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THE TRAGEDY OF CAPITALISM

A review of contemporary capitalism, and the debt-based money system, with a consideration of various monetary reform proposals within the context of a changing monetary reality.

INTRODUCTION

At first glance it appears that the many forms of the capitalist state, and their debt-based monetary systems, have been a success story. The private ownership of the means of production, and competitive free markets, has been combined to provide the most advanced economic system ever known in the history of mankind. Or, at least, this is how capitalist apologetics are presented to anyone who has been fortunate enough to be brought up in any of the capitalist nations. Individual entrepreneurs, in their pursuit of profit, are seen as an expression of the liberty of the citizen. Innovation and incentive abound as competitive market forces ensure that inefficient firms are 'weeded' out of the system, in a similar fashion to Darwin's notion of 'natural selection' in species evolution. Adam Smith, the British 'father' of capitalism, further taught us that the 'consumer is king' as we are presented with an array of goods and services from which to choose, all delivered at low prices with optimum quality (Smith 2003). The whole system is then ideologically supported by the mainstream economists who, inform policy-makers with their complex mathematical formulae and modeling. They present a capitalist economic system, derived from classical thought, which possesses a harmonious equilibrium, which can only be achieved if the authorities avoid misguided intervention and any market rigidities are removed. It is claimed that the unfettered operation of markets will lead to an efficient allocation of resources and economic development. It is also assumed that the wealth 'trickle-down' theory ensures that the 'spoils' reach the marginalised. The analogy of the 18th century 'Fable of the Bees', by Bernard Mandeville, has often been used as a rationale for these ideas suggesting that (in the story), as bees pursue their own interest, they subsequently maximise the efficiency of the beehive as a whole (Mandeville 1997). However, if this description of events is not the common experience for ordinary people, they are just expected to 'believe' that it will be achieved. Meanwhile the economist's analyses serve to 'mystify' capitalism, and obfuscate its processes, rendering (effective) critical appraisal beyond the reach of the average person. Alan Freeman, a well-known heterodox economist, has likened this mainstream capitalist ideology to a religion, where a hierarchical priesthood are responsible for the theological complexities and deliver their edicts (in creed format) to the worshipping masses (Freeman 2008). Faith in the principles of the creed is encouraged, regardless of any individual revelation or perception to the contrary, and any critical evaluation is discouraged on the grounds that this constitutes 'spiritually' insubordinate (and ignorant) behaviour.

Yet, are these ideas presented above an accurate reflection of capitalist reality? The argument of this chapter is that, in many respects, they are not. Whilst there are clear positive attributes of the economic system that has now come to dominate global affairs, there are other aspects that have failed to meet the needs and aspirations of contemporary society. To this end it is suggested that fundamental (radical) transformations are required, rather than a mere 'marginal' tinkering with the (perceived) imperfections, if there is to be the type of 'social capitalism' that adheres to the imperatives of social and economic justice. So, what is wrong?

Firstly, whilst facilitating huge increases of output, the capitalist system has created the greatest inequalities of income and wealth that have ever existed, both within states and between states. Most of the so-called 'development gap' between north and south, for instance, has been created since the 'dark satanic mills' of the industrial revolution (Adams 1993). Many of the world's poor simply do not have even their basic needs met, as a consequence of being permanently excluded from many markets through insufficient monies, a process that is euphemistically entitled the lack of 'effective demand' by economists. In addition, the processes of inexorable capital accumulation mean that these inequalities are increasing. Since this accumulation is also indispensable to the normal operation of capitalist competition, as Marx put it 'accumulate, accumulate - that is Moses and the prophets' (p.742), it is therefore (arguably) unavoidable (Marx 1976). Technological and strategic industrial developments have also displaced workers to the extent that a third of the global ‘working population’ are now classified as ‘under-employed’, defined as having insufficient income to surpass the poverty line. The UK economist Keynes had argued that the failure to provide full-employment and redistribute income were the two ‘economic ills’ of any society and, to date, capitalism has failed in both (Keynes 1936). Whilst there is some merit to the wealth ‘trickle-down’ effect, the evidence of substantial numbers of adults forced to scavenge in rubbish tips in the developing world suggests otherwise. In addition, a billion of the world’s population live without access to clean drinking water. If two centuries (five depending on your definition) of capitalist progress is judged by such criteria, we can safely conclude it has failed to deliver.

Secondly, the relentless search for new commercial activity means that as many entities as possible become commodities (to be bought and sold in markets) regardless of any real human need for the produce. Since business organisations depend upon continually sustained sales in order to remain viable, thereby maintaining the incomes of stakeholders, as capitalism has evolved so product life-cycles have shortened and obsolescence becomes part of the overall (deliberate) product design. There is also substantial contemporary evidence to suggest that certain (non-existent) human needs have been consciously manufactured in order to facilitate more commercial activity. Whilst we might deplore some of these more unethical marketing techniques, we also need to recognise that this is the normal modus operandi of an economic system where the livelihood (and relative endowments) of society members depend upon what can be sold rather than deriving from the outcome of a deliberate (political) planning process. Furthermore, many workers are alienated from their own produce (since it is sold) and their ‘value’ to society appears solely determined by their ability to contribute toward commercial saleability. Meanwhile, workers that contribute towards the well-being of society without any commercial remuneration, such as housewives, are under-compensated and, the government reluctance to levy tax for the (necessary) state-provision of public goods often leads to chronic under-funding and is often, therefore, less than satisfactory.

A third, yet related, failure of capitalism is the huge waste of resources. The past two hundred years has witnessed the unprecedented exploitation of much of the world's seas, land, fossil fuels, minerals and vegetation leaving many essential and non-renewable resources dangerously (and unsustainably) depleted. The economic text books, conversely, suggest to us that capitalist incentives lead to the optimum (technical) efficiency for industrial production – the lowest possible production costs, that implies resources are being utilised sparingly. This might indeed be the case for individual production units but the aggregate production level, including the large quantity of unnecessary produce, is clearly detrimental to sustainability. Furthermore, as business organisations start and fail in the market, the liquidation of corporate assets and new business investment spending, leads to further resource consumption. This depletion would, arguably, not have taken place (at the same rate) if production in different sectors had been determined by a deliberate and rational planning process – either by a centralised state or local communities. Post-war western governments have also exacerbated these developments by emphasising economic growth as a policy objective, although many aspects of the 'green agenda' have recently been adopted by policy-makers and some positive changes are now evident.

Fourthly, whilst there are clear benefits of competition, capitalism also tends to create some unhealthy forms that then mitigate the establishment of closer-knit communities in society and also reduces the potential for synergistic cooperative business activities. Capitalist ideologues suggest, however, that competitive practices are an appropriate deployment of the positive attributes of human nature. Yet, individuals can find themselves in conflict with their compatriots, and often only achieve career or market success at the expense of others. Corporate decision-makers are also subjected to intense market competition and find that there are incentives to engage in ‘unfair’ competition, in the form of predatory restrictive practices (that hinder rivals) or the establishment of illegal collusions, which can force ‘efficient’ businesses out of the market. There is also a tendency for competitive firms to protect their own technologies in a labyrinth of international patents, rather than gain potential synergies that would be derived from research collaboration. Duplication of resource-use also occurs. Furthermore, as capitalism has evolved, the firms have grown larger through the drive for ‘economies of scale’, capital accumulation and technological advance. As a consequence, many global markets are now dominated by a handful of large firms. Adam Smith, in theorising ‘perfect’ competition, had recognised the necessity to avoid ‘monopoly capitalism’, since this would lead to inefficiency and disadvantage the consumer, and he subsequently advocated the implementation of effective state regulation (Smith 2003). Yet, in more recent times, national and regional competition policies have, despite some success, been rather weak in regulating the multinationals (Mouatt 1996).

Finally, as Ingham notes, the historical development of capitalism has produced its own unique debt-based money system that (my emphasis), as shall be discussed more fully later in the chapter, is fraught with specific difficulties and a raft of (arguably) unethical practices that have become institutionally regularized (Ingham 2001). The other deficiencies of capitalism, that have been outlined above, whilst worthy of investigation are beyond the remit of this chapter.

The chapter begins by outlining the modern capitalist state and explores the notion that there has been an erosion of sovereignty in favour of large enterprise and the private banking infrastructure. Yet, whilst there is no doubt that the (social) power of banks has increased in recent decades, there are many contemporary signs of systemic weakness. The chapter investigates these developments within the context of ideas derived from the monetary reform movement. It is then suggested that the transformations proposed, whilst radical, leave much of the modus operandi of capitalism intact. The chapter also discusses various 'grassroot' alternative and complementary currencies, probably best associated with Bernard Lietaer. Binary economics is then explored, as a possible exception to the reform campaigns that do not propose structural changes to capitalist operation outside of the financial system. The chapter then deals with the realpolitik of the modern political environment and suggests that post-Keynesian monetary notions offer more achievable, albeit compromised, solutions to the financial dilemmas. The chapter ends with discussion of a (personal) proposal for a micro investment bank, which could (it is hoped), in conjunction with other measures, contribute to the overall pursuit of social and economic justice.

THE CAPITALIST STATE

It is generally considered, by the unsuspecting public, that the issue and the regulation of the functioning of money is the responsibility of the state. Whilst this is true in some respects, it is not usually understood that 97% of the money supply in the United Kingdom (even more in the US) is issued by the private (albeit licensed) commercial banks, in the form of credit-money, that substantially profit from the exercise (Shakespeare 2002). So, what is the precise monetary (and other) role of the state? The modern nation-state, consisting of a legislature, judiciary, bureaucracy, armed forces, courts and police, has been in existence since the peace of Westphalia in 1648. According to the particular constitutional arrangements, the state has jurisdiction within a certain geographical boundary for, the initiation and implementation of law, economic management (including monetary affairs), international relations, defence, and the general well-being of society. There are, of course, several ways of theorising the nature of the state (Vincent 1987). Yet, since the instigation of the globalisation discourse and the development of supra-national organisations, it appears that the sovereignty of the state has been increasingly brought into question, with a corresponding democratic deficit. As Susan Strange once put it:

“Where states were once the masters of markets, now it is the markets which, on many crucial issues, are the masters over the governments of states. And the declining authority of states is reflected in a growing diffusion of authority to other institutions and associations, and to local and regional bodies, and in a growing asymmetry between the larger states with structural power and weaker ones without it (p.4)” (Strange 1996).

Several factors have been at work, and I am going to mention two. Firstly, since the breakdown of the Bretton Woods fixed exchange-rate system in 1973, floating rates have led to greater trading risks which, have contributed towards the exponential growth of multinational corporations as an alternative to international trade. These foreign direct investments have been a main driver of growth in emerging economies around the world in recent years. Governments, as the research of Stopford and Strange has identified, have noted this correlation and often compete with each other to create a favourable environment in order to attract inward investment (Stopford 1991). Nation-states have found that their employment levels, output, knowledge transfer receipt, current account balances and competitive environment, have improved following inward investment flows. This means in practice, of course, that states are deterred from pursuing economic and industrial policies that are contrary to the demands of the multinationals, and sovereignty is thus restricted.

Secondly, the exponential growth in international capital flows, and the deregulation of financial markets, has further contributed towards the erosion of state sovereignty. Nowadays huge volumes of money, controlled by hedge funds or other private investors, circulate global markets for foreign exchange, capital, stock, or derivatives with minimal state (or inter-state) regulation. This means that, as Griffith-Jones notes, with limited capacity to influence capital movements, the state has little control over exchange rates, interest rates or the market prices of financial securities. National banks, for instance, now have much smaller currency reserves in relation to privately owned quantities and are virtually powerless to influence exchange rates using open market operations. Interest rate policy is the only instrument at their disposal, restricting their choices for the rate. State development agendas, consisting of fiscal, monetary and industrial policies are, therefore, impaired (Griffith-Jones 1998). In addition, as Killick has noted, weaker states with external debt problems find themselves subjected to severe structural adjustment policies, administered through the International Monetary Fund or World Bank, that further undermine state-sovereignty and can contribute toward poverty (Killick 1995).

In order to combat these global developments, there presumably would need to be concerted multilateral (inter-state) cooperation, in order to regulate the international financial markets and actors involved. The monetary reform movement, conversely, tends to focus more on national financial systems, since these are perceived to be the political arenas where effective state intervention can be mustered. Yet, of course, this could also be considered to be a precursor of closer international monetary collaboration at some point in the future.

THE MONETARY REFORM MOVEMENT

The monetary reform movement has antecedents that are often traced as far as the events leading to the American War of Independence, during the eighteenth century. Ellen Brown, a monetary reformer, explains how the colonialists, faced with shortages of money, issued their own paper currency leading to a sustained period of productive stability, poverty-alleviation and full-employment. On a visit to England, during the eighteenth century, Benjamin Franklin had commented on the relative level of poverty and unemployment that existed in London and attributed this to a private debt-based (scarce) money system. When asked to explain the relative prosperity of the colonies he stated that the issue of paper money by the authorities was the reason for success, providing that it was created:

> …in proper proportions to the demands of trade and industry …we also (my emphasis) issue it to pay the governments approved expenses and charities. We make sure it is issued in proper proportions to make the goods easily pass from the producers to the consumers…In this manner, creating for ourselves our own paper money, we control its purchasing power, and we have no interest to pay to no one. You see, a legitimate government can both spend and lend money into circulation, while banks can only lend significant amounts of their promissory bank notes, for they can neither give away nor spend but a tiny fraction of the money people need. Thus, there is always a debt principal to be returned and usury to be paid. The result is that you have always too little credit in circulation to give the workers full employment. You do not have too many workers, you have too little money in circulation, and that which circulates, all bears the endless burden of unpayable debt and usury... (Brown 2007).

This view clearly posits that the sensible state control, regulation and issue of money - with a restrained role for the private banking sector - were the preferable options. Under the ‘Pennsylvania plan’ for instance, the colonial authorities issued debt-free money for government projects, in place of taxes, and also discovered that it was non-inflationary. In addition, credit monies were provided for the private sector at 5% interest rather than the more prohibitive 8% charged by the private bankers. The colonial financial system was heralded as a success in Pennsylvania (and other colonies) but unfortunately, in New England, an over-issue of notes led to its depreciation and this began to affect the investments of British merchants. In dealing with the colonial issue in 1751 George II (and continued under George III in 1752), also being anxious to retain the colonies in their role as suppliers of raw materials, decided to issue a decree banning the issue of new paper money in New England, forcing them to borrow from the British bankers instead. Franklin noted that within a year beggars had returned to the streets and, gradually, sentiments rose in the colonies until there was sufficient revolutionary fervour to challenge the British in the war of independence. This account of the American revolution origins, as Brown notes, has been verified by other notable historians since (Brown 2007). Furthermore, liquidity scarcity is a recurrent theme in history. During the Keynesian ‘golden-age’ of the fifties and sixties, for instance, the availability of ‘cheap money’ (low interest rates) is often cited as a major contributing factor to the prevailing (favourable) macroeconomic climate (Pettifor 2006). Even the monetarist Friedman had cited the Federal Reserve credit squeeze as the key contributory factor to the preceding depression years. It appears that the lack of liquid resources is often the prelude to economic strife, leading to subsequent political and social instability.

The essential point to be derived from this is that the debt-based money system, controlled by the private banking infrastructure, is seen as the problem by contemporary monetary reformers. When credit-money is created, through the production of loans, there is only enough circulating currency to repay the principal of the loan without the interest, the so-called ‘impossible contract’, and the system relies upon the further expansion of credit in order to service existing debt. If compounded interest is also taken in to consideration the problem is far worse (Kennedy 1995). The anti-debt campaigner, Ann Pettifor, has likened this (impossible) credit process to a game of ‘musical chairs’ where the inevitability of default is intrinsic to the system as someone is expected to be left ‘holding the chair’ (Pettifor 2006). As credit-money grows in relation to fiat money, the problem deepens. At the time of WWII, ‘high-powered’ money (notes and coins) constituted approximately 50% of the money supply whereas it now only constitutes 3% in the UK, and less than 1% in the US (Shakespeare 2002). In addition to the implausible mathematics of a debt-based system, as several reformers have noted backed by empirical work, there is the inflationary impact of interest on the productive economy (Kennedy 1995). Firms, consumers and governments all need to find additional revenue in order to meet interest payments and this puts substantial pressure on prices, resources and the environment. It is further argued that private commercial banks receive this substantial tribute in return for a service to the productive economy of questionable value – in other words 'money for nothing' (El Diwany 2003).

This, of course, is not new. The 'fractionally- backed' gold certificates of the goldsmiths, as an early form of credit money, has often been mooted as an antecedent for modern (private) commercial banking. Yet, whilst the goldsmiths had to ensure that issued notes were an appropriate multiple of guarded specie deposits in the vaults, their modern private banker counterparts are not subject to de facto reserve restraints. When commercial banks make loans they simply become accounting entries on their assets and liabilities sheets and, the (then circulating) deposit bank-monies are therefore literally created ex nihilo - 'out of nothing', dispelling the fallacious view that they are actually formed from deposits that already exist. Money is, therefore, issued endogenously and demand-led. Monetary reformers further explain how the British 'tally-stick' system of accounting had been replaced by the Free Coinage Act of 1666, which had enabled private money-issue. The development of the Bank of England in 1694, following the 'glorious revolution', had granted private investors license to produce legal tender, in order to lend to the government and business. Up until this point, the British monarchs (or their agents) had been responsible for their own currency issue, suggesting that William of Orange had been drafted in by aspiring bankers in order to legitimate this specific purpose. This new private issue of debt, that served as legal tender money, therefore established the statutory and common-law principle for a de facto private banking cartel to be able to extract substantial tribute from the wealth and income of the productive economy ever since. Whilst the state has experienced periods of stronger intervention in monetary matters, such as the period following the great depression, this has been short-lived. Following WWII, for instance, as Helleiner has noted, the private bankers (and sympathetic politicians) were vociferous in lobbying for an increased role for the commercial banks (relative to the state) in the financial system, through the advocacy of substantial deregulation, arguably to the detriment of the state and productive structure (Helleiner 1994).

However, although this might appear to be negative reporting of retail banking per se, most thinkers recognize that there are significant social and economic benefits of such activities, and these are therefore not the target for campaigners. Yet, all monetary reformers do clearly seek, at the very least, a stronger ‘financial’ state, alongside effectively regulated private commercial banking. In the third millennium some argue that this is no longer a desirable option but is essential. The levels of consumer, corporate and state debt have reached such alarming proportions that it will not be long before this becomes unsustainable, where servicing interest payments is no longer possible. The largest debtor in the world, for instance, is the United States, with federal debt presently running at $7.713 trillion, and at current trends they are predicted to reach ‘unsustainability’ within the next few years as annual interest exceeds taxation receipts. Since the dollar is used as the global reserve currency, with foreign central banks and institutional investors holding substantial amounts of this debt, the ramifications of a major default are colossal. If the United States reneges on its debt, serious dollar devaluation is likely to follow. Ellen Brown has outlined several ways in which the US government (in collaboration with the major private banks) has sought to obfuscate these financial realities, under the guise of maintaining (necessary) public confidence in the money system. Measures include the provision of large funds for entities such as the Working Group on Financial Markets, the Exchange Stabilization Fund and the Counterparty Risk Management Policy Group (CRMPG) in order to influence prices in stock, bond and currency markets by instigating specific sales and purchases. The ostensible aim is to avoid crises and shocks that are likely to stem from the de facto underlying fundamentals and undermine the general market confidence. Yet this, as Brown notes, creates opportunities for the political manipulation of financial markets and the general prices of any securities traded (Brown 2007).

The current global financial system appears to have several features that suggest the (market) prices of financial products are often not determined by the traditional forces of supply and demand anymore but, are fashioned instead by the whims of those decision-makers that control large volumes of funds circulating the globe. Hedge funds, for instance, which are able to leverage substantial sums of credit-money (with minimal collateral) for purposes of short-term speculative activity in derivative, stock, bond and currency markets can, effectively, actually cause prices to rise or fall contrary to the underlying fundamentals. This, of course, leads to misleading price signals for the smaller investors. To complicate matter further Ellen Brown further suggests that, a private banking cartel finances and manipulates all of the mainstream mass media which then exacerbates the problem. These ‘bear-raids’ have been linked to various currency crises in Russia, Malaysia, Argentina and Mexico as well as various historic stock market fluctuations leading to corporate ‘monopolisation’ activities. These recent currency shocks, and other crises, have led to numerous calls for the restoration of multilateral regulation of the global financial system, experienced during the Bretton Woods era, through the use of capital controls and/or new proposed measures such as exchange rate regimes or the ‘Tobin tax’ that would tax speculative international capital flows (Palley; Tobin 1978; Patomaki 2003).

So, there is general agreement on the nature of the perceived international problems but reformers posit varying proposals for the transformation of domestic financial systems. Stephen Zarlenga for instance, from the American Monetary Institute based in Chicago, suggests that the state should create a legally sanctioned ‘money of account’ that gradually replaces credit-money to become 100% of the money supply. The money is provided interest and debt free (Zarlenga 2002). These ideas are supported by Joseph Huber and James Robertson in their 2000 book Creating New Money. Under these proposals the money is not backed by specie, only by the force of law, and the private banks are only permitted to conduct lending on a 100% fractionally backed system (Huber 2000). In his historical study of the political economy of money Zarlenga explains how the use of specie had led to significant inefficiencies, derived from misdirected energies in the production of metals, and often the establishment of a plutocracy that hoarded bullion for the manipulation of political purposes. He further recommends that the issue and regulation of this (un-backed money) become a fourth 'arm' of the state, with a substantial measure of autonomy, which is constitutionally established. Yet, there are critics. The Canadian veteran reformer William Krehm, for instance, has opposed the Zarlenga 100% approach on the basis that this would lead to a centralization of financial power in the hands of the state that, at least potentially, may lead to state abuse. He favours instead a 50/50 system that will deliver many of the benefits of reform yet maintain a (safer) plurality of social powers through public and private involvement in the money-isssue (McConnachie 2006). Michael Rowbotham, in The Grip of Death, also advocates a similar proportional state money-issue policy (Rowbotham 1998). In addition James Gibb Stuart, the so-called 'father' of British monetary reform, also supports a similar approach that begins with the 'monetarisation' of the interest on the national debt, whilst leaving much of the private banking system intact (McConnachie 2006).

Islamists also have their monetary ideas. Under Islamic law the practice of receiving interest (riba) is forbidden. The literal translation of riba is increase, although it is usually understood as usury, which can be extracted when credit is extended or derived from trade. These are termed Riba al Qarud and Riba al-Buyu respectively (El Diwany 2003). This, of course, presents difficulties for economic policy-makers (and bankers) who are seeking to implement religious law as well as making it problematic for Moslems living in non-Islamic financial systems. This is because when monies are provided in the form of credit there needs to be incentives for parting with liquidity (assuming that credit is derived from existing deposits) and the levying of administration costs, even without the extraction of profit for financial rentiers. Islamic banks, and western financial institutions that provide for Moslems, devise specialist services that seek to meet these religious requirements. Islamic economic law also (ideally) requires the elimination of the present fractional reserve system, in favour of a 100% backed (interest-free) fiat money system without credit monies. In this system money would simply circulate, via the intermediaries, and the financial authorities would need to ensure that sufficient liquidity and money supply growth was provided to meet the demands of industriousness, commercial activity and economic growth. Also, a further feature of Islamic finance is the provision of capital. Whenever money is needed as capital for productive purposes, the Islamic expectation is that profit-sharing (and risk-sharing) between investor and productive capitalist takes place. In this regard the capital provider, or financial intermediary acting like an investment bank on behalf of the investor, receives a proportion of net profit or bears the relevant loss. Some Islamic economists also recommend the establishment of a commodity-money standard, as backing for the currency, as well as the elimination of fractional reserve banking. Finally, there are also various pieces of Islamic law that (comprehensively) cover aspects of financial propriety. In order for these policies to be adopted, of course, an Islamic state would be needed to ensure the enforcement of the relevant monetary principles, the development of new contract law and regulatory supervision. This, however, would necessitate a centralisation of social power, in favour of the imams and mullahs, and is therefore unlikely to be an acceptable option outside of the Muslim communities.

Notwithstanding these policy differences, the monetary reform movement (including Islamists) claims that all of their proposed measures will be anti-inflationary, since the principal cause of inflation has been removed. By implication, therefore, the reformers also challenge the mainstream conception of the causes of inflation, which presuppose ‘quantity theory of money’ explanations, and emphasize instead the substantive role of debt-driven inflation. This ‘debt-driver’ theory posits that the interest on debt reduces incomes and revenues and subsequently, creates pressures to raise prices and wages in order to compensate - inducing inflation. It is also further considered that debt puts pressure on the environment, since the need to repay interest as well as principal necessitates a greater level of economic activity.

Monetary reform, of course, does not have to focus exclusively on the ‘centralised’ macro–level since there are substantial grassroots solutions to the debt-based money system, discussed later, that have been propounded and practiced. These include complementary currencies, which co-exist with official currency, or local exchange trading schemes (LETS) that have contributed much towards social and economic development around the world. Yet, the monetary reform proposals (mentioned above) point towards a state-led (radical) transformation of the present system that would undoubtedly contribute towards notions of social and economic justice. But, do they take accurate account of the reality of capitalism as an integrated whole? This is a really important question since a radical financial transformation that enables capitalism to operate more equitably, yet leaves the modus operandi of the economic system intact, may find that the same failures mentioned at the beginning of this chapter (such as resource depletion) persist. The two central arguments of this chapter are that, firstly, reformers would benefit from a more holistic notion of capitalism - perhaps best understood by Marx, and secondly, there are current changes to the contemporary monetary reality that suggest that the bankers are not as powerful as the reform movement has posited. These considerations will now be discussed in turn.

MARX AND CAPITALIST MODES OF PRODUCTION

It has often been suggested that Marx predicted the collapse of capitalism. Yet, whilst some adhere to this view, many do not. Andrew Kliman, for instance, based on substantial textual review, suggests that whilst Marx predicted inevitable capitalist crises, several countervailing factors could mitigate the likelihood of complete collapse (Kliman 2007). Be that as it may, the central thrust of Marx's political economy identifies private capital as the root cause of the exploitative nature of the economic system. It was this 'ownership and control' of the means of production, in conjunction with accumulated financial resources, that separated his bourgeoisie class of people from the proletariat and enables them to extract a surplus (value) in labour terms i.e. profit. In time, of course, this leads to substantial income and wealth inequalities. A monetary reform proposal, that leaves capital privately owned, would not solve this market failure. Furthermore, as capitalism evolves, Marx posited that the ownership of capital would be concentrated in the hands of an increasingly smaller (corporate) power elite. This is not necessarily the result of the manipulation and ambition of industrialists, but is driven by the logic of the system itself. The competitive process per se forces weaker firms in to liquidation and, technological advances and the need for 'economies of scale' necessitate larger firms (the rising organic composition of capital in Marx's terminology). Companies, therefore, simply have no choice in the matter.

Marx also argued that the logical outcome of this competitive process was the falling rate of profit (defined in his own terms) which would lead to recurring crises in order to restore profitability. In order to fully discuss this (perhaps) counter-intuitive idea, there really needs to be an exposition of Marxian economic analysis beyond the remit of this chapter. Yet, in general terms, Marx was arguing that, as capitalists adopted 'more productive labour-saving technologies', profit rates (per monetary unit of capital advanced) would tend to fall. This was because Marx viewed value as determined by (abstract) labour time and, increasingly larger outlay on fixed capital (machines etc) would not be financially rewarded in the market due to lower product prices. When a crisis occurs, however, the falling rate tendency can be offset and profitability can be restored because the means of production are cheapened (Kliman 2007). Anyway, the main point to be derived from this is that, the proposals of the monetary reform movement per se will not remove this underlying (and empirically observed) reality of capitalism.

In his general analysis of the evolution of capitalism, Marx had also posited that industrial capital, in the form of capitalist entrepreneurs and decision-makers, would subjugate (autonomous) financial capitalists, which are manifested in the private banking infrastructure. His rationale for this was that interest-bearing capital (money-lending for business investment) derives from the capitalist production process (and is therefore ultimately dependent on it) and further that commercial credit was a secondary function (merely concerned with facilitating circulation) to the value-adding production process (p.468) (Marx 1971).

Yet, shortly after Marx, events appeared to contradict his prediction. The rise of the joint-stock firm in the late nineteenth century, for instance, suggested that (investment) banks had gained decision-making power over the corporate(s) through integration (see later) - the Hilferding notion of finance capital (Hilferding 1910). Substantial tribute is also, of course, extracted from the economy in the form of interest by the private banks. Furthermore, the financial institutions, hedge funds and private-equity firms of today, that 'short-sell' leveraged funds that are authorised by the decisions of private bankers, are able to manipulate currency and stock prices that can belie the market fundamentals and bamboozle small investors. Redistributive accumulation, asset stripping, and corporate monopolization can then follow any subsequent currency (or share-price) shock. It seems that finance (and those that control it) has triumphed. This, of course, is a central point of the monetary reform movement. Yet, there are contemporary signs of systemic weakness in the financial system. Banks are increasingly exposed to the vagaries of international financial markets and earn a smaller proportion of profit from interest. In addition, firms are now less dependent on the bankers, as a result of retained profits, and are also further developing their own monies, payment systems and banks. This financial innovation, with new circulation channels, requires a re-think on (modern) money.

In tracing these monetary developments it appears that, largely as a result of the information revolution, a latent corporate monetary system - derived from new monies and technologies, is emerging that challenges prevailing monetary notions. This new corporafinance (my phrase) system is perhaps poised to replace the present financial system, comprised of commercial and investment banks, in the event of a major monetary collapse. Even if this failed to materialize, the corporations, hungry for profit, are increasingly encroaching upon the core business activities of the private banks. In the final analysis industrial capital might, as Marx had thought, subjugate autonomous financial capital.

General monetary discourse , as Niebyl noted in his review of the classical period, is often problematic since the theoretical development and empirical work on money has predominantly pertained to a specific historical context (Niebyl 1946). Consequently, abstract theories of money, that can be universally applied, are often non-existent or impractical. Furthermore, monetary theorists (often from the same school of thought) have historically disagreed on the origin, nature and function of money per se. Notwithstanding, much of the prevailing monetary thinking has been loosely based upon ideas formed during the industrial revolution (IR) and its immediate aftermath – the very context that Marx formulated his thinking. Marx begins by identifying the 'older' forms of capital and states his case:

"The commercial and interest-bearing forms of capital are older than industrial capital, which, in the capitalist mode of production, is the basic form of the capital relations dominating bourgeois society – and all other forms are only derived from it or secondary: derived as is the case with interest-bearing capital; secondary means that the capital fulfils a special function (which belongs to the circulation process) as for instance commercial capital. In the course of its evolution,

industrial capital must therefore subjugate those forms and transform them into special function*s of itself"* (p.468)(Marx 1971)

Interest-bearing capital, of course, is loaned (by the owners) at interest to industrial capitalists and therefore depends upon the production plans taking place. Marx further argued that, as capitalism developed, the subjugation of this capital form results from two processes. First, the 'violence' of the (bourgeois) state would lead to the enforcement of lower interest rates, to the benefit of industrial capitalists who then gain a larger proportion of surplus value. Secondly, the subjugation derives from the emerging (bourgeois) credit system (money created ex nihilo) that, Marx sees as a purposeful creation of the capitalist mode of production, in order to gain the surplus value traditionally extracted by the usurers. He further predicts this credit system evolving as the scale of manufacture increases. The banking industry indeed experienced a major transformation, throughout the IR, and new financial structures were (arguably) one of the main drivers. Deane, for instance, explored the role of the banks during this time and concluded that the emergent banking structures enabled capital to be raised, to fund the development of factories, and provided a means to save and reinvest accumulated wealth (Deane 1988). In a similar way the current Information Revolution (IR2) is resulting in its own set of changes to monetary structures, to meet the needs of the emergent electronic and virtual interactions. As the new forms of banks and money became the main IR driver, the emergent financial structures are likely to be a cornerstone of IR2.

Marx also explains how commercial capital will be subjugated, as the merchant (of the Middle Ages) becomes transformed into the industrial capitalist. In the former instance, the merchant (and commercial capital) had dominion over the 'producing' guilds, or peasant craftsman, since they chose (or not) to purchase their wares. In the latter scenario, the producer is himself the merchant and commercial capital becomes simply an "intermediary only in the circulation process" and therefore more subject to the industrial capitalist. This process, of course, becomes even more apparent as large-scale production emerges, with modern marketing, since the (market) power of the firm is enhanced.

As capitalism developed, following the death of Marx, the provision of equities, bonds and loans from the private banking infrastructure all came to be considered as financial capital - provided for the purposes of the industrial capitalist. Yet, the Hilferding argument was that, as the joint-stock firm enabled much larger scale production and monopolization, the financial arrangements that facilitated this ceased to be conducted at ‘arms length’. The banking ‘decision-makers’, therefore, became integrated with the industrial capitalists as a result of corporate shareholdings by banks, social links (bank directors appointed to corporate boards) and the detailed (bank) knowledge of corporate financial transactions. Hilferding considered that, in this context, bankers had the ‘upper hand’ and effectively determined the future trajectory of capitalism (Hilferding 1910). This meant that circumstances appeared to be moving away from Marx’s prediction. To complicate matters further, later on in the twentieth century the state enhanced its role in the financial system. Yet, the banks were still seen as powerful.

THE ERA OF THE FINANCIAL STATE

The immediate aftermath of the depression years had led to calls for the state to play a larger role in the financial system. Milton Friedman had, for instance, identified a state-driven credit squeeze as the root cause of the deflation. Even prior to the recession, monetary reformers like Keynes, Wicksell and Fisher, had advocated increased (state) monetary policy to combat the increased magnitude of the trade cycle oscillations of the early twentieth century. So, the Bretton Woods ‘golden age’ era began, characterized by low interest rates, state-intervention, a fixed exchange-rate regime and a dollar-exchange anchor. Yet, as Helleiner has noted, the (private) banking lobbyists soon pressurized post-war governments towards financial liberalization, in the form of capital control removal and deregulation, eager to profit from prospective changes. As soon as the dollar came under pressure, coupled with OPEC oil price rises, currencies floated and exchange controls were removed. There are several calls, of course, in the present era, to re-establish the multilateral regulation of the international financial system in order to mitigate speculation and avert the continuation of the currency crises of recent times.

LIBERAL FINANCE

As the profit margins of the private banking infrastructure increased, during the seventies, it appeared that the financial sector was becoming more autonomous from industrial capitalists (Griffith-Jones 1998). It is interesting to note, however, that whilst the discourse on financial crises during the eighties and nineties tended to emphasise the unregulated volumes of monies, circulating around the international financial markets, and the autonomous nature of (private) financial agents, the focus is now on the vulnerabilities of commercial and investment banks to the vagaries of the system. Interest payments, for instance, now only form approximately 20% of bank profits - the remainder being sourced from fees, charges, commissions and bank trading positions. It has also been estimated that a 12% crash in aggregate derivative prices would now lead to the bankruptcy of the majority of the world's banks (Brown 2007). If the financial state has declined, and the private banking infrastructure is showing signs of a profit-squeeze, then which entities have gained financial power at their expense? A central argument of this paper is that emerging corporate monies (and payment systems), corporafinance, are encroaching on the banks core activity - driven by the profit-motive (Mouatt 2008).

THE RISE OF NONBANKS

Even if we reject Marxian notions of the capitalist trajectory, where firms seek to realize increasingly more surplus value to offset the falling rate of profit, the generally accepted corporate imperative is still the pursuit of profit. Yet, as previously stated, there are fresh challenges for firms, since IR2 and innovation have led to new channels of financial circulation, and financial liberalization has also contributed towards a more (competitive) global economy. The companies most likely to succeed in this environment, as Lietaer noted, are the ones most able to combine electronic knowledge systems with production (Lietaer 2001). If this is extended to the development of corporate monies, banks and payment systems this will further strengthen their competitive position.

So nonbanks are playing increasingly significant roles in the financial world. Bradford et al have examined their varied roles in payment activity, in both traditional and emerging systems. As a consequence they have complex relations with the banks and payment system users. In addition, since they are rarely directly involved with final settlements, they appear, at least, to be less associated with systemic risk (Bradford T. 2002). In reality, however both banks and nonbanks are susceptible to operational risk factors.

A follow-on study by the European Central Bank and Federal Reserve Bank of Kansas City further confirmed the growing importance and influence of nonbanks (p.45) “Retail payments systems throughout the world are undergoing fundamental change. Traditional paper-based forms of payment are giving way to electronic forms of payment. Technology advances are making possible new front-end payment instruments and new back-end processing methods. New products, business models, new markets, and new alliances are an everyday occurrence” (ECB/FRBKC 2007). The margins on internet payment transactions, for instance, are lower than ones for traditional electronic retail banking and the corporations, through financial innovation, are therefore able to further encroach upon traditional bank business.

Another feature of the new financial landscape is that retailers have diversified into financial services, challenging banks in their own core markets. Since retailers have strong brands and customer responsiveness they often have stronger market knowledge. Yet, as Welch and Worthington have identified, retailers have so far adopted a selective approach to the provision of financial services and do not cover the wider range offered by banks (Welch 2007). Notwithstanding, the retailer threat to retail banking is likely to continue. Retailers have strong customer relations, provide services and tie in customers with reward schemes. In addition, a customer is more likely to meet a retail manager than a bank manager. Conversely, the banking trend has been towards ATMs and 'distance banking', driven by cost-saving motives, and bank-customers rarely get to see banking personnel. In contrast, retail customers regularly visit their preferred retailer for weekly shopping or for a variety of other goods such as medicines, mobile phones, kitchen items, white goods, electronics goods, books and CDs. Much financial innovation by nonbanks, therefore, has been driven by the development of closer customer interaction.

The large retailers have also developed a low risk approach to the commercial exchange of commodities. Typically customer will pay for their weekly shopping bill at the checkout before the suppliers have been paid for the very same goods. Indeed, the small suppliers can wait for months before receiving payment from the large retailers. The low risk approach of retailers extends to other aspects of the supply chain relationship. Subramani identifies, for instance, that supplier-retailer relations are complex and uneven, especially where there are technology dominated supply chains, since a small supplier will need relationship-specific investments and are effectively locked-in to a retailer. The large retailers effectively offload much of the risk to their wider supplier network (Subramani 2004).

The Centre for the Study of Financial Innovation, a London based think-tank, at the end of the 1990's, initiated an investigation into the "non-bank" phenomenon within Europe and how this would impact the retail banking sector. The report concluded that the new entrant retail players did pose a serious threat for the long term, though the inroads made by retailers at the time into the financial sector was limited (Lascelles 1999). It seems that the corporate sector is poised to make a serious impact on the retail banking sector, and its financial systems, facilitated by technology-led innovations. As with the IR1, our current IR2 is resulting in the development of a new network of financial systems and structures, which are changing and challenging the existing financial power structure.

However, the retail sector is not the only threat to the more traditional banking and financial sectors. Car manufacturers, for instance, have found that the development of finance houses, for car credit, has been an anecdote to tighter margins in recent years. GM capital provides another example of multinational corporate finance houses.

ALTERNATIVE AND COMPLIMENTARY CURRENCIES

Another threat, of course, is the development of alternative and complementary currencies. Edward De Bono, whilst writing for the Centre for the Study of Financial Innovation in 1993, had raised the (future) concept of the ‘IBM Dollar’ or large corporation Dollar that might appear in generalized circulation. The idea was that a corporate currency could be linked to (future) company products and, a secondary market could ensure minimum risk for holding. In this manner the ‘targeted (tied) currency’ could insure against inflation (Bono 1993). David Boyle has also suggested something similar to the concept of corporate money, that of new money systems for large urban centres such as London. These would effectively form a ‘regional-corporation’ money covering significant expenditure items within that region, such as transport and local economic exchanges (Boyle 2000). Examples already exist with the Oyster card system in London and the Octopus cards in Hong Kong, which can be used to purchase non-transport items. Similar systems are been applied in other cities around the world, one of the most recent being in Dubai. The Oyster and Octopus systems do not really perform the full functionality of a duel currency system suggested by Boyle that can operate alongside existing financial systems. Possibly the closest example of such as system is the 'Wir' system in Switzerland: "Wir - short for Wirtschaftsring (economic circle) - is Europe's oldest barter network, aimed specifically at smaller companies, and is now so widespread in Switzerland that it amounts to a virtual currency in parallel to the Swiss franc. Wir started in 1934, the brainchild of two followers of the economist Silvio Gesell, who urged the creation of negative interest currencies. By 1993, it had a turnover of £12 billion and 65,000 corporate members (Boyle 2002). Alternative and complementary currencies, from local authority and grassroots sources, have both received much more interest of late as a result of the widespread uncertainties surrounding the financial systemic vulnerabilities.

A large city can have enough participation and economic activity to generate its own duel currency, to compete with and complement the existing formal currency and financial system. However, the same may also be true with dispersed groups that engage in mutual exchanges, say commercial or socializing networks that use the Internet to shrink the distances between the participants. Technology innovations are set to continue, making deep changes in the financial services sectors. The next technological evolution of the Internet – Web2.0, for instance, is set to have a big impact on the range and type of financial services that will emerge, as well as bringing in even more new entrants to the financial services market place.

Interesting examples of corporate networking financial systems have emerged as well as a host of voucher systems. Examples include book and music vouchers, retailer vouchers (e.g. Tesco, Wal Mart vouchers etc), and Airmiles. An interesting collaboration of 'vouchers' has emerged in Ireland with the 'One4all® Gift Voucher', which uses the one voucher for 4000+

retail outlets. This has recently been expanded to some parts of the UK and Malta. Again these city systems and networking systems are driven and supported by the information and communication technology at the heart of the IR2.

THE BANKING SECTOR FIGHTS BACK!

Notwithstanding these threats to their core activities, there have also been several innovations initiating from the banking sector itself. Changes include ATMs, call centres, telephone services and internet banking. There have also been many new innovative financial instruments such as futures and derivatives which offer a 'quick turn round' of financial products for large investors. The repackaging and reselling of sub-prime mortgages is another recent and topical example. Yet, whilst the banking sector has been innovative in their core markets, an increased level of abstraction of money and increased customer distance has occurred as finance becomes more divorced from actual production. The corporations appear to be filling the gap.

In a speech at the Philadelphia Federal Policy forum in November 2007, Governor Randall Kroszner discussed some of the innovations and challenges within financial markets, particularly relevant in the wake of the sub-prime mortgage crisis. Kroszner argued that sufficient information about financial innovations is paramount for stakeholders in order to clearly understand the (real) risk and maintain market stability. It has been recognized that a major failing, prior to the sub-prime debacle, was the AAA investment grade rating given to the securities when the rating agencies were not (legally) required to carry out an appropriate credit risk assessment. In this instance the state regulators have clearly lagged behind the innovators. Another major strand of Governor Kroszner's speech was the need for the standardization of financial instruments. Standardisation, it is argued, will improve the information needed to support stakeholders in understanding market risks and facilitate market stability. Yet, despite their advantages, the latent IR2 corporafinance processes, therefore, are likely to lead to even more innovation and, by implication, more instability until the currencies reach a ‘critical mass’ of social acceptance.

It seems clear that corporations are developing their own financial instruments, in parallel to the financial services, which is evident from the proliferation of voucher systems and electronic transactions by the retailers and wider corporations. I have used the term corporafinance to describe these developments, derived from the wider retail and corporate market spaces. In Marx’s time, in the recent aftermath of the IR, industrial capital concepts were based on the production of physical commodities. In IR2, however, the focus is more service and information centred. As such, the industrial capital of IR1 has evolved into the corporafinance of IR2, as individual capitalists seek to secure a larger proportion of surplus value. These latent corporate monetary systems, or corporafinance, are also challenging prevailing monetary theory. Banking and monetary text books will also need to be rewritten as the new corporafinance system is (perhaps) poised to replace the present financial system – the ‘writing is already on the wall’.

This market view of the emergence of corporafinance could also be considered as a variant of Hayek’s free banking proposals. The natural progression of a Hayekian philosophy, where currencies are determined by a free market, would be an explosion of increasingly abstract levels of money, from the banking and financial sectors, in conjunction with any corporate monies and complementary currencies (Houghton-Budd 2005). However, the increasing volume and abstraction, without margins of safety, could lead to a point where there is substantial (at least in the short-term) systemic risk. The increased abstracted volume of money will surpass sustainability and a potential crash will collapse the banking and financial sector in a debt deflation. In the Hayek view, of course, the money competition in a relatively free market, would eventually deliver a system that achieves the common trust necessary for stable money and fewer currencies. It could be argued, therefore, that the industrial capital, or corporafinance system, since it has a more solid foundation - dealing directly with commodity items, is more likely to become predominant in the event of a major crash. Yet, there might be substantial damage before this occurs. Furthermore, this is problematic since, as Handy noted, firms are not democracies but autocracies (Handy 1992). It is a central concern of this chapter that these corporafinance processes would lead to a concentration of power amongst the corporations, with a subsequent (state) democratic deficit.

It can be reasonable safely concluded that Marx's view of industrial capital 'subjugating' the private banking structure, as capitalism evolves, seems to be a correct one. It is not claimed, however, that Marx is the sole antecedent of the contemporary notion. Edward de Bono, for instance, had posited the future possibility of corporate currencies and Bernard Lietaer had also suggested the same possible scenario. Yet, Marx can probably be considered to be the earliest proponent of the view.

The chapter has also introduced the concept of corporafinance and argued that this term denotes the growing strength of corporate finance, relative to traditional retail and investment banking. As the corporates (manufacturers, internet firms and retailers) encroach on the bankers core activities they force them to increasingly compete on cost, leading to distanced customers. This further undermines their sustainability since the corporate entities offer new services and closer customer interaction.

The sustainability of the banking industry, therefore, seems shakier than in previous decades. If there is a collapse in the banking sector then corporafinance could step in and replace the banking infrastructure as the prime power of capital. In the absence of a collapse then the trend is still towards a more insular banking industry, more abstract sources of funds and a riskier monetary base. It is further concluded that the trend in industry and the non-banking sectors is towards a more stable monetary foundation, supported with innovations and closer contact with customers and commodities. Industrial capital, in this scenario, might well subjugate financial capital by stealth. Yet, it is argued, this will inevitably lead to a democratic deficit and the increasing centralization of social power in the hands of industrial capital. In the light of these developments it is worth mentioning that a notable strand of the monetary reform movement, binary economics, seeks to address these matters directly by introducing proposals for the 'socialisation of capital' whereby corporate power (and incomes) would become diffused across society (Shakespeare 2002). This should facilitate a justice agenda.

BINARY ECONOMICS

Monetary reformers generally posit that financial (social) power is, as expected, mainly located amongst a transnational rentier class whose financial assets are invested within the private banking system. In addition to the accumulation of these assets the private bankers also control the creation process of credit-money that constitutes an increasing proportion of global monies. Binary economists, as a particular grouping of monetary reformers, also propound these views and subsequently aim to reassert a stronger (and interventionist) state that can regain some of this financial power, in order to facilitate a specific social agenda. The key advantage of their proposals, however, is that they recommend that the present capitalist order remains intact, operated on market principles, but that future capital investments are given a (gradual) broader common ownership. It is also hoped that these transformations would not be disruptive yet, lead to a democratisation of financial power since capital-based incomes will be socially extended. It is this key difference that separates these ideas from those of other reformers. Furthermore, this links up with Marx's belief that the root of exploitation is found in the private ownership of capital. If private capital can be socialized, therefore, many of the contradictions within society can be removed and basic incomes provided for all, including for those people presently under-compensated (children and women, for instance) by the market system. Binary economics has been based upon the seminal work of Louis Kelso and continues to be developed and promulgated by several adherents – notably

Rodney Shakespeare (Kelso 1958; Shakespeare 2007). Their notion of the 'economic problem' is that, to varying degrees, states have under-utilised resources, concentrated capital ownership and widespread wants/needs. It is assumed that incomes are derived from both capital and labour (hence the term binary) and further suggest that labour incomes are only capable of purchasing a small proportion of total output. New capital investment and the state consume a further portion and the rest is hoarded, leaving credit expansion to aid the sustainability of the capitalist order. This is regarded as entirely unsatisfactory since it perpetuates debt accumulation, capitalist crises and uneven development. As outlined earlier, the credit expansion enables sustenance of the capitalist system yet, also leads to an accumulation of financial power that threatens to engender the formation of a deepening plutocratic power elite.

The binary proposals, conversely, intend to create 'effective participation' by broadening the ownership base of productive capital, within the present confines of the capitalist order, and encourage the formation of new capital with a broader social ownership. This is to be financed by state-issued 'interest-free' debt. The concentration of capital ownership is to be discouraged and the use of credit diminished. The debt principal is to be paid from incomes derived from the capital acquisition and when the monies are paid they are cancelled thus leaving an ongoing income for the capital recipient. It is argued that this would be counter-inflationary providing there is spare capacity and money expansion matches new production. Also, it is claimed, 'interest-free' prices in general will be lower. To match the 'counter-inflationary' tendency it is further proposed that public works are funded by state-issued credit and that some 'debt-free' money is created to achieve the 'appropriate' balance in the money supply. These are, of course, radical proposals if implemented in full and, subsequently, have received little political support. These anti-inflation arguments, as previously mentioned, are based on the substantial 'inflation-effect' that interest exerts on the financial order in the modern era. It is further argued that repayment of interest and principal engenders pressure for increased economic activity that does not follow a ‘natural’ growth pattern. The detrimental effects of this are innumerable. So, are these binary proposals, or indeed other monetary reform ideas, likely to be politically achievable?

REALPOLITIK

The simply answer to this question is that, as Walter has noted, in the absence of a financial crisis there is unlikely to be any radical change to the status quo (Walter 1993). One of the key reasons for this is psychological, people are fearful of change and the personal agendas of those that promote it. Many people, for instance, who are unfortunate enough to find themselves as victims of some form of social abuse, will often prefer the familiarity of current circumstances to the possibility of an improvement that is derived from the support of a radical agenda. Another key factor is the plurality of (social) powers that exist in modern societies. Susan Strange, for instance, has identified four (contemporary) primary structures of power; that of finance, political, production and knowledge, and also noted several secondary sources (Strange 1988). With such a delicate power balance it is, therefore, extremely unlikely that radicalised agendas will be pursued in their purest form without a substantial measure of compromise.

It is for this reason that the ideas of Keynes, expressed by post-Keynesians, offer (arguably) more appropriate solutions to the problems discussed. Post-Keynesians, such as Chick, Davidson and Tily, are a group of economists who have sought to reformulate and develop the original (monetary) ideas of Keynes, as opposed to traditional ‘Keynesians’ who had merely utilised his (selected) ideas and then synthesised them with more mainstream economic ideas (Tily 2007). These ideas have also informed the current campaigning work of Ann Pettifor (Jubilee campaign) in her aspirations towards ‘financial renewal’ and the ‘green deal’(Pettifor 2006).

At the outset of his career, whilst serving the UK treasury at the Treaty of Versailles in 1919, Keynes demonstrated an awareness of the latent disruptive capability of the financial system, (and hence monetary sources of social power) through his identification of the (unsustainable) German debt reparations problem. Later, of course, default broke the chain of payments necessary to maintain confidence in the international financial system and, the subsequent credit squeeze contributed to falling stock prices and the depression years. Keynes' desire for economic stability, using government intervention, appears to have been a consistent theme throughout the 'policy' aspects of his work. His key contribution to economic thought, for instance, was arguably his challenge to Say's law – that 'supply creates its own demand' – suggesting that the macro-economy could, instead, settle in 'under-employment' equilibrium. He considered this to be inefficient, with further social costs associated with unemployment. He subsequently advocated the use of fiscal and monetary policies in order to stabilize the trade cycle and stimulate (or mitigate) effective demand to establish full-employment and, theorized this using his particular economic models. Keynes had generally favoured state intervention, in order to ensure the prevalence of low interest rates (cheap money), so that excessive (private) banking surpluses were restricted and the growth of the productive economy was supported. He further recommended credit controls in order to prevent 'cheap money' facilitating speculative bubbles in asset markets. In order to enhance state monetary capabilities, he further advocated capital controls for international transactions, to avoid capital flight towards states with higher interest rates. As one of the chief architects of the post-WW2 Bretton Woods system, for instance, he had managed to obtain this objective whilst remaining unsuccessful in the establishment of Bancor (his own proposal for a world bank), with its global currency unit based on a currency basket, which had aimed to stabilize the balance of payments through the discouragement of trading surpluses and deficits between states.

In these overall matters, of course, though Keynes had promoted an agenda that challenged the mainstream economists, he fell short of the monetary reform movement proposals. His ideas left much of the modus operandi of capitalism, and the debt-based money system, intact. In an open letter to Roosevelt during the depression, for instance, Keynes had warned against the state taking a pro-active role in money-issue (Zarlenga 2002). Yet, in defence of Keynes, it could be argued that he spent much of his time in the company of influential policy-makers and, as a result, was particularly conscious of the need to compromise. Be that as it may, the present proposals of Anne Pettifor et al have a broad level of support in the United Kingdom and are, therefore, more likely to succeed in the absence of a crisis than the reformers. This is partly because they appeal to the popular sentiment of nostalgia that harks back to the so-called 'golden age' era of the sixties. During this 'by-gone' (Keynesian) time of low interest rates, the growth, income and employment rates were all rising. The circumstances of today are, of course, very different.

To conclude the chapter, I now turn to the consideration of a development bank proposal that, it is hoped, offers a partial solution to the tragedy of extreme poverty, and lack of empowerment, that exists in many areas of the world today.

A MICRO-INVESTMENT BANK

Over the last two decades, there has been increasing interest in the role of non-government microfinance institutions in the developing world, as a means of alleviating poverty and facilitating development. The World Bank, for instance, is now a supporter of these modes of credit provision. Microfinance involves the provision of small loans to aspiring and latent entrepreneurs who, in turn, stimulate economic activity and, it is hoped, aid development. Newer forms of microcredit emerged as a response to the problems people experienced in the developing world, when trying to obtain credit, if they were lower down the income (or collateral) scale. Potential lenders faced insufficient information for risk evaluation and the small size of these loans rendered them cost ineffective (Hulme 1996). As a result, the poorest people were often not able to obtain the finance which would have otherwise instigated socially beneficial projects. During the sixties and seventies, finance institutions sponsored by governments (and their agencies) had sought to meet this need and provided microcredit, but arrears rates soon became high. The forces that were lobbying for the liberalization of finance at the time (such as the Ohio school) viewed this as a failure of state bureaucratic processes and, subsequently, advocated the private sector (and market interest rates) as a suitable vehicle (Mouatt 1997). In addition, the Ohio school claimed that the use of subsidy by institutions encouraged 'political manipulation'. Conversely, as the extensive Hulme and Mosley study revealed, there are many institutions that have successfully utilized credit subsidies and, targeted lending effectively. If certain design features are adhered to then lower long-run costs and default rates can lead to lower interest rates and the elimination of subsidy (Hulme 1996). The use of women groups, peer pressure and local knowledge, for instance, have all helped to improve these matters, as the famous Grameen bank has discovered.

However, for the cynical amongst us, recent microcredit provision could also be seen as an instrument for drawing increasing numbers of people in the developing world into the various modes of capitalist behavior, and debt-based money system, that exist in the West (Weber 2006). Many areas of the developing world presently experience much more 'communal' economies, often with complementary currency systems, than occur in the developed world. It could be argued these offer superior models for social existence. Bernard Lietaer, for instance, has provided a good case study of such a society in Bali, that uses its Nayahan Banjar alternative currency(Lietaer 2003). It is hoped that future microfinance institutions would be able to work in tandem with such practices.

My proposal (I have coined the phrase Integrity Trust), for a micro investment bank model, aims to build on the success and innovation of these microcredit organizations mentioned above. The recommendation is to set up a charitable status organization(s) in the developed world, with the express aim of raising sufficient funds to provide the asset base for an individual micro investment bank (or multiple branches) in a pre-specified location in the developing world. Whilst it is recognized that many people (and organizations) in the developed world are experiencing ‘aid fatigue’ at present, it is also hoped (and presumed) that many others are keen to donate funds but, are often concerned about the manner in which the money is used. In order to overcome this valid objection it is suggested that the bank-charity adopts a constitutional principle to provide complete transparency in all of its financial dealings, in addition to those required by the relevant legislation. With the advent of modern telecommunications technology, of course, this has become much easier. It is, therefore, recommended that a website be constructed that could provide any interested party with instant access to comprehensive jargon-free information on all book-keeping activities and records. Since money has so often been the cause of social distress in human history, the value of transparency in financial dealings cannot, in my opinion, be under-estimated.

Once funds have reached the required level, the plan is to make the monies available to a trusted (individual) partner, in the particular region of the developing world, where a personal relationship has already been established. This person would have complete responsibility for administering the account, for a specified remuneration, and make decisions regarding the granting of credit, in accordance with certain specified criteria. Yet, in contradistinction to other microfinance institutions, it is proposed that the loans are provided completely interest-free. The reason for this is twofold. Firstly, the credit would provide an opportunity to model the viability of many of the claims of the monetary reform movement, albeit on a much smaller scale. Secondly, the lending is likely to be much more acceptable to indigenous communities, and their traditional economic practices, and those with religious or philanthropic convictions.

At first glance, it appears that the proposed micro investment bank fund would, over time, be gradually depleted. Even given fortuitous circumstances, with no default on lending and the absence of corruption or theft, the administration costs would eventually diminish the fund. To combat this, the proposal is to instigate the requirement (similar to Islamic finance) that all (successful) businesses established, have to pay a percentage of their net profit to the bank, in addition to any principal repaid. This, it is further argued, should also be paid for a pre-specified period of time. The key advantage of this proposal is that the social responsibility of entrepreneurs is enhanced, as monies are re-circulated in order to assist the entrepreneurs of the future.
As far as the donors in the West are concerned, it is further suggested that they have the advantage of tracking the usefulness of their gift by logging on to the relevant website and, observing the success (or failure) of the particular beneficiaries and their specific activities.

Finally, it is proposed that in the event of default, or even theft, the loans extended are simply written off. It could be argued that this encourages irresponsible lending, known as moral hazard, as well as providing an incentive for corruption. However, it is my conviction that the transparent nature of the banking activities, including the details of the beneficiaries, would mitigate this as a result of the community peer pressure. Much would also depend on the particular skills, and qualities, of the fund administrator. In any case, since the monies are initially provided by charitable donation, there are not the same levels of obligation that are usually associated with investors.

To conclude, it is not suggested that this model is a global panacea for the difficulties faced by those in the developing world. Yet, it is hoped that the model would make some contribution towards a concerted effort to reform capitalism, in the developing countries, from several angles. Indeed, the achievement of social and economic justice, in the capitalist world of today, most likely requires the mustering of multilateral and multi-faceted forces. Let us join together in this struggle.

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