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"Econogenic Harm, Redress and Economic Health"

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Abstract

This paper contributes towards recent research discussing ethical standards for economists as experts, experts with legal discretion to intervene in the economy in attempt to improve outcomes. The canonical example of this is the compensation principle where those who suffer losses are compensated by those who gain, i.e., the Slavery Abolition Act of 1833 where slave-holders are compensated by the British parliament when slavery is made illegal. This is a clear case where loss is identifiable and therefore compensation is made possible in financial terms. DeMartino calls economic policy-derived losses "econogenic harm," such as freeing trade in certain sectors harms those previously protected while increasing overall economic welfare. However less quantifiable econogenic harm is possible; policy consequences which can cause complex, varied and dispersed subjective psychological harm (civic alienation, loss of self-respect, creation of fear, empathy towards those adversely affected by policy) making compensation more difficult. The paper proposes certain cases of complex econogenic harm, necessarily subjective. The first-step is to *identify* this harm as a precursor towards *redressing* this harm. Examples given include rent-seeking induced harm in green energy policy, regressive monetary policy and trade policy with the 'developing' world which perpetuates poverty.

I. Introduction and Methodology

This paper is an exercise in *analytical egalitarianism*, where we start with the Kantian axiom that all people have the same capacities to learn for themselves what is best for themselves, something subjective and known only to the individual. This state of understanding of the world, and the subsequent analytical lens applied in this paper, we will term "equality" (Peart and Levy 2010). It is only when society assigns "the legal monopoly on coercion" (Weber 2004) to state-sponsored experts who claim to know more than others what is best for these others do we build a hierarchical society which denies the equality of individual discovery and self-determination.

> Observed differences are then explained by incentives, luck, and history, and it is the "vanity of the philosopher" to conclude, incorrectly, that ordinary people are somehow different from the expert (Smith [1776] 1976, 1.2.4). (Peart and Levy 2011, 3).

In the realm of political economy, it is the economist who is given this expert role. We will examine here several cases of harm caused by fiscal, monetary and trade policy made by assigned experts working for the state. We will show how these hierarchical interventions create "econogenic harm", a term of art coined by DeMartino (2014) to describe the intended or unintended consequences of economists as experts making decisions for society rather than individuals making these decisions for themselves. Although specific examples for the United States are given, similar hierarchical expert-based societies, and similar consequent harms, are present elsewhere.

It is claimed in this paper that the first step in redress for these harms is identification of these harms. After identification and classification of specific econogenic harms, we propose policy changes to create a less hierarchical, more equal, society; which in turn will lead to more and more equal economic growth.

II. Econogenic harm, modes of redress and civic virtue

George DeMartino (2014, 2015) classifies econogenic harm into two main categories, "compensable" harm and "noncompensable" harm. Compensable harm is harm caused by economic policy effects which can be identified and measured, usually through the use of cost-benefit analysis, and measurement of which can then form the basis for monetary redress. A canonical example of this is the compensation principle where those who suffer losses are compensated by those who gain, i.e., the Slavery Abolition Act of 1833 where slave-holders are compensated by the British parliament when slavery is made illegal.

Our concern in this paper is with noncompensable harm where harm is psychological and subjective to the individual and therefore monetary redress is not possible. Further, noncompensable harm can be either reparable or irreparable. By its nature subjective "complex" (DeMartino 2014) harm is immeasurable and therefore *irreparable* in monetary terms. *Reparable* noncompensable harm is redressed by apology and/or recognition of mistakes made by policy-makers. We are not concerned with reparable econogenic harm here because it is not practical under a worst-case scenario, where we do not expect experts to act counter to their best interests (Farrant 2011), to believe or hope that legally-mandated experts would recognize harm created as the result of their policies, let alone apologize for exercising their legal authority (discretion) over the economy.

Table 1. Harm Classifications. Adopted by author from DeMartino 2014, 2015.

	Reparable Harm	Irreparable Harm
Commensurable, Substitutable Goods	Compensable Harm (Monetizable redress)	n/a
Incommensurable, Nonsubstitutable Goods	Noncompensable Harm (Redress includes apology, recognition, honor)	Noncompensable Harm (Redress unavailable or inadequate)*

We find in Table 1 the harm classifications discussed above using the recent work of George DeMartino as an entry-point for further analysis. This paper concerns itself with the lower right-hand quadrant, or, noncompensable, irreparable harm (*). However our approach to this harm is to posit that it *can* be redressed, through civic virtue by identifying specific cases of this harm. In this approach our paper adds to the *organizational civic virtue* research program (Law, Wong and Chen 2005), with the organization of analytical engagement being economic policy-making in the United States (with as stated implications for other polities).

By identifying sources of complex (non-measurable) econogenic harm (necessarily subjective in what follows), which are not acknowledged by expert policy-makers, we are actively engaging with an immanent critique of our historically-derived social structure and with an attempt at *first* to identify cases of irreparable econogenic harm. We then propose potential solutions to reduce this econogenic harm with market (competitive) solutions. We also expect these recommended regulatory and market reforms to incentivize higher levels of economic growth and prosperity. Our civic virtue statement is an attempt to ameliorate econogenic harm through awareness of specific instances of this harm. We intend this criticism as a form of civic duty with the health of society (both socially and economically) our research question.

In Table 2 below we find DeMartino's list of "harmed or harmful conditions" from which we can identify conditions of subjective irreparable harm, we will refer to this list when giving specific examples of econogenic harm in the next section of the paper.

Table 2: DeMartino's "An Incomplete and Usefully Imprecise Taxonomy of Harmed or Harmful Conditions" (from DeMartino 2014, 2015, used by permission of author).

Physical	Pain
	Injury or dismemberment
	Loss/diminution of physical or mental capacities
	Death
	Degradation of the physical environment
Psychological	Emotional or psychological suffering; depression
	Becoming fearful, insecure, or anxious
	Becoming ashamed
	Loss of Hope
	Erosion of self-respect
	Loss of capacity for creativity, playfulness, inventiveness, or fraternal feelings
Economic	Loss of income, wealth, or welfare/utility
	Loss of access to valued goods
	Loss of genuine choice over valued goods
	Loss of economic security
	Loss of economic opportunities (to do, be, or become)
	Loss of economic capacities (e.g., to earn a living)
	Loss of control over one's economic activities and practices
	Alienation from one's labor, output, or nature
	Subjection to exploitation, discrimination, or deprivation
Social	Loss of community
	Loss of place in community (status, influence, or role as contributor)
	Loss of respect, recognition, or honor
	Loss of political efficacy loss of fraternity or meaningful connections with others
	Erosion of social capital
Moral	Erosion, inversion, and/or collapse of some important ethical or spiritual values, virtues, sensibilities, and norms
Autonomy	Adaptive preference formation
	Destruction of a valued way of life
	Constriction of one's capabilities or feasibility set
	Impairment in the pursuit of one's life plans
	Exacerbation of personal or systemic threats, risk, or instability

Assault on negative or positive rights/freedoms (coercion)

Denial of opportunity to participate in vitally important social, economic, or cultural processes

Treatment as mere means and not also as an end

Destruction of a valued way of life

Constriction of one's capabilities or feasibility set

Exacerbation of personal or systemic threats, risk, or instability

Assault on negative or positive rights/freedoms (coercion)

Denial of opportunity to participate in vitally important social, economic, or cultural processes

III. The rise of the expert and contemporary examples of econogenic harm and potential harm amelioration

This section of the paper, a) describes instances of historically-derived policy making in the U.S., b) discusses subjective econogenic harm caused by this policy-making, and c) offers potential solutions to identified harm. Identification is the first step towards for what has been described here as potential redress for non-monetizable econogenic harm; economic policy changes can redress, through policy reform, econogenic harm even if this harm is subjective and incommensurable. We start with fiscal policy-making then discuss monetary and trade policy econogenic harms.

III.1 Fiscal policy and econogenic harm

The US Employment Act of 1946 for the first time mandated the federal government to use fiscal policy counter-cyclically to reduce unemployment (see Keynes 1936 for the canonical text which changed the economics profession towards monetary and fiscal activism to reduce unemployment caused by the business cycle). The US President's Council of Economic Advisors was created to coordinate the annual President's Budget to this fiscal policy effect. This policy mandate was strengthened with the Full Employment and Balanced Growth Act of 1978.

In the first instance mainstream economics under Keynesian deficit-based fiscal policy creates debt which is passed along to generations yet voting and indeed yet born. This intergenerational debt-creation creates *psychological* harm (see Table 2) because our present generation becomes fearful of the opportunities available to the next generation who face such a debt overhang (see the US GAO's "High Risk List" 2015 for the indebtedness of, for example, the Medicare program, to choose one of many US government programs which face fiscal shortfalls due to changing demographics since the inception of these programs generations ago).

Further, the idea that there is a Keynesian 'multiplier' or an aggregate demand gain effect for deficit-based government spending to stimulate the economy is under dispute and fiscal stimulus may simply be transfers from many people (taxpayers) to a few people (those people with political connections influencing the public budgetary process). Economist Ruth Towse writes of the zero-sum transfer nature of Keynesian-based fiscal stimulus as follows,

> The lower the marginal propensity to consume, the smaller the multiplier, however: at the limit, if consumers were to save all the extra induced income, the multiplier would just be one and the only addition to income would be the amount spent on the project at the outset. *In fact, many economists think that the national multiplier is indeed close to one, and that claims for significant induced income are exaggerated.* That may not be the case at the local level, however, especially in an economically depressed area, and this raises the question of what the appropriate geographical unit is for measuring the scope of the indirect impact. The problem for a regional or national government is what the impact is within their area of authority; if the project just displaces consumption from one place to another within that area, there is no overall net increase in income (Towse 2010, 285, *emphasis added*).

Thus fiscal stimulus policy (not just the concurrent debt-creation) can induce econogenic harm as well; *from* those who pay for the distribution of resources themselves (taxpayers) *to* those receiving politically-based fiscal stimulus transfers (economic development subsidies, usually in the form of tax-breaks, given to firms who open plants locally, are a clear example here, as are public works government spending to some areas more than others). The harm category most exemplified by these fiscal transfers is the Autonomy "Treatment as mere ends and not also an end" category (again see Table 2), those taken from are not always party to the pool of recipients.

The obvious solution to the fiscal policy-induced econogenic harm described here is for polities to balance budgets yearly. This would limit expert-induced subjective harm in the form of intergenerational debt and treatment for net taxpayers to be used as a tool for political transfers under the guise of fiscal stimulus and economic development.

III.2 Monetary policy and econogenic harm

The Federal Reserve Act of 1913 created the central bank in the United States, giving monopoly power over money-creation and banking regulation to the Fed. The Fed is given a dual mandate; price stability and the use of monetary stimulus to counter-act the unemployment resulting during the downward portion of the business cycle. Under Keynesian (orthodox) economic thought it is seen that lower than 'natural' (free-market) rates of interest during times of economic downturn will encourage investment and thus employment-creation, reducing worker deprivation during hard times.

After the Financial Crisis of 2007-8 the Fed made near-zero rates of interest money available to those it regulates for an unprecedented 8 years. This was accomplished by US dollar (US$) printing and monetary quantitative easing (QE). Monetary easing devalues the purchasing power of money, this is an axiom. Those with less disposable income (the 'poor' for the sake of argument) are harmed most by Keynesian-based counter-cyclical monetary expansion because those with less income are able to buy less of the necessities for life than had there not been this money printing.

In addition those with more disposable income (the 'rich' for the sake of argument) gain through easy money because this easy money stimulates asset valuations, such as real estate, fine-art and the stock market (Bernanke 2002)**.** Only those with more disposable income are able to take advantage of these monetary-induced asset-bubbles because the rich have investment funds beyond the necessities of life. Here we can assign econogenic harm to several categories as found in Table 2. Loss of purchasing power on behalf of the poor can be categorized under Economic harm, "Loss of genuine choice over valued goods," as the means of life become more expensive due to monetary easing.

We can also see that the category of Social harm, "Loss of respect, recognition, or honor" is an appropriate category as monetary easing prioritizes the 'rich' over the 'poor' in society. We can also add under Economic harm the category "Alienation from one's labor, output, or nature" to the harm caused by monetary easing in that the poor who do save from the fruits of their labor have these savings devalued with savings accounts at banks paying negative real rates of interest (nominal saving account interest rates are less than rates of inflation) as witnessed during the Zero Interest Rate Policy (ZIRP) of the US Fed between 2007 and 2015.

III.2.1 Monetary policy reform

The market solution to the econogenic harm caused by devaluing currency due to central bank policy is to allow competition in currency issuance. For example the alternative currency Bitcoin was declared an asset subject to capital gains tax, preventing non-state alternative currencies against competing with the US dollar (US IRS 2014). We would expect that the dollar would hold its purchasing power more strongly under competition in that the state receives tax payments in dollars so the state would not want to see its currency devalued relative to competing currencies. Thus we find that competing currencies (free banking) would reduce the econogenic harm caused by expert-based central banks with their current monopoly on monetary policy. A more competitive currency regime would attract more investment and therefore more economic growth, and not just for those receiving Fed easy money.

Finally it is seen by this writer that the Fed's policy of "too big to fail" also creates subjective Moral harm (see Table 2). The central banker's prioritization of stability over the creative destruction of the market process (and the rule of law violation vis a vis civil bankruptcy) is a "value substitution" (White 2014). The central banker's values (stability and bailing-out some while allowing others to fail) are substituted for other values (a prioritization for equal application of the rule of law and a distaste for regressive monetary easing).

III.3 Trade policy and econogenic harm

III.3.1 Agriculture trade policy

Beginning at least with the Agriculture Adjustment Act of 1933 (and the Smoot-Hawley Tariff of 1930) the US government has an active role in agriculture production and distribution, in the form of subsidies to agri-business, government-sponsored agriculture research, and trade protectionism against foreign agriculture imports. This protectionist trade policy carries over to the WWII- era Bretton Woods trade agreements of 1944 now under the auspices of the World Trade Organization (WTO). The failure of the Doha round of WTO trade talks in 2011 (Bhagwati 2012) to liberalize trade in agriculture is exemplary of the state of present policy on agriculture trade (albeit slightly ameliorated by bilateral and regional agreements due to this same failure of "world" agreement).

There are US trade barriers (and thus under the auspices of the WTO, trade barriers for other 'developed nations') against agriculture imports from African nations (Elliot 2014). This means that approximately 65% of sub-Saharan Africans (Hanson 2008) are unable to grow out of subsistence agriculture because the nation-states party to WTO agreements won't allow free-trade in agriculture goods. In addition US domestic agriculture policy creates surpluses of agriculture products, which are then "dumped" upon these 'developing nations' as part of US foreign policy, again distorting the means by which African villagers might grow out of subsistence poverty through agriculture trade (Oxfam 2005).

In the classifications of harm in Table 2 we find at least two categories of econogenic harm caused by US trade policies (made in conjunction with economists at the US Departments of State, Treasury, Commerce and Justice)**.** Under Economic harm we can apply "Loss of economic opportunities (to do, be, or become)" as African subsistence farmers are not able to explore other opportunities beyond subsistence. In the Autonomy (or self-determination) category we find econogenic harm in the "Constriction of one's capabilities or feasibility set". Restriction on agriculture trade reduces the feasible life-style choices of African villagers unable to grow out of absolute poverty. For some people there may be a third harm caused by US prevention of free-trade with Africans, the Psychological category of "Becoming ashamed". US citizens might be embarrassed by their ultimately regressive agriculture trade policies towards 'developing' nations as classified under the Bretton Woods protocols.

III.3.2 Trade policy in "green energy"

Another econogenic harm caused by US trade policy is in that of the "green energy" sector. The US government is consistently accusing other nation-states of illegally (under international protocols through the WTO) subsidizing green energy production such as wind and solar energy (see recent WTO cases USA versus India and China). These accusations lead to US protectionism against free-trade for foreign imports of solar panels and other green energy technologies (Woody 2012). This prevention of green energy free-trade means that these products are more expensive than they would be absent protectionism. Therefore people living in the USA (and elsewhere) have to pay more for energy which is better for the environment despite the stated goals of the US government to reduce global warming.

We can find this trade-oriented policy-induced harm under the Physical category (of Table 2), "Degradation of the physical environment" and as well under the Physiological category "Becoming fearful, insecure, or anxious," in this case about the detrimental effects of US trade policy towards addressing global climate change. Trade policy as-is reduces individual choice towards addressing any subjective perceived risks of climate change and the possibilities for a green energy solution. Due to trade barriers the green energy solution available to consumers is simply more expensive than it would be absent protectionism, we can add here the Economic harm category of "Loss of access to valued goods".

The most obvious solution to econogenic harm caused by trade policy is to allow free-trade unilaterally. This reform can be accomplished with minimum harm by announced policy changes giving enough time for the currently protected interest groups to adjust to policy changes, say four or five years before unilateral free trade is confirmed. This planned free trade will boost economic confidence and growth and will reduce the econogenic harm of protectionism which hurts the world's poor vis a vis agricultural production at one level, and those concerned about climate change at another level, harm as-is under the current status quo.

From the above discussion we can classify the specific examples of economist-as-expert value substitution (White 2014), where expert values are in our case substituted for the subjective value of equality under law, the starting point for analytical egalitarianism, see Table 3.

Table 3. Subjective Values Replaced by Expert-Induced Values. (Table by author, see text.)

	Subjective Value	Expert Value Substitution
Fiscal Policy	Equality under law	Passing of public debt to those yet born Discretionary subsidies and tax breaks
Monetary Policy	Equality under law	Regressive monetary easing Discretionary bail-outs
Trade Policy	Equality under law	Inability to grow out of subsistence agriculture More expensive green-energy technologies

IV. Summation

This paper has shown specific examples of complex psychological harm induced by economic policy-making in the United States (with implications for other polities). This harm is not redressable in monetary terms because it is not quantifiable. Although we agree with George DeMartino (2014, 2015) in the existence of this harm, and that this harm is caused by economic policy experts, we disagree with DeMartino in that we believe this harm can be reparable. The first instance in redress of this harm is identifying this harm. This identification of harm as an act of civic virtue is itself an instance of reparability.

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