

Binaryeconomics.net

Binary economics is the expression of a new universal paradigm or new understanding of reality that creates a new economics, a new politics, a new justice and a new morality.^[11] In its economics aspect, binary economics is a market economics whose markets work for everybody rather than just a few; and it upholds private property but private property, again, for everybody rather than just a few.^[12] A summary might be – *a justice which creates efficiency and an efficiency which creates justice.*^[13]

Binary economics is fundamentally different from all forms of conventional economics (be they expressions of right-wing, centrist or left-wing theory).^[14] Thus, unlike most mainstream economics, binary economics accommodates belief in God, unicity and ethics;^[15] it does not assume that humans only follow their own immediate short term self interest;^[16] and it does not assume that humans (as distinguished from capital instruments) do all, or nearly all, of the physical creation of wealth.^[17] As a study, binary economics is not reductionist,^[18] does not ignore the imbalance in power relationships between people,^[19] and does not assume that extensive poverty (over half of the world's population lives on under \$3 per day)^[10] is inevitable. Being concerned with social justice and economic justice it also notes that allegedly successful 'free market' economies show symptoms of profound failure – thus figures from the 2004 Census show that one fifth of Americans live on under \$7 per day.^[11]

Furthermore, binary economics addresses a number of weaknesses in the current economic system which are dismissed by conventional economics as being of no, or low, importance. The weaknesses include:–

- Almost all of the modern money supply is in the form of interest-bearing debt created and owned by the banking system^[12]
- The money supply is generally not directed at productive capacity^[13]
- Forms of productive capital remain narrowly owned and there is no policy to spread the ownership of productive capacity throughout the population^[14]
- People do not have their own independent incomes^[15]




 Courtesy [Trisakti University, Jakarta, Indonesia](#)

Binary economics is beginning to be taught in universities. The first such teaching is on the Islamic Economics and Finance postgraduate program at [Trisakti University](#), Jakarta, Indonesia. Trisakti is famous as the birthplace of the 1998 Indonesian [reformasi](#) revolution. It is the biggest private university in Indonesia and second only to the main state university in prestige.^[17]

Binary economics cannot be inflationary: it is *counter-inflationary*. Nor can it lead to a global financial crisis of the sort now threatening economies and markets. It upholds the periodic political vote but also ensures that all individuals have the everyday freedom stemming from an independent economic base thereby deepening democracy.^[16]



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Background

Although elements of binary economics can be found elsewhere,^[18] the first clear formulation of the subject was by [Louis Kelso](#) and [Mortimer Adler](#) (the American Aristotelian philosopher) in their unhappily entitled, but momentous, book *The Capitalist Manifesto* (1958).^[19] The title is a [Cold War](#) nomenclature in opposition to [communism](#)^[20] but the book's thinking can only be truly understood as being outside all left-wing and right-wing economics and politics – which is demonstrated by the attacks which were made.^[21] Thus, on the left, Soviet *Pravda* saw the book as “ramblings based on thinking along a dead end of history” – which was to prove egregious as communism was soon to collapse and binary economics is today increasingly being seen as a very modern economics and politics – while, on the right, [Milton Friedman](#) was nonplussed and could only conclude that binary economics must be “[Marx](#) stood on its head”.^[22]

Very obviously, extreme left saw binary economics as extreme right; and hard right saw it as extreme left. And equally obviously, the puzzlement and confusion of *Pravda* and Friedman only serve to confirm that binary economics is outside both left-wing and right-wing paradigms.^[23]

Kelso and Adler^[24] (and, later, Patricia Hetter Kelso) were to continue to write ground-breaking books^[25] explaining how capital instruments provide an increasing percentage of the wealth and, crucially, how and why capital is narrowly owned in the modern industrial economy. Their analysis then has an important consequence easily understood by market theorists – if what increasingly produces a larger percentage of the wealth (capital) is narrowly owned, then a properly balanced economy (implementing [Say's Theorem \(Law\)](#)) cannot come into being unless, on true free market and private property principles, capital becomes much more widely distributed.^[26] This is at the heart of the binary claim to create an efficiency which creates justice and vice versa.^[27]

Kelso and Hetter gave practical form to their thinking and proposed new binary share holdings which (with exception for research, maintenance and depreciation) would pay out their full capital earnings, be capable of being insured and, if loss occurred, would occasion no recourse to the new binary owners. Because of the full payout provision the binary holdings might well pay out more than five to nine times what is typically paid out today.^[28] Thus what was being proposed was a new widespread capital ownership to achieve a widespread income (thereby balancing supply and demand) and associated individual incomes which can be possessed by anybody in the population irrespective of whether or not that person is in a conventional job or not.^[29]

The “binary” (in ‘binary economics’) sometimes perplexes people. It means “composed of two” because it suffices to view the factors in production as being but two (labor and capital) and thus there are only two ways of genuinely earning a living – by labor or by the ownership of productive capital.^[30] In viewing the two factors it can also be observed that humans own their own labor but they do not necessarily own the other factor – capital.^[31]

Employee Stock Ownership Plans (ESOPs)

Very often the first acquaintance people have with binary economics comes through today's Employee Stock Ownership Plans ([ESOPs](#)). These stem from a binary concept although it is important to understand that (the original concept having been implemented for the purposes of the old paradigm rather than the new binary one) present ESOPs are not true binary ESOPs. Among other things, present ESOPs do not have full payout of earnings and – the key binary concept – do not make use of interest-free loans issued from the central bank and administered by the banking system.^[32]

It should be noted that the ESOP is only one of several techniques – e.g., Individual Share Ownership Plan, Consumer Share Ownership Plan,^[33] General Share Ownership Plan, Mutual Share Ownership Plan^[34] – which can be used to broaden capital ownership but all the techniques have at their heart the use of central bank-issued interest-free loans for the creation and spreading of productive capacity.^[35] Without those loans the primary defect in the present ESOP legislation will remain in that it requires poor and working people to acquire capital primarily with the present earnings of labor rather than primarily with the future earnings of capital.^[36]

Binary Economics Today

Over the last few years binary economics has been developing^[37] and, in particular, making universal its appeal so that its essence is more easily understood around the world.^[38] Apart from the books, key papers have been presented at an important series of conferences focusing on money supply and the real economy (see *Money Supply and Real Economy Conferences* below). Whereas, for example, the proposed uses of central bank-issued interest-free loans had been limited or under-developed, they now cover all the economy as long as the spreading of productive capacity is involved;^[39] whereas public capital and environmental capital were, relatively, neglected, they are now principal subjects;^[40] and whereas the first emphasis was on capital ownership it is now on the supply of interest-free loans for the spreading of productive capacity which can take many different forms.^[41] The emphasis on the interest-free loan supply is especially important for Islam.^[42] But, most important of all, binary economics is now seen to be by far the most universal economics with the most efficiency and the most justice so that it falls naturally within the global justice movement – see <http://www.globaljusticemovement.net> and www.globaljusticemovement.org – and, at the same time, it is an economics which corresponds deeply with core aspects of religious belief. It can thus be taken up by any society and any faith and, in so doing, they may call it their own.^[43]

One World...

For example, binary economics has a concept of unicity embracing all aspects of life.^[44] This resonates with Muslims (*Tawhid*);^[45] Christians (*Kingdom (or Kin-dom) of God*);^[46] Hindus, Buddhists, Jains and Sikhs (*Dharma*); and Jews (*Shalom*). Bodies like the Christian Council for Monetary Justice (www.ccmj.org) and the Washington D.C. Center for Economic and Social Justice (www.cesj.org) maintain the inter-faith aspects.

...Many Faiths

Furthermore, binary economics now confidently embraces major elements from the present and the past.^[47]

Past...

From the past come: –

- a prohibition of [riba](#) (interest)
- a strong ethical sense
- a sense of stewardship
- a demand for structural social and economic justice (as opposed to mere palliative charity).

...Present

From the present come key insights including: –

- money today is created out of nothing as debt on which [riba/interest](#) is imposed
- in respect of newly-created central bank loans which are lent interest-free for the spreading of productive or environmental capital purpose, [riba/interest](#) — as distinct from administrative and any other essential cost — is not merely wrong and debilitating of the economy and society but *is not necessary*
- the technological capacity exists to eliminate poverty and thus continuing poverty is the fault of human institutions and practices rather than of any inadequacy of equipment or expertise.

Binary economics says that past and present then come together to create a new economics, a new politics, a new social morality, a solution to the major problems of the environment and a deepening of democracy. On the latter point, the political vote is far from enough. In a world where 25,000 people die each day from the effects of unclean water,^[48] a deepening of democracy requires not only the vote but also the proper provision of clean water, health services, housing, education and also some form of income, if only minimal, for all individuals.^[49]

Other consequences of binary economics include an end to economic colonialism, a diminution of the national debt; an improvement in the position of women and policy to unite differing groups.^[50] Both national and individual sovereignty are upheld.

Uses of Central Bank-issued Interest-free Loans for the Spreading of Productive Capacity

Binary economics proposes that central bank-issued interest-free loans should be administered by the banking system and that, while no interest would be charged, there would be an administrative cost as well as capital credit insurance if necessary.^[51] This supply of interest-free loans for the spreading of productive capacity as well as for environmental and public capital would take place in circumstances of (over time, on market principles) a move to 100% banking reserves so that the banking system would not be continually creating money (as happens today) but would be confined to lending (with permission) depositors' money and the bank's own capital.^[52] New, efficient productive capacity will be the backing of the currency but if additional backing is desired that could be a basket of commodities (because the price of gold is not stable) although binary economics believes that, such the efficacy of its proposals, the commodities backing will not, in practice, be necessary.

The uses of the central bank-issued interest-free loans can be summarized as follows: –


Public Capital Investment



 *Alberta children's hospital*

Nanpu Bridge in Shanghai



 *Philadelphia Waterworks and Museum. Source: Jeannine Keefer*



Interest-free loans would allow hospitals, social housing, roads, bridges, waterworks, schools etc. to be built for one half, or one third, of the present cost. However, the capital projects can still, if wished, be built, managed, even owned, by the private sector.^[53]

With interest-free loans not only would the cost of public capital projects be halved or more but their financing would not need to be done with interest-bearing money. A major consequence would be a great diminution of the National Debt.

Throughout the world an estimated 25,000 people die each day as the result of dirty water.



Outpourings of sewage like this...



resulting in this...



can be ended by building this

Private Capital Investment



Fractionating columns

Ownership of productive (and the associated consuming) capacity can be spread by binary economics. ^[54]

Interest-free loans should be allowed for private capital investment *IF such investment creates new owners of capital and is part of national policy to enable all individuals, over time, on market principles, to become owners of substantial amounts of productive, income-producing capital.* ^[55]



Cement works in Norway


By using central bank-issued interest-free loans, a large company/corporation would get cheap money as long as new binary shareholders are created. The key point is that the cost, at the very least, is being halved while, at the same time, the ownership of productive capacity is being spread. ^[56]

“Green” Environmental Capital Investment

Interest-free loans should be used, in particular, for clean, renewable energy. ^[57] At present, a lot of green technology projects are not financially viable. With interest-free loans, however, they would become viable. At last we would be able to have clean electricity through tidal barrages, wave machines, wind turbines, solar electricity, and geothermal power stations. ^[58] Time is short. Global warning is accelerating. A crash program of clean energy-generating projects is urgently needed.

There is now also hope that some technologies, previously thought to be physically impossible, are practical. An example is the use of magnetic interactions for clean electricity generation which does not require the input of any other energy (i.e. “free” energy generation). Cars, houses, trains, factories could be powered by clean, “free” magnetically-generated electricity – see [steorn](http://www.steorn.com), <http://www.steorn.com>^[59] All of these technologies should be implemented with interest-free loans.



 La Rance, France, tidal barrage power plant

Clean electricity generation projects can be constructed at one half or less of the usual cost. The Rance tidal barrage in France is 330 metres long although similar structures can be many times larger and can also be built out at sea in shallow coastal waters.

Small and Start-up Businesses Including Microfinance




 Courtesy Mr & Mrs Eddleston, Greenhouse Farm, North Yorkshire, UK

Interest-free loans should be used for micro-finance, small business and farms thereby freeing them from the huge pressure of compounding interest-bearing debt.

Farm capital can be one half or less of the usual cost. The world’s poor people can be enabled to acquire some capital by the use of interest-free micro-finance.^[60]



 Women at a village pond in Matlab, Bangladesh, washing utensils and vegetables. The woman on the right is putting a sari filter onto a water-collecting pot (or kalash) to filter water for drinking

However, today, as in Bangladesh, the micro-finance money bears interest. This is because, increasingly, donor fatigue is resulting in the drying-up of grant money and so micro-finance lending institutions are turning to borrowing from commercial sources at interest. This causes the loans to cost twice as much as they need cost and that has dire consequences for people living on one or two dollars per day.

Loans to Older Students

Students should not be unnecessarily burdened with interest-bearing debt maybe for the rest of their lives. Interest-free loans should be available for older students whilst they complete their studies.




 Courtesy Trisakti University, Jakarta, Indonesia

Even at the age of five, good education is expensive and most people cannot afford it. In practice today, therefore, religious organisations or the state pay for most children’s schooling. In the absence of an alternative that has to continue.

Binary economics, however, aims to ensure that there is sufficient income for a child’s basic needs which include the provision of education. Over time, the income would increase sufficiently to pay for basic education at the older age levels.^[61] NB Upon leaving education the income would stay with the child (now an adult).



 Veterinary students

Environment



Binary economics spreads productive (and the associated consuming) capacity so that all individuals in the population – including babies, carers and those not normally in conventional employment – have at least some form of secure, independent income. The income starts small and grows larger over time.^[63] This is essential if there is to be any hope of changing people's attitudes towards excessive consumption.^[64] At present virtually everyone has either had a scarring experience of poverty or has a perception or fear that they might fall into poverty. In short, people feel insecure and that is one of the main factors in explaining greed. The insecurity – and the associated aggressive consuming attitudes – will only disappear if all people have material security and, at the same time, all people in some degree earn in exactly the same way as do others (i.e. at least part of their individual income should come through capital ownership). Only then will there be hope of people voluntarily minimising their greed.

Greed is also caused by the present financial system which creates sufficient money for the principal of interest-bearing loans to be repaid but does not create sufficient money with which to repay the interest.^[65] The result is that more interest-bearing money has to be created (with more inflation and more people going into debt) and more frenetic activity in the endeavor to try to make repayment.^[66] Worse, the system favors the short term destruction of natural wealth rather than its long term maintenance.^[67] Unless the role of interest in the financial system is substantially diminished not only is the environment at risk but so is the stability of the world financial system.^[68]

It is also the case that populations only stabilise when there is a reasonable standard of living, good education and health and at least some status for women. Binary economics provides these things and is essential if the present growth of the world's population is to be moderated.^[69]

Lastly, there is now an extraordinary range of 'alternative' green technologies capable of generating clean electricity but which cannot be used because, in the present system of interest-bearing money, they are not financially viable. With interest-free loans, however, they will become viable.^[70]



Productiveness

Students of binary economics may wish to be briefly introduced to an important binary concept – *productiveness*. Binary *productiveness* and conventional *productivity* are completely different animals.^[71]

Conventional productivity, in the conventional classical and neo-classical sense, is the ratio of labor as input to the overall output.^[72] As a mathematical fraction, it is output divided by human input.^[73]

In contrast, binary productiveness is the percentage of total input that labor and capital each contributes to the output.^[74] In binary economics, labor and capital are viewed as being of a different, although co-operating, nature and therefore should be seen as separate inputs contributing to output.^[75] Capital contributes an increasing percentage as even Marx understood.^[76] For example, a man digging a hole with his hands only will take four hours. But, by using a form of capital – a shovel – he can dig the hole in one hour or dig four holes in the same amount of time it took him to dig one hole with his hands. The productiveness of the human labor is 25% while

the productiveness of the capital shovel is 75%. Together, of course, man and shovel – labor and capital – produce much more than they would produce separately.^[77]

Where binary productiveness is concerned, it is also useful to consider the examples of an automated factory or a huge dam producing electricity and fresh water. In the case of the automated factory there is minimal or no human input (the work involved in design and building is over and has received its payment, and maintenance and repair are only maintenance and repair rather than a direct contribution to production).^[78]

In the case of the dam, with relatively little human input although it is critical, the physical output of the capital is huge and binary economics views the sun, weather and gravity as greatly contributing to the production. The latter are co-operating capital assets even if they are ones which cannot be owned.^[79] Binary economics views both humans and capital assets as production factors having an independent productiveness which does not stop their co-operating with other independent production factors but which does mean that their contribution to production requires individual recognition.

Criticism of Binary Economics

Criticism of binary economics tends to concentrate on the example of the man digging the hole. A paper by Timothy D. Terrell^[80] summarizes a critique given by Timothy Roth^[81] on the shovel example. The criticism claims that: a) somebody invented the shovel; b) the shovel cannot be independent. Roth argues that someone with human capital had to invent the shovel before it could be used, so the presence of the shovel is not independent of human capital. Also, Roth notes the presumption that the human hole digger has no role in the productiveness of the shovel.

But, firstly, the fact that somebody invented the shovel has nothing to do with its present use for digging a hole and binary economics views the shovel as an independent contributor which co-operates with the man just as the man co-operates with the shovel.

Secondly, just as two humans can, and do, co-operate, so the man and the shovel co-operate to dig the hole and produce far more holes than either the man or shovel could do by themselves.

Moreover, binary economics does not say the human digger has no role in the shovel's productiveness – both binary economics^[82] and Roth agree^[83] that man and shovel together produce far more than man or shovel separately.

Furthermore, when an automated factory, or a huge dam producing electricity and fresh water, are considered, the critics of the binary analysis of productiveness have a problem – in the case of the automated factory there is no human input (design and building have been paid for, and maintenance and repair are maintenance and repair but not a direct contribution to production). In the case of the dam, with relatively little human input although it is critical, the physical output of the capital is huge (and, don't forget, the sun, weather and gravity can be viewed as co-operating capital assets but ones which cannot be owned).

Money Supply and Real Economy Conferences

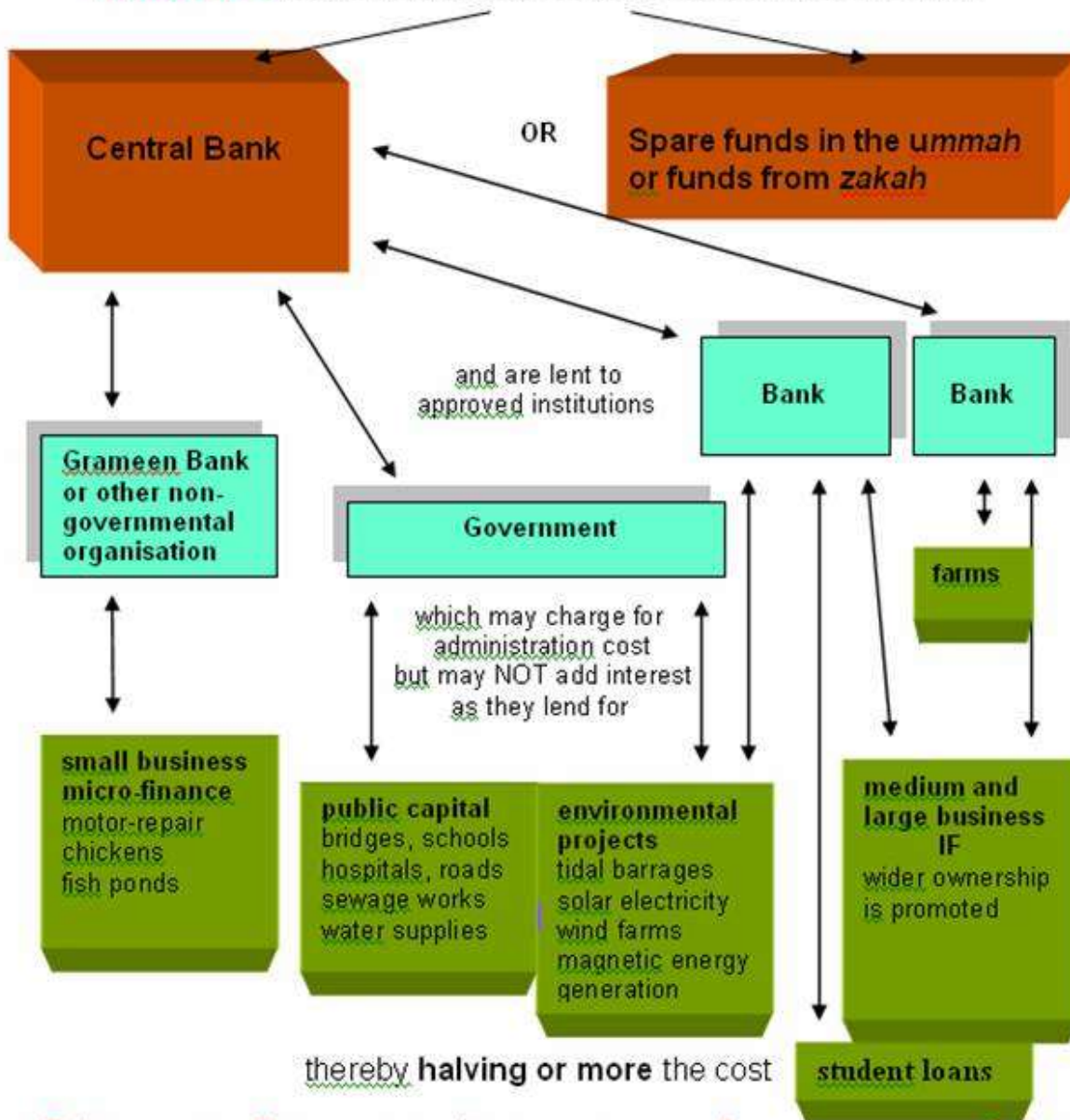
The Conferences are part of a continuing series.

- International Islamic University, Kuala Lumpur, Malaysia, August, 2002.
- The Trisakti University, Jakarta, Indonesia, January, 2004.
- International Islamic University, Chittagong, Bangladesh, December, 2004.
- McGill University, Montreal, Canada, September, 2005.
- Asian University of Bangladesh, Dhaka, Bangladesh, December, 2005.
- The Trisakti University, Jakarta, Indonesia, December, 2006.

Flow of Interest-free Loans for the Spreading of Productive Capacity^[62]

A gradual rise to 100% banking reserves requirement stops the banking system from creating money out of nothing

Interest-free loans for productive purposes then come from



B i n a r y E c o n o m i c s s p r e a d s o w n e r s h i p

Selected External Links

- [Center for Economic and Social Justice](#)
- [Global Justice Movement Net](#)
- [Global Justice Movement Org](#)
- [Integrating Islamic Finance into Mainstream](#)
- [Binary Economics - An Overview by Professor Robert Ashford](#)
- [The Binary Alternative & The Future of Capitalism](#)
- [The Binary Economics of Louis Kelso](#)
- <http://ssrn.com/abstract=277508>
- <http://www.cesj.org/binaryeconomics/price-money.html>
- <http://cog.kent.edu/lib/TurnbullBook/TurnbullBook.htm>
- [Capital Democratization](#)

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Footnotes

1. [^](#) Robert Ashford & Rodney Shakespeare (1999) *Binary Economics – the new paradigm*.
2. [^](#) Norman Kurland, Dawn Brohawn & Michael Greaney (2004) *Capital Homesteading for Every Citizen: A Just Free Market Solution for Saving Social Security*.
3. [^](#) Robert Ashford & Rodney Shakespeare (1999) op. cit. - John H. Miller ed. (1994) *Curing World Poverty: the New Role of Property*. There are five Justices at <http://www.globaljusticemovement.net>
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10. [^] “Over a fifth of the world’s population still live in abject poverty (under \$1 a day), and about one-half live below the barely more generous standard of \$2 a day.” *Technical Report of the High-level Panel on Financing for Development* (United Nations, Dec., 2000).
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30. [^] Louis Kelso & Patricia Hetter Kelso (1986 & 1991) op. cit.
31. [^] Robert Ashford & Rodney Shakespeare (1999) op. cit.
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35. [^] Louis Kelso & Patricia Hetter Kelso (1986 & 1991) op. cit.
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37. [^] Robert Ashford & Rodney Shakespeare (1999) op. cit. - Norman Kurland (2001) *Saving Social Security* at www.cesj.org. Rodney Shakespeare & Peter Challen (2002) op. cit.
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