

Conceptual straitjackets

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Our ability to solve problems is limited by the conceptual apparatus we employ to solve them. This has rarely been more evident than in today's world and in the field of economics in particular.

I will later highlight how using a different set of concepts can help us manage the current Covid-19 crisis better. A similar mind-shift would facilitate the construction of an economic framework to support major action on climate change.

On how we think

First, though, I want to consider why we think the way we do now and explore how it is possible to think differently. I will briefly look at a tenet that finds expression both within philosophical idealism and phenomenology. If we can start to understand where philosophers of these schools were coming from we can maybe start to loosen our own straitjackets.

Hegel, for one, was keen to assert that concepts (Begriffe) were not mere thoughts or representations (Vorstellungen). His idea that concepts consist of both thought *and content* – in which both elements are supposed separable but can only exist conjoined in concept form – is a challenge to the modern-day positioning of the concept as a moment or focus of thinking only. Rather than looking to categorise the phenomenological experience of thinking a concept in the context of a pre-judged metaphysical framework of world and mind, Hegel argues that the concept is in fact the primary datum which drives and guides the formation of this framework.

Most readers will probably think that this is illuminating only to those who spend their lives with their heads firmly stuffed up their own bottoms. For that reason, my attempt to explain may sound a little muffled:-

If we think about a tree, for example, then when reflecting on that thought we realise that there is:

- An object of the thought (the tree)
- A thinker of that thought (a mind)
- An implicit belief in this duality
- An implicit understanding that the object of thought is one component of an objective world and distinct from the rest of it.
- That the object is distinguished by its universal nature (of being *a* tree) and by its particular instantiation (being *this* tree).
- That the thought was transient but its object enduring

And this is only the start. Connected with the thought about the tree is everything that we know about trees and this tree in particular. It is easy to see that this prior knowledge will have made recognition possible, especially if we consider when our thought of the tree contained more specific judgments e.g. it is an oak tree. But at the most basic level, it is not possible for us to have a concept of a tree *at all* without some prior belief about what trees are. And related to that, our ability to publicly discuss this with others depends on there being a common understanding of the term employed ("tree") as well as, more generally, the function of terms to denote objects.

That's quite a lot packed into the concept of a tree. I shall try not to branch out further for fear of us arriving at a place where we can no longer see the wood.

The key insight here is that every concept, however simple, expresses itself through the medium of mind in the context of shared experience and interaction. The object it tries to express, whilst notionally distinct from the process of encountering, is dependent on those forms to be itself. (The insight is thus equally Kantian). To insist upon its independence is to be like the child who looks at the wreckage of the vase it has smashed and declares: "I didn't do it!" The adult understands the child's pleading shows they didn't mean to do it and that the child is not trying to deceive, but the facts are not as the child expresses them. Likewise, an object's independence from its concept is only "meant to be".

This is not to say that the object's character is determined by us. In understanding the world we are more like musicians interpreting a score. To realise the composition we must draw on our learning and experience both technically and emotionally: without this there is no music. But not every interpretation is true to the score. We may argue over what is and is not, but if we deny the meaningfulness of the argument the notion of composition collapses with it. Nothing would distinguish my playing another's work from improvising my own creation.

The point of this metaphor is to make one thing clear: the judgement that objects require expression through concepts does not imply that there is nothing to discover about the external world. We cannot simply say anything about the natural world and by so doing make it true (despite the best efforts of some in the White House).

But something changes when we look at certain more abstract concepts such as money. Understanding what this is will help unlock widespread miscomprehension of economics as a whole. If you agree with me that the global narrative is wrong, you will begin to understand why this paper has the title it does.

The concept of money

I pick up a set of counters that were on the table, some black some white, and pack them in a box. In one world I have just tidied my room. In another, I have ruined the game of draughts my friends were playing. If objectivity consists merely of the reporting of observable physical phenomena it could not allow two descriptions of an event that are so much at variance.

In the second scenario, the counters on the table had a context within the rules of a game. Without that context they cannot *be* pieces in a game of draughts.

In a similar way, all the tokens we take for money (notes, coins, entries on a computer) are only what they are within the context of the rules that apply to them, rules we have given them. This makes money different from a tree. Imagining the economy operates to rules that cannot in principle be re-written is irrational. Imagining the laws of nature can be contained to support behaviour we would like to be sustainable is...wishful.

The creed of every green economist is expressed in the last two sentences.

Losing and assuming control

It is hardly a profound observation that the more we understand the way our world operates the less need we have to posit the existence of a divinity just to account for things being the way they are. This is not to deny the existence of God or gods, just that, as we started to understand the world in terms of cause and effect, the extent and personal significance of phenomena that any individual is unable to account for was greater in times past than it is today. That there should be a being smarter and more powerful than us was an understandable hypothesis, for every child has the parents or adults who brought them up as partial prototypes.

For the faithful, God now occupies a modified realm: a first cause rather than a regular interventionist; the guarantor of physical laws not the physical forces themselves. The more we think we understand something, the more we also feel in control of it. So the history of scientific enlightenment has made us feel more in control of the forces over which we have attained some insight.

It is a psychological deception that helps us to function more optimally. A learner driver will have more fear about the danger they pose to themselves and others around them than a more experienced one. The experienced driver's calm will help them to perform better, as mental confusion will less often interfere with the trained, semi-automatic physical coordination necessary to navigate their environment and unexpected challenges. At the same time, the experienced driver's perception of risk is distorted. They will typically overestimate safe speeds and underestimate safe braking distances. In order to be the safest driver they can a conscious mental adjustment is required.

My argument is that as we have understood the world more we have allowed ourselves to assume a control over it that we do not in truth have. We have failed to make the conscious mental adjustment. Or, more figuratively, we have stepped into the shoes of the gods.

Conversely, let us look at concepts like money that exist only in the context of rules. Life is quite straightforward when the rules (as in chess) are universally agreed and understood. But if we play Canasta, for instance, we will need to agree which variant we are following. If an observer is not in a position to ask this question they will have to work it out from the play itself.

The process of trying to work out a set of rules from pure observation is almost identical to the process of scientific discovery. As such, we elevate the subject of our study and in this case imagine there to be forces at work which it is our role to observe and codify. But there are actually no independent forces at play here: we have just collectively lost control over the rules of the game and who is in charge. The remedy is not to be found in further observation but in the rewriting of the rules to ensure that they generate the dynamics necessary to produce healthy outcomes for current and future generations.

Currently, when it comes to economics we, the gods, cower at the power of our own creation, deferring to it until such time as it ultimately consumes us.

Money's role in the game

Money is a token in the game of entitlement and obligation. The supply of it is largely in the hands of the banking fraternity who thus supply entitlement to the world in exchange for obligation. Obligation takes the form of a requirement to supply goods and services that people want without

which the banks can deliver little in the way of entitlement (in direct terms, there's little that can be bought with the money created). In their privileged role as regulators, banks are able to ensure that their share of entitlements is well protected.

When there is widespread "disobedience" of the regulator (as was the case in the 2008 crisis, taking the form of unpayable debts) the regulator's ultimate sanction is to commit suicide. It's a bit like controlling the on-off switch to the internet. Naturally, civilisation can operate without either banks or internet, but the sudden withdrawal of either is felt like the failure of an organ of the body.

Of course, no one bank or financial institution is this regulator, nor could any one of them control the deployment of the ultimate sanction. This is loss of control.

Unnatural corporates

Many fictional works take the form of a protagonist having a flaw that ultimately results in their downfall. The skill of the author or playwright is manifest in concocting a familiar, believable drama connecting the exposition and the conclusion. Whilst we despair of the choices the protagonist makes that contribute to the realisation of their fate, we recognise the forces at play. The story will function as a metaphor for something existing or all too possible and we applaud the writer for helping us to gain a clearer understanding of it. A great work will change our view of the world, a lesser one may just reinforce it, still entertaining us along the way.

When we create games and lose control of the rules we sometimes inadvertently create demons. Our "regulator" is one such; others are various corporate bodies. We remember in a broad sense that following the rules was essential to the purpose, but we have lost any notion of their being a rule book that it is our duty to maintain. Instead the demon emerges as a proxy force of nature that we feel it is our duty to observe.

Most have us have modified our behaviour in response to the needs of these non-existents in how we behave at work. If the business is running into financial difficulty we may "need" to work more hours. We "can't afford" to pay better wages because the business might suffer. We can only improve our environmental performance to the extent that it does not cause any significant reduction of profitability. These decisions are made and enacted by real humans responding not to the commands of other humans but simply their own perception of the needs of the non-existent body corporate.

Religious texts have long warned us about idolatry, and the term so conjures up images of bowing before some crafted artefact that we hardly think it's something that applies to us today. But we are guilty of something close to this whenever we kowtow to the perceived dictates of bodies and forces we have invented that have no means of speaking for themselves, often overriding our own instincts and judgements when we do as to what is right and wrong.

Metaphorically, the challenge that humans have been unable to overcome is over how to create effective organisations without creating demons (non-benign corporates). Small groupings can often work cooperatively and effectively without them. But the demon awakens when another cooperative group threatens or appears to threaten it from outside, and wars are fought. If the grouping is big, factionalism is only contained at the expense of conceding authority to the demon.

Democracy should tame the national demon in theory, but the numbers required to do it also make the body ungovernable. It is not possible to listen to everybody on every issue: a smaller executive is required. Too often, though, this executive feeds the demon to help sustain itself.

There's a danger that this extended metaphor can follow its own figurative logic and depart from the world it is trying to explain, so I'll draw this in for now. However, I hope that this take on the world offers a challenge to the common narrative and will work to disrupt it. Because without a proper grasp on the forces that guide us we will not escape from the inevitability of the tragic final act.

To recap

Readers may have found the argument up to now rather circuitous and might not see where we are heading. So let's just pick out the key parts of the argument here:

1. Concepts are the means by which we understand the world and their composition and internal logic drive us to think in certain ways.
2. Objects of thought fall into two broad categories: objects existing in nature and objects we have constructed.
3. The latter cannot exist except within a rule-context that has been created by human actors.
4. We have confused the two kinds of object.
5. In this confusion we have over-estimated our control of the former and under-estimated our ability to control the latter.

The notion that economics is a force in nature that can be studied is an example of this confusion. Observation is not irrelevant, but the conclusions that arise from this study will alter significantly depending on how you frame the terms you employ. And this ability to change the terms and framework *is* something we can do in relation to these kinds of object: describing the natural world, on the other hand, requires of us a greater humility.

Two misleading preconceptions

To look at how the economic terms we use affect the ideas we have about the world, we need look no further than the old trope of the magic money tree. Invoking the image is designed to make us recognise that money does *not* grow on trees and has been used to justify the view that government spending is subject to various constraints that it must stay within if it is manage the economy soundly.

There is some debate about the extent and to which this is true and its implications between economists who broadly subscribe to Modern Monetary Theory and those who are critical of it. Let's not enter that debate now. The point here is that the vast majority of people who listened to the phrase "magic money tree" are being guided to a view that goods and services need to be paid for and the means to do that cannot be conjured out of thin air. That would be magical.

The conventional thinking then looks to how goods and services *can* be paid for and this is by a process we normally understand as "wealth creation". This is understood to occur when a business succeeds in selling more than it spends, providing income for its employees and taxes for the government. This might be regarded as the "non-magic" money tree. A business created something of use and this boosted Gross Domestic Product. Products can be sold; they are worth some money. So money has been created.

Politicians regularly spin out versions of the above as accepted wisdom and are rarely challenged. This is how most of us think, at some level, though we probably rarely speak to our belief in so many words. And if we do, as in the above paragraph, we might be aware of certain issues with this account. For instance, the move in the last sentence is not sound: we've only argued that *value* has been created and not money. Furthermore, if we are not to commit the naturalistic fallacy, the "value" of which we speak is non-normative i.e. it only means that someone wants the thing (proven by money having been freely spent on it) not that the product has been judged good or bad for society as a whole.

This leads to two conclusions here which, had we not been misled by our economic conceptions, should have been glaringly obvious from the outset:

1. Economic activity does not create money
2. Economic activity is not necessarily beneficial

The meaning of money

I talked earlier of conceiving money as entitlement. Many have looked for its meaning in refined barter systems, and I believe this to be fundamentally correct. We should not be distracted by the history of money (which some regard as a perversion of it) into thinking that by examining this we can discover what it essentially is. Money has a role in human interaction and we need to both set out the rules and demand our governments ensure that practice conforms to theory.

The social contract we believe we partake in is one where we all contribute to the sustenance, physical and moral wellness of society, the environment and future generations (henceforth, "the public good"). We are rewarded for our efforts by being granted a choice over the amenity we are going to consume or monopolise, and this is expressed in the award of an income.

So when economic activity does not, on balance, create beneficial outcomes as defined above, what we then see (if the money base is broadly static) is a transference of entitlement to those supporting the unhealthy activity from those serving the public good. What is more, we place the product of the activity in the public sphere as a so-called amenity which, because it can be purchased, generates an entitlement to destroy and pollute.

The point of this observation is that there is *never* a real trade-off in having to do things that are not in the public good in order to afford to do things that are. If we assert the contrary, either the system is broken or our conception of how it works is mistaken. In my judgement, it is both.

Covid-19 and conceptual straitjackets

With these thoughts in mind, let us step back and look at how the concepts we use influence our understanding of the current Covid-19 crisis. We have been asked to isolate ourselves and socially distance in order that our health systems are not overwhelmed. So far, so sensible.

If we do the above, we cannot produce the same range of amenity that we could do previously (part serving the public good, part not) and distribute it so widely in terms of geographical reach. That's it in real terms (i.e. in reference to things naturally occurring).

It is in the distribution of the amenity to individuals that we then interact with non-natural rules-derived objects of money and the economy. This is where we run into difficulties because the

system is no longer providing the incomes that have up to now allowed the deliverables to be enjoyed.

And it's here that the conceptual grasp of the problem interferes with getting to grips with the solution. The government realises that there is an overwhelming number of businesses that were viable in the old world that can no longer survive with the restrictions in place. So it sees its role to, in its own thinking, "support" these businesses through the crisis so that they do not fail (or at least not all at once). But it will limit that support because it needs to "borrow" to provide it and the borrowing will create a burden that will live on into the future.

The problem is exacerbated because the country's "production" is reduced. Consequently, the solution requires a return to the status quo as quickly as possible exposing the country to the maximum infections that the health service can manage until such time as a vaccine or other alternative is found that can make the virus less deadly. It has to be this way round, because these "support" measures cannot be sustained indefinitely.

This narrative will result in lives being lost unnecessarily, business failures that need not be sustained and a domino effect of insolvencies whose consequences cannot be predicted.

Examining the genuine implications

In order to address the problem correctly we need to go back to consideration of the natural problem and try to look at what the outcomes *ought* to be in a humane society. The problems are:

1. Health and care workers will be put at greater risk
2. The restrictions will challenge the safe production of food and essential items (including PPE)
3. There will be a loss of amenity as nonessential activity ceases

The first should be addressed not only by reducing the risk of infection through protection measures, but also by trying to limit the spread of the virus as much as possible. That means keeping lockdown in place for as long as is needed, certainly in respect of nonessential activities. These principles should only be compromised to support people's quality of life, physical and mental health. We must be respectful of the bravery and dedication of these workers and not ask too much either from them or for ourselves.

A similar compromise is necessary in respect of the second problem and requires similar respect paid to those taking on the additional risk.

The loss of amenity should be borne fairly by us all.

You will notice that business collapse and loss of entitlement to food and essentials (through unemployment) do not appear on this list. Nor is it imagined that every country in world might incur huge unpayable debts (to whom?). They are not part of the natural problem, though a real risk if we do not intervene in the non-natural part of the equation.

Using better concepts

Here, again, a better conceptual framework will help us. To sustain the system in times of crisis where restrictions mean that normal revenue streams cannot be expected, a **hibernation** strategy is required. During hibernation an animal reduces its requirements to the level required to sustain it

through a period of inactivity. Businesses, though, form an inter-dependent network sustained by regular flows of money between them. Like an animal's blood supply, this must be maintained in order for them to survive.

The government can provide that **life support**. If it meets the fixed costs of businesses they will survive the crisis and their employees will receive the normal income that provides entitlement to food and essentials. All it has to do is **circulate** the money. It needs to divert the money that used to be spent on the amenity that is being denied that no longer channels into the revenue streams of businesses according to the choices of individuals. Our sacrifice will be made in not only losing amenity but in paying for what we are not receiving. The aim should be to make individuals no better or worse off financially; our loss is of the amenity only.

And this can be done once we realise that in principle money circulates: when business activities retract or cease money is not lost (the wealth creation myth), it just coagulates. Much as there is wrong with the current system, the action that is required now is simply to get money moving again channelling the flows through the system with as little change to outcomes as possible. To this aim, exclusions, caps and 20% haircuts are not helpful: they are like cuts in the blood lines.

Further considerations

Some will argue that the government does not need to tax the money back from us to circulate it, just simply expand the money base, borrow, or both. Perhaps they are right, but doing the former would be to be bounced into a brave economic experiment at a time of crisis and the latter will inevitably lead to calls for austerity measures to be brought in to reduce the level of debt. Given that the legacy of austerity has compromised our ability to manage this crisis as well as was possible, this would be most unwelcome.

Neither is necessary at the levels currently touted if temporary tax hikes are introduced to take some of the strain. That the money is there in aggregate to pay these can be in little doubt¹ since it this was the source of the revenue that hibernated businesses enjoyed prior to lockdown. What will require further analysis is distribution of that aggregate i.e. broadly people's² disposable incomes³. It should not be assumed that those on higher incomes necessarily have more disposable income than those on lower, though clearly at the lower levels it is more likely people will be on tighter margins.

The levels to which taxation can be raised temporarily without pushing people into unsustainable debt will thus depend on this distribution. Nevertheless, a solution along these lines appears likely to spread the burden more evenly than current measures and can be kept in place for longer.

¹ Some of this is, of course, from overseas but given the likely corresponding reduction of UK spending overseas in the same period it seems unlikely that the consideration of loss of overseas income will alter the validity of the argument

² This is a simplified account as part of the aggregate will have come from business and government. The same principles, though, apply to business and would be paid through corporation tax. For government, money not expended has been saved and therefore a net zero cost when pushing it back as so-called "support".

³ The meaning here is income after all essential spending on food, accommodation etc, not just after tax.

Finally

When the crisis is over it will indeed be appropriate to look at those on the front line and how we reward them. And how their utility compares with the educated masses in financial institutions still drawing salaries in full as they hunch soulfully over their spreadsheets at their kitchen tables.

Nature this time, in the form of a virus, can probably be overcome. Nature next time, in the form of climate change, will behave like a vessel with a thirty-year turning circle.

Covid-19 may be a dress rehearsal for what's to come. Our ambition should be to change the play.

May 2020