SSET 30 – **Subjective Economic Theory “GENERAL”** [1]

From definition we have proposed of ***economic science***: ***study of value***, [2] we have been developing partial economic theories that allow us, in our humble understanding, to shape a ***“General” Subjective and Solidarity Economic Theory***. Concept with which we only intend to refer to the deductive logic that allows us to correlate the fundamental economic variables that make to economic coexistence in society, **all based on the theory of subjective value**. [3]

The work will consist of making correlations between economic entities, which will end up chaining in the *“General” <u>Natural</u> Economic Correlation*.

The human being

From the human being and his condition, we begin our task:

Human being

Human condition		**Consequences**	**Means**		**Wealth (W)**		
Falible	Shortage	Needs	Work (***L***) and Capital (***k***)	Natural Laws	Economic goods (***q***)	Subjective Value	Utility
Different	Especialization						
Sociable	Intercambios	Satisfaction					

In quick exposure we say that man is *fallible*, which is why he suffers from *needs* that he cannot meet, which he copes better being *different*, which is why he *specializes* his *work*, and develops *capital* that that enhances his result: this generates *surpluses* that, because they are sociable, *exchange*. All in a framework subject t the economic laws of nature that guide the ***human actions*** of ***generating***, ***saving***, ***exchanging*** and ***destroying wealth***: **value** assigned to **economic goods** (useful and scarce thins), whose dimension is **utility**.

To notice that **<u>utility is the dimension of value</u>** is the key to understanding the two natural economic laws which guide human economic behavior.

Natural economic laws

Law of decreasing marginal utility of wealth (U): every unit of wealth proveides less utility tan the preceding one ($\boldsymbol{U_n < U_{n-1}}$). [4]

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[1] Very possibly SSET 30 and 31 (in preparation), are the works prior to our task of making a new book, precisely summarizing all that we have advanced from ***<u>Theory of Economic Relativity</u>*** (TER), culminating in ***<u>Subjective and Solidarity Economic theory</u>*** (SSET).

[2] We can see it in SSET 01 – ***<u>Definition of Economic Science</u>***.

[3] As J. S. Mill expressed, and S. Jevons accepted: *it is not feasible to construct economic theory (“general”) from a failed theory of the value.* To us, staying true to the theory of subjective value has allowed us to get here.

[4] We have adopted as a general equation of the decreasing marginal utility of wealth to the coefficient between the total stock of economic goods ($\boldsymbol{q_t}$) and the unit ($\boldsymbol{q_x}$) on which its marginal utility is calculated: $\boldsymbol{Uq_x = q_t / q_x}$ — classic decreasing marginal equation (it is present in *the Menger table*). Its monotonous conformation does not complicate the theoretical economic analysis, while what determines any calculation of marginal utility is relative to another manifestation of wealth (such as the unit of universal measure) and, since with only adding a constant to the integral that arises from this marginal function, we have as many manifestations of wealth as there are constants… Yes is pertinent to link the relative values with the Lorenz transformations, with the Gaussian coordinate system, etc. (quantum?), given that each manifestation of wealth is a point of reference of the relative value of others (he has been lucky holder of our first work of economic theory: ***<u>Theory of Economic Relativity</u>***– TER) ―given its immensity, a universal unit of measure becomes indispensable.

Law of relative marginal utility of the exchange: every Exchange of wealth generates utility for the parties. Thus we have that $\boldsymbol{v_{x(y)} > 0}$, and $\boldsymbol{v_{y(x)} > 0}$. [5]

The human economic actions

The human being performs four human actions regarding wealth: [6]

> *Generate wealth*: it is done according to a *decreasing* order of marginal utility.
> *Saving wealth*: it is done according to a *decreasing* order of marginal utility.
> *Destroy wealth*: it does so according to an *increasing* order of marginal utility.
> *Exchange wealth*: it does so according to an *increasing* order of marginal utility.

Net wealth arises from the differential between generating and destroying it. [7]

The specialized work and the capital

As we define **work** as ***human action that generates wealth***, and **capital** as the ***tool that enhances the result of work*** we correlate that

$$\uparrow \boldsymbol{L} \leftrightarrow \uparrow \boldsymbol{k} \leftrightarrow \uparrow \boldsymbol{W}$$

Economic exchange

What we have seen allows us to understand the *sociable economic aspect* of the human condition: that is determined by the ***positive cross-correlation of the exchange***, of the surplus.

$$\uparrow \boldsymbol{v_{x(y)}} \leftrightarrow \uparrow \boldsymbol{y_i}$$ [8]

The increase of the relative value of the one economic good ($\boldsymbol{x}$), with respect to another ($\boldsymbol{y}$) implies that more of the latter must be delivered ($\boldsymbol{y_i}$) for the same amount of the former. [9]

Currency exchange

The exponential increase in surplus wealth impelled in the same way the exchanges, which were perfected day the election of an economic good of universal use to exchange: the **currency** (***$***). [10] [11]

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[5] It is where $\boldsymbol{v_{x(y)}}$ is the relative value of the exchange of $\boldsymbol{x}$ by $\boldsymbol{y}$ and vice versa in $\boldsymbol{v_{y(x)}}$. The relative values [$\boldsymbol{v_{x(y)} = U_x / U_y}$] define precisely the act of the exchange, this arises from the axiom of the ONE of the relative: $\boldsymbol{v_{x(y)} * v_{y(x)} = 1}$. Then, the exchange shows us the relative prices, two coefficients of quantities exchanged: $\boldsymbol{P_{x(y)} * P_{y(x)} = 1}$. RELATIVE VALUES DETERMINE PRICES, BUT, the factual price imposition alters natural relative values.

[6] It was developed in Chao. VIII, of ***Subjective and Solidarity Economic theory*** (SSET).

[7] This **evident** deduction, linked to the correlations of this work, gives ground with the inconsistency to pretending to increase wealth, employment, etc. by medium of promoting *"aggregate demand"*, which implies "increasing unmet needs".

[8] Where $\boldsymbol{y_i}$ is amount exchanged of the economic good $\boldsymbol{y}$.

[9] It is what Jevons tried to define imperfectly with its exchange relationship, a fruitless task because its analysis continued within the theory of objective value, by assimilating value to price —which current theories did not warn.

[10] Which is wealth (otherwise it would not participate in the law of decreasing marginal utility of wealth, nor relative to the exchange), and present at the time of the exchange (otherwise it would not exist as wealth at the time of the exchange, and this would not take place: if the currency is a credit, its condition of present wealth is represented by the current value of the future value of the credit).

Then we have the ***positive cross-correlation of the currency exchange***: [12]

$$\uparrow v_{\$(q)} \leftrightarrow \uparrow q_i$$

The wealth and the exchange with currency

Given the economic process described we have this correlation: [13]

$$\uparrow W \leftrightarrow \uparrow q_t \leftrightarrow \uparrow q_i \leftrightarrow \uparrow v_{\$(q)}$$

The economic calculation

As we have expressed in ***Subjective and Solidarity Economic theory*** (SSET), we will have as many economic calculations as: 1) types of wealth are adopted as a unit of economic measure, and 2) the wealth that is measured — by its inverse causality. The fact of adopting currency wealth as a generalized unit of measure implies considering: [14]

- Currency as a ***medium of exchange***, is also **unit of measure** ($v_\$$) for the **economic calculation** of the **wealth exchanged** (W_i).

- Currency as a **unit of measure** (v_w) for the **economic calculation** of **total wealth** (W).

As the ***Subjective and Solidarity Economic theory*** (SSET) has shown, the ***unit of eonomic measure*** (v) officiates as a simple multiplier of everything to be measured, [15] and is subject to inverse causality. [16] Then we have this double scenario as an economic unit of measure for currency, exchanges and wealth:

In the field of measuring exchanges we have the coefficient:

$$v_\$ = i_\$ = \$_t / W_i$$

In the field of measuring wealth we have the coefficient: [17]

$$v_w = i_w = \$_t / W$$

That said, we deduce that **the unit of economic measure has an inverse correlation with value**, [18] for being the average of all relative values, which arise from the law of decreasing marginal utility of wealth:

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[11] The same universal definition of currency identifies it as an economic good. Then it is inappropriate to describe it as "non-wealth", implicit in the study that the law of decreasing marginal utility of wealth is applicable to it (Mises). In all these contradictions lies the idea that currency is not wealth — a suggestion that would frighten Carl Menger.

[12] That is, the exchange of wealth not currency (q) by the currency wealth ($\$$).

[13] This ***evident correlation*** strips the inconsistency of pretending to increase wealth by driving down the value of the currency – currency interest. Then, to support that the currency is not wealth makes it impossible to assign any economic consequence — ***it is inconsistent to say that the currency is not neutral while it is not wealth***.

[14] When we use v and i with a single subscript ($\$$ or w) we refer to the unit of economic measure dimension.

[15] As we have shown in SSET 16 and SSET 16 (cont.) – ***Quantitative theory of wealth***.

[16] The magnitude of its dimension becomes, and is for, each measured thing.

[17] It is defined in SSET 16 – ***Quantitative theory of wealth***.

[18] It is whatever the unit of measured adopted ($v_{\$,w}$) and the measured wealth ($W_{\$,w}$).

$$\uparrow W_i \leftrightarrow \downarrow v_\$$$
$$\downarrow W_i \leftrightarrow \uparrow v_\$$$

$$\uparrow W \leftrightarrow \downarrow v_w$$

$$\downarrow W \leftrightarrow \uparrow v_w$$

It is corroborated that this correlation implies a decreasing marginal behavior of wealth ($\uparrow W \leftrightarrow \downarrow U_w$); its dimension is directly proportional to the measured wealth [19] [20] that implies its economic neutrality.

The economic time and its value (interest)

Economic time materializes in wealth. [21] The same happens with its relative value, the interest [$i_{t(w)} = v_{t(w)}$]. This is how we have as many type of interest as there are manifestations of wealth. [22]

In order to facilitate, and compare, the economic calculation of exchanges and total wealth, we refer to two types of interest: ***currency interest*** ($i_\$ = v_\$$), defined in the world of exchanges (W_i), and ***wealth interest*** ($i_w = v_w$), defined in the world of the economic calculation of all wealth (W). [23]

Since $W_i < W$, the law of decreasing marginal utility of wealth makes in **axiom**: [24]

$$i_\$ < i_w$$

Correlation of interest with credit-debt (D) and Investment (I)

In SSET 29 – ***"General" theory of interest*** we have established these correlations

$$\uparrow W \leftrightarrow \uparrow i_\$ \leftrightarrow \downarrow i_w \leftrightarrow \uparrow D \leftrightarrow \uparrow I \leftrightarrow \uparrow L$$

From the simple addition of the correlations presented emerges that

"GENERAL" NATURAL ECONOMIC CORRELATION [25]

$$\boxed{\uparrow L \leftrightarrow \uparrow k(I) \leftrightarrow \uparrow W \leftrightarrow \uparrow i_\$ \leftrightarrow \downarrow i_w \leftrightarrow \uparrow D}$$

[19] This simple deduction of the "macroeconomic" calculation, based in a neutral unit of measurement, is sufficient guarantee to consider the validity of our general equation of the decreasing marginal utility of wealth ($Uq_x = q_t / q_x$).
[20] If is feasible to speak quantitatively, it is about economic calculation.
[21] Is the time exists there is change, and in economics they refer to wealth (W), which are studied with their marginal behavior, so ***v implies i***.
[22] This is a Traditional expression of our indirect materialization of economic time.
[23] We ignore the subscript t that would have corresponded to total wealth (W_t).
[24] **It is that simple in the only world that is currencyly and real**.
[25] We present a single currency in a real world ($v_{\$,u}$), easy to understand with these correlations, versus the complicated and inconsistent "transmission mechanisms", which seeks balance between two different worlds, the currency (**$**) and the real ($W$). The difference clearly emerges with the theories they consider: S = I, IS/LM, etc.

This correlation can be represented as a wheel [26] it is set in motion from any variable, an in double direction.

NOTE: all our investigations are plunged into the epistemology of logical-deductive theory (Popper), so their conclusions are diametrically opposed to what is known as neoclassical, Keynesian, quantitative, some “Austrian” post Menger, etc. It is important to highlight the theory in science, since there lies its foundations, not in the positivism of the data without theoretical support — the economic positivism is impregnated with the failed theory of *“objective”* value.

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[26] What we can we call *“wheel of fortune”* — ***Efficient and Equitable Economic Evolution*** (**E^4**) — whose presence implies te validity of natural economic laws, the origin of the logical-natural correlation where relative values determine prices ($\boldsymbol{v} \rightarrow \boldsymbol{P}$). Virtuous wheel that is altered by the violation of natural economic laws, that is subject of the next work.