Conventions

Certain notional conventions are used throughout this book. For ease of reference, they are listed below:

C–C': means the exchange of a commodity against another commodity without the use of money, hence barter.

C–M–C': means the exchange of a commodity against money as a medium of exchange with the intent to exchange the money into another commodity. The notation, as well as M–C–M', dates back to Marx. There are two legs before the purpose is reached. In the first leg, it exchanges a commodity against money; in the second leg, the money procured against another – the desired – commodity. The purpose of the exchange is value-in-use (see page 84 et seq.). C–M–C' also expresses the ability to give away labor, hence working, for money to then exchange the money into another commodity, mostly for consumption, e.g., for food. See also M–C–M' or M–C…C'–M'.

Circuit ("Umschlag"): The term "circuit", which is widely used throughout this book, describes a completed M–C–M'-drive (see M–C–M'), for which Marx also used the German word "Umschlag" or "Kapitalumschlag". The term circuit is in this sense is not to be confused with the idea of circles of exchanges between units or classes. Therefore, Quesnay's tableau on page 206 and the graphics on pages 119, 121, 122, 485 and 487 of this book do not represent "circuits".

Commodities: Goods (including services) looked at from a combined values-in-exchange and values-in-use perspective.

Commodity money: Commodity-money is a term used by Ludwig von Mises. It describes when gold or silver, or other commodities, to whom markets attribute value-in-exchange outside of its monetary use, are used as money. Hence, they maintain a value-in-exchange even if they are demonetized (no longer used as money). E.g., if a coin of gold or silver-money is demonetized, e.g., melted, and the state's embossing is removed, it retains its value-in-exchange in the amount of the value-in-exchange attributed to the precious metallic material. If the value-in-exchange of a metal used for money is negligible, as in the case of aluminium or iron, this is no commodity money. In this book we identify commodity money mainly with gold or silver money. Theoretically, commodity money could also consist of platinum or jewels etc.

Consumption: We normally use **"**consumption" as opposed to investment. Thus, we only call such customers **of** firms' "consumers" that purchase goods not to make profits but to fulfill human physical or narrative needs or desires. Some authors use the distinction of "consumptive consumption" (eating bread) and "investive consumption" (feeding bread to chickens in a chicken meat factory). "Investive consumption" is investment.

Coupon: The fixed, mostly annual, amount that a sovereign bond or other debt pays. If the bond/ the debt is traded at a higher or lower level than at par value, the coupon, does not change, but the yield (coupon/market price of bond) does change.

Covert monetary financing (CMF): See "Overt Monetary Financing" (OMF).

Customers: They are the addressees of firms. They purchase for consumptive or investive reasons.

Economy, economic system, **exchange economy, money economy, profit economy, and even capitalism** have all basically the same meaning. The words only emphasize different aspects (economy and economic system are like manhood and human biological system) or relate to one another (i.e., exchange economy, money economy, profit economy and capitalism relate to each other roughly like fertilization, pregnancy, and baby). A money economy (already C–M–C') grows out of exchange (C–C') almost instantly and a profit economy or capitalism (i.e., M–C–M') quickly grow out of a money economy following an unavoidable role differentiation between C–M–C'-players and M–C–M'-players. This role differentiation superimposes an order of two classes over the original equality. The economic system is *one* way through which to procure goods and services for humans. Other ways, which we do not count as "economic" but as "praeter-economic") would be direct autarchic self-supply by families, groups or tribes of humans or "violent wealth procurement" as part of the economy. , Marxian socialism or Keynes' "cooperative society" could use money or not use it.

Effective demand: What the community is *expected* to consume and to invest. Effective demand has its *effects on entrepreneurs* who derive business plans and production plans from these expectations when they make investments and create employment on this basis. Expected demand has direct effects on the investing firms' M-outlays for the employment of their workers and on the sales of their supplier firms and indirect effects on the employment of workers of their supplier firms through and so on. Effective demand leads to *money leaving the pockets of entrepreneurs* and flowing into the pockets of either workers or of other firms. Some money then always also, unavoidably flows to sterile wealth owners as "tributes" to the sterile economy.

Effectual Demand: is what firms or consumers *actually spend later* in the M–C'-leg of their circuits, and which vindicates (or not) firms' previous investment. Effectual demand has no more effects on *past* employment; it only shows the extent to which the effective demand (or purchase power) expected by entrepreneurs, when they made their investment or M–outlays earlier, really exists. The "effectual effects" is *cash flowing into the entrepreneurs' pockets* as M' at the end of the circuit.

Employment: The term "employment" gains its relevance from the master drama of modernity and means primarily the employment of labor or of workers who are propertyless non-owners and can only subsist (apart from state transfer payments, family support and alms) from being employed. The employment of workers is, though, always connected to purchases for equipment and inventories, which indirectly lead to more employment of equipment and inventories of other firms. Employment is only created in the productive economy by employment-generating or producive spending. There is no employment at all in the sterile economy; productive splitters or components, which are connected to sterile activities, e.g., the employment of bankers, real estate agents, bond traders, etc., have been "carved-out" before. See productive and sterile economy.

Equipment and inventories: Equipment has so-called fixed capital in mind (land, buildings, machines, tools…), inventories circulating capital (raw materials, energy, ancillary materials, intermediate produce…). But inventories also include services, such as architectural or engineer services, transportation, consulting, lawyering, advertising, accounting, etc. Firms, in order to produce, only need the inputs of labor, equipment and inventories. Money enables them to buy them.

Esoteric demand: Physical and narrative needs and desires to possess or to use goods for consumptive purpose or reasons to acquire goods for investive reasons. Esoteric demand stands behind expected "effective demand" and later actual "effectual demand" (see effective and effectual demand), but in order for it to be reasonbly considered as "effective demand", and to later become actual "effectual demand", money must be available and the readiness to sacrifice it must be present, too, in those who have "esoteric demand".

Fiat money: This is money from material or are objects, which do not carry value-in-exchange (at least not nearly in the amount of its prior nominal value) outside of its monetary use, in particular if demonetized. The typical examples include paper money or token coins without content of precious metals. Commodity money or "Kurantgeld" (cows, corn, skins, copper, silver, or gold; in this book, we always primarily think of gold and silver), on the contrary, even if demonetized, retains the value-in-exchange of its precious material.

Firms, entrepreneurs or capitalists are only alternative names for the same thing, which arise out of different theoretical traditions and carry different connotations. They assume the role of an M–C–M'-player in the *productive* economy (we use them in the productive economy only!). The expression "firm" is neutral, the expression "entrepreneur" emphasizes the daring, creative, and admirable aspect of their doing (which is often, but not always, crucial for being able to generate a positive M'-M), the expression "capitalist" emphasizes the availability of a capital M at the beginning of a M–C–M'-circuit and the motive to increase it. In the individual case, we mostly select the term by the theoretical – general, Keynesian, Schumpeterian, Marxian – context. Productive wealth owners are wealth owners who, themselves, use their wealth in the productive economy, whereby they always also become firms, entrepreneurs or capitalists or they finance them in one or the other way. Therefore, they receive revenue-payments M' only through wealth owners' producive, employment-generating arrival ports. If we want to refer to sterile wealth owners specifically, we speak of sterile wealth owners. Sterile wealth owners receive payments through their sterile arrival port; they do not invest in the productive economy and do not create employment. Sterile wealth owners initiate M–C–M'-circuits in the wealth economy by drawing revenues from debt (interest), real estate (rent), business profits from existing businesses (e.g., as dividends), or capital gains by selling wealth assets.

Goods: Goods encompass goods and services, e.g., advice, treatment, and transportation. The term "goods" primarily emphasizes the values-in-use. The expression "commodities" also include goods and services, but equally emphasizes value-in-exchange.

Gold or silver-money: See commodity money.

M–C–M' (M–C...C'–M'): A notation developed by Marx to describe major economic processes that include system-building combinations of more elementary economic events. The idea behind M–C–M' was implicit in economic thought, social critique, and the self-understanding of merchants long before Marx, but they became clearer and precise ("pregnant", as Keynes said) thanks to Marx's notation. It includes investing money to buy and resell a pre-existing commodity, e.g., only after storing, transporting, re-bundling, or marketing it in a new market, as well as after processing it, i.e., after producing something new out of equipment, inventories, and labor. Both cases are jointly abbreviated by M–C–M' (money–commodity–more money). If Marx wanted to emphasize that inputs of equipment and inventories were physically processed by labor, then he used M–C…C'–M'. The intermediate "C…C'" can be seen to expresses the physical change, first, but also, second, the increase in value that the commodities experience during the process (C'>C!). M–C–M' involves an initial (investive) leg, when money is given up in order to acquire commodity inputs (M–C); this money goes to workers as salaries (*v*) or to other firms (*c*) for equipment and inventories. The *c*-outlays unavoidably contain sterile components that flow into the wealth economy as "tributes". (Marx coined *v* for "variable capital" and *c* for "constant capital" in connection with his labor value and exploitation theory which we reject, but we still use *c* and *v* as many readers will be familiar with these abbreviations.) For a further explanation of M–C–M', see page 86 et seq. The C–M'-leg or, in the extended notation for processed commodities, the C'–M'-leg, is the sale of the commodity to realize a profit. M' is the sales price or revenue and M'-M the profit. In Marx, M'-M also corresponds to *s* ("surplus value"). (This term is also connected to Marx's false labor value and exploitation theory, but we still occasionally use it all the same).

Market economy: Markets result from there being owners of things with owner power and fields of human existence, even if they are limited, in which they are allowed to enter into exchanges at their own free will, i.e., without the conclusion and contents of transactions being prescribed by a superior instance, e.g., by the order of custom, tradition, individual violence, or by legal rules. If there is more than one owner who offers a commodity for exchange, this implies competition and there may be winners and losers amongst the offerors. Overall, markets are important, but only as the spaces in which exchanges take place and the capitalist M–C–M'-logic can unfold, which is the game being played. The term "market economy" not only ignores or belittles the many non-market-style activities of the state in capitalism, including fiat money creation,[1] but also often claims an explanatory

1 Accordingly, quite interestingly, *Myers/Wang*, in their study of economic evolution in Qu'ing China, use the opposition between "market economy" and "command economy" not as mutually exclusive but as necessarily complementary. While in the customary or market economy, which *Myers/Wang* treat as closely connected, "people bartered goods and exchanges labor services", in the "command economy, the military and bureaucracy mobilized resources through direct taxation and corvée labor." (*Myers/Wang*, Economic developments, 1644–1900, page 563).

power for it, which it does not possess. Accordingly, we prefer the terms "profit economy" or "capitalism".

"Narrative needs and desires": Humans have physical and narrative needs and desires. Physical ones relate to food, clothing, housing, heating, medical services etc. Narrative ones cover everything, which is often referred to as "symbolic", "semantic" "psychological", "social", "cultural" or "communicative", including, if economists speak of "positional goods". Physical and narrative needs and desires, thus, encompass all possible human motives to purchase goods outside of sheer physical needs. The emphasis on "narration" is derived from the idea that humans almost permanently narrate their life to themselves and to other humans and that they make great efforts to get their practical lives to conform to their narratives.

Overt Monetary Financing (OMF): (also called "outright monetary financing") consists in state fiat money creation without sovereign debt being issued by the state and without debt held by central banks, which has been purchased by newly created money. As there is no longer any sovereign debt, it will be impossible to hold sovereign debt for private wealth owners and sovereign debt markets (bond markets) must cease to exist. Either central banks or the state will issue the state fiat money – in whatever form: notes: token coins, credit entries on accounts, digital money – and the state will directly use it for prosthetic employment-generating spending, e.g., to pay the state's own costs (state employees, rent, etc.) or for transfers to workers or firms. Conventional monetary financing consists in states issuing sovereign debt and central bank purchasing the debt with newly created state fiat money, in so-called secondary markets, and holding it (commonly referred to as "quantitative easing" or "central bank asset purchase programs"). In opposition to "overt monetary financing" (OMF), the conventional practices of state fiat money creation, which use debt, could also be called "covert monetary financing" (CMF) but its proponents do not use this expression.

"Ports", employment-generating and sterile port of wealth owners: We figuratively equip the wealth owners' class with *four "ports"*. It has *two "arrival ports"* through which it *receives* incoming revenues, a sterile arrival port for sterile revenues, i.e., for sterile spending of others, and a producive, employment-generating arrival port for producive, employment-generating revenues or spending of others. Wealth owners also have two *"departure ports"*, a *consumptive* and an *investive departure port*. If they consume, then they emit payments via their consumptive port; if they invest, then they dispatch them via their investive departure port. Flows leaving from there will be partly sterile and partly productive; accordingly, they will in part arrive at other wealth owners' sterile or producive, employment-generating ports. Workers need *only one in-and-out-port*; their departing spending are only consumptive (sometimes sterile and sometimes employment-generating)[2] and their arriving revenues are only producive, employment-generating (as firms made them to induce them to work). Wealth owners make salary payments to workers from either the consumptive or investive departure port.

Producive spending and productive economy: This book applies the distinction between *producive*, employment-generating spending and *sterile spending* across the (more commonly encountered) distinction between *investment* and *consumption*, thereby leading to Matrixes I and IV (see Figures 1 and 13). The intersection part of employment-generating spending with investment or consumption is the sole driver of employment. Consumptive producive, employment-generating spending is caused by human physical or narrative needs of desires, and requires, in order to become effective, a sufficient budget and a will to sacrifice the needed money as a purchase price. Its place is mostly in the second leg of C–M–C-circuits. Investive employment-generating spending is driven by the search of the money-sacrificing unit, which is then the payor, for profit; its place is the first leg of M–C–M'-circuits. Decisions about investment in the productive economy, what we call producive or employment-generating spending, are the most crucial moments in the recursive circuits of economic events. The realm of producive or employment-generating spending, which flows to wealth owners' employment-generating arrival ports (i.e., to firms, capitalists, or entrepreneurs), constitute the productive economy. The opposite of producive or employment-generating spending, which flows to wealth owners' sterile arrival port, is the realm of the sterile economy or wealth economy. The productive and the sterile economy is to be understood *already after* "carve-outs" (see page 123). Producive spending is only beneficial in a strictly macroeconomic sense of contributing to mitigating the modern master drama by employment. It may otherwise be detrimental, even highly detrimental, e.g., military or warfare spending, drug production, reckless production of dangerous equipment, murderous mines with deficient workers' safety measures, maltreatment of the ecology, or employment in "bullshit jobs" (such as in call centers) [3] . Keynes' term "aggregate demand" is only mere nuances away from producive or employment-generating spending.

2 If workers make investive spending, then they do not do so as workers but as wealth owners, see page 120. Workers, contrary to what may appear as implied in Marx's reproductions schemes, cannot use their full salaries for consumptive producive spending, i.e., consumption to Marx's II.b.-department; they may also have to make sterile spending in the form of rent and debt services.

3 See *Graeber* (2018).

Profit economy is used as a notion that stresses the importance of the search for profit by M–C–M'-players. Almost all systems of goods procurement after the Neolithic revolution became profit economies rather quickly. While the period of pre-economic goods procurement in primitive or tribal society lasted several ten thousand years and covered the greatest part of human existence, profit economies, so far, last only around three thousand years; capitalism is the most modern version of profit economies.

Prosthetics: Prosthetics means "artificial" mobilization (outside of the "natural" C–M–C'-logic or M–C–M'-logic) of pre-existing or newly created wealth to – directly or indirectly – support deficient "natural" circuit closure or the subsistence of non-owners in other ways. Prosthetic techniques range from violent wealth procurement, war, and protectionism (e.g., mercantilism, colonialism, imperialism) to taxation, sovereign and private debt, and, increasingly, value-in-exchange-creation by money creation. They include redistributive prosthetics, which do not necessitate money creation, and expansive prosthetics, which employs money creation. The word "prosthetics" was chosen to avoid moral and political valuations of the denoted measures. The word is equally unpartisan on whether prosthetics are seen as a means to "appease the working classes" to save an existing profit economy in the interest of its wealth owners or as a means of social progress towards a more just income and wealth redistribution. Readers who do not embrace this ambiguity, may not come to appreciate the full importance of prosthetics throughout history.

Sterile spending and sterile economy: The parts of the economy in which M–C–M' is realized without producing new tangible or intangible goods, including services, and, hence, without generating employment. The term is understood in a "purified" meaning, i.e., after "carve-outs" of all employment-generating spending components, such as e.g., the original physical production of buildings and factories, ongoing maintenance, repair, remodeling, and activities by banks, stockbrokers, traders, real estate agents, lawyers, tax advisers, secretaries, drivers, and other service suppliers, in connection with the sale of assets.[4]

"Tributes" to the wealth economy: Producive, employment generating spending, e.g., by productive investments, or consumption, including by workers, is mostly not possible without also making some sterile "tribute"-payments to the wealth economy, such as interest or rent payments or payments for the purchase of land (see page 354 and seq.).

4 See on page 123.

Violent wealth procurement: is the procurement of goods not by free exchange, such as by barter or through money, but by violence, i.e., directly robbing existing goods or threatening to take them away by violence, or by subjugating tribes and countries and forcing their people to work (enslavement) or to deliver produce as tribute. It is not, strictly speaking, a part of the economic system, which is defined by free exchange. Therefore, If an economic system exists, we often speak of "sliding off in goods procurement by violence" as into a praeter-economic method. Domestic taxation and domestic expropriations are, indeed, also forms of violent wealth procurement. Modern slavery of European countries and the US involved violent wealth procurement. Protectionism, colonialism, imperialism, and fascism tend to combine violent wealth procurement with protectionism and free exchange. As the disadvantaged side in violent wealth procurement receives nothing in exchange (or less than the value-in-exchange given away), it normally *requires ideology* to legitimate violent wealth procurement (e.g., religion, racism, etc.). Violent wealth procurement as such was no evolutionary stage of economic history. While pre-economic procurement of goods in primitive and tribal society, which was a stage in economic history, contained moments of violence, it was not primarily built on violence but on family and tribe-centered traditions.

Wealth owners: The aggregate social class of owners of wealth, in particular of land and of other means of production, which arose as the winners from the ancient master drama or later otherwise appropriated their wealth. Wealth owners cannot be by-standers, they must hold positions in asset classes; they can only choose where, whether, and by how much they want to be long or short, and even that only within limits. They will, thus, always shift around wealth between asset classes in an activity called *portfolio management* as time passes by and as insights change. This also includes switching their wealth back and forth between sterile and productive investments. Wealth owners may also partly be workers, given that we allow individual humans to belong to several classes.

Workers, non-owners constitute the social class that came out as losers from the ancient master drama or subsequently lost its wealth. The crucial criterion is, due to the lack of wealth, to have to sell one's labor for salaries to be able to subsist (and for some enjoyments). They could also be classically called "proletariat". They are a "flow-through"-class, which normally roughly receives just enough salaries to reproduce itself, but has to fully spend what it earns. (If individual workers don't receive enough income for that, they get sick and die away; sometimes they become rebellious or revolutionaries before that). As we have allowed for individual human beings to belong to several classes, if they earn more (e.g., some employed managers, state functionaries, employed lawyers, employed physicians etc.), they then become wealth owners *with that portion*. Often, that portion is quickly used-up and they fall back to being workers solely. Their economic existence is just too marginal to self-insure; if anything goes wrong, this will often force them to liquidate their wealth to consume it. However, they also sometimes lastingly move up into the wealth owners-class.