FOUR HORSEMEN
THE SURVIVAL MANUAL

UNDERSTAND HOW THE WORLD REALLY WORKS...

MARK BRAUND & ROSS ASHCROFT
Insights from

Prof. Joseph Stiglitz, Prof. Noam Chomsky,
Col. Lawrence Wilkerson, Prof. Simon Johnson,
John Perkins, Max Keiser, Prof. Herman Daly,
Prof. Michael Hudson, Gillian Tett, Dr. Ha-Joon Chang,
Prof. Richard Wilkinson and David Morgan.

More praise for *Four Horsemen*

“This film is required viewing for all concerned about rising income inequality or confused about how to preserve wealth in the face of rapacious assault by so-called leaders.”
- Jim Rickards, Author ‘The Death of Money,’ and ‘Currency Wars’

**** “It’s Inside Job with bells on.” - Total Film

“Four Horsemen answers the fundamental questions, and raises some complex ones, inspiring us to go out and further understand this crazy system we’re stuck in.”
- Best For Film

“The Four Horsemen’s strength is the compelling way it connects the ‘big picture’ to the practicalities of everyday life.”
- Colin Dibben, Close-Up Film

“Four Horsemen is a breathtakingly composed jeremiad against the folly of Neo-classical economics and the threats it represents to all we should hold dear.”
- Harold Crooks, The Corporation (Co-Director) and Surviving Progress (Co-Director/Co-Writer)

“This book offers a convincing and necessary peaceful, constructive, revolutionary strategy for achieving our survival.”
- James Robertson, Author ‘Future Money’ and co-founder New Economics Foundation
“Four Horsemen will ignite a debate about what can be done to create a fairer, less dysfunctional world.”
- Marcus Chown, New Scientist Magazine
This book is dedicated to Tom Linsner, a man who understood Einstein’s observation that it’s impossible to solve a problem with the same thinking that created it.
About the Authors

Ross Ashcroft graduated from the Royal Agricultural College and then worked in London’s West End as an Assistant Director. He is a co-founder of the London-based independent production company Motherlode and the Renegade Economist website. Four Horsemen is his feature debut. He lives and works in London.

www.rossashcroft.com
@renegadeecon

Mark Braund is the author of The Possibility of Progress (2005). He has written for The Guardian and The Times Literary Supplement, as well as a being a regular contributor to the Renegade Economist website. He has worked in the private, public and voluntary sectors, including three years as an advisor to the government of Mozambique. His first novel, a political thriller entitled The Blueprint, was published in 2013.

www.markbraund.com
@markbraund
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Ross Ashcroft
London
April 2012
Preface

“It is difficult to get a man to understand something, when his salary depends upon his not understanding it.”

Upton Sinclair

Many people instinctively know that something is seriously wrong with the economy. Long before the historic events of 2008 things were far from good, especially for the half of the world’s people for whom the ‘economic miracle’ of the preceding decade had brought no prosperity.

Skeptical about what was being reported, and surprised by the absence of a credible explanation for what had gone wrong, we set about learning how the world really works. The result was the Four Horsemen film in which twenty-three leading thinkers – including a number of eminent economists – speak out against current arrangements and the thinking that underpins them.

This book is offered as a companion to that film. It explores the themes and ideas discussed in the film in greater detail. It unearths some startling truths about the way our economy has developed, how it is managed and in whose interests. It also makes grim predictions about the consequences of things continuing as they are. We won’t ever return to ‘business as usual’, but that knowledge offers hope for the future. There is an alternative, and we all have a role to play in creating a new and better world: one which we’ll be proud to leave to future generations.

Like the film, this book is independently financed and produced We haven’t had to choose our words carefully to avoid upsetting corporate masters. We have no obligations to anyone except ourselves, and to you. This means we have been able to deal with the truth as we see it. As you will discover, that
truth, and the world view on which it is based, is quite different from anything peddled by the mainstream media, politicians and most economists.

Many people already have a sense that our failing economic system is beyond the control of democratic governments. The financial markets – which have come to dominate the economy while making virtually no contribution to it – routinely hold governments to ransom. Ordinary people have been forced to bail out a fatally flawed system with their taxes or their jobs. They can’t understand how the economy, and the thinking on which it’s built, have failed so badly. We take the opposite view. The economy hasn’t really failed at all. It has been working perfectly according to the rules that were set. It was designed to enrich the few at the expense of the many. The economy can’t be fixed. It has to be changed.

In 1903, Cambridge University separated the study of economics from the study of moral sciences. The impact of this seemingly innocuous step has been entirely negative, halting many of the moral advances ignited by the Enlightenment. If economics is not guided by moral principles then what use is it as a tool of government, or as a guide to people in their everyday lives?

The crisis nonetheless provides us with a huge opportunity. Aldous Huxley wrote: “That men do not learn very much from the lessons of history is the most important of all the lessons of history.” Progress will depend on our finally accepting the need to learn from the past, especially when it comes to the forces that have shaped the economic system. Only when we properly understand that system can we begin to transform it for the common good. The pages that follow explain the system in language that avoids the jargon of conventional economics, and suggest ways in which the economy could be reconfigured to enhance everyone’s liberty, wellbeing and experience of life.

You will have to judge for yourself whether two non-economists can write a
book about the failure of the economic system. With a few notable exceptions, modern economists do not question the prevailing ‘neo-classical’ orthodoxy, but this understanding of economics is unable to offer a way out of the crisis. Neo-classical economics has cloaked itself in complexity so as not to be challenged by outsiders, but there is no reason why many more people should not understand how the world works. When they do, democracy will finally have the power to face down the vested interests of minority wealth and privilege.

Everyone is an economist. If you’re running a household or a business, or are involved in any system where people and the planet interact, then you’re already running a small part of the economy. You are perfectly placed to play a crucial role in making the changes that urgently need to be made.
Introduction

THE AGE OF CONSEQUENCE

“All experience has shown that mankind is more disposed to suffer while evils are sufferable, than to right itself by abolishing the forms to which it is accustomed.”

*United States Declaration of Independence*

The Four Horsemen are coming

Since they first appeared in the New Testament, the Four Horsemen of the Apocalypse have ridden roughshod into the consciousness of every generation. They remain a potent symbol in popular culture. But, as a judgment on the
failings of human beings, and as a warning to put our collective house in order, they’ve had remarkably little effect. More people have died in wars over the last century than in any previous one. More infants are dying from preventable causes than at any time in history. Access to decent economic opportunities is denied to at least half the world’s people. You can react to these facts in one of two ways: you can blame modern warfare, population growth, and the unemployed for being irredeemably lazy; or you can take a moment to reflect that perhaps it’s a little more complicated than that, and decide to do something about it.

The biblical Four Horsemen – War, Conquest, Poverty and Famine – continue to ravage communities and the planet through their modern day equivalents: a rapacious financial system, escalating organized violence, abject poverty for billions and the looming environmental crisis. These contemporary Four Horsemen are converging at a time when governments, religious leaders and mainstream economists have failed to provide the leadership necessary to assure the survival of our civilization. If our leaders are powerless to effect change, then it’s time we took matters into our own hands. This book suggests how we might take control of our collective future and prevent the Four Horsemen galloping to their logical destination.

A rapacious financial system: The Black Horse

Since the financial crisis that struck in 2008, the failings of the banking system have been laid bare for all to see. But, four years on, nobody has come up with an alternative and few acknowledge the extent of change required in banking and finance. A progressive banking system would ensure that there was enough investment in the real economy to create viable opportunities for everyone. It would not expose communities to the dreadful consequences of repeated economic crises. This book will attempt to outline such an alternative system and demonstrate how it could be implemented within a reasonable timescale.
As Nobel laureate Joseph Stiglitz says in the Four Horsemen film, “What the banks did was reprehensible. That was why there was the outrage at the greed of the bankers when we gave them money that was supposed to help them lend to others but they decided to use that money to pay themselves bonuses. For what? For record losses?” What the banks, along with others who profit from the financial system, did to society was indeed reprehensible. It was a white collar crime against the majority of citizens who have no stake in the casino-style capitalist game played out in the financial markets. It is legalized robbery, against which democracy seems to offer no defence.

Of course, things were badly wrong before the latest crisis. During the so-called boom years, the economy failed to serve the interests of at least half the global population. When a record period of sustained economic growth still leaves billions in poverty, including many in rich countries, then the economy clearly isn’t working properly. Could it be that the Four Horsemen have infiltrated the heart of our economic system and found desks for themselves at the Federal Reserve, the Bank of England and Goldman Sachs? These institutions wield immense power, but have no concern for the common good. They are not working for the benefit of the majority; they are more concerned with defending the interests of the elite, the only real beneficiaries of current economic arrangements.

This book argues that poverty for billions is the flip-side of elite power: the super-rich can only secure their immense wealth by rigging the economic system in ways that deny decent life opportunities to millions. As we shall see, most of what the banks do, and nearly all of what passes for trading in the financial markets, has nothing to do with the real economy. Even in good times, the behaviour of those who play the financial markets makes it much harder for ordinary people to earn a living. "Why", asks the British political thinker Phillip Blond, “do we live in a world where everyone speaks about freedom, and the benefits of that freedom accrue to fewer and fewer people as capital
and power concentrate?”

Organized violence and terrorism: The Red Horse

If the very workings of the economic system are denying people the opportunity to take responsibility for their own wellbeing, is it any wonder that a small number among the disenfranchised are drawn to terrorism? According to former British Prime Minister Tony Blair, there is no connection between the economic marginalization of large numbers of young people and the apparent ease with which groups like Al Qaeda are able to recruit. In an interview with the BBC to mark the tenth anniversary of the 9/11 attacks, he said, “The reason why these people are radicalized is not because of something we’re doing to them. They believe in what they believe in because they believe their religion compels them to believe in it.”

Had he been talking about the psychopathic leaders of such movements, Blair may have had a point. But such individuals are rare. Without the ability to recruit and inspire foot soldiers they would be powerless to attack western targets. People don’t turn to terror because they were born evil, or because their religion compels them; they become involved in such activities because they have nothing to lose. When they take a look at their economic prospects, they quickly see that life as law-abiding citizens offers very little.

It’s difficult to prove a direct causal link between economic disenfranchisement and the involvement of growing numbers in terrorism, but we can say with some certainty that young people who enjoy a good education and emerge into adulthood to find an economy that provides them with opportunities to make something of their lives are unlikely to become suicide bombers. Countries targeted by terrorists have a right to defend themselves, but would it not be better to tackle the economic exclusion that clearly contributes to the creation of terrorists, rather than reacting only after many lives have
been lost?

The organized violence that features nightly on our news channels is not restricted to extremist groups. The military interventions of western powers over the last two decades have caused more suffering and loss of life, and far greater damage to economic infrastructure, than terrorist acts. We tend not to discuss this because we are encouraged to believe that such engagements are well-motivated, usually by concern for the oppressed citizens of the foreign country we are about to attack. The fact that western powers often cultivate good relations with despotic leaders before bombing their countries into submission suggests their motivation is not benevolent, but is closely connected with the economic interests of a small section of their own populations. If this isn’t apparent to most people in western countries, it is blindingly obvious to nearly everyone in countries like Iraq.

**Poverty: The White Horse**

Since the advent of agriculture, and the realization by certain people that control over land is the surest route to political power, all human societies have been unequal. Most have been very unequal, but few have been as unequal as global society today. The real problem is not inequality per se, it is the methods that the elite uses to set itself apart. To create such inequality you have to deny viable economic opportunities to many people. Only an economy that condemns millions to inescapable poverty can deliver vast wealth to a few.

No permanent solution to poverty is possible under any of the variants of capitalism that have been tried over the last century. And, while state socialism may have created a more equal society, it did so by making everyone equally poor and demanding intolerable sacrifices. Tinkering at the margins of the current system will not make any difference. The system is so internally
compromised that efforts to improve one area will inevitably make things worse in another.

The economic sphere appears immune to the considerable moral advances of recent times. More people care about the fate of their fellow humans today than ever before, but this extended moral concern hasn’t led to fundamental changes to the economic system. The desire of many people to create a better world should make the task easier, but progress is glacially slow. A new economic paradigm is needed: one that draws on the insights of often marginalized economic thinkers; one that hasn’t yet been tried. That paradigm will be outlined in this book.

**Environmental breakdown: The Green Horse**

Poverty is blighting the lives of millions of people, and the environmental crisis is already making things worse. As with poverty, our failure to tackle the causes of climate change, and to ration the use of natural resources, are inevitable consequences of the way the economy is run. The problems of terrorism, poverty and the environment are all connected; they stem from a flawed economic system that nobody voted for.

Understanding why the economy is failing is key to unlocking the knowledge and power to do something about it. The situation we face is far from hopeless. As Satish Kumar says, “The crises we face today are created by humans and what is created by humans can be changed by humans, so we are all capable of transforming our world.”

**Power and Democracy**

Haven’t we been here before? Three centuries ago philosophers began to address these questions in the movement known as the Enlightenment. Immanuel Kant described it as "Mankind’s final coming of age, the
emancipation of the human consciousness from an immature state of ignorance and error.” But, while the Enlightenment succeeded in freeing human thought, it did not deliver a society in which the economic rights of all citizens were given equal weight.

Perhaps the best example of the gulf between Enlightenment ambition and what actually happened comes from the United States. According to the Declaration of Independence, “All men are created equal; are endowed by their Creator with inherent and inalienable Rights ... among these, are Life, Liberty, and the pursuit of Happiness.” Yet two centuries later those rights are still to be extended to the one in six Americans who live below the poverty line.

Elsewhere in the Declaration we find an explanation for our failure to turn the ambitions of the Enlightenment into reality: “All experience has shown that mankind is more disposed to suffer, while evils are sufferable, than to right itself by abolishing the forms to which it is accustomed.” This insight remains as true today as it did when first committed to paper by Thomas Jefferson more than two centuries ago. Why have people failed to abolish the familiar structures that condemn so many to poverty and insecurity? The answer, as Simon Johnson, former Chief Economist at the International Monetary Fund (IMF) says, is not complicated: “It’s about power and it’s about democracy.” The Enlightenment set us on our way to a system of democratic government, but so far democracy has not enabled us to challenge the power of elite wealth, entrenched privilege and an economic system that serves those interests almost exclusively. It’s about time it did.

The New Class System

Over centuries, systems have been subtly modified, manipulated and sometimes purposefully corrupted to better serve the interests of the few. Each time Enlightenment ideals have encouraged new policies to tip the balance in
favour of the struggling majority, the vested interests of elite power have pushed back hard. Their biggest act of retaliation has come with the economic reforms of the last three decades, a reaction to the inclusive economic and social polices of western governments in the period after 1945. Ordinary people have had little option but to keep accepting these changes. Human beings can adjust to living under virtually any conditions, but the trait that has enabled us to survive is the very trait that has suppressed us. As ex-World Bank Senior Economist Herman Daly says, “People are awfully forgiving, or they just don’t understand what has been done to them.” Daly is right, but the banking crisis, and the way governments have dealt with it, have woken many people from their slumber. They’re beginning to understand the gross injustice of this massive heist and to kick back against it – even when politicians are too scared to act.

Wherever you look in the world, societies are divided into three classes of citizen: a wealthy elite, largely insulated against the effects of a crisis for which they are directly responsible; an insecure middle – people who have work but who are often poorly paid and have no guarantee that their jobs are secure; and an underclass with little chance of escaping poverty. The proportion of the population falling into each class may vary from country to country, but when the richest country in the world still has a sixth of its people living in poverty, no further evidence is required that the economic system isn’t working.

It’s what’s left unsaid

As Gillian Tett of The Financial Times observes, “Most societies have an elite and the elite try to stay in power; and the way they stay in power is not merely by controlling the means of production, but by controlling the cognitive map, the way we think. And what really matters in that respect, is not so much what is actually said in public, but what is left un debated, unsaid.”
One particularly blatant way in which our cognitive map is controlled is through the endless repetition of the mantra: there is no alternative. If true, it would be very convenient for those who benefit from the current order. But it is not true. The claim that there is no alternative is an attempt by supporters of the status quo to shut down debate. And so far the tactic has worked. As a result, we are left with an economy that has lost purpose and direction. In guaranteeing the continued privilege of a small minority of citizens, it actively excludes the majority from the means to achieve economic security and wellbeing.
“Democracy has not enabled us to challenge the power of elite wealth, entrenched privilege and an economic system that serves those interests almost exclusively.”
Democratic politics, or at least those people who sit in governments and legislatures around the world, has fully bought into the ‘no alternative’ argument.

Most politicians refuse to recognize that they have the power to change prevailing economic structures. This has led to a ‘do nothing’ politics and, in many countries, a dispiriting tussle between established parties of the left and right to occupy the ‘centre’ ground. When judged by historical standards, that centre is now well to the right of the political spectrum. The social programmes implemented by Richard Nixon four decades ago were way to the left of anything that could be considered by the Obama administration today.

**Beyond left and right**

This book does not call for a lurch back to the left, however. If politics is to be of any use in facing down the current crisis, it has to transcend the old, glib definitions of left and right. A new economic paradigm will produce a new political paradigm: one that has far greater moral ambition, one that recognizes that the twin goals of protecting personal freedoms and promoting social justice can be reconciled, and one that doesn’t offer an unhelpful choice between state ownership and regulation and unfettered free markets, or a compromise between the two.

None of the options currently on offer addresses fundamental problems with the economic system. The monetary system consistently fails to provide a stable monetary base. This has to change.

The taxation system taxes the wrong things – labour and enterprise – instead of consumption and resources. This places an unnecessary burden on wealth creation and encourages the unsustainable exploitation of natural resources. And the financial system fails to channel sufficient investment into productive
enterprises, choosing instead to fund a gigantic global casino, entry into which is restricted to the already wealthy. Changes in each of these spheres would help us move towards an economy dominated by small-scale enterprises owned by the people who work in them. This would liberate communities from the pernicious power of unaccountable corporations and help bring the economy back under democratic control.

These may sound like radical proposals; their gradual implementation would certainly lead to considerable social change, but that change would clearly benefit the majority of citizens in all countries. The only section of society that would need to make a sacrifice would be those among the top one per cent whose wealth is derived not from entrepreneurship or hard work but from the unjust and unsustainable process of making money out of money.

The consequences of not taking action are obvious: more of the same, but much worse. Inequality will continue to grow, poverty will continue to deepen, the symptoms of social breakdown will increase, and many more lives will be lost to the effects of environmental degradation. If you doubt this, or if you think this vision of the future is unavoidable whatever we do, then stop reading now because this book isn’t for you.

If, on the other hand, you believe in the possibility of progress towards a more just and inclusive society, one that rewards hard work and curtails the unearned wealth beloved of the elite, then keep on reading. Don’t be put off by those who claim a better world is impossible because of the failings of human nature, or because natural resources are running out, or levels of population growth are unsustainable. Each of these is a challenge that must be overcome. The world will never be perfect, but it could be a great deal better.

**A civilization fit for human beings**

There is nothing to be gained from blaming bankers, politicians or even
economists for the current crisis. They flatter themselves if they think they created it. They didn’t. They may have driven it, but the crisis occurred because of the rogue code we have programmed into our economic software. If some among their number elect to oppose democratic pressure to rectify that error then they must be challenged. If they defend systems or practices which stand in the way of progress, their motives will become clear. But creating a better world is not about taking revenge on those who have benefited from the current order. Hopefully they will be persuaded to join a popular movement to create an economy and society in which everyone has a fair chance.

This new paradigm can’t be imposed in a top-down fashion. It must carry the support of ordinary people voiced through democratic participation. If there are changes to the economic system which could improve the lives of most human beings – and we believe there are – then a properly functioning democracy should be able to deliver those changes. The technological advances of the last few years, not least the internet, have put access to greater knowledge and understanding within easy reach of millions of people. While the need for change has never been more urgent, the conditions for change have never been more favourable.

In Whooops, his book on the causes of the financial crisis, John Lanchester suggests that it will take another, far deeper, financial crisis to finally persuade governments to take action. He concludes: “The credit crunch will go down in history as one of the biggest missed opportunities the developed world has ever known.” This may well be true, but surely it would be preferable to pre-empt the next implosion, and so avoid all the suffering that would go with it?

By understanding the causes of the current crisis we could take action to protect ourselves and ensure that, instead of it being a re-run of the last, the next century could take our fragile civilization into a more secure and enlightened place – a place where the root causes of economic crises, war,
terrorism, poverty and environmental breakdown, are understood and addressed. In short, a civilization fit for human beings.

“While the need for change has never been more urgent, the conditions for change have never been more favourable.”
Chapter One
EMPIRES

“All a great power has to do to destroy itself is persist in trying to do the impossible.”

Stephen Vizinczey

Rise and Fall

In his 1976 essay The Fate of Empires, General Sir John Glubb analyzed the life cycles of civilizations. He found remarkable similarities between them all. Most have lasted around 250 years, ten generations or so, and each has passed through clearly identifiable stages. Glubb calls these the six ages of empire.
Every new empire begins with the age of the pioneers, courageous individuals with passion and vision who conquer new territories, perhaps taking over the remnants of an earlier collapsed civilization. The new empire then enters an age of commerce. Great wealth is created through enterprise and trade, making use of the best cultural traits and technological achievements of the vanquished empire. Next comes the age of affluence, a critical juncture in the life cycle of an empire and the time when things begin to go wrong. In the age of affluence, Glubb says, “there does not appear to be any doubt that money is the agent which causes the decline of this strong, brave and self-confident people.” Decline occurs slowly, however, for next comes the age of intellect, when affluence is sufficient to allow some people to dedicate themselves to the pursuit of knowledge. Glubb argues that an excessive focus on intellect indicates an empire already in serious trouble. This may feel counter-intuitive, but evidence suggests that our own age of intellect has done little to prevent a headlong descent into the final age: the age of decadence.

In the age of decadence many people choose to behave in ways that are unsustainable, apparently unaware of the consequences. They indulge in excessive, often conspicuous, consumption. An absurdly wealthy elite emerges, but instead of repelling the masses it is admired and celebrated. Those outside the elite aspire to similar levels of consumption, and are encouraged by the availability of cheap credit. People become convinced that increased consumption is the key to happiness, but in its pursuit they become measurably less happy. As David Morgan says, “you can never get enough of what you don’t need.”

At this point in the life cycle of an empire frivolity, as Glubb calls it, comes to the fore. In order to distract people from what’s really going on, the economy creates diversions. Voyeurism becomes central to culture: the gladiatorial spectacles in decadent Rome are mirrored in today’s ‘reality’ television. People become fixated on celebrity as the genuinely noteworthy become
understandably camera shy. These invented celebrities are ‘famous’ just for being famous. In every era the obsession with celebrity glorifies many of the same professions. During the final decades of their own empires, the Romans, the Ottomans and the Spanish all made celebrities of their chefs. Sound familiar? And voyeurism takes on a more sinister aspect as people become desensitized to graphic images of extreme violence. The BBC treats us to the last desperate moments of Colonel Gaddafi’s life, broadcast live in close-up detail. Elsewhere, there is mock outrage from the tabloid press when we learn that hundreds of people paid to watch a cage fight between two eight-year-old boys.

Debauchery is another recurring theme at the end of empire. Society develops a strangely immature obsession with sex. People drink themselves to the point of unconsciousness and shamelessly collapse in the street. In Roman times, binge drinkers were left to their fate. Today’s debauchery is supervised by the police; its ‘victims’ are taken care of by hard-pressed health care professionals, placing further pressure on the public purse. And, all the while, supermarkets and corporations make a killing selling discounted booze to people barely old enough to buy it. This is our modern-day bread and circuses, with obese citizens literally becoming a burden on the state.

But the small can never satisfy the large. Cheap pleasures fail to compensate for the absence of meaning in so many people’s lives. A hankering for something greater remains. At the fag end of empire, growing numbers are denied access to work; they can find no meaningful involvement in their community, so their potential goes unfulfilled. When people are prevented from fulfilling their potential, they often self-destruct. As Camila Batmangeilidgh says, “Human beings are fundamentally organized around the need for meaning. Having meaning for why you live your life, and having a sense that your life has a destination or a purpose, is an important organizer of individuals’ lives and also communities’ lives.”
Other symptoms common to empires in decline include massive disparities between rich and poor, an undisciplined and over-extended military, and a severe financial and economic crisis linked to a debasement of the currency. Great empire wealth dazzles, but beneath the surface the unbridled desire for money, power and material possessions means that principles of duty and public service are corrupted by leaders and citizens who scramble for the meagre spoils of an economic system which prioritizes the wrong things – and all at a time when human industry and ingenuity have been needlessly repressed.

**Empires old and new**

In the ancient world, empire building usually entailed the territorial conquest of one self-identifying group by another. Typically it involved exploitation based on racial or cultural differences, often justified by religious belief. But it was economics, not religion, that was the principal driving force, especially the desire to control more land. Land was the prerequisite for wealth creation in pre-technological times.

The motivation remained the same when the great European powers – Portugal, The Netherlands, Spain, France and Britain – set about collecting far-flung lands under the label of empire. But now it was not just land and raw materials that were sought: established economies, advanced in the production and refining of exotic consumables, were taken over by supposedly benevolent powers. European conquerors consoled themselves with the notion that they were bringing the benefits of a higher civilization to barbarian tribes. In reality they were using military might to take control of well-established regional economies in places like India and east Africa. The desire for power and control over others in order to accumulate greater wealth at home was fulfilled through violence, theft and the exploitation of people considered less worthy.
After the horrors of two world wars, the Great Depression and the Holocaust, there was unprecedented determination among politicians and other people to avoid any repetition of these cumulative catastrophes. At the same time, nationalist movements grew up throughout the colonies, and eventually they won independence. This is the only time in history that imperial powers have voluntarily divested themselves of large parts of their empires.

Western nations then adopted a mixed-economy model in which full employment was the priority. Instead of fighting to expand or defend imperial territories, they now focused their attention on a new threat: Soviet communism. This threat was taken so seriously that wars costing thousands of lives were fought in foreign lands, not so much for economic gain as in defence of a way of life. They needn’t have worried: communism was a busted flush from the outset. By the time the Berlin Wall fell in 1989 and Francis Fukuyama declared the end of history, the Western liberal model for society and the economy was unchallenged. It would sweep all before it.

Under the persuasive leadership of Ronald Reagan and Margaret Thatcher, western powers set the world on a new course. They devised an alternative to expensive military action as the means to gain control over the economic resources of weaker nations. They would simply change the rules of the economic game, and then ensure those rules were made to apply globally through a combination of diplomatic blackmail and ideological persuasion. There is much hypocrisy in this process, for as Cambridge Professor of Economics Ha-Joon Chang says, “the rich countries did not themselves develop on the basis of the policies and institutions that they now recommend to, and often force upon, the developing countries.”

The consequences are clear to see: over the last three decades, no country has been untouched by the process of economic globalization that Reagan and Thatcher set in motion. And, while there have been some benefits in countries
where there was previously little hope of development, the main ‘achievement’ has been the adoption of a fatally flawed economic system by virtually every nation.

Instead of less developed countries being allowed to find their own way, globalization has propelled the rest of the world, including many countries where the majority still live in conditions little different from those of their iron-age ancestors, straight into Glubb’s age of decadence. Do not pass go. Do not collect the cultural equipment to help your populations cope. Just implement gargantuan change in a few short years, the kind of change that took rich nations centuries to achieve.

The Thatcher/Reagan economic experiment was a purposeful attempt to extend power and control in much the same way as the empires of old. It has become the basis for a single global civilization: each country has a rich, power-abusing elite, an insecure middle, and an underclass for which life is an unending struggle. The size of each may vary from nation to nation but the pattern is the same.

This globalization process has also dangerously compromised the democratic institutions the west is so keen to export to the rest of the world. Without democratic consent, national governments in both rich and poor countries have been obliged to give up control over their economies. Worse, the global system that has emerged now prevents governments from working together to rein in the beast they have unleashed. The result is a tyrannous exercising of elite power through which global mega-corporations, and those who control the financial markets, dictate economic policy in the interests of just a tiny fraction of the world’s people. As John Perkins says, “we economic hit men have created the world’s first truly global empire”.

When western civilization reaches the end of the road it will take the rest of
the world down with it. This is where we have to part company with Sir John Glubb. There is no possibility of today’s increasingly decadent global civilization being salvaged by pioneers from some other place. Even if there were, according to Glubb’s pessimistic analysis the same thing would happen again within a few short centuries. No, the challenge, post-globalization, is to create a single global civilization that is sufficiently aware of its own shortcomings to become the first in history to transcend the age of decadence and propel itself into a new, uncharted age: the age of humanity.

Where did it all go so wrong?

The pursuit by individuals of limitless material prosperity – regardless of the consequences for others – has become the basis of all economic activity. Yet even those who succeed are rarely satisfied; they always want more. Their only means of achieving more is to deny the means to greater prosperity to those who have less. But even the super-rich seem unhappy with the outcome.

Supporters of the current economic set-up argue that solutions to endemic social problems will only emerge through the continued pursuit of individual material wealth under a lightly regulated free-market system: in other words, more of the same. They need people to remain convinced that consumption is the key to happiness, even if such consumption can only be paid for by taking on unaffordable debt. People are encouraged to believe that if they keep consuming the world will somehow right itself and the growing gap between rich and poor will begin to lessen of its own accord. There is no evidence for this. In fact this lunacy ignores the growing body of evidence that an exclusive focus on materialism is bad for us. Not only does it make us unhappy but, as American psychologist Professor Tim Kasser discovered in his research, “people who believe it is important to strive for possessions, popularity and good looks also report more headaches, backaches, sore muscles and sore throats than individuals less focused on such goals.”
A culture of consumption creates an economy geared to producing ‘lifestyle goods’ and luxuries for those whose basic needs have already been met, while leaving millions in poverty. Not only are resources wrongly directed but, because the system is sustained only through running up massive debts, the capacity of the economy to create genuine new wealth is also severely weakened. However cheap things get, people always want more than they can afford. The result is a race to the bottom. People expect ever-lower prices so producers have to cut their costs by cutting the wage bill, using inferior materials or employing fewer people. Inevitably demand reduces. While this debilitating process is occurring in the real economy, the financial markets keep the elite (who create no real wealth) in money. This allows them to create the illusion that the economy is growing and enables financial organizations to hold democracy to ransom: Politicians, keenly aware of the electoral cycle and primarily motivated by re-election, refuse even to question this crazy economic system. No political leader has the vision, understanding or courage to tell the electorate that they are locked into an unsustainable cycle of debt-fuelled consumption that leaves them with the insatiable desires of an addict, and makes economic slumps frequent and inevitable.

As British political thinker Phillip Blond says, “What’s really suffered is human relationships, family life, the things that really matter to us. In the end the only thing that makes human beings happy isn’t money – it is very clear that past a certain level you only get marginal gains from wealth. What really makes us happy is other people. It is our relationship with other people that’s really been damaged by the last thirty years.”

Interestingly, Blond also says of Margaret Thatcher, one of the political architects of the current economic order, that “she didn’t know what she was doing. She didn’t want to create a ‘loads of money’ society, but that’s exactly what she did. She created the conditions under which people who didn’t give a damn prospered.” Blond may be right about Thatcher, but every politician that
has followed in her wake has embraced the same ideology. Perhaps the Iron
Lady lacked the flexibility to see things from a different perspective. But, if she
had the excuse of not really understanding the consequences of her policies,
her successors can see them all too clearly. It’s disappointing that those who
follow in her footsteps lack the courage and vision to steer us onto a different
course.

**Blueprint or Scramble?**

Few have been able fully to shield themselves from the consequences of the
financial crisis that began in 2008. Prices of things that make up a large
proportion of poor people’s living costs are rising across the board. Around
the world millions of jobs have been lost and it will be a long time before new
jobs are created to replace them, if they ever are. As mega-corporations shed
staff by the truckload, the natural engine of economic renewal should be small
businesses, but they are denied credit by a self-paralyzed banking system. This
deadly vicious circle means that demand for new production has collapsed.

In rich countries, social programmes designed to keep the economically
disenfranchised from destitution are subject to ‘austerity measures’ (savage
cuts) as governments try in vain to get a grip on a public debt crisis ignited by
a deeper crisis in private finance. In poor countries, any glimmer of hope for
the struggling majority has been firmly extinguished. Already 30,000 under
fives are dying each day from preventable causes: hunger, inadequate post-
natal care and diseases that could be eradicated by cheap inoculation. So what
would civilizational collapse actually mean? It would mean more of the same,
but much worse: greater suffering and hardship for people in all countries and
the symptoms of absolute poverty becoming more discernible in rich countries.
As the financial crisis continues to undermine the real economy, we will start
to see shortages of things that populations in rich countries used to take for
granted. Food and energy are the most likely consumables to have their supply
restricted.

Many of those we elect to lead us, and the financiers who wield so much unaccountable power, and who keep thinking up new ways of making money for themselves without making any contribution to wealth creation, are already wise to what’s going on. They may be hoarding wealth to protect themselves, knowing that the economy will soon fail completely, but it’s difficult to see how even the super-rich can protect themselves if things get really bad.

This kind of collapse must be avoided at all costs. It would be a disaster for everyone. The human race would doubtless survive, but it would be generations, if not centuries, before a new civilization emerged. Surely it would be better to avoid the trauma? There’s still time to reconstitute our troubled civilization. Long-term renewal will require a new age of pioneers, but signs are that those committed to social transformation are ready and waiting to take up the challenge.

Colonel Lawrence Wilkerson, formerly Secretary of State Colin Powell’s Chief of Staff, suggests we pay attention to the long-term strategic analysis of oil giant Royal Dutch Shell: “They have posited two scenarios,” he says. “One is called Blueprint and is obviously a planned corporate structure where world leaders get together and think about things like energy transformation, planetary warming and dwindling fossil fuels and so forth. The other is called Scramble and scramble is pretty much what it sounds like: it’s a mess. Interestingly enough in 2075, the ending year for these scenarios, we get to about the same place, it’s just the blueprint leaves a lot less blood on the floor.” The task of Shell’s analysts is to help the company prepare for all eventualities. While they obviously favour the Blueprint scenario, they are forced to concede that, right now, Scramble seems more likely.

Although things are serious, mainstream commentators avoid using phrases like
'the collapse of civilization’. They do, however, talk candidly about future events likely to bring about such a collapse. The financial markets, already irrational, could start to act more aggressively in defence of elite interests. Most of those who work in finance have no idea of the consequences for wider society of their aggregated actions. China may decide that it no longer wishes to fund the spending of the US Government or the consumption of its citizens. If the large asset-bubble-blowing Chinese economy falls into recession, what kind of reaction can we expect from millions of internet-savvy, disaffected young people? They’ve been promised so much, but most are yet to experience the benefits of their country’s economic miracle. They have no political rights; if the Chinese economy collapses there could well be revolution on the streets.

A crisis in the supply of one or more commodities, caused by genuine problems with production or by market manipulation by speculators, could easily tip the economy over the edge. So could an unexpected catastrophe linked to climate change. We may not be able to prevent such an event, but we’d be better able to cope with it if the global economy was in good shape.

The symptoms of social dislocation are likely to increase in rich nations. When English cities were hit by riots in the summer of 2011, politicians and commentators jumped through hoops to avoid the obvious conclusion that, whatever the criminal tendencies of many of those involved, such social breakdown is always a reaction to troubled economic times. The economic strain is likely to tell in poorer countries first, though. The scramble for scarce resources in places where there is already insufficient water will be exacerbated by existing political tensions and lead to more regional and civil wars. The recent overthrow of regimes in the Arab Spring provided people with a moment of hope, until the economic reality hit home. It hadn’t occurred to those who fought so courageously against oppression that the introduction of democracy comes with no guarantee of economic improvement, especially when the global economy is in such dire straits.
The evidence of history, and the unending catalogue of crises and conflicts that dominates the news, strongly suggest that without a major change of direction, collapse is inevitable. The extent of denial among politicians, economists and commentators means that change will not be led from within existing institutions of power. And, while that denial also reaches into the mindsets of many people, it is the determination of those ‘ordinary’ people organizing themselves and putting pressure on those who hold power that will offer the only hope. It’s not too late. We can buck the trend of history.

**Brave new world**

Before we can build a brave new world, we have to acknowledge the depth of the current crisis. It’s tempting to trace today’s problems back to the financial meltdown of 2008, but that was the final act in a drawn-out drama of decline. The world was in bad shape long before 2008. If we can identify the root causes of the collapse of historical civilizations, and then find ways to break the cycle, progress will be possible. It isn’t a question of returning to some far-off golden age when all was well – no such time ever existed. Nor should we kid ourselves that we are a few short steps from Utopia. Our brave new world will remain a work in progress. Human beings are too complicated, and society too complex, for us quickly to reform our way to a world where all is peace and harmony. But we can start to identify the obstacles to progress and work to dismantle them.

“*We can buck the trend of history.*

*We can set out on a different path.*
But first we need to get real about the catastrophe unfolding around us.”

We hear much about apathy. People can no longer be bothered to stand up and be counted. Even if they believe in the possibility of improvement, they can’t see how it can be achieved. There are many people with this defeatist attitude, but there are also millions who are strongly committed to the idea of change and prepared to work for it. Some are politically involved, at all points across the political spectrum. Others, having come to the conclusion that conventional politics is not fit for the purpose of reinventing society, are pursuing change in other ways. Some are motivated by religious or spiritual beliefs, others yearn
to escape humdrum jobs from which they draw little satisfaction. Millions are appalled by the increasing superficiality of consumer culture and the media-led obsession with celebrity. If so many already desire change – despite political and media efforts to keep people compliant – then we are off to a great start.

But, in order to create a tidal wave of change, these millions of tiny droplets need to combine into the biggest tsunami imaginable: a thunderous, rolling force for change that gathers momentum until it is able to sweep all before it. Despite the complexity of the human psyche, and the tensions that arise when seven billion people try to live side by side on a planet unused to such numbers, we do have the ability to turn things around. The sharing of knowledge and wisdom has never been easier. Thanks to the internet, and the new possibilities for organization it offers, we have never been in a better position to make change happen.

That change must start with the economy, especially our dysfunctional system of banking and finance. Economic participation is a basic human right, and a responsibility we all share. Given the critical role of the economy in all our lives, it’s to everyone’s advantage to learn a little more about how, in economic terms, the world really works.

We humans have lived our lives in evolving economic systems since we came down from the trees. Trade and commerce are part of our cultural DNA. The hardware of people and planet has remained fairly constant over time, but the software we use to distribute economic opportunity is in desperate need of an upgrade. If you’re still unsure about whether you’re up for the fight, the next chapter reveals how the economy has been hijacked by minority vested interests. This alone should persuade you that it’s time to engage. Economics is for everyone, and if taught properly is far from a dismal science. By acquiring a better understanding of the basics, people will be able to protect themselves against a system that has grown out of control. Once you understand how the
economy works, you will be liberated from its constraints, and the motivation
to work towards meaningful change will come more easily.
Chapter Two
ECONOMICS

“Economics is too important to be left to economists.”

Dr Rowan Williams
Archbishop of Canterbury

It’s economics, stupid.

In 2008 the Queen asked Luis Garicano, an economics professor at The London School of Economics, why nobody saw the global financial crisis coming. He was unable to answer her question. Is there a collective noun for
economists? A dither would be appropriate, or perhaps a hindsight – but certainly not a vision. How is it that a handful of economists could see that the global economy was headed for the rocks while most remained blissfully unaware? How did the discipline of economics become so unfit for purpose?

Ask a non-economist to define economics and you’d get a blank look or a jumble of terminology gleaned from news reports. The public perception of economics is of a complex and rather dull discipline veiled in impenetrable jargon. But economics is fundamental to all our lives and so vital in shaping the future that it’s too important to be left to the current dither of economists.

If the general public is unsure about what economics really is, then so are the guardians of the English language and even the profession itself. The Oxford English Dictionary defines it as, “the branch of knowledge concerned with the production, consumption, and transfer of wealth”. The authors of the standard economics textbooks are unable to agree. For Alfred Marshall it is “the study of people in the ordinary business of life”; for Lionel Robbins, “the science which studies human behaviour as a relationship between given ends and scarce means which have alternative uses”.

The American Economic Association claims that “Economics is the study of how people choose to use resources.” You have to wonder which people they are thinking of, bankers who award themselves million-dollar bonuses for moving money around, or African peasants who don’t have the resources to feed their children?

Each of these definitions describes an aspect of what economics is about and what economists do, but none is sufficient. And there is a bigger problem: the gulf between what economics is and does, and what it should be and should do.
Over the last century, economics has become a pseudo-scientific discipline. Economists have become obsessed with the internal management of an introspective system, the parameters of which have been set in stone by its practitioners. We are now lumbered with an economic system to which no alternative will be considered by mainstream economists. Instead, they spend their time creating ever more complex mathematical formulae for interpreting and justifying the behaviour of a largely defunct system. Few of their assumptions, equations or models have anything to do with the real world.

Today the dominant school of economic thought is known as ‘neo-classical’ economics and it makes a number of frankly absurd assumptions:

- overall wellbeing is maximized when individual behaviour is primarily motivated by self-interest;
- free markets always maximize wealth creation and assure its optimal distribution, wherever they are applied;
- the current entitlements of landownership are just and efficient;
- public revenue is best raised by taxing effort and enterprise;
- speculative investment has no negative impact on the capacity of the economy to create genuine wealth;
- the process by which money is created is best left in the hands of privately owned commercial banks;
- a competition-based economy best suits the character of most human beings; and
- the market mechanism is best placed to determine the rate of natural resource depletion.

These assumptions render economics impotent as an aid to creating a more just and sustainable society. Nor do they do anything to help us extricate ourselves
from the current crisis. As a ‘rational and scientific discipline’ neo-classical economics refuses to involve itself in debates about values or morality. But by refusing to engage with essential moral questions, neo-classical economics implicitly makes the biggest value judgment of all. It says: this is the way world is and economics can have nothing to say about how things should, or could, be different. What gives economists the right to place limits on our ambitions for a better society?

Thankfully there are some economists who recognize the philosophical absurdity of this position. They are trying to change the discipline from within but they’re not yet sufficient in number to change the way economics is taught in schools and universities. As each new generation of economists graduate, they emerge into the world convinced by the received wisdom. Their young minds have been moulded to fit the prevailing ideology, so they are unlikely to question the foundations of their discipline.

So what should economics be about? Well, that depends on your values. If you believe that everyone should have an equal chance in life, and that currently they do not, then you will support changes to the economy that promote the equal distribution of life chances. If you don’t care about equality of opportunity, or think everyone already enjoys adequate life chances, then you’ll be less excited by prospects of a reformed economics that sees ways to build a more inclusive society. This book takes a clear position: the distribution of life chances is currently extremely unequal, and the discipline of economics currently helps reinforce this injustice.

The economy has one purpose: it is the means through which people interact with the natural environment to produce the things they need to survive and flourish, along with other less essential stuff that improves the experience of life. This doesn’t mean the structures and institutions that make up the economic ‘system’ should deliver an equal distribution of wealth among the
population. They should, however, ensure an equal distribution of opportunities. Former IMF Chief Economist Simon Johnson claims: “It’s true that when you organize human society some people get ahead and some people struggle, but that’s a natural mechanism.” He’s right. Some people use their opportunities better than others. Some will use their innate talents and abilities to earn more than most; others will forego great wealth and choose work that satisfies their particular interests. But, whatever their choice, in an inclusive society everyone should be able to secure their basic needs.

By any measure, the current economic system is failing to distribute economic opportunities equally. The objective of economics should be to work out why this is, and then propose improvements. By reaching consensus on what constitutes a successful economy we can then make economics accountable to those it’s supposed to serve: everyone in the world who depends on the economy for survival. It’s astonishing that economics has got away with its failure for so long. No other academic discipline is so influential and so unaccountable.

When an aircraft crashes there is an extensive investigation into why the accident occurred. When the global economy crashes – an event that affects millions of people – there is no such inquest. Why? Could it be that economics deliberately underwrites a system that delivers minority wealth and privilege, grudgingly providing opportunities to the majority only because the elite would rather not dirty their hands with real work? Over the last three decades, the economic system has been redesigned to serve elite greed rather than the basic needs of the wider population. It no longer has any moral dimension. And, since the academic discipline that supports it was turned into a pseudo-science, the impact of economics on the lives of ordinary people has been disastrous. So how did the noble and innovative discipline handed down by Adam Smith and his fellow classical economists turn itself into a major factor in the decline of our civilization?
**Classical economics**

Formal economic thought predates Adam Smith by a little way. His Wealth of Nations, published in 1776, was in part a reaction to rapid and profound changes in society, as industry replaced agriculture as the main economic activity. Economics was previously dominated by the ideas of the Physiocrats, a group of eighteenth-century French economists who believed that the source of all national wealth was agriculture, the value of land or land development. Given the dominance of agriculture at the time, this is understandable. Adam Smith’s greatest contribution to economics was a framework for analysis which divided the inputs into economic activity into three classes – or factors – of production. He concluded that everything that contributes to the creation of wealth is either land, labour or capital. No wealth can be produced without the application of some of each. This remains true today.

Smith also described how the surplus generated through enterprise is returned to the owners of each factor: the landowner receives rent, the capital provider receives profit and the labourer receives wages. Smith’s contribution to economics is key because he provided a method for analyzing the distribution of wealth among what economists still call ‘factor classes’. These classes were closely linked to social divisions. By assessing the economic contribution of participants in the economy and the rewards they received in terms of social class, Smith encouraged examination of the impact of power relations on the distribution of wealth, and therefore social outcomes like poverty and inequality.

Smith’s analytical framework – which was expanded and enhanced by contemporaries like David Ricardo and Thomas Malthus – was deficient in one key respect. It predicted a world of diminishing returns. The theory predicted that as population increased and production intensified, growing demand would drive up the cost of land and therefore drive down the returns to
labour and capital. Ultimately, we would be unable to generate sufficient wealth from the resources of nature to sustain the population. In reality, however, while land values did steadily rise, wages and profits also increased as technological advances helped avoid this rather gloomy conclusion. Classical economics failed to take into account the impact of technological change, so subsequent generations of economists looked for a better tool. Unfortunately, as well as ditching the inadequate aspects of classical theory, they also decided to dispense with its most valuable bits, and we are still living with the consequences today.

The one thing that the successor model, neo-classical economics, did take from Adam Smith was the idea of an invisible hand. This is the notion that the market mechanism somehow translates the self-interested behaviour of individuals into a force for social good. But, as Noble Prize-winning economist Joseph Stiglitz asks, “At what juncture, what point, does morality enter into economic calculus? In a way, many people think that Adam Smith gave us a free pass; a way not to think about morality, because what Adam Smith said was that individuals in pursuit of their self-interest are led, as if by an invisible hand, to the general wellbeing of society. [But] Adam Smith didn’t really say that. Adam Smith was very much aware that businesses, when they got together, conspired against the public interest, raised prices. He was aware of monopoly, he was aware of the importance of education that the private sector couldn’t provide, so he himself is aware of all of the limitations, but his latter-day descendents have forgotten all those caveats.” Jonathan Schlefer concurs: the popular misappropriation of Smith’s epithet “makes him sound as if he thought that the invisible hand always leads individuals who are pursuing their own interests to promote the good of society. He did not. He saw the interests of large capitalists as conflicting with those of the public.”

The implications of this dishonest interpretation of Smith’s metaphor are summed up by the Australian economist Professor Steve Keen, who suggests
that mainstream economists today live by a false belief in “a world so perfectly coordinated that no superior power is needed to direct it”. Former economic hit man John Perkins puts it more bluntly: “It’s as though we are suddenly supposed to believe that human beings who stand at the top of corporations don’t need to be regulated, as if they are some kind of gods.”

**Neo-classical economics**

As it set out to eclipse its classical predecessor, neo-classical economics made a number of mistakes. One of the biggest was to dispense with land as a distinct factor of production. Economists chose to conflate land with capital, disregarding the quite obvious differences between the two. In a rapidly industrializing society, it’s understandable that people might imagine land to be less important, but economists should have known better. It remains the case today that nothing of tangible value can be produced without some contribution from land, which includes the natural resources that provide raw materials.

Martin Wolf of *The Financial Times* thinks, “The idea that land and capital are the same thing is evidently ludicrous. It requires us to believe that the economic machine is self-sustaining – a sort of perpetual motion machine.” He goes on to say that “there would be no economy – indeed no humanity – without a constant inflow of natural resources into the system.” So why do neo-classical economists continue to exclude land and resources from their calculations?

Followers of the nineteenth-century American economist Henry George argue that neo-classical economics was established to support the vested interests of landownership. If economics had continued to base its analysis on all three factors of production, then the massive advantage enjoyed by landowners – a tiny proportion of the population which controls access to most of the world’s natural resources – would be laid bare for all to see. Martin Wolf agrees: “The
powerful owners of natural resources wished to protect their unearned gains. In practice, therefore, the tax burden fell on labour and capital. Economics, one might argue, was pushed into supporting this way of organizing economic life.” One consequence of excluding land from economic models (and academic textbooks) is that, while revenues earned by labour and capital are subject to taxation, those earned by landowners are not.

There is no doubt that classical theory needed updating to reflect changes that Smith and his contemporaries could not have foreseen. But, in virtually every aspect, the neo-classical school of thought got it wrong, and in most cases spectacularly so.

Having dispensed with land, neo-classical economists also decided to change the entire procedural focus of economics. Instead of assessing the economy in terms of factor classes, and the subsequent distribution of revenues between them, they instead chose to extrapolate macroeconomic models – models that try to explain the workings of the entire economy – from microeconomic behaviour. They looked at the way consumers and producers behave on an individual basis and assumed the same simple rules could be applied to the collective workings of entire economies.

This was a fatal mistake. Classical economics had always encouraged critical assessment of the impact of power relations on social outcomes. It implicitly asked questions about what today we call ‘economic justice’. Questions like: ’Does each factor of production receive a fair reward for its contribution?’ Neo-classical economics deliberately asks no such questions, and it ignores differences in the power possessed by different participants in the economy. Rather simplistically, neo-classical economics looks only at the factors influencing the investment and consumption decisions of individuals and firms. It focuses on how things would work in an imaginary world where all participants in the economy shared full and equal knowledge, not only of the
market but also of the consequences of their decisions. It also assumes that everyone faces the same choices in life. It has very little connection with the reality of human existence. Its refusal to engage with difficult political and moral questions smacks of either conspiracy or cowardice.

By shifting the focus of economic analysis to individual preferences and adopting a definition of economic efficiency that excludes human wellbeing, neo-classical economics essentially says: it doesn’t really matter how much is produced, or how many people are involved in production; as long as those who have jobs (and therefore purchasing power) can maximize their satisfaction by accessing goods and services that are produced as efficiently as possible, then everything will be fine. With this kind of approach to economics, is it any wonder that we live in an ‘I’m all right Jack’ society in which the ties that used to bind communities together have been broken?

Unsurprisingly, this move from methodological holism to methodological individualism left neo-classical economics totally unable to explain a whole range of real-world events. This reductionist approach not only ignores the importance of land in economic activity, it doesn’t much bother with considerations of money or debt either. The Efficient Markets Hypothesis - the bit of neo-classical economics that professes to explain the workings of the financial markets – asserts that these cannot crash because, by their very nature, they are ‘informationally efficient’.

This means they will always tend to an equilibrium position where supply matches demand, and thus remain stable. Steve Keen argues that it is precisely this utterly false belief in the efficiency of financial markets that lies behind the current crisis: “By promulgating the efficient markets hypothesis, which is predicated on all investors having the foresight of Nostradamus, economic theory has encouraged the world to play a dangerous game of stock market speculation.” When the markets crashed in 2008, neo-classical economist and
long-time head of the US Federal Reserve, Alan Greenspan, told the Senate Banking Committee that he was shocked, conceding that there was a serious flaw in his own philosophy that unfettered free markets sit at the root of a superior economy. When it was suggested to him that this ideology was not right and not working, Greenspan agreed: “Absolutely. You know, that’s precisely the reason I was shocked, because I have been going for forty years or more with very considerable evidence that it was working exceptionally well.”

Just as it was unable to foresee the current financial crisis, to which it still has no solution, neo-classical economics also failed to predict or explain the Great Depression of the 1930s. On that occasion its hopeless failure led to its temporary overthrow.

**Keynesianism**

In the 1930s, economist John Maynard Keynes spotted the inherent shortcomings of neo-classical economics. The neo-classical model predicted that the free market would keep the economy more or less in equilibrium, and that flexibility in wages and prices would ensure full employment. Keynes formulated his ideas in the face of clear evidence to the contrary. He pointed out that neither prices nor wages changed easily and that, as a consequence, unemployment was a frequently recurring reality. This also meant the market was unable to price things to guarantee economic efficiency. He argued that these shortcomings with the market mechanism made it essential that, when the market failed, governments should intervene in order to promote full employment.

This further shortcoming in neo-classical thinking was influenced by Say’s Law, an unhelpful legacy of classical economic thought which states that the production of goods and services necessarily creates its own demand. Say’s
Law would have some merit if the process of production involved paying adequate rewards to labour, and if people were not inclined to save. Keynes realized that these two conditions rarely hold in the real world. He argued for government intervention to increase demand through public investment in infrastructure, and that such expenditure should be ‘counter-cyclical’. During a downturn public spending should increase to offset the decline in private demand; during a boom it should be reduced as private enterprise recovers and takes up the slack.

Keynes wanted to change economics to address the social problems arising from a slavish adherence to neo-classical theory. He saw that many people are excluded from productive involvement in the economy and that society is frequently subjected to massive disruption by business cycles. But interestingly, like his neo-classical predecessors (and like Karl Marx, whose analysis of the struggle between labour and capital also largely disregarded the third factor of production) Keynes continued to ignore the role of land. As economist Brian Hodgkinson points out, “such an enormously influential book as Keynes’ General Theory of Employment, Interest and Money refers to land briefly four times.” Keynes came from an upper-middle-class land-owning family, and played a key role in the management of the estates around Cambridge when he was bursar of King’s College. His legacy lives on in many ways: it was recently reported that Trinity College has invested £440 million in land occupied by Tesco stores.

Keynes’ contribution was immense; he gave a much-needed moral boost to the discipline. His awareness of the importance of money and debt distinguished him from his neo-classical predecessors. His version of economics was far more closely related to events in the real world. But his purposeful exclusion of land from economic calculations meant he was unable fully to confront the root causes of endemic poverty and chronic instability.
Neo-classical back with a vengeance

Unfortunately Keynes fell out of favour in the 1970s. This had more to do with the economic consequences of mistakes made by politicians than with any fundamental problems with his policy prescriptions. Non-Keynesians saw their chance, and a new and more aggressive form of neo-classical economics took centre stage, this time dressed in the political clothes of neo-liberalism. Not only would its devotees bury their heads in the sand over the issue of private debt, but they would also reassert their belief in Say’s Law. What became known as ‘supply side’ policies quickly became the only tool of economic management – with two consequences. Firstly, the problem of insufficient demand was ignored, introducing the kind of ‘structural’ unemployment which has become a permanent feature in all societies. Secondly, levels of private debt grew dramatically, making inevitable the greatest financial collapse since 1929.

The current financial crisis was sparked by the American sub-prime mortgage explosion and exacerbated by the lack of transparency in financial markets. But for Steve Keen it is the level of private debt in the economy which condemns us to years of reduced demand and high unemployment as individuals and firms struggle to pay back what they owe.

Instead of another Great Depression, this time around Keen predicts a less severe but much more drawn out Great Recession, which could last decades. As he says, “an economic theory that ignores the role of credit and debt in a market economy cannot possibly make sense of the complex, debt-based monetary economy in which we live.” He concludes that “neo-classical economists’ deliberate failure to monitor the dynamics of private debt was the reason why they did not see the crisis coming.”

Classical economics failed to account for technological advances and
incorrectly assumed that supply creates its own demand. Keynesian theory fell down in its neglect of natural resources and its failure fully to address the debt issue. But both have much to offer as we try to build a sound economic basis on which to resuscitate our ailing civilization. Neo-classical economics, on the other hand, is deficient in almost every respect. Today’s dominant economic model has nothing to offer – an alarming thought given that eighty-five per cent of economists working today are fully signed-up members of the neo-classical school. The remainder make up a lively mixture of other schools including New Keynesian, Marxian, Evolutionary, Institutional and Austrian. Wikipedia lists another forty variations, most of which have more merit and are more grounded in reality than the currently dominant neo-classical model. There are plenty of alternatives out there.
“The pursuit of certainty is often the ENEMY of Truth.”
Academic economists, impressed by advances in scientific method, have turned economics into a value-free science. The world beyond academia is always keen to embrace assertions of certainty, so it has welcomed this ‘modern’ approach to economics without question. But the pursuit of certainty is often the enemy of truth. In his book *Animate Earth*, Dr Stephan Harding explains that “Descartes taught that any entity could be understood by studying how its component parts worked in isolation – this was his famous reductionist methodology. His belief in mechanistic reductionism was so extreme that he urged his students to ignore the screams of vivisected animals, for such sounds were, after all, nothing more than the creakings and gratings of a complicated machine”. Today this would be unthinkable, except in the practice of economics where a silo mentality delivers models that ignore the suffering of millions, while economists refuse to think beyond their unhelpfully narrow remit.

It’s time to transcend the desire for baseless certainty and swap this imaginary-world economics for a discipline that understands how things work in the real world. This is especially important in respect of the impact of differences in economic and political power in a world of unprecedented population growth. Not so long ago, troublesome tribes or surplus people could be dispatched to faraway places. This is no longer an option. Instead we need an approach that embraces the belief that all people’s lives are of equal worth, and understands that resource and population issues can be solved by reconfiguring the economy and through the judicious use of new technologies.

Many people today are acutely aware of the possibility of the collapse of our civilization and are desperate to see it averted. Many also support the creation of a more just and inclusive global society. Such thinking was the preserve of marginal thinkers even during Keynes’ time. Perhaps we need to take our lead from the people who started it all, and remember that Adam Smith thought of himself not as an economist, but as a moral philosopher.
Markets and Power

Our life prospects and our capacity to secure the wealth we need to survive and flourish are determined by the amount of economic power we each bring to the table. Currently the distribution of such power is extremely unequal. There are many reasons for this, some historical, some a consequence of different genetic attributes and some to do with the quality of environmental inputs when we are young. But these pre-existing differences in economic power are reinforced and exacerbated by a system which assumes they don’t exist. There is nothing wrong with the market mechanism, but if the inputs into it are grossly unequal because a few people have disproportionately economic power, then the outputs will be similarly unequal and many will be left in poverty.

When power is so unevenly distributed, an elite emerges, and that elite can use its power to change the rules of the economic game to further entrench its position. Neo-classical economics gives cover to elites by asserting that market outcomes are always the correct outcomes, regardless of obvious power inequalities. No wonder so many people are perplexed by claims for the efficacy of free markets when they frequently deliver patently unjust outcomes.
“Remember that Adam Smith thought of himself not as an economist, but as a moral philosopher.”
Keynes’ conclusion that full employment can only be maintained if the government intervenes in the market is true only because the economy is organized in the interests of a wealthy elite. Under a redesigned economic system there’s no reason why all those who wish to work should not be able to find employment and receive sufficient reward to ensure a reasonable standard of living. The reason so many are not able to find such work (and many more are paid at rates below the true value of their contribution) is that the lion’s share of economic resources (the factors of production) are controlled by a small minority.

If you think enduring poverty is a result of our inability to generate sufficient wealth, consider this data from the recent Global Wealth Report, produced by Credit Suisse: If you divide the total household wealth in the world – about US$231 trillion – by the number of adults – about 4,519 billion – average wealth comes out at around US$50,000 per adult. This is remarkable in a global economy with massive unemployment and underemployment, and where investment in the real economy is heavily constrained by speculative antics in the financial markets. Imagine how much more wealth could be created if the economy were geared specifically to that end. We are already creating enough wealth to end poverty and we could be doing so much better. The report also points out that the bottom three billion adults (around fifty per cent) have average wealth of less than US$10,000 while the top 25 million (about half of one per cent) enjoy average wealth of more than US$1 million.

We clearly don’t have a problem with wealth creation, but we certainly have a massive problem with its distribution. Satish Kumar reminds us of Gandhi’s observation: “There is enough in the world for everybody’s need, but not for anybody’s greed.”

In light of the current failure of economics, shouldn’t we simply pursue a return to Keynesian policies? Supporters of the current order argue that the post-war
Keynesian period was a time of poor growth and even poorer prospects, but, as Ha-Joon Chang points out, economic growth in the UK in the 1960s and 1970s averaged 2.4 per cent, despite enterprise being subject to heavy regulation and higher rates of tax. In the two decades from 1990, after substantial deregulation and lower taxation, growth fell to 1.7 per cent. Clearly, a return to Keynesian principles would improve the lot of the poorest and lead to a more equal society, but it would do so only by papering over the cracks of a flawed economic system, rather than rebuilding it from its crumbling foundations.

The alternative is to address the fundamental flaws and create the sound economic platform necessary to avoid the fate of previous civilizations. A return to Keynes would only delay the inevitable. But is such fundamental change achievable? Can elite power be faced down? Do we have the will to engage? Economics has succeeded in ducking the issue for the last two centuries. Like the wider Enlightenment movement, it has cast off its guiding moral principles in favour of a purely rational, scientific approach to social problems that neglects the importance of values. Without values, progress is impossible, and if we are to embark on a course of profound social change, then we must rebuild economics on sound moral foundations.

Guided by the belief that equal access to economic opportunities is a basic right of all citizens, we must go back to first principles. Only then can we begin to design the kind of economy required to deliver that goal. Once we have established a set of principles for the kind of economy and society we want, then the technocrats can come up with new models and analytical frameworks to deliver it. Three aspects of today’s economic system get in the way of achieving genuine equality of opportunity: the monetary system, the financial system and the tax system. In the chapters that follow we will examine each of these obstacles and suggests ways of removing them.
Chapter Three
BANKING AND FINANCE

“When plunder becomes a way of life for a group of men living together in society, they create for themselves in the course of time a legal system that authorizes it and a moral code that glorifies it.”

Frederic Bastiat

Money and Wealth

Most people equate money with wealth, but in economic terms money and wealth are quite separate things. Wealth can be defined as those goods and services which are essential to wellbeing, along with others which enhance our experience of life. Money can be used to acquire such wealth, but of itself money is not wealth. This is a crucial distinction, but one about which neo-
classical economics has very little to say.

Money is a means of exchange; it enables us to secure wealth. It helps facilitate the processes of extraction, production and trade through which human beings convert the planet’s natural resources into the things we want and need. It can be used to acquire any of the three factors of production, land, labour and capital, but it is not a factor of production in the same way. Depending on how money comes into existence, however, it can have a serious impact on the creation and distribution of wealth. Economists should take this into account, but generally they don’t.

Keynes was aware of the role of money in the economy, especially its destabilizing qualities, though, as Steve Keen says, “he failed to convince his fellow economists of the importance of money in modeling the economy because money didn’t feature heavily in his technical analysis.” And, to the neo-classical economist, technical analysis is everything.

Economic activity isn’t just a question of people working, alone or in groups, to convert the gifts of nature into things that are useful or that bring pleasure; it is also a matter of exchange through trade. In a purely agricultural economy, life would be pretty dull if we each produced only a single crop to consume at every meal. Adam Smith taught us that the basis of a modern economy is the specialization of labour, and trade between the producers of manufactured goods and consumers of those goods. This enables us to satisfy our needs and desires by acquiring a variety of goods and services in the marketplace. Trade is an integral part of all societies; it reflects a universal appetite for variety in what we consume. There is nothing more natural or instinctive than engaging in trade so that we can enjoy the fruits of other people’s labour in exchange for a share of our own. To enable trade we need money, so we can price goods and services in terms of each other and exchange the wealth we each create for wealth created by others.
“History shows that economic instability, and ultimately civilizational collapse, is closely linked to wild fluctuations in the quantity of money in circulation and changes in its value.”
The only other acceptable use for money is as a temporary store of value, a means of deferring consumption to a later to a later date— to sustain us in old age, for example. If we are to use money as a temporary store of value, then it’s crucial that money keeps its value over time. Inflation occurs when money loses its value, leading to the same quantity of money buying less wealth. Most of us have personal experience of this.

History shows that economic instability, and ultimately civilizational collapse, is closely linked to wild fluctuations in the quantity of money in circulation, and to changes in its value. By ensuring stability of the money supply, the amount of money in circulation, we are better able to protect ourselves from such problems.

**Commodity-backed money versus fiat money**

The use of precious metals as money goes back nearly three thousand years. Until quite recently, gold and other metals (notably silver) were the basis of money in nearly all societies. But, as modernity took hold, money no longer took the exclusive form of gold and silver coinage. Instead, paper money and base metal coins were issued and their quantity was linked to gold at a fixed rate. This satisfied the requirement for money supply stability because the stock of gold is relatively fixed and can only increase by the amount of new gold mined from the earth. As James Turk points out, “the above-ground stock grows about one and three quarters per cent per annum, which is approximately equal to world population growth and new wealth creation. Money supply stability is thus guaranteed, in theory at least.”

But the history of such commodity-backed money suggests that linking the money supply to a commodity like gold doesn’t always work. Like most other countries in the 1920s, the United States operated a gold standard. Despite this, massive credit expansion allowed investors to borrow money to speculate in
stock markets, creating the asset bubble that burst spectacularly in October 1929. After the crash, a way had to be found to inspire confidence and prevent demand in the real economy falling through the floor. Having the money supply fixed to gold made this impossible.

Deflation set in as those who could still afford to started paying off their debts, further reducing demand. In 1931, widespread social unrest in reaction to austerity measures brought down the British government and forced Britain off the gold standard. With the new government able to manipulate the money supply and so reflate the economy, recovery was achieved far more quickly than in the United States, where the currency remained pegged to gold.

Gold may be of little help once the economy slumps, but this misses the point. Pegging a currency to gold should prevent its debasement by stopping the kind of money supply growth that encourages asset bubbles. These bubbles inevitably lead to financial market meltdown and consequent recession.

However desirable the stability-inducing effects of gold may be, there are practical obstacles to resurrecting the gold standard today. The total value of above-ground gold worldwide is less than the money circulating in the United States. This could be solved by recalibrating currencies, but other problems would remain. One of the consequences of the United States adopting a gold/silver standard in 1848 was to unleash the California gold rush. If gold were once again to become the basis for currencies, then its supply would have to be controlled to prevent private mining companies from assuming a key role in the management of the global economy. The private nature of gold prospecting, and the fact that reserves are concentrated in just a few countries (especially South Africa and China) suggests that gold might not be a practical solution. James Turk argues for a return to the gold standard because “only gold is outside the control of politicians”. That may be true, but it’s not outside the control of mining corporations, whose interests are unlikely to coincide
with those of the wider population.

Gold would also be a more viable basis for the money supply if its price wasn’t subject to manipulation by commodity speculators, but this happens routinely. Currency instability driven by self-interested financial markets is one of the greatest problems facing the global economy. A return to gold could make it worse. Notwithstanding these concerns, those who currently argue for the reintroduction of the gold standard recognize the importance of money supply stability. In this respect, the gold bugs are doing us all a favour.

Money that is not backed by a tangible commodity such as gold is known as ‘fiat’ money. Fiat money has value and is good for exchange simply because the authorities say so. It also exists under commodity-backed systems: it was fiat money that drove the stock market to bursting point in 1929. This was money not backed by gold but created out of thin air by banks. Every time they made a loan to investors seeking funds to ride the manic wave of optimism, new money was created and asset prices were further inflated. This almost limitless expansion in the money supply led directly to the Wall Street Crash.

In theory, the money supply should be more stable when it is backed by a commodity which is relatively fixed in supply. Even if banks are allowed to get away with creating new money, they should feel constrained by the perception that cash is exchangeable for gold at the central bank, even if this is not the case in practice. In 1971, the world abandoned gold because it was seen as an unnecessary constraint on the ambitions of politicians and big business. Over the last forty years, since fiat money became the norm, the money supply has grown exponentially. We have seen the greatest growth in the supply of money in history. Today ninety-seven per cent of all money is created as debt. Absurdly, the preferred solution of governments to the debt crisis is to create yet more debt. David Morgan sums up the problem with fiat money perfectly: “You can never get enough of a currency that doesn’t work –
you can print it till kingdom come but you can’t print wealth and you can’t get yourself out of debt by making more debt. If you could print wealth Zimbabwe would be the most prosperous country on the planet – we all know it doesn’t work.” It was the French philosopher Voltaire who said, “All paper money eventually returns to its intrinsic value – zero.”

If a government were interested in establishing money supply stability by instituting a new, transparent fiat currency, it could be done. Economists could come up with a figure for the correct amount of new money to put into circulation, and a conversion rate at which the outgoing currency should be exchanged. Statisticians could predict changes in population over the next decade or so and politicians could agree a mechanism for increasing or decreasing the money supply to accommodate those changes. By using legislation to stop banks creating money at will, the money supply would remain constant in relation to the population and prices would generally remain stable. If productivity improved, because people worked harder or devised new ways of creating wealth through improved technology, or because they invented new goods and services, there would be more things for people to spend their money on. Essentials like food would still be produced in sufficient quantities because, as long as everybody has work that pays a fair wage, demand for food would remain steady.

If productivity reached levels where sufficient wealth was created without everyone having to work a forty-hour week, then some people might choose to work fewer hours in return for lower wages. They might have to wait longer to upgrade their iPhones, but that would be their choice. If, after a century or so of great advances in productive capacity, lots of people decided they would be equally happy with less, then economic output would fall. This would mean less wealth was created, and prices would increase. But this kind of inflation would not be detrimental to individual wellbeing or to the economy as a whole. Prices would change not because an unrestrained money supply was
chasing a constant quantity of wealth, but because a fixed supply of money was being used to purchase a variable amount of wealth.

Admittedly, this is a simplified example of the relationship between money and wealth in a market economy, but it gives an idea of how things could work under a stable, transparent money supply. It is not how things work today. But the culprit is neither the absence of a gold standard, nor its replacement by a system of fiat money. Rather, it is the means by which most money is now created, via a process that is dishonestly called fractional reserve banking.

**Fractional reserve banking**

Fractional reserve banking began in Britain in the early days of gold and silver coinage, when people would deposit their coins with goldsmiths for safekeeping. The goldsmith issued a certificate with which the depositor could redeem his gold at a later date. These early bankers soon noticed that their certificates of deposit were being used as a method of payment. Why make a trip to the goldsmith when market stallholders were happy to accept a piece of paper as payment? The goldsmiths then realized that, as long as they kept enough gold coin in reserve to cover the demand for ‘cash’, they could lend out the rest at interest. Some of this loaned out gold would be deposited with other goldsmiths, who would do the same thing. In time they began issuing loans in the form of paper money. It’s not difficult to see how, from a fixed monetary base of, say, 1,000 gold coins, the quantity of money in circulation, or bits of paper that people are willing to accept as money, can rise dramatically. If goldsmiths estimated that they should keep a ratio of ten per cent deposits to loans, then the money supply would quickly grow ten-fold, to the equivalent of 10,000 gold coins, assuming they could find borrowers willing to take up the loans.

This is precisely how fractional reserve banking works today. There is an
amount of base currency in the form of notes and coin which is issued by the central bank on behalf of the government. It typically comprises around three per cent of the money supply. Opponents of fiat money dislike the idea of governments having the power to influence the money supply, but under fractional reserve banking the problem is not governments adding to the monetary base, it’s the far greater increase in money supply that occurs when commercial banks make loans to their customers.

‘Fractional’ refers to the fact that banks are (or were until recently) obliged to keep a fraction of their total deposits as cash, so they can always meet the demands of their customers for withdrawals. This also places a limit on the amount they can lend, ensuring that the amount of money in circulation does not spiral out of control.

If properly regulated, these liquidity requirements enable the system to work reasonably well, but over the last three decades they have been steadily eroded to the point where there is essentially no limit on the amount of money that banks can create. Reserve requirements have effectively disappeared. We now have a situation in which, as Steve Keen says, “the banks create as much new money as they can get away with, because, fundamentally, banks profit by creating debt.”

This brings us to the crux of the matter: the principal factor determining the quantity of money in circulation is the banks’ ability to make profits out of the interest they earn on loan repayments. It is therefore to their huge advantage to expand the money supply as much as possible. Over the last three decades, banks have been among the most profitable of all businesses. Their senior staff have awarded themselves bonuses out of all proportion with the ability of the banking system to create genuine wealth. And their shareholders have done pretty well too.
Few people have any idea of the role of banks in creating money. As former derivatives trader Tarek El Diwany says, “The fact is most people think that what a bank does is lend you money that someone else has put in the bank previously. But what a commercial bank actually does is to create money from nothing, and then lend it to you at interest. If I do that, if I manufacture money in my own home, it’s called counterfeiting; if an accountant creates money out of nothing in the company accounts, it’s called cooking the books; but if a bank does it, it is perfectly legal. And so long as you allow fraud to be legalized then all kinds of problems are going to crop up in the economic system that you can’t do anything about.”

Allowing the banks to manage the money supply is the principal cause of both the failure of the economy to promote economic justice, and its inability to avoid the damaging cycle of boom and bust. Since the goldsmiths’ time things have got immeasurably worse. Technological advances mean that most money now exists only as numbers in computers, so commercial banks can create money, and generate profits, at the touch of a button.

The amount of money in circulation is determined by the rate at which banks issue new loans, in which process new money is created. The main source of banks’ profits is the interest received on debt repayments, which further increases the money supply. Supporters of current arrangements argue that banks are simply responding to market demand for credit, and, as markets are supposed always to return to equilibrium, the quantity of money in circulation is always correct. But what banks do is quite different from the activities of other types of firm. They don’t produce any wealth themselves; they support wealth creation only by supervising the monetary system. When that process of monetary supervision itself becomes subject to market forces and the demands of profit-hungry shareholders, there are clear consequences for the real economy. As Steve Keen argues, “firms and banks must be clearly distinguished in any model of capitalism”. Needless to say, under neo-
classical economics they are not.

The gold standard failed to prevent the massive credit expansion that drove the stock market bubble and led to the Wall Street Crash. A system of fiat money with barely regulated fractional reserve banking makes it even harder to ensure a stable money supply. History shows that, on the few occasions that money supply stability has been achieved, it has been as a result of properly enforced regulation and close supervision of the banking system. But it’s not just a problem of too much money being created, it also matters what this newly created money is used for.

**Good money, bad money**

Generally, loans are made (and money is created) for one of three purposes:

- to fund direct investment in the creation of new tangible wealth;
- to fund investments in financial markets and ‘products’ which have no direct link to the creation of real wealth; or,
- to fund the consumption of goods and services.

The first of these purposes is positive and essential, the other two are not. If you buy shares in a company when they are first issued, or if a bank lends money to a firm so it can expand, the money invested will be used to increase productivity or efficiency. If the firm is clever with the investment, it should sell more goods and increase its rate of profit. Investors will be rewarded with dividends and new and existing employees will benefit from increased wages. A virtuous circle emerges as money circulates around the economy, ensuring more demand for the goods produced by this firm and others. All in all, a positive impact is made on the economy. This form of direct investment in enterprise is essential, and the returns earned from it are entirely legitimate. But currently in the UK only eight per cent of bank loans are made for
investment in productive enterprise.

“The banks create as much new money as they can get away with because, fundamentally, banks profit by creating debt.”
That eight per cent is still quite a lot of money. It should have a positive impact on both the creation of wealth and its distribution. But, even if the return on investment is divided fairly among the factors of production and labour receives a just wage, there is still a problem. Because the other ninety-two per cent of bank-created money produces no additional wealth, it contributes to the debasement of the currency. The wage-earner may have more money in her pocket, but as prices have gone up she is no better off. The process of creating money causes a redistribution of wealth from the bottom to the top of the earnings pyramid, and the gulf between rich and poor gets bigger and bigger.

Loans for investment in secondary markets for stock and shares, in the bond markets, in the currency markets or in markets for financial derivatives, have no direct link to productive enterprise. They are not part of the real economy. Neither are investments made in raw materials or commodities if the purchase is not to secure inputs for manufacture. Such investments are made in the hope, or calculation, that the ‘asset’ in question will rise in value and so deliver a tidy return.

Most of the funds for such speculative investment begin life as loans. Money is often created by one division of a large bank and loaned to another to play the markets. No investment is made in the generation of real wealth, but large amounts of debt are constantly being created which destabilize the real economy. If this kind of speculative investment creates no new wealth, then any return it earns for investors must be derived from money created out of nothing, or from the earnings of those who are involved in the production of genuine wealth. This activity is called rent seeking.

The third type of loan – those made for consumption – need not be
economically crippling if they are limited. Currently they are not. In the UK, personal debt is roughly equal to the entire annual output of the economy. Mortgages account for eighty-five per cent of that debt; but when non-mortgage consumer debt is more than £8,000 per household, rising to £15,000 if you exclude households with no debt, you begin to see the size of the problem.

Many households are spending way beyond their means, either because the breadwinner is unemployed or poorly paid, or because their consumption outstrips their earnings. Some of that consumption is perfectly justified – nobody can be blamed for borrowing money to feed and clothe their children – but most is fuelled by a destructive culture which tells us we can have all that we want regardless of what we can afford.

Promoting consumption for its own sake is a way of diverting people’s attention from what’s really going on in the world. The dire consequences of a debt-driven economy could be avoided if consumer credit wasn’t so easily available. With so much manufacturing now transferred to emerging economies, where wages are lower, most of the money lent for consumption in rich countries ends up funding imports and is lost to the domestic economy for good. If, instead of funding consumption, the loans were used for investment in productive enterprise, then companies could take on new staff, and demand for locally produced goods (that don’t need to be transported halfway round the world) would begin to grow.

If loans were extended only for the purpose of creating genuine new wealth, many of the problems associated with money supply instability would disappear. Perhaps this is unrealistic, as it would require a complete overhaul of the banking system, but it would address a fundamental economic problem. As economist Dr Michael Reiss says, “the history of economics has been a history of mankind’s attempts, and mostly dismal failures, at establishing and sustaining a stable monetary system.”
“Promoting consumption for its own sake is a way of diverting people’s attention from what’s really going on in the world.”
And, nearly a century after the failure properly to police the gold standard created the conditions that led to the Wall Street Crash, bankers have again escaped regulation and wrought havoc on the global economy by manipulating the money supply.

Why has it proved so difficult to maintain a stable money supply? Because the manipulation and corruption of the system by which money is issued has always been one of the easiest ways for predatory individuals and corporations to make a fast buck. A stable money supply would mean everyone having to work for a living, doing something that actually adds value and creates real wealth. This is the kind of work from which most people derive meaning and purpose in life. Regardless of the consequences for the rest of society, it seems that bankers, and others who play the financial markets, have a different motivation. They seem determined to go on making money without creating anything of genuine value.

**Debt slavery**

An economy that can function only if its debt is greater than the total value of its output is doomed. Today, bankers and financiers insist that virtually no economic activity can take place without high levels of profit-delivering debt. The American economist Hyman Minsky provided a useful guide to the destructiveness of debt with his *Financial Instability Hypothesis*. Minsky divided debt into three categories, ‘hedge lending’, ‘speculative lending’ and ‘ponzi lending’. In the first scenario, the borrower expects to repay both principal and interest out of cash flows from current investments.

In the second, speculative borrowers expect to repay the interest on the debt from current cash flows, but constantly refinance the principal amount. Ponzi borrowers have no cash flows to service their debt. They rely on the value of their assets appreciating sufficiently to enable further refinancing of their
principal capital and interest. In other words, they don’t ever anticipate being able to pay off the debt – they just hope to cream off a tidy profit for themselves while constantly refinancing to avoid default.

In this Ponzi scenario, it is only the act of continual borrowing, accumulating interest charges, and the fact that other investors are doing the same, that ensures that the value of the underlying asset continues to rise. Borrowers and lenders extract revenues from assets which grow in value simply because the banks keep extending credit. Asset values are thus inflated way beyond their true market value. The whole process continues until it eventually dawns on lenders and borrowers that the business model is completely unsustainable. When this happens, the banking system enters a state of self-induced paralysis, with petrified banks unwilling to lend, and their creditors unable to repay. This massive pyramid scheme is nothing new. The philosopher George Santayana reminds us that “those who cannot remember the past are condemned to repeat it”. It seems that banking and wisdom are mutually exclusive. Following every boom comes the inevitable bust, but it’s not bankers and investors who pay the price. In fact they are the only ones insulated from the fallout because they’ve made so much for themselves out of this crazy (wealth-free) money-creation scheme. The people who suffer are those who work in the real economy.

Millions of people are denied the basic human right to earn a living for themselves and their families because a tiny elite has been permitted to hijack the economy for their own ends.

Which brings us to a crucial point: following coverage of the current crisis in the mainstream media, you could be forgiven for thinking the root cause was unsustainable public debt. This is not the case. Yes, governments are forced to borrow money to provide benefits for the economically excluded and choose to do so to fight morally dubious resource wars, but the current crisis was not caused by government profligacy. What tipped the banking system over the
edge was endlessly passing the parcel of unsustainable private debt. Nobody knew which ‘assets’ were worth anything, or who owned them. When the music stopped, the financial markets froze and banks stopped lending. The economy fell into recession, causing a huge reduction in tax revenues which meant governments had to borrow from the debt markets to meet their pre-existing, if ill-considered, spending commitments. Ironically, the banks and the financial markets were only too happy to oblige. Once again, it was banks that made unwise loans to cash-strapped governments and created the real possibility of sovereign debt defaults.

Many experts argue that levels of sovereign debt are now insupportably high, yet they pale into insignificance when compared with levels of private debt. Loans to governments are only a problem because they involve large concentrations of debt, with the risk shared between a small number of banks. Those banks carried on lending to whomever they could, safe in the knowledge that, when push came to shove, other governments would step in with taxpayers’ money to bail them out. As former Wall Street trader Max Keiser says, “Socialism for the rich, capitalism for the poor: in America the banks that got into trouble got bailed out by the government. America is probably the most socialist country in the world right now.” Ha-Joon Chang agrees: “rich people make mistakes, they don’t get punished; poor people, even when they don’t make any mistakes, are forced to pay for the mistakes of the rich.”

**Too big to fail or too big to bail?**

Since the crash, taxpayers’ money has been used to bail out failing banks because they are perceived to be too big to fail. Are they too big to fail? Or should we be asking a different question: aren’t these banks too big to bail out? Firms in any other sector would be left to go to the wall, but, because governments have allowed the provision of credit to become a business, they now have to step in when the banking system is unable to meet the needs of the
economy. What would be the consequences if they were left to their fate?

The banking system is dominated by a relatively small number of huge banks. These banks have shown they can withstand defaults on lending to individuals and corporations. In 2011, UK banks wrote off record amounts of debt. Most of the £5.1bn written off in the second quarter was lending for commercial property purchases, with a sizeable chunk represented by lending to private individuals for home purchases and consumption spending. These almost routine write-offs rarely get a mention; more importantly, they barely make a dent in banks’ profits. Writing off these debts is a spring cleaning exercise which actually improves banks’ balance sheets. Once they’ve taken the hit in one accounting period they continue as if no real loss has been suffered in the next.

A sovereign loan is one made to a foreign government, and sovereign debt default is a different matter. Still, there is little evidence that if a country like Greece or Italy were to default on these loans, this would automatically lead to a collapse in the banking system. If the failure of a number of large banks was not properly managed, the system may well collapse, but not because of the defaults, rather because of the reaction of the financial markets. The situation is exacerbated by the fact that key players in those markets are insurance companies which insure the loans to foreign governments. Any sensible insurer would never cover a risk that could bring about the collapse of the entire insurance market, and no sensible regulatory authority would allow these insurance policies to be traded for profit. Unfortunately, sensible regulatory measures are in short supply. Predatory banks like Goldman Sachs are allowed to bet both ways. They can make loans on which they earn huge profits if the loans are repaid, and they can insure these loans with policies that cover their losses in the event of default. If their insurers are unable to honour their commitments, governments step in with taxpayers’ money. Win-win for Goldman, lose-lose for the taxpayer. Socialism for the rich. The financial
system has become a mechanism for transferring real wealth from those to whom it rightly belongs – ordinary working people – to a wealthy, faceless elite. Only this group of people benefit from what goes on in the financial markets.

There is no justification for the appropriation of cash from the struggling majority to save the assets of the most wealthy, especially when it was the behaviour of decision-makers in banks that caused the collapse of the system in the first place. It’s blackmail, pure and simple. Instead of kowtowing to the financial sector, governments should be acting in the interests of all citizens. This would require an internationally coordinated, carefully managed process by which those banks which have become overexposed to bad debts are allowed to fail. The cost of poor decisions by bankers – driven by the self-serving prospect of higher profits and bonuses – to keep on lending, and acquiring dubious and untraceable ‘assets’, should be borne entirely by those who made the woeful decisions. The shareholders who have supported them should also shoulder some of the loss. If those shareholders include the private pension funds of well-to-do individuals in rich countries, then so be it. Ignorance of the way financial markets work is no excuse for attempting to profit from what is, in essence, an abusive system of extracting wealth. As currently configured, the banking system not only contains, but has also actively sown, the seeds of its own destruction.

A debt that can’t be paid won’t be

Although the current crisis is possibly the most serious and complex in human history, it follows a pattern that has existed since ancient times. The rulers of early civilizations, like that in Mesopotamia, had wiser solutions than today’s politicians. When the landless and other dispossessed people in these ancient societies ran up unsustainable levels of debt which threatened widespread economic ruin, they bit the bullet and tackled the problem head on. The
authorities periodically made clean-slate proclamations: all debts were written off. This had the effect of resetting the economy to its original condition. Money lenders would suffer a nominal loss of wealth, but because things had become so out of kilter they understood they weren’t going to get their money back anyway. It was accepted that such debt jubilees were the only way out of crisis.

This is the point we have reached today, yet the solution offered by most economists and politicians is to borrow more money to refinance debts that are never going to be repaid. In short: create more debt to solve the debt crisis. It’s like encouraging a drug addict to take more narcotics to ‘cure’ their addiction. The only way out of the current crisis is to declare the slate clean in respect of banks that can’t give a full account of their exposure, and those nations which are unable to meet their debt obligations. Anything else will tear those nations apart. This would mean some privately-owned banks going to the wall, but it would prevent the same thing happening to entire nations.

It may sound like an extreme solution but it would focus the pain on those whose negligence and hubris caused the crisis. The alternatives: continuing to allow private banks to seek more profit by constantly refinancing unrepayable debts, or allowing central banks to create new money instead, would only exacerbate the problem and lead to deeper pain once we finally wake up and face reality.

The process of wiping the slate clean would have to be carefully coordinated across borders. If that seems an unlikely prospect, then we must use democracy to force politicians to take the only sensible way out of the crisis. Ordinary citizens in all ‘leading’ nations are being hit badly. By deepening and extending the kind of international coordination exhibited by the Occupy Movement worldwide, people could work together to force their governments to act in concert before it is too late.
The two quite distinct functions of retail and investment banking must be separated. This requirement was apparent to everyone during the Great Depression when the United States government passed the Glass-Steagall Act, prohibiting banks from engaging in retail and investment activities under the same corporate umbrella. Glass-Steagall was repealed in 1999 by Bill Clinton, under pressure from the banking lobby, several of whose leading members he had appointed to key advisory posts.

If banks were prevented from fulfilling this dual role, the deposits of ordinary savers would be protected in the event of a repeat of the kind of liquidity crisis that hit the system in 2008. Retail banks would have to stop creating money to lend to their investment arms for speculative purposes, and this would reduce the extent of non-productive investments which so destabilize the banking system.

In the UK, the recent report of the Independent Banking Commission at least acknowledged this problem but pathetically argued only for ‘ring-fencing’ the speculative activities of banks to better protect their retail customers. To add insult to injury, they gave banks seven years to enact the reforms. In the meantime, the government is obliged to guarantee people’s savings up to £85,000 while the banks’ profits return to pre-crisis levels.
“Instead of kowtowing to the financial sector, governments should be acting in the interests of all citizens.”

The culpability of the banking system for the current crisis should by now be quite obvious. But there is more. Since financial markets were deregulated three decades ago, and since technology changed the way players in those markets do business, an entirely new level of financial engineering has
emerged in the ‘shadow’ banking system. Shadow banking activities generally occur off balance sheet – they are neither reported on in company accounts nor subject to any kind of regulation. The size of the sector is difficult to measure, but at its peak in 2007, Tim Geithner, now US Treasury Secretary, estimated that shadow banking in the United States was worth $10.5 trillion, more than the total value of funds circulating in the conventional banking system. Just like conventional banking, shadow banking creates money without creating any new wealth. As well as its activities being unjust to the point of fraudulence, shadow banking is deeply culpable.

The only way to ensure no repeat of the current crisis is to dismantle the banking system and rebuild it along lines that recognize the special status of money in the economy, and the importance of money supply stability. In addition to the separation of retail and investment banking, and curtailing the activities of shadow banking, the banking system should be split into many smaller banks so that mistakes made by one or a handful of banks do not infect the entire system. If banks do make poor lending and investment decisions, they must be allowed to fail.

The motivational framework for banking and the bonus culture also need to change. If profitability and bonuses are linked to making loans by creating new money then, instead of helping to generate real wealth, banks will continue to undermine the real economy. The simplest way positively to re-incentivize and reconfigure the commercial banking system is to remove from it the ability to create money. Commercial banks should also be stripped of the subsidy they receive from central banks when new ‘base’ money (notes and coins) is issued. Why should privately owned commercial enterprises get first and essentially free use of new money created by government?
“Once a modern-day version of the historic debt jubilee had been successfully enacted, the banking system could be reconstituted along sustainable lines.”
This may all look like a great deal of regulation, but history shows that economic stability and inclusion are dependent on the regulation of the banking system to ensure a stable money supply.

In the 1960s, when UK banks were subject to proper regulation, the split between government-issued money and money produced through fractional reserve banking was about 50/50. During this period, not only were adequate cash reserve ratios in place and adhered to, but the central bank would also make requests to commercial banks to limit credit creation if the money supply looked to be getting out of control. Aware of their responsibilities to wider society, the banks did as they were asked. In a democracy, the role of the state should be to take whatever measures are required to promote equality of access to economic opportunities. This means regulating the banking system so that money serves its proper function of supporting the real economy, rather than the real economy being sacrificed to the selfish interests of the money men.

Whatever method is adopted to ensure money supply stability, it is clear that the rules around it need to be properly enforced. It is the responsibility of democratically elected and accountable governments to do this, and it is in everyone’s best interests. Leaving the money supply in the hands of profit-motivated bankers is a recipe for continued instability and economic exclusion. Mayer Amschel Rothschild’s famous nineteenth-century quote is disturbingly relevant today: “Give me control of a nation’s money supply, and I care not who makes its laws.”
“Give me control of a nation’s money supply; and I care not who makes it’s laws.”

Mayer Amschel Rothschild 1838
Chapter Four
RENT SEEKING AND UNEARNED WEALTH

“Capitalism has always required disposable populations in order to function. In our system of global apartheid other people must toil in fields and sweatshops, die in resource wars and watch as their countries are poisoned in order for us to enjoy comfortable, privileged lives”

Blake Sifton

No fools left

While our deliberately deregulated, debt-laden economy was always headed for a fall, the fuse for the wider crisis was lit by ‘sub-prime’ mortgage lending in the United States. Mortgage lenders had taken unprecedented risks in making
loans for home purchases to people who would never be able to repay them. Such loans would not previously have been made, but, as Michael Hudson points out, around the turn of the millennium, in their relentless quest for new sources of profit, bankers began to realize that “the poor are honest”. They will do everything they can to repay their debts “even if the debts are not valid; even if the debts are much more than they expected; even if they really can’t repay the debts.” And the poor cannot afford lawyers.

Having indebted credit-worthy Americans to the hilt, the money men set about foisting debt on to the seriously credit-unworthy. Predatory lending terms were hidden in the small print of confusing mortgage contracts. Lenders (whose pay and bonuses were linked to the amount of business they did) encouraged people to take out loans with low ’teaser’ interest rates, which soon increased beyond affordability. Almost all sub-prime borrowers were unaware of what they were committing to. And, as Hudson points out, there were worrying racial undertones to the whole sordid business: “The banks engaged in a criminal conspiracy to charge more to the blacks and Hispanics.”

The boom years, and subsequent collapse, were driven by a very simple mechanism: lending became a ‘production-line” process. Large quantities of money (created out of thin air) needed to be unloaded on to unwitting borrowers. This practice of ’mortgage mining’ made unscrupulous use of the manipulative emotional propaganda that underpins the American dream. The bankers struck gold. In the late nineties they convinced government and regulators to look the other way. The ‘free market’ would deliver the American dream to every citizen; nothing could possibly go wrong. There were a few canaries in the mine who warned of the consequences, but they were dismissed as cranks and conspiracy theorists. John Lanchester describes the situation thus: “A terrible changeover happens, in which the process of lending is no longer driven by the legitimate desire of poor-but-reliable people to own a house, but is instead a manufactured process driven by capital which
is set loose looking for people to sign up to loans.” As Simon Johnson says, “if you push people to buy housing before they are ready, if you push very dubious loans on them, and they don’t understand what they are getting themselves into, you can have huge adverse repercussions.”

Apart from the pathological desire for profit, lenders were able to make these dodgy loans because of the emergence of a thriving new market in mortgage debt. Banks and other players in the financial markets began trading packages of mortgage debt to swell their profits and bonuses. Many had no idea of the origin or validity of the loans that made up these ‘securities’ but the existence of a thriving market was security enough. For those making the initial deals, what started out as risky loans quickly became risk-free as the debts (and the risk) were sold on at a profit.

The markets eventually realized that the complexity of such ‘products’, and the complete lack of transparency regarding their provenance, meant nobody had any idea whether the underlying assets (homes) had any tangible value. Before long, the market for mortgage-backed securities was operating under the ‘greater fool’ theory: the belief that a dubious investment can be sold on to a ‘greater fool’ for more than you paid for it. Investing on the basis that packages of debt can be sold on at a profit is hardly a sound strategy. As the victims of inappropriate lending began to default on their mortgages, the greater fools began to wise up. But it was already too late. Confidence collapsed, the crisis kicked off and taxpayers worldwide were left to pick up the tab.

The real victims of the sub-prime scandal are the people who lost their homes. In Baltimore, a city where 50,000 homes already lie empty, more than 30,000 sub-prime borrowers have suffered foreclosure. Tens of thousands of people have no work and nowhere to live in a city full of empty houses.

The moral corruption of the financial system is almost beyond imagination.
Hiding predatory lending practices in the small print of complex financial products was only ever going to enrich one set of interests, and it was always destined to bring down the entire global economy.

**Land and Housing**

Everyone has a basic right to shelter, which they should be able to call home. A home should not be an investment but a place to live. The economy can be positively reconfigured to enable this outcome, as long as we can move away from the destructive emotional propaganda and false assumptions that surround the housing market. Critics of current housing arrangements argue that our obsession with owning property fuels unsustainable levels of mortgage borrowing and spiralling house prices. But most such critics already own their own homes, and propose no rational basis for deciding who should be allowed this privilege and who should be excluded. They point to countries like Germany, where house-price bubbles are less of a problem as a result of more people renting, and suggest that approach should be copied in countries like Britain and America. There is an unexamined assumption that universal homeownership is impossible under any economic arrangements, but there is an alternative that could make responsible homeowners of us all.

‘Bricks and mortar’ are widely considered a safe investment, but this belief confuses the value of buildings with that of the land those bricks and mortar sit on. It’s true that in boom times house prices and the price of commercial property increase rapidly. But here’s the thing: it’s not the value of a building that appreciates, it is the value of the land on which a building sits. The difference between the value of a house and the land it sits on is easily calculated by reference to the rebuilding cost which is quoted on every buildings insurance policy. Depending on location and size, this ‘restatement’ cost is usually between a quarter and a half of the purchase price of the property. The difference between the restatement cost of a house and its
purchase price is the value of the land on which it sits. If you bought a house a decade ago, in many places its ‘value’ will have doubled even if it desperately needs money spent on renovation. Like all capital investments, the value of bricks and mortar decreases over time. This depreciation continues until further investment is made. The value of the land on which a house sits continues to rise regardless of whether the building is properly maintained. Has the householder done something special to bring about this remarkable increase in land value? The answer is no. So there must be an explanation for this; and there is.

Remember that classical economics divides the productive process into three factor classes: land, labour and capital, each of which earns a reward for its contribution. Labour earns wages, capital earns profits and land earns rent. This use of the term rent is confusing. It is not the same as the rent you pay to occupy a home that is owned by someone else. In economic terms, land rent is the amount someone is prepared to pay to use a plot of land. The classical economist Henry George defined land rent as “the part of the produce that accrues to the owners of land (or other natural capabilities) by virtue of ownership.” If there was abundant spare land, and it was not subject to private ownership, anyone could assume control of a plot of land at no cost. But because the supply of land is fixed – in Mark Twain’s words, “they’re not making it any more” – it can’t be increased by human intervention. So when all land is privately owned, landowners find themselves at an advantage: they can charge non-landowners for the right to use their land. And non-landowners have no choice but to pay.

If the ownership of land could be shared equally between all citizens globally, then nobody would be at any particular advantage. Some people might choose not to occupy all their land, and ‘rent’ out their spare land to a neighbour who required more. But if the ownership of land is not equally shared – as is the case today in every country – the small minority who do own most land are at a
huge advantage. In the UK, seventy per cent of land is owned by just one per cent of the population. This gives immense economic power to a small number of landowning individuals and corporations.

The value of land differs widely from place to place. Back when the economy was mainly agricultural, differences in the fertility of land accounted for variations in the amount people were prepared to pay for its use. Nowadays, zoning or planning laws have more of an impact. Land in areas where commercial development is permitted commands a higher price than land reserved for agricultural use. But the biggest factor influencing differences in land values today is location. Land in or near the central business district of a major city commands the highest price; land suitable for industrial use with good communications links will also be expensive; land set aside for residential use will be attractive especially in popular locations and when there is a shortage of housing relative to demand. Land upon which nothing can be built or grown, which has possibilities only for grazing animals, will be among the cheapest.

Among the classical economists, it was David Ricardo who best described the effects of the finite supply of land and the impact of economic potential on its value. Because of its fixed supply, land commands a greater share of the income earned from production than it otherwise would, and the best land earns the most. The extra revenue earned by the supplier of land reduces that paid for the contributions of labour and capital. Again, this would not be a problem if the benefits of landownership were divided equally among the population, but they are not. Ownership, especially of the most valuable and in-demand land, is concentrated in the hands of a small minority, who, like bankers, enjoy the benefits of an economic privilege that has not been granted by democratic consent.

This skewed economic mechanism is what land reformers refer to when they
say land values arise not from the efforts of the landowner, but of the wider community. Land values rise automatically over time because landowners enjoy a disproportionate share of the returns from economic activity. John Stuart Mill called this the “uneearned increment of land”. He then put it more bluntly: “it’s the income that landlords make in their sleep.” You could call this increase the ‘general uplift’ in land values. It’s a subtle mechanism that attracts little attention. Economists don’t like to talk about it, and very few people are aware of it. With such easy, unchallenged spoils on offer, it’s not surprising that the wealthiest individuals and largest corporations have large stakes in land ownership.

Much of this general uplift in land values results from government investment in public infrastructure projects funded by taxpayers. If billions are spent on a new railway line, then the value of land in the vicinity of the investment will rise. Improved communication links make any area more favourable to business, but even before a new wave of customers has crossed the threshold, the owners of business and residential property have seen the value of their landholdings rise considerably. This is not because of any effort they have expended, or investment they have made, but simply because they happen to own land in an area chosen for infrastructure investment. In the case of business landowners, not only do they have improved access to customers, but the collateral value of their landholdings also makes it easier for them to borrow funds to expand their businesses. This is the kind of monopoly-favouring mechanism that Adam Smith warned about. These tax-funded increases in private wealth amount to an unwarranted direct transfer of wealth from ordinary people to business owners. It is the providers of the original funds – taxpayers – who should recoup the proceeds from such investments. Instead, the benefits accrue entirely to privately-owned businesses, landowners and fortunate homeowners.
“In the UK, 70% of land is owned by just 1% of the population.”
Landowners do frequently make investments to improve their land. For example, they may build a shopping centre on a plot that previously had no use. This investment involves labour and capital, each of which demand and deserve a return. In this scenario, if the landowner is also the supplier of capital, then he is entitled to make a profit. But this is a reward for his risking his capital. It is quite different from any increase in his wealth derived from the general uplift in land values, to which he is not entitled.

The unique nature of land among all the factors of production is apparent. It’s remarkable therefore that the dominant neo-classical model of economics pays no attention to land whatsoever; or is it, perhaps, deliberate?

Increases in the value of residential land occur in the same way. Such land shares in the general uplift in value – created by the community – that applies to all land over time. But this is only half the story. During economic boom times the general uplift or unearned increment is only partially responsible for the rapid increase in the value of residential property. Three others factors play a significant role:

First is the supply of housing relative to demand. Over the last several decades, the number of households in the UK has grown at a rate far in excess of the number of homes, partly because the authorities have stopped adding to the stock of affordable social housing.

Second is the failure of private-sector house builders to fill the gap. This is not surprising given that private firms will only build houses if they can make a profit. If the demand for housing at the bottom end of the market is not ‘effective’ then no affordable homes will be built.

The third factor – and the one most responsible for the dysfunctional state of the housing market is the money made available to people who can ‘afford’ to
buy their own homes. At the top end of the market this comes in the shape of the excessive salaries paid to top executives of large firms and the absurd bonuses paid to many in the banking sector. While these super-high earners may be few in number, they drive up prices at the top and the impact reverberates downwards. If a house that cost £1 million five years ago is now ‘worth’ £2 million, then one that previously cost £500,000 will now be assumed to be worth £1 million. As there are not enough highly paid executives to meet the supply of smaller, less well-located homes at £1 million, people on more typical salaries are encouraged to take out mortgages to buy these houses which, only a few years earlier, would have been priced far more cheaply relative to their income.

In order to sustain this upward spiral in house prices, banks are only too happy to keep lending. (Loan interest, remember, is the principal source of banks’ profits.) They consider a loan to be safe as long as it is backed by collateral in the shape of a home, and the inflated value of the land it sits on, worth £1 million. They care not that the price is determined only by the amount of money they are prepared to lend, or that the entire process creates a dangerous asset bubble in land prices.

As we know, when a bank makes such a loan it creates the money from nothing. We also know that the bonuses paid to bankers and others who ply their ‘trade’ in the financial sector are not backed by real wealth. So, with the inflated pay of executives outside the financial sector being driven by the labour market, it’s logical to conclude that house price inflation over and above the general uplift in land values is driven entirely by the way the banking system works.

A similar process explains the high cost of commercial property. Absurdly, the process of profit-motivated money creation driving up land values has created a situation where the most valuable land in the world is occupied by the office blocks from which the banks carry on their dubious business.
It would be unfair to criticize homeowners for using their houses as cash machines, given the daily struggle of surviving on wages constantly eroded by the effects of inflation driven by uncontrolled growth in the money supply. But there is a better way of arranging the housing market. We need to untangle the provision of housing – a basic human right – from a banking system motivated by profit. We need to learn the lessons of history, especially how land speculation and the asset bubbles it causes can derail the wider economy. The dysfunctional housing market is inextricably linked to the way banks are allowed to create money. By changing the way the banking system works and by ensuring that real wealth from the productive economy does not end up in land values, we can begin to move towards a society in which the dream of universal, sustainable home ownership can become a reality.

**Roulette for the rich**

In 1970, ninety per cent of financial flows were used to finance trade or investment in the real economy; only ten per cent was speculative. Today more than ninety-nine per cent is purely speculative and has nothing to do with the real economy. As Simon Johnson says, “Wall Street has become a very specific type of casino. Unfortunately it’s not the type they have in Las Vegas that is a legitimate form of entertainment. It’s a casino that has massive negative effects on the rest of society.”

How was this allowed to happen? It was not only allowed, it was actively encouraged by democratically elected governments which were persuaded that deregulating financial markets would rain down great economic benefits on everyone. Whether Ronald Reagan and Margaret Thatcher really believed this, or whether they were motivated by a desire to reinstate the class divisions that had begun to erode in the post-war years, remains a mystery. Whether the neo-classical economists who encouraged them believed in the likelihood of a positive outcome is also impossible to fathom, as is the motivation of left-of-
centre administrations which embraced neo-liberalism and continued the
deregulation of finance.

Whatever their motivations, they have bequeathed us a financial system that
works in the interests of an elite minority and routinely holds the real economy
and the ordinary taxpayer to ransom. Even today, in the depth of crisis, when
the evidence for the culpability of banks and the configuration of the financial
system is plain for all to see, gutless politicians are still unwilling to take
measures to tackle the problem. A few brave economists, people like Simon
Johnson, Herman Daly, Steve Keen, Dean Baker, Michael Hudson, Joseph
Stiglitz and Ha-Joon Chang, are prepared to put their heads above the parapet.
They speak economic truth in the face of corrupt power in finance and politics,
but the majority of the profession remains silent, refusing to acknowledge the
abject failure of their models and assumptions. The cowardly attributes of
many neo-classical economists are showcased in Charles Ferguson’s excellent
film, Inside Job.
“The dysfunctional housing market is inextricably linked to the way banks are allowed to create money.”
The organizations and individuals that populate the financial markets have been given such free rein that many of the complex investment vehicles they have invented are beyond the power of any authority to regulate. If the banks themselves are unable to trace the provenance of their assets, what chance do the regulators have? If the complexity and opaqueness of such ‘investments’ is a major contributory factor to the current crisis, and part of the means by which finance is able to hijack the real economy, and if they cannot be effectively regulated, then there should be no place for them. A democratic society has a choice between allowing a wealthy minority to further enrich itself, and ensuring that everyone has a shot at working to feed, clothe and house themselves and their loved ones.

The term ‘financial product’ is meant to persuade us that the finance industry is no different from any other. Its more ‘entrepreneurial’ characters (known as quantitative analysts or ‘quants’) invent new ‘products’ which can then be traded for profit by others. But such investment vehicles are not products in any meaningful sense. While some are derived from genuine economic activities, any gains or losses in their value do not, generally, reflect gains or losses in real wealth. Real wealth is goods, services and experiences created in the real economy that people want and need to live a secure and fulfilled life. Money made through smoke-and-mirrors antics in the financial market has no connection with wealth creation. When those whose income is derived from activities that do not create real wealth use that money to buy real things, the effect is to deny the full benefits of hard work and entrepreneurship to those who do create it.

The only true beneficiaries of current arrangements are the super-rich and those who have access to corporate funds with which to play the financial markets. Opponents of financial market reform give dire warnings about the impact on the middle classes in rich countries, whose pensions are dependent on the ability of fund managers to access the full range of investment
‘products’. But most pension funds’ investments are spread across a broad range of assets. If serious reforms to the financial system were to be undertaken in a carefully planned and coordinated way, those assets would be protected. Pensions are under far greater threat from unscrupulous bankers and the economic instability caused by hysterical financial markets. That instability will continue for decades if the excesses of the financial markets are permitted to continue unchecked.

Defenders of the status quo argue that there’s a big difference between speculation in markets and purposeful market manipulation. In truth, there is no distinction. If you make an investment in the right to buy a thousand tons of grain six months from now, but you play no part in the supply chain that transfers grain from producers to consumers, then your investment negatively impacts the market. Farmers who produce grain and the consumers who need it for food both suffer at the hands of money men who manipulate the price mechanism for personal gain, and extract real wealth while doing no real work.

According to the World Development Movement, “since widespread deregulation of financial markets in the 1990s, speculators’ share of basic foods like wheat has increased from twelve per cent to sixty-one per cent. These traders have no connection to the actual food and are only interested in the profit it will make. Banks, hedge funds and index funds are betting on food prices in financial markets, causing massive price rises in staple foods such as wheat, maize and soya. In the last year, average food prices increased by fifteen per cent, driving more than forty-four million people into extreme poverty.”

Speculation in commodities has become a principal source of investment bank profits. Goldman Sachs, Barclays, J.P. Morgan, Deutsche Bank and Morgan Stanley all go to absurd lengths to extract wealth in this manner. Goldman
Sachs alone achieves net revenue of up to five billion dollars a year from trading commodity derivatives. This is equivalent to around ten per cent of its total revenue. They do it with thousands of transactions enacted every minute as traders try to exploit the time lags that persist in markets despite the efforts of software engineers to create ‘real-time’ trading systems. Traders will buy a few million dollars’ worth of wheat and sell it on just seconds later in order to benefit from the tiny arbitrage difference that arises between trades until the technology catches up with the market. The trade may only make a few dollars, but repeated often enough by enough traders, a tidy profit can be accumulated very quickly. This isn’t economics. It isn’t work. And it isn’t ethical. It doesn’t create wealth, but it’s the kind of activity that is rife in the financial markets, and is why those markets require a massive overhaul so they support the real economy instead of persistently undermining it.

**Elite power and unearned wealth**

By now you may have noticed a common theme in these descriptions of how the banking sector and the financial markets make money: they do so not by creating real wealth but by manipulating a virtual-money economy. They can only do this because the banks are able to create money at will. This would be fine if they were dealing in matchsticks or Monopoly money, but they are dealing in the same money that is essential to the process of creating real wealth. The real wealth they purchase with money so acquired is entirely unearned. Landowners also benefit from unearned wealth, but, unlike bankers and financiers, they have not created an entire industry dedicated to its pursuit. They simply buy land from which they receive the benefit of unearned wealth because, ever since the establishment of private property in land ten thousand years ago, nobody has thought to question the entitlements of landowner-ship in a world where most land is owned by very few people.

Unearned wealth is the principal basis for the exercise of elite power.
Democracy didn’t deliver the current economic and financial system. In a properly functioning democracy the economy would be configured to serve the interests of the majority, not a tiny minority. It is the power and influence of a global elite and the coterie of professionals that serves them which sets the global economic agenda today. Why democratically elected governments are unable to challenge this power is a matter for debate. Perhaps they realize that the only way to curb it is through reforms so radical that the mere thought stops them sleeping at night. Whatever the reason, the path to a just and inclusive economy will not be clear until ways are found to curb the privilege of unearned wealth. The only way to do this is to acknowledge and then tackle elite power and entrenched privilege.

The process by which unearned wealth is acquired is sometimes described as ‘rent seeking’. The concept of rent seeking was first outlined by Gordon Tullock in 1967, and given its name by another economist, Anne Krueger, seven years later. Use of the term can be confusing because it brings to four the number of different meanings ascribed to the word rent. It’s worth, therefore, spending a moment on definitions.

As well as the conventional use of the term – you might rent a flat, or a car while on holiday – economists use the word in three different ways. As we noted, Adam Smith used it to describe that part of income that is distributed to landowners. There is also the slightly different concept of economic rent, which is the amount paid for the use of any factor above the minimum necessary to bring it into production. Confusingly, both labour and capital can command economic rent. If you went for a job interview and were ready to accept a salary of £30,000, but your future employer was so impressed with you that she decided to offer you £35,000, the difference is your economic rent.

In rent seeking we encounter yet another form of rent. It is the business of earning money, not by investing effort and resources in trying to generate new
wealth, but by working to secure for oneself a greater share of already existing wealth. Whereas profit seeking describes the process of investing capital in return for a share of the new wealth created, rent seeking is about skimming off a share of wealth created by others.

Rent seeking can take many forms. It might involve lobbying politicians to enact legislation that will make it harder for new producers to gain entry to a particular market. The pre-crash craze for private equity takeovers of perfectly viable businesses is another form of rent seeking. In such cases, the distribution of income between wages and capital is altered substantially, even though the new ‘capital’ supplied makes no contribution to wealth creation. The income earned by rent seekers often comes in the form of land rent. Russian oligarchs, for example, owe their immense wealth to the fact that they were effectively given free use of vast quantities of natural resources after the fall of communism.

Rent seeking always has a cost in terms of resources that could otherwise be applied to the creation of new wealth. Not only is it a legalized form of economic theft, but it also diverts resources from the real economy. And of course, the only people able to engage ‘successfully’ in rent-seeking activities are people who are already so well off that they don’t need to find work in the real economy.

To clarify, legitimate economic activity does not have to involve the conversion of the resources of nature into something physical for consumption. There are thousands of activities, employing millions of people, which produce services for exchange in the marketplace which are perfectly legitimate. This book is printed on paper that began life in a forest, but you didn’t buy the book for the paper, you bought it for what is printed on its pages. The Four Horsemen film that accompanies this book makes even less use of the resources of nature, but thousands of people have paid at the box office to see
it, or bought the DVD. Many vital and necessary service industries exist to facilitate and support the exchange of goods and services in the marketplace – retail is perhaps the best example. Income derived from non-tangible service activities is perfectly legitimate as it’s part and parcel of the process by which genuine wealth is created. It’s quite different from the rent-seeking activities of bankers, landowners and speculators. Regardless of the propaganda, none of these activities generates any new wealth or adds any real value to society.
“Rent seeking is about skimming off a share of wealth created by others.”
There is a further form of rent seeking, driven by more established methods, that has recently become rampant and which negatively impacts the labour market. If, with the proceeds of their rent-seeking activities, top executives of banks and financial institutions pay themselves huge salaries and bonuses, the labour market dictates that senior execs in firms that do create real wealth should be similarly rewarded. This skews the market mechanism because it doesn’t distinguish between the CEO of a rent-seeking investment bank and the CEO of a wealth-creating firm: both end up earning inflated salaries. In order to justify these, they have to keep their shareholders happy. They do this by rewarding them with higher dividends. As a result, a disproportionate share of revenue is taken by shareholders at the expense of wages. Within the distribution of wages, a similarly disproportionate share goes to senior executives at the expense of the rest of the workforce. This doesn’t reflect any change in the contributions of capital and labour, or within the relative contributions of different sections of the workforce; it is a direct result of the impact of rent-seeking behaviour on the labour market. It explains the massive increase in the pay multiples earned by senior executives compared with other employees over the last three decades.

The Greek philosopher Plato said the ratio of earnings between the highest and lowest paid in any organization should be no more than six to one. In 1923, banker J.P. Morgan declared that twenty to one was optimum. Today the earnings ratio between the highest and lowest paid in large corporations can be as much as a thousand to one. Herman Daly has a clear insight into the problems this causes: “when you are up in the range of five hundred to one inequality, the rich and the poor become almost different species, no longer members of the same community. Commonality of interest is lost and so it’s difficult to form community and to have good, friendly relationships across class differences that are that large.”

And it gets worse. By shifting incomes from people who would spend most of
what they earn on things they need, to people who already have everything they
could possibly want, the prospects for future wealth creation are further
damaged. The over-paid use their additional wealth to drive up the prices of
non-productive assets like land and housing, expensive jewellery and fine art.
Looted rent spoils are exchanged for things that represent real wealth. Even the
best wines in the world are no longer available to be enjoyed by wine lovers,
because they’re appropriated as investment assets. Claret and Burgundy chips
are now traded in all the best financial casinos.

There can be no doubt that the economy as currently arranged promotes a
totally unfair distribution of wealth. Bankers, speculators and landowners
engage in activities that extract wealth created by others. In companies that do
create real wealth, the factors of production are rewarded unjustly. The rich
are getting richer at the expense of those who do most of the work. The
hangover of empire that has shaped the western economies means that rent-
seeking activities are still regarded as entirely legitimate.

**Exclusion and its consequences**

Make no mistake, the purposeful exclusion of growing numbers from economic
activity is an integral aspect of the economic system. The argument that there is
no alternative to current arrangements carries with it an explicit acceptance
that economic ‘realities’ make full employment impossible. This is utter
nonsense, yet without fundamental change exclusion will only get worse. The
technology that should be delivering more comfortable lives and increased
leisure time is instead accelerating the process of exclusion.
“The Greek philosopher Plato said the ratio of earnings between the highest and lowest paid in any organization should be no more than six to one.”
Since the disastrous neo-liberal project began three decades ago, and the world emerged, culturally disoriented, into the dazzling false promises of globalization, economies worldwide have suffered a lack of demand. This has been compensated for by taking on unsustainable levels of debt. Technological advance has been complicit in the process of exclusion because of the way it has been used to increase both output and efficiency. We can create more things more cheaply by using machines instead of people. But if all the land and capital is applied in the pursuit of improved efficiency and increasing rewards to that capital, then what happens to people who no longer have jobs? They cannot find work because they have no means of accessing the other two factors of production, without which their labour is useless.

There’s nothing inevitable about this switch from a society which recognizes the efficacy of an inclusive economy to one that creates wealth only for those it needs to employ. The logical conclusion is a society in which all land and capital is owned and controlled by a small minority, while the majority are permanently excluded. This is a recipe for acute social breakdown, the beginnings of which were visible when rioting broke out on the streets of several English cities in the summer of 2011. Given the denial of basic economic rights to so many people, it’s surprising there hasn’t already been greater social disorder.

There is a serious disconnect at the heart of our consumer-culture-driven economy: people are constantly told they should aspire to endless material consumption, but are actively denied the means of doing so. There are plenty of reasons for disliking the abundance of consumer tat sold on our high streets, but if people want it why not put them to work making it, and pay them a proper wage so they can buy it? Because, though this would be socially beneficial, it wouldn’t be ‘economically efficient’. In other words the return to those who supplied capital would be reduced in favour of wages for the people who actually did the work. In the draconian modern economy, while
consumption is good, paying wages should be avoided wherever possible.

Today, economic outcomes have become divorced from the notions of justice and fairness that we are encouraged to believe are the foundations of society. We no longer live in a democracy but a plutocracy where power is exercised by a minority in their own interests. The real Greek tragedy is that democracy has been forcibly ended where it first began. Real democracy, democracy which shapes the economic landscape, has never been properly established, anywhere. In the early part of the twentieth century, while women still struggled for the right to vote, enlightened individuals conceived the welfare state as a means to mitigate the worst consequences of an economy which excluded so many people. But in doing so they limited our ambition in respect of creating a more just society. True justice may have been impossible then, and at least the welfare state has served to moderate the worst manifestations of injustice, but this cannot go on forever. It’s time we were more ambitious, and there’s never been a better opportunity.

How did we let this happen? Simple: a perfectly achievable democratic ideal has been sacrificed to elite power, corporate lobbying and rent-seeking business activities, with politicians of all parties taking the side of the wealthy. Herman Daly suggests that “People are too forgiving. They just don’t understand what has been done to them.” He’s right, people do not understand; but not because the issue is complicated or because there are difficult moral decisions to be made. As Noam Chomsky says, “I don’t think there’s anything deeper than what’s on the surface. Intellectuals have to make it look complicated – that’s part of their job.” The evidence on the surface is overwhelming. It points to gross injustice visited by a minority on the majority. All this is justified by an amoral economic system to which fashionably ignorant politicians and economists still insist there is no alternative.

Progress towards a more inclusive and just society is dependent on our ability
to force what is currently left undebated and unsaid to the centre of public discourse. Only in this way can we begin to redraw our cognitive map.

Historically, an all-powerful church was complicit in encouraging the belief that the world naturally divides between rich and poor, and that elite power constitutes the natural order. The medieval church was the mass media of its day. For thousands of years it did a thorough job controlling the cognitive map. The church gave moral permission to plunder – in Britain one outcome is the class system. Troublesome groups who did not fit in were shipped to other parts of the world so the system could function smoothly. Life was cheap, and the poor had no access to the knowledge necessary to challenge the status quo. That was life. Today the continuance of the elite power model comes at a cost so great in terms of lives, suffering and planetary destruction that it has to be stopped. Like Gutenberg’s printing press, the internet has given us the means to disperse the cloud of ignorance and apathy. We have the ability to meet virtually in person and to ensure that everyone has access to the truth about what is going on, what the consequences will be, and how there is a viable alternative. But we must find the collective courage and determination to make it happen.

Unfortunately, there is no middle way here: once we recognize that current economic arrangements not only condone but actively encourage rent seeking, we can’t simply regulate or legislate to moderate such behaviour. Billions of people are denied the right to work for a decent living while the system conspires to crush the entrepreneurial spirit that’s desperately needed if we are to escape the current crisis and begin to build a new society; one in which corrupt finance, social violence, inescapable poverty and environmental breakdown are effectively addressed.
“Progress towards a more inclusive and just society is dependent on our ability to force what is currently left debated and unsaid to the centre of public discourse. Only in this way can we begin to redraw our cognitive map.”
Chapter Five
VIOLENCE AND TERROR

“Political language... is designed to make lies sound truthful and murder respectable, and to give an appearance of solidity to pure wind.”

George Orwell

Kill or Cure?

In his essay *A History of Violence*, Stephen Pinker makes a convincing case for the current period being the most peaceful and least violent of any era. Despite great advances in the technology of killing having led to greater loss of life in wars in the last century than in all previous centuries combined, Pinker is right to say, “If the wars of the twentieth century had killed the same proportion of the population that died in the wars of a typical tribal society, there would have been two billion deaths, not 100 million.” As a proportion of
the population, fewer people today engage in violence or are victims of it. And, as Pinker points out, “The decline of violent behaviour has been paralleled by a decline in attitudes that tolerate or glorify violence, and often the attitudes are in the lead.”

So, instead of lamenting the continued loss of life in warfare and the dreadful suffering inflicted on communities by oppressive regimes, aggressive neighbours or fanatical terrorists, perhaps we should be encouraged. The knowledge that things used to be much worse and that considerable progress has been made should be cause for optimism. Yes, we can draw some encouragement – but that doesn’t mean we should rest on our laurels. History suggests a great deal more progress could be made if we addressed the root causes of social violence and war. As Pinker concludes, “We enjoy the peace we find today because people in past generations were appalled by the violence in their time and worked to end it, and so we should work to end the appalling violence in our time.”

All civilizations labour under the delusion that they have achieved all that is possible to achieve. This is an excuse for inaction peddled by pessimists, and by those whose interests are best served by the status quo. Pinker concludes his essay by wondering how is it that we have made such progress. He doesn’t offer an answer, so in this chapter we will try to come up with one. While social violence nowadays affects proportionally fewer people, millions of lives are still devastated every year by human-on-human violence.

**Cultural conflict or economic apartheid?**

The chances of reducing the number of lives ruined by war and other forms of social violence depend on our ability to identify the root causes. Terrorist acts, the retaliatory war against terror, civil wars in desperately poor countries, and the violent civil unrest which is an increasing feature in rich and poor worlds;
all bring loss of life, destruction of property and the ruination of economic infrastructure. They also inflict hardship on many who escape their direct effects.

All forms of social violence can be explained by referencing different academic disciplines, or by interpreting them against a host of competing world views. But for the mainstream media, and for many politicians, most violence is rooted in cultural or ethnic conflict. Economic explanations rarely get a mention, despite evidence that vast inequalities in access to economic opportunities, within and between nations, are a major contributory factor to social violence. Cultural causes of conflict are more emotive; they better suit the reactionary instincts of many people. But these cultural, ethnic or religious differences are easy hooks on which to hang explanations for violence – especially in a three-minute news piece. We never look at the underlying economic causes, which are complex and often deeply embedded in the institutions and structures that silently shape people’s lives. Progress requires us to focus our attention on the underlying causes.

Some cultural differences reflect diverse values which are indicative of societies at different stages of development. In certain countries the position of women, the rights of minorities and attitudes towards crime and punishment are almost identical to those held in western societies a century or more ago. Values and culture evolve over time and the drivers of such evolution are greater economic inclusion and improvements in access to education.

More inclusive economies and better educated populations not only reduce the gulf in values between nations, they also reduce the number of people prepared to engage in social violence. If people can find meaning in their lives through work, if they have a sense of self-worth, if they feel the society of which they are part is just, and that their efforts are rewarded with a degree of economic security, then they’re unlikely to become involved in violence. There will
always be a few – some mentally ill, others alienated beyond redemption – for whom a just and inclusive society will make no difference, but as a general rule, justice and an inclusive economy create societies in which social violence is minimized.

It follows that economic justice between nations is key to reducing the number of wars. Only when we get the economics right will the core values of all cultures begin to converge, and people of all backgrounds come to realize what all human beings have in common. Such a genuine convergence of values would be very different from the arrogant ‘one size fits all’ cultural homogeneity created by globalization. The worldwide cultural colonization by western brands like McDonalds, Coca-Cola and Apple is blatant economic imperialism. It is a sure sign that western liberal values still have a considerable way to go in their own evolution.

On either side of the ‘war on terror’ there are genuine cultural differences between people, but these are a symptom of developmental differences which are largely a legacy of historic and continuing economic injustice. Hidden beneath sensational media coverage and jingoistic political tribalism there is a fundamental truth that we deny at our peril: unless we address the economic divide between people within and across nations, these cultural differences will continue to be exaggerated and social violence will continue unabated.

Neither cultural difference, nor the superficial variations by which the major religions distinguish themselves, are sufficient motivation for otherwise sane people to involve themselves in terrorist activities. Research evidence suggests that most people who become terrorists are indeed sane. American social psychologist Clark McCauley points out that “thirty years of research has found psychopathology and personality disorder no more likely among terrorists than among non-terrorists from the same background.” This is a perspective quite at odds with the mainstream media portrayal of terrorists as
both evil and mad.

**The psychology of terrorist involvement**

The principal factor driving people to get involved in terrorism is a strong sense of injustice, both at a personal level and in respect of their society. An accompanying sense of alienation convinces them they’re no longer bound by social and moral norms. The absence of any hope for the future leaves them with a ‘nothing to lose’ mentality. These factors are driven almost totally by poor economic conditions. There can be no doubt that poverty and economic exclusion create a fertile breeding ground for terrorists.

In his work as an economic hit man, John Perkins met a lot of terrorists, but he’s “never met one who wanted to be a terrorist”. He adds: “They all want to be with their families back on the farm. They are driven to terrorism because they have lost the farm. It’s been inundated with water from a hydro-electric project, or with oil from oil derricks; their farm has been destroyed, they can’t make a living for their kids. Or, in the case of the Somali pirates, their fishing waters have been destroyed, and that’s why they have turned to this; it isn’t because they want to be pirates or terrorists. People like Osama Bin Laden do not get a following unless there is a terrible injustice going on, and people are starving and deprived. Then they will follow these crazy people because they seem to offer an alternative. If we want to do away with terrorism, if we want to have what the United States calls homeland security, we have got to recognize that the whole planet is our homeland.”

Joining a terrorist group as a reaction to economic exclusion is an act of despair taken by people whose lives, in other circumstances, would take a quite different path. As Clark McCauley says, “Terrorism is the warfare of the weak, the recourse of those desperate for a cause that cannot win by conventional means.” Once new recruits commit to the terrorist cause they
become part of a group dynamic that goes some way to compensating for what is missing in their lives. They get a sense of belonging, often coming under the spell of a charismatic leader, perhaps one who provides them with structure and protection. They finally find meaning in their lives, but at an unacceptable and entirely avoidable cost.

But if poverty and the prospect of lifelong economic exclusion are major contributory factors in people joining terrorist groups, why isn’t everyone from a poor country heading to training camps in remote parts of Afghanistan? The simple answer is that people react differently when faced with adversity. Some are more likely to embrace violence than others. Personality type is a function of a complex combination of genes and environment. Thankfully, relatively small numbers are driven to involvement in terrorism. But the only way to prevent increasing numbers choosing the wrong path is to improve their life chances. It is economic circumstances that combine with innate tendencies in certain individuals which cause them to choose the path of violence.

**Action and Reaction**

The two possible responses to the threat of terror reflect the two types of explanation for it. If you believe that terrorism is driven by cultural differences that are irreconcilable, and that people of opposing cultures can never co-exist peacefully, then the only logical course is to attempt to destroy the opposing culture, or at least make it subservient to your own.

In the current war on terror, there are immense differences in wealth and military might between the two sides. This means that terrorist attacks on symbolic targets in rich countries are met with massive force and often poorly targeted acts of retaliation. When western powers try to extinguish the threat, they wield a very blunt instrument which usually kills more innocents than it does terrorists. Since 2001, more than 30,000 people have died in Pakistan as
a result of terrorist and counter-terrorist violence. Many of these were victims of US drone attacks – bombs delivered by unmanned aircraft that, according to one estimate by the Pakistani authorities, cause fifty civilian deaths for every terrorist killed. Although drones avoid the need to put US service personnel in jeopardy, they ultimately put every westerner at risk by reinforcing resentment and increasing the chances of retaliation.

Unsurprisingly, there has been little press coverage of the civilian casualties of such strikes, let alone the dubious nature of the extra-judicial killing of terrorist suspects on the odd occasion the drones do find their intended targets. And, in case you think these attacks are a legacy of the gung-ho approach to non-American lives that characterized the bellicose administration of George W. Bush, President Obama has more than doubled the use of these evil weapons since coming to office. Western leaders appear to have confused legality with morality; and often the legality of their decisions is highly dubious.

Taking the fight to the terrorist breeding grounds still has an enormous cost in terms of casualties among western military personnel. Nearly 4,000 have died in Iraq, more than 2,500 in Afghanistan. These statistics might be tolerable if there were clear signs of progress, or if we could point to definitive evidence that the threat to western populations is diminishing as a result of the efforts of our troops overseas, but what evidence there is suggests the opposite is true. The sacrifices made by the brave men and women who fight on foreign soil are in vain, and will continue to be so. The absence of moral ambition on the part of politicians to find a permanent solution to the terrorist problem makes them deeply culpable for the losses suffered by their own military.

As well as the appalling loss of life on both sides in the war on terror, the current strategy serves only to increase the numbers whose sense of alienation and injustice drives them to become involved in terrorism.
Lord Ahmed, the first British Muslim life peer, is unequivocal: “the drone attacks have not only failed, but they have helped in the radicalization of youth in the North West Frontier and in some parts of Punjab and Pakistan. Every time you kill ten so-called terrorists, you create 500 more because they see the drone attacks as an attack on the sovereign state of Pakistan.”

While economic exclusion drives many to involvement in terrorism, there comes a point when the underlying economic causes are subordinated to a simple lust for revenge. The hatred felt by many non-westerners for people in rich nations, and the reciprocal distrust of other cultures by ordinary citizens in Europe and America who see themselves as targets of irrational acts by fanatics, will take years, possibly generations, to overcome. It will not begin to be defeated unless the underlying economic drivers are addressed. For western leaders to argue that there is no alternative to their current antiterrorism strategy (where have we heard that argument before?) is not good enough. Are politicians too stupid to grasp reality, too weak to tackle a problem which only they have the power to address? Or are there other reasons for their reluctance to act?

War and Profit

Perhaps surprisingly, the term ‘military-industrial complex’ was coined by a former soldier. On the occasion of his farewell address to the nation after serving two terms in The White House, President Eisenhower warned Americans: “In the councils of government, we must guard against the acquisition of unwarranted influence, whether sought or unsought, by the military-industrial complex. The potential for the disastrous rise of misplaced power exists and will persist.” What would he make of the situation today, where US economic success seems inextricably linked to the continued production of the machinery of war on a scale unimaginable in Eisenhower’s time?
In 2012 the United States will spend nearly $900 billion on military activities. When set against forecast GDP of nearly $16 trillion, spending around six per cent on defence might not seem excessive, but the United States spends six times as much as China, and increased its spending by nine per cent each year from 2000 to 2009. With lobbyists for the defence industry wielding as much power as those who manipulate the political landscape on behalf of financial interests, Eisenhower’s insightful warning has clearly been ignored. Economic hard times make it easy for lobbyists to argue against defence cuts, given the number of jobs that would be lost. But a political mindset that makes economic success dependent on continually finding new opportunities for war suggests a society that has its values very wrong.
“The absence of moral ambition on the part of politicians to find a permanent solution to the terrorist problem makes them deeply culpable for the losses suffered by their own military.”
It’s not just defence industries that reap huge profits from the business of facilitating death and suffering on foreign soil. Rebuilding Iraq’s infrastructure, devastated by war following the invasion by US and British forces, involves awarding lucrative contracts to western corporations. When the killing of Colonel Gaddafii signalled the end of the liberation war in Libya in 2011, it took only minutes for British Defence Secretary Philip Hammond to appear on television encouraging British companies to take full advantage of the destruction wrought by a seven-month bombing campaign by NATO forces. “I would expect British companies, even British sales directors, to be packing their suitcases and looking to get out to Libya and take part in the reconstruction of that country as soon as they can,” he said, without a hint of shame. If western corporations can’t make a killing out of killing, they are encouraged to take advantage of opportunities for rebuilding countries shattered by war. Of course, such enterprise does little for the local economy, and even less for local people, but it’s very good for the profit-hungry shareholders and senior executives of western firms.

It’s not just in countries destroyed by war that global corporations seek to do business. In the west, people might feel optimistic when they hear the US is pumping tens of billions of newly created dollars into developing nations, but such investment rarely achieves its publicized goals. As John Perkins points out, much of this investment is in things “that benefit a few wealthy families, but don’t help the majority of people at all; people who are too poor to buy electricity or drive cars on the highway, and don’t have the skills to get jobs in new industrial parks.” Pakistani journalist Najma Sadeque agrees that such infrastructure investments “have all gone to benefiting the elite and the feudal classes; they have not benefited ordinary people.”

Western governments publicize this kind of investment to convince electorates of their altruistic motives, but as Gillian Tett of The Financial Times points out, “the reality is that American firms tend to make most money when
countries are at the cusp of change; certainly American financial firms. And, in a sense, they want markets that are changing structurally but not too free and too transparent because they make money when markets are a bit opaque.” Is it any wonder rich nations are fighting wars in less developed countries when western firms are making so much money out of it without having to consider the consequences of their actions?

**Exclusion cultivates resentment**

Economic exclusion inevitably causes resentment and alienation. Securing economic advantage through military superiority is wrong. It may have been the way of things for much of human history but moral advance renders it unacceptable today. In the face of disastrous military interventions, many people have lost all faith in the arguments of politicians and their policy decisions, devoid as they are of any moral reflection.

If democracy is unable to prevent the abuse of military power by rich nations, it is no better at holding elites to account over an economic system which favours rich nations over poor. Economic warfare is fought not only on the battlefield, but also in the structures and institutions that have emerged through a neo-colonial system, which has a built-in bias that favours minority wealth and ensures majority insecurity. And it’s not just western elites that have risen to the top of the economic pile through aggressive and unjust actions. The same behaviour is found among elites in some of the poorest nations, the members of which take great pride in aping their former colonial masters.

The inability of developing countries to address poverty and achieve a level of economic development comparable to rich nations is often blamed on corruption. Foreign investment that if properly directed could have a significant impact on development, is siphoned off by corrupt officials to furnish lifestyles to which they feel entitled. But is such behaviour really so
different from the rent-seeking activities of elites in rich countries? In the rich countries, institutions have evolved to legitimize the channelling of wealth from those who create it to those who set the rules. Certainly the corruption of some African rulers may be more overt, but it takes years to create a society in which the mechanisms of elite wealth appropriation are successfully hidden from view.

Encouragingly, cynicism about politics and politicians is growing around the world. People are turning away from politics because they see nothing worth voting for. Many have come to understand that the system is truly bust. Our creaking politics still runs on nineteenth-century ideas of organization, with twentieth-century control-and-command business models. Both are quite unsuited to the technology-driven, knowledge-rich world we inhabit today. Our political operating system needs upgrading with a morality-based inclusive economics. Not until we get the economics right will we get the politics right.

In countries that have long been denied democratic government, the recent overthrow of anti-democratic regimes has revealed the extent to which economies were arranged to serve the interests of the ruling classes. In their struggle to reconfigure their economies along more inclusive lines, the people of countries like Egypt and Libya are encountering the same problems faced by the populations of rich countries, only worse. Not only were their economies geared to serving the interests of their own elites, but they are also intertwined with a global system of economic power continually modified to keep elites in power. While this complicates things for the victors of the Arab Spring, it also confirms that a global approach is vital if economies in all countries are to be reconfigured to better serve the interests of majorities.

In a world where well-oiled media machines display images of privilege and obscene wealth to the poorest people, it’s hardly surprising that growing numbers feel deprived. It’s not just people in the most remote locations who
are affected. There is plenty of evidence for the inevitable consequences of exclusion closer to home.

**Retail shock therapy**

When the worst rioting in a generation hit the streets of English cities last summer, politicians and pundits rushed to apportion blame. Many of the rioters, we were told, were previously convicted criminals and most were gang members. None had any respect for the law; all were pretty much beyond redemption.

The rioting and looting was a spontaneous explosion of social violence with no cause beyond the moral failings of its perpetrators. Politicians – many of whose reputations survived the MPs’ expenses scandal on legal but not moral grounds – were wheeled out to drench the airwaves with moral indignation. No further explanation was necessary: these looters were just bad people. Politicians demanded tough sentences and the judiciary delivered. Anyone who dared suggest that the worst civil unrest in thirty years might have some connection to the most severe economic conditions since the 1930s was accused of trying to make political capital out of a situation that had no political or economic content.
“In a world where well-oiled media machines display images of privilege and obscene wealth to the poorest people, it’s hardly surprising that growing numbers feel deprived.”
It’s a recipe for trouble when a society arranges itself so that, even in economic boom times, an underclass of long-term unemployed and poorly paid people becomes a necessary and permanent feature. When thousands more then lose their jobs, and other low paid workers are warned that this is only the tip of the iceberg, there is bound to be civil unrest.

The initial rioting in North London was sparked by the police shooting dead a suspect, Mark Duggan, in Tottenham. Such events are not infrequent in London, but they do not usually lead to widespread rioting which quickly spreads to other cities. There was something else at play. The riots were a result of deepening economic exclusion in a society in which the gap between rich and poor is now wider than ever. As journalist Suzanne Moore wrote in The Guardian, “We cannot permanently exclude the already excluded and expect no reaction.”

The effect of exclusion is exacerbated after three decades during which our collective psyche has been manipulated by the bogus message that endless consumption is the only way to happiness. If you dangle consumerist baubles in front of people who can’t get them through legitimate means, then eventually you will have trouble on the streets. It’s not surprising that the shops targeted by looters were those selling consumer goods without which (according to the advertising industry) life is incomplete. It is a perverse society that devotes so much effort to encouraging people to consume and then denies so many the means to do so. The only really surprising thing is that it took the deepest recession in decades to finally tip people over the edge. Suzanne Moore sums it up well: “If our only purchase into society is what we purchase, then looting is simply a shortcut in the grotesque spectacle.”

**Hope is not enough**

If people feel alienated when they are denied access to decent economic
opportunities, then it must be the case that an inclusive economy would have
the opposite effect. Fewer people would be inclined to indulge in antisocial
behaviour or wanton acts of violence, or to express themselves through the
destruction of other people’s property, if they were able to create some
meaning and purpose in their lives. The one essential prerequisite to a
meaningful life is work, even if that meaning is not derived directly from the
particular job you do. Whether it’s rioting on the streets of one of the world’s
richest cities, or hatching terrorist plots in marginal lands, it’s a universal truth
that virtually all modern-day social violence is driven by economic exclusion.

If we could create a more inclusive global society, much of that violence
would disappear. If you doubt this, look at the evidence of history. More
people enjoy greater economic security today than ever before, and, as Steven
Pinker points out, fewer people, as a proportion of the population, engage in
social violence. Most of those that do have little to lose by putting their lives
or liberty on the line. Give people the opportunity to better their lot and take
control of their destinies, and the terrorist breeding grounds will fall fallow.
And the recruiting offices for the armed services in western nations will also
begin to close their doors.

Ultimately, all conflict is about power, and power is inextricably connected to
the economy. The immediate causes of violence and terrorism may be deeply
embedded in culture and history, but there can be no solution without first
addressing the problems of economic injustice and exclusion. Professor of
Social Epidemiology Richard Wilkinson describes how, compared with other
animals, we humans have a choice: “In any species, in almost any animal there
is always the potential for huge conflict because within any species all
members have the same needs. So they might fight each other for food, shelter,
for nest sites and territory and sexual partners. But human beings have always
had the other possibility. We have the possibility to be the best source of
support and love and assistance and cooperation, much more so than any other
animal.” Progress is dependent on growing numbers of people being able to make that choice, and understanding what kind of society and economy is required for it to be extended to all members of the species Homo Sapiens.
“It is a perverse society that devotes so much effort to encouraging people to consume and then denies so many the means to do so.”
Chapter Six
RESOURCES

"The things you own end up owning you"

Tyler Burden

Keep calm and carry on consuming

Critics of the current economic system condemn our modern-day ‘culture of consumption’. If we measure progress over the course of our lives purely by increased consumption, they say, or if all that motivates us to get out of bed in the morning is the thought of consuming, then not only will happiness elude us but humankind will quickly devour all the planet’s resources.

It’s true that you can’t get enough of what you don’t need, but consumption is still an essential part of life and an intrinsic part of our economic activity. A
balance has to be struck between using resources efficiently and ensuring that people can secure what they need to live long and healthy lives. This is perfectly achievable, and it’s important not to demonize all consumption over and above basic necessities. While there is a great deal of superfluous and unnecessary production feeding the kind of consumption that provides rapidly diminishing returns, life would be very dull if consumption were restricted to a bare minimum. We humans need some novelty. A new economic order, one that would raise the quality and experience of life for everyone, is a hard enough sell without requiring further sacrifices from people for whom life is already a struggle.

Equally, economic success is not dependent on relentless growth in output, as most economists would have us believe. If the population grows, then additional wealth has to be created for average consumption levels to be maintained. But, if population levels are steady, there is no requirement to ‘grow’ the economy. Some people may decide to work harder and so enjoy greater consumption, and economic output may increase as a result, but the absence of growth need not have a negative impact on either the economy or individual wellbeing.
“A new economic order is a hard enough sell without requiring further sacrifices from people for whom life is already a struggle.”
Since the financial crisis hit in 2008, economic growth has stalled in all the advanced economies. Under current arrangements, when growth falters the economy enters a rapid downward spiral: unemployment rises and demand collapses, creating a vicious circle of further contraction. But why should a bust always follow a boom? Why should business and consumer confidence fall to such an extent? Why is it that millions are routinely thrown out of work every decade or so? There must be something about the way the economy is configured that makes this outcome inevitable. And there is. Over the last three decades economic success has been measured not only by growth in output, but also in terms of reducing production costs. At the same time the emphasis on short-term returns has increased, primarily in the form of shareholders’s expectations of rising dividends. Think about what must happen for each of these objectives to be achieved. First, firms must find a way of cutting the cost per unit of output. This is most commonly achieved by borrowing money for capital investment to produce the same output while employing fewer people. Firms need constantly to reduce their costs, otherwise, in a world where people expect things to get cheaper (and can only afford them if they do) there won’t be sufficient demand to generate the profits required to repay the bank loans or pay the dividends demanded by shareholders.

Who benefits from this scenario? Banks earn interest on their loan repayments, and shareholders enjoy year-on-year increases in their dividend payments. The rest of the population – the vast majority–divide into two parts. There are those who still have work but who have no stake in the factors of production. They suffer downward pressure on their wages. And there are those who don’t have work, and for whom any reduction in prices is therefore meaningless as apart from the basics, everything else is out of reach of their meagre welfare payments.

But hang on, prices generally don’t go down. Whether the economy is booming or not, prices nearly always go up. So these gains in productive efficiency are
not passed on to ordinary people, whose wages rarely keep up with inflation. In reality, it’s only people who have a de facto ownership stake in the economy — shareholders, landowners, business owners and money men — who benefit from this relentless drive for efficiency improvements and profit growth.

So we have a vicious circle. When the economy sheds jobs, demand falls; when unemployment reaches a certain level, demand falls to such an extent that the whole system is no longer viable because demand is so weak that banks won’t lend for investment. It’s no wonder the economy has to grow continuously to avoid meltdown, and not surprising that, after the 9/11 terrorist attacks, President George W. Bush didn’t call for sacrifice, but instead for shopping: “Get down to Disney World in Florida,” he said. “Take your families and enjoy life, the way we want it to be enjoyed.” He was presumably advised to extend the credit-fuelled consumer binge as long as possible in order to ensure the economy didn’t implode on his watch. Now we’re all paying the bill.

With so many excluded, unless those who do have work spend to the hilt, the circular flow of money from consumer to producer and back again will not be not sufficient to maintain production levels. Only if consumption grows steadily can recurrent recession be avoided. In recent times it’s got so bad that the only way of maintaining the appearance of economic success has been to create money (out of thin air) and lend it to people for consumption, just to keep the economy afloat. This scenario is sometimes called ‘the race to the bottom’. Costs are constantly reduced, price increases moderated and profits expanded while growing numbers of people are excluded from meaningful economic activity.

**Breaking the vicious circle**

Now imagine a different scenario: one in which everyone who wants to work
is permitted to make a contribution to the process of wealth creation and is paid according to the true value of their labour. They spend their earnings on wealth created by others, and the circular flow of money between production and consumption remains steady. Increases in productive efficiency are still made, but the benefits are distributed among the workforce either as increased wages or reduced working hours.

Finance for capital investment is sourced, not from profit-seeking banks, but from the savings of employees deposited in mutual societies. These same employees reap the benefits of their investment and are incentivized to maximize profits by developing new and innovative ways to combine their labour with newly acquired capital. Imagine the sense of meaning and purpose that people would feel.

These contrasting scenarios show how an economy configured to over reward those who make only a marginal contribution to wealth creation has to exclude a large section of the population. In order to survive, today’s economy requires relentless, unsustainable growth. The alternative is an economy in which rewards are distributed in proportion to the relative contributions to wealth creation. An economy where the bulk of business revenue is paid as wages to those who create the wealth, is an economy that doesn’t have to grow endlessly.

By late 2011, the share of US national income going to pay wages had fallen from a post-war high of sixty-three per cent to fifty-eight per cent. If the higher figure had been maintained, the average worker today would be taking home around $5,000 more each year. The rich are getting richer at the expense of the majority who actually do the work. In doing so, the rich have created an economy which denies life chances to millions.

There’s a name for the alternative economic scenario, coined by the economist
Herman Daly and used as the title of his 1977 book, *The Steady State Economy*. Daly describes this alternative scenario: “Steady state economics channels technical progress in the socially benign directions of small scale, decentralization, increased durability of products, and increased long-run efficiency in the use of scarce resources.” The requirement for ’long-run efficiency ’ in the use of scarce resources is what makes Daly’s contribution to economics so important. A steady state economy is the antithesis of the current growth model, which completely (and deliberately) ignores the need to conserve the planet’s resources. Instead of accounting for long-term social costs like pollution, it externalizes them, leaving future generations to pick up the bill.

Current economic arrangements also dictate that too much resource and effort goes into producing non-essentials for people who already have all they need, while insufficient wealth is created in the forms required to satisfy the basic needs of the poor. The process of wealth creation has been hijacked to produce an endless supply of gadgets and luxuries for the well off. Meanwhile, millions go hungry, suffer inadequate housing and have no access to health care. The fixation with consumption would gradually diminish in a society that valued real work and understood the true nature of wealth and wellbeing. Such a society would also recognize that real social justice demands the inclusion of all who want to work, and create conditions in which that goal can be achieved.
“An economy configured to over reward those who make only a marginal contribution to wealth creation has to exclude a large section of the population.”
Minority excess versus universal security

The material benefits of a perpetually expanding economy have reached remarkably few people, despite the speed with which mainstream economic thinking has penetrated all corners of the planet. Even in rich countries, long-term economic security remains a minority privilege. Globalization has succeeded only in persuading nearly everybody (wherever they live) that they should aspire to the levels of consumption enjoyed by a minority of westerners. This is an impossible goal.

An inclusive economy would prioritize the essential needs of all citizens over the excess consumption of a minority. This would assure economic security for everyone. Such an outcome doesn’t have to be legislated for. If everybody had properly rewarded work, their purchasing power would ensure that the production of essentials was sufficient to provide for the basic needs of everyone. Everybody would spend part of their income on things like food, clothing, housing, health care and education, ensuring that these goods were produced in sufficient quantities. The key point is that only when large numbers are excluded from economic participation does the market prioritize non-essentials.

We have a simple choice: continue on the current path, with a steadily shrinking minority enjoying economic security, or reconfigure things to inject a full dose of economic democracy. This democratic injection would give everyone a say in determining what is produced by using their purchasing power.

Make no mistake, our democratic institutions will be sorely tested over the next few years as more people become aware of the reasons for our failing economy. Conflict is inevitable. Politicians are in cahoots with the elite; both have an interest in preventing change. But, when people begin to realize the
vacuum of moral authority that sits at the heart of our political establishment, and how an economy still subject to centralized control does not serve their best interests, change will begin to happen. This grand devolution of power is long overdue.

At the end of the fourth century AD, the Roman Empire was struggling under crushing taxes, a compromised legal system, corrupt officials and abandoned cities. Its leadership had no strategy for the survival of the civilization or any insight into how to hold the empire together. Embattled leaders had to buy off the barbarians with land in order to stay in ‘power’. This worked for a time, but the barbarians’ demands grew. Before long there was no land left for peasants to farm and the economy ground to a halt.

Things may look different today, but we’re not immune to Rome’s fate. Complexity multiplies in the modern world, especially where finance and bureaucracy are concerned. More and more people have jobs serving the institutions of elite power while fewer are involved in creating anything of real value. Too much labour is wasted supporting the lifestyles of modern-day barbarians, and the politicians who support them. The death of our civilization, should we fail to prevent it, will be neither as dramatic nor as violent as the fall of Rome, but it will take many more people down with it. The only way to avoid it is to create a new, inclusive economy, one which serves the interests of all human beings and recognizes the fragility of the planet on which we all depend.

**Population growth**

One of the reasons classical economics fell out of favour was its failure to foresee the extent to which technological innovation would help ease the potential problem of population growth. People continue to go hungry, not because we’ve hit some natural limit on the amount of food that can be
produced, but because we are producing the wrong things in the wrong quantities in the wrong places. All this is happening under a system of global food production in which the business incentives make hunger for millions inevitable.

Thomas Malthus can be forgiven for being behind the curve as far as technology is concerned, but his concern that population growth would outstrip our capacity to produce enough to keep everyone fed and warm was not unfounded.

Clearly, the resources of the planet are limited and, despite the recent discovery of an earth-like planet ‘only’ six light years away, we are unlikely to be in a position to colonize other solar systems any time soon. We therefore need to reconcile likely future growth in population with the finite capacity of nature to support life. This is perfectly possible.

Helpfully, there are opportunities to tackle this problem from both ends. While the resources of the planet are finite, our ability to convert them into the things we need is constantly improving. Scientific and technological advances make it possible to improve agricultural yields, for example, and emerging technologies for new and sustainable sources of energy will mitigate the impact of dwindling oil supplies.

Population growth is widely seen as inevitable. There is almost universal agreement that it isn’t right to prevent people from having children. Only in anti-democratic countries like China can legislation be used to reduce the birth rate. But the principal factors driving population growth are poverty and the lack of educational opportunities for girls, both of which can be addressed without the need for oppressive legislation. When people are poor and insecure, they have more children in the hope that the combined earnings of their offspring will help them out of poverty. There is a proven correlation
between reducing poverty and declining birth rates.

“More and more people have jobs serving the institutions of elite power while fewer are involved in creating anything of real value.”
A stable population is achievable, but only if we succeed in reducing poverty. It should also be noted that, were population levels to fall in the long term, either globally or within individual nations, there need be no negative impact on the economy. A steady state economy that avoids the perils of boom-bust and provides employment for all, would function equally well at any level of population. We just need to make sure we live within the means of the planet.

**Resource depletion**

We are so obviously dependent on natural resources for our collective survival that it beggars belief that none of the models used by neo-classical economics take proper account of nature’s contribution to the economy. In respect of extractive commodities (oil, coal, iron ore and the like) we’ve got pretty good at estimating remaining accessible reserves. This information could be factored into the pricing mechanism. Currently, short-term supply problems – often political in origin – are factored in quite well, but the market ignores long-term supply issues. It’s not difficult to use estimates of remaining supplies of a commodity to project a sustainable rate of resource use. Sustainable, in this context, does not mean ‘to make last forever’; it means pricing finite resources so that we use them at a rate that will preserve supplies until we have found alternatives. In the case of oil, there are already viable substitutes for many of its applications. They are not being fully exploited because they don’t provide the short-term returns available from the over-exploitation of scarce oil. We should be using oil only for those applications for which we haven’t yet found alternatives.

There is no reason why people should have to make painful sacrifices in the face of dwindling natural resources. But if we fail to turn the threat of resource depletion into an opportunity for economic and technological innovation, living
standards for many people in rich countries will dramatically fall.

The three biggest resource challenges are oil, food and water. The first two have ready solutions. Technology to replace oil as a provider of energy is already well developed. If renewables received half the investment that oil and nuclear have enjoyed since 1945, then a solution to the energy problem would be easily within reach. The renewables sector has a key role to play in the establishment of a new inclusive economy. By putting people to real work, we will help tackle the biggest threat to our collective future.

Food is more complicated, but only because too much of the wrong kind of food is produced and consumed in rich countries and too little staple food in poor ones. The impact of current economic arrangements on land distribution is the main cause of food insecurity in poor countries. Food security is best promoted when a community or a country has control over inputs into the food production process. If land, seed, agricultural equipment and even water is subject to private ownership, or control by transnational corporations, then people will go hungry. And, if the price of basic foodstuffs continues to be set by the global commodity markets (in which the major participants are speculators), then importing food to make up the shortfall will not be an option. One result of all this is phenomenal waste.

Each year millions of tons of food are destroyed because the people who need it cannot afford to buy it. It’s not just a case of market failure, but of a market being imposed on an inappropriate scale - encompassing the entire planet. The appropriate scale - one that would ensure that everyone gets enough to eat - would be much smaller.

The current system of food production is morally indefensible. Dr Ha-Joon Chang describes how markets should be tailored to serve the interests of all citizens. "It’s absolutely ludicrous to suggest that somehow there’s a
scientically defined boundary of the market that we should never change. And of course that is what the free market economists want you to believe.” He goes on to say: “When you think about it, a lot of things have been taken out of the market over the last two or three centuries. Two or three centuries ago you could buy and sell human beings, child labour, a lot of things you couldn’t imagine you could buy and sell today, and so over time we have re-drawn this boundary and there is nothing wrong with redrawing the boundary again.”

Alongside a fundamentally flawed economic system, the biggest obstacle to feeding the world is lack of fresh water. Given the political origins of most national borders, and the arbitrary nature of rainfall patterns, the only way to deal with water shortages over the coming century will be through international cooperation. And the only way to ensure such cooperation is to move to an economic system that rewards cooperative behaviour and punishes competitive behaviour. Without such change, many wars will be fought over water.

In the next chapter we will see how the sustainable management of natural resources might be achieved. That solution involves a shift from resources being subject to unconditional private ownership to a regime based on resource rents. Anyone wishing to exploit natural resources, including land, would be required to compensate the rest of the population for giving up their equal entitlement to a share of the planet’s resources. The same principle could be applied to water and should take account of the fact that the rainfall that could sustain the population of one country often falls on the land of another. Cooperation among nations to make coordinated investments in rainfall management infrastructure could help address regional water shortages; but, if the failure to cooperate on another vital issue is any guide, then perhaps the prospects are not good.

**Climate change**
Even people who do not believe that climate change is man made must see that our fragile environment is getting a battering from current economic arrangements. In a hyper-competitive economy, where mega-corporations chase short-term profits, something always gets exploited. Without systemic change, there is no chance of cooperation to achieve mutually beneficial solutions to the problems of resource depletion and climate change. Progress could quickly be made if the economic context and business incentives were to be altered.

There is no longer any doubt about the role of carbon emissions: the balance of evidence strongly suggests that human activity is driving climate change. If we wait for science to deliver conclusive proof it will be too late. Climate change deniers still punch above their weight in the media, but it seems likely that even their populist voices will soon be silenced by the growing mountain of scientific evidence and real-world impact.

There is still time to make the required changes. Most experts agree that the key objective should be to keep average global temperatures within 2°C of pre-industrial levels. Beyond this point feedback loops will come into play, causing warming to accelerate regardless of any subsequent reductions in carbon emissions. The good news is that most climate scientists think this goal is achievable if we start acting now. Delays of just a few years, however, will mean that we miss this crucial target. Then the numbers of lives lost to, or made unbearably difficult by, climate change will start to climb rapidly.
“Each year millions of tons of food are destroyed because the people who need it cannot afford to buy it.”
The omens are not good, though. In recent years, efforts to reach international agreements on trade, carbon emissions and solutions to the financial crisis have failed dismally. And self-interested politicians have not even started talking about the possibility of moving to an inclusive economy. All that is required to force governments to start cooperating on these issues is for their electorates, with sufficient force, to demand it of them. This may sound naively optimistic but ordinary people have the powerto make change happen. And it is in respect of climate change that we need most urgently to use that power.

**Who owns what?**

Ownership is a key factor in determining how we manage the planet ’s resources. The distribution of resources is not equal around the world. Geological good fortune means that some countries are well endowed while others are not. Remaining oil reserves are most heavily concentrated in the middle east, while China is the leading supplier of 28 of the world ’s 52 most valuable element groups. Should these natural advantages bring special benefits to the citizens of better-endowed countries?

If a key principle of an inclusive economy is that people are rewarded in proportion to their contribution to the creation of real wealth, then the principle of equal pay for equal work should hold. But countries with bigger reserves of raw materials will be able to create more wealth for the same amount of labour. The same thing happens within countries. Systems for granting licences to exploit new sources of raw materials are heavily biased in favour of established corporations with big accumulations of capital. They deter new entrants, which leads to a further concentration of wealth. The most efficient way to tap new resource streams may be to hand the task to those with the relevant experience, but why should certain firms benefit disproportionately from de facto ownership of resources which are surely the birthright of everyone? Justice demands that such firms pay the full value they derive by
being granted access rights, and that this ’payment for use ’ be distributed among the whole population of a country. This could be done by means of a ’citizens ’ dividend ’, or the money could be used to finance the democratically mandated functions of the state.

The nation state model provides a framework for the just distribution of the value of a country ’s natural resources. Globally things are more complex. It is difficult to imagine a situation in which China, for example, would voluntarily give up the economic advantage it enjoys because it is rich in resources. But this would be less of a problem in an inclusive economy. The biggest economy on the planet-that of the United States-was not built exclusively on the exploitation of its natural resources. America was a latecomer to the game and its economic pre-eminence was built largely on the pioneer spirit, rugged determination and sheer hard work of those who colonized its mighty land mass. So while resource endowments give certain countries advantages, the capacity to exploit them effectively, and so create wealth, is more a matter of human endeavour. Every nation and culture has its fair share of entrepreneurs and others not afraid of hard work. Creators of genuine wealth should be incentivized to build dynamic enterprises and create jobs. They should not be punished by a tax system that takes more from those who create wealth than from those who prey on the wealth of others.

Minority ownership of natural resources is a serious problem. The often arbitrary granting of special access rights to vested interests is a principal cause of economic exclusion in all countries. But we need not worry too much about the fact that some countries have more than others. Under a competitive economic system, such resource advantages give certain countries disproportionate economic and political power, but under a system driven less by competition, mutually beneficial opportunities for cooperation would emerge. As long as measures are implemented to prevent minority monopoly control over resources, we should be able to engineer their just and sustainable
use well into the future.

When it comes to managing carbon emissions, national boundaries count for nothing. While private and national interests can assert exclusive rights to whatever part of the planet ’s resources lie within their borders, the atmosphere is beyond anyone ’s control. That ’s why a strategy to tackle climate change has to involve all nations. The current Kyoto Protocol is no strategy at all as the world ’s two biggest polluters, the United States and China, chose not to participate. The successor to Kyoto has to include all nations, and its provisions have to be binding. This cannot and will not happen under an economy in which nation is pitted against nation in a competitive struggle.

**Less is more**

Only since the advent and spread of mass production methods has over-consumption become a problem. It would not be such a critical problem had politicians not embraced the neo-classical ideology, which equates economic progress exclusively with growth. But even if we succeeded in breaking the link between economic success and over-consumption, we would still be under a moral obligation to ensure our consumption levels were sustainable.

Before the culture of consumption became entrenched, the main challenge of economics was managing resource scarcity. In all cultures people developed ’natural ’ mechanisms for rationing consumption. Goods were made to last much longer than they do today, and people had a make-do-and-mend approach. Thrift, recycling and re-using clothing and household goods were commonplace and gave a sense of satisfaction. There is nothing to suggest such practices made people unhappy or frustrated. In a sustainable economy, such attitudes and practices would once again become a natural part of life.

All the world ’s major religions place great emphasis on the moral
implications of our obsession with the material world at the expense of the spiritual. In his book *To Have or To Be*, the German-American social theorist Erich Fromm outlined the difference between a life lived in the futile pursuit of endless consumption and an alternative mode of living. Fromm suggests that, once individuals have satisfied their basic material needs, they should seek contentment through engagement with the non-material world. This doesn’t require affiliation with any formal or organized religion, neither does it require the adoption of an abstinent lifestyle. It simply requires that people reflect on their consumption. Could there be things wrong in their lives that will not be remedied by shopping? Most of those who shun a materialistic lifestyle profess levels of contentment with life that were previously unattainable. It is the constant striving for material betterment, and the belief that eventually acquisition will bring happiness, that condemns so many to misery. If celebrities can teach us one thing, it is that dedicating yourself to acquiring more stuff is not the way to happiness.

The idea that we could all be happier by consuming less obviously fits well with the requirement to conserve the planet’s resources. It also ticks all the boxes of a steady state economy, which does not require continual growth in order to avoid falling into recession. Freedom from the slavery of consumer culture is possible. It doesn’t require anyone to go without the essentials of life, nor should it prevent people from creating new goods and different services. However, as more people discover what really matters in life, and that the link between consumption and contentment is quite different from that peddled by advertising agencies, the thirst for novelty may finally be extinguished. We will become happier, more evolved, human beings.
“Creators of genuine wealth should be incentivized to build dynamic enterprises and create jobs.”
Reconciling people and planet

Tackling resource depletion and climate change will require not only the buy-in of millions of people, but also an economic system that avoids debt, growth and short-term profit in favour of an inclusive, steady state economy. Currently we are making virtually no progress towards this objective. By some measures we appear to be going backwards. Over the last decade, as the evidence for climate change has become clearer, our behaviour has become less responsible. We have seen increases in air travel with only negligible efforts to reduce carbon emissions. Shops leave their doors open in freezing weather for fear that customers might be discouraged by having to push their way in. Thresholds are warmed by energy-guzzling fan heaters which make ingress more inviting. People choose to dine outdoors in mid-winter under the umbrella of polluting space heaters. It’s as if a sizeable part of the population, and the institutions of the economy, have decided to stick two fingers up to the threat of climate change and party ’til the planet fries.

Growing numbers of people are acutely aware of the need for action, and many entrepreneurs are getting in early and exploiting the huge business potential offered by the imperative to change the way we live our lives, especially in terms of energy use. But their efforts are hampered by an economic system that favours established industries, even if their products threaten the life-sustaining capacity of the planet. Good ideas, ideas that increase the possibility of human beings living happy and fulfilled lives, shouldn’t require subsidies to make them economically viable. In a world where power was distributed equally and information was freely available, only psychopaths would choose to support an unsustainable future.

One of the reasons cited for the failure of the wider public to take climate change seriously is that the threat lies too far in the future. Although we humans have developed some capacity for empathy with others, this doesn’t yet extend
to those yet to be born. As Noam Chomsky says, “Human beings are complex creatures. For example we are capable right now at this minute of acting in such a way as to make it likely, if not certain, that our grandchildren are going to face terrible disasters, and we are consciously acting to accelerate that likelihood even though we all love our grandchildren. How can we be more contradictory than that?” Humans are inconsistent and paradoxical. We hope for peace and immortality, but continually invent new ways to destroy ourselves.

Luckily, many campaigners are attracted to the environmental cause precisely because they feel a sense of responsibility towards future generations. The failure of many people to identify with the interests of their children’s children has the same cause as their lack of empathy with people in places like Tuvalu, whose country is already disappearing under rising tides. The key to progress, whether it’s tackling poverty today or taking steps to secure the planet for tomorrow, is to encourage the spread of empathy to many more people. There is no gene for empathy: it is a capacity that can be developed to a high level by most human beings given the right environment. Only when people feel economically secure do they usually have the psychological freedom to consider the interests of others. Empathy is the revolutionary emotion.

We need to redefine economic progress: instead of increased production and consumption for the sake of it, we need to focus on creating the right kind of wealth. This requires a redistribution of economic opportunities and resources away from faceless mega-corporations and into the hands of small-scale, local producers. It means new and different ownership models to encourage economic participation. It means equity in the distribution of wealth instead of value extraction by absent, amoral shareholders. And it requires legislation to change the environmentally harmful, community-destroying incentives that currently push corporations to do exactly the opposite of what they should be doing. All of this is possible. None of it will be easy. But the longer we leave
it, the harder it will get.

“If celebrities can teach us one thing, it is that dedicating yourself to acquiring more stuff is not the way to happiness.”
Chapter Seven
PROGRESS

“Our lives begin to end the day we become silent about things that matter.”

Dr. Martin Luther King, Jr.

A new economic paradigm

Many books, films, pamphlets and essays have succeeded in articulating what is wrong with the current economic set-up. In this book, we have tried to make connections between the economic structures and institutions that make up ’the system’, and to link them to unequal power relations within societies and between nations.
It should be clear by now that the economic system is not only failing to deliver sufficient wealth and wellbeing, it is also driving the two principal threats to the survival of our civilization, environmental breakdown and social violence. A new economic paradigm is needed, one which can deliver an economic system which has clear values and is explicit about its objectives. It must transcend traditional concepts of left and right: economics is not a simple choice between state control and unregulated free markets, or even a mixed-economy mash-up of the two. The kind of economy that emerges will depend on the outcomes we want, and those outcomes must be driven by moral considerations. Mechanisms that currently promote the concentration of economic opportunities and resources must be re-engineered in favour of majority interests.

This move to a new economic paradigm would be the greatest conscious revolutionary advance in the history of humankind. This book doesn’t offer the kind of shopping-list policy proposals you get in an election manifesto. Such documents cannot address systemic, structural issues. But, having identified what’s wrong with current arrangements, we must examine the kind of change required in three key areas: the monetary system, the tax system and the financial system.

The monetary system

Money is such an integral part of society and the economy that even economists tend to neglect its importance. Money should be neutral in terms of its influence on economic activity but when its supply is not subject to proper management it can cause great imbalances which ultimately lead to the exclusion of many people.

The principal requirement of the money supply is that it should remain stable in
the long term. It needs to vary only with changes in the population level. If the population increases, so should the money supply; if the population decreases, then so should the quantity of money in circulation. When the money supply is constant in relation to the population, additional wealth creation drives prices down; a reduction in the amount of wealth created pushes prices up. Neither of these scenarios is problematic.

In the short term, temporary changes in the quantity of money in circulation are necessary because of time lags that occur between production and consumption. As we consume things, wealth is destroyed. Food is created and destroyed quite quickly, fridges survive longer, houses longer still. When wealth is destroyed, if standards of living are to be maintained new wealth has to be created, and this usually requires investment. Ideally, funds for investment would be sourced from the savings of those who decide not to spend all their income immediately, but these may not always suffice. Savers may decide to keep all or part of their savings in liquid form for easy access, making them unavailable for investment. To ensure that this ‘leakage’ in the circulation of money doesn’t prevent investment in viable schemes, temporary new money needs to be created. As long as this is repaid in full from the return on investment, and the loan amount is then destroyed by the lending institution, the amount of money in the economy will not increase over the long term. If a business fails, there will be no return and no means of repaying the loan, but in a stable economic environment, in which unnecessary obstacles to innovation have been removed, there would be fewer business failures. Money lent for investment that is not repaid would have little impact on the overall money supply.

So what kind of money-creation framework would enable long-term monetary stability with the short-term flexibility necessary to ensure adequate investment? The current system is failing badly. Privately owned banks create money every time they lend to customers yet only a fraction of the money is
used for investment in the real economy. Subject to properly enforced regulation, fractional reserve banking has been shown to work reasonably well in assuring money-supply stability, but regulation has failed time and again. And there is a deeper problem. When bank profits are linked to money creation, bankers’ incentives encourage undesirable outcomes. Nobody should be able to profit from providing the one thing without which economic activity is impossible. It’s like giving a select group of individuals the right to charge for the air we breathe.

The linking of money to a fixed-supply commodity is also problematic. Back in the 1920s the gold standard failed to ensure money-supply stability because bankers were able to circumvent the rules. If a currency were to be backed by a commodity like gold (and if gold were still subject to private ownership) then the speculative activities of investors could create a dangerous feedback loop between currencies and the commodity which is supposed to give it value.

Full reserve banking is another alternative. Banks would only be permitted to lend out money that had been deposited with them for a fixed period, in return for an agreed rate of interest. By definition, full reserve banking would deliver money supply stability, but it would not make provision for lending for investment beyond what savers were prepared to make available. This would restrict the funds available for investment and place unnecessary constraints on the economy.

In their 2000 book on monetary reform, James Robertson and Joseph Huber address this problem. They suggest that banks should act purely as credit brokers - providing a safe haven for people’s money and acting as intermediaries between savers and borrowers -and that the central bank should be given responsibility for the issue of any new money deemed necessary to ensure adequate levels of investment. This newly created money, they suggest,
should be spent into circulation by the government, which would allow for the possibility of reducing taxes. Under this arrangement, if the money supply did grow too much, the government could reduce it by spending less than it received in tax revenues.

Supporters of the gold standard see it as a neutral mechanism, and therefore preferable to governments, which they believe cannot be trusted with something as important as the money supply. But reform of the monetary system can only happen in conjunction with wider economic and political reforms that should deliver truly representative government - government that acts in the interests of all citizens instead of propping up institutions that protect established privilege. In the absence of any genuinely neutral mechanism for managing the money supply, democracy is the best way of ensuring accountability. If governments manipulate the money supply to fund vanity projects that nobody wants, to fight wars that few people support, or to line the pockets of their old school chums, then they must be ejected from power. This doesn’t happen at present because there is little or no democratic accountability in a system rigged in favour of minority interests. Once people’s trust in government has been restored, then government, and an equally accountable central bank, will be best placed to manage the money supply.

Without monetary reform, progress towards an inclusive and stable society will be impossible. The monetary system must deliver long-term money-supply stability with short-term investment flexibility. Its management must be completely separated from the profit-motivated activities of commercial banks and the self-interested activities of financial and commodities markets.

**The taxation system**

Libertarians and anarchists imagine a Utopian future in which all human behaviour is self-regulated and people co-exist peacefully. It’s an attractive
thought and, were such human perfection ever to be achieved, it is possible to conceive of a world without formal central government. In the meantime we need to engage with twenty-first-century reality and accept that government will have a role for some time to come.

But government has to change: it needs to facilitate the kind of economic reforms outlined in this book. That change will require a democratic revolution in which existing institutions are used to launch a different kind of politician to power. Once genuinely democratic governments start to introduce real economic reforms, then the dream of small government may come closer. Full employment in an equal-access economy would make possible a substantial reduction in the size of the welfare state, in turn reducing the tax burden on those who work - which will be nearly everyone.

Government would still have other important functions, and these would need to be properly funded. Public revenue can only come from a share of the wealth created through economic activity via taxation, but the current tax regime is unhelpful in virtually every way. It needs wholesale reform. Its replacement should be equitable; it should encourage sustainability; it should reward hard work and prevent unearned income or rent seeking; it should promote efficiency, and it should incentivize creativity and entrepreneurship. The framework for such a regime already exists. It could be quickly implemented by linking the tax system to resource rents.

Under current arrangements, people who own land or enjoy the right to exploit natural resources have a huge economic advantage over everyone else. These big landowners and resource exploiters are a tiny fraction of the population. ‘Resource rents’ is the term used to describe the revenues received by people purely because they enjoy ownership or privileged access to resources. In classical economics, revenues are divided between the three factors of production, labour receiving wages, capital receiving profit, and land
(comprising all of nature’s resources) receiving rent. When the resources of nature are subject to ownership by a small minority, those individuals enjoy the exclusive rights to all resource rents. This income is entirely unearned. The argument for taxing resource rents is a moral one: if you believe that everyone has a right to an equal share in nature’s benefits, then it follows that the resource rents generated when they are exploited should be distributed equally among the entire population. Viewed this way, collecting resource rents as public revenue has little in common with established forms of taxation. It is about effecting the even distribution of nature’s wealth, which, by all rational and moral standards, is the birthright of every citizen in every nation.

To a small extent, such resource rents are already collected. In certain countries, a proportion of the rent accruing to land is collected through property taxes. In others, segments of the radio spectrum (used for mobile phone networks) have been auctioned off to raise public revenue. But the proportion of total resource rents collected in this way is small; it tends to be seen by governments as a way of topping up conventional tax revenues.

While resource rents constitute unearned income, the individuals and firms who would be liable to pay them would still be perfectly at liberty to make profits. Only that part of their revenue that derives solely from the use of land and natural resources would be collected. At present, this type of revenue is conflated with profits for accounting purposes. If the value of resource inputs into a business (including that of land) were properly valued - not a difficult task - then quite simple changes to accounting standards would enable resource rent liabilities to be accurately calculated.

The potential revenues are difficult to estimate, but at the very least they would enable a significant reduction in conventional taxes. This would be a very good thing, because the current tax regime does little to encourage entrepreneurship. Taxes on corporate profits reduce the amount of self-
generated funds available for reinvestment. And while it’s true that greater pressure on investment comes nowadays from shareholder demands for short-term returns, any reduction in the burden of tax which encourages more investment is positive. The taxation of wages is similarly disincenti-vising, discouraging people from working as hard as they otherwise might. Taxes on consumption hit the poor hardest: if most of your income is used to buy essentials, and those items are subject to VAT or a sales tax, then you will be proportionately worse off than someone for whom the purchase of essentials takes only a small part of their income. And taxes on trade reduce export opportunities and restrict access to global markets, as well as curtailing the benefits of cultural interaction.

Taxation has a useful second purpose beyond raising public revenue. It can be used to address undesirable market outcomes. The biggest such outcome at present is climate change. By levying taxes in a strategic way, the over-exploitation of fossil fuels could be controlled. In an ideal world, people would force changes in energy production through their interactions with the energy market; in reality this is unlikely to happen in time to save the planet from climate catastrophe. Taxing the use of fossil fuels is another way of collecting resource rents. Any activity that reduces the life-sustaining capacity of the planet should be paid for. Using up a small part of the atmosphere is no different from using a piece of land, or mining and refining valuable minerals. By obliging carbon-polluters to pay more for the right to ‘use up’ that scarce resource, the rate of use could be controlled.

It seems unlikely that nation states will ever agree on coordinated action to tackle climate change. A perfectly feasible model was developed more than two decades ago by the Global Commons Institute. Contraction and Convergence has widespread support, largely because of the way it delivers equity between nations. Its main critics are those who see it as impractical for political reasons, but these political obstacles are largely a consequence of our
current competitive, race-to-the-bottom economy.

Whatever mechanism is ultimately adopted for managing carbon emissions, it will build on the principal of resource rents. Once a resource-rents framework is in place, additional charges could be levied on activities that contribute to climate change. The framework could be used to limit the exploitation of any resource in short supply. Such arrangements would have to be subject to international coordination and agreement, but without consensus on the fundamental issues of planetary survival there is no hope.

Resource rents are neutral interns of their economic impact as they have no disincentive effect. And there is an additional advantage of using them to fund public expenditure. If most of the income so raised goes into maintaining and enhancing economic infrastructure - transport, communications and other essential, commonly owned facilities that are not provided by the private sector - then public spending will make a positive contribution to future wealth creation. A virtuous circle will begin as rents are again collected and used for future infrastructure investment. This ‘recycling’ of resource rents will create conditions favourable to the continual creation of new wealth. The state and markets will be able to work together to maximize social wellbeing.

Add in the capacity of resource rents to manage finite resources and the drivers of climate change, and we have a ready-made strategy for our future survival, and for an inclusive society in which poverty could ultimately be eradicated.

Don’t let anyone tell you that a move to resource rents is too complicated to be practical. The only obstacle is vested interests protecting their position of privilege with the support of spineless politicians. They only get away with it because of:

- the ignorance and apathy of populations who don’t realize there is an alternative to current arrangements; and,
• the disproportionate power of the minority who erceive their interests to be best served by keeping things just as they are.

The financial system

Changes to the monetary and taxation systems will provide mechanisms for curtailing two of the three forms of unearned wealth that drive much of the injustice and exclusion that blights today’s world.

Changes to the financial system will be necessary to address the third: gains from speculative investment. Speculative investment takes real wealth from those who create it, and drives the expansion of the money supply.

The objective of the financial system should be to act as intermediary between people with savings and those who seek funds for investment. Under the monetary reforms outlined above, the financial system would also have a role to play in the distribution of newly issued money to those in need of investment funds.

Currently, economically beneficial transfers of funds constitute only a fraction of one per cent of the transactions made in financial markets. Those markets constitute an industry that exists primarily to enable those with spare cash to earn more by extracting wealth from the real economy. There is no moral basis for allowing such activities to continue. As we have noted, given that they benefit a tiny section of the global population - far less than one per cent - in a properly functioning, progressive democracy they would be outlawed.

It seems unlikely that such activities could be curtailed through the tax system. Current efforts to impose a miniscule tax on financial transactions - the so-called Tobin Tax - are treated with disdain by the financial markets. At the time of writing, some European politicians seem set on implementing such a tax. While this is encouraging, and may raise revenue to help governments deal
with challenges arising from the financial crisis, it will have little impact on the rent-seeking behaviour of those who play the markets. The only way to return financial markets to their proper and useful purpose is for more people to understand how damaging their current activities are. They conspire directly to deny economic opportunities to millions of hard-working people. The interests of speculators are diametrically opposed to those of the ordinary saver.
“Don’t let anyone tell you that a move to resource rents is too complicated to be practical.”
Armed with improved knowledge of how finance works, and the impact it has, the majority must take control of the economy and put the financial sector back to work for the common good. Until this happens living standards and the general quality of life will continue to decline.

The financial system will only be able to fulfil its legitimate role if there is a huge psychological change on the part of investors. The obsession with short-term profits over steady long-term returns must end. Using financial devices to extract wealth from the real economy by borrowing money (created solely for the purpose) to speculate in markets has to stop.

The financial markets are also over-involved in lending for house purchases. We have seen the negative effects of house prices being so high relative to earnings. House prices are inflated by increases in land values which have two sources: the general uplift that arises from economic advance and public infrastructure investment (and which would still occur under a stable money supply) and the bank credit made available for home purchases which further drives up land prices. The link between residential land values and bank credit is not a direct one, however. Banks create money to lend for a house purchase when a home changes hands, but this doesn’t mean that the amount of money in circulation is equal to the total value of residential property. In this sense, the ‘money’ represented by land values is not real, it is a reflection of demand and supply coupled with the preparedness of banks to lend. Increases in wealth represented by the appreciating value of a home can only be realized by selling it, or by borrowing more under an ‘equity release’ scheme. Residential land values do not provide a "ready source of cash with which to pay any tax imposed on them. Given these complexities, while collecting resource rents through a tax on land values would be an effective way of redistributing unearned income enjoyed by commercial landowners, it may not be the answer in respect of residential land. Here, the best way to prevent runaway house prices may be to restrict bank lending.
“The financial system will only be able to fulfil its legitimate role if there is a huge psychological change on the part of investors.”
Opponents of land value taxation (LVT) argue that it’s not viable in any society where many people own their homes because it will be perceived as an unwarranted additional tax, and because people see their homes as investments, not just as places to live. The first argument is weakened if, like other resource rents, LVT is seen as a replacement for existing taxes. What you lose in LVT you gain from reductions in your income tax. The second argument is harder to refute: only when people no longer treat their homes as investments might taxing residential land values become politically acceptable. This requires the economy to provide sufficient opportunities for everyone to enjoy lifelong economic security without relying on over-inflated land bubbles. If this could be achieved, then people would no longer require their homes to be appreciating assets to ‘see them right’ when they retire.

The true value of a home is the cost of building it, or, in the case of an existing property, the cost of rebuilding it. These values are easily calculated. One way of addressing the negative impact of rising land prices on the market for residential property would be to limit the amount a bank could lend for home purchase to a percentage of the rebuilding cost. Currently, millions of people are priced out of homeownership because banks keep creating money to lend to homebuyers. The more they create and lend, the higher prices rise; the only real beneficiaries are banks and their shareholders. Under a system of money creation geared to ensuring money-supply stability, banks would no longer be incentivized to drive up house prices in this way. There would still need to be enough cash in the system to satisfy the demand for mortgages, but other schemes might be developed for funding house purchases.

By addressing the out-of-control rises in the value of residential land, either by limiting bank lending or by collecting the general uplift of rising land values as a resource rent, the principal cause of insufficient supply would also be addressed. Builders will not build new homes if they cannot make a profit because the combined cost of land and construction drives prices beyond the
purchasing power of prospective buyers. If inflated land values were taken out of the equation, and if those in the least-well-paid jobs were properly rewarded, the housing market would gradually return to an equilibrium position where supply and demand were reconciled, and where, ultimately, everyone could afford to own a home. Think of the positive effect that this would have on communities, family life and society in general.

Limiting bank lending will not solve the problem at the top end of the housing market, however; among people who don’t need to borrow, even to buy a home costing millions.

If LVT is politically unacceptable because it hits ordinary people unfairly, then perhaps it would be more palatable if it targeted just the super-rich, especially those (nearly all of them) whose wealth is derived from rent-seeking activities. A simple formula could be adopted to decide which homes attract LVT. Perhaps all primary residences worth less than twice the national average might be exempted. Whatever scheme were to be adopted, it should be remembered that it is the combined impact of changes in the economy - reducing the earnings gap, limiting bank lending, building more houses and a carefully targeted tax on land values - that would deliver equity in the housing market. It would bring vacant homes into use, stop urban sprawl and could eventually end homelessness.

As currently constituted, the financial system delivers outcomes which are unjust and socially destructive. Everyone who is prepared and able to work has the right to a job that pays a just wage. They also have a right to a roof over their heads. The economy is failing to deliver on these fundamental objectives because the markets for labour and housing are manipulated in the interests of elite privilege. Only when a critical mass of people realize the damaging impact of financial markets on wider society will democracy be able to defeat vested interests.
What markets do well

Opponents of the current economic system rail against free-market capitalism without being clear about what it is about markets that’s problematic. Often, they don’t even have a proper understanding of what capitalism is. In this book, we’ve tried to outline the problems with the current order and to suggest what needs to change. It should be clear by now that free markets, and the system which sustains itself by the accumulation and reinvestment of capital, are not themselves the problem. The kind of inclusive, sustainable and just economy we argue for would look quite different from the current setup, but it would still function under the basic principles of free-market capitalism. It would just deliver very different outcomes.

Markets are the best way to determine prices. They enable the preferences of consumers and the activities of producers to be reconciled so that the right quantity of a product is created as efficiently as possible. They enable people to exchange their labour for products of the labour of others. Markets are great at pricing real things. They work well when everyone is properly rewarded for his or her labour and so has adequate purchasing power. However, they fail badly when the distribution of income is unequal; and they fail spectacularly when one section of the population enjoys preferential access to economic opportunities and resources, or when they are manipulated by speculators and other rent-seekers. If the market mechanism were removed from the economy, we would have to rely on state bureaucrats to set prices and determine output levels. This would deny essential freedoms and, as the Soviet experiment demonstrated, it would be an economic disaster. Markets are here to stay; they just need to be put to work in the service of all citizens.
“Only when a critical mass of people realize the damaging impact of financial markets on wider society will democracy be able to defeat vested interests.”
In the same way, there is nothing intrinsically wrong with capital accumulation. Our understanding of the role of capital can be helped, once again, by reference to classical economics. Capital is not money. It can be acquired using money but it is something quite different. Capital is the product of previous labour that remains unused and is therefore available for use in the further creation of wealth. It includes things like tools, machines, secret recipes, programming languages, specialist knowledge and experience, and reputation - everything that has been created by others and can be re-used to create new wealth.

Capital accumulation is crucial to the creation of wealth. With no accumulation of capital, each new generation would have to begin the process of wealth creation from scratch. We would have constantly to rediscover how best to combine our labour with the resources of nature, like our ancient ancestors did when they discovered the possibilities of agriculture. Just as free markets have an essential role to play in a just and inclusive economy, so does ‘capitalism’. Capital accumulation is problematic only when capital becomes concentrated in too few hands. This happens when a minority controls most of the capital, or when a few people have the money to acquire it for their own ends. In a restructured economy offering equal access to opportunities, the distribution of accumulated capital would be much more even.

When capital accumulation becomes concentrated and free markets are prevented from delivering just outcomes, monopolies emerge. A small number of corporations ends up controlling much of the supply in a particular market. The surest way to prevent market domination by a handful of mega-corporations is to effect a better distribution of the factors of production, so markets can deliver efficiency and equity. This tends not to happen because ‘incorporation’ - the most common form of business ownership - encourages the opposite outcome. Incorporation, or the establishment of a joint stock company, creates a ‘legal person’ separate from the owners or shareholders. It
also limits shareholders’ liabilities to the amount of their investment. Shareholders in such limited companies are free to sell their stake to others. The advantage of this form of ownership is that it enables firms to raise funds in the stock market from a wide range of investors. The disadvantage is that it makes it much easier for established companies to raise funds compared with smaller firms or new start-ups. Over time, markets come to be dominated by fewer, larger firms who can take advantage of economies of scale to reduce costs and drive down prices, making it even harder for capital-poor new entrants to gain a foothold. This is another aspect of the race-to-the-bottom economy in which more wealth is created to be enjoyed by fewer people.

There are certain spheres in which free markets are decidedly unhelpful, or simply don’t work. Markets are best at pricing goods and services, and matching supply and demand in a way that encourages moral outcomes, when they are able to mediate between many potential purchasers and many potential producers. While most goods and services are demanded by large numbers of consumers, not all can be produced or provided by many suppliers. The nature of some goods and services makes the management of their supply by the market problematic. Chaos would ensue, for example, if many operators were allowed to compete for fares on the same bus route.

In recent decades, governments have attempted to privatize such natural monopolies as water and energy supply. This has involved the artificial creation of markets by government legislation. It has also meant licensing suppliers who compete on price while buying the use of infrastructure from another government-licensed (but privately owned) firm. Further government intervention is then required - in the shape of a regulatory body - to ensure that these private firms do not engage in profiteering by setting their prices too high in the absence of an effective, market-based pricing mechanism. The provision of public utilities may not be particularly efficient when managed directly by the state, but the market doesn’t do it very well either. Given that energy,
water, roads and railways are essential aspects of any society, and used by most citizens, it is counterproductive to use the profit motive and an artificial market to deliver supposed efficiency. This is especially the case when other means of funding and service provision are equally, if not more, viable.

**Competition versus cooperation**

Supporters of the current free-market economy argue that competition among producers ensures efficiency and keeps prices as low as possible. This argument sounds reasonable in theory, but in practice it delivers the kind of race-to-the-bottom economy which sidelines workers and delivers much of the productive economy into the hands of a minority. Basing economic progress on competitive behaviour driven by fear and insecurity is an archaic way of organizing society. It’s an approach that assumes no advance in morals since the middle ages. It helps explain why psychopaths and people with other personality disorders are over-represented among business leaders.

Who among entrepreneurs, established or aspiring, can take pleasure in knowing that their success is won at the expense of other people’s failure? Only people with no regard for the interests of others, and no recognition that society is bound together by the willingness to cooperate. There is no more crucial sphere for cooperation than the economy.

All of the great evolutionary leaps forward, in biology, culture and society, have come when antagonistic, competing groups have come to realize that they’d be better off cooperating with their erstwhile enemies in pursuit of common aims. Only in respect of the economy have we yet to learn this lesson. People deserve to be rewarded for excellence, but many successful business people are proud of their achievements not because they have vanquished all competitors, but because they have created something of value. They are content with having produced something that enhances many people’s lives.
Formative environment is crucial to perceptions and motivations in adult life. If people are brought up to believe that, in order to succeed, they must compete with their peers and have no conscience about those who fail, then many will carry this belief into the workplace. If, on the other hand, young people are encouraged to empathize with their peers in the playground, and this is extended into the world of work, then a new kind of economy will gradually emerge. A selfish, competitive world view is self-perpetuating. The alternative is within the reach of everyone.

An economy based on cooperation will not ensure equal outcomes but it will narrow the gap between rich and poor, and ultimately eradicate poverty. There are already many examples of people motivated by values that have nothing to do with competition. They collaborate successfully on ventures that create real wealth and add considerably to the diversity of human experience. In a better-balanced economy, the price of failure, or of narrowly losing out in the competition to bring a new product or service to the market, would not be so great. An economy comprising many more small units of production and increasingly few mega-corporates would be a safer place for more people to do business. The urge to compete is reinforced by a fear of failure, which can mean exclusion, poverty and lifelong insecurity. What kind of society thinks this is a sensible basis for economic relations?

**Global coordination**

Changes on the scale and complexity outlined in this book will require global coordination if they are to be effectively implemented. The power of vested interests within the financial system is so great that, were one or a small group of nations to attempt to implement such reforms, their economies would come under immediate attack from the financial markets. A mechanism to inspire concerted global action is required so that the burgeoning democratic desire for change among people in all countries can be harnessed. It may to be too
much to expect majorities for change to rise up in many countries at once, but coordinated minority pressure in many countries could have a considerable impact.

The commonality of method and goals apparent in the worldwide Occupy protests shows the impact small numbers of people can have. These protests may lack a formal agenda and have little strategy, but they demonstrate growing international solidarity in the face of a worldwide threat. Further progress demands a more formal political strategy that transcends both national boundaries and the established party political model.

However it happens, politicians must be pressured into cooperating on mutually beneficial solutions to common problems instead of endlessly playing the national interest card. While nation states are still the most viable basis for democratic government, the economic and environmental interests of all nations are now completely interlinked. If politicians don’t recognize this, ordinary people increasingly do. We have to change the mindsets of those we elect to govern us. The only way to do this is for electorates globally to bring pressure to bear on national governments.

**Economic convergence**

Most of the inequalities between nations result from differing levels of economic development. Few people realize that in the fifteenth century the economies of east Africa and parts of India were more advanced and productive than those in Europe. Subsequent political and technological advances changed the development map dramatically once European nations began to acquire colonies. Today, economic differences between nations largely reflect the conquests and attendant injustices of imperial power in the intervening centuries. Had poorer countries been spared centuries of imperial pillage, economic advance would still have varied from region to region; but
contemporary differences are as much due to the exercise of crushing military power and economic exploitation as to varying geographies, demographics and natural resource endowments.

Much is made of the way less developed countries have been able to catch up thanks to globalization, but in a competitive, race-to-the-bottom economy, catching up comes at heavy price. Jobs in China and India are created at the cost of jobs in Europe and North America. Because economic progress is defined by growth in output coupled with reductions in production costs, not only are more people excluded from properly rewarded economic participation within nations, but the infection also takes hold across the globe. The only economic advantage less developed economies have is huge quantities of cheap labour. Global production will continue to move further down the development ladder, as international capital seeks out ever lower costs of production; and the only beneficiaries will be those who control it.

The multinational corporations which roam the world, looking to shift their manufacturing capability to wherever labour is cheapest, hide behind legal protections which provide cover for their amoral behaviour. As corporate ‘persons’ with no moral sensibility, it’s unsurprising that they give so little consideration to the environmental consequences of their activities, or to the impact on communities, or to the rights and dignity of those caught in their path. These mega-corporations circumnavigate the globe, purposefully avoiding legislation put in place to protect the innocent and vulnerable from abuses of economic power.

A different kind of economy, one in which local supply and demand - especially for essentials - is gradually reconciled, and where the objective is to create opportunities for all, would have no need of the relentless cost-cutting which requires the outsourcing of rich-country production to places were workers are routinely exploited.
“Politicians must be pressured into cooperating on mutually beneficial solutions to common problems instead of endlessly playing the national interest card.”
The current approach promises a form of economic convergence in which countries will gradually become equally poor, as greater numbers are thrown onto the economic scrapheap. The alternative promises convergence at a point at which more people have secure, productive lives and in which differences between nations - and levels of inequality within them - are reduced.

In a global economy, where goods are produced anywhere for sale everywhere, why should the same quality and quantity of labour be rewarded differently in different locations? Where American capital can employ French labour, or a Korean entrepreneur can acquire British land, it makes no sense that people producing the same output in different countries should be paid so unequally. In an inclusive economy, labour of the same value would reward workers with the same purchasing power, and that purchasing power would have equal traction in local and global markets. In respect of goods and services that can easily be produced anywhere, the demand would be for local produce. When a product of equal quality is being produced in the next town, nobody would choose to pay extra for butter produced in New Zealand and transported halfway around the world.

**Localism in a global economy**

In the face the socially destructive advance of globalization, localism has become something of a buzzword. Thus far, however, schemes have focused on people becoming self-reliant without addressing the problem that the lion’s share of economic resources is controlled by a small minority. Finding new ways to do things, and opting out of a corrupt system, are understandable reactions, but they won’t tackle entrenched poverty.

Localism will be a vital aspect of our new economy, however. A key requirement of transformed global economic structures and institutions is that they deliver control of the economy back into the hands of ordinary people and
their communities. This doesn’t mean there will be no place for large firms, or that production can no longer benefit from economies of scale. It does, however, mean that much economic activity will be conducted on a smaller scale and that many more people will own and control economic processes.

As Karl Polanyi pointed out in his book *The Great Transformation*, many of today’s economic problems are rooted in the purposeful disembodiment of economic activity from communities nearly two centuries ago. This process could be reversed by recreating the conditions in which small-scale, owner-managed production is encouraged. The benefits of such change are obvious. A more dynamic economy would emerge. Producers would be more responsive to changing market conditions, and enterprises would harness the creative energy of many more people. By devolving decision-making power to the lowest, most democratic level, every worker would have a say in his or her future.

An economic revolution could be delivered through existing democratic institutions; but as soon as we made a collective political commitment to change, new institutions of economic democracy would also be established in workplaces. Employee ownership, cooperatives and other models of mutual ownership will be essential if enterprises are to be run in the interests of all stakeholders.

This doesn’t mean that everyone would earn the same. John Lewis remains one of Britain’s most successful retailers. It pays market rates to recruit and retain high-calibre senior staff and, because it has no obligations to absent shareholders, it is able to pay its junior staff a decent wage and give them a share of profits. Replicated across the economy, this model would free businesses from the pressure of having to deliver dividends to absent shareholders, in the process forcing them to make an unnecessary choice between profit and wages. This is hardly a new idea. When the United States
began its industrial revolution, it was assumed that plants would be owned by those who worked in them. As Noam Chomsky points out, “That was not an exotic view, that was Abraham Lincoln’s view, in fact it was a principle of the Republican Party in the late 19th Century. It’s taken a lot of effort to drive those ideas out of people’s heads, but they’re still there and they are very relevant.”

**Time for a new political paradigm**

A new economic paradigm would demand a new political paradigm in which the fully-informed aspirations of the majority of citizens are effectively expressed through democratic institutions. Democracy is currently compromised not only because too few people have a good understanding of economic realities, but because of the pressure brought to bear by corporate and financial interests. As Joseph Stiglitz points out, “The lobbyists of the finance industry amount to five per congressperson, they pay five people for every congressman to explain to them, persuade them, that they should pass legislation that is favourable to the financial industry. The poor people who are devastated don’t have the money, they couldn’t hire five per congressman, so the way our democracy works - it’s an unlevel playing field.”

Financial interests also undermine democracy through their ‘support’ for the education system. As Tarek El Diwany says, “banks have helped to set up universities, they’ve funded them, and they fund think tanks, they have educational foundations, they own newspapers. All of this stuff is going on as a kind of propaganda exercise so that people don’t actually work out what the problem is.”

But if, under pressure from corporate lobbyists, the current party political system fails to deliver just economic outcomes, it may still be of some use. Reforming capitalism requires both a bottom-up and a top-down approach.
People can begin to reform the system by reorganizing their workplaces, for example, but such initiatives will be hampered by unhelpful economic structures and institutions. These can only be altered by national governments working together, and this will only happen if politicians are forced into it by their electorates.

It seems unlikely that any existing mainstream political party would reinvent itself sufficiently to contribute effectively to this process, or to play midwife to a new political paradigm. The established parties will no doubt carry on as they are, fighting over the same narrow territory and failing to recognize the causes of their inability to command the respect of the electorate. Trapped by their own dogma, they will continue to offer different flavours of the same tainted product. Conditions are surely ripe for a new party to emerge and lead a democratic revolution.

There is no reason why a new party with a manifesto reflecting the ideas outlined in this book should not emerge. There are many people waiting for this kind of change, all motivated by the same optimistic, morality-centred view of human society and future prospects. While we are talking about a political and economic revolution that begins with grass-roots activism—a ‘leaderless revolution’, to borrow a phrase from Carne Ross— it might be helpful if charismatic leaders did emerge, individuals whose reputations are not tarnished by the compromises of traditional politics, or linked to the more corrupt institutions of conventional economics and finance. We need people who can make the moral case for change eloquently and articulately, and who have the economic insight to deliver on their policies. This is doubly important in a world in which media power works so hard to defend the status quo.

The role of the media

Apart from supine politicians, the greatest friends of the elite are those who
control much of the mass media. The elite have proved exceptionally adept at persuading politicians, with whom they share a desire for power, that their interests also coincide. They are less good at persuading the mass of ordinary people of the benefits of elite power. They leave that task to their chums in the media, who follow a depressing but quite successful strategy to confuse, confound, divide and disempower their audience.

If Rupert Murdoch has been the most influential media mogul in recent times, delivering crucial votes to whichever political party promised not to rain unhelpful legislation on his empire, then others have not been far behind. It would be premature to think the problem has been solved by the partial neutering of Murdoch’s power following revelations of phone hacking at the News of The World. The alignment of editorial output with a world view that supports and reinforces elite power and undermines democracy is a major threat to progress. Perversely, millions of people are persuaded to pay good money to read elite propaganda, celebrity tattle-tattle and invented stories peddled as news. This gives some idea of the size of the task ahead.

Across the mainstream media, and not just in the imaginary world of the tabloid press, recent times have seen newspapers and purveyors of web-based content play a key role in encouraging the polarization of opinion. Extreme and controversial views are encouraged because argument sells newspapers and draws traffic. When professional journalists and commentators can’t provide controversy, the websites of leading newspapers provide space for anyone to publish their ill-informed vitriol. Newspapers argue that such community participation enhances their product and the experience of their readers. In reality the anonymity of the internet allows people to project their prejudices to an audience of millions. It gives voice to the unreasonable and the extreme.

The polarization of public opinion, especially in respect of politics and economics, is the surest way of keeping the elite safe in their castles. There is
a profound difference between defending free speech and encouraging vituperative disputation on the websites of respectable newspapers in pursuit of greater advertising revenues.

**Curtailing elite power**

It should now be clear that change is impossible without an end to elite power and entrenched privilege. It doesn’t matter whether members of the elite consciously believe that current economic arrangements are right and must be defended, or simply never bother to consider the wider consequences of the system from which they benefit. If people earn the bulk of their income from rent seeking, rather than from participating in the production and exchange of newly created wealth, then they are likely to be part of the problem.

Countering and curtailing this unjust and anti-democratic power will be an enormous task. Notwithstanding recent democratic advances, elite power has been the dominant mode of human social organization since the advent of agriculture. This is the biggest revolution imaginable, but it is a revolution in which very few people stand to lose. We estimate that the number of people whose incomes will be reduced is less than 0.2 per cent of the global population, or around ten million adults. Many among them may one day come to realize that, far from demanding a sacrifice, the new economic order offers liberation from the pressures of having to set themselves apart. Overcoming elite power will require consensus among the disenfranchised and those who make a decent living but support the cause of economic justice. It may be this group of educated, successful but socially concerned citizens that holds the key to consolidating that consensus and thereby setting in motion a process of transformative social change.
“Well the apathy is sort of engineered because you don’t have any discussion of this in the public media, hardly by surprise. The public media are owned by the real estate and the financial interests and they are not going to explain to people the integration between the financial, insurance and real estate sectors: the FIRE sector.”

Michael Hudson
Immediate measures

This call to action to save our ailing civilization is not just a reaction to the current financial crisis. Capitalism has been badly failing the majority of the world’s people since the economic reforms enacted three decades ago. But the current crisis provides both a focus and an opportunity. Before the crash, majorities in rich countries were happy to believe things were perfectly rosy; there was little prospect of a popular movement for change. When the crisis revealed the precarious position of all but the top 0.2 per cent, the prospects for a radical redesign of the global economy were suddenly improved.

In this book, we’ve focused on the changes needed to deliver an economy that can meet the moral demands for improved justice, but as we embark on that task we also need a plan for getting out of the current mess. We need to create a sufficiently stable political and economic context in which to begin planning a viable future. The biggest threat to that stability is debt. The banking system is not fit for purpose, and the financial markets are able to hold governments to ransom because economies are labouring under an immense burden of debt.

Let’s be clear: this debt cannot and will not be fully paid off. There are only two ways to address the issue. One is a trick of accounting, the other would require us to embrace some ancient wisdom. We could reduce the level of debt by issuing vast quantities of new money. This would drive up inflation and bring down the relative value of our debt. The problem with this approach is that the remedy is the same as the disease. It was the unsustainable expansion of the money supply, in the absence of additional wealth creation, that got us into the mess in the first place. Inflating our way out of debt would provide a temporary fix, but it wouldn’t address the underlying issues. We can’t keep kicking the can down the road and expect the next generation to pay for our inadequate responses to structural problems.
The alternative is to cancel debt. This is not new idea. There were debt jubilees and clean-slate proclamations in early civilizations. Back then, when elites realized that their own fate was bound up with that of ordinary people, they wiped the slate clean and started afresh. We don’t have to look too far back in history to find a successful example. As Michael Hudson reminds us, “The classic example was the German economic miracle in 1947. The allies cancelled all domestic and international German debts, except for the debts that employers owed their employees for the previous few weeks, and except for a basic working balance that everybody was able to keep in the bank in order to buy food.” A solution to today’s global debt crisis need not be so radical. It should focus on those aspects of economic activity where debt has the biggest negative impact on the prospects for getting the economy going again. You may be forgiven for thinking that this is public sector debt, followed closely by consumer debt. In fact, in many countries, financial sector debt makes up the lion’s share.

Money owed by financial institutions to each other is the reason the banking system has failed.

Inflating our way out of debt would only consolidate the position of the wealthy elite, and decimate the purchasing power of those on middle and low incomes. It would lock us into a period of prolonged stagnation from which we might never escape. The alternative is to selectively cancel debts where they are preventing economic recovery. This, as Hudson says would enable us “to keep a middle class”.

**The time is now**

The Occupy protesters who camped out in New York, London and almost a thousand other cities in nearly a hundred countries, are a powerful symbol of the universal demand for change. The occupiers put down a marker. They
realize that real change can only begin with peaceful, coordinated civil protest. Not everyone is brave or mad enough to camp out in the cold, night after night, in uncomfortable conditions, but these people are the pathfinders to a better future for everyone.

Huge numbers of people already long for a different kind of world. The revolution must embrace them all. Many would describe themselves as being on the left of the political spectrum, but others are also becoming increasingly critical of the failure of right-leaning governments to address the growing wealth gap and enduring poverty. Most of those who will play an active role in shaping the future will have no previous history of active political engagement. This must be true because change requires the participation of many more people than have so far been politically involved. However attractive non-engagement with the world is, re-connection is the only way forward.
“Money owed by financial institutions to each other is the reason the banking system has failed.”
There are thousands of disparate campaigns and movements for change. Most share common values, many of which are the universal values espoused in this book. However, the collective power of these diverse groups is lost because they have no common home. What form that home may take is up for grabs, but it will need to be international, so its foundations will surely be laid on the internet. This may lead to the establishment of new political parties in many countries. There could be a global network of movements and organizations, each affiliated to a simple statement of values and principles. (See the following, final chapter for a draft set of such principles.) Whatever shape the movement takes, it will have to accept that in order to create a genuine democracy, elite power must be tackled. It should not underestimate the likely resistance to change from those who can’t or won’t countenance the possibility of a different future. It will have to embrace a new, optimistic understanding of economics, one which counts as equal the interests of all humans, including those yet to be born.

There is no reason why everybody who is willing and able to work should not have the opportunity to do so. And there is no reason why that work should not pay a living wage. There are too many people unemployed, underemployed or employed on wages insufficient to live on, and that is a direct consequence of how we arrange the economy. The economic system was created by us, and it can be changed by us. All it needs is for enough people to understand what has to change, and then to believe that change is possible. The challenges we face are too great for incremental solutions implemented within existing political and economic frameworks.

Somebody once said that ‘Real change happens when those who do not usually speak are heard by those who do not usually listen.’ Only a global revolution of ideas can bring about revolutionary economic change. We can’t simply stand by as hopelessly inept politicians continue to trash the economy and threaten our children’s futures. Only people who are fully engaged can begin
the process of peaceful, democratic, revolutionary change. So now it’s over to you.
Chapter Eight
THE 27 PRINCIPLES

The following list is neither definitive nor exhaustive, but it summarizes the main points of the book and is provided here as a starting point for further discussion. Creating a set of principles on which to base a successful process of global political and economic change has to be a collaborative project. To this end, The 27 Principles are available online via the Four Horsemen and Renegade Economist websites, where everyone is welcome to comment or make suggestions for their improvement.

1 Our global civilization now exhibits many of the symptoms of earlier civilizations in their death throes. While we are far better equipped than our ancestors to prevent the collapse of our civilization, this will require
a major reconfiguration of our political and economic institutions.

2 In respect of basic needs and aspirations, people everywhere are the same, regardless of cultural differences. Everybody wishes for security and fulfilment in life, but these aspirations can only be achieved universally in a world in which the economy is configured specifically to encourage this outcome.

3 The greatest obstacle to creating a just, inclusive and sustainable society is the manipulation of the economy in the interests of elite power and privilege. This must be overcome if democracy is to deliver structures and institutions that promote majority interests.

4 The causes of war and terrorism are complex but there is always an economic context. Perceptions of injustice – historical or enduring – are nearly always a factor in disputes between nations and peoples. Reducing economic disparities is the only way to eliminate such violence. People are less inclined to engage in acts of violence when they feel economically secure and positive about the future.

5 Much of today’s social injustice is a legacy of imperial conquest or the subjugation of one people by another, or is based on unfounded prejudice. This is best addressed by creating an economy in which everyone has the same opportunities, regardless of age, gender, race, religion, disability or sexual orientation.

6 Social and cultural evolution has been changing human societies for thousands of years. This evolutionary process is mediated entirely by the human mind, but it can be directed to any imaginable end. Only if that process is driven by moral considerations will it promote movement towards a more inclusive society.

7 Our immature democracy fails to deliver democratic outcomes. Only when the balance of power in society begins to change will leaders emerge who will ensure that politics embodies the belief that all people’s interests should be given equal weight.

8 Selfish and competitive behaviour is a product of genetics, culture and
environment. However, if the institutions that encourage them can be reformed, such behaviours will find fewer outlets. As they are gradually marginalized, the world will become more secure.

9 Social conscience and the capacity to empathize with others vary greatly from person to person, but, as these qualities are largely a function of environment, there is no reason why they shouldn’t become better developed in many more people. Enlarging the scope of our moral concern is the key to progress, especially in respect of climate change, the impact of which on future generations we should already be taking into account.

10 For more than a century, economics has been taught without reference to morality. Today’s dominant neo-classical economics refuses to engage in debates about values. In failing to do so, it is making the biggest value judgement of all. It is saying: this is the way the world is and economics can have nothing to say about how things should, and could, be different. This philosophically absurd position has to be challenged.

11 Neo-classical economics has failed to explain, predict or offer guidance on how we should organize society to maximize wellbeing, minimize suffering and eradicate poverty. Only by rebuilding itself on firm moral foundations can the discipline of economics find a relevant and useful role.

12 Three things lie at the heart of current economic dysfunction: unearned income and wealth from land rent, the creation of money by privately-owned banks, and speculation in currencies, commodities and derivatives. These activities must be brought to an end. The enjoyment of unearned wealth – the product of rent-seeking activities by a privileged elite – takes real value from those who create it and restricts opportunities for wealth creation, excluding millions from the economy.

13 Beyond the requirement to satisfy the needs of a growing population, the economy does not have to grow. Relentless growth only accelerates the rate of resource depletion. A steady-state economy providing properly rewarded work for everyone is perfectly achievable. It would be more sustainable and would uncover a huge pool of untapped human talent and
creativity.

14 Capital accumulation is essential to the ongoing process of wealth creation, but if capital becomes concentrated in too few hands, access to economic opportunities and resources is restricted and the distribution of wealth skewed. This ultimately leads to destitution and early death for millions.

15 Markets are the ideal mechanism for determining the prices of tangible goods in situations where there are many genuine buyers and sellers. Otherwise – and especially in the case of invented financial instruments – their impact is negative.

16 Poverty is best addressed, not by redistributing money from rich to poor, but by reconfiguring the economy so that it provides real opportunities for everyone. There is no reason why everyone who wishes to work should not have a job.

17 The revenues earned by a business should be divided between those who provide land, labour and capital in proportion to the value of the contribution of each. The market mechanism is well suited to this task as long as everyone has fair access to economic opportunities and resources.

18 Progress requires reform of the monetary system to achieve long-term stability in the money supply. The right to create money must be removed from privately owned banks. Currently banks are incentivized to expand the money supply in search of profits. This benefits a small minority and leads to regular economic slumps. Issuing new money as debt places an unnecessary burden on society.

19 Speculation in commodity markets, including those for food and other essentials, disrupts the pricing mechanism and leads to poor people being priced out. The establishment of speculatively derivatives markets, and the practice of ’trading on margin’ (whereby money is created purely for speculation and the rich extract wealth from those who create it) have no place in a civilized society.

20 The tax system, which currently penalizes entrepreneurship and hard
work, and targets the poorest through taxes on consumption, should be fundamentally reformed. Basing the tax system on resource rents, including carefully targeted taxes on land values, would provide better incentives, encourage equity and mitigate resource depletion and climate change. It would also give the state a positive role in economic renewal and advance without the need to appropriate private wealth.

21 Creating a fairer distribution of economic opportunities and resources will best be achieved by placing more of the economy in the hands of small businesses, and by creating conditions that favour mutual forms of business ownership: cooperatives, employee-owned firms and not-for-profit enterprises in which the only stakeholders are staff and customers.

22 Human perfectibility and a Utopian society may be beyond us, but there is nothing in human nature that limits civilizational progress. The abolition of slavery and the extension of previously denied rights to women have shown that moral advance is the cornerstone of progress.

23 Personal freedom and collective justice are not mutually exclusive; they are co-dependent. The idea that improvements in one can be made only at the expense of the other is demonstrably untrue. Personal freedom is worth nothing without the means to economic security and material wellbeing.

24 Global problems demand global solutions. Relations between nations must advance from competition to cooperation. The universal values on which progress depends are non-negotiable: they cannot be modified to suit particular societies or cultures.

25 Apathy, cynicism and the refusal to believe in the possibility of progress are major obstacles to change. Only when enough people come to see the potential benefits of social transformation, believe it is achievable and commit to work for it, will a new order begin to emerge.

26 Accusations of naivety and idealism must be strongly refuted, as must suggestions that there is no alternative to current arrangements, or that things really aren’t so bad. These are arguments advanced by cynics and those interested only in defending the status quo.
A just and sustainable global society is achievable. Civilization makes greatest progress when previously competing groups come to recognize the value of cooperation in the pursuit of common objectives. Only when cooperation becomes the defining characteristic in social relations will a just and inclusive global society emerge. It’s time for the next great leap.
Frequently Asked Questions

The Question and Answer sessions after screenings of the Four Horsemen in several countries never failed to generate a stream of fascinating questions, nor provoke lively debate. Below are some of the most frequently asked questions from those sessions, and the answers given by director Ross Ashcroft.

Q:  *Do you think we should return to the gold standard?*

RA: The gold standard is a wonderful metaphor for a filmmaker. After five generations of junk economics being taught in universities, it’s a way of showing audiences how, if a currency is tied to something tangible, something which retains its value over time and is subject to a natural control, then a stable money supply can be achieved. Gold would be a perfectly viable basis for the money supply if its price wasn’t subject to manipulation by commodity speculators, but sadly it is. Another problem is that governments often repeal gold standard legislation if they need to fight a war or inflate their way out of debt. Nonetheless, those who currently argue for the reintroduction of the gold standard recognize the importance of money supply stability, and have brought the subject into sharp focus when others have remained quiet. Establishing and sustaining a stable monetary system is the cornerstone to a decent economy.

In the film we use gold as a metaphor for sound money, free of interference from governments or markets. Under the right circumstances, sound money could be achieved through a commodity-backed currency, or via a transparent fiat currency. The key thing is to ensure that the way money is created is properly regulated and audited, and that it can reflect
changes in population levels and in our capacity to create wealth. People still don’t believe that banks create money out of thin air so we have to make the case that sound, independent money is the only way to establish a stable, independent economy.

Q: *Why didn’t you include the rise of China and other BRIC countries in the film?*

RA: We don’t have direct experience of those countries or cultures, or knowledge of their particular economic circumstances. In our view, western countries should get their house in order before lecturing the rest of the world on how to manage its affairs. Yes, we live in a globalised world but the effects of globalisation have not improved the lot of the vast majority of people. The UK, for example, is too small to make a global impact but still tries to compete on the world stage, perhaps out of nostalgia for the days of empire, instead of properly looking after its own people.

Despite the constraints placed on national economies by an overarching global economic system, it is still possible for people in individual countries to effect change by recalibrating their own economic systems. Leaders and politicians are too eager to blame external factors. Perhaps they should engage in a little introspection, and think more creatively about how they might improve the life chances and economic opportunities of their own citizens.

Q: *Why are you so against neo-classical economic ideology?*

RA: Neo-classical economics has been with us for more than a century and is one of the biggest obstacles to human and environmental progress. It is based on models that are totally divorced from the real world. It’s a value-free ideology, totally devoid of any reference to morality, and it’s based on unexamined assumptions, arcane language and untested formulae. It was designed to make it impossible for outsiders to challenge the economic status quo. It is unable to provide answers to contemporary problems like climate change, or give any guidance in respect of
technological change. In the 21st century, it is wholly unfit for purpose.

It is astonishing that the version of economics taught today in schools and universities around the world has so little grounding in economic reality. Academia requires ever greater levels of specialization – subjects are divided into smaller and smaller sub-disciplines: the higher you climb the academic ladder, the narrower your focus has to become. Nobody is allowed to take a broad view, because nobody can possibly know enough to be ‘expert’ in so many areas. This silo mentality is regressive. If today’s economics students are to be effective once they graduate, they must take a holistic view, and be prepared to make moral judgements about the kind of economy we want, rather than just applying make-believe models that make it impossible for us to progress as a society.

University students are starting to walk out of neo-classical Economics classes - that is a very encouraging sign. More and more students and teachers are beginning to see that the emperor (economics) has no clothes. When neo-classical economics cannot distort reality to its own ends, it simply refuses to engage. If the Occupy movement really wants to focus its minds and strategy, it should occupy all economics departments.

It’s hard to accept that much of what you have been taught may be quite untrue. But some brave souls are daring to re-examine the flawed assumptions of neo-classical economics. It’s these people who will enable humanity to take a great leap forward. Humankind is on the brink of another Galileo moment, but to make it happen we need those who are doing this vital work to be recognised and encouraged by a fully-engaged audience. When change does come, it will be so rapid and so profound that people will quickly wonder how and why we accepted the old paradigm so long. That change is on its way.

Q: What can we do on an individual basis?
RA: Engage. We can’t tell you what to do, but we do know there is a vast array of dynamic talent out there among the populations of every country. You should each find a cause or topic that really interests you, and dedicate significant time to exploring it. What the world now needs are switched on individuals who positively influence others and put intense pressure on those who wield power, whether they be politicians, or those who run corporations or set the rules for the financial markets. If politicians are not sufficiently worried about the electorate, it’s because we are not questioning their decisions rigorously enough. This has to change.

We did not put a petition or a website at the end of the film for a good reason. It’s going to take a lot more from each of us than a simple signature, or a few mouse clicks. By equipping ourselves with knowledge of how the system actually works, we will get to a point where we can no longer be ignored by duplicitous politicians.

Q: What can a small country do – are we not too tiny to affect things?

RA: It’s difficult for the people of any small country to use democracy to bring about progressive change – if they did they would quickly become the threat of a good example. The financial markets would take a very dim view of any attempt to reconfigure a economy towards more just ends. And history is full of examples of small countries that tried to organise their economies in the interests of all citizens only for their efforts to be scuppered by external political interference: Chile and Nicaragua, for example. The only way to tackle a fatally flawed global economic system is to apply the power of democracy at a global level. By forging ties with the growing numbers of like-minded people in other countries, we can force politicians to take notice. Even if it was short on strategic objectives, the Occupy Movement was a great example of how people campaigning at local and national level can have a global impact, by adopting an easily recognised label, or brand.

Q: Are you worried about internet censorship?

RA: Slightly, but human ingenuity will always win out in the cat and mouse game of censorship. The thing is... unlike books you can’t burn the internet, and as a tool for spreading vast quantities of knowledge and
wisdom, the net is quite brilliant. But there is one important caveat. The internet will not replace people meeting in a room to exchange knowledge and debate ideas. Social networking has its limitations so real re-engagement means meeting regularly in person and building communities around common goals. The galvanising effects of such meetings can be far reaching.

Q: *Is blaming the baby-boomers divisive?*

RA: We don’t blame the baby-boomers, but certainly they have been more complicit in the establishment of today’s economy than their kids’ generation. Col. Lawrence Wilkerson and David Morgan both claim that the baby-boomers were short sighted when it came to looking after future generations. We agree, but this wasn’t intentional, it wasn’t vindictive. They just didn’t know what they were doing.

The prospect of a lost generation is now very real – younger people are being denied access to decent housing, jobs, education and healthcare. Older generations sometimes argue that younger people should simply work harder, but regardless of the effort they expend, the system is working against them. It’s a structural issue, and to make it into a tribal, emotional issue rather misses the point.

The old adage is that it takes one generation to earn it, one to spend it and another to pay for it – that’s true in this case. The best thing the baby-boomers can do now is to join their kids in helping create a more inclusive and sustainable economy that automatically takes the interests of future generations into account.

Q: *What are your thoughts on the current crop of Western politicians?*

RA: They are a colossal distraction, and increasingly irrelevant. It’s almost impossible to find an economically literate politician, or one that understands the need re-order the economy and establish new political processes. Many politicians have little or no real world experience. These career politicians don’t have the self awareness to understand that
without a good understanding of real world economics, politics is a
magnate for narcissists. Politicians look after the next election. Statesmen
look after the next generation. It’s statesmen we need now.

**Q:** *Is the whole system a conspiracy?*

**RA:** No. If it were a conspiracy it would be easy to change. The common
mistake that people make is to say that the current system has failed. This
isn’t true. The current system has worked perfectly according to the rules
it’s been built on. Yes it has failed the majority of people globally, but
that’s always going to happen when a system is continually modified to
serve the interests of a tiny elite.

These outcomes are pre-determined and because most people’s sense of
fairness is so offended, they are incredulous and look for shadowy
characters who they think must be driving what must be a conspiracy. It
used to be the Church that gave moral ‘legitimacy’ to such unjust
outcomes, but now it’s left to economists and policy makers to
‘rationalize’ injustice. The results are structurally determined due to the
economic system to which we are told ’there is no alternative’. Of course,
we know there is.

**Q:** *Aren’t you just envious of those bankers and politicians who are making
a lot of money?*

**RA:** No. To make those ill gotten gains, to endure those jobs and, in the rare
cases where conscience creeps in, to find ways to justify to yourself your
role in a banking system which is perpetrating a massive fraud on society,
comes at a massive personal and social cost. Equally, to go into politics
and fight over the centre ground is a thankless task, and completely futile.

**Q:** *The things you highlight in the film are going to happen anyway. I am
just one person in billions. I cannot do anything.)*

**RA:** That is either a perverse form of narcissism, or a personal get out clause.
Non confrontation with the world is a non option - you can do a great
deal. An individual might not be able to change a whole system, but you
can begin to change yourself, which is the first and most important step.
This is the single biggest change you can make, and it’s one that serves everyone around you. Being driven by process not results is very liberating. We have to get out of the service mentality idea that someone else is going to look after us, or change things for the better. They aren’t and they won’t.

Q: Why was there no opposing voice in the film defending current arrangements?

RA: We could not find anyone who would defend the current economic set-up. We met lots of bankers privately but as soon as I suggested that they come on camera and tell me what their organisations were doing they flatly refused. That’s when we knew we were on the right track.

Q: Are you optimistic?

RA: Yes, very. It is the best time to be alive. But we have to be very careful about how and what we decide to change. Corporations are operating with 19th century management principles; 20th century business models, and a 21st century information infrastructure. So of course the economic system is going to give way. We have to pre-empt that collapse so the new society and economy that emerges is one that improves the life chances of most people, and one that prevents a repeat of the failed economic experiment of the last three decades.

We must ensure that we are clued up enough to make the correct decisions. More young people today have had the chance to travel – they are therefore able to take a broader view of the world. As a result, many have a heightened sense of empathy. The majority have a desire to do decent work instead of going to The City or Wall Street, and that is the first of many steps in the right direction.
Further Reading

The following books have inspired our thinking for the film and this book. You can join the conversation and debate ‘The 27 Principles’ at www.renegadeeconomist.com


Fromm, Erich. *To Have or To Be*. Continuum, 2005.


Rowbotham, Michael. The Grip of Death. A Study of Modern Money, Debt


If you would like to join the conversation about the issues raised in this book please go to the Renegade Economist website.

www.renegadeeconomist.com

If you would like to watch the Four Horsemen on DVD or find out about how to arrange a screening please go to the Four Horsemen website.

www.fourhorsemenfilm.com
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