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# Fundamental Causes Of Financial And Economic Crisis And Its Overcoming

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# Fundamental Causes Of Financial And Economic Crisis And Its Overcoming

The Logical Core Of Market Economy:

How We Subvert It

Vladimír Vrecion

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## I. SUMMARY

The mechanism of market economy (ME) is very simple and it could be effective. It represents its advantage and potential benefit. It is built on a few simple, logically necessary, unavoidable relations. But the contemporary practice subverted the principles of its functioning.

The basic building block, the essential relation of ME is free exchange instantiated in the relation of purchase and sale. If the exchange is really free, it takes place only if it is advantageous for both sides of exchange. Only such exchange acts as the right self-regulator and the moving force for desirable development of economy. Thus it affects by a balanced objectification of profile of the needs of the buyers motivates and profiles a desirable structure and capacities of economy. To guarantee this free exchange, so essential for ME, after bourgeois revolutions some prerequisite social (political, civic, state and legal) mechanisms were given rise to.

Because of the violation of free exchange, of its dynamic balance, indispensable information completeness and symmetry, the very basics of ME are being distorted, its principles are being subverted. The distortion of the free later must end by its distortion in a

great extend or even exchange directly deforms self-regulative functioning of ME (i.e. "Invisible hands" can't work) what sooner or by the collapse of the whole ME and capitalist society. The serious symptom is contemporary crisis (but also - such symptoms for the future probably more serious mostly ecological crises are e.g. the traffic collapses in cities).

The contemporary practice of ME and civic and political society esp. lack of proper, truth information and different kinds of pressures on the parties of the exchange constrains, distorts or destroys the free character of exchange. There are both objective and subjective contributing factors:

- Distorting are disinformation about money in exchange and non - transparent financial practices (mortgages, loans) on the side of sellers that mainly have caused contemporary global financial and economical crisis
- The growing technological complexity and sophistication of products and their use in society tends to require better and broader knowledge and education of buyers and we see a growth of discrepancy between general education, culture and required technical and/or scientific knowledge of the buyers. This objective but for the ME negative trend is deliberately used, abused and amplified by biased advertising, medial and political manipulation. The objectivity of decision-making, esp. on the side of the buyers, is subverted by disturbing and limiting their objective perception of the object of exchange, the all of its relevant qualities, incl. consequences of its long-term (worrying example is cosmetics etc) and mass use (motorism, tourism etc). It can causes even substantially worse economic crisis in future (after 15-20 years).

The main goal of the article is to show on solid methodological and theoretical base how esp. information asymmetry and deceiving in the relation of purchase and sale destroy ultimate bases of ME. It is main reason of contemporary crisis and crises in future. Restoration and abidance of this symmetry and honesty is fundamental presumption for overcoming of present crisis and for restoration of stability of world economy. It could be done by means of the states and (objective

and honest) international bodies that must be properly organized.

For a deeper scientific insight into the ME and its fundamental problems a deeper methodological approach is needed. It is also fully valid for the economy that there's nothing more practical than a good theory. And the good theory can not be created without a good methodology.

## II. TO THE METHODOLOGY OF ECONOMY

One of the most general methodological ideas of science is, that the all in this universe is built on principles of logical simplicity, logical unavoidability and elegance - beauty, and the all relatively stable parts of reality are built on relations of polarity and symmetry.. These ideas could substantially contribute at the analysis of logical core of market economy (ME.) and its functioning.

The ME is methodologically suitable subject for such methodological approach because its mechanism clearly shows signs of logical simplicity, logical unavoidability and elegance. But in this article we'll be looking at the postulates of polarity and symmetry in ME only.

We label this general methodological approach as a general theoretical - logical method (GTLM). Its use in research of the ME means, that if we try to find the logical core of ME, which would eventually imply general laws of ME, we have to find and analyze at first the simplest and the oldest social relation, which came into being as historically first in the phenomenon (called now) ME. The "Big Bang" for the ME was the appearing of a general equivalent = money, which enabled the first social relation to come into being – the relation of purchase and sale, in the other words, relation of exchange of money for goods (products, services).

The relation of purchase and sale represents the microstructure of ME. It is the primal building block of ME. This can also be seen as an instance of the before mentioned general principle of simplicity. It is not by chance that similar general theoretical and logical procedure ( GTLM), was at least implicitly used by the great economists, who have elaborated sufficiently complete, logical and practically useful theories of ME (Smith, A., Friedman, [1], [2], [3] and some others).

From the very beginning of the ME the structure of the relation of purchase and sale has been the same. This relation shows general features characteristic for any (relatively) stable material, energetic, dynamic structures. Among these features they are especially the features of polarity and symmetry. The polarity and symmetry are necessary requirements for creating of any, even relative, dynamic stability of a phenomenon. In our case the relation of exchange requires this polarity

and symmetry not only for the own existence but also for creating of relative, dynamic stability of the whole ME which is built on this primary relation.

## III. THE LOGICAL CORE OF THE MARKET ECONOMY

The relation of purchase and sale (its basic, most widespread form – type I, see further) is built on the relations of polarity and symmetry, in other words the polar symmetry between the buyer and the seller. (which is in principle the same as the polarity of particles in the microstructure of matter). The buyers and sellers are "attracted" by interest in a product (its purchase /sale/) and at the same time "repelled" by the opposite interest in the price of the product. These forces = interests, polar and in principle symmetrical, create this relation. Intensity of these counteracting interests is being balanced and stabilized during the deal of free exchange. A particular balance of interests is created by negotiating the exchange (esp. price) of the product, i.e. negotiating a particular symmetry of exchange.

In the macroeconomic scope, numerous buyer-seller relations of a special kind of product are stabilized in an abstract dynamic equilibrium – in a certain tolerance of general price. We say, that the value law enables us to state an average (probabilistic) price of product from a number of relations of the free exchange relations of a given ME in a given time.

The law of value is an abstraction – it is an attribute of generally valid methodological principles, that we can see in it elements valid in the physical principles of quantum indeterminacy and locality (deeply analyzed in both theoretical physics and mathematics – but methodologically applicable also in theory of ME). It means, that even in ME there are phenomena (commodities, customers, parties of exchange etc) quantified and we = observers can these quantity perceive only with some probability and we don't always have to consider the ME of the whole state or world but only adequate local surroundings of a particular exchange. We can consider that as the "principles of the indeterminacy and locality in economy ".

The polarity and symmetry of individual relations of purchase and sale are also the necessary prerequisites of necessary stability of ME segments and the whole ME in their aggregation. This stability is of course relative to the place of exchange, product development and it changes dynamically in time.

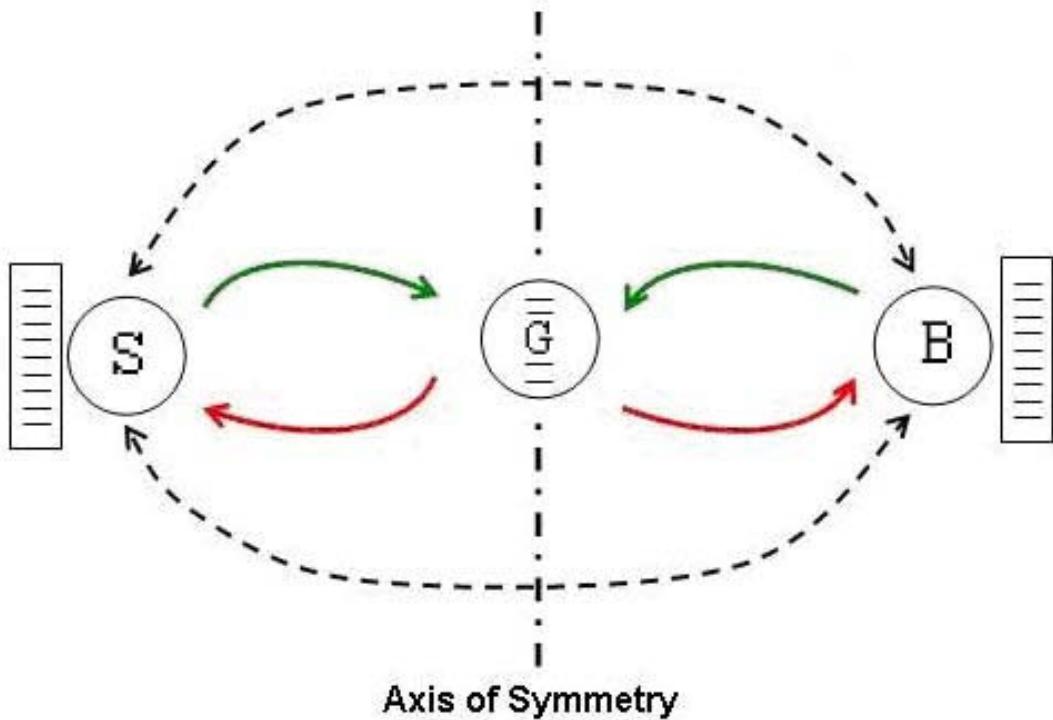
The methodological criterion (applicable also in economy), whether we have grasped the real core of a phenomenon is that we can speak about it in a simple and clear manner. Undue complexity and of course obscurity is always a sign, that we have some factual or logical lack of knowledge about the phenomenon (or that we lie). Let's add that a well grasped phenomena can be visualized and this visualization (usually in some

level of simplification) drawn.

Thus, the primal and simplest relation in ME is a relation between two subjects: the seller (S) and the buyer (B), their structured values, interests, features

etc. are depicted by the structured oblongs. The subject of exchange will be marked as (G) =goods, its various properties are marked by a structured circle around G.

## Relation of Purchase and Sale



Pict. 1

This relation is created on a polar symmetry (the perpendicular line in G marks its axis) which is the condition for its existence, balance and stability. Polar symmetry means, that there is a stable counteraction of at least two forces of two entities ( e.g.: gravity.  $\leftrightarrow$  centrifugal force ).

The relation between S and B is polar, S and B are two entities between them counteract some partial attracting and repulsing relations – forces.

B is attracted to S by his interest in goods, which will satisfy his needs, S is attracted to B by his interest to gain the general equivalent – money – in exchange for his goods, to satisfy his other needs. Both parties are thus "attracted" due to their needs, due to complementarity of needs. This "attraction" is marked green.

At the same time S and B are being "repelled" from each other by their opposing interest in price of the goods: S is interested in maximization of price and B in its minimization – this relation is marked red. The both of these counteracting interests are of course relative, influencing by state of the market, psychological and other factors.

These elements create polarity of relation and this relation must be in principle symmetrical esp. in the aspect of forces (attractive and repulsive) to create needed stability. During asymmetrical compensation of needs and interests (e.g. because of pressure, which deforms these attractive and repulsive forces from the outside), such exchanges either don't take place at all or necessarily are disbanded soon.

Initiated by axiology the needs and interests of the seller (S) and the purchaser (P) (whose structure are marked by structured rectangles at S and P), their relation of exchange is accomplished by physical "intermediators", i.e. by language or other communication means (being marked by the outer bows) and space transfer of goods towards P and of money towards S.

The exchange is implemented when the relations between S and P are balanced (by the mentioned "forces" - even only in subjective appraisal of S and P). The exchange is reached and the relation ceases to exist (the legal implications of the accomplished exchange we left aside here).

The exchange is fulfilled in the point of balanced interests and influences of S and P. The balance is a result of a fundamental symmetry in the construction of the examined relation of purchase and sale.

In the market economy the relations of exchange concerning concrete types of commodities (money is also a commodity) represent a mass phenomena and by continual averaging out (even by a subjective estimations) the law of value and price movement function.

The elementary primary relation of ME – the relation of purchase and sale – can be further analyzed in many regards.

Since Chammurapi's times we recognize 4 kinds of the purchase-sale and/or money spending relations. They differ one from another according to whose money is spent and for whom:

## Relation of Purchase and Sale

		for whom spent	
whose money			for you
	for you	for somebody else	
yours	+	+	.
of somebody else	-	+	IV.

Pict. 2

In order to evaluate these particular kinds of purchase and sale, first of all we have to define the criterion of evaluation according to which they act positively or negatively regarding ME development. As for ME this criterion can be probably best defined by our demand: to have economy that creates maximum of needs that are subsequently satisfied by it as much as possible. Thus, when evaluating, we consider how much a particular kind of relation (or any economical element) contributes to such demanded economy.

Evaluating by mentioned criterion, the most effective of these relations is relation I (that is why

marked in red). If I buy something for myself paying with my own money, I perform the utmost effort for as low expenses as possible (marked by +) to acquire an optimal (maximal) utility value (marked by +, too). Then by + we mark rational, effective acting and by - we do the opposite in accordance with the criterion described above. So, in relation I, my attempt is to minimize expenses and maximize acquired utility value. The functioning and self-regulation of free market economics is based on this relation.

Although ME theory does not actually work with the general concept of "utility value" it becomes

necessary even for ME itself that the purchaser is equipped with as much knowledge as possible about the selling goods not only from the point of view of his individualized utility values but also the general utility values of such goods. It becomes increasingly important to know how the bought goods influence life not only of buyer but of the whole society and in addition in a long-term horizon (e.g. cosmetics etc) and at mass use (e.g. cars etc). (According to author's experience, e.g. the ex post discovered individualized and also general utility value of his bought car in Tokyo was zero if not even negative – and it could be only worse in future. And it is not by chance that automobile industry was strongly hit by contemporary crisis) This is supported by many reasons and it could be here generalized and abbreviated by formula "to keep sustainable economical growth".

The information symmetry between S and P is the prerequisite of a correct running of relation I. S must be objectively informed about the quantity and the quality of the money received and P must be objectively informed about the quantity and the quality of the goods received. The symmetry (and actually the existence) of relation I demands that the truth about commodities exchanged be an economical imperative. The truth about commodities exchanged, thus, is not only an ethical demand but also the immanent economical category - imperative in ME.

At the same time, the logic (and namely the mutual polarity) of relation I implies that the selfinterest of S and P is the foundation stone of ME. S and P must try to get the maximum from the other side of the exchange for the minimum of their own assets if they want sufficiently exist in the environment of ME. All the moralistic theses about great altruism are, thus, in contradiction to the "iron logic" of the ME.

The relation II. is worse from the point of view of mentioned criterion of ME. It can be demonstrated for example by buying your work colleagues birthday presents. You try to minimize the expenses (+) but you do not care so much about the utility values, design etc the given things (-). That is why the birthday present you have got have seldom some utility value for you and you mostly do not know what with them .

According to the relation III, when somebody invites you for a dinner you do not try to minimize the expenses (-) but you choose your dish carefully (+).

The relation IV is effective least. Somebody who spends somebody else's money for somebody else is not (vitally, deeply because it is not his money) interested in minimizing the expenses (that is why marked by -). At the same time he is not interested (vitally, deeply and in addition he normally can not know well the needs of somebody else) in maximizing the utility value that is bought (again -). And yet more, there is an opportunity for various kinds of deception, corruption in both directions (towards the source of

money as well to the recipient of the value). And exactly this is the relation that represents the basis of state economics, state funds spending.

The state, in fact represented by a group of bureaucrats, obtains money from taxpayers-citizens,enterprises and it spend it for other citizens, institutions, companies etc. The most of the bureaucrats can't be personally vitally interested in the maximal purposeful money spending. In addition the feasibility of various kinds of manipulations and corruption is an inseparable part of relation IV logic. Many politicians and bureaucrats are magnetically attracted by this possibility (so to say the opportunity makes the thief). Therefore the corruption, thefts are integrally incorporated into "iron logic" of the relation IV i.e. also into the state money spending. The responsible state ( and also big companies) must therefore permanently and carefully organize anticorruption activities.

In addition the state is basically an anonymous subject and as the owner and supporter of institutions, as a services provider, as property keeper and investor has necessarily lower work efficiency in comparison with an individual private keeper, entrepreneur.

The mentioned rules valid for individual (buyer, seller) are also valid mutatis mutandis for private enterprise. The more is applied the relation I into the all its activities, the more efficient the enterprise is. The employees of a small company are able nearly to identify themselves with company and act there according to the relation I. (The number of employees of such "beautiful firm" is maximally 100, also psychologically we can have maximally this number of closer acquaintances.) That is why "the small is beautiful" in ME. Therefore the bigger companies is better to divide into smaller units, each of them to be managed financially separately.

Yet others principal truths, laws, can be deduced from the analysis of this basic "foundation" relation of the ME. A society, an economics that function maximally on the implementation of the relation I, i.e. Leistungsgesellschaft, with the really free and fair market are naturally wanted by the strong, i.e. able, health,, young, hardworking etc. individuals. On the contrary the old, sick, or somehow disabled people tend to a socialized, redistribution-oriented society i.e. to the society based on relation IV.

With that in mind, it is then quite natural and not unethical if you change your politically-economical opinions and convictions even radically, from the right (relation I) to the left (IV) and vice versa according to your individual circumstances and abilities throughout your life. The similar pendulum behavior can be said about the collective subjects, nations and states. If the subjective and objective conditions are favorable, they tend to the relation I., if not, then to the relation IV. These pendulum changes could have deep and long-term influences in a nation's or state's life and can be clearly

observed in history.

Let us now look at the types of purchase and sale (I – IV) also as far as polarity and symmetry are concerned.

The relation I is polar and symmetrical and that is the main reason why it legitimately represents the building relation of ME.

The relation II is non-polar and asymmetrical. S is interested in minimization of price of the "given" product and P (actually the one who gets) is interested in maximization of value of the given product G but this as well as the price can not be normally influenced by his will.

The relation III is the inverted relation of relation II and therefore it is valid vice versa the same as above.

The relations II and III then can not be the "building" relations, core stones of any economy. Being asymmetrical, they can never become holders of any long-term balance, stability or even self-regulation by their own. In ME they act only marginally, being additional and "derived" from the dominant relation I. Moreover, these relations must be regulated, checked, though only afterwards and externally by participants of relation I. (A company checks its salesman's expenses, a father checks his children's pocket money spending etc.)

The relation IV is symmetrical but non-polar (or possibly very little polar). It represents the relation in which the attractive force (towards the goods for somebody else) and also the centrifugal force (towards the price – it is paid by somebody else's money) are very weak. This relation of symmetry is in fact the symmetry of "unconcern" towards the goods and the price.

Should this relation has a polarity and a symmetry "strong enough" to be the stable and balanced relation of a stable economy and society (and thus become similar to relation I), its polarity and polar symmetry must to be brought to economy "from outside" by non-economy forces: by moral-political means, by power forces. The relation IV alone can't function well as a self-regulator of economy.

As for the relation I representing the building relation of ME it is crucial to monitor and protect its polarity and its versatile symmetry, which is important role of civic society and the state.

The above said implies that ME is prone to various threats. The constant threat of ME is an excessive usage of relation IV in economy. The much worse threat is that the symmetry and the polarity of relation I, both of them representing the prerequisites of a dynamic stability of ME, are being more and more disrupted.

Nowadays, this basic relation is being disrupted namely by information asymmetry, above all by the lack of truth information about money and in future about the

selling goods on the side of the buyers connected with bias advertising and yet by subsidy, dumping etc.

The symmetry (in terms of mathematical theory of groups) means that if changing the relations in a phenomenon, there are some relations that can not be changed - which unfortunately is actually happening in ME.

Moreover, the disruption of polarity and symmetry in the basic ME relation implies that ME function without sufficient self-regulation. Then it is necessary for the states and international bodies to take corrective (now unfortunately sometime unsystematic) measures concerning ME.

The role of civic society as well as of the states is to assure really free character of exchange i.e. that the purchase-sale relations will be really free, fair, independent, polar and symmetrical.

Otherwise the market economy would be doomed to end up in various "traps", where it would be confronted in longer run namely with the ecological limits.

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