



Limitations of the Economic approach in addressing the banking crisis

In this article the author, *Robert Corfe*, argues that technical issues are getting in the way of resolving a problem which is bigger than many specialists are prepared to admit. Tampering with the mechanisms of banking practice will achieve little – and certainly not appease the

greed of those at the top, or prevent a repetition of the disasters of 2008. The author criticises what he describes as the narrow academic approach, and insists that the first step is to re-define the purpose of banking as a more socially beneficial service to the community. Only then will it be appropriate to discuss the technicalities of banking in ensuring success for the future. *Robert Corfe* is the author of a major 3-volume work, *Social Capitalism in Theory and Practice*, first published in 2008 and now reissued in a third impression.

The debt-fuelled financial crisis and the problem with the banks are purely economic questions. Surely that is obvious – or what we are led to believe! In fact they are nothing of the sort. Of course they have an economic dimension. But seek out an economic answer – pure and simple – and in the end, nothing will be satisfactorily resolved.

Economics is a beautiful science. It offers a multitude of opportunities for mathematical modelling, stretching the intelligence in all manner of ingenious exercises, and finally when the task has been completed, not only a wonderful feeling of satisfaction and achievement, but more significantly, a sense of certainty that truth has at last been reached.

In an age when numerical quantification and qualification tends to be regarded as the only form of knowledge worthy of serious regard – certainly in an academic environment – this is certainly true. Knowledge based on other forms of thought is merely dismissed as will-o'-the-wisp, or as the product of a fanciful imagination. Such an attitude never existed until the early decades of the 20th century.

The truly great economic thinkers as Adam Smith, Friedrich List, or J.S. Mill, were all-round thinkers with a broad view of society. They may have had small chinks in their armour, but by comparison with the dogmatic specialists of recent times, with their gaping oversights and lop-sided views of economic reality, their forebears were intellectual giants. The approach of contemporary economists tends to produce a tunnelled-vision view of the world, narrow, parochial, and restrictive, for the reason that so much of reality or the uncovering

of factual knowledge cannot be revealed through resorting to numerical systems of quantification.

It is also an approach which has led to continuing acts of idiocy, and to financial waste which may be measured in billions. This is because commonsense is pushed aside in the cause of misapplied scientific method, or by irrational anxiety that nothing must be accepted which has not been tested against a formal system of mathematical analysis. Witness the research projects, wrapped in ingenious intellectual packaging, to prove that 2 and 2 make 4, or some other fact hardly doubted by any ordinary person of sound mind.

Witness the wastage by government bodies on long drawn out consultancy projects which construct nothing, but are only set up to prove or disprove an irate difference of opinion amongst civil servants. And such disputatious quarrels arise in the first place between those who dare not produce answers to questions unless they are the outcome of some ingeniously reached mathematical quantification. This occurs in a world which is barren of ideas, without allowance for an iota of imagination or ordinary commonsense. It is an idiocy which has arisen through the advancing sub-division of knowledge into ever-more watertight compartments.

The answer, of course, is the creation and encouragement of broader spheres of inter-disciplinary studies, but the latter, unfortunately, is either not occurring or is “not working” in the wider world – or what is more commonly referred to as the *public domain*. Why is this? Because academics not only thrive on ever-narrower spheres of specialisation, but on the competition and arrogance entailed in jealously defending their little patches against other truths in the realm of learning. And the irony is that it is through the very contraction of their insight that they enhance their reputations through this questionable form of intellectual combat. Throughout the social sciences, the ongoing flood of papers from the PCs of hidebound academics cover topics which are becoming progressively more trivial and worthless as the years pass by.

Most such papers, irrespective of length, are naturally supported by bibliographical lists quoting the latest and supposedly authoritative sources, and these, it is assumed, give credibility to the papers concerned. In my opinion they do nothing of this kind. They do no more than record the latest tit-for-tat in in a running controversy. They would have more credibility and breadth if their sources were taken from a longer time-span, judged more according to the reliability and reputation of such sources, rather than the ephemerality indicated by their recent appearance.

Such papers trivialise a topic through confining it within a too narrow framework. This is when a broader perspective is required for a proper understanding of the subject under discussion. In such circumstances, all that is achieved is to distort or set askew the understanding of a topic, so producing papers which are a waste of effort and often worthless in themselves. Such a contention would not, of course, be accepted by their authors, for the reason that

they satisfy the demands and criteria of some senior don sitting in his ivory tower. Some sympathy, therefore, must be allowed these authors in their struggle for formal recognition (and may be promotion), for they are obliged to ingratiate their employers irrespective of personal opinions they may hold.

My indignation arises not so much from those who are seemingly unaware of the internal corruption of a system, as the fact that we live in a world where *real* and urgent problems are just not addressed. No serious thought has yet *begun* to be given to the manifestations of the debt-fuelled financial crisis or the staggeringly outrageous behaviour of the banks. Should it not be the purpose of organised knowledge to address these major problems in the real world instead of squabbling about the ownership of deckchairs on a sinking ship? The question therefore arises as to balancing the purpose of knowledge for its own sake as against its purpose in serving the needs of the community. In any event there is a need to reorganise knowledge and the curricula of studies. It may be that some of our top universities are too money-rich with their properties and landholdings, and have become so complacent and removed from the real world, that they are no longer capable to differentiating between useful and useless knowledge.

There is also an issue with the exaggerated belief that progress is stimulated primarily through conflict, or the pitting of opposites against one another. There is, of course, a truth in the Hegelian concept of thesis, antithesis, and synthesis, in the unconscious process of gradualism towards a better future, but if this is then applied to the rationalism of the everyday world, it leads to immense waste in time and energy. What is instead needed in the world of academia is a more syncretic approach. This would reflect a greater intelligence in more generously extracting truths to be seen in opposing arguments. There is little to be gained from knockabout behaviour except for bad feelings and idiotic retrenchment into impossible situations.

There is perhaps another and perhaps more serious question to the issue of knowledge: to what extent are academics influenced by outside vested interests? The answer is: in modern times to a greater extent since the challenge to Church authority in the 16th century. This is not only reflected, for example, through teaching certain principles of classical economics which have now been discredited in the everyday world (even though they may be disguised in new clothing) since they happen to satisfy the thinking of powerful financial interests; but more significantly, when note is taken of those academics who hold directorships or highly paid advisory roles in major corporations. This especially applies to those employed in business colleges or leading institutes of economics and the social sciences.

Here we see a gaping divide between competing interests. If knowledge as a thing in itself may be raised as a topic for discussion; the need for knowledge as disinterested or objective truth remains indisputable. But knowledge for its own sake and knowledge as objectivity are not necessarily the same thing. The latter insists *always* on connectivity with the real world and the necessity of

addressing urgent human and global issues. If knowledge within the world of academia becomes excessively an ivory tower activity – and here I’m referring predominantly to the social sciences – with a rising mountain of useless paper and wasted brainpower, and its intolerable burden on the public purse, then the state is justified in intervening through ruthless cuts in expenditure.

Let us return to the harm which academics inflict on one another through the pursuit of over-specialisation, and more seriously, the compromising of objective truth. Many, if not most papers, take the form of critiques against the arguments of others, and if that is not the major purpose of most theses, the majority are littered with nit-pickings where silence might have been the better choice. But then nit-picking is always taken as a mark of sharpness, whilst to overlook the possibility of a fault, is interpreted as a careless oversight. Academics live in a world of glass houses where all are throwing stones, each in an attempt to enhance his status in the eyes of his particular faculty.

This obliges all to strengthen the walls of his or her very vulnerable “fortress” in further contributing to the narrowness of his speciality. In such an environment dogmatism is piled on dogmatism, and as breadth of vision surrenders to the increasing microcosm of depth, wisdom gives way to greater idiocy.

This article was motivated by a perusal of the 150 or so contributions sent in to the Chairman of the Independent Commission on Banking, Sir John Vickers, in the closing months of 2010 in the wake of the banking crisis. As a regular subscriber to professional academic journals in the social sciences, I must also add (with some dismay) that the article was also motivated by the huge waste of intellectual and financial resources through the ever-flowing flood of papers on paltry topics, whilst meanwhile, Rome is left to burn.

The increasing division of disciplines into watertight compartments is the curse of our age, and it is no excuse to blame this on the overload of knowledge in the 21st century. Attempts at establishing successfully inter-disciplinary studies to overcome this problem have failed to date, predominantly, in my opinion, because of the nature of competition encouraged amongst academics for recognition and promotion linked to the organisation of knowledge. If academia has become a world of spitting cats with claws as sharp as razors, this is only because every scholar is more intent on “defending his patch” than in reaching the truth.

This is not so much a call for *Generalists* to confront *Specialists*, as an appeal to the latter to extend their vision and apply their relevant knowledge on a broader field. In any case, no specialist in the field of the social sciences, in my opinion, is entitled to regard him- or herself an educated person unless he is also a Generalist. No pet or “big” economic idea or theory has an answer to all our problems, because every idea which is drawn from mathematical demonstrations alone is eventually confronted by internal contradictions. This is partly because economic conclusions have no answer to questions of right and wrong; and partly

because the greater questions in creating a better society are only produced through a set of variables which cannot be fitted into the scientific framework of any particular discipline.

The greatest political thinkers have always been generalists because of their breadth and ability to transcend the world of academia in also capturing the imagination of the educated lay majority, and when they have failed in any aspect of their work, it has always been through their adherence to some pet economic theory which only held relevance in particular circumstances and time. There is no great thinker without some flaw to be discovered in his armour. In looking forward to the future, we are bound to build on the traditions of the past, but we should bear in mind that all such heroes for our inspiration are idols already overshadowed through the benefits of progress. Hence healthy progress demands that new ideas and theories should differ distinctively from those of the past, and not merely project themselves as pale imitations in attempting to resurrect the dead. Such a course is always reactionary irrespective of where it appears in the political spectrum.

A further and obvious point is that although economics remains the most important discipline in political science for the interpretation of events in hindsight, it cannot easily be used as a predictive science for the reason that unforeseen factors always tend to intervene. Economics should therefore always be regarded as the servant of society and not its master, for although it may be the most significant force in political life, there are nonetheless other competing forces of almost equal significance: most notably, the will to power of individuals and peoples. Economics, then, should be subordinated to higher human or global values.

With regard to the many contributions sent in to the Independent Commission on Banking, it is doubtful if any, or the collection in total, will eventually exert significantly desirable change. The exercise was a wonderful gesture in encouraging democratic participation, but I doubt if any of our erring bankers have cause to sleep uneasily in their beds, or that their institutions need have the least anxiety about the compromising of their vested interests through the prospects of reform.

Most such contributions to the Commission were drawn up with care and detailed research, and many were those with long experience in the banking industry. All such contributions, in so far as I could judge, were designed with integrity and good intent. Furthermore, most were the authors of valid and praiseworthy points. And so where lies the problem? It may be found through concentrating on two factors.

Firstly, the economic conclusions of the majority of papers may be perfectly valid from a particular point of view which has been soundly argued with facts and figures. The problem occurs when other, or even opposite points of view are equally valid in other or changing circumstances. These latter occur through external or unanticipated economic events of any possible kind, in a

world where predicting the future has always been a foolish and impossible task. Hence the Commission is confronted by a host of papers, each of which present a small part of the truth in particular circumstances. How is the Commission to make use of such material? Only by extracting a consensus of opinion from a majority of views, but the result is likely to be inexact and confusing. In such situations a messy and compromising outcome usually occurs which is satisfactory to none.

Secondly, and more significantly, the answer to the problem of the banks is ultimately not to be found through any technical arguments arising from economic science. That is, other questions need to be asked, to which economic discussion should then be subordinated. For example, What should be the purpose of the banks? To what extent is banking a business which is (or should be) different from any other, and what are the consequences of this? How and why should the profitability criteria of the banks differ from other kinds of business? When and why should banks not charge interest on loans? If the banks are to serve the community or national interests, in whose control and ownership should they be?

These are primary questions which need to be answered before entering into any of the mathematical technicalities of economic science. They raise questions of right and wrong, but they remain interlinked as both economic and ethical issues. Plainly, the present problems of the banks, viz., their irresponsible lending and consequent near-bankruptcy, only spared through the generosity of the public purse; the absurdly extravagant salaries and bonuses paid to their executives and directors; their failure to serve the interests of nation states and their peoples; and their legal and democratic unaccountability to any authority in any practical sense, clearly calls for an approach which does not merely entail tampering here and there, but rather their reconstruction on a totally new basis.

The problem is not so much economic as political and social. When bankers cry to high heaven at the suggestion that their bonuses should be limited whilst at the same time bankrupting the institutions they manage, it is they who are running away from economic realities, not the public. The attitude of the bankers to the crisis of their own making would be laughable if it was not so serious. Their attitude is not only childish and absurd but criminally idiotic. They call for an end to further blame and criticism – an end to their persecution – whilst the true situation is that their called-for punishment has not even yet commenced.

Within the broad socio-political perspective of such a scenario, the contributions submitted to the Independent Commission on Banking would hardly matter at the present stage of deliberations. They may be conveniently pushed aside for the time being as more urgent and fundamental questions are instead considered. If the public is expected to rescue the banks after the criminal irresponsibility and incompetence of those supposedly running the institutions, then only the public has the right to their ownership, and certainly to directly oversee their future management.

Now is not the time for discussing the nitty-gritty of conventional rules in the sober management of the banks, or attempts to return to a better past before such crises arose, but rather to float new and creative ideas in ensuring the socially beneficial role of the banks in future. In any case the past can never be re-captured, and our image of it is always part illusion. If there is to be a revolution in the world of banking, this is a process which will not have been initiated by the public, but by the bankers who defaulted on their own obligations to the wider community.

Only after attempting to answer the broader socio-political and ethical aspects of banking in best serving the wider community, can we then turn authoritatively to considering the deeper economic mechanisms and factors entailed in the management of the money supply.

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