Thesis #5

Money acquires the power to pollute politics and injure people's lives when laws are subordinated to the culture of cheating. Monetary reform cannot occur without an informed consensus behind the need to re-socialise rents, and re-privatise earned incomes. Democratising a nation's finances would eliminate the incentives that drive governments into debt and people into abject poverty.

The Pathology of Money

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WHEN people allow their social income (rents) to be privately appropriated, a slow-motion catastrophe is triggered. Trauma is transmitted throughout the living space. Society's foundations are undermined, culture is contorted and the collective consciousness is ruptured. The initial damage is then compounded when people are tempted by the emerging culture of cheating. This is why "money" came to assume a hostile role in modern society. A tool that is inert, with no intrinsic moral status, is exploited by those who find that it can be used to enable them to grab a share of rents. Once this is understood, the perception of money as a menace begins to dissolve.

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In the 16th century, the bankers of Amsterdam and London were drawn into the culture of cheating by monarchs on the make. When their forces were combined, Europe was redirected along an evolutionary path that led directly to the financial crisis of 2008. The moneymen did invent a cannibalistic system that preyed on the people who worked to add value to the wealth of their nations, but they did so only after the lead was taken by kings who betrayed their duty of care to their people.

To attribute the root of evil to the love of money (1 Timothy 6:10), is to distract from the source of society's ills. This notion was revived by Pope Francis in his first address on "free market capitalism", in which he condemned the "cult of money" (Squires 2013). But money was invented as a benign instrument 6,000 years ago to facilitate more satisfying, complex urban ways of living. It supplanted evolutionary sentiments when a few people were allowed to abuse the trust that is the glue that binds all communities.

Love, whether for money or any other object, is a psychological state. A personal proclivity could not assume social significance if customs and practices were not reshaped to elevate that psychic condition into an institutionalised process. In the case of the idolatrous treatment of money, the formative influences are not to be found in money itself, but with a statecraft dedicated to enhancing anti-social behaviour. That behaviour found its systematic expression in a culture of rent-seeking. As that culture was embedded deeper into the community, the pathology of money surfaced as distortions in inter-personal relationships along with the wrecking of people's social and natural habitats.

Institutionalised arrangements for creating something called "money" are necessary for a dynamic economy based on exchanging goods and services to enhance the quality of life. But from the earliest city civilisations onwards, debts became a problem. In Mesopotamia, indebtedness stemmed from crises like droughts (that caused famines, obliging people to borrow money) or because of tribute exacted by imperial powers. This coloured the reputation of "money". Disentangling that history is central to the restoration of sanity in society.

In antiquity, debts that fuelled crises resulted in the adoption of a custom known as Jubilee. Non-commercial debts were periodically cancelled. Debt was not recognised as a healthy feature of society, but one that destabilised communities (Hudson *et. al.* 1996, 1999, 2002). But we must stress that, *at the heart of the Jubilee arrangement was the restoration of land to families who had lost it.*

Our society has come to treat debt as even virtuous. People had to be sublimated into accepting this attitude, for a matrix of legal, moral and institutional arrangements was created that ruptured trust and dislocated people from the means of livelihood. Understanding this history is the key to applying the correct reforms.

If we follow the money trail, we are driven to an examination of the circumstances that formed the modern State. We discover that, at its heart, the political project of the State was one of income redistribution: *resources of value were redistributed from those who created them to those who commanded privileged power*. Today, that corrupted power is exposed by the way in which high finance devours the lives of those who pay their way by earning their living (Box 1).

The Origins of Perverse Debts

Credit assumed pathological characteristics when cheating was converted into a social practice.

- **Sovereign Debt** The primary steps were taken in the 16th century. Monarchs abused their power by transgressing people's common rights to land.

Land grabs and credit creation were linked when kings embarked on dynastic and territorial wars. They needed money "upfront". The ensuing debts could be repaid out of future streams of Land Tax revenue.

Previously, kings borrowed from goldsmiths who were willing to risk the profit they earned from trade. For the new era, this arrangement was too tenuous. Monarchical ambitions grew beyond the means of merchants in Amsterdam and the City of London. A mechanism was needed that could provide sovereigns with an open-ended source of credit. That credit would be most easily secured by mortgaging the lands of their kingdoms. The lead was taken in England. The turning point was Henry VIII's appropriation of monastic lands.

Box 1
Corporate Cannibalism

The Royal Bank of Scotland became a victim of the financial crisis of 2008 because its mortgages had funded land speculation. It was rescued by taxpayers, who ended up owning 84% of the bank. In December 2010 it was announced that RBS would offer a "product" to enable people to bet on whether house prices would rise (Barrett 2010). In 2013, two reports revealed how RBS forced viable businesses into bankruptcy. In some cases, debtors' properties were sold at favourable prices to subsidiaries of the bank.

- **Personal Debt** Building on Henry's monastic land grab, aristocrats initiated the buying and selling of land into a commercial business. To create their petty princedoms, they also needed upfront money, first to buy land, and then to build palatial monuments in their rural retreats.

Debts incurred to construct what are now called "heritage" homes were serviced by the rents squeezed out of peasants. The mortgaging of land began to flourish. This created the opportunity for merchants to cream off a slice of the rents. *Mortgages transformed land from its natural status into a commercial asset.*

Previously, merchants had funded sovereign and private deals out of the profits they made from trade. Their money was *earned*. By lending their capital, they were entitled to compensation for the risks they took. But with the advent of land as a commodity, the money-lenders learnt how to share in the cannibalisation of the kingdom's rents.

Initially, although the money they advanced as mortgages was earned, the interest which they charged came from individuals who did *not* earn their money. By the middle of the 17th century, imaginative schemes were devised that linked what pamphleteers described as "imaginary money" to the extraction of rents through "land banks". Land, they emphasised, was better than gold or silver as security, and should be the basis of credit (Richards 1965: 98-100).

The emerging financial architecture was corrupted at the outset by its association with the land market. As one City operator noted: "Securities on lands are capable of being made money" (Richards 1965: 117). Charlatans sensed the opportunities, and moved in. They created land banks to dupe speculators who were seeking easy profits. This was possible for one reason only: rents had been cut loose from their social moorings and became vulnerable to the "artifice" of scam artists.

But something was missing: a mechanism for bringing order to the business of milking the nation's rents. Something special was needed, like a bank that was privileged by the State, backed by the law of the land.

The Bank of England

England in the 17th century was emerging as contender for superpower status. But further development of the model unleashed by Henry would not be possible without a secure constitutional settlement. James II was on the throne. He was displaying pro-Catholic tendencies. This threatened the vital interests of the elites.

- ❖ The Reformation had initiated the market in land, which required mortgage-based transactions. The Catholic Church, which censured usury, had to be neutralised.
- ❖ Protestant land owners feared the return of Catholic sentiments. They needed a liquid money market that facilitated their lust for rents. Defensive action was needed.

In 1688 the plot was laid for William of Orange to snatch the throne from James. Then, to secure the accession of a king who could not speak English, a war against France was required. That war had to be funded. A solution was needed that incorporated the budgetary challenge – reducing revenue from the Land Tax.

These various interests could be united by a simple trick: debasing the State's budget by driving the nation into permanent indebtedness. But that required the creation of a new kind of bank that exercised the power to wave a magical financial wand – the power to create credit out of thin air.

The full title of the Act of Parliament of 1694 lays bare the motives and the tools that would be deployed to routinize the indebtedness of England:

An Act for granting to their Majesties several Rates and Duties upon Tunnage of Ships and Vessels, and upon Beer, Ale and other Liquors: for securing certain Recompenses and Advantages… to such persons as shall voluntarily advance the Sum of £1,500,000 towards carrying on the War against France.

The Act was the tool for trapping government in permanent debt, to serve the interests of both land owners and money makers. Government debt would be funded by taxing trade and the beer consumed by peasants (aristocrats brewed their beer on their estates, so they did not pay the tax). War would consolidate the secular needs of land owners and eliminate the threat from a Christian denomination that censured the charging of interest on loans.

To serve the interlocking sovereign and private interests, the Bank had to issue paper money, rather than be constrained by its holdings of precious metals. The Bank of England accomplished this, by extending credit to government far in excess of the gold held in its vaults.

Investors in the Bank understood that this "money" (which was no more than entries in ledgers) was safe. Their "capital" and the interest they charged were guaranteed by the power to tax the king's subjects. And the budget that "guaranteed income from the taxes" (Giuseppi 1966: 14) was structured so that interest payments on government debt would not come out of the rents pocketed by land owners.

The creation of the Bank of England was a political act that was designed to accelerate the redistribution of the nation's rents from those who created that value to those who exercised privileged power to appropriate rent for their personal benefit.

New Layers of Rent-seekers

Sovereign power was weakened as landowners diminished the revenue collected by the Land Tax. This was the basis of the creation of a Weak State, which had to increasingly rely on rapacious taxes that reduced the nation's productivity. One consequence was that government revenue would be out of synch with the funding needs of the State. Thus, deficit financing became an art of governance, enriching bankers and impoverishing the nation's taxpayers.

The slow-motion *coup d'état* against the English State was executed through many dynastic manoeuvrings, including the Civil War in the 17th century. Sovereign authority was converted into private power. Morality was compromised so that the landed elites might satiate their appetites. Communities were driven into cultural limbo-land, the twilight zone between nature and society. Given the avarice on public display in courtly circles, it is not surprisingly that others became infected by the culture of greed, and sought ways to join the feeding frenzy.

The 18th century Lawyers occupied the junction boxes in the power structure. They crafted the laws that transformed the public's finances. They schemed to protect their profession from competition, and charged super-sized fees for attending to the needs of the estates of the aristocracy. As they grew rich, they invested in land to acquire gentry status.

The 19th century Many "Captains of Industry", instead of recycling profits back into their enterprises, purchased social status by investing in landed estates. With the aid of lawyers, they converted private enterprises into legal "personalities", to reduce their tax liabilities.

The 20th century The Welfare State was not intended to turn the working class into rent-seekers. In Britain, successive Labour governments did try to neutralise the effects of rent privatisation. They failed, because their laws to restore the social status of land and rent were framed in terms of the socialist, not the market, paradigm (Blundell 1994). Margaret Thatcher bribed the tenants of public housing by granting them the right to buy their homes at below market prices. "Trading up the property ladder" to capture windfall capital gains became the route to riches for the middle class.

The 21st century Low-income families were cynically lured into the housing market by artificially low interest mortgages which they could not afford; their homes were repossessed after the financial crisis of 2008. David Cameron's Coalition government inflicted austerity on the population while remaining committed to "the cult of home-ownership", as Sir Samuel Brittan explained in the *Financial Times* (Nov. 29, 2013). Accumulation of buy-to-let property portfolios was favoured by investors: returns exceeded those from investments in the value-adding sectors.

The Alchemy of Banking

The sweep of history lays bare how "money" emerged as a symptom, not the cause, of societal-wide crises. Bankers became entrenched as the magicians who had discovered the secrets of alchemy. They did not even need base metal to create their golden future. And their "capital" was tied to rock-solid security. If borrowers defaulted, bankers did not lose – they had the best possible collateral: planet Earth. High finance became surreal, divorced from the real world.

When governments made attempts to regulate the financial sector, bankers always remained one step ahead. In Britain, one such attempt was the Bank Charter Act (1844). This made it illegal for private banks to create new money (printing notes). No problem – the law did not prohibit cheques. Cheques were invented to enable joint-stock companies to inflate the "money" supply. The City of London became "by far the greatest combination of economical power and economical delicacy that the world has ever seen" (Bagehot 1915: 3).

16th c.: King Grabs Monastic Lands

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Aristocrats create market in land

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Merchants supply Mortgages

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17th c.: Gentrification of Government

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Rent-seekers create Bank of England

↓

18th c.: Privatisation of the commons

↓

National Debt formalised in politics to facilitate rent privatisation

Profit from the fabrication of "money" is called seignorage. James Robertson, who has worked in both the British banking sector and in the Cabinet Office, notes that, with coins and banknotes accounting for about 3% of the money supply in Britain, private banks were guaranteed huge profits "because our government allows the commercial banks to create the other 97% out of thin air in the form of profit-making loans which they write into their customers' bank accounts as 'credit'" (Robertson 2012: 48).

This is how Martin Wolf, chief economic commentator for the *Financial* Times, indelicately put it: "The essence of the contemporary monetary system is creation of money, out of nothing, by private banks' often foolish lending" (Wolf 2010). Foolish bankers are, towards the end of every business cycle driven by land speculation; but not so foolish as to leave themselves exposed. It's called moral hazard: behaviour in the knowledge that they would be rescued by government. The servile State uses taxpayers' money to protect shareholders who invest in banks. What choice do they have? Their primary function is the perpetuation of the rent-seeking culture that created the political/financial nexus in the first place.

It is fraudulent, but legal. That is why bankers do not go to gaol for their stick-ups in the high streets. We should not be surprised at the corrupt behaviour of people who, straight from university, seek employment in the financial sector. Corrupt deeds revealed in the aftermath of the 2008 crisis exposed to the public gaze the culture of cheating that characterises that sector (Box 2).

Box 2
Price Takers or Fixers?

The financial sector defines its arbitraged operations as the "simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of *market inefficiencies*…to ensure prices do not deviate substantially from fair value for long periods of time." In fact, the failures are with governance. Banks engage in rigging the markets, as with the interest rate fixing scandals that shamed six banks, four of which were fined €1.7bn by the European Commission (Barker and Schäfer 3013). Banks are not price takers. They fix prices.

Preserving the Business cycle

Thus did land-driven boom/busts emerge as the defining characteristic of the business cycle. Land speculation prescribed a periodicity that averaged 18 years (Harrison 1984, 2005). The money-men pitched in to take their share of the spoils. That set the scene for the financial chicanery that was seeded in the 1990s. Heinous crimes exposed a culture of cynicism that leaves one speechless. The most tragic of deceptions was the sub-prime mortgage. This teased the victims of the economics of apartheid into believing that they had made it out of the trap of dependency. Bankers knew what they were doing, and they sought to shift the risk of default by packaging the toxic mortgages into "collateralised debt obligations". These complex financial instruments were sold to unwary investors such as local governments, setting the scene for the crisis of 2008. Result: hundreds of billions of dollars, euros and pounds were poured into insolvent banks to protect the shareholders.[1]

Politicians set up commissions of enquiry. The policy emphasis was on re-regulating banks, not removing the incentives that nurtured corrupt behaviour. No government made any attempt to address the way in which the pursuit of capital

[1] Banks did saddle themselves with large fines and costs as a result of the sub-prime mortgage *débâcle*. In November 2013, US banks alone faced costs of up to an additional $104bn to resolve the legal issues (Alloway *et al.,* 2013). Ultimately, however, the pay-outs were from monies handed to them by US taxpayers. Taken together, bank bonuses and dividends did not suffer.

gains from land was the primary incentive that caused the crisis. The futility of the proposal to split big banks (separating deposit taking from investment making) can be inferred from two notorious cases.

- In Britain, Northern Rock suffered a 19th century-type "run on the bank", yet it had no investment banking facility.
- In the US, Lehmann Brothers imploded, yet it did not have a retail banking division.

"Tough" regulations will not prevent banks from fuelling the next land-led boom/bust. Market economies have suffered from cyclical disruptions

- in periods when banks were *not* regulated (from the 18th century through to the depression of the 1930s),
- when they were *tightly* regulated (between the 1940s and 1980s), and
- were *loosely* regulated (from Reagan/Thatcher to 2008).

The regulatory regime is not part of either the cause or the cure of the financial sector's contribution to booms and busts.

Instead of democratising the monetary system (Box 3), governments launched the next land-led boom/bust. The West is back on track for the land-driven cycle that will terminate in a fatal depression in 2028.

Ethical Economics?

The pathological nature of sovereign debt has been understood for at least two centuries. Criticism by moral philosophers began in the 18th century (Hudson 2012). One of the most eccentric objectors was a peer of the English realm, the 12th Duke of Bedford, who penned his critique in 1947.

Box 3
Democratising the Money Supply

James Robertson (2012: 112-113) explains how, in the UK, changing the way money is created and circulated would result in an annual saving to all citizens of about £75bn, and a one-off benefit to the public purse totalling £1.5bn over a three-year transition period. This would be achieved by-

(1) eliminating the hidden tax that we all pay to commercial banks as interest on the bank account money in circulation; and

(2) profiting from the one-off increase in public revenue resulting from converting the money supply created by commercial banks as debt into money created free of debt by the Bank of England. New money would be additional to public revenue, and used to reduce taxes or spent into circulation by funding public projects.

Hastings Russell was born in 1888. He witnessed both the first and second world wars. He turned into a pacifist known by the nickname of Spinach Tavistock. The national debt was an "absurdity" (Russell 1953).

In *The Absurdity of the National Debt*, Russell tracked how government debt mounted inexorably ever since the formation of the Bank of England.

- Between 1694 and 1914, debt increased from the original £1.2m to £700m. Over the 70 years up to 1914, about £1.5bn had been levied in taxes to pay interest to the State's creditors.

Russell censured this as "mad" and "unfair". From the taxpayers' viewpoint, so it was. From the viewpoint of bankers and rent-seekers, this was lucrative business!

- ❖ Between 1914 and 1918, the national debt rose from £700m to £7bn, at which level it remained until 1939. Average annual interest charges over this 21-year period amounted to £240m, without reducing the debt.

The combination of war and compound interest worked its magic.

- ❖ By 1947, the debt stood at £20bn and "It is indeed doubtful if it can stop rising!" Russell concluded.

Russell's critique made no impression on people who otherwise objected to the tax burden. He challenged them with this observation:

Educated people who were wealthy, or had once been wealthy, never had the sense to ask themselves why, when the nation's power to produce goods and services was greater than before, they, because of increased taxation, must be content with less; nor did they ever enquire why the poor could not be given a larger amount of the increased wealth in goods, without their own standard of living being reduced.

Critics of the tax burden generally assume that this burden was due to increased spending on public services. Wrong, explained Russell. Such spending was "a mere flea-bite by comparison with the amount they had to pay in order to provide interest on the ever-growing National Debt".

Russell described the outcome in these terms: "Thus it came about that the spirit of class hatred and antagonism tended to increase, largely because both sides were putting the blame in the wrong place!"

Russell's financial calculations were impeccable. His sociological analysis of the cultural context in which the fraud was perpetrated was flawed, however. The National Debt was not absurd. It was an instrument of State, a key tool for redistributing income to those who owned land, or who exercised the power to capture rents by exercising monopoly power.

E-money & the Next Crisis

The electronic age has added a new layer of complexity to high finance. The Bitcoin arrived as a currency fit for the virtual age. It was, concluded US Federal Reserve Chairman Ben Bernanke, potentially beneficial if correctly regulated.

Regulators may seek them here, or seek them there, but the users of virtual money will remain one step ahead of the State. The "money" lives somewhere on the internet. In November 2013, a single Bitcoin, in the surreal world of making money from nothing, commanded a price of $1,242.

In the absence of a justice-based realignment of income distribution, "money" *will* remain one of the routes to evil outcomes. *Not* because money is "loved", but because of the political arrangements that suit those who are enriched by the statecraft of greed. It's called *arbitrage*. Bankers capture socially-created value which governments fail to collect to fund public services.

There is one way only to terminate abusive behaviour in the banking sector: end the legalised cheating, and scrap the bad taxes on earned incomes.

Learn, or Lament?

Debts are eating deeper into the body politic. Some social activists propose debt cancellation, "a Biblical-style Jubilee: one that would affect both international debt and consumer debt" (Graeber 2011: 390).

By itself, debt cancellation would not be sufficient. Relief from debt would become a money-making opportunity for dealers in the land market, which functions like a sponge, soaking up the economy's net income (Thesis #4).

- *Governments would relapse back into debt*.

Why? Because the collateral damage inflicted by their taxes would continue to impose a ceiling on economic activity. Tax revenue would continue to fall short of needs. The State's welfare obligations would continue to out-pace growth. The deficit would be funded by once again borrowing from the banks.

- *Citizens would relapse back into personal indebtedness*.

Why? Because the economics of apartheid outcasts about 30% of the populations of Western nations. They live on no or inadequate wages. They borrow to survive.[2]

Nor would the transfer of credit creation to the State be sufficient to resolve the pathologies of capitalism. Why? Its institutional structures and values were designed to serve the addiction to rent-seeking. Agents of the power structure, who directly or indirectly live off rents, would continue with their old habits: deploying state-created credit to the advantage of rent-seekers (example: subsidies to the owners of farmland under the cover of helping low-income farmers).

The need for a holistic reform of finance is attested by the way in which, in 2013, Britain's Coalition government encouraged the adoption of Sharia-compliant forms of finance. Sharia law is popularly assumed to be based on ethical economics. Charging interest on loans is outlawed. Moslems are not allowed to make money merely by lending money. So why would the British government welcome Sharia-compliant financing for the City of London? Answer: *Sharia does not outlaw the making of money out of land!* Privatised rents are at the heart of the poverty that locks tens of millions of Moslems into the state of degradation in territories that are rich in rent-yielding resources.

Reformers argue that a root-and-branch reform is needed. These include Margrit Kennedy in Germany, James Robertson in the UK and Michael Hudson in the US They advocate a simultaneous transformation in the laws and institutions that govern the land and money markets (Kennedy 1989; Robertson 2012; Hudson 2012).

But change will not occur if the demand for reform is narrowly focused on fiscal or confined to broader financial issues. Critics need to develop visions of a culture-wide evolution. Change would acknowledge the private interests of the individual, but also the rights of society, and the rights of natural habitats. That paradigm will not emerge without first eliminating the culture of cheating on which perverse power now depends for its existence.

[2] In the USA, one in eight households relies on tax-funded food stamps. Following the 2008 crisis, spending on food stamps more than doubled to about $80bn a year.

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