# THE DEBT-FUELLED FINANCIAL CRISIS AND THE REMEDY

## an urgent appeal to our leaders of all political parties both at home and abroad

[Support the Subscription-free Social Capitalist Network]
**www.socialcapitalistnetwork.org**

**The Problem –**

The leading governments of the world in their efforts to address the debt-fuelled financial crisis are compounding rather than resolving the problem. This is because they have little understanding – or choose to turn a blind eye – to the systemic causes of the developing catastrophe. In brief, they are addressing the wrong issues; putting funding into the wrong hands; and vainly hoping to jump-start the economy by encouraging a spending spree which could shortly be disastrous to the better interests of ordinary people.

Our leaders are floundering in desperation in the swirl of an unknown sea, and in Britain alone £118 bn. is due to be borrowed in 2009 (representing approximately 8% of national income), of which £25.6 bn. will be given away between December 2008 and the following April; followed by little short of £120 bn. to be borrowed in 2010. And what would have been unimaginable just several weeks ago – out of the blue – the government has recently added another £350 bn. *extra* onto the cost of the rescue package forced onto taxpayers in baling out the reckless banks!

These compulsive (if not thoughtless) political decisions are intended to reverse the paralysis of monetary circulation. But to complement (if not to contradict) these intended policies they are to be followed by tax increases and spending cuts amounting to £12.3 bn. within the next two years. Whilst the economy is estimated to shrink by 1.25% in 2009, VAT is to be temporarily reduced from 17.5% to the minimum allowable by EU law of 15% (although eventually it is to be raised to 18%), but already leading business commentators are predicting that such a gesture is not even likely to be noticed by shoppers.

The circumstances in which our political leaders are throwing money at the problem is irresponsible for many reasons, most of which are cited below. Does the Labour party in this country, or the government of any hue in any other country, realise that this reckless pumping of money into established financial institutions will in all probability lead eventually to: a) Tax increases which reach intolerable levels; b) The impracticability of maintaining any reasonable system of old age or retirement pensions, howsoever organised; and, c) The dismantling of most, if not all, sectors of the welfare state, so that serious illness or accident will lead for many to financial ruin?

With regard to the financial institutions, as presently structured, it is doubtful if they are capable of utilising this state funding for a desirable productive or socially beneficial purpose. The money thrown at them is like confetti at a wedding reception, for government has no control over its eventual use, and it is more likely to be lost in the black hole of usurious interest.

There is much talk by politicians of “forcing” the banks to lend to “small business.” This is an absurd hope, reflecting the unforgivable ignorance of our leaders of how banks can or do operate. If the banks *could* lend they would probably do so. It is not so much a question of their being risk averse as their competence (or suitability) to take on the *responsibility* for lending when their only real criterion of security is a “hunch” for success or failure.

Meanwhile, these state-funded resources received by the industrial corporations (or smaller business) are more likely to be misused in different ways. In a slump environment business is more likely to sit on the funds until the arrival of a sunny day, or to pocket the proceeds for a private purpose, than to oil the wheels of industry for productivity. This is because a recessionary situation paralyses the will in every department of an enterprise.

And all such payments, even if alleviating short-term pain, will tend to exacerbate international debt, and worsen the situation for us all in every part of the globe. The first lesson our politicians must learn is that the root cause of the financial crisis is traceable to the destructive imbalance throughout the world between the producers and non-producers of tangible goods. There is a failure to differentiate the economic consequences between *Social and Unsocial Wealth Creation*.

The failure of the so-called "advanced economies," especially America and Britain, to produce sufficient tangibles, will inevitably consign them to catastrophic decline, and the collapse of living standards to third world levels, in the not too distant future.

The optimistic nonsense of the post-industrial theorists, and all the delusional intellectual support they have given governments over the past few decades is now coming home to roost! Something *had* to replace tangible productivity and the service industries which supported it. New occupations *had* to be found for those who were thrown onto the scrap heap of unemployment.

How was the problem to be solved? In two ways: firstly, through increasing public sector employment to unprecedented levels; and secondly, through creating new service industries which fail in the longer term to maintain the self-sustainability of communities. Much of this new employment (including that in the public sector) was denominated "productive," but this entailed a false interpretation of productivity.

Hence academia in Britain, America, and elsewhere, dreamed up an illusional economics which seemed to satisfy the hopes of both the financial-industrial establishment and the governments of leading powers. But reality was to undermine this optimistic gloss. The reality was that economies stripped of their tangible industries were forced increasingly into the path of *Unsocial Wealth Creation.*

This inescapably entailed a malign or usurious money-creation, just to keep the economy afloat. In a society which purported to be "democratic" or "advanced," this brought into play the entire population through high-interest loans which were "enforced" rather than merely "offered" to the majority in innumerable situations of everyday life.

As tangible productivity declined, ever-new methods of usurious lending, or other financial scams, had to be invented in justifying the apparent financial viability of nation states. The latter had long since been accustomed to public debt, but *institutionalised personal* debt was something entirely new, and possibly the former may have been interpreted in justifying the latter in the eyes of the authorities. In any event, governments turned a blind eye to the situation – even when it clearly reached insane proportions – merely accepting it as the new normalcy of economic life.

Anyone who protested against the suicidal economics of such a rentier economy was immediately slapped down as being "out of touch with the contemporary world." But sometime in the future our descendents will stand aghast at the crass stupidity and ignorant superstition which allowed men and women to believe that such a debt-fuelled economy could exist at the start of the 21st century, and could have survived so long without someone proclaiming that, "the emperor has no clothes!"

The greatest social evil of the situation is not necessarily to be found in the increasing indebtedness of the individual (bad as that is), but in the macro-economic consequences of the polarisation of wealth throughout society in both the domestic and business spheres of activity. The democratisation or extension of "financial giving" (to express it in the most generous terms) to the lowliest members of the community was in fact the very reverse of that. It was, in fact, not only a process of universal dispossession, but also a process of universal disempowerment in the control of the economy as business structures were unnecessarily concentrated into every larger patterns of conglomerate ownership.

Despite all the illusions created by academia, a fair proportion of whom were prostituting their knowledge and skills to corporate interests, and despite all the assurances of government and the financial-industrial establishment to assuage the feelings of the sceptical, something was bound eventually to crack. This is because personal debt is very different from public debt. The latter can simply be written off with the stroke of a pen and the printing of money. But the individual has no such resource. When his money runs out he has come to the end of the road.

And when the plight of the individual is multiplied several million times over, something else occurs: the breakdown of *trust*, and trust is the pivot of any financial system. Although trust is no more than instinct or feeling, it defies all reasoning, all persuasion, and every attempt at intellectual ingenuity. It is more powerful than both the sword and the pen for nothing can confront it on its own uncompromising terms. It is trust on which any median of exchange is dependent: on seashells and clay tablets no less than on silver, paper, or gold; for when trust is lost, the financial system collapses like a pack of cards.

It is because of these factors that our leaders, in their ignorance of the real world, are left gasping in disbelief as each major bankruptcy or state of insolvency is announced. And they exacerbate the situation with calls for "boldness" (which is a euphemistic cry to "shut your eyes" whilst being bold); or when they throw money at the problem, as if to buy off a threat through surrendering to the superstition of an unknowable force. And when they assemble internationally they conclude their deliberations with facile assurances and meaningless promises to resolve a worsening crisis. The real truth is that none are capable of floating a constructive idea since they insist on averting their gaze from the root cause of the trouble.

The instinctive response of our leaders in throwing millions or billions of taxpayers' money at the problem is admittedly no more than a *gamble*. And as *gambling* it is hardly less reprehensible than the irresponsibility of the financiers who got us into this mess in the first place. This paper is therefore a deep-felt appeal to our political leaders to adopt a rational approach to the problem, so that money spent is spent wisely, and with some certainty for its good return.

**The Remedy –**

What then is the answer? Our leaders should address the question of *Social Wealth Creation* within their own national borders, i.e. the need to promote home-based manufactured commercially viable tangibles, in fulfilling desirable modes of employment. They must extricate themselves by necessity from involvement with the international domination of trade or manufacturing which too often subtracts rather than adds to the welfare of the peoples to whom they are electorally responsible. In conjunction with this our leaders should avoid such meaningless jargon intended to describe various *international* aspects of commerce, such as "British interests," "promoting the economy," or the "need for profits," without specifying exactly what they mean by these terms.

This is because "British interests" may mean downsizing, transferring plants abroad, and putting British workers out of jobs. "Promoting the economy" may mean throwing money at commercially non-viable projects or expanding the tax-oppressive public sector; whilst the "need for profits" may mean nothing more than helping to fill the pockets of multi-millionaires, or paying excessive dividends whilst also expanding the usurious economy.

For all these reasons, the first priority of our leaders should be to discriminate between the different ownership structures of business: i.e. independents, groups, or corporations; and then to differentiate between their conflicting interests and profit structures according to national or international benefits. For example, the needs of an industrial plant seeking to maximise the turnover of quality products is very different from that of its corporate owner, sometimes situated half a world away.

Whilst the first is working for the longer term for purposes which are *socially desirable*; the latter is only interested in the short term and deriving usurious profits from its subsidiary which ultimately are ruinous. In the role of management consultancy I have confronted just such a situation on innumerable occasions. Are our political leaders, therefore, to throw money at these corporate bosses to stuff into their own pockets; and if such funding is to be aimed at subsidiaries (where industry is really based) how is government to prevent it being filched by the transnational moguls?

This should be quickly followed by a third set of analyses and legislation entailing changes to company law in, a) Promoting smaller and more efficient scale enterprises; b) Encouraging greater competition and innovation; c) Democratising business through more open financial planning, in ridding enterprise of corruption, and opening promotion to greater talent; d) Ensuring the total commitment of employees through justice in the workplace and a fair wage system; and, e) As argued powerfully by Shann Turnbull PhD, Principal of the International Institute for Self-Governance in Sydney, enabling locally-issued Free-Money (as successfully achieved during the Great Depression in the 1930s) to create a New Economy and reinvigorate industry.

It would be criminally negligent of government to advance or loan financial resources to the productive sector without first putting into place a number of essential conditions. No finance should be authorised *directly* to any enterprise except through the medium of responsible lending institutions. Whilst the UK clearing banks are not competent to lend responsibly to business, the commercial banks are only geared to lending to corporations and multi-nationals. Meanwhile the 3i and venture capitalist institutions are not really competent to finance the tangible productivity required – and neither is it likely they would choose to do so. This is because their loans entail the charging of excessive interest within restricted time periods.

This means there are currently no suitable lending institutions for the purposes required within the UK. The huge task therefore falls to government to sponsor the establishment of appropriate lending institutions, and these would constitute, a) The founding of industrial investment credit banks, on the German and Japanese models, with bank directors appointed to the boards of companies to act as financial managers; and, b) The formation of tightly regulated regional stock exchanges, only dealing in securities officially introduced; their client banks working on commission and technically as responsible principles even when representing third parties; and business would be transacted daily between members by direct negotiation without jobbers or their equivalents being employed. Such stock exchanges would be based on the Swiss model.

Such institutions as described above would be responsible bodies for the financing of industrial investment, and moreover, would be wholly committed to the pursuit of national interests.

But such funding activity, even when promoted in conjunction with the finest acumen of business enterprise, is not sufficient to guarantee industrial success. Something more is required through the efforts of state initiative. Not only must currency exchange rates be set at a nice level, but strategic import controls must be set in place in enabling the rapid growth of chosen industries. The hypocritical call for “free trade” which condemns such restrictions, conflicts with the fact that the strongest world economies, viz., America, Japan, and Germany, have traditionally (even if covertly) been protectionist for many years.

There should, of course, be a mutual understanding between friendly states which appreciates the necessity for selective protective trade policies. And in view of the depth of the present crisis, such policies should be allowed to override those of the various trading blocs which are so often restrictive and economically deleterious to their members. There is therefore the need to differentiate clearly between *national* and *international* interests, not out of selfish or narrow motives, but for *survival* in the light of each country’s differing needs.

As Henry Kissinger wrote in his article, “The World Must Forge a New Order or Retreat into Chaos” (*The Independent*, 20th January 2009): “Every country will have to reassess its own contribution to the prevailing crisis. Each will seek to make itself independent, to the greatest possible degree, of the conditions that produced collapse; at the same time, each will be obliged to face the reality that its dilemmas can be mastered only by common action.”

Furthermore, if peoples and their governments are to reclaim their *democratic rights* by exerting political power through the ballot box, this can only be achieved through the pursuit of national policies of economic benefit to majorities. This is because the overwhelming power of global or Rentier capitalism have made eunuchs of elected governments and reduced them to the fawning poodles of transnational corporations.

National governments of all political parties at the present time, cannot and do not attempt to contradict the decision-making of international financiers, and in this way everywhere the interests of majorities are sacrificed. It should further be noted that transnational usurious rentier capitalism is not only democratically unaccountable to any authority or nation state, but is unaccountable to the good of the environment, or the good of any aspect of welfare in advancing the interests of humankind, irrespective of whether they be democratic or otherwise.

Hence national institutions must be established for the pursuit of national needs, and these will entail the sidelining of those authorities promoting the purely speculative and usurious interests of international finance. Thus the need for regional stock exchanges confined to advancing home-based profitability, linked to *productivity*, as described above. Although international bodies must eventually be founded for endorsing these, there is no time to wait for such international initiatives. Each country must first look to its own good before organising for global cooperation.

Another obligation of the state in monitoring business is to oversee the process of productivity. Productivity should not become a fetish *per se*. Productivity is by no means a desirable good in all circumstances, and indeed, may often degenerate into an ill for society or the better economic interests of the nation state. Hence it is necessary to ensure that tangibles are produced according to a sound environmental agenda, and this includes the need for lasting quality, and the avoidance of built-in obsolescence resulting in the creation of mountains of scrap.

And by the same token the current dogma of growth should not be accepted as a universal panacea for all our woes as it is by most political parties. There are a variety of situations when growth can put an economy out of kilter, but in a free enterprise society adjusting the faucet of growth requires exceptional skill and foresight. Promoting the national economy – taking Friedrich List as our guiding star – clearly entails intervention or *dirigiste* authority, but state initiative is also needed in moderating the intensity of competition through licensing arrangements; or in re-directing vocational training in our schools and universities; or in preventing cyclical downturns through other production controls; or by taking other measures in good time for redeployment in preventing worklessness.

Tangibles should be produced by the latest computer-aided technological processes in reducing long-term unit costs and maximising competitive edge. Employment creation in the manufacturing sector should be sought through reducing employment numbers in specific plants whilst ever-increasing the number of separate manufacturing enterprises.

None of this should be interpreted as an argument for nationalisation, but it should be interpreted as an argument for *dirigiste* policies, i.e. constructive intervention into the private sector. This may contradict the threadbare principles of laissez-faire, but we are now looking to patterns of reform which may change the financial-industrial system out of all recognition with that of the present day.

This looks to the need for each nation state to be as self-sufficient as it can in all essentials, whilst restricting international trade to the minimum in helping reduce harmful carbon emissions. Economic self-sufficiency is not only the path to a stable and more peaceful world, but in the light of technological modernity, for greatly enhanced living standards for the majority. The economic insanity of cash crops of carrots grown in Kenya for export to Europe, or the air transportation of broccoli from Bolivia to the northern hemisphere, may bring riches to the giant transnational corporations and their investors, but it wrecks local economies, and brings no good to ordinary people in any part of the globe.

**The Urgency –**

Much clearer distinctions must be made by governments between Social and Unsocial Wealth Creation, and the benefits and disbenefits drawn from the conclusions, should as a constant warning, be included within the mainstream educational system of schools throughout our planet. If the present financial crisis has not already demonstrated clearly the intellectual bankruptcy of classical economics and the laissez-faire of unprincipled rentier capitalism, then nothing ever will. The time has arrived for new thinking and radical legislation in reforming our financial institutions from the bottom up.

The reality of our present situation, as gleaned from the above analysis, makes it imperative that every nation state should safeguard its integrity by any means at its disposal. This is a democratic right which cannot be removed from any people in maintaining justice and equity. All countries exist with equal rights, and none should be allowed to oppress another through financial exploitation, or what is still often referred to as “imperialist” or “colonialist” oppression.

No country has the right to “buy” another, or become hopelessly indebted to another, unless it has voted for self-enslavement through the ballot box. This means that *in extremis* every nation state has the right to expropriate foreign assets, and the justifying precedent for this was the seizure and nationalisation of the Suez Canal by Egypt in 1956. The surprising relevance of this can only be comprehended on realising the dependence of Britain for her essential utilities, as water, gas, and electricity, on foreign powers which may deprive her of the wherewithal for her existence overnight if they so chose.

This is Britain’s vulnerability as a nation stripped of her productive assets! Such a clash of conflicting interests is unlikely to occur, but it is not beyond all probability. For these reason, i.e. a distant but deadly danger, it must be Britain’s first priority – and indeed, of all peoples in like circumstances – to promote the principles of the national ownership of all wealth creating assets against the penetration of foreign interests.

And under no circumstances should our political leaders be fearful of taking necessary measures, or be fearful of confronting or even attacking these financial behemoths. After all, it is they who caused the debt-fuelled catastrophe in the first place, not through mere accident or absence of mind, but through designing ever-more money-creating scams in polarising the ownership of wealth which were bound eventually to culminate in disaster. And in any event, there is no way to avoid the need for repudiating globalisation as we experience it.

Although these corporate usurers exert a global power defying the boundaries of ordinary social norms, they nonetheless may be brought to book by the legal institutions of nation states or international law; and although they may flit from one tax haven to another in their yachts or private aircraft, they are nonetheless domiciled by the obligations of nationality somewhere, and consequently may be summoned to answer charges of conspiring against the common good.

When these usurers are confronted with the malfeasance of their practices, and the need for the proper overhaul of the financial institutions, they will immediately and always respond with arguments that *all* are somehow locked into  the financial system as it stands, and hence that any meddling will threaten the welfare of us all. But this is a spurious argument since when anyone from the 90%+ majority weighs the pros and cons, the negative balance of interests will quickly be perceived. Therefore, the overwhelming argument for major and uncompromising reforms are inescapable.

Our political leaders should remind themselves that the nation state is the ultimate embodiment of law and ethical life, and that no individual, howsoever rich, can with impunity buy himself out of his moral obligations to the community or humankind.

In the pursuit of stability and social justice our leaders should seek to ensure that the majority own and control the means of production, distribution, and exchange, not through a meaningless collectivity or representative body imposing its authority in the socialist sense, but through *individuals* exerting the responsibility of direct power, following changes to company law, through co-determination and differing modes of employee share-ownership. In a highly educated advanced technological society, such policies at one and the same time promote industrial dynamism, trust and fairness in the social order.

An economically creative majority cannot be maintained without the security which comes from promoting the age-old virtues of saving and thrift, and the condemnation of superfluous expenditure and wasteful goods. This naturally raises a host of questions on the desirability of differing modes of human behaviour, but it also demands that the majority should be assured fair, reliable, and constant returns on investments over extended time periods.

Interest payments to all are an essential component of a just and sound economy, but this is inevitably accompanied by minimal inflation, so that over a period of years fixed assets as buildings, art, antique furniture, antiquarian books, etc., gain in value and may be used if necessary as collateral in careful borrowing. In this way controlled inflation is made a benefit to the more frugal members of the older generation through enhancing the value of the better assets they should have accumulated during a discriminating life.

None of the above should be interpreted as a repudiation of those serious economic thinkers intent on establishing interest free systems, either for personal borrowing or the funding of public projects. The viability of any such paradigms can only be demonstrated through their application in the real world. We may already witness the outstanding success and invaluable social benefits of the Grameen bank as established by Mohammad Yunus in Bangladesh and elsewhere; as well as the equally successful projects of Hernando de Soto in empowering the dead capital of the poor in Peru and other south American countries. It is therefore vital to retain an open mind on alternative economic systems, and to contradict those vehement financiers who with their narrow vision would deny the possibility of better economic theories for the future.

The diagnosis and remedies presented in this short paper transcend the superficialities and subjective vested interests of party politics. A disinterested approach is called for. In a mature world – and certainly in complex advanced industrial economies – no good outcome can be expected in the future from the clash in pursuing private or personal interests. There is the need for syncretising interests towards a common purpose, and this is only possible through the development of enlightened concepts appealing to the ethical sense of humankind. Hence the objective approach of this paper seeks to serve the best interests of humankind, irrespective of race, nationality, belief, or class, etc., as well as in the interests of the environment and the planet.

As the arguments in this paper are concerned with *factual* mechanisms of the financial-industrial infrastructure rather than the preferences of specific groups, they are not addressed to any particular political creed or vested interest. They are addressed, on the contrary, to leaders and members of groups across the broad spectrum of political life. And because of this objective or scientific approach in examining the implications of our debt-fuelled financial crisis, there is no need to apologise for the wide-ranging radical nature of the remedies proposed.

The unique nature of the present crisis marks the end of an era, since it demonstrates the destructive unpredictability of our casino-like financial-industrial system. New funding institutions are called for which, a) Concentrate on the true productive purpose of business; b) Minimise the usurious tendencies in charging excessive interest; and, c) Create an economic system for greater stability in the longer term. The sole purposes of industrial lending should be, a) To assure the success of commercially viable productivity; and, b) To award fair returns to investors.

Instead of this, in our skewed economy, good practices have been reversed, i.e., the profits of lending have reached usurious proportions, whereby the purpose of productivity has been sacrificed on the altar of maximising speculative profits. This has led through regressive stages to manufacturing decline; downsizing; the bankruptcy or transference of plants to foreign locations; unemployment; the imposition by the financial institutions of an increasingly personal debt-based economy (as a desperate substitute in replacing the lost profits of sound business); and finally, to the inescapable breakdown of trust in the means of exchange, and the collapse of banks, corporations, and many sectors of business.

In the long-term perspective of world history, this is not an unknown phenomenon. It is a pattern reflecting the downfall of civilisations witnessed many times before. This emphasises the urgency of the situation. The time has arrived for our political leaders to defy the increasingly devious machinations of financiers hidden in dark places to create money out of money with no social or economic benefit to the majority.

There must be a call for sanity in a world where productivity and the honest sweat of hand and brow receives its due reward in maintaining the social and economic health of the commonweal. The failure to address these problems in good time with the remedies proposed will eventually bring disaster upon us all.

**For further reference and reading –**

For elaboration of the analyses and remedies proposed in this paper, together with a description of the reforms necessary to our financial-industrial system, consult the author's 3-volume work cited below. This is a jargon-free book addressed to the thinking lay reader from any sector of society, in addition to academics, administrative officials, elected representatives, and others with political commitments:-

***Social Capitalism in Theory and Practice***

Volume I *Emergence of the New Majority* ISBN 978-0-9556055-3-6
pp. xxv/282 Notes, Appendices, Bibliography, Index
Volume II *The People's Capitalism* ISBN 978-0-9556055-4-3
pp. xx/461 Notes, Appendices, Bibliography, Index
Volume III *Prosperity in a Stable World* ISBN 978-0-9556055-5-0
pp. xx/473 Notes, Appendices, Bibliography, Indices
Introductory volume:- ***Egalitarianism of the Free Society*** *and the end of Class Conflict* ISBN 978-0-9556055-2-9 pp. xviii/317 Notes, Bibliography, Index.

All the above titles may be browsed direct from the SCN's website on **www.socialcapitalistnetwork.org,** together with on-line facilities for immediate purchase from leading booksellers, often at discounted prices. In addition, all the above titles are available from any good bookshop.

**Action plan –**

You are invited to help in this national and international public initiative in reforming the financial-industrial system for a better world by joining the subscription-free ***Social Capitalist Network (SCN)***. Membership of the Network is open to anyone of 16 or over, irrespective of nationality or status, who is committed to the aims of the cause, by submitting a letter of intent which includes: full name, postal and e-mail addresses, and telephone number. Membership may also be accessed through completing a form on the Social Capitalist website cited below. Membership is accepted in the trust that members shall e-mail this communication to as many persons within their circles of contact as is desirable. A print-friendly version is also available for hard copy A4 print outs and may be requested from the address below. It is a condition of membership that under no circumstances must any abridgement or alteration be made to the text of this document or any other document issued by the SCN. Each applicant to the SCN will be e-mailed a membership number. Although the SCN is a subscription-free organisation, donations may be sent and cheques made out to: The Social Capitalist Network, c/o The Secretary, 6 Southgate Green, Bury St. Edmunds, IP33 2BL. E-mail:- social.capitalism@tiscali.co.uk Website:- www.socialcapitalistnetwork.org