCF it is the wage of the last month, including bonuses and gratuities, provided the employee has held this grade for at least six months.

account (up to 45) and the wages retained are capped (€51,000 in 2012, against €37,000 in France). There is a very wide variety of formulas across countries."

"The insurance period intervenes in several ways, depending on the country. Often, the reference wage is multiplied by the number of years of insurance and divided by an estimated "normal" duration, for example 45 years in Belgium, 41 years in France for insured persons born in 1952 (the value of this parameter depends on the year of birth). Computing the reference wage over a certain number of "best years," or by eliminating a certain number or percentage of "bad years" (United States, Canada), is generally justified by the concern to smooth out career incidents (years in which earnings were poor). In the Belgian method of calculation, by contrast, as in points-based systems, a bad year necessarily affects the final result."

"Should one agree with those who claim that this erasure of bad years in certain annuity-based schemes, to which is added the possibility of having periods of unemployment, illness, military service, maternity leave or parental leave count as insurance time, is very "solidaristic," while points would be merciless to the weak? Certainly not. A French wage-earner with a sought-after skill, if well organized, can voluntarily work 25 full years to obtain a maximal reference wage, and another 16 or 17 by working just the minimum (for example two or three months) to earn within the year the €7,600 that validate four quarters for them: they will have the same general-scheme pension as someone who gave their all for 41 or 42 years. By contrast, the person who lacks sufficient background to control their career path will be obliged to work a maximum all their life, near the minimum wage, because they will not have the possibility of setting aside enough to take six or eight months off every three years. It is in fact the most gifted, or those with personal wealth, who can optimize their career management so as to draw the most from provisions designed, in theory, for the unlucky and the most modest."

"Moreover, consider two cases: Luc chose to work 30 years at 60 hours a week, then to stop in order to take up painting and to volunteer for an NGO; Robert preferred to do his 35 hours a week quietly for 41 or 42 years. Suppose their hourly earnings are roughly the same. Luc will have devoted more than 80,000 hours of his life to his professional activity, instead of 65,000 for Robert: is it not Luc who will have contributed the most for retirees and contributed money to investment in youth? Yet Luc will have to wait five more years than Robert to claim his pension at the full rate, unless he accepts a steep reduction. It is not equitable that Luc should be penalized relative to Robert, neither under the current legislation, which takes old-age contributions as the basis of pension rights, nor under the legislative framework respectful of economic realities that we propose. Let us say it plainly: ***taking the insurance period into account is a fundamentally inequitable bureaucratic formula***[255]*."*

"It is also a method of calculation that infringes individual freedoms. For everyone to be free to organize their life as they see fit, provided it harms no one else, our laws

[255] DM note — The boldface is mine.

must not penalize certain behaviors for the sole reason that they displease a parliamentary majority on ideological grounds, or that they were not imagined during the legislative process. This lack of imagination is more common than one imagines: retirement was conceived as holding a stable job, working full time without exceeding the legal working hours. This lack of imagination on the legislator's part explains part of the penalty suffered by women, by certain self-employed workers, and by eccentrics like Luc."

"As for the ideology underlying the annuity method, what is it? To encourage people to be "normal," to conform to the idea of a "good life" held by certain politicians, senior officials, union leaders, or opinion leaders: no excess of zeal, free time in small pieces to watch television, have an aperitif, and stroll in pedestrian zones. Without having anything against this "cushy" way of life, one may legitimately, in the land of liberty and equality, refuse that those who conceive of existence differently be discriminated against."

"Points are precisely the means of conferring on the insured a responsible freedom. They allow everyone to organize their life as they see fit, as long as it is not at others' expense or to their detriment."

2) "The points-based pension for greater management flexibility

"There is a great variety of points-based pensions. In Germany, the points are huge: a worker earning the average wage obtains one point per year. In Sweden, they are tiny: each krona (the monetary unit of that kingdom, worth approximately one-tenth of a euro) contributed gives entitlement to one point, which leads the average wage-earner to accumulate 40,000 to 50,000 points (called "kronor") each year in their "notional account" (the name of the points account in that country). In France, the ARRCO point is obtained for about €19 of contribution, so that the average wage-earner sees their "points statement" increase by about a hundred points a year."

"This difference in the size of the points scarcely matters; the diversity of the formulas used to convert the point into a life annuity at the time of claiming the pension matters more. Germany and Sweden use formulas that pull down the service value of the point (or "conversion-to-annuity coefficient," as the Swedes say) if the ratio between the number of contributors and that of retirees decreases. This is the implementation, even if the formula is a little complicated in Sweden, of a simple principle: in [points-based] pay-as-you-go, the contributions that have just come in are distributed equitably; so if €100 billion comes in as contributions for year n, and if there are 2 billion points to be served, each point gives entitlement to €50 for that year n."[256]

"It is possible to use points to manage a defined-benefit system, in which the contribution rate (rather than the service value of the point) serves as the adjustment variable. But the choice of points more logically accompanies that of a defined-contribution scheme, where the contribution rate is set at the level judged correct so

[256] DM note — The following paragraph is the third after the one just quoted.

as not to be unfair to workers, to avoid exploiting them for the benefit of retirees; in such a scheme, increases in this rate remain extremely rare."[257]*.*

3) **Points must be genuine entitlements**[258]

"Points must be a means of distributing among retirees the fruit of a reasonable levy on all active workers. For this to be so, an equitable levy rate should be set in light of what the active workers received from their elders, and thus this rate should not be regarded as an adjustment variable. Once this principle of a "defined-contribution" scheme is accepted, the distribution is very simple: if the number of points held by retirees is N and the amount to be distributed in one year is R, each point must provide its retired holder with an annuity equal to R/N."

4) "À la carte retirement with actuarial neutrality: the choice of responsibilization

"This very simple principle nevertheless needs to be made explicit, taking account of differences in age at the time of claiming. Indeed, if a person holding x points chooses to claim their pension at age A + 1 rather than at age A, they will receive it for one year less: it is normal that each point should then provide higher annuity payments (the monthly or annual amount of the pension) than if this person had claimed at age A. A point is like a capital that one alienates in order to receive a life annuity: the calculation of the annuity payments, carried out by actuaries (the professionals who perform the calculations involving statistics and probabilities), gives a key role to the person's life expectancy, and thus to their age. Broadly, if one gives up a year of receiving the pension by claiming a year later, it is normal to receive in compensation higher payments for each year. And likewise, if someone claims a year earlier, thus adding a year to the duration of their pension, it is normal that they receive less each year. What percentage more or less, it is for the actuaries to calculate."

"Concretely, these professionals provide the "actuarial coefficients" by which the amount of the pension must be multiplied, in the case of claiming at a "pivot" age, if claiming takes place earlier or later than this age. The actuarial coefficient is less than one if retirement takes place before the pivot age, and greater than one if claiming is later than this pivot age.[259]

"For a scheme practicing à la carte retirement with actuarial neutrality, it matters little whether its member Manuella claims earlier or later. This person can therefore make the decision that suits her without harming the scheme, herself, or any of the scheme's members. If it is necessary to react to the increase in life expectancy, the scheme's managers have no need to raise a legal age or two legal ages in order to force members to postpone their retirement: it suffices for them to raise the pivot age. It is then for each member to make their choice: stay in activity longer or settle for lower annuity payments. ***To keep the scheme in financial balance, no constraint is***

[257] DM note — The following paragraph is skipped; its first sentence states its subject: "Alas, the French social partners manage the supplementary schemes by playing, without enough restraint, on the contribution rate, as was seen in 2013."

[258] DM note — The following paragraph is the third and last of this section.

[259] DM note — Three paragraphs skipped.

necessary, the freedom of members is respected — but whatever the decision made by each of them, the result, namely the balance of the scheme, will be achieved.[260].

Liberating civil society

It is not only the public authorities that are able to corset a country. In addition to the fact that many traditions have the same power, certain modernizations, real or pretended, also have it. In economics, the priority given to capital gain capitalism over Yield Capitalism does not only have the harmful effect of extending the addiction to casino finance. It leads us to not, or no longer, to see that refundable shares are good instruments of the market economy and political freedom, in particular so that two possibilities do not remain relegated to the catch-all of impossibilities:

1) Open up privatizations to companies with refundable shares.
2) To continue to the end the denationalization of the marketable supplies of economic security.

The second of these possibilities is acceptable to public opinion only if the opening of privatizations to companies with refundable shares has been successfully tested in supplies that the population prefers to keep clear of the temptations and excesses of capital gain capitalism.

What would happen if, instead of speaking of social security as often as we have been taught to do, the practice spread of being more realistic by speaking of economic security? The demystifications that this change would compel would help to make understood and loved the version of the market economy that maximizes the common good.

A Europe that had this version among the values that bind it together would turn its back on plutocratic globalization. Its prosperity and its influence would be increased thereby, and not diminished as neoliberal thought and many heterodox vulgates are inclined to predict.

13. Opening up privatizations to companies with refundable shares.

1) The privatizations in question are those of commercial activities, or of activities that can be made such without alienating a sovereign power. The provision of relief and of economic securities is not a sovereign power, with what that implies in the way of exclusivities, including that of the use of violence by the public force.

Monopolies on the sale of services or goods can be privatized without there being any need to end them. To be sure, a whole current of doctrines maintains the contrary. But it does so by leaving out of its view the fact that the legislator has the power to require an enterprise entrusted with operating a monopoly **not to** :

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[260] DM note – This boldface is mine. The following paragraph summarizes (here too the boldface is mine): "**À la carte retirement with actuarial neutrality** (…) **puts everyone before their responsibilities, that is, in a position to choose but with the obligation to assume the consequences of the choice made. Beyond the technical aspects, it is a philosophical attitude: the choice of responsible freedom and of equity, as opposed to the bureaucratic constraints and the granting of privileges to some and penalties to others that one observes in the current French system.**" But the rest of the chapter is also to be read and, from page 135 to page 151, this whole chapter to be reread *in extenso*.

- grant its staff privileges relative to the ordinary rules of wage law;
- allocate part of its earnings to its self-financing ;
- deliver a chronically excessive or insufficient rate of return to its shareholders;
- dispense with the reduction of its gaps in internal rates of return of the same systemic level ;
- endlessly postpone, where applicable, the reduction in its capital of the proportion of quasi-capital.

2) The reforms of the capital market, when they are those advocated here, have the effect of opening privatizations and enterprise restructurings to companies with refundable shares. This effect appears clearly, however, only by keeping in mind the entire content of chapters3, 5, 6, 7, 11.

Opening to companies with refundable shares does not imply closing to companies with negotiable shares. It is for the boards of directors of each to put forward the characteristics of their respective offers to the public authority and to opinion, it being understood that objectivity requires keeping clear what is specific to contributions of capital, according to whether they are refundable or negotiable, only the latter granting**co-ownership shares** whose liquidation can provide increases in **private wealth** through capital gain, latent or realized.

3) A privatization to a company whose shares are all refundable remains a collective property. The legal entity that holds this property has members, but these are not co-owners: in the event of the dissolution of this legal entity and if, all things considered, its net position is ultimately positive, the bylaws must require that its last act of management be the gift of this remainder to another legal entity.

Questions of great importance are thereby raised. Between two enterprise properties, one exercised by the public authority and the other by a company with refundable shares, which is the more authentically collective? The less easily captured by an oligarchy or a bureaucracy? The more open to the participation of every citizen by means of a small minimum, duly remunerated placement in capital? The more capable of helping the population — including its largest part, which is inevitably the least wealthy — to come to have as much retirement-quality capital as it feels the need for? The more extensive of the common good while being the least reductive of individual freedom and responsibility?

14. To continue to the end the denationalization of marketable supplies of economic security.[261]

1) Economic relief is one thing, economic securities another. It is the way of providing them that distinguishes them.

Economic relief is provided through transfers of purchasing power and sometimes other entitlements. Economic securities are provided, mainly or entirely, through exchanges of

[261] See P. Fabra, *Capital for Profit*, Rowman & Littlefield, 1991, pp. 330–331 (section “Individual Insecurity and Collective Security”): how far the material security of the individual is to be guaranteed is the central issue; exchange and redistribution answer to distinct principles, and exchange is best organized by competition.

premiums or contributions for benefits, then always having recourse to actuarial mutualization[262].

2) An instrument of resistance to the complete privatization of the provision of economic securities is the adjective "social." The matter is far from being merely a manner of speaking.

Both in theory and in practice, the art of forming a society is clearer when it is accepted that any economic security is in reality neither more nor less social than the whole of economic exchanges. Similarly, any economic relief is neither more nor less social than many other transfers, including those carried out, among others, by a à la carte retirement system with actuarial neutrality. The public sector has no monopoly on services rendered to the public and to society.

3) **To better ensure the provision of medical care and of moderate-rent housing, there must be capital.** Likewise, to better ensure the provision of economic securities, there must be capital, failing which the autonomy of this provision proves impossible to establish and then to make lasting.

More precisely, there must be capital. More precisely still, it is capital through refundable shares that, in matters of economic securities, of access of the less wealthy to comfortable housing and other vital amenities, best fits the bill, for it provides a collective property.

4) Privatizing in this way the economic securitizations made compulsory by the legislator contributes to the cleaning-up of the practice of economic exchanges and transfers. This is because of what the complete implementation of this reform requires, on the one hand, and makes easier, on the other.

- It requires in particular disaggregating and blocking the concentrations that stand in the way of the equalization of rates of return of the same systemic level; repealing the fiction of employer contributions; bringing transfer-based pensions back to a single points-based system.
- It makes it easier to tie growth first to direct placements in capital, second to the public levy subjected, by common accord, to two rules.
- It reduces the extent of the powers of high finance, both private and public, and the vulnerability to crises of financial origin.

[262] Actuarial mutualization: the distribution of a probable cost assessed by means of probability tables established by actuaries.

Conclusion

The freedom of offer regulated by the freedom of choice is a fundamental rule of societal life. It is this principle that, in a democracy, governs the devolution of political power. It will also deliver the full measure of its economic benefits when four main conditions are met:

1) The removal of obstacles to the EPCE feedback (Chapter 7) will result in full employment arising from new and incessant capital placements, which will, at best, reduce, or at worst, maintain the proportion of credit in corporate financing
2) The maximization of total labor income through the RPP' relation (Chapter 8) will have replaced, in the prevailing mindset, the supposed inevitability of maximization of profits and maximization of capital gain.
3) The distribution of total labor income by collective subjectivity (Chapter 9) will govern the evolution of wage disparities by openly acknowledging that higher labor remunerations reduce those that are lower, whatever one does about it.
4) Competition, once focused on comparability without calculation (Chapter 11), will more effectively reduce inequalities in return on equity within the same systemic level, bringing selling prices closer to an objective sum of costs, among which is the cost of remunerating placements in capital.

Achieving greater fairness in the final exchange between enterprises and their clients rests upon the establishment of sound wage exchange and sound shareholder exchange. This model consciously moves beyond impediments like self-financing, quasi-capital, and, employers' social security contributions, which inherently keep economic exchange from being sound. The resulting system offers a profound political benefit: by its very design, it is uniquely suited **to granting society full mastery over full employment and the evolution of inequalities in both income and wealth**.

Appendixes

Original documents

The Objective Political Economy originated from the seminal work of Dominique Michaut, *"Précis d'économie objective, contribution à la réorientation de l'économie politique"*, published by Brokelis.

A reformatted PDF version of this book is available on the SysFeat web site at: https://political-economy.sysfeat.com/resources/precis-d-economie-objective.pdf

The Objective Political Economy is also available as a PDF document at : https://www.political-economy.sysfeat.com/resources/Formal-Ontology-of-Economics.pdf

Peter Drucker - What Is a Business?

Peter F. Drucker

Management: Tasks, Responsibilities, Practices[263] beginning of the chapter 6, *What Is a Business?*

1. Business Created and Managed by People, Not by Forces

The Sears story shows that a business enterprise is created and managed by people and not by forces. Economic forces set limits to what management can do. They create opportunities for management's action. But they do not by themselves determine what a business is or what it does. Nothing could be sillier than the oft-repeated assertion that "management only adapts the business to the forces of the market." Management not only has to find these forces, it has to create them. It took a Julius Rosenwald seventy-five years ago to make Sears into a business enterprise, and a General Wood twenty-five years later to change its basic nature and thus insure its growth and success during the Depression and World War II. Now another management generation will have to make new decisions that will determine whether Sears is going to continue to prosper or to decline, to survive or eventually to perish. And that is true of every business.

2. The Fallacy of Profit Maximization

Another conclusion is that a business cannot be defined or explained in terms of profit. Asked what a business is, the typical businessman is likely to answer, "An organization to make a profit." The typical economist is likely to give the same answer. This answer is not only false, it is irrelevant. The prevailing economic theory of business enterprise and behavior, the maximization of profit—which is simply a complicated way of phrasing the old saw of buying cheap and selling dear—may adequately explain how Richard Sears operated. But it cannot explain how Sears, Roebuck or any other business enterprise operates, nor how it should operate. The concept of profit maximization is, in fact, meaningless. Contemporary economists realize this; but they try to salvage the theorem. Joel Dean, one

[263] First edition in 1974 by William Heinemann Ltd. This book is now available in digital format.

of the most brilliant and fruitful of contemporary business economists, still maintains the theorem as such. But this is how he defines it: Economic theory makes a fundamental assumption that maximizing profits is the basic objective of every firm. But in recent years, profit maximization has been extensively qualified by theorists to refer to the long run; to refer to management's rather than to owners' income; to include non-financial income such as increased leisure for high-strung executives and more congenial relations between executive levels within the firm; and to make allowance for special considerations such as restraining competition, maintaining management control, warding off wage demands, and forestalling anti-trust suits. The concept has become so general and hazy that it seems to encompass most of men's aims in life. This trend reflects a growing realization by theorists that many firms, and particularly the big ones, do not operate on the principle of profit maximizing in terms of marginal costs and revenues.[264]"

A concept that has "become so general and hazy that it seems to encompass most of men's aims in life" is not a concept. It is another way of saying, "I don't know and I don't understand." A theorem that can be maintained only when qualified out of existence has surely ceased to have meaning or usefulness.

The danger in the concept of profit maximization is that it makes profitability appear a myth. Anyone observing the discrepancy between the theory of profit maximization and the reality, as portrayed by Joel Dean, would be justified in concluding that profitability does not matter—the conclusion actually reached by John Kenneth Galbraith in The New Industrial State.[265].

3. Profit: An Objective Condition of Economic Activity, Not Its Rationale

Profit and profitability are, however, crucial—for society even more than for the individual business. Yet profitability is not the purpose of but a limiting factor on business enterprise and business activity. Profit is not the explanation, cause, or rationale of business behavior and business decisions, but the test of their validity. If archangels instead of businessmen sat in directors' chairs, they would still have to be concerned with profitability, despite their total lack of personal interest in making profits. This applies with equal force to those far from angelic individuals, the commissars who run Soviet Russia's business enterprises, and who have to run their businesses on a higher profit margin than the wicked capitalists of the West.

The first test of any business is not the maximization of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss.

The root of the confusion is the mistaken belief that the motive of a person—the so-called profit motive of the businessman—is an explanation of his behavior or his guide to right action. Whether there is such a thing as a profit motive at all is highly doubtful. It was invented by the [neo][266]classical economists to explain the economic reality which their theory of static equilibrium could not explain. There has never been any evidence for the

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[264] *Managerial Economics* (Prentice-Hall, 1951), p. 28

[265] Houghton Mifflin, 1967

[266] EPO: we added [neo] to avoid the confusion between the classical economic school of thought (Smith, Ricardo, Maltus, Marx, …) and the neo-classical school of thought (Walras, Jevons, …).

existence of the profit motive. We have long since found the true explanation of the phenomena of economic change and growth which the profit motive was first put forth to explain.

It is irrelevant for an understanding of business behavior, profit, and profitability whether there is a profit motive or not. That Jim Smith is in business to make a profit concerns only him and the Recording Angel. It does not tell us what Jim Smith does and how he performs. We do not learn anything about the work of a prospector hunting for uranium in the Nevada desert by being told that he is trying to make his fortune. We do not learn anything about the work of a heart specialist by being told that he is trying to make a livelihood, or even that he is trying to benefit humanity. The profit motive and its offspring maximization of profits are just as irrelevant to the function of a business, the purpose of a business, and the job of managing a business.

In fact, the concept is worse than irrelevant: it does harm. It is a major cause for the misunderstanding of the nature of profit in our society and for the deep-seated hostility to profit which are among the most dangerous diseases of an industrial society. It is largely responsible for the worst mistakes of public policy—in this country as well as in Western Europe— which are squarely based on the failure to understand the nature, function, and purpose of business enterprise. And it is in large part responsible for the prevailing belief that there is an inherent contradiction between profit and a company's ability to make a social contribution. Actually, a company can make a social contribution only if it is highly profitable. To put it crudely, a bankrupt company is not likely to be a good company to work for, or likely to be a good neighbor and a desirable member of the community—no matter what some sociologists of today seem to believe to the contrary.

5. The Purpose of a Business Enterprise

To know what a business is we have to start with its purpose. Its purpose must lie outside of the business itself. In fact, it must lie in society since business enterprise is an organ of society. There is only one valid definition of business purpose: *to create a customer*.

Markets are not created by God, nature, or economic forces but by businessmen. The want a business satisfies may have been felt by the customer before he was offered the means of satisfying it. Like food in a famine, it may have dominated the customer's life and filled all his waking moments, but it remained a potential want until the action of businessmen converted it into effective demand. Only then is there a customer and a market. The want may have been unfelt by the potential customer; no one knew that he wanted a Xerox machine or a computer until these became available. There may have been no want at all until business action created it—by innovation, by credit, by advertising, or by salesmanship. In every case, it is business action that creates the customer.

It is the customer who determines what a business is. It is the customer alone whose willingness to pay for a good or for a service converts economic resources into wealth, things into goods. What the business thinks it produces is not of first importance—especially not to the future of the business and to its success. The typical engineering definition of quality is something that is hard to do, is complicated, and costs a lot of money! But that isn't quality; it's incompetence. What the customer thinks he is buying, what he considers value, is decisive—it determines what a business is, what it produces, and whether it will prosper.

And what the customer buys and considers value is never a product. It is always utility, that is, what a product or service does for him. And what is value for the customer is, as we shall see (in Chapter 7), anything but obvious.

The customer is the foundation of a business and keeps it in existence. He alone gives employment. To supply the wants and needs of a consumer, society entrusts wealth-producing resources to the business enterprise.

Paul Valéry – Book review of Walras' « Éléments d'économie politique pure »

The third edition of Mr. Walras's book presents the author's theories in their complete form. Mr. Walras is among those who believe that the domain of mathematical analysis cannot be extended too far, and that the study of the phenomena of life and society is in no way inherently incompatible with purely quantitative methods.

The opponents of this tendency are generally unfamiliar with physico-mathematical theories or those of rational mechanics. They might see there that the application of analysis to phenomena depends above all on the ingenuity deployed by the founders of the exact sciences. Whatever the intrinsic value of Mr. Walras's results may be, we can only approve the direction of his work and highly appreciate the effort he has made, following Cournot, Gossen, and Jevons, to establish a mathematical Economics.

We could not provide here a summary of this work. By its very mathematical nature, it cannot be narrated or summarized. One may say of good mathematical works that the ratio of their form to their substance is constant.

Mr. Walras begins by extracting, from the tangle of social phenomena, those that will enable him to create an "economic space" — that is, a set of variables linked by purely quantitative relations, upon which one need only operate mathematically to discover the properties of their combinations and variations. It is on this indispensable starting point that criticism must concentrate its efforts.

We regret finding in it several paragraphs lacking in rigor and critical scrutiny, and an entire chapter (the second lesson) on the distinction between science, art, and morality, which shows us that Mr. Walras's analytical mind has not often ventured beyond the domain of pure economics.

We also regret not finding at the beginning of the volume — instead of a sketch of the theory of functions that is insufficient for mathematician and non-mathematician alike — a general idea of the physico-mathematical method, and above all a brief exposition of the theory of units. Every explanation is subject to the necessity of expressing an entire order of phenomena through the combinations of a limited and generally small number of carefully determined variable quantities. Thus, rational mechanics has the sole aim of reducing every problem it poses to an equation between time, space, and mass, and this restriction is obviously founded on the philosophical and logical nature of an explanation. Mr. Walras, for having neglected the exposition we speak of, for having passed over in near silence such important ideas as continuity and the generalization of the idea of measurement, was compelled to state his definition of value and price in a rather awkward manner. Even the remarkable equation of number 117:

$$x_1 + y_1 p^b + z_1 p^c + w_1 p^d = 0$$

which expresses that the sum of quantities offered and demanded at various prices is zero, is presented somewhat disadvantageously on account of the insufficiency of the surrounding context.

But all of this is merely a quarrel over form. The misfortune is that it appears to us to bear on the important portion of Mr. Walras's work — on the preliminary analysis of facts that must precede mathematical analysis. Once calculation can intervene, one may say that the difficulties are over, and there remains at last only the reading of the results, or their verification — that is, the comparison with reality of the new relations that algebraic operations bring to light.

Let us recall, finally, that speculations such as Mr. Walras's deserve more than any others to be encouraged. Beyond the special attraction they hold and the document they offer to the so fascinating history of the expansion of mathematics, they imply a true courage and a noble disdain for immediate success: let us not forget that mathematical economists are as rare as economical mathematicians, and that no one is kind to the founder of anything.

Paul Valéry

Dominique Michaut - The advantages of Yield Capitalism

Published in Economie Matin on October 27, 2016.

When it comes to placement in shares of capital, either the offer of capital gain or the return on placements prevails. Which is preferable?

According to mainstream doctrine, the ideal way to finance the development of an enterprise would be self-financing, which is now almost systematically presented as preferable to the distribution of profits. Paying out the bulk of the net gains for the year in the form of dividends, and then generally carrying out a capital increase in order to invest or even just to strengthen working capital, would be a more expensive, less practical solution, without systemic interest.

This opinion may have tax justifications. If the taxation of capital gains is less onerous than that of dividends, it is understandable that shareholders as well as the enterprise's managers and their advisors tend to favor self-financing as a means of increasing equity. And this impetus is accentuated if, as has been proposed in France, the rate of tax paid by enterprises on their profits becomes higher for the bracket that is distributed in dividends than for the one that is not. Let us therefore reason as if the legislator and the Ministry of Finance did not give in to the sirens that encourage elected officials and senior government officials to favor a biased vision of economic rationality through taxation. Reality dictates that capital gain capitalism concerns only a subset of commercial companies. Yield Capitalism is applicable to all enterprises, including all cooperatives and mutual societies with a commercial vocation. The general interest requires us to recognize the existence of two dynamics of equity financing for enterprises.

The constitution of reserves, in preference to the increase in capital, is certainly a more accommodating solution in the event of a subsequent reversal of fortune. The amputation of capital is an operation that involves more formalities than the clearance of a loss by drawing on reserves. But isn't a loss a serious circumstance, which deserves the full attention of shareholders, even if it is not worrying in the short term? It is not a question of advocating a kind of fundamentalism that excludes any constitution of reserves, in addition to those that are already compulsory. However, an elementary truth should no longer be as commonly ignored as it is. Any financial year that ends with a real loss, even a relatively small one, actually results in a decrease in the capital used, all reserves included.

In any case, it would be healthy for shareholders to have the choice between reinvesting their share of the profit in the same company, or in another, or using it for operations of a different nature (consumption, donations), it is their business and their civic responsibility. Well-treated shareholders are generally loyal, and if they are solicited they are happy to reinvest the amount of their dividends or more in the company that provided them with this source of income. But this new savings placement must be a truly free act, carried out in a personal way rather than decided en bloc by a board of directors and a general meeting. The motto of the French Republic includes, first of all, the word "liberty".

This freedom is very conducive to efficiency. Indeed, a significant amount of competition is required for the economy to function properly. It is therefore desirable that the capital

market be an open market, i.e. that Mrs. Smith be free to reinvest in company Y the coupon paid by company X. The systematic use of the reserve of most of the profit is an obstacle to this healthy competition.

The casino economy is a makeshift solution.

In addition, pension funds are major investors in equities. No one, except speculators who happen to be part of their management teams, has an interest in these investors being fickle shareholders, devoting an excessive part of their activity to selling and buying securities. A quarter of a century ago, liberal economists called for the development of pension funds because at that time they constituted stable shareholders, exerting the influence of "good fathers" on the enterprises in which they were shareholders. Today, the revenue period of their portfolio is around one year, with each share being sold on average twelve months after being purchased. Is this what we need for funded pensions? Certainly not!

The return constitutes a real income that provides the shareholder with the means to buy services and goods in exchange for those that his contributions have helped to produce. Through his own provision of services, the capital placement saver really acts as a producer, like the workers. The same is not true in the case of capital gains, which can be shown quite easily that they are not the creation of purchasing power, but transfers between agents who have had divergent expectations or who are subject to different constraints. The offer of return from the enterprise that is responsible for procuring it is honest in principle. The offer of added value is a prospect to be realized by a third party, which reduces it to the rank of promises that only commit those who believe in it. The transformation of our modernity into a vast gambling hall where we rely on capital gains to make a fortune makes us enter the future reluctantly.

In a sole proprietorship enterprise, it is in the owner's best interest to closely monitor the return on his placements in capital. Let's take a step back. Apart from the fact that a major asset of Yield Capitalism is that it is universal, the most conspicuous weakness of the priority given to capital gain to the detriment of yield is systemic. Economic analysis, of the type provided in this book, shows, in fact, that yield capitalism is structurally capable of full employment, whereas capital gain capitalism, which is necessarily exposed to very unequal capture, is not.

Paul Fabra - Capitalism with capital = employment

The original article from Pal Fabra is available here: Capitalisme avec capital = emplois | Les Echos

Paul Fabra - Published on July 2, 1993, at 01:01

To reverse the dramatic trend of deteriorating employment, the government has already announced numerous measures. Others will follow. Employers say they are ready to lend a hand. A promise has been made to significantly increase the number of young people in apprenticeships. There is every reason to expect important and—need it be specified?—eminently desirable results from this. However, better vocational training will only facilitate hiring on the condition that jobs are created. And that is an entirely different matter.

Providing the means to work for job seekers is the task of capitalism (see last Friday's column). Yet, the two sources of financing available to companies— equity on one side and borrowed funds on the other—form a total insufficient to ensure full employment. Their distribution is also inadequate. The share of the former is still not large enough relative to the latter. The growing wave of bankruptcies attests to this imbalance.

Among the causes behind the deficiency of capital, both in absolute and relative terms, the 'phynancial pump', as Father Ubu [267] would say, organized by the State, features prominently. Contrary to what finance ministers tirelessly repeat at each of their meetings (EC Council, G7, OECD, Monetary Fund, etc.), it is not savings that are lacking. On the contrary, savings are abundant and available. The influx of subscriptions to the major loan currently launched by the French state is further proof. But public savings are diverted from their purpose. Instead of naturally flowing into economically productive uses, the market, placed almost exclusively at the service of the State—through mutual funds (SICAVs) or otherwise—spares it the trouble of making difficult choices. The Treasury offers a rich palette of issues with attractive interest rates, towards which savings need only rush.

This is reason enough not to judge the success of the current operation solely on the criterion of the "confidence" it reveals. Success would only be complete on one condition at least. This new and massive levy is presented as an advance on privatizations; the government should consequently allocate a portion of its expected proceeds now to repay previously contracted loans obtained under more onerous conditions for the budget! This is a theme that Edouard Balladur has often, and judiciously, expressed (and implemented in 1986-1987): the most rational use that can be made of the sale of state industrial assets is public debt reduction. Listening to some government ministers and experts, the time for such orthodox scruples seems to have passed. Why? Because of the extreme severity of the crisis. Their belated discovery of it (simultaneously with the Forecasting Directorate!) pushes them to recommend spending all this money as quickly as possible. To this knee-jerk reaction, we respond thusly: the best prelude to the difficult but indispensable recapitalization of the private economy would be a start to cleaning up the public finances.

[267] Historical and satirical reference to Alfred Jarry's Ubu Roi.

Another factor has played a role in quietly draining the economy's funding sources. The forced-march boom of 1988 to 1990 resulted in a tremendous waste of capital. One need only consider the enormous resources squandered in real estate speculation and the construction of offices that remained empty! A further reason for the State to resist the temptation to launch public works programs, whose sole effect would be to provide momentary support. The imperative imposed by the brutal decline in activity is to patiently initiate a recovery process. Anything that even remotely resembles the opening of national workshops must be ruthlessly proscribed.

Loudly and clearly, employers' representatives argue that it is futile to expect a recovery without a boost in demand. Some of them are just short of demanding that the Balladur government draw inspiration, in its own way but draw inspiration nonetheless, from the policy implemented by the triumphant and blind left in the spring of 1981. Michel Giraud, the Minister of Labor, undoubtedly believes he is in step with the times by endorsing the simplistic idea of "sharing and reducing working hours." The Germans have, in recent years, taken the lead on this path. Timidly, they are now trying to reverse course.

To help industry, Chancellor Kohl and his finance minister are calling on unions to renounce the thirty-five-hour week. This seems a better defense against "relocations" than imposing new constraints on companies in the form of shortened hours. We return to the fundamental question: what is the point, while consumption is faltering, of seeking a way out of the crisis through action aimed not at stimulating demand, but at improving the production tool—technically, humanly, and, last but not least, financially, through recapitalization?

One of my Parisian correspondents, Dominique Michaut, a management specialist, writes:

> *An increase in the quantities demanded is not necessary to justify existing companies, and those being created, increasing their capital without reducing their debt in absolute terms. It is sufficient that an increase in the qualities offered, and a diversification of their varieties, be an element of competitiveness. There can be economic growth without an increase in the quantities produced. It is the value of production that counts." And he adds: "Offer managers a significantly increased ability to mobilize capital, and you will see that they will take advantage of it even if the economy is in a deep depression.*

By what means can this mobilization be increased?

Schematically, it would be appropriate to reorient the financial reforms of the last ten years—carried out under the guise of deregulation to serve the interests of the State and large companies, not forgetting those of high-flying raiders—in an economic direction. The Civil Code prohibits public calls for investment, except by express legal derogation. The reform consisted of generalizing this call. So be it. But both law and economics would gain greatly if measures were taken so that this extension resumes the principal form it had traditionally taken in liberal civilizations. The generalized public call for investment was modeled on the Treasury's calls to the public. Large companies were given the possibility to substitute bank credit with issues of commercial paper (the private sector equivalent of Treasury bills), while banks, instead of taking deposits, embarked on a large scale on an active management, so to speak, of their liabilities by issuing certificates of deposit on the

market. Simultaneously, the long-term bond market was entirely monopolized by the State to finance its deficit.

The fall in short-term rates should allow for a reorientation of Treasury borrowing towards closer maturities: nothing is more aberrant than 10 and 15-year issues, or even 25 and 30-year ones, to finance current public expenditures! Simultaneously, it would be appropriate to revive the private bond market, which has practically disappeared. Above all, corporate public calls for investment should once again be made primarily on the stock market. A start in this direction, which was thought to be promising, took place between 1985 and the stock market crash (due to the abuse of credit on an international scale) of October 1987. It was cut short. An indebted company quickly comes to subordinate all its decisions to covering its finance costs. The reduction of other recurring costs becomes an obsession. Layoffs go hand in hand with the de facto disappearance of long-term prospects.

Today, attention is exclusively focused on lowering interest rates. This is only a prerequisite, indispensable, but in itself very insufficient to healthily restart activity. The most important variable in a capitalist economy geared towards creating sustainable jobs is what is conventionally called "financial rate of return" (the adjective is probably superfluous), meaning the remuneration obtained by shareholders on their placements in capital. Dominique Michaut writes on this subject: "Instead of saying that the issue price of a share represents, for example, thirteen times the estimated earnings per share for 1993, it would be preferable to say that this estimated profit is equal to 7.7% of the issue price. Better still: the percentage that should be systematically published is that of distributed profits, avoir fiscal (tax credit) included, relative to the share value." Such a reversal of perspective presupposes a complete change of climate. Financial deregulation, as practiced, has surreptitiously confirmed debt as the norm. This is something we will have the opportunity to verify shortly.

Paul Fabra – The MEDEF Contradiction

The original article from Paul Fabra is available here: La contradiction du Medef - Les Echos

Paul Fabra - Published on February 2. 2007 at 01:01

In its best passages, the booklet entitled Besoin d'air ("In Need of Air"), which the Medef has published "under the direction of Laurence Parisot", also lets air in. It can help light the fire in a country that needs a little more light and warmth.

The proof is the accuracy of the definition it gives of its subject, which is the subject of us all: "The essence of the market economy is exchange. And, in the market economy, the essence of exchange is the labor of men." This apparently simple sentence rings like a break with a whole current of thought that poisoned the teaching of economics throughout the last century (nothing is more urgent than to be done with it once and for all!). In that current, economics is the art of managing "scarce resources", and the exchange value of economic goods (the "commodities") is determined by the intensity of the desire to possess them, and so on.

Laurence Parisot's formulation is almost philosophical in its simplicity (the "essence" of…). It points spontaneously to a conception that is much more modern, though older. Strictly speaking, the laws of the market apply to goods (and services) "reproducible at will, provided the necessary labor and capital are devoted to them". This definition, owed to David Ricardo, dates from 1817[268]. It heralded the developments of capitalism up to our own day and, evidently, beyond. It expressly rejected the overused concept of "scarcity". In reality, scarcity is nothing but a pseudo-scientific transposition of the myth of the lost paradise, in which man is condemned to labor after losing, through his own fault, the supposed original abundance. Scarcity belongs to a logic not of production and exchange, but of sharing out, and therefore of withdrawal into oneself.

The Medef's booklet is valuable because, without fear and without seeming to, it approaches the economic debate from above, and along the way it lays down a number of premises. It falls to us, if need be, to hold the employers' organization to them, should it happen to turn its back on them or fail to give them the place they deserve. For example, the definition of the enterprise given by the Mouvement des entreprises de France and its current head is not among the happiest. It states that "the very definition of the enterprise is to be an association for profit". Far more consonant is the definition proposed by one of my correspondents, Dominique Michaut. He sees in the enterprise a confluence of markets, that is, of exchanges. Profit is certainly found there at every level, but, as it should be, as a by-product necessarily included in the exchange[269].

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[268] Translator's note: Fabra paraphrases Ricardo. The original reads: "In speaking then of commodities, of their exchangeable value, and of the laws which regulate their relative prices, we mean always such commodities only as can be increased in quantity by the exertion of human industry, and on the production of which competition operates without restraint" (*On the Principles of Political Economy and Taxation*, 1817, ch. I, sect. I).

[269] In OPE, profit is a term of the exchange of the placement service, not a by-product of it (see propositions 6.1 and 6.4)

The booklet exposes us to a call to order in another way, and, where appropriate, the Medef runs the same risk itself. Its principal author shows an uncommon ability to denounce the faulty reasoning on which the “French exception” has too often relied. Two things stand out: on the one hand, the refusal stated from the outset (page 15) of “lines of thought that are satisfied with their own coherence”; on the other, by contrast, this magnificent declaration with Spinozist overtones: “We love reality.”

In particular, the question of “reality” arises with the perennial employers’ argument about the excess of “charges” weighing on production. The Medef orchestrates it, with apparently unchanged conviction, in a booklet that is otherwise so often innovative. As usual, taxes and social contributions are lumped together. Both are presented as charges “levied” on “production”. But is this amalgam legitimate? Another way of looking at things is to regard social contributions as an “input”, inherent in the act of production. A welcome recommendation of the Medef invites this interpretation. The employers rightly ask that the amount of the employer contribution appear on the payslip, next to the employee contribution, so that the wage-earner becomes fully aware of the complete “cost of labor”. By definition, this cost to the enterprise is, for the wage-earner, his complete wage.

But if some of the so-called employer contributions (in particular for health insurance) are abolished or lightened, may one not see in this an uncompensated cut in the wage? Admittedly, the operation should result, all other things being equal, in lower prices of commodities, and hence in some compensation of purchasing power. But that purchasing power will be drained, in turn, by the shift of the Social Security budget onto taxation. What the Medef recommends, without quite knowing it, is an economic engine running at reduced speed. By lowering the presumed “social charges”, the input will have been reduced. Yet its value was recovered through the very process of exchange. Henceforth, the same value will be raised by the tax levy. The impoverishment the Medef so dreads will necessarily follow.

What is true is that, over time, the gap (called the “tax wedge on labor”) has become too wide between what the wage-earner receives directly (his net wage) and what his employer pays in the double form of that wage and the associated social charges. But is this not due to the relative stagnation of wages over the past two, if not three, decades? To finance health expenditure that has, fortunately, risen sharply, Social Security has had to increase its percentage share of the complete wage. The Medef is right to judge this “wedge” excessive, but its solution is a solution only in appearance. With equal expenditure (the truth is that it will rise), lightening the charges results in a greater call on the taxpayer and greater State control.

The true solution lies in a freer economy that breathes better, as the title of the booklet excellently puts it. This requires a less stifling State, freed from all kinds of anti-economic constraints and expenditure (systematic welfare dependency, including handouts to enterprises such as employment premiums, is part of it), and therefore freed from debt. To get there, the employers have their part to play. They must bring themselves into line with the excellent principles they advocate.

Paul Fabra - Purchasing power and globalization

The original article from Paul Fabra is available here: Pouvoir d'achat et mondialisation | Les Echos

Paul Fabra - Published on May 16, 2008, at 01:01

The erosion of purchasing power continues to poison, in France, the political relations between the governing and the governed. This new national crisis is bound up with a degradation of the structures of capitalism that affects practically all the so-called "developed" countries. What is at stake is nothing less than their capacity to remain so.

On both shores of the Atlantic, the malaise dates back some twenty years. That is no small thing. Might its principal cause not be the conjunction of precariousness and the lack of any prospect of a significant rise in the pay slip? What if it were the capacity of enterprises to attract and retain a motivated and loyal workforce that had become deficient, owing to disproportionate financial constraints? For the first time in two centuries, apart from the Great Depression of the 1930s, the standard of living of the majority of the population appears compromised.

In an article published on 5 May by the "Financial Times," a famous Harvard professor goes as far as a former man of power (who could become one again) can go in criticizing what is the conceptual framework of his country's international policy — and also that of the European Union and Japan. Lawrence Summers writes: "In opposing (...) economic internationalism, workers are only expressing a belief that has gradually taken hold of them: that what is good for the world economy and the business that champions it is not necessarily good for wage-earners. Rational arguments are not lacking to justify this point of view."

Summers advocates far-reaching cooperation among the main States in matters of taxation, regulation, minimum labor standards, and so on. A program of good will. There remains the conclusion: "The decoupling between the interests of the business world and those of nations is perhaps inevitable; a decoupling between international economic policy and the interests of American workers is not." If the director-general of the WTO, Pascal Lamy, is to be believed, the Doha negotiations carry within them a dismantling of the obstacles to international trade four to five times more "efficient" than previous rounds. A peremptory reason to let them get lost in the sands?

The burning question is this: could the incomparable driving force that generalized free trade represents for economic growth — the dazzling progress of China, India and others is telling — be turning against the great commercial powers of the developed world that promoted it? Today as yesterday, the notion of "comparative advantage," derived from the work of David Ricardo (1772-1823), lies at the heart of the debate. It remains the only known justification for the universal liberalization of trade.

Confusion reigns around this subject in the business schools and among managers. One oscillates between the idea of economic war (the opposite of trade) and the myth of the best of all possible worlds. There is nothing like reflecting on the dynamics of comparative advantage (which it would be more apt to call "comparative disadvantage") to free oneself

from these contradictory fantasies. In the exchange economy (called the “market economy”), each transaction is an independent transaction. That is where one must begin. Whether the transaction in question takes place within a village market or within the planetary village changes nothing. Hence, in passing, the scandal constituted by the practice of securitization, brought to light by the contamination of “subprime” loans: a device designed to disseminate the effects of the original contract between a given lender and a given borrower is a lamentable one.

A simplified (“stylized”) example, famous in the history of economic thought, illustrates wonderfully the minuscule starting point of the dynamics of exchange. Here are two artisans facing each other. Both make shoes and hats. One is more gifted than the other at both tasks — but not in the same proportions. In a day he will make five hats to his competitor’s four (competitive advantage: +20%). For shoes the gap is wider: three pairs against two (competitive advantage: +33%). It is in their mutual interest that the artisan more “competitive” at everything specialize in making shoes (where he is at his best), and that the lagging artisan follow the same rule, confining himself to hats, where he too is at his best — without, however, coming close to matching his competitor’s performance.

The small community they form together thus draws on the work of all its members. Production (and hence income) is almost doubled compared with what it would be if the one “best” at everything remained alone in the field. And neither of the two is obliged, through taxation for instance, to assist the other in order to let him survive.

From this down-to-earth hypothesis Ricardo moved to another just as telling for us. He supposes that Portugal surpasses England in competitiveness both for the production of wine and for that of textiles. Yet each of the two countries will have an interest in specializing in the sector where it is at its best — Portugal in wine, the English in cloth — and in exchanging their products. Lo and behold: the modern theory of free trade was built on the idea that the more developed country is also the less competitive (in terms of labor productivity).

With admirable prescience, owing solely to the virtue of logic, Ricardo tells us that in this natural arrangement there are two losers: the English capitalists, who would earn far more if they moved capital and labor to Portugal; and the consumers of both countries. But it is quite clear that the fate of English consumers would be gravely compromised if industrial capital were to leave their country. Ricardo rejoices greatly that the English capitalists, through “man’s natural reluctance to leave the country of his birth” — in other words, through economic patriotism — renounce maximizing their profit. The theory of “perfectly free trade” he handed down to us excludes, by construction, the mobility of the factors of production.

Globalization is nothing other than the delayed — but limitless — revenge of the “capitalists.” For how long?

Paul Fabra - Equimanagement

The initial article from Paul Fabra is available here: Qu'est-ce que l'équimanagement ? | Les Echos. Comments from François Brunet are available here: Equimanagement | Les Echos. An English translation of the article is given below:

By Paul FABRA - Published June 23, 1995, 01:01

The dramatic mistake of the government and employers is to believe that, to reverse the trend of rising unemployment, one must keep spending ever more money. A decisive breakthrough could well come from a completely different approach. Could there be a latent divorce between the usual methods of business management and the functioning of the market? This seems to be suggested by an analysis based on well-known management concepts, to which is added a particular attention to a well-established market law, also long neglected. From such a reconciliation, increasingly tangible effects on employment should emerge.

Forged by an independent researcher, consultant, and IT professional, Dominique Michaut, the concept of equimanagement is both an investigative instrument and a practical tool. It highlights the hidden separation and proposes a logical remedy. The central idea is to reintroduce, at every stage—from defining price objectives to monitoring commercial policy—the dimension of prior investment (capitalization). The approach seems self-evident. It tackles nothing less than the most troubling paradox of the supposedly triumphant market economy.

Even today, the private enterprise is presented as the basic unit. Yet, almost imperceptibly, the accounting and conceptual apparatus guiding its leaders increasingly overlooks the enterprise's fundamental trait. Before being an organization or a production unit, it is itself a concentration of markets. Its first market occurs at the moment of its birth. The founding act coincides with the assembly of a certain stock of capital. Often, these contributions occur outside the stock market. This does not change the nature of the operation. Capital providers act in view of an exchange: in return for their initial investment, they expect an indefinite series of profits.

Once founded, the enterprise will hire wage-earners. Another exchange: in return for the services rendered through their work, the wage-earner receives compensation. Further exchanges occur with external suppliers: purchases of equipment, raw materials, or services of all kinds. Michaut rightly emphasizes one more point: the distinction between internal and external suppliers should not be pushed too far. From a strictly economic perspective, it is artificial, as evidenced by the rise of subcontracting. Yet it serves as a key criterion for defining the famous added value. This concept, often hastily considered modern, contributes in its own way to freezing practices, perpetuating a certain feudal and highly hierarchical conception of the firm.

Considered from the outset as a supplier, the wage-earner would cease to be defined—like in labor law—by their subordinate status. Where one least expects it, the market economy reveals its potential for legal and political liberation. Finally, the enterprise, already engaged upstream with capital, labor, and other supplier markets, discovers downstream its own market. With luck and much effort, it will find an outlet for its own products. This crucial aspect is almost exclusively the focus of managerial accounting.

In practice, managerial accounting only knows product flows (credited) and costs (debited). Profit is thus first conceived as a margin on sales flow. This risk relegating to a secondary position the infinitely more crucial and universally recognized concept for the enterprise: its return on capital, i.e., profit relative to invested capital. Partly responsible for

this drift—and the dangerously obsessive focus on sales flow, repeatedly denounced but continually resurfacing—is an increasingly poorly managed linkage. The growing divorce between, on one hand, the flows recorded in what was once called the operating account (now consolidated in the income statement) and, on the other, the patrimonial accounts—stocks—on the balance sheet, marks a real betrayal of the spirit of capitalism and its least imperfect expression: double-entry bookkeeping. Moving simultaneously and conspicuously both flow and patrimonial accounts was precisely the reason for its existence.

The explanation of this mutual isolation speaks volumes about the actually moribund character of liberal capitalist economics: commercial accounting is increasingly influenced by the concepts and modes of thought of national accounting. Historically, national accounting was created to serve the war economy. It still reflects this origin: supporting, with statistical approximation, the expedient interventionist measures of state dirigisme (centralized economy) substituted for the subtle mechanisms of the market. By nature, national accounting ignores patrimonial accounts. The underlying reason is that the public economy functions without capital.

Before returning to management, let us briefly consider the stock of capital in light of the renewed debate on payment terms in Brussels. Here is an opportunity to grasp the cause-and-effect relationship between insufficient equity on one hand, and on the other, the dysfunctions of today's economy, of which unemployment is the gravest. A thesis we have consistently defended in these columns. Equimanagement is its necessary extension.

As is well known, the Fifteen have once again failed to agree on a common regulation. In all countries, including Germany, where cash discipline is one of its great strengths, payment terms are lengthening. Any good management textbook provides the key. In his manual, Georges Depallens examines a company facing cash flow difficulties. It will first seek to reduce, as much as possible, the "work-in-progress" and "operating receivables" items or accelerate their revenue. In doing so, it frees up new liquidity. This exercise has its limits.

The solution is then to take the necessary steps to rebuild a "net working capital, through the use of new permanent capital." And he adds: "If this is not immediately possible, one should try to extend the payment terms granted by suppliers, either permanently or very temporarily through deferred deadlines (the latter being only an emergency solution…)." Today, many European companies, lacking sufficient capital, rely permanently on such emergency solutions. The average health of European capitalism remains deteriorating. The capital gap of companies cannot be measured directly. Payment delays provide an indirect measure. Insufficient working capital—excess of capital resources over fixed assets—likewise erodes companies' ability to maintain their workforce. Hence the importance, illustrated by these two examples, of any management method based on rational investment management and, more broadly, capital management.

The technical starting point of equimanagement is the problem of allocating common costs, a problem revisited countless times but never solved. Consider a company producing two products, P1 and P2. The manufacture of each involves direct costs. For indirect costs—those financing the company's general services—allocation is most often done using physical keys: proportion of units sold, square meters occupied, etc. All of this is arbitrary. Michaut proposes a solution that stands out from all others: it responds to an economic necessity.

The idea is to allocate common costs in proportion to direct investments. The company has devoted a certain percentage of its total assets to producing P1 and P2. Unfortunately, as we have seen, managerial accounting focuses almost entirely on flows and pays little attention to balance sheet assets. Filling this gap becomes imperative. The portion of common costs assigned to each product functions like a rent payment: each production center pays the parent company for the share of assets at its disposal.

Why this rule? Because it is the only one that does not distort the return on capital corresponding to each product sold. And this return—not the sales margin, which generally drives a company's pricing policy—is the decisive ratio. In short, managers must align in advance with the action expected from market competition: the tendency toward equalization of returns on capital across all companies. This will lead them to abandon the false principle of profit maximization. By adopting this method, the enterprise will best ensure its long-term growth (not to mention survival) and the interests of its various stakeholders: shareholders, wage-earners, and, last but not least, its customers.

Paul Fabra

Paul Fabra - The 20th century was the century of blocked ideas

Published on December 24, 1999 at 01:01

In an essay—somewhat hurried in form but worthy of attention—which he published five years after the fall of the Berlin Wall under the title The End of the Twentieth Century, the Hungarian-American historian John Lukacs wrote: “It took a long time, almost an entire century, for the appeal of communism to die and for that of Wilsonianism to fade; but that is not due to any inherent quality of these ideologies. If it took so long, it is because, contrary to what a superficial impression might suggest, the movement of ideas in this democratic century was extremely slow. As an illustration, consider the attitude of intellectuals everywhere in the world. They could not—or would not—correct, let alone abandon, their sympathies for Marxism, despite its increasingly obvious failures. This widespread reluctance to change one’s ideas is characteristic of this century, and not only in politics. Seventy years ago, not only Marx but Darwin, Freud, Picasso, Stravinsky, Einstein were regarded as the giants of our time. Fifty or sixty years later, the same names were cited, and this would still be the case today for most of them. Compare this static list with the shifts in perspective that occurred in the nineteenth century, reputed to be stupid and boring. What a difference between Goethe and Nietzsche, Scott and Wilde, Chateaubriand and Ibsen, Rossini and Debussy—not to mention Wagner!”

According to certain appearances, the closed world of economic thought may have escaped this fixation. The extraordinary multiplication in the number of economists attests to it only in appearance. One must ask whether it has not gone hand in hand with a tightening grip on knowledge that has become the attribute of a certain power or prestige.

Their controversies rarely concern points of doctrine. They are most often political in nature and framed in vague terms. The most clear-sighted of American economists, James Buchanan, believes that the United States has returned to mercantilism—always the enemy of liberalism. In short, the self-proclaimed triumph of the market economy has not been accompanied by any systematic and thorough reflection on the conditions for the proper functioning of a market economy.

The theories that have dominated discussion over the past twenty or twenty-five years have set the tone. Such is the case for the twin theories known as rational expectations and market efficiency. All fall under the philosophy of Dr. Pangloss and the best of all possible worlds. In other words, it is useless—indeed forbidden—to rack one’s brains to find anything else. The reference doctrine on which these new shoots have been grafted has remained untouched for more than a century.

Yet the gaps in the theoretical construction to which economists of all persuasions refer are gaping. Without our realizing it, they leave our economic and financial system—and ultimately our political and social system—exposed. Nonetheless, the movement of ideas remains largely bThese gaps, which are as many failures to explain what the key economic-financial notions on which society relies actually consist of, have ceased to be seen as problems. Thus, enterprises and their personnel—reduced to the rank of “resources”—are managed in the name of “value creation” without anyone knowing precisely what is meant

when one speaks of value. The vagueness here implies that we do not know precisely what a "price" is either. To what extent is the seller's profit added to the value (price) of the merchandise, or rather an inherent component of it?

On this fundamental point, modern theory is silent or very confused. It has remained bogged down in the work handed down by the economists of the last quarter of the nineteenth century. Léon Walras (his Elements of Pure Political Economy dates from 1874) is still the hero of neoliberals. These seem to have forgotten that, in life, Walras (1834–1910) was a socialist. To him, his famous construction of general equilibrium was an exercise without practical value, not a bible for guiding society! One may, moreover, entertain doubts about the model he proposed. Is the perfect market to which he refers actually competitive? The assumption may well be that supply is limited to a given quantity (no new entrants). Paul Valéry noted that the venerated economist had mis-posed his equations.

The fact remains that modern theory of capitalism—over a century old (and thereby already in rupture with the authentic founders, Adam Smith (1723–1790) and, above all, Ricardo (1772–1823))—has no theory of profit. It gets by with evasions. At times profit is a "residue" attributed to good managerial performance; at times it is seen as remuneration for risk. Are we to understand that if there were no risk, the shareholder who has placed capital at the disposal of the enterprise would have no right to anything? The direction in which the solution lies is clear. One should integrate the dynamics of profit into the general framework of exchange: in return for the contribution of capital, the shareholder is entitled to receive an indefinite flow of income. Of course, this exchange, spread out over time, is subject to the risk inherent in the uncertainty of the future. But it is an abuse of language—and a logical error—to see in this risk the foundation of profit. Reasoning on the basis of exchange would lead theorists to refocus their analysis of capitalism on capital. This is precisely what the "marginalist" school (of which Walras is, along with several Austrian economists, a leading figure) refuses to do.

This confusion of ideas and the refusal to change them have enormous consequences. Even today, EDF believes that it has enabled the French economy to take a major step toward a rational price system. For nearly forty years, electricity-pricing schedules in France have been calculated on the basis of marginal cost. The idea is that the price should be aligned as closely as possible with the price of the last kilowatt-hour supplied. Hence the price modulation depending on whether a firm—or an individual—uses electricity during peak hours, when the price is higher, or during off-peak hours, when it is lower. According to a similar principle, the SNCF has modulated its fares, notably on high-speed train lines. In this price modulation, the national enterprises are not only taking into account the higher cost of supply during peak periods. They are exploiting a psychological factor: at what price does the consumer "value" the advantage of traveling at the time that suits him (for example, at office-closing hours)? Surveys show that many people are willing to pay a significant premium for this. So why not take advantage of it? Such is the operation of a black-market economy. Such is the reasoning of marginalist economists: for them, the price of goods is a function of their "utility," subjectively estimated by the buyer. Nobel Prize 1991, Ronald Coase writes:

> *"I suspect that the idea of the maximization of utility by the consumer is a nonexistent entity that plays, in modern economic analysis, the role that the ether played in medieval physics."*

On a competitive market, the principle of reference is (or should be) very different. Whatever desire I may have to buy a good or service, I feel cheated if I pay more than "what it is worth." But for that to be the case, the market must operate on the basis of objectively (not subjectively) determined prices.

A rational price implies that the return on the capital employed is included in it, as, of course, is the share of fixed costs incurred. Yet this double condition is not satisfied. The first had been forgotten, and the second is unmet whenever the additional expenditure required to produce one kilowatt is lower than the average cost. The marginalist misunderstanding of profit meets the "public-sector" philosophy that long guided EDF. The principle was that of "budget neutrality": no deficit, but no profit either. The vast nuclear program was undertaken in order to re-establish, on paper, the equivalence between short-term marginal cost and long-term marginal cost—by which the great institution's theorists claimed to correct the anomaly of their system: the deficit resulting from a marginal price that did not cover average production cost. O the power of received ideas, held in perfect good faith!

Such good faith is not always present. There was indeed, in the middle of the century, an attempt to overturn received ideas and concepts. Its promoters themselves called it the "Keynesian revolution." Its prestige rested on a double heresy: it denied the existence of "natural mechanisms" capable of restoring full employment, and it held that this could be achieved only through public spending financed by deficit. In both cases, it flattered the ideological preferences of the intellectual left. It also flattered the expectations of the political class. The implicit Keynesian model is the war economy, which grants the state full powers.

PAUL FABRA

Paul Fabra - Destructive inequalities

The original article is available here: Des inégalités destructrices | Les Echos

By Paul FABRA

Published on Sept. 21, 2007 at 01:01

Must I confess that I never saw myself writing an article to denounce "inequalities"! Not that I ever denied their existence, but the phenomenon did not appear to me, in itself, as constituting an obstacle to the gradual and general rise in the standard and quality of life in the countries of Western Europe and North America. On the contrary, to a certain extent. It is normal that in a dynamic society where free enterprise is one of the most powerful and obvious drivers of economic progress, significant disparities in income and wealth arise; it is also normal, up to a point, that these are perpetuated through inheritance across generations. Finally, and most importantly, experience also shows (particularly in France and in certain Scandinavian countries held up as models) that the obsession with equality generates a diffuse social pressure contrary to the spirit of liberty.

However, the conditions under which this problem arises seem to have completely changed. Are we, in France, at the forefront (along with the United States) of crossing a threshold beyond which the appropriation by a small minority of an exorbitant share of the national income hinders the flourishing of society and curbs the improvement in the purchasing power of the great majority, an improvement observed throughout the history of capitalism? Has a gaping fissure opened in the system?

The most accessible synthesis—though one where a major gap remains unfilled—of the ongoing painful debate on purchasing power can undoubtedly be found in the publications of the 'Conseil de l'emploi, des revenus et de la cohésion sociale (CERC)'. This unit, composed of around twenty people, six of them full-time, is chaired by Jacques Delors (general rapporteur: Michel Dollé). The distinguished merit of the CERC reports, particularly its 7th report published at the end of 2006, is to make the scholarly work of INSEE (the French National Institute of Statistics and Economic Studies) readable for any citizen of good will and to draw clear and measured conclusions from it, although, alas, often dramatic ones.

The increase in wage disparities between manual workers (the expression is not the CERC's) and managers is a relatively new phenomenon in France. "*The main factor of inequality,*" says the CERC, "*is the duration of employment over the year.*" The alternation between periods of employment and periods of unemployment experienced by many wage-earners "*reduces their annual salary*" and "this reduction is not always mitigated by the 'deferred salary' that the unemployment benefit constitutes." Thus, wage-earners more or less condemned to intermittent work could receive an average earned income 11 or 18 times lower (depending on whether they are male or female) than that of a full-time worker. Jesus observed with satisfaction that the worker of the eleventh hour is paid as if he had worked all day. His needs are not changed by the duration of his work. A thesis that the great classical economists, Adam Smith (1728-1790) and his successor, David Ricardo, made their own.

A whole section of the presidential program on "professional social security" (a term coined by the CGT trade union, which is its true inspiration) comes close to this evangelical

vision. The loss of a job would be treated as an accident along the way during which the victim would lose practically none of their income. The main idea, or at least the one presented as such, is to provide adequate support for an active search for new work. Applied in a French context, doesn't such a system (also dubbed "flexicurity" in the Danish style) risk provoking a new and formidable escalation of widespread welfare dependency? The Sarkozy-style answer: we will change the context.

What is radically new is the disproportionate remuneration granted to a few thousand people: the mixed managers, both wage-earners and shareholders of the new capitalism: "*Whereas,*" writes the CERC, "*Rockefeller had once advocated in the United States that the salary of company executives should not exceed 40 times that of their workers,* ***the average salary of an American CEO rose from 85 times the average wage-earner's salary in 1990 to 500 times in 2000****. The trend has been similar in Europe, and particularly in France*".

The fundamental change in the situation originates from the sharp turn taken by the financial markets at the turn of the 1970s and 1980s. Traditionally, they were driven by the attraction of regular dividends increasing (at least in principle) at the pace of the concerned enterprise's development and the ambient economic growth. Today, they are driven by the frantically prepared expectation (through share buybacks, mergers and acquisitions, etc.) of capital gains. These capital gains are now equated with "value creation." In reality, they constitute a "voucher" for existing goods and services which they generally did nothing to produce! That said, the national accounts record them as capital gains, not as capital income.

Yet, it is precisely these capital gains that have allowed a small class in society to mobilize enormous purchasing power. This purchasing power has entirely escaped the sharing described by the national accounts of "value added" (the total income of economic activity, so to speak) between the two main claimants: the owners of capital and the wage-earners. INSEE and the CERC describe this sharing as stable over the long term, roughly 60% for wage-earners, 30% for enterprises (depreciation, interest payments, shareholder remuneration). If capital gains are taken into account, the "capitalists" receive significantly more, and this to the detriment of the former. The seesaw effect operates through the inflation of the purchase price and cost of renting housing.

Where do the, so to speak, supernumerary funds that caused the enormous real estate bubble (including, of course, in France) come from? Where does this major factor in the loss of purchasing power for many households and their forced migration away from workplaces come from? Financial capital gains are the origin. The irony of history is that we are becoming aware of it just as the bubble, hit by the credit crunch, threatens to deflate.

PAUL FABRA

Paul Fabra - The Dubious Morality of Triumphant Capitalism

The original article is available here: La morale douteuse du capitalisme triomphant | Les Echos

By Paul FABRA

Published 26 March 2004 – Updated 6 August 2019

In a recently published book from Albin Michel titled Is Capitalism Moral?, the philosopher and lecturer André Comte-Sponville develops a thesis that may be summarised as follows. Capitalism is in itself neither moral nor immoral; strictly speaking, it is amoral. One should not expect some alleged self-regulation to contain the inevitable encroachments of the market upon society as a whole, threatened as it is by the tyranny of the market.

Comte-Sponville also says this: just as biology will never be in a position to set any sort of limit to reproductive cloning applied to human beings, so economic science is unable either to delimit the field of the market (everything should not be for sale) or to determine the extent to which the market's law imposes its sole authority wherever it applies. Above the market stand democracy and the law: these are the authorities—Comte-Sponville, drawing on Blaise Pascal, prefers to speak of a "juridico-political order", after having dealt with the "economic-techno-scientific order"—that are competent in such matters.

Here I shall stop, although Comte-Sponville himself does not stop at this stage of his ascent through the "orders", the third being the moral order and above it (with a reference to Spinoza, as one would expect) the order of the ethics of love. His analogy with biology does not hold water. It rests on a completely mistaken—though unfortunately widespread—conception of "economic science" (the author does not once use the expression "political economy", which might have set him on the right path…). As a result, he loses his subject.

Biology, in fact, is not required to formulate a theory that would make human cloning admissible or inadmissible. It is not a human science. Its object is not human action. It is not so with political economy, even if it has been renamed "economic science". The proper object of this science has as its point of departure exchange, which is a "trans-action" between two co-exchangers. It is no surprise that, as it took shape, the discipline clarified which objects, on a market, must be involved in a transaction if it is to count as an exchange.

It fell to Ricardo (1771–1823) to establish that the laws of exchange applied strictly only to commodities—goods and services—reproducible virtually at will, provided that one is willing to devote to their production the quantity and quality of labour required. In our societies, almost all goods exchanged fall in fact into this category. Neither cars, nor software, nor tourist travel are, strictly speaking, "rare" goods or services. For such commodities, there exists a price regulator. Competition operates solely among producers. Its effect, to put it simply, is to bring the exchange-value (price) of the products offered toward their cost of production.

Because there exists an objectively calculable value, the model implies that each co-exchanger must "get his money's worth". It thereby produces honesty. It reduces price volatility—the principal source of purely speculative gains. The tragedy is that the market

for the products of labour, as a properly regulated domain, is no longer the supreme reference.

Theorists have been unceasing in their attempts to devise a general explanation that would account for exchange-value in all situations, including exchanges involving “rare” goods, that is, those not reproducible at will. Thus, through a few logical contortions that need not be detailed here (they concern the all-too-famous marginalist theory), “utility”—analysed as the desire to possess something—was made the universal and determining factor of value.

By itself, this new utility-based approach to the market economy offers no argument for excluding prostitution from it. The marginalists’ invention is a theory in which the black-market economy has ceased to appear as the absolute antithesis of a market economy (1). It legitimises the blackmail exerted by the possessor of the coveted good over the demanders, all of whom are bidders. The financial markets of our time proceed directly from this vision. The real issue in mergers and acquisitions is ignored. It is to shift competition from sellers to buyers.

Around 1925, this led to a new definition of the “economic problem”, formulated by the very liberal Lord Robbins in terms still taught today. The problem consists in deciding “between several possible uses, which one shall be chosen for the allocation of scarce resources”. But that is the definition of an administered economy! James Buchanan wrote in 1991 (The Economics and the Ethics of Constitutional Order): “This way of conceiving economics breeds confusion and misunderstanding because it focuses attention on scarcity, alternative choice, and value maximization. My argument is that economic thinking, as a social science, must start from exchange in order gradually to encompass all the complexities of the contracts of our time.”

As for the supposed maximisation of utility by the consumer—the keystone of the new construction, imagined 130 years ago (a myth underpinning the pricing of electricity and of rail and air transport!)—it appears, in the eyes of another Nobel laureate, Ronald Coase, in his book The Firm, the Market and the Law (1988), as *a “non-existent entity that plays a role similar to that played by the ether in medieval physics”*.

A regenerated political economy—after a return to its sources—would be well equipped, contrary to what Comte-Sponville maintains, to determine in principle the field of application of the laws of exchange. It would then fall to political authority (here the philosopher is right) to delineate its boundaries.

PAUL FABRA

OPE and Sraffa: a classical price structure rooted in exchange rather than in production

Piero Sraffa (1898–1983) edited, with Maurice Dobb, *The Works and Correspondence of David Ricardo* (Cambridge University Press, 1951–1973), the edition from which several of Paul Fabra's quotations of Ricardo are taken. In 1960 he published *Production of Commodities by Means of Commodities*: *Prelude to a Critique of Economic Theory*. With his 1926 article "The Laws of Returns under Competitive Conditions", this book is the most rigorous twentieth-century return to the classical approach to value and distribution outside both Marxism and marginalism. It is therefore the closest external point of comparison for the OPE. This appendix records where the two constructions agree, where they diverge, and what Paul Fabra wrote about Sraffa; the footnotes of Part II give the detail at each proposition concerned.

Shared classical ground. Seven points align the two constructions.

Alignment 1 — No subjective determinant of the prices of reproducible commodities. Both exclude utility, demand and consumption from price determination (Proposition 1.5; Sraffa, Preface).

Alignment 2 — Circularity. Commodities are produced by means of commodities (Proposition 2.14 and the title of Sraffa's book).

Alignment 3 — The same partition of what prices the system determines. Prices of production concern commodities reproducible at will; natural resources are not commodities and yield a rent (Propositions 2.8 and 2.19; Sraffa, ch. XI).

Alignment 4 — A uniform rate as the condition of normal prices. Sufficient prices equalize the direct rates of return of the same systemic level; Sraffa's prices of production carry one uniform rate of profits, on means of production valued at current prices (Propositions 11.9 and 11.11; Sraffa, ch. II).

Alignment 5 — Distribution closed by the rate on placements. Total labor income is the remainder once total placement income is formed; for Sraffa, the rate of profits can be given before prices, and the wage is the residue (Proposition 8.4; Sraffa, §44).

Alignment 6 — The same linear structure of distribution. TLI / TI = 1 – ROP / PP has the form of w = 1 – r / R, with PP in the position of the Standard ratio R and P'TI in that of the profit share r / R (Proposition 8.10; Sraffa, §30).

Alignment 7 — An inverse relation between the two kinds of income at the scale of the whole economy. More placement income makes less labor income at the macronomic scale (Proposition 8.1); Sraffa's wage and rate of profits move inversely for the whole system. The Objective Political Economy adds that this inverse relation is false at the mesonomic scale of the enterprise (Proposition 8.4).

Divergent ontologies. Seven points separate them, and the first one governs the others.

Divergence 1 — The root of the ontology: exchange versus production. Sraffa's root object is a physical system of industries under a given technique, producing a surplus. The root of

the OPE is economic exchange (Proposition 1.2): a commodity is a supply offered for sale (Proposition 2.9), services and placements are commodities, and producing, as such, is not an economic act (Proposition 1.5).

Divergence 2 — Labor. In Sraffa, labor is a physical quantity and the wage a share of the annual product paid post factum (§9). In the Objective Political Economy, labor as an expenditure of energy is not a commodity and the product of labor is the primary commodity, purchased by every enterprise; the wage is a cost and part of the exploited capital serves as a wage fund (Propositions 2.2, 2.3 and 6.6).

Divergence 3 — Profit and capital. Sraffa's r is a rate on the value of the means of production, with no financing structure behind it. In the Objective Political Economy, profit is the distributed earnings that remunerate a placement in capital, distinct from interest, which remunerates a placement in credit; Sraffa's r belongs to the family of rates of return on investment, not to that of rates of profit on capital (Propositions 6.1, 6.7 and 8.6).

Divergence 4 — The direction between profit and interest. Sraffa suggests that money rates of interest determine the rate of profits (§44). The Objective Political Economy makes the national average rate of profit on capital the director of interest rates (chapter 10), as Ricardo and Fabra do.

Divergence 5 — Scale and status of the equalization. Sraffa posits a uniform rate between industries. The Objective Political Economy states a law of tendency, enforced by competition and observable through the RPP' relation, at every same systemic level down to the product (Propositions 11.8 and 11.9).

Divergence 6 — The measure of value. Sraffa constructs the Standard commodity as an invariable measure. The Objective Political Economy requires none: all prices have in common only that they are exchange values, and money measures them as an empirical instrument (Propositions 11.12 and 12.1).

Divergence 7 — Statics versus normative dynamics. Sraffa's system assumes no change in output and no change in technique. The Objective Political Economy is explicitly normative and dynamic: the EPCE relation, the trends of ROP, PP and P'TI, and the economic policy guidelines of Part III (Propositions 7.6, 8.11 to 8.14).

Paul Fabra's position. Fabra discusses Sraffa explicitly in *Capital for Profit* (Rowman & Littlefield, 1991): in the Introduction (p. xxii) and in chapter 12 (pp. 315–316), on the 1926 article, whose critique of diminishing returns he judges decisive but incomplete; in the notes of chapters 3 and 4 (pp. 77 and 130), on Sraffa's edition of Ricardo and on the intuition, implicit in Sraffa's title, that labor as such does not enter the circuit of exchange; in chapters 9 (n. 6) and 11, on the Standard commodity; and in a closing appendix, "Notes on Piero Sraffa's 'Prelude'" (pp. 335–338). His verdict is twofold. Sraffa's book is "the point of departure for a return (as yet incomplete) to the classical approach", because it restates profit and price in terms of cost of production, with no reference to marginalist analysis. Sraffa nevertheless remains at the prelude of the critique: he keeps part of the Marxist vocabulary (labor "contained" or "embodied" in commodities, deficit and surplus industries), measures value by a quantity of labor commanded, lets the money rate of interest determine the rate of profit, and does not put profit back into the general

mechanism of exchange. Fabra's 2009 book, *Le capitalisme sans capital*, does not mention Sraffa.

Synthesis. The Objective Political Economy and Sraffa share the classical structure of prices: reproducible commodities, a uniform rate as the condition of normal prices, a distribution closed by the rate on placements, and a linear relation between labor income and that rate. They differ in the root of the ontology. Sraffa builds this structure on physical production and leaves exchange, financing and the determination of the rate outside his system. The OPE builds it on economic exchange, defines profit as the price of the placement service in capital, distinguishes it from interest, and supplies the theory of the normal rate that Sraffa's system leaves open.

For the ontological formalization, two results follow. The macronomic RPP' relation and Sraffa's Standard relation form a structural correspondence worth stating and proving. The concepts without a Sraffian counterpart (commodity as a supply offered for sale, primary commodity, placement in capital and in credit, scarce commodities, same systemic level) mark what the OPE adds to the classical price structure.

Objective Political Economy	Sraffa (1960)	Relation
Composite commodity, produced by means of the purchase of other commodities (Prop. 2.14)	Commodity produced by means of commodities (title; Appendix D)	Aligned on circularity; circularity through exchange versus through technique
Labor as expenditure of energy, not a commodity; product of labor as primary commodity (Props 2.2, 2.3)	Physical quantity of labor; wage paid post factum (§9)	Divergent
Natural resources are not commodities (Prop. 2.8)	Non-produced means of production yielding a rent (ch. XI)	Aligned
Scarce commodities, priced by sale to the highest bidder (Prop. 2.19)	No counterpart	Present in OPE only
Equalization of direct rates of return of the same systemic level (Props 11.8, 11.9)	Uniform rate of profits r between industries (ch. II)	Aligned structure; divergent scale and status
Sufficient prices (Prop. 11.11)	Prices of production	Aligned
Placement productivity PP = TI / PS (Props 8.7, 8.12)	Standard ratio R (ch. IV)	Formal analogue
Total income profitability P'TI = TPI / TI (Prop. 8.13)	Share of profits r / R	Formal analogue
TLI / TI = 1 – ROP / PP (Prop. 8.10)	w = 1 – r / R (§30)	Same form; accounting identity in money versus physical relation in the Standard commodity
TLI as remainder once TPI is formed (Prop. 8.4)	Rate of profits as independent variable (§44)	Aligned closure
NARP as director of interest rates (ch. 10)	Rate of profits determined by money rates of interest (§44)	Opposed direction
Profit: distributed earnings remunerating a placement in capital (Prop. 6.1)	Rate of profits on the value of the means of production (ch. II)	Different objects

Objective Political Economy	Sraffa (1960)	Relation
Money as empirical instrument of measure; prices have only exchange value in common (Props 11.12, 12.1)	Standard commodity as invariable measure (ch. IV)	Divergent
Depreciation distinct from rate of return (Prop. 11.7)	Fixed capital as joint product (ch. X)	Divergent (with Fabra)

Cost of capital, CAPEX and OPEX: the position of the OPE

Corporate finance and management accounting rest on three notions that the OPE does not admit as they are stated: capital expenditure (CAPEX), operating expenditure (OPEX) and the cost of capital. This appendix traces where each notion comes from, states what the OPE retains of it, and states what it rejects. Four sections follow the order of the doctrines; a synthesis closes the appendix. The propositions of Part II refer to these sections in footnotes.

The position in four statements. The four statements below govern the whole appendix.

Statement 1 — A price and a cost. The remuneration of a placement in capital is a price for the saver who supplies the service of placement, and a cost for the enterprise that buys this service (2.24). It enters the truly complete cost price, as the share of earnings that the target rate of return requires (11.10).

Statement 2 — Never an expense. The enterprise settles this cost by an allocation of its earnings, portion P (6.3), after the period and only when there are earnings. It belongs to no subtype of expense. Standard accounting states the same rule: distributions to holders of equity claims are not expenses (IASB, Conceptual Framework for Financial Reporting, 2018, § 4.69–4.70).

Statement 3 — A price formed in exchange. Its level is a price formed in exchange. Its reference is the sufficient level of the national average rate of profit, NARP (7.8, 10.3). It is neither the opportunity cost of the saver nor a risk premium.

Statement 4 — Two prices of two opposite placements. Interest is the price paid for the provision of credit and an expense of the borrower (10.1). Profit is the price of the service of placement in capital and an allocation of earnings (6.1, 6.3). Credit and capital are opposites in many respects (5.5): no single rate can average their prices.

1. Ricardo and Marx: profit as a remainder, profit as spoliation

Doctrine. In chapter 6 of his Principles of Political Economy and Taxation (3rd edition, 1821), Ricardo makes profits vary inversely with wages: they are "high or low in proportion as wages were low or high". Profit is what remains of the produce, on the land that pays no rent, once wages are paid. Its natural tendency is to fall, because of the diminishing returns of land. Profit is nonetheless the motive of accumulation: "the farmer and manufacturer can no more live without profit, than the labourer without wages". Ricardo's moral charge falls on landlords, not on the owners of capital.

From the labor theory of value, Thomas Hodgskin (Labour Defended against the Claims of Capital, 1825) draws the right of labor to its whole produce. Marx completes the argument in the Theories of Surplus Value (1861–1863, chapter 16): Ricardo wrongly identified surplus value with profit; profit is a form of surplus value, that is, of unpaid labor. Within this subtype of doctrine, the remuneration of capital is a deduction from the product of labor.

What the OPE retains. The classical objectivity of prices. Profit as an objective necessity (6.4). The tendency towards the equalization of rates of return between sectors, pointed out by Smith, Say, Ricardo and Marx, which the OPE extends down to the direct rates of return of the same systemic level (11.9, 11.11). An inverse relation between the two kinds of

income, at the macronomic scale only: total labor income is what remains of total income once total placement income has been formed (8.4).

What it rejects. Profit as a remainder: earnings and profits are not mere remainders; in forecasting, they are objectives (6.3). The order of the Ricardian relation is reversed: in the OPE, the price of capital is formed first and the remainder is total labor income (2.24, 8.4). The premise of spoliation falls with its foundation: labor as an expenditure of human energy is not a commodity (2.2), and the placement in capital is itself a service bought by the enterprise (2.24). Profit remunerates this service; it appropriates no product of labor.

2. Fisher, opportunity cost and Marshall: the capital charge

Doctrine. The doctrine of opportunity cost (Wieser, 1876–1889; Green, 1894; Davenport, 1908; Knight, 1921) defines the cost of a use as the best alternative forgone. Irving Fisher (*The Rate of Interest*, 1907; *The Theory of Interest*, 1930) defines the value of capital as the present value of expected income, and interest as an index of the preference for the present. Marshall (Principles of Economics, 1890, book II, chapter 4, § 2) defines the "earnings of undertaking or management" as what remains of profits once interest on capital at the current rate has been deducted.

Combined, these three doctrines yield the notion that the funds of shareholders cost the enterprise what the shareholders forgo elsewhere. Marshall's deduction is the ancestor of residual income, of economic profit and of the capital charge of EVA (section 4).

What the OPE retains. The comparison of the rate of profit with the rate of interest, both treated as prices. The publication of standardized rates of profit on capital, symmetrical to the annual percentage rate of charge of a credit (6.6), makes this comparison possible for every saver.

What it rejects. First, the point of view. The opportunity cost belongs to the saver: the absence of profit is a loss of income for the saver, and not in itself a loss (6.2). The cost of capital carries this opportunity cost of the saver into the cost structure of the enterprise. Second, the determination: a preference for the present, estimated subjectively, takes the place of a price formed in exchange (Statement 3). Third, Marshall's deduction of interest from profit treats the two remunerations as homogeneous quantities, whereas one is the price of credit and the other the price of placement in capital (5.5).

3. Durand and Modigliani–Miller: debt and equity made interchangeable

Doctrine. David Durand (Costs of Debt and Equity Funds for Business, NBER, 1952) sets out the two methods of valuing a firm, net income and net operating income, and treats mixed financing as a problem of joint costs. Franco Modigliani and Merton Miller (The Cost of Capital, Corporation Finance and the Theory of Investment, *American Economic Review*, 1958) settle the question under the assumption of perfect capital markets.

Their Proposition I: the market value of a firm is independent of its capital structure, and so is its average cost of capital (p. 268). Their Proposition II: the expected yield of a share rises linearly with the debt-to-equity ratio (p. 271). Their Proposition III: the cut-off rate for

investment is the capitalization rate of the class of firms, whatever the security issued to finance it (p. 288). Bonds and shares are claims on one and the same stream of operating income, and home-made leverage (p. 270) makes debt and equity interchangeable for the investor.

What the OPE retains. The theorem as a reference point: it states exactly what the OPE denies, and under which assumptions.

What it rejects. The interchangeability of credit and capital. Credit carries a repayment term, provides a receivable and earns a price fixed at the outset; capital carries no repayment term, provides ownership or co-ownership and earns a share of earnings that varies with results (5.5). A capital increase is a lasting contribution to production capacity; a loan is a temporary one (5.5). The equity ratio of an enterprise matters more than the amount of its capital (5.6): it is precisely the variable that Proposition I declares irrelevant. At the macronomic scale, the national average equity ratio, NAER, is a variable of economic policy (10.2), and the EPCE feedback runs through the national stock of capital, not through the stock of credit (7.1 to 7.6). Finally, the theorem values the firm at its market value, which places capital gains at the center; the Objective Political Economy measures the rate of return on equity (6.6, 6.7), the measure proper to yield capitalism.

4. CAPM, WACC and EVA; the accounting standard

Doctrine. The capital asset pricing model (CAPM; Sharpe, 1964; Lintner, 1965; Mossin, 1966) sets the required return on a share at the risk-free rate plus β times the market risk premium. The weighted average cost of capital (WACC) averages this cost of equity with the after-tax cost of debt, weighted by their market values. Economic value added (EVA; Stern Stewart; Stewart, *The Quest for Value*, 1991) deducts from net operating profit after tax a "capital charge" equal to WACC times capital employed; it descends from Marshall's residual (section 2).

The accounting standard takes the opposite side. The Conceptual Framework for Financial Reporting of the IASB (2018) defines expenses as decreases in assets, or increases in liabilities, that result in decreases in equity, other than those relating to distributions to holders of equity claims (§ 4.69). It follows that distributions to holders of equity claims are not expenses (§ 4.70). Treating the remuneration of equity as a cost to be deducted is therefore a construction of corporate finance, not an accounting practice.

What the OPE retains. The accounting standard, which it confirms (Statement 2). The rate of return on capital as the decisive ratio of management (8.6), which equimanagement extends to every enterprise within the enterprise (see the appendix Paul Fabra – Equimanagement).

What it rejects. Three operations. (a) Profit as a risk premium. In *Capital for Profit* (1991, chapter 6, p. 172), Paul Fabra treats profit as only secondarily the "recompense of risk". The asymmetry that matters lies in losses: a loss reduces the stock of capital, and only a new placement can erase it (6.2). (b) The average of two opposite prices in a single rate, the WACC (Statement 4). (c) The deduction of the remuneration of capital as if it were an expense, in order to measure a "creation of value": it contradicts both the accounting

standard and Proposition 6.3. Market-value weights complete the shift towards capital gain capitalism.

Paul Fabra's position. In *Le capitalisme sans capital* (2009, pp. 49–50), Fabra writes that funds contributed in capital "cost nothing" to the enterprise, and that profit can in no case be called a cost. The statement is exact in the accounting sense: profit is no expense. The Objective Political Economy does not retain it in the economic sense: the remuneration of capital is a cost for the enterprise that buys the service of placement (Statement 1).

5. Synthesis: CAPEX, OPEX and the cost of capital in the taxonomy of the Objective Political Economy

The taxonomy of expenditure. Expenditure is the root type; it is partitioned, exhaustively and exclusively, into expense and investment (4.5, 4.7). An investment increases the stock of assets of the entity; an expense is a flow that increases no stock. The subtypes of investment are equipment, tangible or intangible, and placements held. The subtypes of expense are operating expenditures, depreciation, and finance costs, interest included (10.1). In an enterprise, the depreciation of equipment is an expense; in other entities, the relevant expense is debt amortization (4.7). Profit is a subtype of neither branch: it is an allocation of earnings, portion P (6.3).

CAPEX and OPEX. CAPEX corresponds to equipment expenditure, a subtype of investment; OPEX corresponds to operating expenditure, a subtype of expense. Three differences remain. The criterion of the Objective Political Economy is ontological, stock versus flow (4.2); the one-year threshold of practice is a bookkeeping convenience. CAPEX omits placements held, which are investments too (4.5). "Capital expenditure" uses capital in the sense of a fixed asset, whereas Proposition 5.1 reserves the term capital for permanent financing provided directly by savers: equipment expenditure is the term of the OPE, and CAPEX and OPEX remain external vocabulary.

Cross-reading. The table below sets each doctrine against the confusion it carries and the notion of the Objective Political Economy that resolves it.

Doctrine	Confusion	Concept of the OPE
Ricardo (1821)	Profit as the remainder of the produce once wages are paid	Earnings and profit as objectives; total labor income as the macronomic remainder (6.3, 8.4)
Hodgskin, Marx	Profit as unpaid labor	Labor is not a commodity (2.2); placement in capital is a service bought by the enterprise (2.24)
Opportunity cost, Fisher	The saver's forgone alternative carried into the enterprise's costs	Absence of profit: a loss of income for the saver, not a loss (6.2); price formed in exchange, NARP (7.8)
Marshall (1890)	Interest deducted from profit as a homogeneous quantity	Credit and capital are opposites (5.5); interest is an expense (10.1), profit an allocation of earnings (6.3)
Durand, Modigliani–Miller	Debt and equity interchangeable; capital structure irrelevant	Equity ratio decisive (5.6); NAER as a variable of economic policy (10.2)

Doctrine	Confusion	Concept of the OPE
CAPM	Profit as a risk premium	Profit remunerates the service of placement; losses are asymmetric (6.2)
WACC	One average of two opposite prices	Two prices for two opposite placements (5.5, 10.1, 6.1)
EVA	Capital charge deducted as if it were an expense	Profit is no expense (6.3; IASB 2018, § 4.70); truly complete cost price derived from the target rate of return (11.10)
CAPEX / OPEX	Conventional capitalization rule; capital used for assets	Expenditure = Expense + Investment (4.5, 4.7); capital reserved for financing (5.1)

Unified thesis. Each doctrine reviewed here treats the remuneration of placement in capital either as a remainder (Ricardo, Marx, Marshall) or as a cost of the same kind as interest, and hence as an expense (opportunity cost, Modigliani–Miller, CAPM, WACC, EVA). The OPE treats it as a price: formed in exchange, borne by the enterprise as a cost, and settled by an allocation of earnings.

Consequences for management accounting. The income statement standardized by the IASB needs no change. Management accounting budgets earnings as an objective derived from a target rate of return close to the NARP, and derives truly complete cost prices from it (11.10). Measures of a residual "value created" give way to the direct rates of return of the same systemic level, and to sufficient prices (11.11).

Macronomic consequences. Total placement income is formed first, at a sufficient level, and total labor income is the remainder (8.4). The growth of the national stock of capital, not that of the stock of credit, governs the growth of the stock of employment (7.1 to 7.6). A doctrine that makes debt and equity interchangeable, and that weights them at market values, pulls the national average equity ratio down and favors capital gain capitalism over yield capitalism (10.2).

Glossary

Centralism

The concentration of the greatest possible number of means of decision and control into the smallest number of organizational entities.

Economic Liberalism

Economic Liberalism, also called, Free-Market Capitalism, is the application of the general rule of private enterprise ownership under the constraint—established by the legislature and upheld by other market authorities—of sufficient competition to ensure price regulation, and more broadly, the comparability of market offerings.

Economic liberalism neither confuses the social with the economic—the individual with the merchant, the state with the enterprise—nor opposes them, as if the economy were amoral and its injustices could be corrected by the state alone.

As with political liberalism, the opposite of economic liberalism is centralism.

Economism

Economism is the interpretive framework that privileges economic methodologies and theories above all others in explaining human behavior. More precisely, within the framework of onto-political-economics, economism manifests as:

- The subordination of social life to the imperatives of production relations and commodity exchange — a configuration that echoes Marx's fundamental thesis on the social constitution of value.
- The reduction of all human agency to a utilitarian calculus of maximizing pleasure and minimizing pain—a premise rooted in the neoclassical tradition, from Jevons onward.

Through a boundless extension of the field of economics, economism strips the science of economics of its specific object. Economism is to economic science and policy what scientism is to science and moralism is to morality.

Expenditure

Expenditure (*dépense*) is the root type of every outlay an entity commits. It partitions into two exhaustive and exclusive subtypes (Propositions 4.5, 4.7 and 7.9): an expense (*charge*) is a flow recorded in the income statement and increases no stock of assets; an investment (*investissement*) increases the stock of assets the entity owns, its subtypes being equipment and placements held. Operating expenditure is a subtype of expense; equipment expenditure is a subtype of investment.

Equipment depreciation is an expense in enterprise accounts only. Outside the enterprise, debt amortization — interest and principal repayments — is the expense, and equipment depreciation stays out of the income statement. Profit is neither an expense nor an expenditure: it is an allocation of earnings (portion P, Proposition 6.3), made in exchange for the service of placement in capital.

The external labels CAPEX and OPEX map onto equipment expenditure and operating expenditure. The corpus does not adopt capital expenditure, because capital is reserved for the permanent financing provided directly by savers (Proposition 5.1).

See: investment, placement, capital, earnings.

Natural resources

One of the three elementary means of all human production, alongside accumulated knowledge and new labor (Proposition 2.7). A natural resource is not in itself a commodity, nor an economic object: it acquires economic exchange value only through the addition of new labor, even if only that of gathering (Proposition 2.8; Fabra, *Le capitalisme sans capital*, Prologue: "resources are supplied not by nature, but by labor").

Nature as such never creates Value (Fabra, Capital for profit, §132-8, against the Physiocrats). Should natural resources require labor to remain usable — as when air or water must be purified — they enter the category of economic goods, but this represents an

impoverishment, not an enrichment: wealth pertains to the enjoyment of goods at one's disposal, not to the possession of value (Fabra, *Capital for profit*, §253).

Three phenomena commonly but improperly grouped under "scarcity" must be distinguished: (1) the depletion of natural resources through indiscriminate use ("usurped growth"), where the cost of maintaining natural resources is omitted from production costs; (2) the illusion of scarcity produced by inflation and speculation on commodity futures; (3) the genuine economic scarcity of non-reproducible goods (Fabra, *Capital for profit*, §258; *Le capitalisme sans capital*, Prologue).

The question of whether natural resources are public goods is therefore misconceived: economic patrimony consists exclusively of economic objects, and no elementary means of production qualifies as such on its own (Proposition 2.8, point 6). Natural resources may, however, *engender* scarce commodities — land, mineral deposits, and fossil fuels, once put up for sale, become scarce commodities whose prices are determined by auction, not by cost of production (Proposition 2.19). Political economy neither prescribes nor condemns the market for non-reproducible goods; it merely ceases to justify it scientifically, leaving the choice to society (Fabra, *Capital for profit*, §208).

See: *commodity*, *elementary means of production*, *new labor*, *scarce commodity*, *economic scarcity*, *economism*.

Taxpayer

Objective Political Economy distinguishes two roles that tax law merges. An ultimate taxpayer is a person who bears a tax: an individual or a private non-commercial association (3.5). An enterprise is not a taxpayer in its own right: the law obliges it to pay taxes, or to collect and remit them, but their economic incidence falls sooner or later on ultimate taxpayers, chiefly through its selling prices (3.5, 7.6). The distinction is that of public economics between statutory incidence (who is legally liable for paying a tax) and economic incidence (who bears it). Treating enterprises as taxpayers in their own right is a fiction; Guideline 7 draws its fiscal consequences.

French – English terminology mapping

French	English	Rationale
1. Capital, placement and investment		
capital	**capital**	Identity rendering. The meaning is fixed by the corpus, not by the word: proposition 5.1 reserves *capital* for permanent financing supplied directly to an enterprise by one or more savers (individuals, families, foundations, non-commercial associations). This univocal definition makes *capital* a root concept from which *credit* is defined by complement (any financing other than a contribution in capital or quasi-capital).
quasi-capital	**quasi-capital**	Kept as a coinage. Proposition 5.4 defines it as permanent enterprise financing that does not come directly from a saver: shares held by institutional investors, by any enterprise, or by public authorities. The Latin prefix *quasi-* is productive in English and marks the subtype relation precisely: quasi-capital shares the permanence of capital but lacks its defining origin (a saver).
capital social	**share capital**	Standard English accounting and company-law term. *Social capital* is a false friend: in English it denotes the sociological concept (networks, trust), which has no place in the corpus.
capitaux propres / capital exploité	**equity**	*Capital exploité* is share capital including reserves and retained earnings (report à nouveau): the base of BVPS. *Equity* is the accounting term for exactly this balance-sheet aggregate, and Fabra uses *equity capital* in the same sense (*Capital for Profit*, p. 140, 170). The term is deliberately distinct from market capitalization, which may diverge from equity for listed shares.

French	English	Rationale
placement	**placement (never “investment”)**	The corpus partitions two concepts that English usually merges under *investment*: the saver's act of committing savings to a financing mode (*placement*) and the entity's expenditure that increases its assets (*investissement*). Keeping the loanword *placement* preserves this partition. Fabra poses the distinction conceptually (*Capital for Profit*, p. 120, 214) without lexicalizing it; the Précis lexicalizes it. The audit of 31 Aug 2026 corrected some 61 occurrences where *investment* had replaced *placement*.
placement en capital	**placement in capital**	Subtype of *placement*. The preposition *in* names the financing mode into which savings are placed. Proposition 5.5 sets capital and credit as contraries: no repayment term, co-ownership of the enterprise, and income drawn from its earnings.
placement en crédit	**placement in credit**	Sister subtype of *placement in capital*. It carries a repayment term or repayability at any time, confers ownership of a receivable only, and is remunerated by interest. The parallel construction makes the two subtypes visibly a partition of *placement*.
placement direct en capital	**direct placement in capital**	Further subtype: a placement in capital made by a saver without intermediation. Distinct from *direct investment* (investissement direct, ch. 11), which denotes the assets assigned to an internal unit of an enterprise; a translator's note at 11.7 separates these two homonymous English expressions.
investissement	**investment**	Reserved for the entity's expenditure that increases its assets (fixed assets, working capital, public investment, the expense/investment distinction). Established compounds keep *investment* (ROI, investment banking).

French	English	Rationale
dépense	**expenditure**	Root type of the partition *expenditure* = *expense* + *investment* (Propositions 4.5, 4.7, 7.9). Standard accounting English distinguishes expenditure, the commitment of an outlay, from expense, its recognition in the income statement. The same word renders *dépense* in *expenditure of human energy* (Proposition 2.1). Locked 5 Nov 2026.
charge (comptable)	**expense**	Flow subtype of expenditure; it increases no stock of assets. Matches the IASB Conceptual Framework (2018, § 4.69), which excludes distributions to holders of equity claims from expenses: profit, an allocation of earnings, is no expense. The noun *charge* is avoided for the accounting concept, being ambiguous in English (price charged, in charge, APR). Before the audit of 5 Nov 2026, *expense* also rendered *dépense*, which made the definitional statements of chapter 4 self-contradictory.
dépense de fonctionnement / charges de fonctionnement	**operating expenditure / operating expense(s)**	Subtype of expense. Note 204 explains the drawback of the label: it may suggest that nothing relating to investments belongs among expenses.
dépense d'équipement	**equipment expenditure**	Subtype of investment. Never *capital expenditure*: proposition 5.1 reserves *capital* for permanent financing provided directly by savers. CAPEX and OPEX are external vocabulary (section 12).
charges publiques / dépenses publiques	**public expenses / public expenditure**	Public expenses include debt amortization and exclude investments and fixed-asset depreciation (Proposition 7.9, Part III). *Public spending* is kept only in non-technical contexts.
frais financiers	**finance costs**	IFRS term (IAS 1). Replaces *financial charges*.

French	English	Rationale
amortissement d'immobilisation (industriel) / amortissement de dette (financier)	**depreciation / debt amortization**	Depreciation is an expense in enterprise accounts only; debt amortization (interest and principal repayments) is the expense of every other entity. Never *financial depreciation* or *debt depreciation*.
capitalisme de rendement	**yield capitalism**	Built on *rendement* → *yield*: a capitalism in which placements in capital are remunerated by distributed profit. The compound is a coinage of the corpus and is absent from Fabra 1991.
capitalisme de plus-value	**capital gain capitalism**	Built on *plus-value* → *capital gain*: a capitalism in which the return sought from shares is mainly the gain on resale. Forms a contrastive pair with *yield capitalism*.
plus-value	**capital gain**	*Surplus value* is excluded because it is the established rendering of Marx's *Mehrwert* and would import the Marxian framework the corpus rejects. *Capital gain* is accepted despite its mildly positive connotation because it functions in English as a fixed technical compound. The corpus classifies a capital gain as a transfer between buyer and seller, even though it arises from an exchange (prop. 5.8).
moins-value	**capital loss**	Symmetric counterpart of *capital gain*; both are subtypes of the gain-or-loss on disposal of an asset.
actionnariat	**shareholding**	Names the economic status of the holder of shares, in parallel with *salariat* → *wage-earning*.
prélèvement public	**public levy**	The corpus defines it as the sum of taxes and new public debt. *Levy* covers both; *taxation* would exclude borrowing, and *compulsory levies* (the usual rendering of *prélèvements obligatoires*) names a narrower statistical category.

French	English	Rationale
2. Commodities and scarcity		
marchandise	**commodity**	*Commodity* is the term of classical political economy (Smith, Ricardo) for anything produced and offered in exchange; Fabra uses it throughout (118 passages). *Goods* is avoided because, in the corpus, a good is a subtype of supply (*fourniture*) alongside the service. *Merchandise* is avoided because it denotes retail stock. The narrower financial sense (raw materials traded on exchanges) is foreign to the corpus.
marchandises élémentaires	**elementary commodities**	*Elementary* marks the root-level subtypes of the commodity taxonomy. The corpus holds that income arises exclusively from the exchange of elementary commodities; the adjective therefore carries a definitional load.
marchandises composées	**composite commodities**	**Open point** (§6 of the canonical table). Proposed because *elementary / composite* is the standard antonymic pair of part–whole decomposition. Not locked: the definition of the class and its relation to the *scarce / industrial* partition remain to be settled before the term is frozen.
marchandises rares	**scarce commodities**	First subtype of the Ricardian partition of commodities by reproducibility. Fabra uses *scarce goods* (p. 226, 248); the Précis keeps *commodities* for terminological homogeneity.
marchandises industrielles	**industrial commodities**	Second subtype of the same partition: commodities reproducible at will. They correspond to Ricardo's and Fabra's *reproducible goods*; a note may record this equivalence for readers of Fabra.
rareté	**scarcity**	Standard term, concordant with Fabra. In the corpus it qualifies the non-reproducible subtype of commodity; it is not the general ground of value that marginalist theory makes of it.

French	English	Rationale
3. Income and its partition		
revenu	**income**	*Revenue* is reserved for *chiffre d'affaires*. In the corpus, income is exclusively the remuneration received in exchange for the service of labor or of a placement; transfers are not income (prop. 8.16).
revenu du travail	**labor income**	First subtype of income. American spelling *labor*, as in Fabra's own voice (*labour* appears only in his quotations of Ricardo and Marx).
revenu de placement	**placement income**	Second subtype of income. *Investment income* is excluded under the placement/investment rule.
revenu total du travail	**total labor income**	Macronomic aggregate of labor income (TLI).
revenu total des placements	**total placement income**	Macronomic aggregate of placement income (TPI).
revenu global (RG)	**total income (TI)**	The root aggregate partitioned by the identity TI = TPI + TLI (prop. 8.1). *Global* is rendered by *total* because English *global* suggests worldwide scope. Fabra's *total income* is non-technical; the Précis defines its own term.
revenu universel	**“universal basic income” (flagged)**	**Category error, flagged.** In the corpus, *revenu universel* is an oxymoron: an allowance received by an individual is a transfer (a subsidy), not income. The expression is to be treated as a *universal transfer / subsidy*, and the word *income* in it signalled as a categorical misnomer, never validated.
revenu de transfert	**“transfer income” (flagged)**	**Category error, flagged.** The corpus calls this denomination contradictory: it conflates incomes proper (in exchange for a service) with transfers, and so suppresses the primary distinction between economic exchanges and economic transfers (prop. 8.16).

French	English	Rationale
4. Rates and ratios: the RPP' relation		
rentabilité	**rate of return**	*Rentabilité* is an income or a margin relative to a stock (prop. 8.6). *Profitability* would be a false friend, since *profitabilité* is a distinct concept. The three terms form the RPP' identity: rate of return = productivity × profitability (R = P × P').
profitabilité	**profitability**	Margin relative to revenue or value added (P'). The corpus warns that the most profitable activity is often the least rentable, which makes the R/P' distinction operative. Fabra's single occurrence (p. 174, a return calculation) is not followed.
productivité	**productivity**	The P factor of the RPP' relation: a sales flow relative to a stock (prop. 8.7; e.g. stock rotation). Concordant with Fabra.
rendement	**yield**	Income paid by a placement relative to its base. Consistent with *yield capitalism*. Fabra uses *yield* mainly as a verb; the noun is defined by the corpus.
de même appartenance	**of the same systemic level**	The French qualifies rates (direct rates of return, productivities, profitabilities) that belong to the same node of an enterprise's tree of internal enterprises (*arborescence d'appartenance*), and are therefore comparable. A literal *of the same membership* is opaque in English; *systemic level* states the comparability condition and aligns with the macronomy/mesonomy/micronomy levels. Point to watch: the French also implies a common parent node (the *sister* productivities of ch. 11), which a first-occurrence note should make explicit.
prix de revient complet	**full cost price**	Unit cost including all expenses, depreciation of equipment included (chapter 4, choice between three boilers). It excludes earnings.

French	English	Rationale
prix de revient vraiment complet	**truly complete cost price**	Full cost price plus the share of earnings of the legally constituted enterprise (11.5). In forecasting, it is derived from the target rate of return (11.10). The earnings share is a cost in the sense of 2.24, never an expense.
prix suffisant	**sufficient price**	Price at which, for an enterprise, the direct rates of return of the same systemic level are equal and its rate of return is close to the NARP (11.11). Dumping is a marked and lasting deviation from it.
subvention interne (persistante / délibérée)	**internal subsidy (persistent / deliberate)**	Reallocation of margin between enterprises within the enterprise (11.11, arguments 4 to 6). Persistent: unmeasured, without term, sanctioned by competition. Deliberate: a direct investment of the parent in a child, budgeted, bounded in time and recovered. Measured by direct rates of return, never by profitabilities.
tableau gigogne	**nested table**	Never “nesting board”, “nesting painting” or “nested picture”.
5. Earnings, profit and their partition		
bénéfice	**earnings**	**Locked (10 Oct 2026).** *Earnings* is the genus. *Profit* is reserved for distributed earnings (prop. 6.1), so it is a part of earnings, never a synonym. Rendering *bénéfice* as *profit* had made several statements tautological or false (e.g. a rate of profit compared with “the rate of profit”); some 155 corrections were applied.
résultat (comptable) d'une entreprise	**earnings**	Same concept as *bénéfice* for an enterprise.
résultat d'un ménage ou d'une association non commerciale	**result**	For these entities the result is savings or dissavings, not earnings; *earnings* would be misread as labor income and contradict the thesis of the passage (4.7).

French	English	Rationale
profit	**profit**	Restricted to the distributed dividend (prop. 6.1): portion P of earnings. Fabra uses *profit* in the broad sense of income from capital; the Précis prevails, and a note may signal the divergence to readers of Fabra.
taux de bénéfice (sur capital, sur chiffre d'affaires)	**rate of earnings (on capital, on revenue)**	Strictly distinct from *rate of profit*. Chapters 6 and 7 compare both rates in the same sentence; merging them destroys the argument.
taux de profit	**rate of profit**	Rate of distributed earnings on capital; the basis of NARP.
bénéfices non distribués	**undistributed earnings**	A flow. *Retained earnings* is reserved for the balance-sheet stock (report à nouveau, reserves), as the stock/flow axiom (prop. 4.2) requires. *Retained earnings* remains correct in the definition of BVPS.
répartition des bénéfices	**partition of earnings**	The split into portions A, I, P, T. *Partition* is the exact ontological term (exhaustive, non-overlapping subsets). The chapter title *Distribution* (répartition du revenu global) is unaffected: the partition rule applies to earnings only.
affectation (à une portion)	**allocation**	The assignment of an amount to one portion of the partition.
distribution des bénéfices	**distribution of earnings**	Payout to capital placers, i.e. portion P only. Separating *partition* (which includes self-financing A) from *distribution* (which excludes it) removes a contradiction with the corpus's critique of self-financing.
bénéfice après intéressement et réserves obligatoires	**distributable earnings**	Defined once, in 6.5.

French	English	Rationale
distribution de la totalité des bénéfices	**full distribution of distributable earnings**	**Locked — protected term.** Replaces *full distribution of profits*. Doctrine: portion A reduced to mandatory reserves, voluntary self-financing nil. The wording avoids a double contradiction: *distribution* read as *partition* (which includes A), and *full* literally false (I and mandatory reserves are deducted).
bénéfices des entreprises	**enterprise earnings**	Aligned on *entreprise* → *enterprise*. *Business earnings* was considered and rejected for consistency.
bénéfices des sociétés	**corporate earnings**	*Corporate* restricts the scope to legal entities (companies); use it only where the French says *sociétés*.
impôt sur les sociétés	**corporate income tax**	Standard English designation of the tax.
intéressement (au bénéfice)	**earnings-sharing; wage-earner earnings-sharing**	Built on *bénéfice* → *earnings*. Rejected: *profit-sharing* (would make I a subtype of P), *incentive* (a neoclassical behavioral concept, not a portion of a partition), *gainsharing* (indexed on productivity gains; collides with *capital gain*), *participation* (a distinct French statutory scheme). The qualified form applies the *salarié* → *wage-earner* lock when beneficiaries must be named.
parts (de la répartition des bénéfices)	**portions**	*Shares* is reserved for *actions*; in passages where dividends, shares and the partition of earnings co-occur, the ambiguity would be real.
A, I, P, T	**A, I, P, T (unchanged)**	Formal labels of the partition: A = self-financing (autofinancement), I = earnings-sharing, P = profit, T = trop-perçu (refund). Translating them would create collisions (E with E1/E2 and with *equity*). Source typo in 6.3: “part C” reads I.
autofinancement	**self-financing**	Portion A of the partition of earnings.

French	English	Rationale
chiffre d'affaires / produits (comptables)	**revenue**	*Gross revenue* is excluded because it implies a gross/net distinction absent from the French.
recettes	**receipts**	Cash inflows, as distinct from revenue (accrual-based). Keeping two words preserves the cash/accrual distinction of accounting.
6. Enterprise and shares		
entreprise	**enterprise**	**Locked document-wide** (including the chapter 3 title *The Enterprise*). Covers every enterprise, including sole proprietorships and internal enterprises within an enterprise; *company* and *corporation* are narrower.
actions restituables	**refundable shares**	Prop. 5.8: shares whose only mode of liquidation is repayment by the issuing enterprise; non-negotiable and therefore unlisted. *Refundable* names that defining property and forms an exact pair with *negotiable*. *Redeemable shares* is avoided because it designates a specific legal category in UK and US company law.
actions négociables	**negotiable shares**	Shares liquidated by sale to a third party; the only shares that open the possibility of a capital gain. The pair *refundable / negotiable* partitions shares by mode of liquidation.
sociétés par actions restituables	**companies with refundable shares**	*Company* (not *corporation*) covers variable-capital companies and cooperatives, which the corpus explicitly includes; the term is not restricted to cooperatives.
7. Wages and labor		

French	English	Rationale
salarié (personne)	**wage-earner**	*Wage-earner* is defined by the wage it receives (salaire → salarié :: wage → wage-earner) and belongs to the classical tradition. *Employee* would import the legal employment relation the corpus deliberately separates from the economic category: a farmer working alone is economically a wage-earner.
salariat	**wage-earning**	Economic status, in parallel with *shareholding*.
salaire	**wage(s)**	The classical term for the price of labor; Fabra never uses *salary*. *Salary* connotes monthly white-collar pay and would introduce a status distinction the corpus does not make.
salaire brut / net / super-brut	**gross / net / super-gross wage**	*Super-gross* (gross plus so-called employer contributions) names the real price of labor in the corpus's analysis. The three adjectives form an ordered series.
salaire entier / complet	**whole / complete wage**	**Locked — protected term** (*complete wage*). The wage once so-called employer contributions are reintegrated into it. Protected against accidental substitution during the *sound economic exchange* propagation.
masse salariale	**wage bill**	Standard term, concordant with Fabra (p. 26, 217).
écarts de salaire	**wage gaps**	The instrument by which the corpus assigns to collective subjectivity the distribution of total labor income (ch. 9; Guideline 11).
rémunération du travail	**remuneration of labor / labor remuneration**	Concordant with Fabra's use of Ricardo's *remuneration paid for labor*. The attributive form is used in compounds.
rémunération médiane / minimale du travail	**median / minimum labor remuneration**	Attributive form of the preceding entry, with standard statistical adjectives.

French	English	Rationale
cotisations patronales / salariales / sociales	**employer / employee / social contributions**	*Employee* is kept here by design: these terms name a legal and administrative construction that the corpus analyses as a fiction. The legal register (*employee*) labels the legal construct; *wage-earner* stays reserved for the economic agent. Rejected: *wage-earner contributions*, *wage contributions*.
fiction des cotisations patronales	**fiction of employer contributions**	Keeps the thesis in the term: so-called employer contributions are in fact part of the wage, paid by the wage-earner (ch. 9).
lien de subordination	**subordination link**	Names the legal relation the corpus reframes: within economic exchange, obligations are reciprocal; one-way subordination is the extra-economic exception.
échanges marchands	**economic exchanges**	Standard rendering; the root concept of the economic domain in the corpus.
partenaires sociaux	**social partners**	Established term of European social dialogue.
politique des revenus	**incomes policy**	Established term (plural *incomes*), concordant with Fabra (p. 325).
8. Economic security, relief, insurance and pensions		
sécurité(s) économique(s)	**economic security / securities**	Economic securities are supplied by exchanges of premiums or contributions for benefits, always with actuarial mutualization; the corpus drops the adjective *social* as concealing this nature. Point to watch: the plural *securities* collides with the financial sense (*titres*); keep the qualifier *economic* in every occurrence.
secours (économiques)	**(economic) relief**	Economic relief is supplied by transfers of purchasing power, as opposed to economic securities supplied by exchange. *Relief* is the historical English term for transfer-based assistance (*poor relief*).
sécurité sociale	**social security**	Name of the institution; concordant with Fabra (p. 330).

French	English	Rationale
assurances sociales	**social insurance**	Established term (cf. Bichot, *Vive les assurances sociales !*).
État providence	**welfare state**	Established term, concordant with Fabra (p. 34).
mutualisation	**mutualization / pooling**	*Mutualization* keeps the link with the mutual tradition; *pooling* is the idiomatic insurance term, used where fluency requires it.
mutualisation actuarielle	**actuarial mutualization**	Risk pooling priced on actuarial principles: the defining mode of supply of economic securities.
retraites par répartition	**pay-as-you-go pensions**	Established English label, used when citing the conventional name. *Répartition* must not be rendered *distribution* here: that word is reserved for the distribution of total income (ch. 8).
retraites par transfert	**transfer-based pensions**	The corpus's own name for so-called pay-as-you-go pensions, which are in reality transfers from contributors to pensioners (prop. 8.15). Their counterpart is *retirement by exchange of the placement service for its remuneration*.
système unique par points	**single points-based system**	Rendering of Bichot's proposal (Guideline 12).
retraite à la carte avec neutralité actuarielle	**à la carte retirement with actuarial neutrality**	*À la carte* is used in English for flexible retirement age; *actuarial neutrality* is the technical term guaranteeing financial balance.
régime à cotisations / prestations définies	**defined-contribution / defined-benefit scheme**	Standard pension terminology.
rente viagère	**life annuity**	Standard term.
arrérages	**annuity payments**	The periodic payments of an annuity.

French	English	Rationale
9. Exchange and distribution		
plein échange (formulations positives)	**sound economic exchange**	The most significant editorial decision to date: the author's coinage is rendered by a register-sensitive pair. Applied across some 24 occurrences. *Sound*, *undistorted* and *distorted* denote one ontological entity and its privation.
plein échange (formulations critiques)	**distorted / distortion of economic exchange**	Counterpart of the preceding entry, used in denunciations.
clés de répartition	**distribution keys**	Bases for apportioning amounts (e.g. common costs). *Allocation keys* is avoided because *allocation* is reserved for *affectation* within the partition of earnings.
—	**full employment / full capacity / complete dividend**	**Protected terms.** Guarded against accidental substitution during the *sound economic exchange* propagation, together with *complete wage* and *full distribution of distributable earnings*.
10. Levels, structure of the treatise, chapter titles		
macronomie / mésonomie / micronomie	**macronomy / mesonomy / micronomy**	Neologisms preserved to distinguish the corpus's three systemic levels from the established disciplines of macroeconomics and microeconomics.
proposition (première)	**Proposition**	Descriptive statement of economic science (the numbered propositions of chapters 1–12).
Orientation de politique économique	**Guideline**	Normative counterpart of *Proposition*: the pair types the treatise's numbered statements into two subtypes (descriptive / prescriptive). *Orientation* is a false friend (in English: alignment, or an induction session); *policy recommendation* is too long to serve as a label.

French	English	Rationale
La répartition (titre)	**Distribution**	Distribution of total income between TLI and TPI. Not *Partition*, which is reserved for earnings.
Le salaire (titre)	**Wages**	Plural, as in classical usage (Smith, *Of the Wages of Labour*).
Les prix (titre)	**Prices**	Plural: the chapter treats the prices, other than interest, at which enterprises sell (prop. 11.1).
L'emploi (titre)	**Employment**	Names the aggregate state (as in *full employment*); *jobs* would name its units.
Science économique	**Economic Science**	Marks the corpus's claim to an objective science of exchange, distinct from *economics* as the neoclassical discipline.
l'homme (générique)	**humans**	**Adopted.** Preferred to *man*, *mankind* and *human beings* for concision in a formalized register.
11. Metric acronyms		
RG (revenu global)	**TI (total income)**	Acronyms are rebuilt on the English expansions so that each letter remains interpretable. TI = TPI + TLI.
RT (revenu total du travail)	**TLI (total labor income)**	Word order follows the English noun phrase.
RP (revenu total des placements)	**TPI (total placement income)**	*P* stands for *placement*, never *investment*.
SDP (stock des placements)	**PS (placement stock)**	Stock quantity of the RPP’ relation at macronomic scale.
RDP (rentabilité des placements)	**ROP (return on placements)**	Follows the ROI / ROE naming convention.
PDP (productivité des placements)	**PP (placement productivity)**	Productivity factor of the macronomic RPP’ relation.
P’RG	**P’TI (total income profitability)**	The prime keeps the P’ notation of profitability in the RPP’ identity.

French	English	Rationale
VEPA (valeur exploitée par action)	**BVPS (book value per share)**	The French metric is share capital, reserves and retained earnings divided by the number of shares. This is exactly the standard formula of book value per share, so the established acronym is adopted.
TADD (taux annuel de dividende)	**DOE (dividend on equity)**	Base 100 = BVPS, as the base of the APR (TAEG) is the loan principal. *Dividend on equity* is an established ratio of annual dividend to equity. *Dividend yield* is excluded because it is computed on market price, which would reintroduce the valuation of capital gain capitalism.
TIDD (taux interne de dividende)	**DPR (dividend payout ratio)**	Distributed earnings divided by total earnings: exactly the standard dividend payout ratio.
NTDC / taux de capitalisation	**ER (equity ratio); never "capitalization rate"**	Net worth divided by total liabilities. *Capitalization rate* is excluded on two grounds: in finance it denotes a yield-based valuation rate, and in Fabra (p. 104) *rate of capitalization* is the inverse of the profit rate expressed as a duration, a notion tied to the deferred-exchange theory that the Précis does not adopt. *Nouveau* refers to the renewal of the ratio at each opening balance sheet and needs no English equivalent.
TMNC (taux moyen national de capitalisation)	**NAER (national average equity ratio)**	National aggregate of ER, derived from the statistical analysis of ER disclosures. Built on *ER* to avoid *capitalization*.
TMNP (taux moyen national de profit)	**NARP (national average rate of profit)**	National average rate of profit on capital, derived from the statistical analysis of DOE disclosures (ch. 10).
12. External and rejected vocabulary		
capital humain	**"human capital" (rejected)**	**Rejected concept.** It contravenes the abolition of slavery (humans and their knowledge become assimilable to market wealth) and the rigorous definition of commodity. Fabra rejects the expression as well (*Capital for Profit*, p. 16). To be signalled as rejected wherever it appears, never validated.
plus-value (chez Marx)	**surplus value**	**External framework only.** Used exclusively when describing Marxian theory. Within the corpus, *plus-value* → *capital gain*.

French	English	Rationale
taux de capitalisation (au sens de Fabra)	**rate of capitalization (Fabra; not adopted)**	**External framework only.** Appears only in historical notes, marked as not adopted and explicitly opposed to ER.
échange différé / échelonné (Fabra)	**deferred / phased exchange (Fabra; not adopted)**	**External framework only.** Fabra's theory of capital and profit as exchange over time is not adopted: it risks confusion with depreciation (amortissement). Cited only in historical or divergence notes.
dépenses d'investissement / de fonctionnement (usage courant)	**capital expenditure (CAPEX) / operating expenditure (OPEX) — external**	External vocabulary. Maps onto equipment expenditure and operating expenditure. *Capital expenditure* is not adopted: proposition 5.1 reserves *capital* for permanent financing provided directly by savers.
charges sociales / baisse des charges	**"social charges" / "lowering charges" (reported)**	Reported vocabulary of employers' organizations and public schemes, always kept in quotation marks. Within the corpus these amounts are parts of the whole wage (fiction of employer contributions), not expenses levied on production.

About

Paul Fabra

Paul Fabra, a law graduate of the Institut d'études politiques in Paris, began his career as a journalist at the weekly L´Entreprise (1953) and La Vie française (1954-61). He continued it at the daily newspaper Le Monde (1961-93).

Responsible for the weekly supplement Le Monde de l´économie (1967-84). Contributor to various French and foreign magazines, including the Wall Street Journal. Editorialist, attached to the editor-in-chief of the newspaper Le Monde (1984-93). A columnist for the newspaper Les Echos (1993-2009) Paul Fabra received the Jacques Rueff Prize (1979) and was made a Knight of the Legion of Honour (1985).

Paul Fabra published his first weekly column in March 1985 in Le Monde and then, from April 1993, Les Echos. The last of these regular columns in the latter newspaper was published on December 8, 2009.

His main book is “Capital for Profit”, which main ideas has contributed as the foundation of the FOOE.

"This book aims at nothing less than a reversal of the perspective of current economic thought. Contemporary society is still analyzed according to the abstract models proposed at the end of the nineteenth century by neo-liberal economists. Their artificial constructions today form the basis of the doctrine taught under the name of economic science in all the universities of the West. These economists have been called hedonists because, for them, the origin of value was to be found in need or, if one prefers, in the desire for consumption, which led them to posit the axiom – on which our modern "consumer society" is based – that, in exchange, "the main fact is demand and the incidental fact supply" (Léon Walras, 1874).

This principle is contrary to the requirements of our time. It is collapsing under the blows of events. Conceptually, it is completely opposed to the tradition of the English classical school which, with the great David Ricardo, founded political economy at the beginning of the nineteenth century, by taking up and "criticizing" the ideas expressed by Adam Smith in 1776 in The Wealth of Nations. / What has been striking in the history of economic thought since then is, apart from a few partial discoveries, its regressive character, which makes us think of what happened to physics and biology as long as scientists did not return "to the very sources of knowledge" (Jacques Monod).

It is in the name of the theory of labour-value, taken up by Marx but misinterpreted by him (he made labour the "substance" of value), that the Marxist explanation of profit (and wages) is rejected here. It should not be surprising that the same arguments make it possible to refute the marginalism of the neo-liberals, because the latter, by repudiating the Ricardian heritage, have in turn fallen back into the traps set by Adam Smith's pre-scientific thought. It is from top to bottom that political economy must be revised, otherwise it will be difficult to prevent society from yielding to the temptation of imaginary solutions: the Revolution or its opposite, the counter-Revolution. “

Dominique Michaut

After studying economics (Paris Assas) and continuing education in business administration techniques, Dominique Michaut worked as a management consultant in the distribution and agri-food sector, then with industrial groups and IT service companies. From 1978 to 2008, he assembled a set of primary propositions for economics. In 2014, he created the website lecodemain.net (“L’économie demain”).

In 2017, he published his “Précis d'économie objective”, from which is drawn the popularization of the main theses of objective political economy, the subject of this book. (See Dominique Michaut - Babelio).

Dominique Michaut has provided formal foundations to Paul Fabra’s renewed political economy. A major one is the bridge provided between macro-economy and micro-economy through a new analytical framework.

1. **The fundamental concept: a new Analytical Framework**

Dominique Michaut introduces equimanagement as both an investigative instrument and an operational tool. His central contribution is the systematic reintroduction of the dimension of placements in capital at all stages of business management, from pricing to commercial strategy. This corrects a truncated view of the firm.

2. **The diagnosis: the neglect of capital and its consequences**

The enterprise as a "Condensed Set of Markets": Before being a production unit, the enterprise is fundamentally a nexus of economic exchanges (capital market at its founding, labor market, supplier markets). The accounting betrayal: modern analytical accounting, obsessed with flows (costs and revenues), has sidelined the crucial notion of rate of return (profit relative to invested capital) in favor of a narrow view of sales margins.

A Foundational Drift: This drift is exacerbated by the harmful influence of national accounting (designed for a wartime economy and ignoring capital) on commercial accounting, leading to a fatal "divorce" between flow accounts (income statement) and patrimonial accounts (balance sheet).

3. **The technical solution: A new method for cost calculation**

The technical starting point is solving the problem of allocating common (indirect) costs. Michaut proposes a revolutionary method:

- Rule: Allocate indirect costs in proportion to the direct investments made for each product or production center.
- Justification: This cost share represents a "rent" that each activity pays for the share of assets (capital) it uses.
- Objective: This method is the only one that does not distort the calculation of product rate of return (profit/invested capital), which is the decisive ratio, far more important than the sales margin.

4. The Philosophical and Strategic Scope: Beyond Technique

A Liberation from Statuses: by considering the wage-earner as an "internal supplier," the approach reveals the potential of the market economy to transcend the hierarchical and subordinate framework of labor law.

A new management principle: equimanagement leads to abandoning the false principle of short-term profit maximization. It pushes managers to anticipate market action, which tends to equalize profit rates.

The ultimate result: By focusing on the rate of return of placements in capital, the enterprise better ensures its long-term sustainability and fairly serves the interests of all its stakeholders (clients, wage-earners, suppliers and shareholders).

5. In summary, Dominique Michaut's contribution is threefold:

- Conceptual: he provides a vision of the enterprise as an aggregate of markets where capital is central.
- Technical: he provides a coherent accounting method (cost allocation via investment) for measuring true performance.
- Strategic: he offers an alternative to short-term management, refocusing the enterprise on its long-term capital health.

Antoine Lonjon

With over three decades of experience in Enterprise Architecture (EA), systems engineering, and model-driven methodologies, Antoine Lonjon is recognized internationally as a thought leader in shaping the future of enterprise transformation frameworks. His unique perspective is rooted in a foundational insight: system architecture and economics share the same ontological foundations.

This conviction was sparked during his studies in micro- and macroeconomics at the University Paris-Dauphine in the 1980s. While intrigued by concepts like indifference curves, he felt a sense of intellectual incompleteness with neoclassical models. This feeling was validated by a wise teaching assistant who introduced him to the work of Paul Fabra, revealing a powerful alternative centered on the core concept of economic exchange.

In parallel, throughout his career, Antoine's work on the foundational models of system and enterprise architecture was converging on a similar principle. While contributing to key international standards like UML, BPMN, UAF, he identified economic exchange as a critical form of interaction for any enterprise. Before founding SysFEAT, he served as Chief Innovation Officer at MEGA International, where he led advanced research in ontology-driven modeling and AI-assisted design, solidifying his crucial realization that these two disciplines must inform one another.

SysFEAT is the embodiment of this insight. Its mission is to provide a unified yet modular framework where systems thinking and economic principles systematically enrich each other.

At SysFEAT, Antoine brings his strategic vision and technical depth to help organizations design, govern, and transform with confidence. A passionate advocate of systemic thinking, he combines academic rigor with hands-on experience to bridge systems thinking, economic insight, and engineering rigor. His ultimate goal is to empower purposeful organizations worldwide to navigate complexity and build purposeful, agile, and sustainable enterprises.