Credit granting, Ponzi scheme and currency exchange rate as ethical issues. An Hegelian perspective on the ingredients of an economic crisis

Abstract

This paper is an attempt to found a set of ethical guidelines in respect of specific macroeconomic problems, so that the failure to fulfill these guidelines can be considered both the root of economic crises like the current one and the reason why such crises are ethically unacceptable. The main topic I will face is the ethical aspect of the instrument of credit. I will do that by means of an examination of what being "ethical" within intersubjective life means for Hegel. Credit would assume the role of a major instrument aimed at putting the material and relational conditions for a full reciprocal recognition and fulfillment of desires among economic agents who originally have imbalanced instruments and discrepant times in their capacity to claim recognition and recognize others' desires. The development and maximization of reciprocal trust, expectation and "attraction" are established as ethical and teleological categories and their interpretation is also utilized to hint at two other issues, the utilization of credit to set up a Ponzi scheme and the debate about the necessity of a flexible exchange rate between the currencies of different countries – relevant in the Euro area today.

1 - Hegelian dialectic and the ethical insights which can be drawn from it

For Hegel, notoriously, speaking about *justice* means «indicating the ways through which freedom materializes».[1] And the Hegelian system rejects any notion of negative freedom as "liberation from environmental constraints". It embraces, instead, the idea whereby the highest freedom coincides with the state which lets consciousness determine itself, according to how it "feels itself in its full identity and satisfaction" *within* certain social relations and constraints. This idea of freedom and justice is, in the end, coincident with the goal of the highest human *reciprocity*.

In fact, human self-consciousness cannot fully develop within the dominion of mere sensuality and perception of pure objectivity. In the immediate realm of inert objects consciousness can spot a contradiction, it can perceive the desire to overcome it and it can satisfy this desire by negating the contradiction in some way, so that it is ready to begin the process again. But without clashing with another self-consciousness, it cannot achieve the awareness of its own desiring as a human desiring.[2] A self-consciousness needs to meet another self-consciousness which recognizes it as desiring, so that its desiring is reflected, as in a mirror, in the actions and reactions of this other self-consciousness.[3] The formation of an identity has nothing to do with the sameness of the self, but coincides with its social relations and context from the very beginning. As Hegel puts it: «A self-consciousness is what it is for another self-consciousness. Only as such is it in fact self-consciousness, for only in this way does the unity of itself and its otherness become effective for it».[4]

Let us now paraphrase this idea in order to point out the paradoxical character of "contingent necessity" it implies. For Hegel, to talk about a dialectical advance for a consciousness means to describe a process of overcoming the perceived contradictions in order to reach a stage in which "being" and "thought" coincide[5] and in which an achievement reflects what is felt as spontaneous, as "natural" for a consciousness to be.

To assert that the completion of human self-consciousness can only be reached by means of a social recognition of one's desiring corresponds to a description of the process just quoted in its taking place within the contexts of "human society". This means that in order to make one's awareness coincide with what it is felt as spontaneous, as "natural" to be, it is necessary to have an agreement between two or more self-consciousnesses about what is reciprocally satisfying and natural within the limitations of intersubjective life. At the moment in which two self-consciousnesses "recognize" each other's desires, they do not do anything but construct an agreement on how to mutually act and react in order to overcome the lacks and contradictions - felt by at least one of them - which can undermine the overall relationship by provoking instability.[6]

The social structure through which self-consciousnesses perform the recognition of the desires of the consciousnesses they meet is contingent in this process. The desires which are object of reciprocal recognition among self-consciousnesses, in fact, are shaped in their very formation by the social features of the recognizing self-consciousness. The recognizing self-consciousnesses, in other words, correspond to the institutional and social conditions against which the desires of the opposite self-consciousness take form. A young man's desire to fight against injustices, for instance, can be molded into a desire to become a lawyer and then, more specifically, it can be materialized in the willingness to work as an unpaid student intern. This would be the way in which the social environment reflects a desire back to its owner, literally determining the practical content of the desire itself. Such a situation represents what Hegel considers necessary in the formation of human self-consciousness, namely the self-recognition of one's own desires through their reflection on other self-consciousnesses. This necessity is paradoxical because it depicts a situation whereby a specific kind of desire has inevitably to take features determined by a contingent instrumental framework.

This observation opens the paths to the numerous criticisms which have been made of the Hegelian dialectic, such as Adorno's typical claim that Hegelian dialectical agreement among self-consciousnesses is not accomplished in a positive fashion but in a negative one, as a coercion, since each individual's desire and willingness would be only a by-product of her role in a certain arbitrary hierarchy.[7] The achievement of the highest *freedom* for everybody is structurally undermined by this kind of imbalance in reciprocal recognition. In effect, the overall consequences of such an imbalance is not always explicit in Hegel's statements, but they can be conveyed by a reflection on the master-slave dialectics.

Hegel admits that there is no equality in the dialectical relationship between two self-consciousnesses, it is always a master-slave relationship: «as extremes they are opposed to one another, one being only recognized, the other only recognizing»[8]. This relationship corresponds to a struggle for recognition, it is an example of competition. Hegel also describes it dramatically as a life-and-death-struggle, the two consciousnesses standing against each other want each other's "death", and they are both ready to risk their own life in order to impose their power so that their desire is "recognized" by the other. But something unexpected occurs when the opponent is actually defeated. Since the subject can never pose itself autonomously, its sense of identity is created in relation to the being to which it stands opposed. If this other being is defeated, it no longer offers opposition and, therefore, a possibility for recognition. In this sense, there is a certain disappointment in every defeat of the other, in every domination,: «[the master] is thus not assured of self‒existence as his truth; he finds that his truth is rather the unessential consciousness, and the fortuitous unessential action of that consciousness. The truth of the independent consciousness is accordingly the consciousness of the bondsman».[9]

There is therefore an insufficient mutual recognition in the dynamics of master-slave. The desires of the slave are not recognized and his force, tools and spirit are undermined and dominated by the master. But this is also the reason why he cannot "go along with the master's real wishes", that is really recognize this latter. Reciprocal recognition, as the moment of the spontaneous agreement recalled earlier, can be read as the will to obtain reciprocal bargaining power by optimizing one's utility to satisfy the other's desires in order to claim utility in exchange. The master, therefore, is really sawing off the branch on which he is sitting by depriving the other of the freedom, inventiveness and enthusiasm to optimize his bargaining power. The situation is only reversed but remains equivalent when, as Hegel claims, the master finds himself dependent on the slave and the slave passes from dependence to "freedom" thanks to his labor.

Such an inevitable reciprocal undermining is only overcome if both parties have the instruments and the status to seek full reciprocal recognition. To give a material example, if a former slave is free to claim equal social right to possess a piece of land and equipment to work on her own, the fact that she can produce something to sell will require a pragmatically improved identity in order to maintain the wanted bargaining power, by the former master. The former master, for instance, will need to set up a technological improvement to make her product more convenient or alluring. This new kind of entrepreneur would be the "still more useful" identity which the environment - created by former slave – shapes, as socially necessary to be fully recognized. This would be the new identity which the former master will spontaneously assume in order to have her will and desires recognized. Such a mechanism of circular improvement of reciprocal pragmatic bargaining power may potentially be spread to the whole society: the more reciprocal bargaining power and usefulness increase as symptoms of the necessity of recognition, the more reciprocal shaping and fulfillment of desires can improve in a pragmatic sense. It is this very reciprocal shaping of desires which makes such an entire process to be ultimately focused on the recognition of the highest potential demands of each individual's will and "naturalness".

The ethical insights which can be drawn from this interpretation of the Hegelian dialectic are

1 - The coincidence of the ethical purpose with a chain of values tying together freedom and rights and, then, maximized reciprocity and maximization of the instruments to achieve this reciprocal recognition and bargaining power.

2 – The necessity of equality in this mutual recognition, to prevent asymmetry and reciprocal weakening.

3 – The need, therefore, of a public institution expressing a general will which includes and overcomes the particular wills, being these latter unaware of the necessity of mutual and equal recognition in order to reach the highest self-consciousness.[10]

These three ethical ideas can justify a reform of the system of credit granting aimed at putting aside the neo-liberal philosophy which dominates the financial system today. The process of credit granting should respond only to a logic mirroring such principles which are, in the end, pragmatic social economic guidelines obtained by a particular interpretation of the categories used by the Hegelian philosophy. These principles are then also applied to a reflection on the role of a national currency.

2 - The process of credit granting as the potential realization of the Hegelian teleology

The instrument of credit is justified by the fact that it is typical within a market economy that not everybody immediately possesses all suitable instruments to set up a new activity or to update an old one in response to the contingent change in demand. Credit can be defined as a form of anticipated agreement which a community achieves with a producer's self-consciousness, an anticipation of the reward the producer is going to obtain which is necessary because of the physiological temporal discrepancy which exists between the capacity to produce and the recognition of a possible future agreement on reciprocal exchange.

Conceived in this way, the ethical function of credit granting should be the "investment" of a society which recognizes the highest productive potentiality of any individual, puts it in relation with the potential necessities and desires of the community and provides the adequate monetary tools so that every economic agent is able to implement the corresponding production and transactions.

In other words, credit should place the material and relational conditions for a maximized and equal reciprocal economic usefulness or "attractiveness" – or "bargaining power". It should be implemented as an investment which an entire community makes in order to maximize and equalize all individuals' instrumental potentiality and reciprocal utility.

Accepting such a definition as the one whereby credit pursues the task of absolute reciprocity implied in Hegel's dialectic, I will now outline the reasons why the current model of credit granting does not perform the language game which this conception reflects.

There are at least three sets of technical obstacles which explain why the current model of credit granting falls short of an authentic reciprocal recognition of self-consciousnesses within a market.

1 – First of all, one has to deal with the inadequacy of the monetary structure of banking. Even though commercial banks can grant loans by electronically crediting the bank account of their customers with a certain deposit without practical limits, they need central bank money in order to settle every transfer a customer requires them to carry out.[11] This money has a cost and this gives rise to several issues.

For instance, at a certain juncture a bank may transfer to other banks a larger quantity of central bank money than the quantity it obtains from the rest of the banking circuit or by issuing shares.[12] Such a bank is therefore forced to borrow a further amount to make new loans, altering either the convenience of new lending or the interest rates it charges – which would reduce people's desire to borrow.

Also, because of non-performing loans or financial gambling losses, a commercial bank may lose central bank money, causing the same problems in the convenience of new lending as just described, because it needs to retain liquidity to make up for losses and fulfill due payments soon. It is because of such a private risk that commercial banks may become structurally risk-averse, meaning that in order to safeguard their private business they tend to avoid financing small entrepreneurs and innovations which are quite difficult to assess, despite the fact that they may give a great contribution to the technological and social advancement of a community.[13]

As a consequence of such a structure at least three language games are played and possibly overlapped all different to the one I enunciated above. Credit granting, in fact, can be the result of the assessments of distinctly private, individual risk or convenience, which represent a

different pragmatic scenario in respect to the collective risk-benefit ratio which should be taken as parameter for an "investment which the entire society makes in order to maximize each individual's instrumental potentiality and utility". An individual lender who assesses her personal risk, in fact, can be indifferent to the possible technical advance which an investment on a start-up may bring to the entire society and very concerned about a possible loss of sixty-thousands euros. A publicly run institution financed with tax revenues in order to address productive investments, for instance, can have the support of public opinion in finding indifferent or negligible a possible "waste" of that sum in comparison to the possible advantage of a successful investment – even considering that, rather than a waste, that would be an allocation of purchasing power toward non-productive individuals who, by spending that money, would not spoil society's mood of confidence and good expectations too much.
In the current structure of credit granting, moreover, availability of credit can be the corollary of the effects of private "gambling" losses. And, above all, such an availability can also be read as dependent on the contextual availability of a socially invented "credit raw material" (central bank money). Private risk assessment, gambling and concern due to the scarcity and the cost of raw material are logics which build language games which are very different from the one credit granting should respect.
Notice that the existence of a specific kind of financial investment which acquires the form of "gambling" can be objectionable. Any kind of investment, it may be objected, is in some way risk-facing and, therefore, any investment is in this sense a bet. The difference would exist in the degree of risk but not in the structure of the language game. Nevertheless, a structural difference in the rules governing the languages games to which different kinds of investment respond corresponds to what is remarked upon within the very next points. On one side there can be an investment determined only by criteria of contextual and direct verification of potentialities, on the other side there can be a "bet" in part, prevalently or even purely based on an "animal spirit" which does not derive from a verification of the contextual potentialities of an economic initiative. It can in fact derive from the transformation of prices, values and expectations related to financial instruments and determined by the previous decisions made by traders of the same instruments.
2- Another important obstacle which prevents commercial banks from being suitable to maximize reciprocal utility concerns the very parameters they use to evaluate potential borrowers. Usually institutions of credit are not well incorporated within a local community and use parameters mainly based on *quantitative* data such as the financial situation of a company, its credit scores and payment history, which may offer too little data about the potential social usefulness of a borrower[14] or it may advantage already competitive firms. The nature of the data which a bank chooses to observe in order to estimate the value of a borrower also contributes to the distortion of the language game which should correspond to the funding of an activity.
3- The third obstacle concerns the entire set of financial instruments, which let economic actors, for instance, buy and sell the status of a "credit seller" – through bond markets – and even bet on the value of an exchange and on the profitability of a credit – through future markets. It is intrinsic to this kind of trade that the economic expectations motivating these operations are also shaped by past or contemporary decisions of actors making the same kind of operations. It creates a self-referential dynamic which decontextualizes the formation of these expectations in comparison with the development of the economic potentialities of the actors to which a financial instrument refers.[15] As Scott-Quinn claims, «bubbles should not occur if capital markets function in the way textbooks describe, since prices of financial assets should always

reflect 'true' risk and rational expectations. When a bubble is developing, what is happening is that prices in the secondary market, where repricing happens continuously (since most secondary markets are continuous), move away from the price that reflects true cash flows and risk».[16]
In a more peremptory way, it is useful to recall the fact that financial market spontaneous logic does not favor "long term projects" but, rather, the formation of speculative schemes. Bagnai remarks how «in chapter XII of his General Theory, Keynes makes a very simple claim: markets are not interested in "making the best long term forecast for an investment probable return" so to direct capitals to investments which are on average the most productive and which most generate growth and employment […] To behave in such a way would not be rational for them».[17] Using the words of Keynes: «It would be foolish, in forming our expectations, to attach great weight to matters which are very uncertain. It is reasonable, therefore, to be guided to a considerable degree by the facts about which we feel somewhat confident, even though they may be less decisively relevant to the issue than other facts about which our knowledge is vague and scanty».[18]
According to this passage, to base an evaluation on factors which will govern the yield of an investment some years hence – productivity improvement, employment impact of a business and consequent contextual economic growth – would be unreasonable in comparison with basing assumptions on facts which may be irrelevant to economic growth but "about which one feels somewhat confident" such as, for instance, short-term expectations on assets prices or risk. According to Keynes, in fact, «markets do not follow the logic of diminishing returns in deciding when to stop investing money, but the logic of speculative bubbles. If an initial capital inflow pushes financial assets and real-estate prices upward, next inflows are encouraged by the perspective of making money out of further price increases – more than out of long-term returns, such as dividends and interests. A self-realizing expectations mechanism is therefore set up – I buy because I expect prices to go up and, in doing that, I make prices go up. The mechanism works until investors perceive that the game has gone too far».[19]
The scenario just described coincides with a language game totally different from "an investment which a community makes in order to maximize and equalize all individuals' instrumental potentiality and reciprocal utility". In fact, factors which are different from an evaluation about whether an investment is suitable to approach that goal influence price, risk and decision of credit granting.

3 - Ethical analysis of credit in the scenario of a financial bubble

I will interpret now the mechanism of the financial crisis triggered by the Ponzi investors - as described by Minsky – as a concrete example of how an overlapping of the "unethical" language games just listed brings about an imbalance of an individual's bargaining powers which may set off a spiral of relentless self-feeding imbalances. Aggregate social reciprocal bargaining power – or reciprocal "attraction" – is not a zero-sum game but can grow or decrease in dependence on complex entangled mutual expectations and potentialities. Therefore, a language game which enhances inequality of power maximization, oppression and weakening of certain social groups can cause the phenomena of spread of impoverishment, "sawing off the branch on which one is sitting" or lack of reciprocal confidence – reflected, for instance, in the arise of a credit crunch. In particular, we can say that there are as many different "unethical" language games as there are combinations of imbalanced reciprocal bargaining powers and mutual expectations in a society.

Each of these games of force develops as a more or less serious diversion from a scenario of reciprocally maximized attraction, according to the particular configuration of inequalities and economic connections it represents.

It is often noticed that Minsky's model of financial fragility resembles the general framework of the social disequilibria which brought about the current crisis.[20] From the point of view of my analysis it is important to notice that it pictures a dynamics whereby the weakness of bargaining power of "low class" agents – caused, for instance, by high interest rates produced by speculators or caused by previous social imbalances and manifested in the inability, by mortgagers, to pay back their loans – ends up affecting the attractiveness and reciprocal expectations of higher class characters. These characters include banks and investors, whose asset value had been negligently based either on the former agents' capacity to "produce wealth" to pay back – as in the case of the subprime mortgage crisis[21] - or on the ability of these agents' to maintain the "real economy" value of certain assets which are traded in a Ponzi scheme – as we will also see in Keen's explanation of the Minsky hypothesis.

Consider the general statement I made earlier: the purpose of a community should be to provide each individual with adequate instruments in order to equalize and maximize reciprocal "attraction" or "utility" within every human relationship, including the instruments capable of dealing with temporal discrepancies in the reciprocity of these relationships. Since the specific economic context has been taken into account, I made the concept of "human relationship" coincide with "every economic, or market, relationship" and "instruments capable of dealing with temporal discrepancies" coincide with "credit".

Since the stated "purpose of a community" imposes a maximization of reciprocal utility, the potential production endorsed by credit should reflect the highest possible satisfaction which can be reached in the potential demanders. According to the point of view which I have been promoting in this text, therefore, the only pragmatic language game in which the concept of "credit" should be inscribed is a form of investment on its own future made by a community, a form of investment whose only reason of appearance should be to provide each economic agent with adequate instruments in order to equalize and maximize their reciprocal utility and bargaining power, in this case considered within the scenario of an exchange economy. Any political action concerning credit which we would be able to be described as a formal language game which is different from that, would necessarily represent an alienation from the proper ethical purpose of a community. It would represent, in fact, a relation of forces which develops according to laws which are different from the ones which guarantee that all instruments necessary for all individuals' equal maximization of utility-satisfaction are rightly allocated.

The question which one has necessarily to ask oneself is, therefore: does credit issuing respect the language game of equalizing and maximizing reciprocal "attraction" or utility within every human relationship, in the case of a financial speculative bubble?

In order to unfold some of the practical details which are implied in such a language game one can observe that, according to the game, credit should be distributed in function of an evaluation which explicitly takes into account how much, given the existence of the other already circulating kinds of production, a merchandise or asset is appropriate to contextual potential necessities and desires and how much it would create imbalances due to externalities. Credit granting has to be evaluated, in other words, by explicitly assessing to what degree a service or a material commodity will be required by a community.

It would be trivial to just say that financial speculation falls short on this very point. Let us, rather, interpret such a fact in a way consistent with the ideal Hegelian concern I am articulating in this text.

If we consider the game according to which mechanism of speculation is played, this latter coincides with making the value of, and the desire for, some or a few economic elements (real estates, shares, etc..) increase regardless of whether such elements may be desired to be consumed or not. Whether she is persuaded that this is provoked by a deliberate attempt by the speculator or she believes that this is just a market collateral effect, the credit lender has to approve a financing which makes the demand for – and, therefore, the value of – some elements grossly grow in respect to other ones, irrespective of the level of the desire to consume them. The objection whereby a stance aiming at satisfying individuals' desires should favor *any* manifestation of these desires – even not connected to "consuming" – misses the point.

In fact, such a scenario is incompatible with the "principle" which should serve as a criterion for evaluating a credit allocation aimed at equalizing and maximizing reciprocal utility and bargaining power – whereby one should investigate the potential utility of a kind of economic element within a community, taking into account its impact on the economic actors and already existing elements. The logic according to which the way credit allocated in order to fuel a bubble is used does not satisfy this criterion and the aim illustrated above for the following reason: the exaggerated bargaining power of the actors trading the assets on which a speculation has been carried out – as well as the correspondent exaggerated power of the creditors who keep financing such a game – is exclusively based on diverting those assets from possibly representing an element to be consumed to only or prevalently representing goods-purchased-for-resale. The transformation of the role of a "product" from being traded in order to be consumed to being traded in order to be re-traded is at the root of the exponential growth of the demand of it and therefore of its value, the same result being impossible to be achieved through goods purchased in order to be almost immediately consumed: while the demand of a consumer reaches a limit, the demand of a trader is potentially infinite. The consequence of this is that, in order to provide each individual with the adequate instruments in order to potentially maximize reciprocal "attraction" or "utility" within every human relationship – as the "ethical logic" prescribes – , a political authority which runs a society where financial speculation is admitted should supply each economic agent with adequate instruments – whether monetary, cultural or cognitive – to imitate a financial speculator, with the concrete risk of restricting the kinds of goods present within the market to only or prevalently goods-purchased-for-resale.

This would represent a non-preferable environment to live in, being clearly at odds with the duty to select suitable credit granting according to how much a product enhances social usefulness within a context while also maximizing reciprocal usefulness. What an "Hegelian" authority would understand by following this reasoning is that the social structure of a financial bubble is pragmatically unsustainable despite all the positive perceptions it may convey, at least at first, in terms of increase of reciprocal expectations. Such a structure would either make a society create a strong discrepancy of bargaining power in favor of creditors and speculators who take part in the bubble, or it would lead a community to materially collapse in the attempt to equalize individuals' potential bargaining power. By following specific practical criteria, an authority focusing on the optimization of reciprocal utility is able to "calculate" when a certain allocation of instruments shapes forms of power which impede equal potentialities among economic actors and/or prevent a reasonable contextual evaluation of what would be potentially the most reciprocally useful production.

Even without giving an a priori, metaphysical explanation of why the scheme of a financial bubble does not respect what would be the most preferable scenario for the "naturalness" of a community – such as the reason whereby "human being's natural goal is to exchange goods to consume and utilize them rather than to set up a Ponzi scheme" – we are able to claim that a similar framework comprehends a form of contingent power which for contingent reasons due to, say, the possible size of a bubble and the context in which it is inscribed, would damage the rate of social satisfaction. As a consequence, because of the structure of unbalanced reciprocal power set up by these contingent reasons, the dynamic of the economic relations of a society would advance in a way which will never tend to reciprocal maximization of usefulness but which will exacerbate or confirm power discrepancies.
Consider the detailed description of the mechanism of the bubble given by Keen, who reports Minsky's account of debt-driven boom-and-bust cycle.
The cycle begins with the general decline of risk aversion and the start of the so called "euphoric moment",

> where both lenders and borrowers believe that the future is assured, and therefore that most investments will succeed. Asset prices are revalued upward and financial institutions now accept liability structures for both themselves and their customers that, in a more sober expectational climate, they would have rejected. The liquidity of firms is simultaneously reduced by the rise in debt to equity ratios, making firms more susceptible to increased interest rates. The general decrease in liquidity and the rise in interest paid on highly liquid instruments triggers a market-based increase in the interest rate, even without any attempt by monetary authorities to control the boom. However, the increased cost of credit does little to temper the boom, since anticipated yields from speculative investments normally far exceed prevailing interest rates, leading to a decline in the elasticity of demand for credit with respect to interest rates. The condition of euphoria also permits the development of an important actor in Minsky's drama, the Ponzi financier. These capitalists profit by trading assets on a rising market, and incur significant debt in the process. The servicing costs for Ponzi debtors exceed the cash flows of the businesses they own, but the capital appreciation they anticipate far exceeds the interest bill. They therefore play an important role in pushing up the market interest rate, and an equally important role in increasing the fragility of the system to a reversal in the growth of asset values. Rising interest rates and increasing debt to equity ratios eventually affect the viability of many business activities, reducing the interest rate cover, turning projects that were originally conservatively funded into speculative ones, and making ones that were speculative "Ponzi." Such businesses will find themselves having to sell assets to finance their debt servicing—and this entry of new sellers into the market for assets pricks the exponential growth of asset prices. With the price boom checked, Ponzi financiers now find themselves with assets that can no longer be traded at a profit, and levels of debt that cannot be serviced from the cash flows of the businesses they now control. Banks that financed these assets purchases now find that their leading customers can no longer pay their debts—and this realization leads initially to a further bank-driven increase in interest rates. Liquidity is suddenly much more highly prized; holders of illiquid assets attempt to sell them in return for liquidity. The asset market becomes flooded and the euphoria becomes a panic, the boom becomes a slump[22]

In Keen's paper one can see the details and the consequences of the very high bargaining power which, thanks to the mechanism of the bubble, speculators and creditors acquire in comparison with those who invest in goods different from goods-purchased-for-resale. A power discrepancy impossible to mitigate by means of equalizing potentialities, if not at the cost of the risk of dismantling the social pattern of productive investments. Such an aporia ensures that value created with speculation privileges possessors of certain material or cognitive instruments, which only differ in character from the others.

The rise of interest rates for other borrowers and investors is the manifestation of this power discrepancy, since creditors who finance the bubble possess certain instruments which can offer a much larger spectrum of modalities and situations for obtaining wealth with respect to those investors and are, therefore, able to "extort" a personally favorable agreement. According to Minsky's illustration, then, the contingent dissemination of power disequilibria and the expectational nature of the economic fabric combine to produce the following process: minor bargaining power of "real economy" investors weakens their economic position - their "utility" in comparison with creditors and Ponzi sellers - so that they are forced to "invade another territory" and assume the same role as Ponzi sellers. Such an unbalanced over-supply of a kind of asset makes the utility and bargaining power of this latter figure drop as well. The consequence is the concatenate decrease of economic trust in any agent who is in some way connected with the success of the Ponzi sellers – such as institutions of credit – and the spread of general panic.

The occurrence of a slump as a consequence of a financial bubble is an example of how the absence of a continuous maximization of reciprocal utility and bargaining power causes a potentially unpredictable dissemination of lack of reciprocal utility and confidence with more or less dangerous outcomes. As I said earlier, any language game – played by institutions of credit or any authority running the allocation of capacities and instruments in a society – which does not respect that "pragmatic principle" represents a more or less dangerous departure from an optimized level of reciprocal satisfaction.

To conclude, we can say that the Minskian financial bubble combines together the features of all three kinds of language games presented above as inadequate for the operation of credit granting. It is evident, above all, the utilization of a private pragmatic calculus by the issuer of credit – "which represents a different pragmatic scenario in respect to the collective suitability or risk-benefit ratio" – mixed with the "self-referential dynamic" in the formation of the motives for allocation of credit typical of the financial instruments illustrated in point three. One of the goals of this text is to persuade readers of the ethical necessity of getting rid of these technical obstacles in the process of credit granting. A plain corollary of this is the observation that a creditor or an institution of credit should not be also a private "entrepreneur" because, as in this case, the figure which should assure the long-term equal maximization of the bargaining powers of all entrepreneurs' would try to acquire, as an entrepreneur, more bargaining power than the other ones.

4 - Money and legal currency as ethical instruments

I will apply now the analysis of the teleological categories of reciprocal maximized bargaining power and expectation to an evaluation of the function of money and legal currency. Such a function can only be evaluated as "ethically suitable" once inscribed within what has been defined as the overall task of a community – which, through tools such as credit, "should put the material and relational conditions for a maximized and equal reciprocal economic usefulness". Such a reciprocal "attraction", because of the structural temporal discrepancies between the development of different desires and capacities to mutually fulfill them, has to incorporate reciprocal confidence and good social expectation. The stress on confidence in future reciprocal utility is a corollary of the earlier definition of the "principles" of an exchange economy, in which "any individual, in order to maximize the fulfillment of her desires needs to maximize the utility which her product has for the other members of the circuit, so as to bargain the maximum in exchange". As a corollary, the more an agent perceives an "attraction" toward the other, the more she perceives the other's bargaining power, the more she desires to be recognized and satisfied by the action of the other. In economic terms: the more a producer feels the expectation of a future convenient deal in trading with the other, the more she commits herself in recognizing the other's desires in order to realize an attractive product and be satisfied in exchange.

In the prescriptive scenario which I demonstrated, therefore, the instrument of money makes sense only if it equalizes and maximizes reciprocal utility – or "bargaining power" - , intended both as capacity to presently offer and receive desired goods in exchange and as expected reciprocal capacity to do that. Money and currency exchange can approach such a goal in various ways, according to the different contexts and modalities in which they can be used, without necessarily being able to be described as a single specific type of instrument and method. In the most simple way, money can serve as what Galloni calls "private and non-banking money", a form of money which, although it is not officially "institutionalized", «is accepted within a closed circuit of agents who know each other, namely who trust each other even indirectly – for "good reputation". It is a letter, a symbol, an object without inherent value, even a verbal promise».[23] While in this case money can be read as a spontaneous and occasional tool to create an expectation of reciprocity, the introduction of a legal tender, for instance, acts as the institution of a steady and long-term assurance that a producer's contribution will be recognized within a certain perimeter, as well as acting as a tool to set a higher level of reciprocity through public services and taxation: «once legal tender is issued, the sovereign imposes taxes which represent a partial spoliation of producers in order to finance the "common good"».[24]

Another, different function which money can perform in order to balance reciprocal confidence is the re-distributional meaning which, for example, a wage-price inflationary spiral can have at the expense of creditors and "rentiers". In effect, Bagnai remarks how empirical data confirm what Keynes stated in his *Tract on Monetary Reform*[25], that is that «we conclude that inflation redistributes wealth in a manner very injurious to the investor, very beneficial to the business man, and probably, in modern industrial conditions, beneficial on the whole to the earner».[26]

From the viewpoint of this paper, a positive inflationary spiral involving workers and entrepreneurs would coincide, within their relational environment, with a gradual increment in the mutual expectation of the value of one's work as "recognition of one's community desires". This would mean an increase of the "aggregate" bargaining power of the class of producers and a consequent drop in the economic "usefulness" of creditors and rentier capitalists, who would lose the power to worsen existing imbalances. The very act of requiring and obtaining higher and higher wages and prices would make the material tool of money serve as an active demonstration of reciprocal usefulness, as opposed to deflation, which «is liable in […] days of huge national debts expressed in legal-tender money, to overturn the balance so far the other way in the interest of the rentier, that the burden of taxation becomes intolerable on the productive classes of the community».[27]

As we have seen, the evaluation of what is maximally and reciprocally desirable can be prevented by the fact that the perceived needs and desires are a conformation or a reaction to an arbitrary "institution". The arbitrariness which such an institution shapes can be defined as a transformation of rationality caused by an abstraction of a particular perception of necessity and desires from the overall account of current or potential necessities and desires. Such an abstraction of restricted necessities and desires ensures that the overall pragmatic meaning which a situation would have for all individuals is not considered. In effect, the pragmatic weight of a situation in relation to the overall "being" of an individual can only be considered by accounting for all contextual repercussions a situation is likely to provoke and in contrast with all pragmatic potentialities any particular individual can hope for – the pursuit of which is excluded by the abstraction.

The same obstacle, obviously, is present when the problem is the evaluation of how to perform an equal and maximal reciprocal "attraction" in the sense of economic expectation. In order to avoid an aporetic outcome of the pursuing of the "Hegelian" telos, one needs to avert the danger of not taking into account all contextual repercussions in reciprocal expectation which a monetary or exchange policy is likely to provoke or all pragmatic potentialities any particular individual might be able to fulfill thanks to similar policies. While in the case of the assessment of the suitable form of credit the method to follow was more straightforward – the problem was to put aside all the obstacles which diverted a language game from having as its only task the collective reciprocal recognition of potential desires – the reflection on the adequate currency exchange policy, in pursuing the same task of equalizing and maximizing reciprocal attraction, has to be more complex and explicitly involve empirical scientific studies. In fact, while in the former case the question was simply to exclude all language games which do not correspond to pursuing the highest reciprocal bargaining power and attraction, in the latter case those different language games have to be considered as not yet excluded. It cannot be otherwise, in fact, once it is recognized that the main functions of currency exchange rates are "rebalancing" competitive disequilibria and "signaling" the financial risk of these disequilibria to investors[28] – which indicates an environment in which reciprocal usefulness had not been equalized-maximized. Therefore, the only method one can follow is the empirical one to acknowledge studies which can give as complete a picture as possible of "all contextual repercussions a situation is likely to provoke and all pragmatic potentialities any particular individual can hope for" in respect of currency exchange policies, in view of trying to attain equal reciprocal expectations considered within the contingent and specific language games which are played in a certain moment.

Reasoning in these terms, policy makers who aim at solving the current disequilibria within the Euro area must acknowledge the existence of studies which demonstrate that there are certain policies which, when applied to the language games coinciding with the unbalances between peripheral and central Europe – without going into depth into the causes of these unbalances, which also do not correspond to "ethical" language games according to the terminology of this paper - , can improve the above explained reciprocal "attraction" in its equality and aggregate level. These studies are, for instance, Thirlwall's article which states that the difference in growing potentialities among countries can be explained by balance of payment constraints, and that devaluating a country's currency «would make exports more attractive and reduce the income elasticity of demand for imports, so demand can be expanded without producing balance of payments difficulties; and, within limits, demand can generate its own supply by encouraging investment, absorbing underemployment, raising productivity growth and so on».[29] This hypothesis is also recalled by Bagnai, who underlines that the fixing of respective currency exchange rates is deleterious for the productivity growth of countries which, for some reason, have different rates of growth in their competitiveness.[30] Bagnai also argues that exchange rate flexibility would have avoided the excess in capital inflows from Northern towards Southern

Europe, which were favored by the perception of lack of risk conveyed by the impossibility of devaluation.[31]

The evidences brought by studies like these make clear that a devaluation – or, in general a return to a flexible exchange rate compared with nearby countries - for a country such as Italy would correspond, from the ethical point of view of this paper, to facilitating the access to the (monetary) tool useful to obtain what is produced within such a country – in comparison with what would be produced abroad – and, therefore, to enhance the expectations of its entrepreneurs and, consequently, their desire to recognize "the other" in order to be "recognized", which coincides with an increase in their productivity and investments. As well as making Italian business men's level of expectation – and therefore bargaining power - approach the one of more competitive communities, such a logic would prevent phenomena such as inflows of too much liquidity, avoiding future investors' losses - that is to say, future drop of reciprocal confidence and expectation liable to provoke a fall in aggregate bargaining power.

In this last paragraph, in conclusion, I have given a very brief interpretation of the instruments of money in general and of the major proposals of reform of the monetary union. Without having any systematic purpose, my scope was to highlight the necessity of reading the major economic tools as pragmatic instruments to pursue the "Hegelian" telos of equalizing and maximizing reciprocal bargaining power and recognition, using empirical evidence to address this ethical model as much as possible.

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