Money, Coinage & Society

Volume Two

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Preface

Money, Coinage and Society originated in the need for a general background on coins. How they were produced. Where the metals came from. What we know of their issuing authority: ruler, state, trading communities concerned. How the states prospered or didn't, their trading models and policies. And beyond that, the complex of historical, practical and aesthetic matters that made the coinage acceptable to its users and interesting to collectors in later centuries.

A more academic description would be the political economy of coinage — what coins tell us of the countries and rulers that issued the coins, their political and economic makeup, how and where their constituent metals were extracted, smelted, refined and made into the examples of numismatic art we have now, and what their designs suggest of customs and beliefs that were commonly very different from ours.

Gradually I came to realize that it was the social context that constituted the more pressing aspect now that looming national debts, bank bail-outs, digital transfer and quantitative easing make us wonder what money really is. David Graeber has covered some of these matters in his 2004 book on debt, but his findings remain somewhat unclear, perhaps because consumed at key points by a strong sense of moral indignation. What was needed, I thought, was a colder, more technical and sustained look at the institutions that human being acknowledge in their everyday lives, but which tend to become reified into abstract concepts negating our common humanity. We rightly deplore religious fanaticism without realising that we too can make market forces and other self-evident matters into overriding persuasions, indeed into gods demanding unthinking obedience.

Coinage is particularly useful here because it turns abstract concepts like legitimacy and authority into tangible objects. A wealth of understandings and tacit beliefs underlies our use of a coin, not least the ease through which we can purchase goods and services from individuals who have no particular interest in our welfare. Because money is useful, it can also become over-powerful, and we find ourselves talking about the 'iron laws of the market', or the 'findings of economics', when these are not laws or findings at all, but contrivances of particular circumstances. No doubt we live in a scientific culture that expects all aspects of life to be governed by laws continuously and comprehensively applying, and this allows us to forget that mechanical science is only one way of looking at life, the limitations of which a little reading in philosophy soon demonstrates.

Nonetheless, that social context could be encompassed in little essays on individual coins, I thought — until I realized that mainstream treatment of the larger social settings was often far from acceptable. Many books and articles were surprisingly partisan, incomplete and out of date. Before writing anything, I should have to make my own summaries and assessments, which here form the bulk of this second volume.

I have used secondary sources in the main, often the alternative press and contrarian historians for later events: this is not academic research so much as an attempt to make something coherent of very scattered and contested material. I have tried to draw on Internet sources wherever possible, or on books that provide a 'look inside' facility on Amazon. On occasion, where simple facts and mainstream interpretations were needed, I have also drawn on Wikipedia material, and would ask those who still compare this online resource unfavourably to the Encyclopaedia Britannica and the university presses to remember that academic research, for all its claims to be 'pushing back the boundaries of knowledge', in fact works within fairly narrow and closely refereed terms of reference, and that the Encyclopaedia is associated with the University of Chicago and Rockefeller funds not too scrupulously obtained. Most information in fact has some hidden agenda — the desire to sway opinion, earn status or put bread on the table — and the theme here is power, and the way aesthetic, commercial and practical issues have served that end down the centuries, which we can see in coinage if equipped with the right perspectives.

So arises a rather unflattering view of modern society. The reader will find none of the pious tales that were taught at school to foster a sense of pride and confidence in our institutions, lessons which continue unacknowledged in mainstream media articles that preach to the converted, as indeed they must to maintain circulation figures and advertising revenues. Looked at plainly, our history is not an edifying spectacle, and money often brings out the worst in us: our greed, ambition and selfishness. It is easy to forget when dealing with beautiful objects like coins how much sweat, blood and sheer misery went into their production. Behind the economic trends they illustrate there commonly lie many horrors of warfare, coercive trade, injustice and exploitation. And much propaganda too: the emblems of authority and deceit are also woven into their glittering surfaces. As Glyn Davies himself remarks in his excellent A *History of Money*: 'Economists, and especially monetarists, tend to overestimate the purely economic, narrow and technical functions of money and have placed insufficient emphasis on the wider social, institutional and psychological aspects.'

But nor is the love of money the root of all evil. Money has profound capacities to do good, and there is scarcely an aspect of our contemporary world that would be possible without sophisticated trade and banking facilities. My outlook here is not far from that of numismatic historians, though I have a more critical view of economics and finance than they profess, perhaps because of working on a daily basis for several years with professionals in those fields. That is not a criticism of their honesty or competence, as both were present in a marked degree, but of perspective. Money makes the world go round, but in more ways that they perhaps saw or acknowledged.

The limitations of these chapters should be clear. They are snapshots, summaries, and simple introductions. No one person can re-evaluate three millennia of social and economic history, even in a lifetime of reading, and many sections can only be summaries of current views, doubtless rather dry in later pages, though I hope accurate and helpful. The essays on individual coins are simply examples of what could be done, a supplement to the many handsome surveys of world coinage published by the museum and auction house presses.

References are placed after the relevant sentence when references do not exceed some fifty odd per chapter, but aggregated at paragraph ends otherwise: the renumbering necessitated by updating becomes too time consuming when chapters draw on hundreds of references. To make the material manageable I have split the book into two. The first volume covers the ancient and medieval world, but includes chapters on metal sources, mining and minting practices to the present. The second volume covers the period from the rise of modern states to the world we know today, including chapters on statehood, economics, money banking and civil rights, to end where we started, an enquiry into the real nature of money. Just as coins serve as a token of wealth, so money serves as a token for complex social interactions. That is the finding of these volumes: money is not an inert accounting device, not something arising from the play of market forces, and not an abstract, fully quantifiable and unambiguous matter. Money supplies are difficult to measure, as monetarists found. Simple measures like cost of living indices and unemployment figures rest on disputed bases, which can be shifted to make them more meaningful or politically acceptable. Even the GDP contains socially positive and negative elements: hospital building and warfare, manufacturing and financial speculation, etc.

I shall have nothing to say on coins as an investment medium, beyond noting that collectors naturally expect what they have poured considerable time and money into will eventually be retrievable in cash terms. As a professional dealer, I have helped people in this field, but then with some misgivings. Nowadays I even more doubt the wisdom of this approach, and would only repeat what others emphasize. Be clear about objectives. A coin collection made for investment purposes is quite different from one assembled out of historical interest in some period or country. The first needs help from a recognized investment specialist but also the connoisseur's eye for quality, plus detailed studies of price trends and commissions applying. A small collection of choice pieces wisely grouped about a popular theme will be worth greatly more than the same money spent on a haphazard collection of indifferent pieces. Inevitably this must be so, since the unrecoverable dealer’s commission of 10% on an expensive piece will swell to 50% or more on a cheap one.

The uncomfortable view of our contemporary world is something arrived at reluctantly, after many years of thought and reading, and one I unfortunately don't have the time to defend or explain. The references should do that. On other matters please drop me a line if something needs correction or qualification. I was a professional UK coin dealer in the eighties, reasonably well known, and exhibiting at international fairs and the like. My specialties were ancients, the Islamic world and far eastern issues, but even here I often had to take advice from experts who knew far more than I did then, and certainly more than I will now.

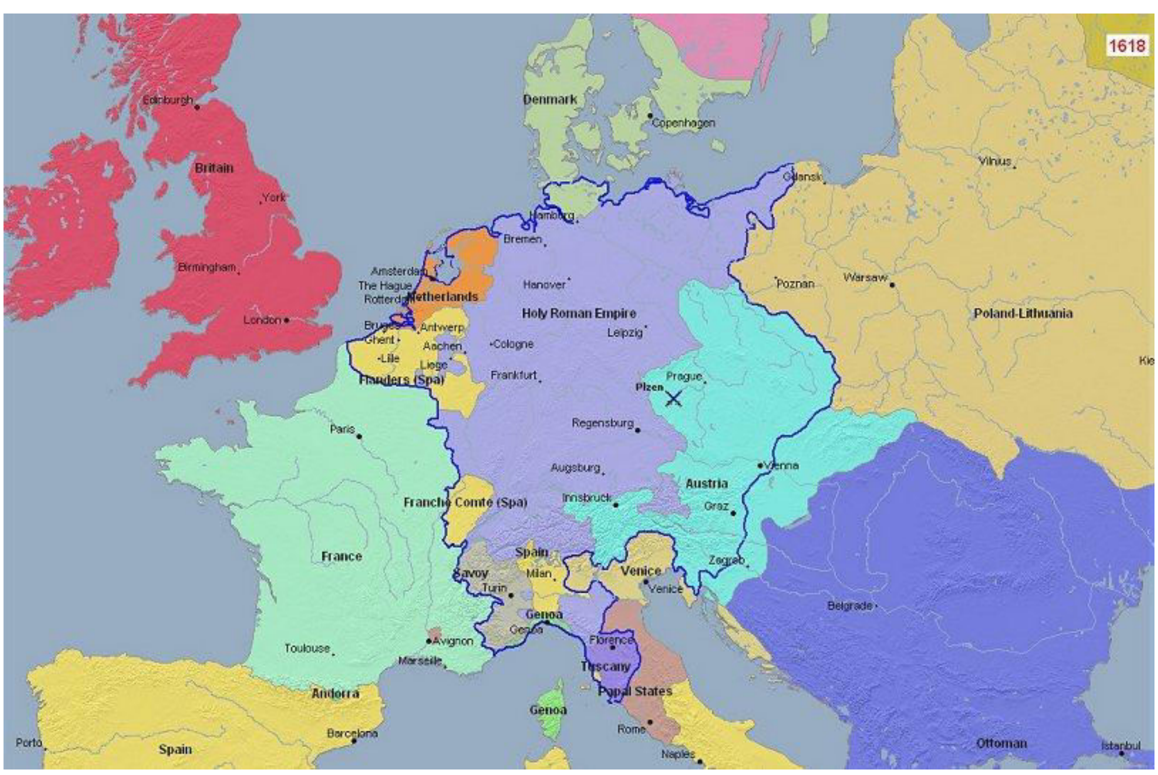
It should go without saying that coin collectors should invest in coin and sales catalogues for valuation purposes, plus a wide range of history books and articles if their acquisitions are to come alive. I would also urge them to join numismatic groups, either their local club or the prestigious societies without whose work our pastime would be much the poorer.

As in any walk of life, they will benefit from the communities in proportion to what they contribute.

Most collectors promise themselves that they will some day write up their collection, when the children are off their hands or retirement arrives, and though these articles are far from meeting that promise — and my own collection is now only a shadow of previous stocks — I shall be delighted if these pages encourage others to think beyond the usual confines of a popular and absorbing hobby.

26. The Modern State

Many historians date the concept of the modern sovereign state to the Peace of Westphalia of 1648, which finally brought an end to a European war of almost unparalleled ferocity. The Thirty Years War started as a religious revolt in Bohemia but eventually dragged in all the regional powers — Denmark, Sweden, Germany, France and Spain — who expended vast treasuries on fruitless efforts to gain territory or religious control. {1-2} The greatest miseries were inflicted on Germany and Bohemia, which lost a third of their populations. The Swedish army alone destroyed 2,000 castles, 500 towns and 18,000 villages. {3} Mercenaries inflicted every barbarity imaginable, and those who survived the killing often starved to death or were reduced to cannibalism. In their wake came epidemics of typhus, dysentery and bubonic plague, and to the religious fanaticism was added monstrous superstition that claimed the lives of witches: tens of thousand were burned in grotesque mockeries of justice. As law and order collapsed, so did all human decencies and moral restraints: such is the brutalizing effect of prolonged and unprincipled warfare.



Indeed the Thirty Years' War brought few benefits to anyone. Spain lost Portugal and the Spanish Netherlands. Sweden emerged as a major power with control of the Baltic, but it was a dominance it did not long enjoy: the country lost territories to Russia in 1709. France gained Alsace, but not a solution to its religious dissensions. The Protestant cause was saved, but Germany further fractured into a mosaic of independent states, postponing unity by another two hundred years. What was really signified by the Peace of Westphalia is disputed, but many political analysts view in it the rise of the modern era in nation governance. Nations had legal rights, a concept now enshrined in the UN charter. Countries were no longer the personal possessions of their rulers, and territorial integrity should be respected. Countries could also expect a first allegiance from their citizens, i.e. rather than to religious or ethnic groupings, which had often been the case before. Nations could permit religious diversity (as did France) but also had the right to impose a state religion: Catholicism or some variety of Protestantism (Lutheranism or Calvinism). European statecraft became a search for the balance of power. {3} As Lord Palmerston almost said: 'We have no permanent allies. We have no permanent enemies. We only have permanent interests.' {4}

The concept of national sovereignty did not, of course, suddenly emerge with the Peace of Westphalia but evolved gradually in response to men's thoughts on the world around them. The Roman jurist Ulpian (c. AD 170-223), for example, saw the state embodied in the Emperor, who was a law-making and abiding force. He was not bound by the law, but his word was the law — an absolutist conception of sovereignty. Ulpian was known to medieval monarchs, but their sovereignty generally fell short of being absolute because shared with feudal nobles. Civil wars in the sixteenth century did call for stronger centralizing powers, however, and Jean Bodin's 1576 *Les Six Livres de la République* argued that the very nature of the state required that sovereignty be absolute. Of course that sovereignty would be bound by obligations and conditions, and must be able to legislate without the consent of subjects. It was not subject to the laws of predecessors, and could not (logical) be bound by its own laws. Equally logically, sovereignty had to be perpetual, not a temporary delegation, because any time limit would imply a yet higher authority. Sovereignty did not involve a transfer a power from people to sovereign (as Ulpian had argued), however. It was natural law and divine law that gave the sovereign the right to rule, and those laws the sovereign could not contravene — only those laws (positive laws) made by human beings. {5-6}

Other historians would date the rise of the modern state to an earlier period, to Henry VII of England, Louis XI of France or Ferdinand of Spain, or even to Sicily under Frederick II (1194-1250). States were economic entities. They demanded obedience from all citizens and held a monopoly on the use of force — what Max Weber called 'legitimate violence'. They also participated in and emphasized the spiritual life, drawing their strength from religious and cultural values — all those methods, instruments, practices and habits of mind that make up a civilization. But first came order, and the compromise or balance between insufficient and excessive force were its laws. Threats to the state saw those laws imposed mercilessly, and often unfairly. Anyone supported by a state would likely be a member of its ruling class, and anyone opposed by the state would probably belong to the toiling masses. Dissent and sedition were serious crimes. Ambassadors acted as spies abroad, and armies of paid informers kept a listening ear on citizens at home. Torture and public execution were eloquent ways of demonstrating state power, and if that sounds callous we should remember that the same barbarities were practised much more frequently outside Europe at the time, in India, China or Siam, for example, and were simply accepted: they were not public entertainment and drew few crowds. {7}

Though anthropologists will argue that tribal societies are governed more effectively and humanely by social ostracism, states are not tribal societies but complex entities that collapse when order disappears. 'Legitimate violence' still applies today, and savage sentences were handed down on the perpetrators of the 2011 London riots. Good order is therefore the first necessity imposed after regime change. The French and Russian Revolutions rapidly became tyrannies, and the Thirty Years' War became a horror to all participants because the fighting lacked proper rules of engagement. Propaganda was everywhere essential. The ruler and his actions were presented in the most favourable light, and if artists of all descriptions dedicated their work to noble patrons, that ruling class in turn supported the government. In short, state violence and rough justice guaranteed internal peace and the ability to wage war effectively, which was the natural order of things in Europe until quite recently. {7}

Enlightenment thinkers rationalized matters by regarding sovereignty more as a social contract between ruler and people. In Thomas Hobbes' view — *Leviathan* (1651) — sovereignty was still logically absolute, but required that the ruler provide physical protection to the people. When the ruler failed to provide that protection, the people could recover their power and, if necessary, make a contract with another ruler. Jean-Jacques Rousseau's (1712-1778) definition was similar, but rooted sovereignty inalienably in the people, where it is indivisible and controlled by the common interest acting through the laws approved by the people. {6}

That balance of power did not extend to the world at large however, and many European powers exported their famous belligerence overseas, to a scramble for colonies, gunboat diplomacy and proxy wars. The English fought the French in India and north America. The Dutch seized the sugar-producing areas in Brazil, and the spice islands of the far east. Even America, very belatedly, took over Hawaii and the Philippines.

With the collapse of the Soviet Union, the balance of global power has largely disappeared. America is now the world's sole superpower, and currently very unwilling to share the stage with an increasingly important China. {10}

To sole power and a balance of powers should also be added federation, which is being attempted by the EEC and trade associations between Russia, central Asia countries and China.

Modern states also required large funds, well beyond the personal wealth of their sovereigns. As they expanded and diversified their powers, states needed to access the wealth in circulation, and in acceptable ways. Social and financial power structures thus grew up together, building on pre-existing hierarchies. Mirroring the government, the great offices of state and the powers of law and order became the financial and commercial centres of the capital cities, drawing on the wealth of specializations in the host country, and further, often far beyond the periphery, to countries that supplied natural materials or raw labour. Taxation was one route to funds, of course, but an unpopular one, needing considerable preparation, restraint and guile. When further taxation was out of the question, states had to borrow from overseas banks and merchants, repaying them in plunder from successful wars. {7}

The 15th century kings of Castile were the first to raise money on government bonds (*juros*) secured on part of the royal revenues assigned to that purpose. Charles V and Philip II of Spain used *juros* extensively, paying 5-14% interest on their various forms: a perpetual annuity, and annuity for life or a reimbursable bond. *Juros* could be bought and sold, generally at rates below their face value. There was also guaranteed stock ceded to businessmen who undertook by contract (*asientos*) to advance huge sums to Spain. In Charles V's time, the contract was with the Fuggers, the Augsburg bankers, who acquired grazing lands in Spain and the vital Almaden mercury mines when the loans couldn't be repaid. Genoese bankers replaced the Fuggers from 1557, and their *asientos* had to be continually extended, rolling over the debt and changing part of the floating loan to a consolidated loan when bankruptcies appeared (1557, 1560, 1576, 1596, 1606 and 1627). Indeed the last bankruptcy was deliberately engineered by Philip II to evade his creditors, though the attempt failed. The Genoese controlled the flow of New World silver into Seville, and could sell bonds on the Besançon fairs (Italians providing the money by speculation). The Venetian bankers were not so successful, however: defaults ruined them and the surrounding areas. {8}

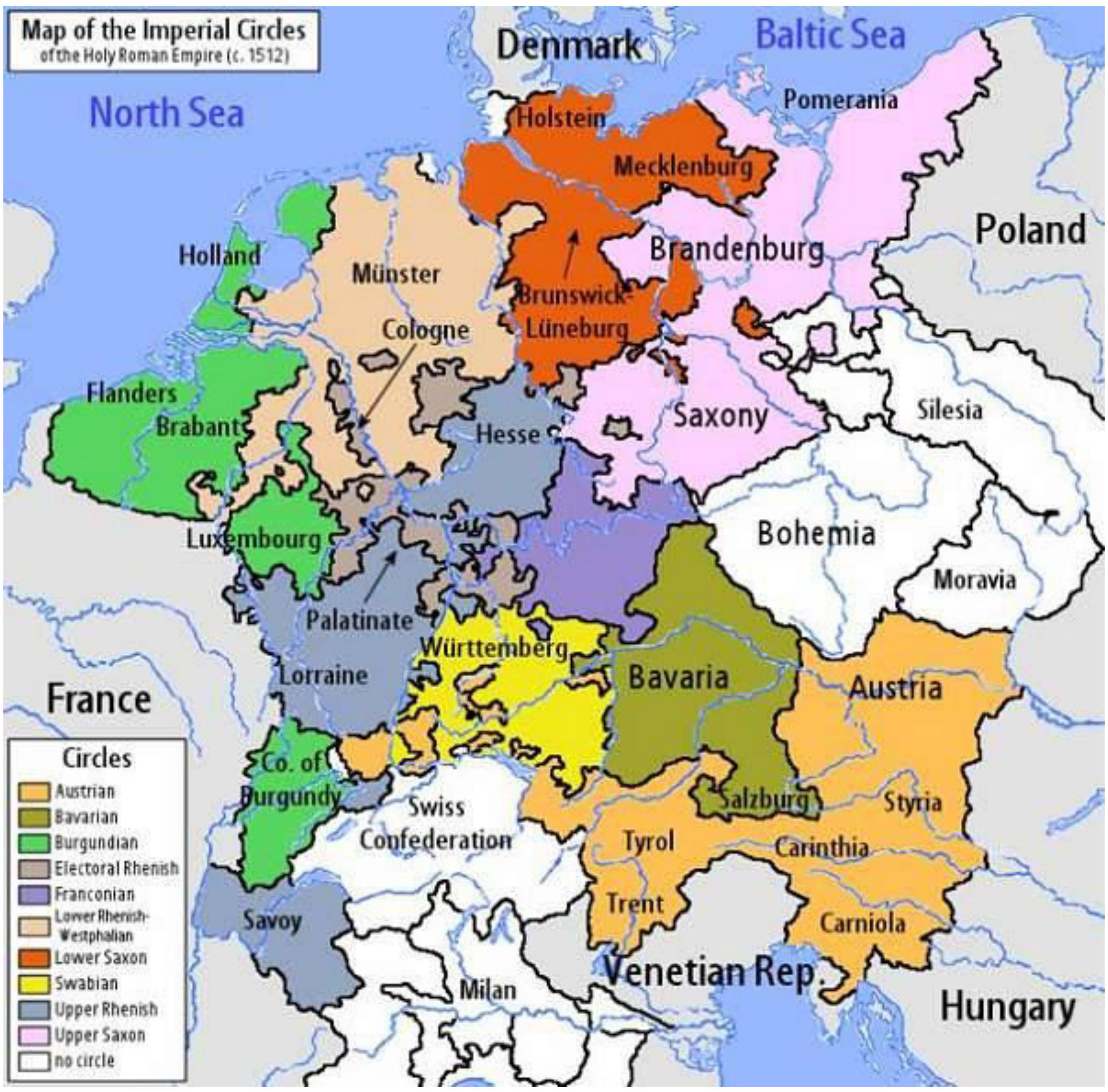
The English innovation of a national debt was a large step forward, but a natural development nonetheless. By setting up a permanent loan and paying the interest through taxation, the government took matters into its own hands, cutting out the parasitic middlemen, tax collectors and overseas bankers, though at the cost of an inextricable involvement in the financial affairs of the City of London. {9} The innovation was practised cautiously at first, and England's participation in the War of the League of Augsburg (1689-97) and the War of the Spanish Succession (1701-13) were in fact funded by overseas loans. The country indeed raised money well into the 1720s by sale of government bonds on the Dutch markets, illustrating well before the 2008 financial crash the extraordinary power of banks and their intimate relationship to governments. Indeed England by the 14th century was financially bound to bankers in Lucca and Florence. France was at the mercy of Italian merchants for centuries, and in the 18th century succumbed to Protestant bankers. The Hofjuden were indispensable to Germany, and the Rothschilds served England well in the 19th century.

States did not exist in isolation, but as part of a larger social fabric. The Roman empire, though largely self-supporting, was a link in a vast trading zone extending from Gibraltar to China, through which passed precious manufactures, ingots, coins, gold and silver objects, pepper, cloves, ginger, lacquer, musk, ambergris, brocades, cottons, muslins, silks, gold-embroidered satins, dye-woods and perfumed woods and Chinese porcelain. Byzantium and the Islamic dynasties built their glories on such trade. Renaissance Italy inherited more than it originated, and even the rational and scientific world of Europe from the 17th century onwards had its roots in Chinese and sometimes Muslim inventions. Those two essential denominations of the Islamic world, the dinar and the dirhem, came from elsewhere. Byzantium supplied the dinar and the Sasanians the dirhem. {7}

With the growth of the modern state came capitalism, which is only part of a state's culture, though under its jurisdiction. It is the sum of certain methods, instruments and habits of mind, which commerce is ever learning from other countries, modifying for its own purposes, and handing on to others. Double-entry book-keeping was brought by Venice by Jakob Fugger to Augsburg and thence to northern Europe, but the source, Luca Pacioli's 1496 *De Arithmetica,* was only a summary of methods practised in late 13th century Florence. {7}

Budget forecasts do not appear until the 19th century, and early modern states simply kept an eye on the level of treasury coffers, raising a loan or taxes as indicated. Few knew even the full extent of their wealth or outgoings. Madrid's 1622 request for a retrospective financial statement was not delivered until January 1625. But states did limit trade flows. On several occasions in the 14th century there were embargoes on the export of grain from France, grain and livestock from Castile and iron to England by Aragon. What was especially, though often fruitlessly, lamented was the export of specie. Yet armies generally had to be paid with hard cash, preferably gold coins that could be carried on the person. Only Holland and then England appeared unconcerned by the outflows of gold and silver, probably because they were by then world powers thriving on overseas trade. {7}

Joachimsthaler



Spain used New World bullion sources to issue a portrait coinage, but the central European rulers had silver to hand from flourishing local mines. Sigismund of the Tyrol issued a large gulden (guldengroschen) in 1486, and Wladislas II of Hungary issued something similar in 1499. Several rulers followed: the bishop of Sitten, Zurich, Lucerne, the elector of Saxony, the landgrave of Hesse, the Ulrich duke of Wurttenberg, and the emperor and archduke Maximilian I, the archbishop of Bremen and then of Salzburg. {11}.

The first to strike the longer-lasting thaler denomination (from which the 'dollar' derives) was Stephen, Count of Schlik, who was lord of Joachimstal (modern Jachymov) on the Bohemian edge of the Erzgebirge (Ore Mountains {12}).

The Kingdom of Bohemia, {13} the predecessor of the modern Czech Republic, was an Imperial State in the Holy Roman Empire, {14} where the Bohemian king was both a prince-elector of the empire and ruler of Bohemian Crown lands. {13}

The Habsburgs derive from Switzerland, where Rudolf I became Holy Roman Emperor in 1273, and installed his son as ruler of Austria. Through marriage and inheritance, the Habsburgs acquired the Netherlands (1477), Spain (1516) and subsequently Luxembourg, Burgundy, Bohemia, Hungary, Sicily, Naples and Milan. Allying themselves with the Catholic Church, they led crusades against the Protestants and Islam, attempting to exert control over the whole of Christendom, in which they were helped by fiscal and military innovations. Much of their wealth came from European silver mines, and then gold and silver supplies from the Americas, which were providing 10-20% of their revenues in the 1540s. {14}

Schlik itself was a backwater, however, and the Czech family owning the mining rights had not previously exercised them. But Stephan brought his brothers into the enterprise when the new mine proved unexpectedly rich, indeed became the richest silver mine in Europe by 1519, {11} with an output of 3 m. ounces/year (93kg/year). {15}

Silver Mining

Silver is commonly extracted as a byproduct of lead mining (as at Rammelsburg {16} and Leadville, {17}) but occurs at Joachimstal in veins associated with bismuth, cobalt, nickel, arsenic and sometimes uranium minerals. The vein networks — some of the best studied anywhere — are complex, and resulted from repeated injections of ore-bearing and barren fluids, some originating from Carboniferous granites and some probably later. Silver is scattered irregularly through the veins, concentrations being controlled by orientation of the veins, their intersections and the nature of the surrounding host rocks. {18}

Ar Joachimstaler of 1525 struck in name of King Louis of Bohemia. Obverse: Figure of St. Joachim (father of Mary, mother of God) standing above shield and between date. S(anctus) I(oachim) AR(ma) : DOMI(norum) : SL(ickorum) : ST(ephani) : E(t) : 7 : FRA(trum) : CO(mitum) : D(e) : BA(ssano)

Reverse: Double-tailed bohemian lion. LVDOVICVS • PRIM(vs) D(ei): GRACIA REX BO(hemiae){13}

The mine made the fortune of the Schlik brothers but did not remain in their hands for long. The Hapsburg Ferdinand I of Bohemia took over the property in 1528 and turned the source into a lucrative royal mint. {11} Thalers indeed became very popular because they were handsome coins (30 g) of good silver content and sufficient size for the ruler's portrait to appear in splendid detail, supported on the reverse by a wealth of dynastic claims. {20} For the continental collector there is hardly a more attractive series, {21} as thalers or their derivatives were issued for the next three hundred years, not only throughout the scattered principalities that made up the Holy Roman Empire but also in the Netherlands, Croatia, Austria, Prussia and the new Germany {22-23} — where indeed the thaler was not demonetised until 1908. {23}

The Europe-wide inflation (some sixfold between the early 16th century and mid 17th centuries) is not now laid solely at the door of New World supplies, {24} but those plentiful supplies of silver certainly helped to maintain the thaler as a popular denomination. {20} Many matters underlay the 1520-1640 inflation: the German silver mining boom, the influx of New World bullion, population changes after the Black Death, local wars, urbanisation, and the growth of credit institutions. {25} Isolating each contribution is clearly difficult. German silver mining started well before inflation took hold on Europe, for example, though much of the silver found its way to Venice (later to Antwerp) and thence to the Levant to buy luxury items, or was exchanged for west African gold. Both these gold and silver supplies were gradually superseded by New World sources. By 1550, Seville alone had received a total of 58,431 kg of gold, equivalent to 642,000 kg of silver at the 11:1 bi-metal ration for the period. {21}

National policies also played some part, at least in unsettling currency values: England's great debasement under Henry VIII (1542-52), debasement in France in the years 1519 and 1541, Spain's debasement in 1537 and 1566. {25}

Silver Mining and Trade

With silver mining came local industry and inflation, as in the American west. {26-27} Figures are contested but the documented quantities of silver extracted from central European mines were certainly large, perhaps some 17,000 kg/year of fine metal between 1471 and 1480. From 1491 to1500 these new mines were producing some 25,000 kg annually, rising to a peak of 52,000 kg/year in 1531-1540 and then falling to 42,000 kg/year in 1541-1550. {15} New World supplies become significant after 1540, and gradually replace European supplies as those mines became exhausted or too costly to work. In 1561-70, for example, the cheaper silver imports from Potosi and Zacatecas had reached 84,000 kg/year. {25}

The central European mines did not spring up unaided. Saxony miners as fiercely independent guilds brought their skills and traditions.{ 29} Mining and metal extraction techniques improved. {30} South German merchant-financiers lent capital and arranged for the sale of metals in Venice and the northern ports, Danzig and Antwerp. Venice was much involved in exchanging silver for west African gold, and in shipping silver eastwards for Chinese needs, obtaining cotton goods and spices in return. The northern ports were part of the English wool trade, often finishing the goods for re-export through the Brabant fairs. Antwerp became pre-eminent when the English dropped their prices and Burgundian government debased its coinage. But, as always, there were local factors. As Antwerp became more gold-based, for example, England favoured silver, doubling its silver coinage from 1476 to 1500, Henry's VIII's great debasement notwithstanding. {25}

Equally important was a change in attitudes, away from the Church's ban on usury towards letters of credit and transferable bills that the Antwerp bourse protected by legislation and made discountable. Public expenditures also vastly increased, and, when Ottoman expansion blocked Venetian trade, the flow of silver to Antwerp became even more important, happily coinciding with an increase of silver from the Joachimsthal mines. {25}

The details and economic models are for historians to argue over — but the complex and interlinked nature of mining, coinage and trade is apparent on the simplest reflection. Gaps in our knowledge make medieval situations debatable, but, even today, when we are overwhelmed by financial data, and economists differ widely in their analyses and prescriptions, the social structures that link money, labour and natural resources are clearly vital to our well-being. {28}

History of the Thaler

The history of European art is illustrated by the thaler.

Saxony: Augustus: 1553-1586 Ar Thaler (40mm, 28.67 g, 12h). Dresden mint; Hans Biener, mintmaster. Dated 1578. Obverse: AVGVSTVS•D:G•DVX•SAXONIE•SA•ROMA•IMP•, armored, bare-headed bust right, wielding two-handed sword; date across field. Reverse: •ARCHIMARS CHAL•ET•ELEC, complex (12 part) coat-of-arms topped by three ornate helmets; HB monogram above. (Schnee 725; Sammlung Vogel 6651; Davenport 9798) {14}

A realistic portrait in the northern European tradition, here verging on caricature. The sword and armour are symbols of his kingly duties.

Ar thaler. Austria. Rudolf II 1602-1605. 41 mm 28.28 g. Obverse: Laureate bust facing right with ruffled collar, in a beaded circle, clasp on shoulder. 1603 below bust. RVDOLPHVS II D G ROM IMP SEM AVG GER HVN BOH REX. Reverse: Composite arms with Tyrol at center top, under a crown, with chain of the Golden Fleece. The fleece divides the legend below, the crown on top. NECNON ARCHIDVCES A DVC BVR COM TIROL (KM# 37.1, Dav# 3005, KM# 37.3, Dav# 3005c)

A splendid portrait in the late Renaissance manner, noble and dignified.

Austria (Holy Roman Empire). Leopold I. 1640-1705. Dated 1699. Obverse: Narrow bust. Reverse: Crowned arms within Order chain (Dav-3245A (2) KM-1303.5 (2) Dav-3245 (1) KM-644.5 (1))

No doubt the best the portraitist could achieve with so unprepossessing a model, but note the decoration unrelated to the coin design and awkward placing of the bust. We are back in the northern tradition of significant and symbolic detail.

Ar thaler. Silver taler of Joseph II. Nuremberg. 1765. Obverse: City view of Nuremberg.: X. EINE FEINE — MARCK. 1765/ in exergue: NÜRNBERG./ S.R. Reverse: Laureated bust of Joseph II to r. with OEXLEIN.F. below. IOSEPHVS II. D.G. — ROM. IMP. SEMP. AVG.

In Britain this style would be called Georgian: a mortal man presenting himself with decorum and intelligence. Note the unruffled elegance, balance and restrained richness of decoration.

Hungary. Ar Thaler Joseph II. 1780-1790. 28.06 g. Obverse: Hungarian arms. G.H.B. REX. A. A.D. B&L. IOS.II. D.G. R. IMP. S.A. (King of Germany Hungary Bohemia. Archduke of Austria. Duke of Burgundy. Bavaria and Lorraine. Joseph II. By the Grace of God. Emperor of the Romans, Ever Augustus) Reverse: Holy family seated on cloud above mint mark. S. MARIA MATER DEI PATRONA HUNG 1783 (Mary, saint, mother of god, patroness of Hungary) (KM# 395, H# 1869, ÉH# 1320)

Note both the ornate, rococo styling of this beautiful piece, and the long parade of titles. Joseph II was in fact a patron of enlightened absolutism, a cultured and far-sighted ruler, but also someone who took his eminence and responsibilities seriously.

Prussia. Ar Coronation thaler. 33 mm 18.52 g. Obverse: Heads right of Wilhelm I and Augusta. WILHELM KOENIG AUGUSTA KOENIGIN V. PREUSSEN. Reverse: Four crowns. SUUM CUIQUE W R A R W R A RKROENUNGS THALER 1861 (KM# 488)

We are in the nineteenth century in a Germany soon to become a leading industrial power: the portraiture is photographic, dry and severe — if not a little pedestrian and unimaginative: the figures are hardly invested with the aura of kingship.

Maria Theresa

Ar thaler. Maria Theresa of Austria (1717 - 1780) 41 mm 27.91 g. Mint: Gunzburg. Obverse: Bust of Maria theresia right, large mint master's initals initials (S.F.) below. M . THERESIA . D . G . R . IMP . HU BO . REG. Reverse: Crown above double headed imperial eagle, large multiple coat of arms with three crowns and lion.
Legend: ARCHID . AVST . DUX . BURG . CO . TYR . 1780 X (Dav-1117 (23) KM-22 (6) Dav-1151 (5) Dav-1149 (1) Seaby-F (1))
A Maria Theresa thaler, struck posthumously at the Gunzburg mint in Germany during the 1792 -1805 period.

Maria Theresa was the last and only female ruler of Habsburg dominions. Though technically only consort to Francis I, she initiated financial and educational reforms throughout the empire, promoted commerce and agriculture, and reorganized the army, all of which strengthened Austria's position and the stability of the succeeding Habsburg-Lorraine monarchy. Among her 16 children were Marie Antoinette of France and the emperor Joseph II. {31}

Maria Theresa is equally well known for her thaler, which became an international unit of bullion, circulating as legal tender (together with the Spanish eight reales) in British north America and then the United States. The thaler purchased slaves for the Southern cotton fields, and Egyptian cotton for textile mills in the North during the Civil

War. The MTT went through 43 design variations before Maria Theresa's death in 1780, and was then issued posthumously in large quantities, the design showing small variations but all bearing the date of 1780. {32-33}

All coinage needs to show its legitimacy — through its metal content, design, and continuity with previous mintings — to be acceptable, and this was particularly the case for the MMT in Africa, the Levant and in other countries in Europe and east Asia. Users scrutinized the finest details of the coin, which even as late as 1982 served as wages for a child shepherd in Ethiopia, set at 12 MTT annually. {33}

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27. Absolute Monarchies

French Wars of Religion and the End of the Valois Dynasty

Religious Divisions in France During the Wars of Religion

The French Wars of Religion are not easy to summarize, but involved the fierce passions of the Catholic and Protestant causes, Catherine de Medici's ambitions and compromises, and the infirmities of her three sons, the last kings of the Valois line. None was well equipped to rule a divided country. Francis II married Mary Queen of Scots but remained a boy invalid. Charles IX was a nervous wreck if not altogether mad, and Henri III was a degenerate. {1}

Trouble began immediately when the strongly Catholic Guise family took control after Henry II's death at jousting in 1559, thereby threatening the Protestant cause, which had many adherents in the army and among the more prosperous folk in the central regions of France. Catherine de Medici had in fact issued an Edict of Toleration in January 1662, accepting Protestant worship, but the Duc de Guise, following a scuffle between his servants attending Mass and Huguenots worshipping in a nearby barn, had the barn invested and set on fire, burning to death all those inside. For protection from such outrages, the Huguenots appealed to the Prince de Condé, who swiftly conquered a swathe of towns along the Loire, and looked to England and Germany for troops and money. The Guise turned to the Habsburgs and the Pope for help, who supplied mercenary troops. The Huguenot towns were well fortified, however, and the sieges proved long and costly. The one pitched battle, at Dreux, was a Catholic victory, but with the death of Antoine de Bourbon at Rouen, and the assassination of the Duc de Guise at Orléons, the Catholics were left without proper leadership, and Catherine de Medici was obliged to make the Edict of Amboise in March 1663. Prisoners were exchanged, but Protestant commoners could only worship outside the walls of Huguenot towns and at an extra town per bailliage, an arrangement that was much resented.

Trouble flared up again in the 'Second War' of 1567-8, when the Duc de Guise's brother, the Cardinal of Lorraine, urged the suppression of the Huguenots in response to Protestant insurrection in the Low Countries. Catherine de Medici again appealed for toleration but, in meeting the Duke of Alva to arrange her daughter's marriage, inflamed fears of a Spanish invasion. The Huguenots tried to seize the king at Meuze, failed and were brutally punished, but not without unleashing another short, inconclusive but costly war. {2-4}

In the 'Third War' of 1568-70 the Cardinal of Lorraine attempted to capture Condé and Coligny, who escaped to the citadel of La Rochelle, and then made an alliance with William of Orange, then fighting for independence from Spain. The Protestants fortified towns in the south-west of France, but suffered defeat at Jarnac, where the Prince de Condé was killed. Coligny was also defeated at Moncoutour, but made a long march to southern France to collect fresh troops and invest Paris. Another peace, that of St. Germain, was negotiated, this time more favourable to the Protestant cause: Huguenot property was returned, certain towns were recognized as Huguenot towns, and more equality guaranteed under the law. Rural areas of southern and central France suffered badly from prolonged warfare, however, and discontents simmered on both sides. {2-4}

Catherine continued her efforts to reconcile the parties, and Admiral de Coligny was welcomed into her son's council. But Protestant rhetoric became increasingly offensive to Catholics, especially when Calvin decreed that a prince who defied God lost the right to rule. Social differences also divided the parties, acute in this time of economic hardship. Protestants were on the whole better educated than their Catholic counterparts, and belonged to the more lucrative trades. Their men and women worshippers often sang and read the Bible together, which further inflamed the Catholics, who saw a heresy infecting the body a Christ and endangering the contract between God and His people. Matters came to a head on August 23, 1572, the feast of St. Bartholomew. The entire Huguenot leadership were still celebrating the marriage of Henri de Navarre to Margot de Valois when Admiral de Coligny was seriously wounded by an assassin on his return to his Paris lodgings. The Guises were suspected, and the Huguenots took to the streets to protest. In the Louvre, however, Catherine de Medici, or possibly the king (Charles IX) took the decision to massacre the Huguenot celebrators en mass and finally deprive the heretics of their leadership. Soldiers dragged Coligny from his bed, stabbed him, and threw the body into the street — the signal for a general massacre of Huguenots in Paris (where some 3-4,000 died) and throughout the provinces in the succeeding months. Henri de Navarre was made prisoner; Condé finally escaped to Germany; Coligny's younger brother found exile in Switzerland.

The Protestant cause was severely weakened in France, but not wholly extinguished, as events of the Fourth War (1572-1573) were to show. In response to the massacre, La Rochelle refused to pay its taxes, and was besieged by the king in February 1573. But the maritime capital of the Huguenots was strongly fortified and readily supplied by sea, and though there were heavy casualties on both sides, the royal treasury again began to feel the strain. The siege was called off in May, and a Treaty of La Rochelle agreed, one disadvantageous to the Huguenots, who bided their time. {2-4}

In the Fifth War of 1576, Condé raised money and troops from the German princes, and was joined by armies led by Henri de Montmonrency and the escaped Henri de Navarre. When 20,000 troops appeared within striking distance of Paris, Catherine was forced negotiate the Edict of Beaulieu, which was very favourable to the Protestant cause and its leaders.

The following year saw the Sixth War, when, following a convocation of the Estates General (which upheld the king's cause — now Henri III's — but deprived him of the right to raise the necessary taxes), a Catholic League was set up to oppose the Protestants. A force invaded the Loire towns, but sued for peace (the Edict of Bergerac) in the face of much larger Protestant armies in the south. {2-4}

In the Seventh War of 1589, Henri de Navarre's seized the city of Cahors and consolidated his hold on south-west France. The Duc d' Anjou intrigued to gain the sovereignty of the Netherlands, but precipitated a crisis when he died in 1584. Henry III looked to remain childless, making the Protestant Henri de Navarre the heir presumptive. {2-4}

Events turned much bloodier in the succeeding War of the Three Henries (1584-1589), so called because the leaders of the royalist, Catholic League and Protestant forces were all called Henry. Henri de Navarre refused to convert to Catholicism, and was excommunicated by the Pope. The Duc de Guise revived the Catholic League, and signed the Treaty of Joinville with Spain, under which Phillip II agreed to provide a large annual subsidy to destabilize the government of France. Henri III tried to co-opt the League, failed, and in effect then declared war on the Protestants by requiring them to revoke their faith and ungarrison their towns The League dominated the north and east. Navarre and Condé were entrenched in the south, and looked for aid from the German princes and Queen Elizabeth. An army of German mercenaries was met by Guise and the Catholic League, and sent packing. Henri III's attempt to cut Navarre off in the southwest met with defeat, however, and the king, now unpopular with Catholic mob, had to flee Paris. The League pressed for a meeting of the Estates-General, which proposed the crown go to the Cardinal de Bourbon, clearly a puppet for the Guises. Henri III then resorted to treachery. He invited the Duc de Guise to his private apartments, and had him cut down, arranging a similar fate for his brother, the Cardinal de Guise. The League under the Duc de Mayenne then sent an army against Henri III, who turned to Navarre for an alliance. Their joint forces reclaimed Paris, but Henry III was stabbed by a monk in the royal camp at St. Cloud, naming Henri de Navarre his heir before dying. {2-4}

Hostilities increased in the final phase, the Wars of the League (1589-1598). The League imposed a reign of terror on the towns it occupied, hanging anyone suspected of Protestant sympathies. Navarre advanced from the south, defeated Mayenne at Arques, swept through Normandy and inflicted a yet more crushing defeat on the League in March of 1590 at Ivry. He then laid siege to Paris, which was in turn relieved by Phillip sending the Duke of Parma and a Spanish garrison. To find a candidate for the French throne, the League convened an Estates-General in Paris in 1593, but proposed the Infanta, the daughter of Philip II by Elizabeth de Valois, a departure from the Salic Law, which Parliament immediately outlawed. Finally, in July 1593, in the church of St. Denis, Navarre converted to Catholicism, rallying sufficient moderate religious opinion to be crowned at Chartres. He entered Paris the following year, the Spanish garrison marching out without a shot being fired. Charm and bribery won over more supporters, though Spain resumed hostilities in northern France, taking Amiens in 1597. Navarre, now Henri IV, fought back and the following year, faced with heavy costs, Spain retreated, returning the captured towns to France under the Treaty of Vervins. The young Guise capitulated in 1595, Mayenne in 1596 and Mercoeur in 1598. The concluding 1598 Edict of Nantes granted Huguenots freedom of worship and civil rights for nearly a century, until Louis XIV revoked the Edict in 1685. {2-4}

Early Bourbons

Henry IV of Navarre, the first Bourbon king, was happily a man of vision, industry and courage. Rather than wage costly wars against the nobility, he simply paid them off, allocating the sums saved to the improvement of the country. Working through the faithful Duc de Sully, Henry regularized the state finances, promoted agriculture, drained swamps to make productive crop lands, protected forests, undertook many public works, encouraged education and saw to construction of many roads, bridges and canals. He added the Grande Galerie to the Louvre, and invited craftsmen by the hundreds to embellish this huge building. Though a popular monarch blessed with kindness and good humour, and much loved by his people, Henri IV was assassinated by a fanatic in May 1610, possibly with the complicity of his wife, Marie de Medici.

Marie acted as Regent during the long minority of her son, Louis XIII, during which the many quarrels, banishments and revolts greatly weakened regal authority. Louis increasingly turned to the brilliant Cardinal Richelieu for guidance, and this statesman effectively shaped France's destiny for the following 25 years. Louis became his own man in later years, however, keeping the nobility firmly in check, and cancelling the special privileges granted to the Huguenots. A navy was built, the port of Le Havre modernized, and the New France overseas extended. His marriage to the Habsburg, Princess Anne of Austria, was not a happy one, but she gave birth to the future Louis XIV in 1638, acting as Regent thereafter.

The Sun King: Louis XIV (1643-1715)

Through a strongly centralising monarchy, and aided by exceptionally capable ministers, Louis XIV brought prosperity, a brilliance court and civil unity to a France previously divided by secular and religious strife. Among the costs, however, were a nobility kept at court and so away from the proper management of their estates, an over-regulated administration where even distant colonies could not manage their own affairs, strict censorship, religious orthodoxy, unsuccessful military adventures and a naval race with England that France ultimately lost. {5-13}

On Mazarin's death, the young (23) and inexperienced Louis XIV announced to a bemused court 'that he intended to be his own first minister' and that 'all ministers were to address themselves to him'. For fifty-five years the king did just that, showing a taste for hard work, regular hours and an increasing mastery of statecraft. He was probably more diligent than brilliant, and his egoism may have neutralized his best qualities, but he was the first real ruler of France, gradually replacing his great ministers — Colbert, Louvois, and Lionne — in domestic and foreign policy. The authority of the Crown triumphed over Parlements, local Estates and municipalities. The Church still held its assemblies but its power was by permission of the King. The machinery of government developed by Richelieu and Mazarin was extended further through Councils filled with middle class men personally loyal to their sovereign. From these Councils the nobility and great ecclesiastics were expressly excluded, and even in Council matters the final decision rested with king. The Conseil d'Etat considered the great questions of State. The Conseil des Dépêches considered the internal conditions of the state. The Conseil des Finances considered taxation. The fourth Council, the Conseil Privé, was the highest judicial Court and was largely staffed by lawyers. Power was gradually removed from provincial Parlements, Estates and Governors, and placed in the hands of royal *intendants*, i.e. king's men chosen from the unprivileged classes and so the rivals and enemies of the nobility. The Secretaries of State were elevated above the old nobility, and the Chancellor was simply the first of the King's servants. Though power radiated outwards, and Fouquet, who had amassed a fortune from taxes, had his property seized and his person imprisoned for life, that power did little for the people themselves. The heavy costs of war fell on the shoulders of the poor, and the taxation system, which Colbert had tried to regularise and simplify, became increasing complex and inefficient. The wealth of the state was not measured by the people or their industry, but by amount of gold and silver in the royal treasury. {5-13}

The chief tax was the *taille*, and is best summed up with the words ‘privilege, arbitrary assessment and oppressive exaction’. Nobility, clergy, court and government officials were exempt. Not more than a third of the population were contributing to the *taille* by 1697, but this third was the poorest and most wretched. The tax collectors themselves were imprisoned for failure to reach targets, and troops quartered on towns unwilling or unable to pay. A vast number of other taxes, usually in the nature of customs and excise, exhibited the same confusion, corruption, and oppression arising from the sale of tax collecting offices, which were progressively sold on, enriching the chain of tax collectors more than the state. {5-13}

Colbert strove to promote industry in France, improving road and canal communications and imposing high protective tariffs enforced by a remodelled fleet. He offered rewards to skilled workmen — English, Dutch, German, Swedish, Venetian — to come and settle in France, and punished Frenchmen who tried to transfer their industrial knowledge to a foreign soil. All France should work hard. Industries were largely in the hands of trade guilds, and on these a host of edicts and regulations descended. Almsgiving by the monasteries must be limited, and the admission of peasants into the unproductive Orders of the Church discouraged. The King himself should take the lead, setting up royal industries like the Gobelins factory, but one of a hundred or so such institutions. The more successful Holland and England used chartered companies for their overseas trade, and Colbert resolved that France should have the same institution, in which the wealthy would be compelled to invest. Constantly the emphasis was on compulsion, control and centralisation, not on free enterprise, and such restrictions, both religious and political, in the end proved damaging at home and suicidal abroad. {5-13}

Colbert helped the king glorify the monarchy through the arts. Literature, painting and architecture were lavishly promoted, and the hunting lodge of Versailles transformed into a glittering palace, with an elaborate court etiquette after the king moved his court there from the Louvre in 1682. {10} Louis had many lovers and several celebrated mistresses, but acknowledged their many children, giving them an education, a position in society and then the hands of European royalty. After the death of his wife, Marie-Therese, Louis married Madame de Maintenon, the best educated woman at his court, but even she could not replace the vision and dynamism of Colbert, and the last years of the Sun King's reign were overshadowed by a gloomy piety and tax deficits. {5-13}

No French monarch before Louis XIV wielded such absolute power, and the lingering effects of the 1562-98 Wars of Religion still stood in the way of a country united under 'one faith, one law and one king.' The 1698 Edict of Nantes had brought religious toleration beyond what was possible in England and Germany at the time, but also allowed the Huguenots to garrison more than a hundred towns, from which they could immediately put an army of 25,000 men in the field. {1} Louis put an end to such threats by revoking the Edict of Nantes in 1685, expelling the Huguenots from the guilds and public office and then from France altogether, at a considerable loss to the industry and capital of the country. Protestant children were abducted from their parents, Protestant places of worship closed, and murderous troops quartered on Protestants refusing to convert. The Jesuits, now invited back to France, then suppressed unorthodox Catholic sects like the Jansenists, to which Racine belonged. {5-13}

Colbert died in 1683, and the Sun King's growing religious intolerance gradually united the Protestant powers of Europe. Louis sent French troops into the Palatinate, unleashing the 9-year war of the Grand Alliance, in which France barely held its own against the United Provinces and England. The ageing ruler was then drawn into the disastrous War of the Spanish Succession (1701-14), where French generals were no match for the duke of Marlborough and his Austrian counterpart, Eugene of Savoy. The treasury came near to collapse in the terrible winter of 1709, and though the Peace of Utrecht allowed France to keep most of its earlier conquests, the Spanish empire was divided between Philip V and the Holy Roman Emperor Charles VI.

Louis was also obliged to agree that the crowns of France and Spain should remain separate. {5-13}

Later Bourbons

Philippe II, Duke of Orléans, acted as Regent when the five year old Louis XV came to the throne. Philippe was a liberal and imaginative man, reversing many of the previous sovereign's policies. Censorship was relaxed, and an alliance made with England, Austria, and the Netherlands. A successful war against Spain established the conditions of a European peace. {8, 13}

Louis XV (1715-74) was the great grandson of Louis XIV, and showed the same capacity for hard work and pursuit of women. He was not an effective ruler, however, and France lost the Seven Years' War with Great Britain, and with it her territories in India, Canada, and the west bank of the Mississippi River. {8, 13}

Unfortunately, Louis XVI (1754-1793), a popular and pragmatic ruler, had to leave government in the hands of his autocratic and frivolous wife, Marie Antoinette, during periods of clinical depression. The great problem of his reign, as it had been in his grandfather Louis XV's day, that of raising tax revenues to pay for wars and the glory of Bourbon rule, remained unsolved. The radical reforms of Turgot and Malesherbes alienated the nobles (Parlements) and the nobles further resisted taxation at the Assembly of Notables in 1787. To authorize his proposals, Louis then ordered the election of an Estates-General, but the included Third Estate came out with yet more radical ideas. Louis' attempts to control them resulted in the Tennis Court Oath and the declaration of the National Assembly, which in turn provoked the storming of the Bastille on July 14, 1789. In October the royal family were moved to the Tuileries palace in Paris, from which they fled in June 1791. The royal couple were recognised and captured at Varennes, however, and brought back to Paris, where they were guillotined in January 1793. {8, 13}

Causes of the French Revolution

The French Revolution changed not only the face of Europe and its overseas colonies, but foreshadowed many aspects of modern life. It overturned the feudal system, emancipated the individual, divided landed property more equally, and abolished many of the privileges of noble birth. It aimed at benefiting humanity as a whole, moreover, and set the pattern for revolutionary movements worldwide. {14-16}

The Revolution was not the simple result of social repression as only in England and the Netherlands did the common people have more freedom and protection from arbitrary punishment. The trigger was probably the poor harvests of the 1780s, which raised food prices and brought the hungry flooding into an overcrowded Paris, but the underlying factors were the increasing tax burden that fell on the less well-off (nobles and clergy paid no taxes) and the absolute nature of the monarchy, increasingly at odds with Enlightenment thinkers and the American example. Some historians also blame the pace of change prior to the Revolution, and the self-deception of the ruling intelligentsia, who believed that they could make a Utopian France by permitting controlled violence, murder and the destruction of property to co-exist with liberty and good government. {17}

However legitimate the complaints, a revolution only succeeds when the aggrieved parties unite into a movement sufficiently powerful to overturn the machinery of state. Dual or multiple sovereignty is thus the key feature of a revolutionary situation, the fragmentation of an existing polity into two or more blocs, each of which seeks total control. Violence will therefore only increase as one group claiming sovereignty seeks to vanquish one or more rival groups. So was instigated the Reign of Terror, to quash both internal and foreign forces of counter-revolution, though violence also continued as the moderate leaders of the newly established government (the Directory: 1795-1799) tried to bring the revolution into line with the principles of 1789, i.e. under bourgeois control and not mob rule. Napoleon in fact put down the popular movement in Paris with cannon fire, and then, returning from Egypt, replaced the Directory by his own centralising government.

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28. Paternalistic States

The very qualities that would have made Nicholas II an admirable constitutional monarch — his innate sense of decorum, strong sense of duty and blameless personal life — were to prove most fatal to the tsarist cause. The Romanovs ruled through families they ennobled, and from whom they took advice, but such a system of government required the tsar to be far-sighted, politically astute, sensitive to social and economic concerns, and of strong personality. Such was Peter the Great, but Nicholas was far happier acting as paterfamilias than ruling a vast and vexing empire, about which there was still much strange and medieval outside the cities and new industrial zones. He came to the throne when his father died prematurely in October 1894, married Princess Alix of Hesse-Darmstadt (Alexandra) within the month, and became in due course the amiable father of five children. {1} Only social banalities feature in his diary entries, and indeed in no matters of an economic and/or political nature did Nicholas show much interest or understanding. The country was his to rule without laws or parliaments, guided only his conscience before God. Indeed officialdom barely reached into the countryside, where the Church and local communes retained their inveterate and often barbaric customs: wife-beating, drunkenness and floggings for trivial offences. The court, city life, the professions and industry were a world apart from the countryside, and even the aristocracy owed their lands and position to the military and administrative services they provided the tsar, making them an ineffective counterweight to autocratic rule. The educated class that had grown up in the later nineteenth century could see what was needed, but censorship was strict and political change stifled. Well-read in European thought and literature through social mobility and ready access to university education for both sexes, that class lovingly depicted the countryside in paintings, novels and short stories but attempts by such Populists to idolize and reform communities were fiercely resented by all parties.

The nobles wanted their large estate kept unchanged. The peasants trusted only themselves. They had been emancipated from serfdom, but were still their backward, superstitious and unruly selves, forced to rent the better agrarian land from the gentry class or find work in the expanding mines and factories towns, from which they sent money home, or returned themselves at harvest time, but where they also picked up ideas made ever more extreme and subversive by government repression. {2-4}

Factory life was hard and dangerous, and more so in the many small workshops, which had even fewer safeguards. Strikes were legion, and often flared into riots, pogroms and machine-breaking rampages. Trade unions were banned until 1905, blocking democratic expression through moderate socialist parties. An intelligentsia, themselves newly emancipated from rural servitude, joined an exploited working class, and revolutionary movements smouldered beneath the surface, ready to break out with dangerous violence when disasters struck. {2-4}

And disasters came from all sides. The great famine of 1891 and the death of half a million from cholera and typhus a year later had polarized opinion badly, but Nicholas did not accede to political demands for change on his accession to the throne: quite the contrary: rule akin to his father's was his solemn duty, though he lacked Alexander's domineering personality. Relief was organized by district councils, which slowly added political influence to their philanthropic aims. Government prestige was further damaged by defeat in the 1904-5 Russo-Japanese War. When St. Petersburg crowds peacefully demonstrating for food in January 1905 were mowed down by cavalry and rifle fire the mood hardened. The middle classes were horrified. There were protests, strikes and mutinies across the country, even a mutiny of the Black Sea fleet, made famous by Eisenstein's *Battleship Potemkin*. The more educated demanded some form of representative government, the Duma, which Nicholas had to accept, though it was largely consultative and repeatedly dissolved. {2-4}

Russia was ill-prepared for W.W.I, {6-7} though Nicholas could not keep his throne without respecting his treaty obligations to Serbia. The court was rumoured to be too pro-German anyway, and the unwholesome influence of Rasputin on his wife, and through her to Nicholas himself, provided yet more scandal. The war was the turning point. After some Russian successes, the Germans rolled back the huge but ill-supplied and misdirected Russian armies, and the heavy losses were difficult to make good. Factories fell behind in supplying clothing or armaments, and many divisions had find their weapons on the battlefield. Heavy conscription led to food shortages in cities, and to long queues and mutinies when troops refused to fire on rioting crowds. In a move that damaged his prestige further, Nicholas assumed command of the army, though his previous title of colonel was largely honorary. Food queues grew longer and more threatening. Rather than quell disorder, troops fired on the police. When in February 1917 his ministers admitted that they could no longer implement his measures, or even count on the loyalty of the army, Nicholas was obliged to abdicate, which he did calmly, as though finally released from a distasteful duty. {2-4}

A Provisional Government was formed, and then a more progressive one under Alexander Kerensky. But with opportunity after opportunity for sensible dialogue and compromise wasted, the time for distant promises was over. Only immediate power would satisfy peoples brutalized by war, hunger and exploitation. Peasants had seized gentry lands, and workers had taken over factories — aided by the Red Guard, which the Bolsheviks controlled. Lenin, who had arrived at the Petrograd Finland Station in April 1917, announced his terms: an immediate peace, all power to the Soviets, and no cooperation with other parties. Many thought him unrealistic, or mad even, but the Bolsheviks gained a good showing in subsequent elections, and promptly took over Petrograd in a coup d'état. Russia broke into warring factions. Nicholas and family, already irrelevant to the country and denied exile in Britain, were executed by the Bolsheviks at Yekaterinburg in July 1918. Ahead lay vast and often catastrophic social experiments: collectivisation and the elimination of the kulak small-holding class, rapid industrialization under Stalin's ambitious five year plans and always political repression: the purges, gulags and the great terror. All could have been avoided had Nicholas risen to the occasion, but what the tsar lacked in vision and determination the Bolsheviks had in plenty. {2-4} The brutally iconoclastic twentieth century had begun.

Silver 20 Kopecks of Nicholas II

Even the coat of arms, which shows the imperial double-headed eagle, the escutcheon of St. George, and the arms of Astrakhan, Siberia, Georgia, Finland, Kiev-Vladimir-Novgorod, Taurica, Poland and Kazan on the wings seems less a confident display of power than something fabulously ornate, antique and vaguely preposterous. The strangely knotted double-headed eagle indeed goes back to 1472, when Ivan III assumed the heritage of the Byzantine empire after its fall to the Turks, though it was modified in the seventeenth century with the ascension of the Romanov dynasty. {5}

Russia Nicholas II (1894-1917) 1913 Silver 20 Kopek Coin 22mm (3.38 grams)

*Obverse: *20* KOPECK 1913 C.P. in four lines, crown above, all within wreath.*

Reverse: Imperial coat-of-arms.

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29. Constitutional Monarchies: Britain

William of Normandy imposed a feudal system on England in which he sought advice from a council of barons and ecclesiastics in making laws for his new conquest. In the Magna Carta of 1215, those barons secured from King John the binding agreement that the king may not levy or collect any taxes save with the consent of his royal council — a council that would slowly develop into a parliament. Over the following centuries, the English Parliament progressively limited the power of the king, a contest that finally led to the English Civil War and the execution of Charles I. In the restoration under Charles II, and the subsequent Glorious Revolution of 1688, the supremacy of Parliament became a settled principle, and British sovereigns were restricted to the role of constitutional monarchs, with only limited executive authority. {1-4} In the 19th century the upper House of Lords gradually ceded authority to the lower house, the supremacy of the Commons being enshrined in the Parliament Act of 1911. {5}

Medieval Origins

The word derives from the French *parlement* or Latin *parliamentum* meaning 'discussion', and was first used by Henry III in 1236. But though the Norman and Angevin kings had always held assemblies or councils to discuss important matters with their nobles, these parliaments gradually evolved to become the only legitimate means of raising taxes for the king. Assent to such impositions had been enshrined in the Magna Carta of 1215, and Henry III was increasingly obliged to include more persons in his parliaments, not only the barons and close advisors, but representatives of the counties, towns and lower clergy (later known as the 'commons'). Parliaments became part of political fabric in the reign of Edward I (1272-1307), and could be summoned several times a year, generally at Westminster but also as the king's itinerary required. The clergy stopped attending the lower house in the early 14th century, and the commons did not become a regular or permanent feature until Edward II's reign (1307-1327), when government by barons was replaced by parliament. Barons were reduced to speaking only for themselves, and it was the knights, citizens and burgesses who represented the whole community of England, and who alone could assent to the taxes supporting incessant warfare between England, Scotland and France. {6}

By Edward III's reign (1327-1377) the commons contained two distinct elements: the 'knights of the shire', who represented the counties, and the 'burgesses', who represented towns or cities. The knights were generally landed gentry while the burgesses were mostly rich merchants or lawyers. Two representatives from each constituency were expected to attend each parliament — i.e. 74 knights could be returned from 37 counties, and as many as 170 burgesses from the boroughs. Although outnumbered by the burgesses, the knights remained dominant through their social standing and political connections. Knights were paid handsomely for their services: four shillings a day when a peasant's pay was just two pence. Parliament brought together the broad political community, and all branches of central government, but the business of government devolved on the 'lords', who had grown from a small group of councillors in the 13th century to a larger 'peerage' by the early 14th century — dukes, earls, barons, bishops and abbots. The great officers of state also attended the upper house: the chancellor of the exchequer, the treasurer, the senior royal judges and key members of the royal household. The commons were only regarded as 'petitioners and suitors', and decisions were in the hands of the king and peerage. The king would appoint committees of peers, administrators and judges to decide on such petitions, drawing on their advice in general matters of policy. Records were kept by royal clerks, the 'parliament roll', of which there exists an unbroken series from early in Edward III's reign. {6}

The king gave the sheriffs 40 day's notice to organise the county and borough elections, but MPs were usually selected by the constituency's elite, a process clearly open to corruption. But though far from democratically elected, members of parliament were generally sensible, mindful of the consequences of bad decisions — the Peasants' Revolt of 1381, for example, resulted from parliamentary consent to a poll tax of one shilling a head. Parliament from the first was conceived as the superior court of the realm, with powers to address any grievance or request brought to it by the king's subjects. In the early 14th century a new type of 'community' petition, or common petition, appeared: complaints presented by the commons concerning the realm as a whole. Such petitions formed the basis of new statutory legislation: laws made with the assent of parliament that related to the kingdom's trade, commerce, defence, law and order. One such was the famous 'Statute of Labourers' of 1351, setting a national scale of wage-rates to protect landlords from the adverse economic effects of the Black

Death (1348-1349). MPs varied in their effectiveness, but cooperation between lords and commons could be fatal to royal policies and favourites. The combined opposition of the commons and the lords overwhelmed Richard II in 1388, and brought down one of Henry VI's most favoured courtiers, William de la Pole, Duke of Suffolk, who was charged with eight counts of treason. {6}

Tudors and Stuarts

The modern structure of the English Parliament began to appear under the Tudors, who were strong monarchs but needed to raise money through taxation without causing dangerous unrest. Parliaments were therefore called as needed, the monarchs making their case through supporters in both houses. From the 1540s the presiding officer in the House of Commons became formally known as the 'Speaker' and had the unenviable task of making the views of the House known to the monarch. A member of either house could present a 'bill' to Parliament, and majorities in both houses were needed for the bill to become law. A royal veto could also be exercised, if only rarely. Though Charles I accepted the Commons' Petition of Right, restoring their liberties, he later dissolved Parliament and ruled without it for eleven years. He was nonetheless forced to recall Parliament to levy taxes after the disastrous Scottish Bishops' Wars (1639-1640): the Short Parliament of 1640 and the Long Parliament, which sat (with several breaks) between 1640 and 1660. Relations between king and the House of Commons deteriorated during the Long Parliament, and troops raised to quell uprisings in Ireland turned against each other in the English Civil War. Victory was eventually secured by the Parliamentarians. The New Model Army purged Parliament of opponents, and had Charles tried and executed in 1649.

The English Republic of 1649-60 did much to shape the House of Commons. Members first became known as

Members of Parliament. Cromwell afforded the House a good deal of freedom, though dissolving it when it became too troublesome. Nonetheless the Rump Parliament (1649-1653) was to demonstrate that Parliament could survive without a monarchy, and a House of Lords if necessary. The Second Protectorate Parliament of 1658 proposed an elected House of Commons as the Lower Chamber, a House of Lords containing peers of the realm, and a constitutional monarchy, subservient to parliament and the laws of the nation — which indeed was the basis of the 1688 Glorious Revolution and all future Parliaments.

Hanoverians and Later

It was under Sir Robert Walpole that Cabinet government began to take shape, i.e. rule through collective responsibility and common public statements. {7} Though Parliament held the purse strings, British governments in the eighteenth century generally pursued their own foreign policies. Walpole indeed cautioned against giving Parliament too much power in this area, and treaties were usually communicated to Parliament after they had been ratified. {8} It was also under Walpole that the Cabinet rule began to take shape, with its collective responsibility and common policy in public. The king could also prove a stumbling block, for both the government and Parliament. George III's antipathy to Fox prevented him from forming an alternative when a financial crisis and naval mutiny beset Pitt in 1797, for example, and Pitt's own administration foundered in 1801 with the royal veto on Catholic relief. The difficulties of the protracted Napoleonic Wars saw many coalitions and political manoeuvrings, but Parliament largely returned to a two-party system in 1807. The matrimonial tangles and extravagances of the Prince of Wales, later George IV, also had their parliamentary consequences, but the great Reform Act of 1832 extended representation to fast-growing industrial towns like Manchester, Birmingham, Bradford and Leeds, and redrew boundaries to exclude 'rotten boroughs'.

Suffrage was restricted to men, however, and to men of property, which excluded 6 out of seven. {9} The second Reform Act of 1867 gave suffrage to only 2 in every 5, and even the third Reform Act of 1884 only enfranchised all male house owners and added 6 million people to the voting registers. {10} Universal male suffrage had to wait to 1918, and female suffrage to 1928. {11} There are now calls to replace the enfeebled House of Lords by an elected senate. {12}

George II Guinea

Origins

Until the sovereign re-appeared in 1817, the guinea was the prime gold denomination of British milled coinage. It was first coined by Charles II in 1663, and owes its name to Guinea, what Europeans called the kingdoms of west Africa, where much of the gold originated. The denomination was last struck in 1814, but until decimalisation the term was still used in professional fees and payment for land, horses, art, bespoke tailoring and other luxury items to give an aristocratic tone to the grubby nature of making money. {13}

Britain. Au one guinea. Obverse: Laureate Old Bust of George II facing left. Georgius II Dei Gratia. (George II By the Grace of God.) 26 mm. 8.4 g.

Britain. Au one guinea. Reverse: single large crowned shield with the quarters containing the arms of England, Scotland, France, Hanover, and Ireland. 1752 M B F ET H REX F D B ET L D S R I A T ET E (By the Grace of God, King of Great Britain France & Ireland, Defender of The Faith, Duke of Brunswick & Luneburg, High Treasurer *and Elector of the Holy Roman Empire.) {2}*

George II Issues

The guineas of George II are a handsome and complex series that employ eight obverses and five reverses through a reign of 33 years. Coins appear in all years of the reign except 1742, 1744, 1754, and 1757. The pieces weighed 8.3 - 8.4 g, and were 25 - 26 mm in diameter — except for some of the 1727 coins, which were 24 - 25 mm. The average gold purity was 0.9140. The exchange rate of the guinea with respect to silver coinage was at the mercy of precious metal prices set by the market and the generally poor state of British silver coinage throughout the period. Indeed the guinea had previously varied from 20 to 30 shillings and back down to 21 shillings and sixpence, but was fixed by royal proclamation of December 1717 at 21 shillings. {13,15}

Gold Sources

Gold occurs as primary deposits in the Archaen basement of west Africa, in the so-called greenstone belts (metamorphosed volcanics and sediments), and in later quartz veins. {16} Until modern times, much of the gold came from secondary alluvials, however, and widespread gold production supported many flourishing native kingdoms. Slavery was endemic: the kingdoms used slave labour to extract the gold, and sold slaves to the Islamic world from the 8th century onwards, and to the European powers later for work in the mines and plantations of the Americas. Transportation and working conditions were horrific in both periods, but the Islamic world used slaves from many sources and allowed promotion to the highest levels of government in Egypt (Mamluks), Turkey (Ottomans) and India (Delhi Sultans). {17-21}

Tripartite Pattern of Trade

West Africa supplied slaves, gold and ivory to the European traders. The slaves were shipped to work in sugar plantations (Brazil and West Indies) and cotton fields (southern USA). The cotton was shipped to Britain where part was woven into cheap textiles. Those textiles, plus guns and trinkets, served to acquire the west African products: one of the early tripartite patterns of world trade. {22}

Georgian Coinages

Britain's gold coinage was kept plentiful and in good condition over much of the eighteenth century, but the silver coinage, in contrast, was generally deplorable; clipped, worn out, (in Ireland) badly debased and lost in trade with the far east. Copper coins were struck occasionally and grudgingly, as an unwanted social duty. {15}

A protracted battle had indeed been fought on the new gold issues in 1696. Should they be struck to the original standard in weight and purity or to the apparently accepted level the coins had been reduced to by the wear and tear of circulation? Mindful of what debasement does to that all-important constituent of trade, confidence, not to mention armies that demanded immediate payment in sound money, the government sensibly opted to maintain the old level of purity. About the weight of the new coinage there was much more debate — recoinage costs were high, and the country was at war — but those in favour of restoring the full weight, ably led in pamphlets by the philosopher John Locke, won the day. {15}

With the gold recoinage came a new silver coinage, some £6.8 million being minted over three years. But that largely disappeared in the years following and was not replaced. Over the whole of the eighteenth century only £1.25 million of silver coinage was minted, whereas the gold issues, from 1695 to 1740 alone, amounted to £17.0 million. In fact

Britain was drifting towards a gold standard, which became official in the nineteenth century when the emergency paper money of the Napoleonic wars period had to be redeemed. {15}

Behind the Politeness of the Age

Just as milled or machine struck coinage produces the regular and substantial pieces we recognise as money today, so Britain slowly evolved into a modern country in the eighteenth century, helped considerably by growing agricultural wealth, industry, and trade promoted and protected by naval power needed in age-old wars with France. Milling was invented in the sixteenth century but only finally displaced the older hand-struck methods in England with the accession of Charles II. {11} By the Georgian period, however, coins have settled into a regular series with the monarch's head on the obverse, and insignia of royal authority on the reverse.

Since the days of the Glorious Revolution of 1688, when a Dutch king and Dutch business methods came to England, the country had evolved into a constitutional monarchy, power being shared between king and two houses of Parliament. In many respects, the guinea is also a transitional piece. In style and iconography, it resembles many a continental coin of the period, especially one of the small principalities of Europe, where the monarch did indeed rule without hindrance from others. But in England he did not. George I's continuing interest in the kingdom he left behind, and his poor grasp of English, allowed Parliament to assume more power, though the king's will could not be disregarded, and there were still struggles between king and Parliament through to the nineteenth century. But this guinea of George II is a beautiful example of the moneyer's craft. The elaborate shield on the reverse displays the monarch's claim, as does the legend, though the last French territory had been lost long ago by Mary Tudor. {24-25}

Law and Order

Georgian society was one of wealth, elegance and security for the aristocracy and expanding middle classes, but of brutal justice for others. Some twenty offences carried the death penalty: trials were held at Newgate (later the Old Bailey) or the quarterly assizes, and tended to be brief as no defence counsel was automatically provided. For lesser crimes, offenders could be publicly flogged or branded. Those of previously good character might be offered transportation for life. For owing as little as two pounds, debtors could be incarcerated in debtor's prisons, run for profit, and not unpleasant for those who could pay for food and entertainment, but distinctly so for those who could not: filthy conditions and a starvation diet, all continuing for years or perpetuity as the interest continued to mount up. Law maintained the status quo, with no attempt at rehabilitation. There was no police force as such, but order was maintained through magistrates, a local constabulary, paid watchmen and the Bow Street Runners in London, from 1749, who largely replaced the previous 'thief takers' recruited from the criminal classes. {27-31}

Only some 3% had the vote. Elections were public events, and voter bribery was expected. The two parties, Whigs and Tories, were more in the nature of factions, rewarding supporters with offices of state or one of the many 'rotten boroughs'. Robert Walpole, corrupt but the architect of cabinet responsibility and many features of Parliament even today, achieved law and order at home and sensible policies abroad, keeping both king and electorate on amicable terms. However venal, the system worked. {27-31}

Georgian Country House

The Georgian period is one expanding commercial interests under a veneer of royal ceremony. The wealthy built themselves country mansions on the Palladian style, featuring an imposing entrance hall, generally reached by ascending flights of steps, and flanking rooms, all generously lit by large windows. Exterior decoration was restrained, but the interior could be lavishly modelled in balustrades, plaster ceilings and walls lined with expensive Chinese wall paper. In town, the better-off lived in terraced houses, generously proportioned and made regular by the widespread use of patterns: such terrace houses still make extensive areas of London, Bath, Edinburgh, Bristol and Dublin. {32-33} Throughout, the emphasis was on restraint, balance, decorum and good-breeding, and that politeness extended to manners, literature, dress and architecture. {34} Beneath the surface so lovingly depicted by the novels of the slightly later (Regency period) novels of Jane Austen, and recreated in many popular film adaptations, matters were very different, however. The admired British navy relied on press-gangs to recruit sailors, and ferocious discipline to keep them in line. {35} Punishment on land was just as summary and brutal. {36} Resentment at the Protestant takeover festered in Ireland. {37} Many model citizens drew their income from large slave plantations in the west Indies. {38} Alexander Pope {39} gave Augustan society a polished glitter, but Jonathan Swift, {40} George Crabbe, {41} Henry Fielding {42} and William Hogarth {43} provide a darker view.

Women in Georgian Society

Pope's picture of Belinda, the society beauty in *The Rape of the Lock,* is one of compelling loveliness, but beneath the glittering surface is pungent sexual innuendo, which not all have relished, especially not the family of the lady on whom the mock epic was modelled. But the invention wasn't Pope's. {44} Women were not the natural, virtuous and independent creatures that polite society insisted they appear. Land enclosure and swelling urbanisation brought many young women to London and other cities with no means of support other than selling their sexual favours.

Hygiene was elementary, moreover: women didn't wash any more than did men, and clothes, wigs and underwear were often filthy, fetid and lice-infested. {45-47} (Worse indignities surrounded African female slaves, of course, who were often raped and stripped naked {48} on arrival at auctions in the Americas.) Georgian society placed great emphasis of decorum, but the politeness covered many social ills and injustices.

The coin is a beautifully designed piece. The king's head fills the obverse flan very naturally, with the curls of the wig forming apt terminations to the legend. The reverse shield is particularly magnificent, and gives an air of opulence to the extensive coats of arms and abbreviated titles, a difficult feat in a small coin. All portrayed was true, but only to the more fortunate in society.

Democracy

Few nineteenth century politicians envisaged universal suffrage, and even further from their thoughts were democracies on the American model. {49}

To nineteenth-century law-makers, the property qualification seemed eminently sensible. Those of independent means were likely to be better educated and less subject to mob rule. They had a stake in the country's future. Indeed the qualification had a symbolic value. Man is a territorial creature, and land ownership is not only an echo of the old feudal order but a physical share of the country. Universal suffrage came to Britain only when socialism agreed to give up some of its principles and work within the parliamentary system, and then as a casualty of war — when the horrific slaughter on the western front raised troubling questions. What were the masses dying for, if not democracy? {50} And just as Roman had to admit Italian allies in the Carthaginian wars to full citizenship, {51} so Parliament was obliged to grant suffrage to men prepared to lay down their lives for their country. With universal suffrage came universal education. 'We must educate our masters', realized Parliament, and so began modern schooling with its mix of the uplifting and practical, as much to foster national pride and loyalty as train the workforce for an increasingly competitive world.

Contemporary Problems

Writing of Queen Victoria, Lytton Strachey could eulogise the parliamentary system:

'The English Constitution — that indescribable entity — is a living thing, growing with the growth of men, and assuming ever-varying forms in accordance with the subtle and complex laws of human character. It is the child of wisdom and chance. The wise men of 1688 moulded it into the shape we know, but the chance that George I could not speak English gave it one of its essential peculiarities — the system of a Cabinet independent of the Crown and subordinate to the Prime Minister. The wisdom of Lord Grey saved it from petrifaction and destruction, and set it upon the path of Democracy. Then chance intervened once more; a female sovereign happened to marry an able and pertinacious man; and it seemed likely that an element which had been quiescent within it for years — the element of irresponsible administrative power — was about to become its predominant characteristic and to change completely the direction of its growth. But what chance gave chance took away. The Consort perished in his prime; and the English Constitution, dropping the dead limb with hardly a tremor, continued its mysterious life as if he had never been.' {52}

Today the picture is less rosy. Democratic systems aim to engender trust, efficacy, confidence and satisfaction in electorates. Strict party discipline ensures strong governments and clear choices for voters, but can also frustrate those wanting representation on local or more complex issues. The first- past-the-post systems results in a smaller number of parties than does proportional representation, avoiding the need for coalitions, but no British Government in the twentieth century managed to break through the 50% threshold and represent the majority of the electorate. {53} Surveys indicate citizens are generally satisfied with the parliamentary democracy as a system — more so in the Scandinavian countries than in former Soviet states {54} — but there is widespread {55} and mounting {56} distrust of politicians. Though disputed by academic study, {57} there may indeed be a terminal decline in British democracy as corporation power grows, politicians become less representative of their constituencies, and disillusioned citizens stop voting or even discussing current affairs. {58} Parliamentary democracy has become a competitive struggle for the people's vote, where the people are motivated by class interests and the politicians by power, becoming the 'elected dictatorship', as George Bernard Shaw put it.

Nor until the election of Jeremy Corbyn as Labour Party leader has there been an alternative to the Neoliberal model introduced by Margaret Thatcher, which handed over to the market what had previously been expected of the state. {59} Many assumptions accompanied the model, not all of which were reasonable: enlightened self-interest of consumers, truth-telling of marketing, respect for traditions and moral codes that bind a society together. {60}

Parliamentary democracy at Westminster is largely unchanged from its 19th century form, itself the inheritor of Whig absolutism. The government is not accountable to Parliament, and so not to the electorate directly, even at election time as money buys opinion. The public does not trust politicians, and ministers have ceded power to pressure groups — the banks and big business, formerly the trade unions. The Civil Service is not responsible for its actions — only ministers are — and its advice is for government eyes only. Power in Britain has been centralised, emasculating local councils, and making little use of referendums. In short, to properly represent the electorate, British parliamentary democracy needs to govern not by misrepresentation and voter bribery, which serves only short-term and sectional interests, but more by changing the electorate's understanding of society, and hence its character and perspectives. {24} Essential here is the role of the mainstream media, but their coverage generally serves tribal interests, and is regarded by the alternative press as partisan, shallow and untrustworthy on key issues, indeed controlled. The Internet has empowered the alternative media, but the Internet itself is under threat as government officials equate uncomfortable views with subversion and potential terrorism. In fact, the government itself, through its surveillance programs and assistance to USA drone programmes, is acting outside the law. Most still believe Parliamentary democracy remains the best form of government, but also that Westminster needs to be more intelligent, representative and accountable. {61}

The British are a conservative people, still largely proud of their institutions and traditions, but Parliament seems increasingly unfit for purpose. Companies survive by serving their customers, and conspicuously absent from Westminster are anything like contemporary management approaches: overall goals, detailed board briefs, costed proposals, pilot studies, progress monitoring, market surveys, clear chains of responsibility, and rapid promotion of talent. Parliament assumed the power of the monarchy it subverted, but its executive abilities remain primitive, faction-bound and feudal. {62}

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30. Autarchic States: Germany

Simply put, fascism is a political philosophy, movement, or regime that exalts nation above the individual and that stands for a centralized autocratic government headed by an dictatorial leader, strong economic and social regimentation, and forcible suppression of opposition. {1} It is generally opposed to liberalism, communism and traditional conservatism, and became important in the first part of the twentieth century in Germany, Italy and Spain. In Germany, the movement grew out of the W.W.I, out of the social unrest and ineffective governments that followed defeat, and out of total war itself, where civilian and combatant became largely indistinguishable. Socialism's class conflict was replaced by conflict between nations and races, with a mixed economy aiming to secure national self-sufficiency (autarchy) through protectionism and, if necessary, military invasion. {2}

Germany

When the Nazis came to power in Germany in 1933, the economy had largely collapsed, unemployment was high, there were no colonies to exploit, still ruinous war-reparations to pay, and no prospects of either attracting foreign investment or of obtaining credit. Yet through an independent monetary policy of sovereign credit and a full-employment public-works program, the Third Reich turned a bankrupt Germany into the strongest economy in Europe within four years. In contrast to the USA, economic recovery preceded rearmament, and indeed enabled it. In contrast to Russia, the Nazi planners did not work with revolutionary zeal but moulded the existing form of decentralized capitalism into a more effective centralized system with large combines that supported national aims. Germany formally recognised Soviet Russia at the Treaty of Rapallo, which also cancelled war debts and allowed Germany to produce and perfect in the USSR weapons forbidden by the Treaty of Versailles.

Central to Nazi success was the Work Creation Program of 1933-6 that between January 1933 and July 1935 increased the number of employed Germans from 11.7 million to 16.9 million. By propaganda, removal of dissenters, and brutal coercion of the work-shy, unemployment was banished from the German economy and (unlike current austerity programs) the entire nation was productively engaged in constructive work. Inflation was brought under control by wage freezes and price control. Financing drew upon sovereign credit creation techniques already experimented with prior to Hitler's appointment as Chancellor. From 1933 the government created massive short-term sovereign credit, backed with a firm commitment to retire in full the debt created. Under the scheme of ‘pre-financing’ with work-creation bills, the Reich Finance Ministry distributed these WCBs (three months, renewable up to five years) to participating credit institutions and public agencies. Contractors and suppliers who required cash to participate in work-creation projects drew bills against the agency ordering the work or the appropriate credit institutions. These credit institutions then assumed liability for payment of the bills, which, now treated as commercial paper, could rediscount the bills at the central Reichsbank. The entire process of drawing, accepting and discounting WCBs provided the cash necessary to pay the contractors and suppliers. The experience of successful rollover every three months quickly established credit worthiness. The Reich Treasury undertook to redeem these bills, one-fifth of the total every year, between 1934 and 1938, as the economy and tax receipts recovered. As security for the bills, the Reich Treasury deposited with the credit institutions a corresponding amount of tax vouchers (Steuergutscheine) or other securities. As the Treasury redeemed WCBs, the tax vouchers were to be returned to the Treasury. {3}

Nazi economists understood that sovereign credit creation for purposes of job creation posed no inflationary threat and that it would be a far more responsible policy than the conservative approach of tax increases and welfare cuts to balance government budgets. {3}

In 1933, Hitler sought to reassure Germany's business leadership that Nazi rule was consistent with the preservation of the free-market system, because he needed the support of the industrialists. He could buy that support by keeping wages down during the recovery, but any rigorous effort to curb prices and profits would have alienated the business community and slowed down economic recovery. Instead, Hitler therefore sought to restore profitability to German business through reduced unit cost achieved by increasing output and sales volume. Adoption of "performance wage" (Leistungslohn — payment on a price-rate basis) increased labour productivity, thereby driving costs down and profits up. Some upward price movements were permitted to adjust price relationships between agricultural and manufactured products and between goods with elastic and inelastic demands, measures that also prevented price wars and below-cost dumping. The difference between German economic recovery under Hitler and US economic stagnation under Roosevelt in the 1930s was the degree of uncertainty for new orders for goods. Hitler made it clear that after 1936, a major rearmament program would make heavy demand on German durable-goods and capital goods industries without the need to export. With that assurance, German industry could plan expansion with confidence. Roosevelt, in contrast was unable to provide such "confidence" to industry and had to rely on anaemic market forces until after the Japanese attack on Pearl Harbour, Hawaii. {4}

America

With its close ties to big business, military adventurism and erosion of individual freedoms, {5} the America government is often termed fascist by the left-wing press. {6} Yet America is not an autarchic state, but the centre of the world's interlinked economies. Nor is the press muzzled, or dissidents sent to concentration camps. Black Americans are still disadvantaged, certainly, but there is not the wholesale deprivation of rights the Jews faced as the holocaust approached.

Indeed America and the western democracies are still far from the horrors of totalitarian Russia or China. {7}

Russia	Lives Lost (million)		China	Lives Lost (million)
1900-17	1		19th Century	25
WWI	2.2		Warlord China	0.9
Civil War	9		Japanese Invasion	4
WWII	24		Civil War	10
Stalin	43		Mao Zedong	77

Nonetheless, through surveillance, a compliant media, increasing complex legislation and a militarised police force, America now has the means to enforce a police state far more effective than was the Stasi of East Germany: all the mechanisms are in place. Many look to China and Russia to check western ambitions, but history does not suggest these will be any less controlling. Most terrorist plots in America since 9/11 have been FBI 'stings', weakening belief in accountable and principled government. Much more disturbing are the many improbabilities the alternative press has unearthed in the official accounts of Oklahoma, 9/11, the London bombings, Moscow bombings, Ottawa shootings, Charlie Hebdo incident and the Beijing Games event, suggesting that most or all were false flag operations — a most unwelcome conclusion that is naturally derided as lunacy in the mainstream press but does unfortunately explain many aspects of contemporary governments. {8}

The key event is 9/11. Others can be ascribed to cover-ups by government agencies of events beyond their control. Or to actions of rogue elements in the security services. Or to ‘protected assets’ used to foment trouble abroad that have escaped their handlers and run amok at home. But 9/11 was only possible with government complicity at the highest levels, and raises serious questions about the democratic and beneficent nature of post-industrial states. 9/11 was used to curtail civil liberties in America and wage costly wars abroad — wars which have destabilised large parts of the Middle East and threaten conflict with Russia. {8}

Few would advocate a return to repressive Nazi principles, but their full employment approach (i.e. putting people before finance, which is also urged by Modern Money Theory) does remain a viable alternative to austerity programs that have largely benefited the rich. {9}

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31. Communist States

The Soviet Union did not become repressive by industrializing: the Bolshevik state was repressive from the first. Lenin seized power in a coup d'état, and added forced labour camps, terror, torture and wholesale murder to the autocratic system he inherited. Perhaps a million people disappeared in these early years of communism: there is little way of knowing for sure. But then few democratic counterweights had existed to government in tsarist Russia. Books and newspapers were strictly censored, and even the educated classes had limited contacts with the common people. The serfs had become land-owning peasants, but were driven just the same by rural backwardness and poverty to the new cities and factories where, denied political expression, they supported a socialist intelligentsia with extremist policies. Worse appeared under Stalin: the 1937-8 Great Terror, the labour camps or gulags whose output became essential to the Soviet state, and collectivisation that led to starvation and destruction of the peasant's way of life, seen by many historians as a catastrophe from which the system never fully recovered. And if desperate measures were born out of the miseries of WWI, they were only intensified in WW II. Troops were stiffened with commissars to prevent desertion, and victories achieved with horrific loss of life. Yet even this truly heroic period — credited to Stalin and unyielding communist principles — was unmasked by Khrushchev’s 1956 speech when the reality of Stalin's despotic rule was disclosed, only partially, but sufficient for disillusion to set in. The young turned away from the stern principles and suffering that characterized their parent's and grandparent's lives, and looked to the west for alternatives. The great social experiment was over, and, though the Union was kept together by political and military force for several decades more, its end was inevitable when Gorbachev relaxed that force. {1}

Russia

Economic breakdown, war weariness, and discontent with the autocratic system of government overthrew the tsarist government, but the coalition of liberals and moderate socialists brought to power was itself overthrown by the Bolshevik coup d'état of 25th October 1917. Rule was thenceforth through the communist party, and repression was part of the system, from Lenin to Gorbachev, though most markedly in the Stalin era when the country was brutally industrialized. Economic growth was mixed but by no means unsatisfactory till the 1980s, however, after which all aspects languished until the Gorbachev reforms, which quickly and unintentionally led to the break-up of the Soviet empire. {2}

What remained of the country was inaugurated as the Russian Federation in January 1992, but the country lost its superpower status as satellite states declared their independence. The socialist central planning and state ownership of property was scrapped, and a new economy was built on capitalist principles. Responding to an abortive coup, Boris Yeltsin dissolved the Russian parliament in September 1993, and a new constitution was approved in December 1993, which retained Yeltsin as a dominant figure, though he was barely in control of events that saw nationalized industries given away at fire-sale prices to corrupt oligarchs. Yeltsin resigned at the end of 1999, and Vladimir Putin was named Acting President. In March of the following year, Putin won election in his own right as Russia's second president with 53% of the vote, and moved quickly to reassert Moscow's control. The previous eight years of changes towards a western market economy had been devastating, with the Russian populace suffering as badly as had the Americans in the Great Depression. Putin stopped the spiral of hyperinflation, stabilized the government, and pushed through reforms in banking, labour, and private property. The bloody civil war in Chechnya was brought to an end, and relations with the USA improved after 9/11, when the two countries recognized common terrorist problems. The New START Treaty of 2011 reduced deployable nuclear weapons; the 123 Agreement established a legal framework for joint work on peaceful uses of nuclear energy; NATO, the US and Russia cooperated in common policies towards Afghanistan and Iran. {3}

Background

Russia was slow to industrialize, but on the eve of revolution had 71,000 km of railway track, smelters producing 4 million tons of pig iron per year and mills processing almost as much cotton (from Uzbekistan) as Germany. Almost half the population was literate. Private banking was rudimentary, however, and the country relied on foreign capital, funding the railways, for example, by selling securities overseas. The share of heavy industry in Russia's GDP rose from 2% in 1885 to 8% in 1913, but agriculture took the lion's share. The 1917 Revolution was followed by four years of civil war, in which the Bolsheviks had to accept the peasants' demand for ownership and equal division of the land. {4}

The Soviet 'big push' began in 1928 with the first Five Year Plan. Investment was channelled into heavy industry and machinery production. Targets were set, and bank credit extended where necessary. Mass education was enforced and adult education encouraged. The fourth pillar was collectivisation, and a disaster: farm output fell, and millions died of starvation in 1933. In other respects the plan succeeded. Pig iron production had expanded to 15 million tons by 1940. Electric power generation had increased from 5 to 42 billion kilowatt-hours. The investment rate rose to 28% of GDP in 1939. In the same year, the USSR processed 900,000 tons of ginned cotton, 50% more than Britain's, though only 52% of America's figure. {4}

Always brutal in his methods, transporting millions to new territories, to slave labour in the gulags, or to their deaths on murderous projects like the White Sea Canal, Stalin strengthened his hold on power through party appointments, informers, an efficient secret police force, swift removal of potential opposition and the 1937-8 reign of terror. Hundreds of thousands perished as the tortured 'named' their fellow conspirators. Illustrious Bolsheviks, fellow colleagues who had made the Revolution, 'confessed' to treasonous crimes in show trials and were executed. The army was purged of its experienced men — 80,000 officers were shot — and so seriously weakened when Germany broke its 1939 Non-Aggression Treaty. Horrific battle losses were slowly reversed, however, and Stalin gradually left the command to professional soldiers. German supply lines were over-extended, and all combatants had then to face the Russian winter. Stalingrad proved a turning point, and by 1944 Soviet armies were recapturing enemy ground and advancing on Germany allies. {5}

WWII brought had unmitigated hardship nonetheless. 15% of citizens lost their lives (40% in the 20-49 age group), and wide swathes of farms and industry were devastated. Nonetheless, much had been repaired by 1950, and by 1975, the USSR's steel production of 100 million tons exceeded that of the USA. Investment was kept at 38% of GDP, the fertility rate dropped, and more consumer goods were produced. {6}

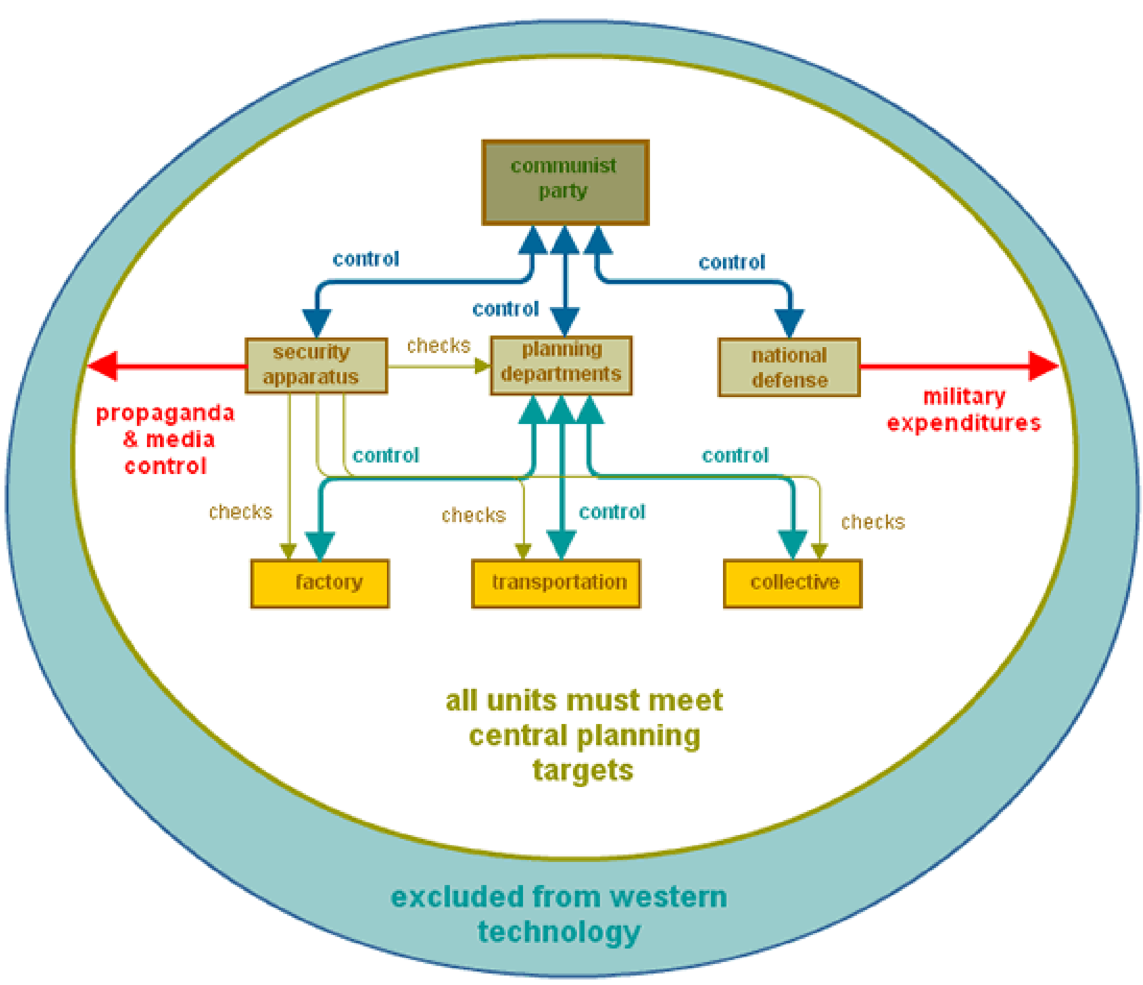
Progress was gradually lost in the 1970s and 80s, however, for reasons still debated, but probably involving a lack of:

Proper incentives: the cradle to grave care supported everyone regardless of talent or effort.

Sufficient human rights: citizens were given free education, free health care and work but not the freedom to criticize the system.

Accountability: management became increasingly bureaucratic and divorced from everyday needs.

Alternatives: citizens were kept ignorant of more successful political and economic models. {7}



Equally important after 1945, however, were:

A ban on transfer of technology to the USSR.

Trade embargoes on USSR goods.

Diversion of economic effort to the arms race.

Corruption and loss of vision by the centralizing bureaucracy.

Excessive development of Siberia.

A rigid administration overwhelmed by the needs of a modern society.

Disillusion as Stalin's actions became better known through Khrushchev’s speech and some lifting of censorship.

A loss of creativity: lacking competition, superseded technologies were kept longer on than was the case in the west. {7}

End of the Soviet Regime

The change from a communist centrally-planned economy to one market-led was extremely traumatic, and saw all the worst excesses of local corruption and western financial plunder. Under Washington-led gurus, large sectors were privatised to oligarchs, who also became politically important in former Soviet satellites. Economic problems of the 1990s included difficulties in raising government revenues, a dependence on short-term borrowing to finance budget deficits, lower prices for its oil and mineral exports, and capital flight exacerbated by the Asian crisis. The rouble declined 60% in value, foreign investment left the country, payments on private and sovereign debt were delayed and the commercial banking system broke down. The economy recovered quickly from the 1998 crisis, however, and achieved 9 years of sustained growth averaging some 7%/year, a success helped by a devalued rouble, reform in tax, banking, labour and land codes, a tight fiscal policy, and favourable commodities prices. Household consumption and capital investments both grew by some 10%/year, and replaced net exports as the main drivers of demand. Foreign exchange reserves had grown to almost $600 bn by mid-2008, the third largest in the world. The country repaid its entire Soviet-era Paris Club debt of $22 billion in late 2006, but by October 2008 had foreign external debts of $540 billion, of which $500 billion was owed by banks and corporations, including state-owned enterprises. {8}

Soviet Life

The drabness of Soviet life is reflected in its coinage. Leaving aside the commemorative pieces, not devoid of propaganda but often better designed, the circulation coinage was strictly utilitarian, and seems as soulless and unimaginative as the cities of Soviet central Asia. The same images, the same styles and the same slogans appear, year after year, and though there are series that last a decade or so, the design changes do not correspond with major changes in leadership or social events. Indeed the coins were practically coupons. Wages were fixed, and covered the basic necessities of life. There was little choice between generally badly manufactured goods, and money could not be exported. {9}

Coinage of the Revolution

Revolution was probably inevitable by 1917. W.W.I. brought down the German and Austro-Hungarian Empires, and the Czarist Empire was even less able to supply weapons to its soldiers or feed its people. Under Lenin, the Bolsheviks were united, committed and ruthless, and an immiserated society had been too brutalized by war and economic mismanagement to accept the half measures of the Kerensky government. Only a new world order that saw the total overthrow of existing institutions met their strident needs, and while the peasants in particular did not like the

Red Army, the White Armies were just as brutal, and offered only a return to the past. {10}

Soviet Union Ar One Ruble 1921-2 issue.. 90% silver 20 g 33.5 mm. Obverse: five-pointed star bearing figure 1 and surrounded by oak wreath. 1922 below.

Reverse: hammer and sickle with ears of corn. Legend around is 'ПРОЛЕТАРИИ ВСЕХ СТРАН, СОЕДИНЯЙТЕСЬ! (Workers of the world, unite!) Edge description is 'ЧИСТОГО СЕРЕБРА 4 ЗОЛОТНИКА 21 ДОЛЯ (А.Г) (Krause Y# 84)

Civil war, famine and population depletions had weakened the Party leadership, which was obliged to accept some return to private enterprise and ownership in the New Economic Policy of 1921-28. {6} Though agricultural produce increased under the NEP, Stalin introduced collectivisation and 5-year plans of rapid industrialization nonetheless, which led to the Holodomor, the 1932-3 Ukrainian famine that killed upwards of 2.5 million. {7} Then followed the 1936-8 Great Purge, perhaps also instigated to remove opposition to Stalin and his policies, in which another 0.6 to 1.2 million perished. {10}

Soviet Union Cu-Ni 10 kopecks 1931-34 issue. 17.27 mm 1.8 g. Obverse: worker holding shield with denomination, surrounded by legend 'СОЮЗ СОВЕТСКИХ СОЦИАЛИСТИЧЕСКИХ РЕСПУБЛИК' (Union of Soviet Socialist Republics) 1931 above.

Reverse: globe bearing hammer and sickle, surrounded by bound wreaths of wheat and then legend 'ПРОЛЕТАРИИ ВСЕХ СТРАН, СОЕДИНЯЙТЕСЬ! (Workers of the world, unite!). (Krause # 95)

Repression left the USSR ill-equipped to fight the Nazi invasion, and some 27 m. Russians indeed died in W.W.II, incomparably more than European or American fatalities. {9} Repression continued after Stalin's death in 1953. Gulags and arbitrary arrest were a feature of Soviet life throughout, up to and including the early Gorbachev years. {10} Given these horrors, the average citizen did not aspire to material betterment or intellectual independence — bourgeois sentiments — but, like the peasant, simply to stay alive. {10}

Soviet Union Cu-Ni-Zn 1 ruble 1961-91 issue. 27 mm 7.5 g. Obverse: 1 ruble enclosed by wheat wreath. 1961 below.

Reverse: globe bearing hammer and sickle, surrounded by bound wreaths of wheat and then legend 'СОЮЗ СОВЕТСКИХ СОЦИАЛИСТИЧЕСКИХ РЕСПУБЛИК' (Union of Soviet Socialist Republics) (Krause Y# 134a.1)

Coinage is an art, assuredly a minor art, but still one expressive of the human spirit, its aspirations and its freedoms. Everything in the USSR was harnessed to the will of the people, though, and, however noble that sounded, in practice the doctrine amounted to control by a narrow-minded bureaucracy. The October Revolution had severed Russia from her European neighbours, and a rigid censorship was soon imposed, which indeed banned harmless, non-political and trivial genres like romance, mystery and detective stories.{11}

A dead level of uniformity was expected, and experimental western ideas eliminated. Even international stars like Prokofiev, Shostakovitch,{13} Gorky and Pasternak were greatly restricted in what they could do, and countless lesser names were suppressed altogether. Many disappeared in the Great Purges: Meyerhold, Mandelshtam, Babel, Pilnyak, Yashvili, Tabidze, Mirsky, Averbakh . . a long list. {11}

Soviet Union Au 10 rubles 1921-23 issue. 22 mm 8.6 g. Obverse: worker sowing the fields. ОДИН червонец 1923 (One Ducat 1923) Edge description 'ЧИСТОГО ЗОЛОТА 1 ЗОЛОТНИК 78,24 ДОЛИ (П.Л)'. Reverse: globe bearing hammer and sickle, surrounded by wreaths of wheat and then legend ' 'ПРОЛЕТАРИИ ВСЕХ СТРАН, СОЕДИНЯЙТЕСЬ! (Workers of the world, unite!). (Krause # 85)

Soviet Union Cu-Ni-Zn 20 Kopecks Commemorative 1967 issue to mark 50th anniversary of the Revolution. 21.8 mm 3.4 g. Obverse: globe bearing hammer and sickle, surrounded by bound wreaths of wheat. ПЯТЬЕСЯТ ЛЕТ СОВЕТСКОИ ВЛАСТN (fifty years of soviet power) Reverse: 20 kopecks above stylized view of industrial works.(Krause # 138)

Soviet Union Cu-Ni 1 ruble. Commemorative 1980 issue to mark Moscow Olympic games. 31 mm 12.8 g. Obverse: hand bearing Olympic flame with view of stadia behind. Legend is ИГРЫ XXII ОДИН РУБЛЬ MOSKBA 1980. (IGPbI 22. One Ruble Moscow 1980) Reverse: globe bearing hammer and sickle, surrounded by bound wreaths of wheat CCCR (Union of Soviet Socialist Republics) 1 ruble below in exergue. (Krause # 178)

Many of the pieces shown here, particularly the commemorative pieces, are not unattractive, and contemporary issues, like those of China, can be very highly finished indeed. Even the 10 kopecks coin illustrated above is surely appropriate, denoting honest craftsmanship on the obverse, and the hopes of international communism on the reverse — no more assertive in its slogan *(Workers of the world, unite!) t*han the power denoted by the bald eagle on the American dollar. {11}

Yet the later pieces seem more mechanical, which is only to be expected when the communist system no longer reflected or engaged with the deepest wishes of its peoples. {11}

2008 Financial Crash

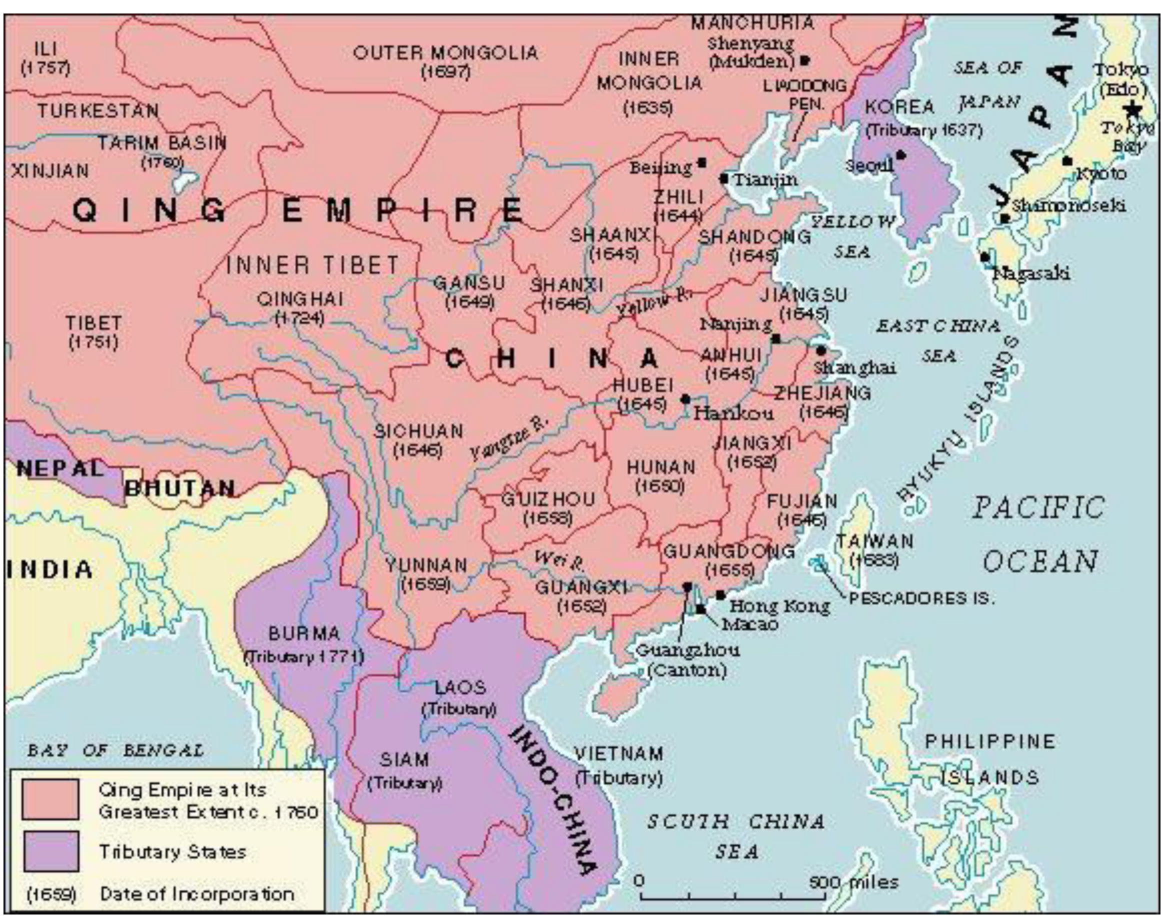
The global economic crisis hit Russia hard. Capital flight in September 2008 caused a crisis in its stock market, one not helped by business disputes like TNK-BP and Mechel, and the Georgian war. The market collapsed in mid September as businesses sold shares to raise collateral for margin calls required by international lending institutions. GDP growth ground almost to a halt in the fourth quarter of 2008, down to 1.1% (from 9.5% during the same period in 2007). The Central Bank of Russia averted a banking crisis by pumping liquidity into Russian banks, and staging a managed devaluation, one which avoided bank runs but reduced foreign exchange reserves to $387 billion in mid February 2009. This prompted the S&P and Fitch rating agencies to downgrade Russia's sovereign debt to the lowest investment grade. {12}

By 2010, however, the Russian economy had begun a modest recovery, bolstered by government policies and a rise in oil prices. Renewed emphasis was placed on innovation, modernization and diversification away from dependence on oil and gas. {13}

Nonetheless, tighter credit, collapsing global demand, global uncertainty, and rising unemployment hurt investment and consumption, leading to a -7.9% GDP growth in 2009, a striking contrast to the pre-crisis performance of 8.1% in 2007. Russia returned to growth with a 4.2% increase in GDP in 2010, the third highest growth rate among the world's leading economies, and the government prediction was for 3.7% growth in 2012. Growth in fact was 3.5%, though higher rates were predicted for 2013 and beyond. {13}

Russia has now been hit by sanctions and a lowered oil price, but was enjoying a stable market-based economy in 2013, giving it the thirteenth largest GDP in the world. Some 10% of the population worked on the land (accounting for 5% of GDP), and agricultural reforms had turned the country into a grain exporter. Some 32% worked in the industrial sector (accounting for 34.8% of GDP) and, of these a fifth were in the armaments sector, making Russia the second-largest conventional arm exporter. The service industries accounted for 58% of GDP, employing 45 million people in retail, tourism and advertising. Unemployment was still high, as was the percentage below the poverty line: some 11 million people lacked a proper source of income. Press freedom was and is still limited. Russia joined the World Trade Organization in 2012, reducing trade barriers and helping to open foreign markets for Russian goods. 2014-5 events in the Ukraine have been contentious, the mainstream western press demonising Putin for old Soviet-style aggression, and the alternative press regarding him as legitimately defending Russian interests. {14}

China



China, Japan and surrounding countries were largely self-sufficient until late into the nineteenth century. Defeat in the 1840-2 Opium War damaged the prestige of the Qing Dynasty, however, and belief in its centralized bureaucratic monarchy, the patriarchal family and the scholar-official elite were shattered by civil wars. The 1850-64 Taiping Rebellion alone claimed 20 million lives, and a 20,000-strong European army invaded and looted Peking in the 1900 Boxer Rebellion. In contrast to Japan under the (1868-1905) Meiji emperor, China only reluctantly looked abroad, and indeed had its own commercial and industrial history to call on. Some historians believe it was only the lack of cheap coal — the mines were small and distant — that prevented industrialization in the (1368-1644) Ming or even (960-1279) Song Dynasties. Generally, moreover, governments allowed commerce a free hand, and by Song times China had developed many of the commercial institutions needed for modern trade and industry, including cheques, paper money and state investment. {15}

By the 1860s the government was building factories and dockyards, and in 1880 China had legations in London, Paris, Berlin, Madrid and Washington. Li Hongzhang, a minister at the Peking court, helped set up the China Merchants' Steam Navigation Company (1972), the Kaiping coal mines (1877), a telegraph company (1879), a cotton spinning factory (1882) and a cotton weaving mill (1890). Railways were laid and the Hayang Iron Works opened at Wuhan in 1890. Progress was slow, however, hampered by a conservative court, the xenophobia of local peoples and the absence of tariffs to protect fledgling industries. Wages stayed low, indeed decreased as the population increase split farms into smaller, hardly sustainable sizes. Nonetheless, agricultural improvements were made: more land was cleared, irrigation improved, fertilizers used and new crops like maize and sweet potatoes introduced.

Women worked in the fields, though female infanticide reduced their numbers and encouraged young men to leave the land. They found manual jobs in cities, and emigrated in their millions to Australia, the Americas and surrounding south-east Asia countries. The tin mines of the British-controlled Malaysia were a favoured destination, but hundreds of thousands also signed up to work in the mines and plantations of Cuba, Peru, Hawaii and Sumatra. {15}

The Japanese threat increased the need for modernization: the Ryakyu islands were ceded to Japan in the 1870s, and then Liadong and Taiwan. China indeed had to pay an 'indemnity' of 200 million ounces of silver, and allow Japan to open factories in China. The European powers were just as grasping. Germany seized Jiaozhou in Shandong, Russia got Liaodong, Britain Weihaiwei and the New Territories near Hong Kong. {15}

For all their intelligence, the scholar-official class were not trained in market economics. Nor had the revolution leaders the necessary vision to revitalize China, and though merchants made fortunes in the treaty ports they did not hand the benefits on to the population at large. {15}

The Qing dynasty was overthrown in 1911, but the country was fragmented between warlords and imperialist powers. The Nationalists gained control in 1927 when Jiang Jieshi turned on his communist collaborators, but the war continued, against the communists and invading Japanese. The country was modernizing in the towns with electricity and western life styles, but remained the same if not worse in the countryside, from which the Communists drew their greatest support. The Shanghai of 1930 had some 170,000 women working in mills and factories, and some 50,000 still as prostitutes and a similar number as household servants. The Japanese took Nanking in 1937, with horrific massacres, and though free China retreated inland and held 60% of China's population, the area contained only 5% of its industry. Attempts to build a new industrial base by thwarted by constant Japanese bombing. Struggles between the Nationalists and Communists intensified after the Japanese were defeated in W.W.II, but the Communists led by Mao Zedong (1893-1976) proved finally victorious. Mao was an astute political operator, and kept the Communists closer to the peasants, who were promised radical improvements. {15}

Mao's record is a mixed one. A fairer, communist system was indeed instigated, land was redistributed, heavy industry expanded, Chinese sent for training in the USSR and Soviet technicians imported. The Korean war ended in stalemate, and China regained respect on the world stage. But the regime was oppressive. The country was purged of old ideas, and some tens or hundreds of former Nationalists executed in 1951. Agricultural collectives were amalgamated into gigantic communes in the 1957-8 'Great Leap Forward', and bridges, railroads, canals, reservoirs, power stations, mines and irrigation works successfully constructed, but in the 'hard years' of 1959-62 some thirty million starved to death. The Cultural Revolution of 1966, where the young criticized and sometimes murdered intellectuals and former party members, got out of hand, requiring the Red Guard to be disbanded and sent to work in the countryside. Bizarre plots against Mao were 'uncovered', and the great leader gradually retired from public life. Deng Xiaoping was rehabiliated in 1973, and again in 1978, after Mao's death. His reforms had tripled average incomes by the early 1990s and lifted 170 million peasants out of extreme poverty. {15}

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32. Modern Democracies: USA

Revisionist historians like Howard Zinn can unroll a long catalogue of horrors that must darken any rose-tinted history of the United States — genocidal conquistadors, slavery on the southern plantations, the treatment of poor whites in the northern states, the extermination of the Indian peoples, the brutal treatment of trade union movements, the demonising of communism, the excesses of WWII, the horrors of Vietnam, the promotion of war for profit by both parties, deregulation of industries for private profiteering, the building of prisons rather than schools, environmental degradation, and the many still-unfolding financial and political scandals. But these can be seen as grievous errors or false steps on a generally uphill path to American exceptionalism. Or can be so argued, admittedly against much evidence to the contrary. But for many millions of people, nineteenth century America did offer something better. De Tocqueville recognized the dangers of democracy: {1}

‘I seek to trace the novel features under which despotism may appear in the world. The first thing that strikes the observation is an innumerable multitude of men, all equal and alike, incessantly endeavouring to procure the petty and paltry pleasures with which they glut their lives. Each of them, living apart, is as a stranger to the fate of all the rest; his children and his private friends constitute to him the whole of mankind. As for the rest of his fellow citizens, he is close to them, but he does not see them; he touches them, but he does not feel them; he exists only in himself and for himself alone; and if his kindred still remain to him, he may be said at any rate to have lost his country.'

'Above this race of men stands an immense and tutelary power, which takes upon itself alone to secure their gratifications and to watch over their fate. That power is absolute, minute, regular, provident, and mild. It would be like the authority of a parent if, like that authority, its object was to prepare men for manhood; but it seeks, on the contrary, to keep them in perpetual childhood: it is well content that the people should rejoice, provided they think of nothing but rejoicing. For their happiness such a government willingly labours, but it chooses to be the sole agent and the only arbiter of that happiness; it provides for their security, foresees and supplies their necessities, facilitates their pleasures, manages their principal concerns, directs their industry, regulates the descent of property, and subdivides their inheritances: what remains, but to spare them all the care of thinking and all the trouble of living?'

But he also noted the public-spiritedness of Americans, their willingness to turn their hand to anything, the 'natural aristocracy of talent and virtue', the absence of centralized administration, the independence of the Protestant churches and the many voluntary associations and mutual aid clubs. Democracy was a continuous interplay between intermediary groups, the state and individual rights where diversity of opinion had to be tolerated because it safeguarded the common liberties of the country. To what extent, and why those principles were lost divides political commentators, but many contrarian historians blame big company capitalism or big oil for perversion of the democratic process. {2}

In reality, of course, each epoch views itself differently, often in the terms that at the time seemed most important. While nineteenth-century historians like George Bancroft celebrated the birth of a new nation united in a love of freedom, indeed a new world order that would end inequality and servitude, Richard Hildreth saw only diverse groups following their materialistic interests: landowners, shareholders, entrepreneurs, trades and groups of working men. Equally, Charles Beard's *An Economic Interpretation of the Constitution of the United States* replaced the traditional view of the Constitution as a wise blend of theory and experience by economic 'realities', i.e. the class and property interests that underlay law, government and politics. {3}

Nonetheless, there were general expectations, summarized as: There can be no obedience to the state without representation in its government. Any allegiance is conditional on the government demonstrating its competence and practical benefits. Diverse political opinions are acceptable if they do not threaten public order or the safety of the state. Government should be transparent and representative and accountable, not overly swayed by the wealthy nor deaf to the needs of the poorest. All elites should be permeable to talent, by which old skills can be invigorated with new blood. A free press should have access to information vital to citizens' well-being, and judge governments accordingly. {4}

The American Dollar

American dollar coins were issued for over two hundred years, from 1794 to 2012. The Morgan dollar issue, named after its designer, George T. Morgan, was minted over the 1878-1904 period, and again in 1921. In all, some 656,930,590 pieces were struck. At a coin weight of 26.73 g, and silver purity of 90%, that entailed 1,742 tons of silver.

Annual mintings varied considerably, from 100,000 for the 1893 issue to 86,730,000 for the 1921 issues from the Philadelphia, Denver and San Francisco mints. The *E PLURIBUS UNUM* legend (out of many, one) appears on the Seal of the United States, and was the *de facto* motto of the country until 1956, when it was replaced by IN GOD WE TRUST. The silver comes from American sources, and was indeed one reason for issuing the Morgan dollar — to use the large amounts of silver mined in the later nineteenth century. {5}

Iconography

Coins of other republics — France, Switzerland — employed a similar figure of liberty but America's is distinctly her own.

USA Ag one dollar. Obverse: Head of Miss Liberty wearing Phrygian cap and facing left. E. PLURIBUS. UNUM. (out of many, one) around. 1884 below head. 38.1 mm. 26.73 g. 90% silver and 10% copper.

USA. Ag one dollar. Reverse: (bald) eagle with outstretched wings and looking left and grasping crossed arrows and laurel branch. 'In God We Trust' above and laurel wreath below. UNITED STATES OF AMERICA . ONE DOLLAR. around. No mintmark (Philadelphia)

The mass of curls, the Phrygian cap, the ivy wreath, the ears of corn and the tiara emblazoned with liberty all serve to thicken the neck of a young woman whose serious profile might have been carved on Mount Rushmore. Note the immense strength given by the Roman profile and the firm jaw. This was not an elegant goddess or simple peasant girl, but a young American woman firmly rooted in her destiny. Her head fills the flan, and the reverse is similarly crowded, with the American (bald) eagle bursting, as it were, from three circles: the laurel wreath, the legend and the ornament of the rim. A new age was dawning, an industrial one, in which America was to lead the world. {6}

The New America

The Civil War left deep divisions in the country — between the north and south, the industrial states and those of the agrarian west, and between whites and freed blacks. Congress first attempted to integrate ex-slaves into southern societies but had eventually to accept a Jim Crow compromise: blacks were nominally free but lacked the full rights and privileges of white citizens. The Federal Government also tried to bring the west into the pattern of northern commercial life, but in granting wide areas to farmers and miners was obliged to move the native Indian populations by treaty into reservations. Sporadic but fierce Indian Wars lasted to 1877, and then, as a final coda to a vanished way of life, flared out in the slaughter at Wounded Knee in 1890. Also problematic were the immigrants who had to find work and integrate into the American way of life. Over seven million came in the years between 1877 and 1900: Germans, British, Irish, Scandinavians, Chinese. Latterly came immigrants from southern Europe, equally needed for the expanding economy, but threatening the homogeneity of a predominantly Protestant country. {7}

Industrial Growth

Cheap land and relatively high wages drew many to America. Even farmers in the north-east abandoned their holdings and moved to the west or mid-west, bringing more land into cultivation between 1870 and 1900 than in the preceding three centuries. But by 1890 the economic emphasis had shifted from farming to industry and mining, and there began that migration from rural to urban areas that was to make America the world's largest manufacturing nation. Highly skilled workers maintained their wage levels, but only after strikes and violence, particularly centring on the railroads and steelworks. Thomas Edison, who helped found General Electric, is still admired, but John D. Rockefeller was universally hated for his ruthless tactics. Equally important was overseas expansion of American interests after the 1898 annexations of Hawaii, Puerto Rico and the Philippines {7}

Silver Mining

Homesteads expanded across the country, but also important were the mining camps. Coal, iron ore and copper mining were dependent on the railways, but gold and then silver mining were not, and these operations created new towns and the bustling wealth of cities like San Francisco. Silver mining in America began after the gold rushes, largely with the Comstock Lode of Nevada in 1858, and was furthered by the discovery of several world-class deposits, all of different geological settings. {8}

The Comstock produced some spectacularly rich orebodies in hydrothermally-altered and brecciated volcanics and intrusives of Tertiary age. It was an epithermal deposit, where continuing high heat flows and soft ground were a hazard of mining. But deep shafts were sunk, new timbering methods introduced, and better extraction techniques developed: cyanidation and then flotation. {9}

Leadville in Colorado was initially a gold mining area, the scene of a gold rush in 1859, but silver lodes were discovered in 1876, and by 1880 silver mining was employing 40,000 people. Silver, which occurs as veins with lead and manganese, is associated with a Carboniferous limestone karst topography and Tertiary intrusion. To 1963, the district had yielded 240 m troy ounces of silver, 3 m troy ounces of gold, 987 m tons of lead, 712 m tons of zinc and 48 m tons of copper: a major metal producer. {10}

Different again was the Coeur d'Alene mining camp of Idaho, begun with the Sunshine Mine, staked in 1884. Here the silver also occurs in veins but originates in Precambrian sediments, from which it was remobilized by Cretaceous intrusions. The whole area saw extensive silver mining, producing 1.2 bn troy ounces to date, plus considerable amounts of lead, zinc, copper and antimony {11}

The fourth major area of silver mining was Bute, Montana, where silver veins were found peripheral to 'porphyry' copper deposits, i.e. low grade orebodies amenable to later large-scale open-pit mining. Silver production began here in 1864, and (mostly as by-products of copper mining) became second only to the Coeur d'Alene area in quantities mined. {12}

Battle for Silver

Like many European countries, America initially had a bimetal currency: unlimited amounts of gold and silver coins were both legal tender. Values of the two metals were generally fixed at some set ratio to each other, however, originally around 15 of silver to 1 of gold.

Economists are much divided on the issue of bimetallism, some arguing that having two metal supplies made bullion shortages less likely, and so reduced the threat of economic deflation. Others see the interplay of two metals as inherently unstable. When prices of outside supplies of either metal are subject to the vagaries of supply and demand, the currency is at risk from Greshams Law: bad drives out good. If the gold content of a twenty dollar piece much exceeded its international face value (with respect to silver) that coin would be melted down and/or spirited abroad, regardless of the penalties applying. As gold left the country, so silver would come flooding in, putting pressure on silver prices. {13}

The matter became a burning political issue in the closing years of the 19th century. Silver had been demonetised in the Fourth Coinage Act of 1873, which put America on the gold standard, and favoured east coast banks and businesses over mid-west miners and farmers. Deprived of its demand for coinage, silver lost value, and many silver mines closed. A tightened money supply also required farmers and small businessmen to depend more on bank loans. The Bland-Alison Act of 1878 ameliorated matters somewhat, as it guaranteed the use of silver in large issues of silver dollars. Banks were required to keep silver dollars as reserves, though in practice they issued silver certificates, and these were often used to purchase gold. But the American economy still depended on its banking system, and matters were especially acute in the Panic 1893, when falling prices brought high unemployment to industrial areas and ruin to farmers. Attempts to rectify the silver situation had come with the Sherman Act of 1890, which set the official silver to gold ratio at 15.988 to 1, and required the US Government to continue buying silver to repay debts. But the silver was in fact purchased with gold notes, which caused on a run on gold reserves, and may have contributed to the resulting panic. {14}

William Jennings Bryan, the newly-elected leader of the Democratic Party, took up the cause of silver, denouncing the heavy devaluation of property that had resulted from silver devaluation, and the US$ 200 m in gold paid annually to British banks as interest on loans. The election was closely fought, but Bryan was defeated by William McKinley in 1896, and again in 1900. McKinley had the support of big business and the major banks, but the deflationary effects of the gold standard had been to some extent offset by the cyanide process, which allowed leaner gold ores to be worked, and the goldrushes of South Africa (1887) and Australia (1896), which greatly expanded gold supplies. {15}

Those critical of banks see undemocratic powers at work in McKinley's victories, {24} but President Kennedy's re-use of silver certificates {25} seems an unlikely reason for his assassination: {26-27} such certificates did not evade Fed control, and Kennedy had more serious enemies than the banks. {16}

But a silver currency still generates controversy. Mainstream authors concede that mistakes were made in times when economics was in its infancy, but argue that banks and government were well intentioned and acted prudently. {28} Contrarian authors point to take-over fraud and press scares. {29} At its simplest, ignoring many aspects over which expert opinion differs, we can see different ways of looking at money. To east coast communities, the silver miners were 'minting their own money', evading regulation by the banking community, which was necessarily international in nature and closely allied with big business and federal government. Silver did indeed loosen the local money supply, creating business expansion — and sometimes inflation — but it is worth noting that the new supplies of gold came from South Africa and Australia, i.e. from overseas, controlled by British mining companies and banks. Silver was an American currency, and not inevitably inflationary if output of local goods and services could keep pace with silver dollar issues. In fact the local colonial currencies of the American states brought about widespread prosperity, and economic misery when they were outlawed by the British Government. {30} The key factor, as Modern Money Theory emphasises, is *who* controls the money supply — the banks, Federal Government or labourers by the toil of their own hands? The first runs an economy on debt, and the last by local exchange of goods and service, essentially barter. Control by the second entity, the Federal Government, can make money supply more democratic, disseminating prosperity throughout the country, but is also subject to other agendas. Some are overt: the stated policies of elected governments, for example. Some are more shadowy, however, notably actions of international banks and big businesses, which are not necessarily American in purpose: the Fed today is a consortium of private banks, for example, and probably more steered by BIS considerations than Washington concerns. {17}

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33. Post-Industrial States: USA

Post-War History

For the first half century, especially from 1939 to the 1960s, the American government was a national problem solver, steering the country through the Great Depression, war and the peacetime boon. Government was respected as competent and supportive of national interests: it partnered with industry to maintain American technological superiority, and made some strides towards reducing social exclusion and poverty. Roosevelt's New Deal gave hope to the average American in hard times, and Lyndon Johnson's legislation greatly extended Government help to the needy. {1}

All that changed under Ronald Reagan, who claimed that government was itself the problem. Under a return to 'free market principles', there were tax cuts on higher incomes, restraints on federal spending, deregulation of key industries (especially finance and the media) and outsourcing of government services (in education, infrastructure, R&D, the military, prisons, health care and income support.) Tax cuts would be self-financing, it was claimed, as a more innovative and entrepreneurial spirit would revitalize industry. Helped by offshoring, the larger corporations did indeed do well, with their effective tax rates falling from 35% to 25%, but not the great mass of citizens. On all relevant indicators, the 1981-2008 period was worse than that of 1955-1970. Deregulation led to the 2008 financial meltdown. Employment and economic growth declined. America became a more divided and less well informed country. Belief in government also started its current downward spiral, each new wave of cynicism seeing wrong-doing as only to be expected, which in turn increased cynicism and withdrawal from politics and public service. In such a moral vacuum, wealthy individuals and large corporations naturally put their needs above those of the country, making America less of a cooperative player on the world scene in areas where inter-government action is imperative — in immigration, military action, offshoring, environmental protection, alleviation of hunger, pollution, climate change, currency and capital movements. Government turned away from the long-term planning for national needs, and increasing became dependent on the military-industrial, Wall Street, Big Oil and the health care sectors for its campaign funding, rewarding them with favoured treatment. So became the US government what it is today, a duopoly that places sectional interests above the views and needs of the average citizen. {1}

The USA emerged from WWII as the richest country in the world, its industries unscathed and unemployment of the Depression years finally over. Personal betterment in the American dream became a reality in the 1945-71 period as the middle class swelled in wealth and numbers, aided by measures introduced by Congress to promote high employment, high profits and low inflation. The Eisenhower administration (1953-1961) adopted Keynesianism, accelerating public works programs, easing credit, and reducing taxes. {2}

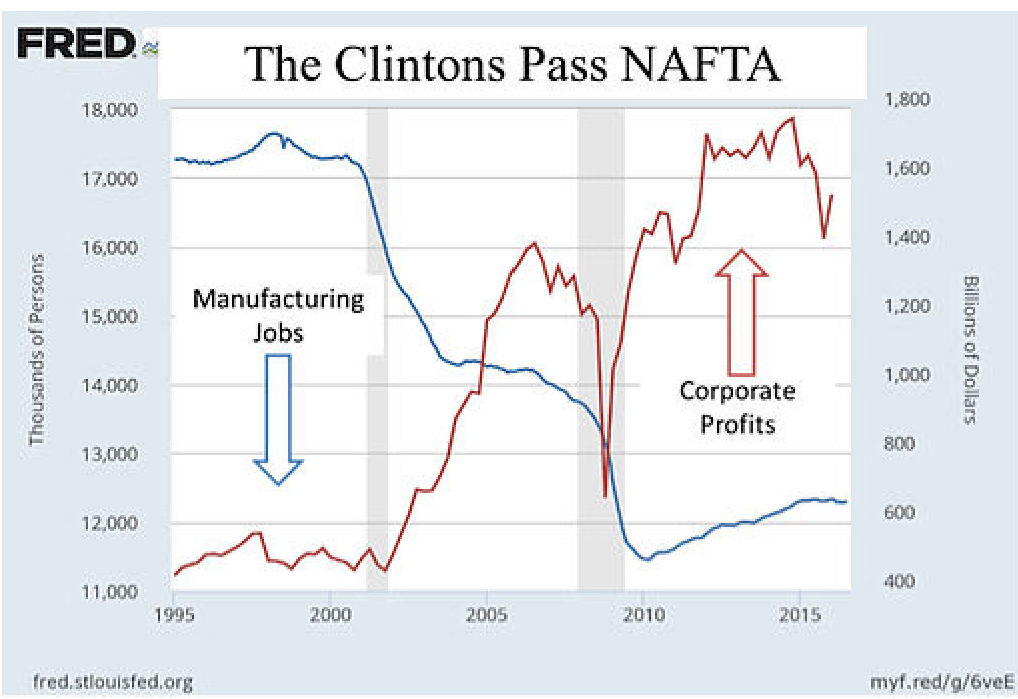
The postwar boom ended with the soaring costs of the Vietnam War, which couldn't be covered by gold. The 1944 Bretton Woods accord was replaced by a system of floating currencies, agreed by governments but increasingly dictated by markets. Also restraining the economy were the trade imbalances from imported manufacturing goods from Japan, and possibly the costs of President Johnson's Great Society. In 1973 came the oil crisis and increased energy costs, and then the 1973-4 stock market crash. Keynesian policies were replaced by monetarist economics and market deregulation. {3}

Performance was mixed in the period to 1997: recovery, the 1980 recession which shed 1.1 million jobs, tax breaks and increased military spending under Reagan, de-industrialization, increased free trade and globalisation. Productivity increased in the 1990s, but so did the national debt. {4}

Nonetheless, the American economy in 2007 was the largest and most diverse in the world. Total output of US goods and services (GDP) was $14 trillion in 2007, a shade under that of the EEC bloc, but nearly three times the size of Japan's economy and five times China's. The finance industry accounted for 41% of corporate profits. With just 5 percent of the world's population, the United States was responsible for 20 percent of total economic output. Its GDP per capita was nearly $45,000, four times the world average of $11,000. The average American worker produced more than $92,000 worth of products and services per year — nearly 20% more than that of the average of a dozen leading European countries and 85% higher than that of China. US productivity expanded by an average 2% a year from 2000 through 2006, twice the gain in most of Europe. In one study of 16 major industrial nations, only South Korea, Sweden, and Taiwan had higher productivity growth than the United States over the 2000-2006 period. {5}

The long-gathering storm struck a year later. Housing bubbles burst in California and Florida. Lehman Brothers went bankrupt. Leading banks, insurance and mortgage companies had to be bailed out by the government. The stock market plunged 40%, wiping out tens of trillions of dollars. A $700 billion plus Troubled Assets Relief Program (TARP) was made available to banks and leading businesses, {150} and Obama announced a $787 bn stimulus package in February 2009. {6}

Current Status



The US is currently in recession, or under a 'jobless recovery', and has seen its status diminish, both as an economic powerhouse and the champion of the free world. The country is still extraordinarily productive, efficient and resilient, however, and few expect that to change in the short term. {7}

The table below predates the financial crash, and it may be wise to reduce estimates for 2003-30 GDP growth in the USA, Germany, France and the UK to Japan's 1.3%. {8}

	1950-73	1973-90	1990-2003	2003-2030

				(est)
USA	2.45%	1.96%	1.74%	1.7%
China	2.76%	4.84%	7.52%	4.5%
India	1.40%	2.55%	3.93%	4.5%
Japan	8.06%	2.96%	0.94%	1.3%
Germany	5.02%	1.70%	1.42%	1.7%
France	4.04%	1.91%	1.47%	1.7%
UK	2.42%	1.85%	2.02%	1.7%
Russia	3.35%	0.99%	-1.59%	3.5%
Indonesia	2.56%	3.10%	2.66%	2.5%
Brazil	3.73%	1.41%	0.94%	1.5%

Outlook: US Hegemony

The US still largely controls the pattern of world trade. Keynes, for example, had suggested a basket of currencies (Special Drawing Rights) be employed as the international currency unit at the 1944 Bretton Woods accord, but America opted for the dollar. The economic strength of the country, the volumes traded on the NY stock exchange, and the sums deployed by Wall Street ensured that the country had its way. Britain was also dependent on US aid, and in no position to argue. When Nixon took America off the gold standard in 1971, the rest of the world accepted floating exchange rates. When large trade imbalances developed with Japan, that country was told to revalue its currency, which led to re-gearing of the Japanese economy, and then overproduction, euphoria, recession and deflation of the 'lost decade'. When Paul Volcker curbed US inflation over the 1981-3 period and so strengthened the dollar, debtor countries found it more costly to repay loans. Mexico and

Chile in particular were pushed into difficulties, which turned into bankruptcy as investment fled overseas. Though these actions have made the larger trading blocks (China and the Eurozone) rethink their strategies, and perhaps create an undeclared currency war between the US, China and the EEC, the advantage still lies with America. {9}

Outlook: Unemployment

Unemployment is a persisting worry. The financial crisis has been contained, the stock market is booming again, but jobs are not returning to the US. Congress does not expect full employment to return immediately, and the public are equally gloomy. As the current recession lengthens, lessons are being drawn from the Great Depression, and these are not encouraging. Lowered exchange rates, government deficits, trades union actions and time itself were not successful then, nor were overseas fascist solutions unless accompanied by rapid rearmament as in Germany. Today's employment recovery may be years away, and students leaving universities may suffer as the 'lost generation' of Japan, overlooked when the economy finally picks up again. Including those discouraged from searching further for employment, and those employed part-time who want full time work, the true unemployment rate may be several times the official figure. {10}

Debt servicing is not a problem, and China shows few signs of abandoning the dollar. The problem may lie in the level of *private* debt, aggravated by university and hospital fees. There are three measures of importance: a. ratio of debt to GDP, b. the rate at which a. changes, and c. the rate at which b changes (i.e. the acceleration of private debt/GDP levels). Modelling by Steve Keen suggests that b correlates with unemployment levels, and c. with changes in unemployment level. The relationship holds for the current recession in America, the anaemic 'recovery' in Japan and the Great Depression. Private debt rose 50% over the

1920s, from $106 bn in 1920 to $161 bn in 1930. Private debt rose from $17 tn to $ 42 tn over the 1999-2009 period. The debt/GDP ratio was 175% when the Great Depression began, and 298% when the current recession began. As every econometrician knows, correlation does not mean causation, but the correlation is close, and makes intuitive sense. Unlike countries, households have to repay debt, and do so by reducing spending when debt reaches high levels, especially in a recession when employment prospects are threatened. {11}

The era of citizens living beyond their means is coming to an end, and the quantitative easing measures in the USA, Japan, Britain and the EEC are probably making matters worse. The remedy is debt reduction, probably by debt redemption in measured steps. Since that would ruin many banks, and reduce the wealth of powerful players on the political scene, Keen is not hopeful of its early adoption, and expects the world's economies to follow the Japan experience of extended unemployment and sluggish growth, with many cycles of small improvements and relapses. Only China, where private debt is low (and possibly Russia, India and Brazil) could reasonably expect to escape these problems. {12}

Outlook: Offshoring

Offshoring of jobs to countries with cheap labour and lax environmental standards has received a mixed press. Most argue that increased company profits return to America in the form of foreign investment, or company savings. Developing countries are provided with much-needed employment, and manufactures made cheaper to US customers, allowing savings to be invested elsewhere in the country. Economists generally believe the overall loss of American jobs is small, and Global Insight estimate offshoring *created* a net 90,000 jobs in the 2003 IT industry alone by bringing down costs. The process works in reverse, moreover, as several hundred American companies make parts for the Japanese car industry. {13}

Others point to the social cost and that increased spending power does not flow to manufacturing industries but to services, on which America is overly dependent. More importantly, returned profits are also small compared to labour costs (i.e. overseas wages), and not dispersed widely into the economic spectrum. Indeed the tide is turning, and more companies are now questioning the offshoring model. {14}

Research has identified 'hidden costs', which can be extensive or even crippling: relocation, management complexities, quality control, documentation and shipment. Key is management: how the increased revenues and capital productivities are employed and risk contained. Offshoring to countries where salaries are 10% of America's does not cut labour costs to the same extent, and savings are commonly 20% at best, and only after a long teething period. {15}

Nonetheless, the IT industry commonly outsources help desks, security, ecommerce systems, and the development, and maintenance of applications. Most companies seem satisfied with results, and outsourcing results in poorer services in only 6% of cases for IT security and 8% for disaster recovery. {16}

Outlook: Military Pre-eminence

The military is an inescapable part of the America economic model. The country had 1,366,000 military personnel in 2011, and arms sales contributed 4.7% to its GDP. {18}

Besides providing employment, much needed in the current recession, the military machine helps enforce use of the dollar. Few would question the desire to serve their country which informs the vast majority of men and women employed in the armed forces, nor the many selfless rescue missions that are undertaken worldwide by those forces, but the military also serves — critics of 'imperialism' allege — economic realities by defending, and if necessary imposing, foreign governments favourable to American interests. Military spending would otherwise be excessive — diverting funds away from local needs, exacting high costs in blood and economic effort, and making America more feared than admired. Military objectives are becoming more costly and difficult to achieve, however, and America may be in danger of turning a strength into a weakness by overreach. {17}

WWII left two superpowers. The USSR had paid dearly for victory: 24 million dead, much of its manufacturing base destroyed, and a continuing dictatorship under Stalin, whose first actions were to erect a wall of satellite states around Russia and impose subservience through rigged elections and the Red Army. The war had cost the USA some 418 thousand dead, but its industry was unscathed and the country enjoyed great prestige as the champion of freedom, justice and democracy. Indeed the war had brought the country out of the Depression, and helped develop its phenomenal mass production techniques that were widely adopted, though possibly not with such wealth-generating results as claimed. America was certainly rich, however: its 10% of world population owned 35% of world GDP. {18}

So appeared — it is alleged — the post-war US economic model which required continuing expenditure on armaments (especially nuclear), a world kept open to US goods, a dominant role in the UN, the IMF, the World Bank, the World Trade Organization, and the USIA, and some 1000 US bases across the world. Japan was occupied, democracy reintroduced and manufacturing of cheap electronic components for US industries encouraged through trade alliances. Europe accepted US protection and its impoverished industries (Britain alone owed US$ 4.3 bn at 2% p.a. in war loans) were given their Marshall plan, a generous grant of US$ 13 billion that put Germany and others back on their feet, and prevented a lapse to totalitarian government. US-friendly governments were supported in Latin America and the Middle East, many of them undemocratic or even repressive. The CIA conducted covert operations in over 40 countries to aid US interests. {19}

The model began unwinding when America supported the South Korea and South Vietnam governments against communist aggression. Local parties to the conflict were repressive, and not squeamish about murdering their equally unsqueamish opponents. The 1950-3 Korean War saw a north Korean invasion of the south, a counterattack, Chinese support for north Korea and finally, despite the tactical brilliance of General MacArthur, a stalemate. The uneasy settlement drew the border in its pre-war position. The war cost America $320 bn and took the lives of some 3 million soldiers and civilians, but south Korea survived to become a US-friendly manufacturing centre for electronics, cars and shipping. {20}

The 1955-75 Vietnam War, where the US took over the French colonial position and prevented free elections that would have united the country under communist rule, was as bloody as Korea but less successful. The USA lost 58,000 soldiers. Vietnam and surrounding countries lost 1-3.8 million soldiers and civilians, and many thousands more when the Khmer Rouge and the Vietnam governments took control. The countries were devastated by heavy bombing, and the recovery has seen open trade more with China, Japan and Australia than America. {21}

American military spending now represents 40% of the world's military expenditures, and is larger by an order of magnitude than its foreign aid programs. Indeed global spending on armaments in 2011 exceeded that at the peak of the Cold War (£561 bn to £547 bn) and was 17 times the amount earmarked for alleviating world hunger. {22}

Outlook: Erosion of Civil Liberties

The Justice Department and the Drug Enforcement Administration have been tracking telephone calls since 1992. Events of 9/11 allowed increased surveillance. Images from body scans at airports are being stored. The FBI is installing a $1 billion face recognition system across the country. In many US states, police may now retrieve and store information from mobile phones of motorists stopped at will. {23}

The US Patriot Act and the creation of Homeland Security (with a $99 bn annual budget) have greatly increased state powers, and all records, business and individual, can be accessed without warrants, owners' permissions or the access being divulged for a year. Telephone conversations are monitored, and current technology allows the authorities not only to pick up key words but immediately identify individuals from acoustic and learned patterns of their voice. Emails are stored, and suspect content flagged for further investigation. Banks must report on US customer activities, and foreign banks refusing to do so may be subject to a withholding penalty on US-sourced funds. Electronic surveillance grows in penetration, and — contrary to its favourable presentation in popular TV serials — can now subvert the democratic purpose: the damaging secrets of any politician, institution or military leader can be now used for blackmail, or simply manufactured. {24}

Outlook: Increasing Media Control

Americans, among the friendliest and most hospitable of people, would be bewildered to find their government detested abroad — for its increasing violation of US and international law, for supporting repressive governments in the Middle East and Latin America, for imposing coercive economic policies, and for the many coups and invasions that have removed 'unfriendly' governments. The one essential and beneficent nation, the defender of democratic freedoms, is widely seen as the greatest threat to world peace. {25}

Foreigners generally blame Washington, realizing that the self-image Americans enjoy is one carefully groomed by a media controlled by a few large and self-serving corporations: in films, TV and newspapers. Most Americans take their news from the TV, and even quality newspapers provide very little in-depth reporting. Foreign news coverage is partisan, generally no more than Reuters' feeds with slant added to make it more palatable to the target audience. Newspapers cultivate links with government and the CIA. Journalists who stray off message are marginalized or fired. The alternative media, whose articles are often more independent and better researched, is bad-mouthed and dismissed as amateur. Very large claims of widespread media dissimulation are sometimes made, difficult to believe in entirety, but backed an equally wide spread of informed opinion. {26}

Oulook: Increasing Power of Big Business

Lobbying and campaign contributions now bankroll the American political process. Money as advertising has promoted the fraudulent claims of GM crops, of antidepressants, and of vaccines. Medical treatment would be much cheaper without Big Pharma. Quantitative easing has most benefited the already wealthy, and that wealth purchases a college education and the contacts needed for success in business and public life. Bank wrongdoing continues unchecked. The American dream largely belongs to the past, and even a college education no longer guarantees a decent job. Big money corrupts the US courts. {27}

Outlook: Increasing Inequality

Realized by a growing proportion of the public, but largely ignored by Washington and the mainstream press, America faces serious problems — prolonged unemployment, growing inequalities in income, wealth and power, corruption of national politics by big business and finance, and the lack of long term planning in its budget, education and energy policies. Poverty has increased. Equally marked has been a decline in civic virtue. Public opinion deeply distrusts banking, large corporations, the news media, the entertainment business, unions and the federal government. Where China is spending over 50% of its national income on infrastructure, the USA is spending practically nothing: some $2.2 tn is now needed to make good the deficiencies in roads, bridges, railways, schools, etc. The Program for International Assessment ranks America at 15th in reading, 23rd in science and 31st in mathematics — way behind its Asian competitors. CEO salaries and perks have soared, and those of clerical and production staff have stagnated. In the early 1970s the average salary of 100 top CEOs was 40 times that of the average worker's pay. The figure in 2000 was 1000 times, and CEOs continued to receive high salaries though leading their companies into illegality and meltdown in the 2008 financial crisis. Inequality today may be greater than in 1929, and 1 in 8 Americans relies on food stamps. Spending on education, environment and infrastructure was cut to 4% of GDP in 2010, and is scheduled to be cut to 2% in 2020. Student loans are an increasing burden on those seeking better jobs, and many are not written off for thirty years. Americans respect decency, hard work and honesty, but have little opportunity of expressing those values in the two party system. Big Oil owns the Republicans. Wall Street bankrolls the Democrats. The high cost of political campaigns ensures that other voices are crowded out. The police and legal system are increasingly at war with the citizens they are pledged to protect. {28}

The US hegemony model after 1945 was of shared worldwide prosperity, led by the US through world government organizations, trade, the dollar as the international currency, diplomacy, covert action, and — if necessary — military force. Initially, the model was enormously successful, raising millions from poverty and giving many in western democracies a standard of living unknown before. From the 1970s, however, the model came under pressure from three developments: 1. High levels of debt (institutional, federal and private) arising from trade imbalances and unfettered spending, which placed American fortunes in the hands of banks and trading partners. 2. Increasingly costly military action and 3. unregulated globalisation, which drained resources from developing countries, and then jobs from middle-class America, concentrating wealth in the richer echelons of American society. {29}

When the Bretton Woods agreement collapsed in 1971, and the 1973-4 oil price hike brought stagflation to the western world, the Reagan and Thatcher governments persuaded their electorates that government itself was the problem. Free markets encouraged by tax cuts and deregulation would unleash creative and entrepreneurial skills, with the benefits 'trickling down' to the less well off. But the benefits did not trickle down. And free markets are not self-correcting, not always efficient, and fail badly with 'single suppliers', i.e. in creating public services, supplying armaments and protecting environments through legislation or taxation of polluters. {30}

Many suggested improvements seem utopian, and unlikely to be implemented by a political system so closely identified with wealth and big business. Most predictions are for employment to remain depressed for a while, perhaps a decade or so if this recession is similar to previous ones, or permanently if private debt is the controlling factor. Public debt is also a danger. Runaway defence costs, social relief program reductions and commercial espionage are further issues, now heavily politicised. {31}

American Empire and the Outlook for War

The imperial ambitions of America in the late nineteenth century were fiercely debated between politicians arguing that America had a social duty towards the less fortunate and those countering with the cost of wars likely to be fought — both the cost to America and to the countries concerned. History has vindicated both parties. The country garrisons the world with hundreds of military bases, spends vastly more on war and military equipment than any other nation, overthrows governments deemed inimical to American business interests}, and treats any interruption of goods and services needed by America as a hostile act, to be met with military force if necessary. Equally clearly, the tribute system operates through the American dollar, enabling Americans to print money, run up large trade deficits, and oblige China, Russia and other countries buying treasury bills to fund the very armed forces that impose the American order. {32}

Equally plain are the many benefits America has brought to the world in scientific discoveries, research and development, manufacturing know-how, technology commercial practices film companies and in the practical conveniences of everyday living. It is the concentration of wealth, innovative ideas, and sheer productivity of America that makes these achievements possible, coupled with self belief and the 'can do' mentality. {33}

Only Russia has a comparable nuclear arsenal, and only China is beginning to rival America in scientific and industrial development. Determination to remain the world's leading nation has shaped America's foreign policy since 9/11 — its destabilisation of Islamic countries bordering Russia, and its attack on Chinese commercial interests, in China and worldwide. The American 'top one percent' is forming 'an empire within an empire', controlling the media, favouring big business and big finance with discretionary tax schemes, weakening civil liberties, and turning less affluent 'fellow

Americans' into second-class colonials within its own borders. Whether that policy will ultimately succeed like the British Empire, or founder as the Delian League, very much depends on how rivalries with Russia and China are handled: electorates have little say in the matter. {34}

Military actions to defend markets and American influence have been horrendously costly in cash and lives of all concerned — far more than they were worth: none was successful. {35}

	Cost US$ (billion)	US Lives lost (000)	Civilian Lives Lost (million)
Korean War	320	34	3
Vietnam War	686	58	1-3.8
Gulf War	96	0.4	0.02-0.05
Iraq, Afghanistan & Pakistan	4530	10	0.1-1.7
Covert Ops	1700	0.09	1-11

The Vietnam War was first lost at home. Belief in its civilizing role allowed the administration to overlook the unfortunate realities of war — the Mai Lai massacres, the Phoenix Program and the heavy loss of civilian lives — but coverage by independent reporters and the return of disaffected conscript troops fueled a growing anti-war movement. Even the military, inclined to simplify matters into 'allies' and 'enemies', began to realize that the war was unwinnable when the Vietnamese would take any casualties to secure their independence. Later US wars would employ professionals, depend more on technological advantage, and keep a tighter rein on the media, yet the same over-simple interpretation of events and cultures have characterized conflicts in Latin America, the Balkans and the Middle East. {36}

So is the 'war on terror', which goes beyond wishful thinking. El Qaida was created by America, first to destabilize Afghanistan by supporting the mujahideen prior to the Russian invasion (i.e. to give Russian its own Vietnam) and then to foment trouble in Yugoslavia. 9/11 allowed the administration to curtail civil liberties and extend military budgets and operations. Events were planned in Germany and financed by Saudi money, but America attacked Afghanistan and then Iraq. The Taliban offered to hand over bin Laden after 9/11 if the usual extradition papers were served, but the US resorted to heavy bombing of the country and support of Northern League warlords. Iraq was invaded to neutralize atomic/biological weapons, and then to remove El Qaida terrorists the regime was believed to be harbouring. When both proved illusory, the reason morphed into 'regime change', an act illegal under the UN Charter and international law. Like the earlier Desert Storm operation, the invasion was carefully planned and executed, but insufficient troops for occupation led to security lapses, sectarian violence, insurgency and ethnic cleansing. A minority of critics see the havoc created by US economic, military and covert actions as specifically designed to that end, i.e. to damage countries that refuse to accept US leadership. {37}

The widespread solidarity with America after 9/11 was eroded by invasions, rendition and torture, the large loss of life serving to radicalise Muslim opinion and ensure a supply of enemies for years to come. Basic facilities in Iraq have been destroyed, and large parts of the country overrun by ISIS, a violent Islamic group funded by America, Saudi Arabia and Gulf States to overthrow the Assad regime. Afghanistan, formerly a secular country with modest freedoms and educational levels, has become a failed state. Religious intolerance has increased in Pakistan, and hostility to US drones and military action reduces opportunities for US investment and trade. Entirely contrary to its professed humanitarian intent, western military action has destroyed the very governments that were bringing secular values to the Muslim world: in Afghanistan, Iraq and Libya. Much of the action is covert, and illegal by US and international laws. Though armament and reconstruction companies are the only beneficiaries of war, aggressive NATO policies now threaten Russia, encouraging it to forge closer links with China, which the US seems unwilling to accept as a useful and equal partner on the world stage. China and Russia have no illusions on America’s determination to retain full spectrum dominance, and the US military has indeed published plans for a nuclear first strike. {38}

Outlook: Vested Interests

Beneath the surface, and only examined properly in contrarian publications that few Americans read, the United States of America is becoming another country — one less equal, less democratic and less concerned to promote a prosperous world. Policies in recent years have gone so far beyond free market concepts, and seem so contrary to the good of ordinary citizens, that some surmise the existence of a 'deep state', a group or loose affiliation of interests that have quietly secured the commanding heights of power, wealth and influence. David Rothkopf describes a shadowy but powerful affiliation of business interests. Al Martin documents the criminal state within a state that was the Iran-Contra affair. Michael J. Glennon, who is well placed to know, calls them Trumanites — several hundred unelected officials who control the military and intelligence agencies, and so constitute an all-powerful but hidden arm of government answerable to no one but themselves. {39}

More speculative academic studies have postulated that superlatively rich families and Wall Street banks occupy its inner recesses. Around them will be the CEOs of transnational and finance companies. Then come the political classes, the military and their advisers. In the fourth ring are found top academics, media moguls, prominent artists, NGOs and the occasional religious leader. All regard the United States as the global governing authority, the world's legitimate government, and all threats to its hegemony as unpatriotic sabotage of worthy ideals: one government, one market system, one country's continual growth by economic pressure or restorative military action. Electorates are not consulted. {40}

Outlook: Corruption

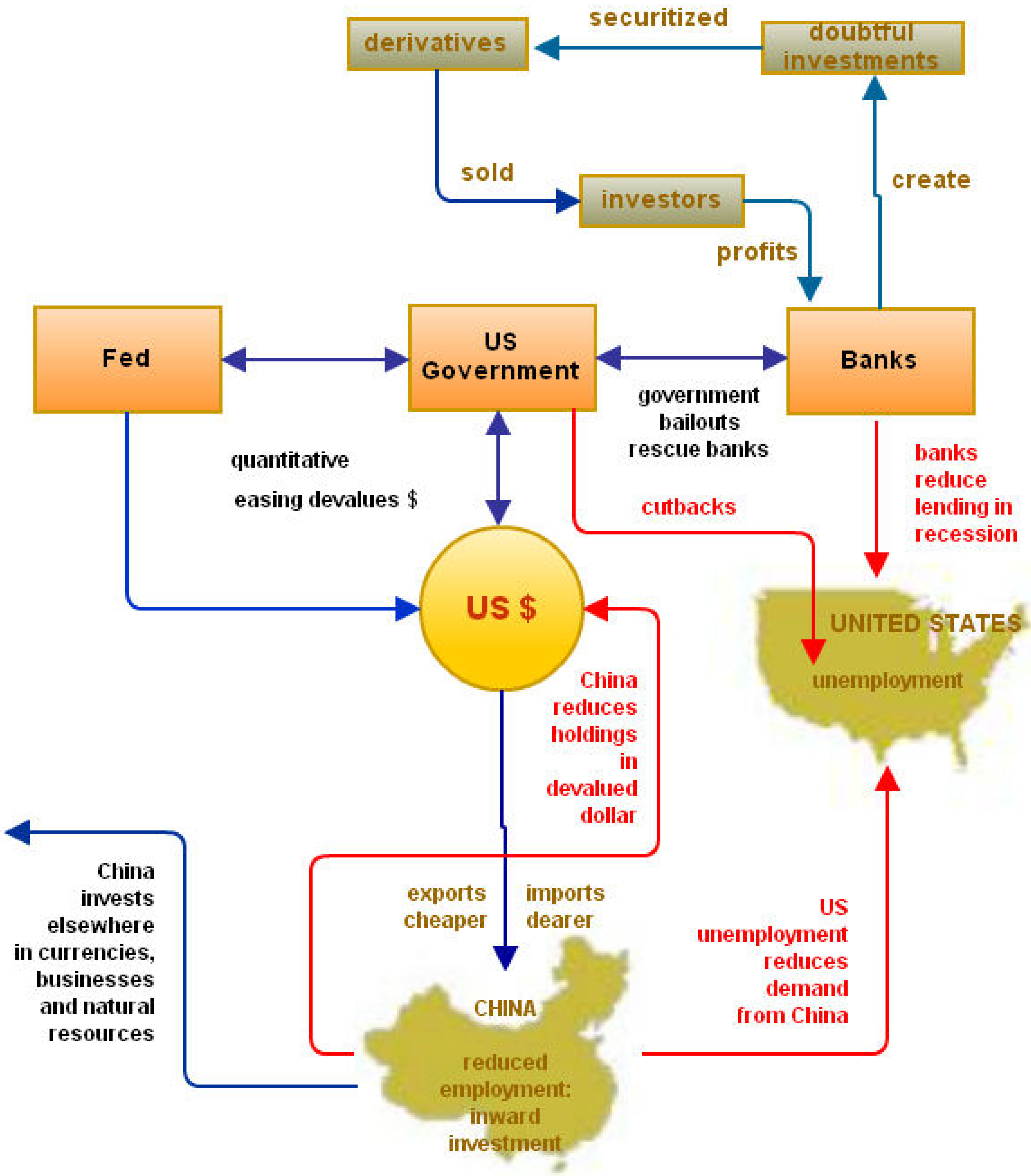
None of those responsible for the 2008 financial crash has gone to prison. The few serving custodial sentences were generally whistleblowers. Corruption is becoming systemic, or has been so for decades. The CIA has become a law unto itself, beyond government control. {41}

Outlook: More Bank Bailouts

As the model below indicates, the Wall Street banks were able to dump their toxic assets through American taxpayer bailouts. Some products, although worthless, (synthetic CDOs) and indeed created 'out of thin' air, were monetised and added to the US debt burden. Public services were cut to balance budgets, and the resulting recession made banks even less inclined to invest.

Quantitative easing (printing money) devalued the dollar, but recovery has not come through improving trade figures. Finding its large dollar holdings under threat, China has diversified into resource development, in the country itself, and increasingly in Africa, Latin America and elsewhere. {42}

Given the financial sector's influence on government, sceptics doubt that reform will be implemented soon, though the proposals are not unreasonable: break up the bigger banks, make them less interdependent, outlaw synthetic CDOs and make other derivatives more transparent, regulate shadow banking, protect deposits at high street banks, provide incentives in the form of partnerships rather than bonuses, and encourage banks to be more socially responsible. {43



Myth and Reality

Coinage projects the power, wealth and legitimacy of the issuing authority, and that projection is now the task of the mainstream media. As such, the temptation is to avoid home truths and play instead to the common beliefs and purposes that every democratic government claims to represent. America is still a rich, marvellously diverse and largely free country, but the increasing disenchantment with politics and politicians suggests that blaming the usual culprits — immigration, Russia, terrorism — will not correct matters. Thoughtful citizens are already aware that the portrayals of

American institutions and policies in the mainstream press are becoming divorced from needful reality, as is the promotion of financial interests over commerce, community and industry. Yet the danger is not that discriminatory monetary policies will bring down the banks — mechanisms exist to prevent that — but that the aspects noted above will become endemic to government — i.e. surveillance, militarism, big business, financial power and inequality will become part of the survival kit of post-industrial states.

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Behind the euro-zone lies the intention, stated as early as 1950, to make war between the member countries not only unlikely, but materially impossible. With important but tacit USA support, France, West Germany, Belgium, Luxembourg and Italy formed a European Coal and Steel Community in 1951, and these countries formalized a free market, and free movement of peoples in the 1957 Treaty of Rome. Before the Maastricht Treaty of 1993, the community was known as the European Economic Community (EEC), the Common Market or the European Community (EC). In 1987 came the Single European Act, and in the 2007 Lisbon Act, after which the community was simply called the European Union (EU). {1}

History

The 1993 Maastricht Treaty paved the way for a common currency, the euro, which was introduced in 1999 and arrived fully armed with notes and coinage in 2002. Though dire warnings were issued to sceptics, not all countries voted yes to the required referendum, and some were denied a referendum at all. Ideally, it was thought, a common currency area would require: {1}

1. Flexible labor markets, with mobility to prevent local skills shortages.
2. Responsible product and financial markets, with competition, innovation and entrepreneurship.
3. Integration of labor, services and capital.
4. Diversity, so as not to be over-reliant on small market sectors.
5. Strong government, with common goals.
6. Similar inflation rates.
7. An emphasis on growth.

The specific rules for euro-zone membership were:

1. Budget deficit should be below 3% of GDP.
2. Total public debt should not exceed 60% of GDP.
3. Members should have an inflation rate within 1.5% of the three EU countries with the lowest rates.
4. Long-term interest rates should be within 2% of the three EU countries with the lowest rates.
5. Exchange rates should be kept within a specified 'normal fluctuation' margin.

In fact, many member states failed to bring their economies into line (convergence) but were admitted nonetheless, political agendas overriding economic criteria. Situations were deliberately fudged, particularly in Portugal and Greece. The latter kept public sector liability off the balance sheet, had a highly inflexible labour force (public officials were next to impossible to fire) and used a $1 billion loan from Goldman Sachs (at expensive rates) to misrepresent matters. {1}

Government

The EU has various institutions to ensure democracy and smooth running: {1}

1. European Council, in which the Government of each country is represented by one minister. It holds legislative and executive powers, and is the main decision-making body of the Community.

2. European Commission, where each country has one representative expected to represent the community interests: the

executive arm, drafting Community law, and dealing with its day-to-day affairs.

3. European Parliament at Strasbourg, to which members are elected, seats being allocated according to the population of member states. Though EU MPs vote according to political allegiances, and often represent a wider spread of opinion than is possible with national governments, electorates still see the European Parliament as bureaucratic, petty-minded and distant from their affairs

4. European Court of Justice, whose decisions can overrule national courts.

5. European Court of Auditors, which ensures that taxpayer funds are correctly spent.

6. European Central Bank (ECB), which administers the monetary policy of the euro-zone countries. Price stability and low inflation are its primary aims. {1}

By 2007, the EU trade area was the largest in the world, accounting in 2010 for 40% of international trade. Trade in services had nearly doubled between 1993 and 2002, and trade in manufactures had risen in the same period from €670 billion to well over €1,000 billion. Until recently, inflation was kept below 2% p.a., and its currency was more stable than the British pound. Social mobility has been less than hoped, however, and many states remained strongly nationalistic. {2}

Threat: Sovereign Debt Crisis

Many factors contribute to a situation where some countries in the euro-zone now have difficulties in servicing their government debt.

Recession

When Governments across the world were forced to bail out their banks, and banks themselves cut back on lending, economies went into recession. Unemployment rose, tax revenues diminished, and welfare and infrastructure projects had to be pruned, adding further to unemployment and electorate dissatisfaction with their governments. Countries typically borrow in these circumstances through bank loans and government bonds, but found it costly to do so because the rates increased sharply to cover the risk of default. The loans required were large, moreover, and investors saw better opportunities in China, India and Russia. Devaluation was not possible because countries were locked into a common currency employed by member states with different economies, problems and aspirations. {3}

Inequalities

Many euro-zone members ran large budget deficits. That of Greece continued to widen throughout 2011, growing to €20.52 bn in the first 11 months of that year. Ireland's widened from €18.7 bn in 2010 to €24.9 bn in 2011. In contrast, some countries ran trade surpluses. The value of German exports was $1.334 tn in 2010, second only to China's (twice that of the UK, and some 60 times that of Greece). Imbalances vary with the country concerned, but many showed a decrease until the 1980s and an increase thereafter. {4}

A common currency rewards the more efficient countries. The labour cost of output increased by only 5.8% for 2000-09 period in Germany, for example, but rose in Ireland, Spain, Greece and Italy by some 30%. {5}

Outside trade by member states also varied widely. The largest surplus was achieved by Germany (+ €45.0 bn in January-March 2012), followed by the Netherlands (+€11.8 billion) and Ireland (+€10.3 billion. The UK registered the largest deficit (-€37.1 bn), followed by France (-€21.6 bn) and Spain (-€10.7 bn). The deficit has to be funded by banks and financial institutions, with German banks indeed holding $250 bn of troubled euro-zone member bonds. {6}

Corruption

The banking crisis left Ireland, Portugal and Spain much at risk, but the main threat of default came from Greece. {2} The country had not brought its financial measures into line with core euro-zone members, but retained its 'clientelism', where inward investment is diverted by politicians to buy votes from important interest groups, a legacy from Ottoman days and later. The country suffered a civil war immediately after W.W.II (1946-9), a mass migration from the countryside, and then the 1976-74 backward-looking, repressive military dictatorship, which did not improve public accountability. Corruption affects all levels of government and business (the country came 71st out of 180 in the 2009 Corruptions Index ranking.) Restrictive practices are rampant. The tax system is byzantine, with the authorities hounding the honest few and leaving higher-earners untouched. (Less than 5,000 of an estimated 60,000 households currently declare annual incomes over €100,000.) In contravention of EEC rules, heavy subsidies were pledged in 2009 to cotton (€75 million) and wheat producers (€100 million), €75 million being made immediately available. In 2011, more than a million Greeks paid a bribe for better service in the public sector. Hospitals are notably inefficient. Scandals are commonplace. Four Greek pension funds were implicated in a JP Morgan scam involving €280 million of Greek government bonds in 2007, and money laundering in the 2007 Siemens case, which led Switzerland to freeze €200 million in bank accounts. {7}

In short, Greece is a low-tax, low public-service country papered over by EU cohesion funds, bond market borrowings and omerta from its better-off inhabitants. {26} Notably lacking are those features Michael Porter termed 'advanced' — skilled labour, natural resources and infrastructure sufficient to compete in given industry sectors. Demand is fuelled by overseas borrowing. Supporting industries are not internationally competitive, and businesses generally lack the structures of euro-zone core counterparts. Nonetheless, Greece was accepted into the European single currency in 2001, and three years later hosted the Olympic games. For ten years, Greece enjoyed a prosperity founded on tourism, shipping, agriculture and real estate. Northern

European banks and institutions gave loans because Greece was importing their manufactures, helping to depress local prices and so lower the apparent inflation. Greek textile companies indeed moved to Bulgaria and Turkey, while Greek households splashed out in cars and holiday homes. In 2008 GDP growth was still 2%/year, but the following year it reversed to -2%. Public debt was then 115.1% of GDP, and the trade balance was 12.0% of GDP. Matters are seen very differently by the Greeks themselves and others, who accept that corruption and tax evasion has to stop, but also blame the predatory nature of the financial institutions and US foreign policies. {8}

Banks

Though many banks put quick profits (casino mentality) above the funding of sound business and public welfare projects, the pattern shows wide geographic variations. Debts levels are higher in the US and UK, their citizens being more addicted to credit cards than are Germans or even the French. Banks and hedge funds have benefited from uncertainty in the currency markets, some of it created by their actions. Much is held off the balance sheets, though the sums are large (US$ 13-22 trillion) and are complexly interconnected. British and American banks are variously exposed to loans taken out by troubled European countries. {9}

Bond Markets

Companies raise capital by taking out a loan, and/or by issuing shares and bonds. Bonds run for a set period of time at a stated interest rate. Upon maturity the loan (bond principal) is returned. Interest is usually paid every six months. Bonds are also issued by municipalities, states and (most importantly) by sovereign governments. Bonds are traded. If a $1 bond yielding 1.5% interest is sold at 80 cents, reflecting doubts on its future value, the interest is effectively $1.5/0.8 or 1.875%, the acquirer being rewarded with an increased yield for accepting a higher risk. Many factors enter into risk assessment (interest rates, maturity of the obligation, credit risk, liquidity, embedded options; and tax treatment of the obligation). Spreads are the differences between two stated prices or other variables, and provide a measure of market concerns. In money markets, for example, the TED spread, a difference between T-bill and Eurodollar rates, compares the difference between a 'risk free' Treasury rate and a comparable commercial rate. Spreads between Libor (rate at which banks lend money to each other) for different currencies also indicate their relative strengths, and may determine forward exchange rates. {10}

Funding Needs

Very large sums are involved. The 2010 OECD forecast indicated that US $16 trillion would be raised in government bonds among its 30 member countries, and that financing needs for the eurozone would total €1.6 trillion (compared to US$1.7 trillion of Treasury bills and securities, and ¥s 213 trillion of government bonds in Japan). {11}

The 2008 crash worsened the debt situation in countries like Greece, Portugal and Spain, and automatically increased their costs of borrowing through the bond markets — and thus the danger of default. With that danger came increased costs of borrowing, and so more danger of default, a clearly dangerous spiral. Business commentators regard the costs as regrettable, but simply as the way the bond market works, and indeed must work. Socialist commentators see financial institutions as loan-sharks, i.e. purposely ensnaring countries in heavy debts that can only be paid by austerity measures and the sale of government assets at knock-down prices. {12}

Credit Rating Agencies

Some have questioned the impartiality of credit agencies. From being too lax in grading the junk bonds that helped create the financial crisis, the agencies have swung to being more severe with governments, downgrading many of them from AAA status and so making loans more costly. Moody's downgrading of Portugal's foreign debt to the category Ba2 'junk', was strongly criticized, as was Standard & Poor's lowering of France's rating below that of the UK, which had more deficits, as much debt, more inflation, and less growth. Germany accused S&P of playing international politics. {13}

Media

Greek and Spanish governments have criticized the English press, believing that the euro is under attack so that the UK and the US can continue funding their large deficits with loans and bond purchases by China. {14}

Politics

Political considerations have sometimes overridden economic matters, and countries have later admitted they were not wholly suitable members, the convergence data being obligingly fudged. Greece and Portugal kept their public debt off the books, and in both Greece and Italy the gross governments debt has exceeded 60% of GDP for long periods (as indeed has Germany's at times). {15}

Labour

Countries vary greatly in educational standards and training of their workforces, as in the proportion working in public services (the latter high in Greece and France). Labour has been much less mobile than expected, and some trades unions (e.g. in Greece) have negotiated unsustainable pensions and expansions in the public sector. {16}

Private Debt

Fortunes were lost when the property boom collapsed (Spain, Ireland, UK), and losses transferred to banks, which then had to be bailed out or taken over with taxpayers' money. {17}

Proposed Remedies

Many remedies are being proposed, some practical and immediate, others utopian.

Austerity

Lenders exacted policy changes, usually a speedy reduction in debt so that outstanding obligations could be met. Many countries therefore found themselves trapped in the vicious spiral of austerity. Falling tax receipts required countries to cut back on welfare and public services, which only further reduced employment and tax revenues. Countries rife in corruption, tax evasion and financial misrepresentation (e.g. Greece on all three counts) found loans were only granted on strict conditions (usually more austerity) and at punitive levels of interest, making default even more likely. Generally it was the public service and lower-paid staff, and not the parties responsible that bore the brunt of austerity measures, which only increased hostility to banks, politicians and further integration with Europe. {18}

European Financial Stability Facility (EFSF)

Finance ministers on 9 May 2010 agreed a €750 bn rescue package aimed at ensuring financial stability across Europe. {19}

Debt write-off

In February 2012, the eurozone leaders agreed a 53.5% write-off of Greek debt owed to private creditors. They also increased the EFSF to €1 trillion, and required capitalization in European banks to reach 9%. {20}

European Central Bank

The ECB began open market buying operations in 2010. A year later, the Bank loaned €489 billion to 523 commercial banks for three years at a rate of one percent: Long Term Refinancing Operations (LTROs). In June 2012, the Bank was considering underwriting the government bonds of member states, creating a single supervisor to oversee the euro zone's banks, and allow the creation of mutual bonds that would reduce borrowing costs for member states. {21}

European Financial Stabilisation Mechanism

Created in January 2011, the EFSM is an emergency funding program reliant on financial markets but which uses the EU budget as collateral. This Commission fund, backed by all 27 European Union members, has the authority to raise up to €60 billion, and is rated AAA by the credit rating agencies. Replaced by the permanent rescue funding program (ESM), it was used to bail out Ireland and Portugal. {22}

Closer Economic and Political Integration

Such integration would solve many problems but also increase the power of corporations and financial institutions. Most electorates are opposed to further losses in national identity and political accountability. {23}

Banking Reform

Many argue for large banks to be broken up, and investment (casino) activities to be separated from high street banking facilities. Banking supports the US political process, however, and Britain has impeded European reform to protect her large banking industry. {24}

Electoral Reform

Critics assert that governments do not consult the great mass of their citizens but rely on media propaganda, misrepresentation and voter apathy to create self-perpetuating oligarchies that share power between themselves. Moves to remove money from politics have widespread support, except and critically from those currently enjoying power. Reform will no doubt come, but probably slowly if European history is any guide. {25}

Independent Banking Authority

Michael Hudson has called for the establishment of an independent financial authority to assess what Greece can reasonably pay and how — similar to that which suspended German reparations and Inter-Ally debts in 1931. {26}

Outlook

1. The EEC was a worthy project that has been successful on both political and economic fronts. It secured peace, created the world's largest trading block and brought prosperity to millions of its citizens.

2. Its current problems are widely recognized: {27}

a. the project was rushed, leaving wide discrepancies between member states without the means to correct them.
b. the true standing of member states has been obfuscated, and figures kept off the balance sheet.
c. flaws have been exploited for private gain by politicians, banks and trades unions.
d. goods manufactured in northern Europe could be purchased by poorer southern Europe only with large loans: which gradually built up to dangerous proportions.

3. The current austerity measures do not get to the heart of the problem, and are self-defeating: depressed economies do not yield the tax receipts to repay loans, and citizens will not accept such measures unless reform is also brought to political and financial institutions, which as yet acknowledge little need for change.

4. Greece will probably have to leave the euro-zone eventually, possibly Portugal and Spain too. Other member states will remain, suffering austerity but having their government bonds underwritten by the European Central Bank and some emergency fund or insurance to cover bank default. {28} Britain has voted for exit.

Model

The EEC is export-orientated. The trade surpluses of the central EEC members (notably Germany's Bundesbank) were invested in property etc. in periphery members countries (Greece, Spain, Portugal) and in financial products sold by US banks. When German banks learnt they were contaminated with toxic assets they pulled in their assets to protect lending ratios, with serious repercussions. Investments in Spain, for example, amounted to €200 m. or

10% of GDP, and capital flight plunged the country into serious debt. Cut-backs in public services and bank loans led to recession.

Banking is a fraternity and, rather than change the rules and let the EEC Central Bank act as lender of last resort, the 'Troika' (the European Commission, European Central Bank, and International Monetary Fund) called for austerity, only granting bailout packages on that basis, and providing funds that were not to stimulate the economy but pay back existing loans. The Central Bank could have offered soft loans directly to the countries concerned, for example, but instead provided loans at under 1% to the major banks, which then offered loans to the countries concerned at much higher rates. Rates above 5% make loans difficult to repay, prompting more negative ratings, yet higher interest rates, and so more likelihood of default. The central banks are therefore strengthening their position, and indeed insisting that austerity — lowering salaries, cutting public services, and reducing social protection — also be a requirement of countries raising money on the bond markets, certainly if those bonds are to be underwritten by the European Central Bank. The remedies lie with even-handed political action, but neither the European nor the national parliaments are viewed with much confidence or esteem by electorates. {29}

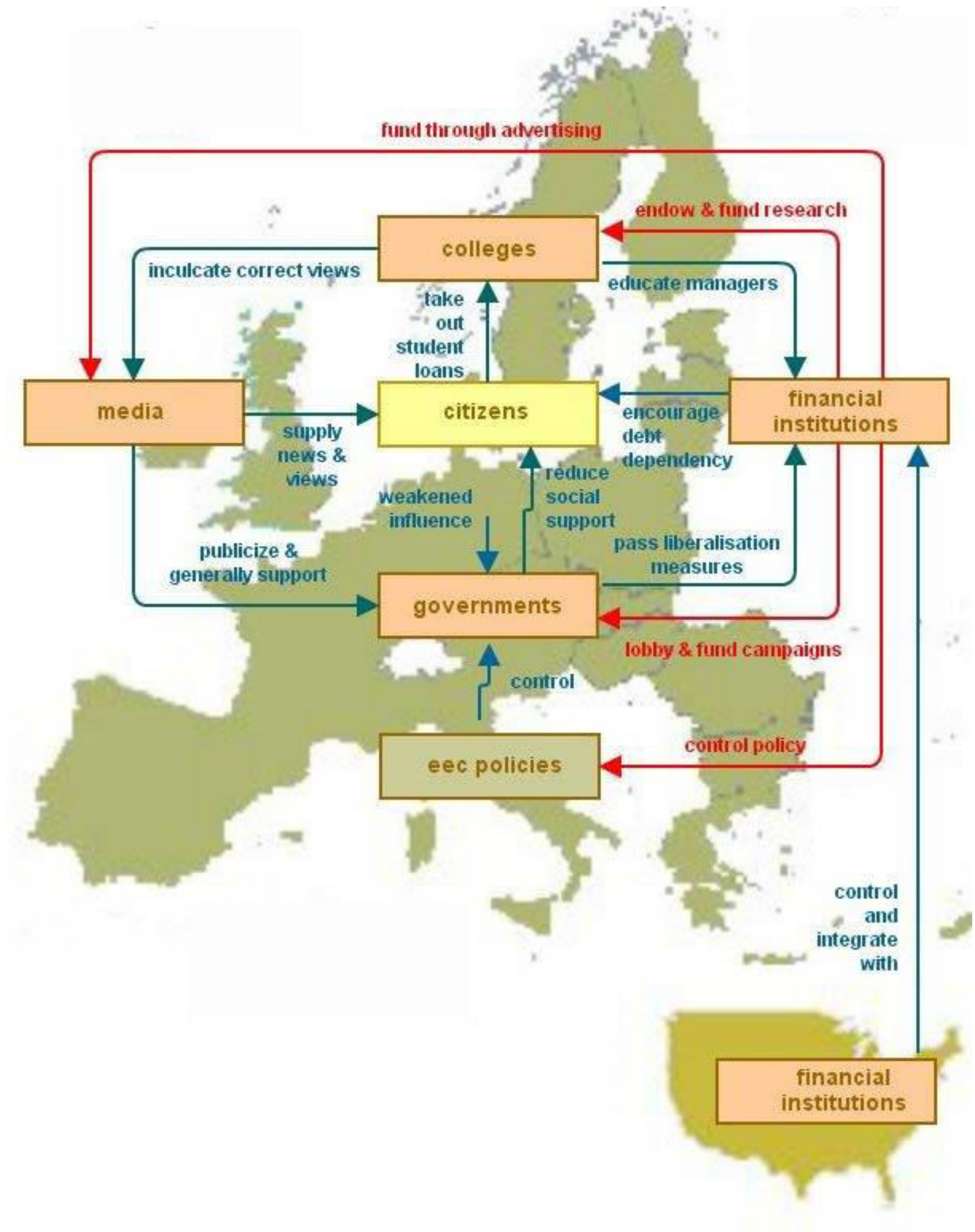
Alternative Models

Left wing critics believe austerity is being imposed on Europe to weaken social structures and create a pool of lower-paid labour, a strategy that benefits the IFIs and large corporations. Shrinking the economy is therefore intentional — 8% overall since 2009, and unemployment over 25% in Spain and Portugal, and nearer 50% among their young — because citizens will moderate their wage claims and governments become increasingly dependent on banks to balance their fiscal shortfalls. Europe is arguably suffering the early liberalisation problems that afflicted India and Brazil, and facing the spectre of stagnation and 'a lost generation'. More than a third of the population is at risk of poverty or social exclusion in Bulgaria, Romania, Greece, Latvia and Hungary. Protests are widely reported, but have not changed government policies unnecessarily beholden to financial institutions. The need is not for less banking, therefore, but greater empowerment of borrowers through opportunities to invest and retain control of their money — all of which the EEC has paradoxically made more difficult. {32}

Government by Committee

Contrary to dreams of universal peace under one government, the situation of EEC countries shows what difficulties a monolithic financial control can impose. Modern governments need to raise enormous loans to run their economies, and those loans are subject to the confidence and goodwill of the international banking community, which levies charges at each stage of the process. Countries have the sovereign right to issue their own currency, of course, on terms of their own making, but the strength of the American dollar and the danger of capital flight are generally held to make such undertakings hazardous. Yet Germany effectively did so under the Nazis, and China retains control of the renminbi, to the disgust the industrialized west that is guilty of similar sharp practice: where China subsidizes production, America prints money. {33}

EU member support for US policies in the Middle East (which have created a severe migrant problem throughout Europe) and Neoliberal thinking (i.e. austerity and reduced job prospects) were the key factors behind 2016 Britain's decision to leave the community. Against the better interests of its citizens, the EU has also adopted confrontational American policies to isolate Russia, suffering counter-sanctions that have hurt both parties. Indeed, far from representing the constituent countries and their peoples, EU politicians are closer to Washington and corporate lobbyists, which is perhaps why electorates are reluctant to devolve further powers to a European superstate. {34}



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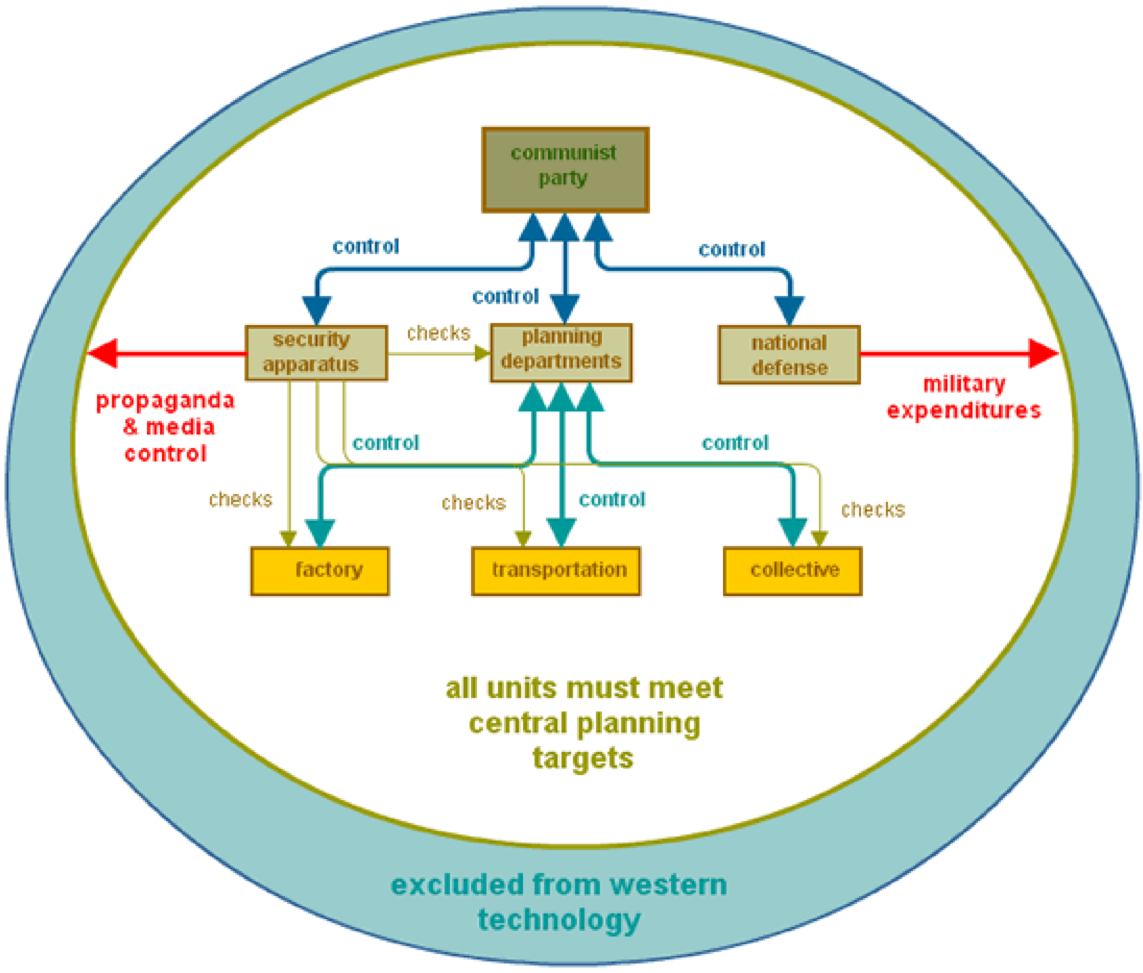
35. Mixed Economies: China, Brazil and India

China (with Lydia in Asia Minor) was the first country to use coins, the first to have paper currency, free banking, and a government monopoly of paper currency, perhaps the first to have a kind of currency board (c.1270), and a pioneer in sophisticated forms of exchange control. There were many dynasties, often of great splendor, and that of the Qing (1644-1912) brought territorial expansion, prestige and renewed power, so successfully that China in the eighteenth century was arguably the most prosperous and best-governed country on earth. All changed in the following century, when land hunger, ethnic divides, western influences and declining markets for its products set in motion the vast civil wars that claimed tens of millions of lives and left the country devastated and open to outside exploitation — Opium Wars (1839-60), Taiping Rebellion (1850-64) and Boxer Rebellion (1899-1901). {1}

The country, declared a republic in 1912, was split between contending warlords in the 1920s, suffered a Japanese invasion in 1931, experienced a savage civil war between the communists and nationalists in the 1930s, and finally found unity under Mao Zedong in 1949, who was no less a dictator than Stalin and whose experiments (the Great Leap Forward in 1958-61 and the Cultural Revolution of 1966-76) brought suffering and death by starvation to tens of millions. {2}



Recovery

China's recovery began in two stages. The first was the so-called planning period of 1950-78 when the economy was centralized on communist lines: collectives, state-owned industry and central planning. Even with the Great Leap Forward (1958-60), the subsequent famine and the Cultural Revolution (1967-9) the per capita income more than doubled, from $448 in 1950 to $978 in 1978, a reasonable 2.8% per year. Steel output rose from 1 million tons/year in 1975 to 32 million in 1978. Agriculture did better, the agricultural sector of the GDP growing at 4.9% p.a. from 1970 to 1978.

The second stage was implemented in 1978, under Mao's successor, Hua Guofeng, aided by the rehabilitated Deng Xiaoping. Agriculture was further improved: better irrigation, more fertilisers and fast-growing dwarf rice varieties. Through the HRS (household responsibility system) parts of collectives were set aside for private or family cultivation. The TVEs (township and village enterprises) allowed such produce to be sold on the local market. These relaxations led to remarkable growth: the agricultural GDP sector rose 8.8% p.a. between 1978 and 1984. {3}

Four special economic zones were created in 1979, offering regulations, work rules and taxation favourable to foreign investment, especially in manufacturing, assembly and textile industries, and an enthusiastic 'can do' approach. In 1984, these zones were extended to many coastal cities in eastern China. {3}

China's recovery was the most remarkable on record. In three decades the country has become the world's second largest economy. Steel production is 500 million tons/year, several times the total reached by the US or Soviet Union. Education at all levels has expanded; R&D is fully on a par with that of Europe or America, and life expectancy has grown from 41 in the 1930s to 70 in 2000. Growth has averaged 10% p.a., a doubling every 7-8 years and an 18-fold increase in per capita income during a single generation. China has a fifth of the world's population and has lifted several hundred million people out of poverty. {4}

To acquire cheap imports and machinery, the yuan was initially overvalued at 2.8 yuan to the dollar, and until 1984 China ran a negative trade balance with the west. Gradually the old communist guarantee of food and social security was set aside for a capitalist one of opportunity but little safety net. Exports ballooned, aided by a devalued yuan, set at 8.7 to the dollar in 1994, and continually adjusted until settling to 6.4 to the dollar in 2011. Given the low prices possible with cheap labor costs, the US began to run a large trade deficit with China: the figures are $50 bn in 1997, $124 bn in 2003 and $234 bn in 2006. {5}

The yuan is tightly controlled. Chinese exporters earning foreign currency must convert all proceeds to yuan at rates set by the People's Bank of China (PBOC). Conversely, Chinese companies buying supplies or machinery in foreign currency will get those currencies from the PBOC at the set rate. Two problems arose. {6}

Firstly the PBOC had to print yuan to cover those currency accumulations, which grew to be very large: around $2.85 trillion in 2011, with $50 bn of that in US government obligations. Though controlled, the yuan was in fact tied to the inflationary US dollar.

Secondly, the Chinese government wanted safe investment for its trade surpluses, and preferentially chose US Treasury bills.

As a result, China needs the US as much as America needs China, and both face serious employment problems as their trade declines. US attempts to 'get tough with China' are muted by its immense holding in US dollars, its influence over Iran from which its buys petroleum, and its control of North Korea, which survives as a Chinese satellite.

Inward Investment

Mindful of China's history, the overriding fear of the current leadership is social unrest. Millions every year leave the impoverished countryside to find work in the new cities and industries, making employment an ever-pressing concern, and western ideas of democracy unhelpful at best, if not subversive. Demonstrations are closed down promptly, and western influences (media and Internet), like the workforce, strictly controlled.

When recession in Europe and the United States reduced its export market, China turned to inward investment, pumping billions into cities, infrastructure and natural resources. The urban population increased by 300 million in 30 years. Exports shifted from primary goods (oil and agricultural products) to labour-intensive products (textile and clothing), then to capital-intensive products (steel, machinery and automobiles) and finally to technology-intensive products (high-tech equipment, software and green technology). Investment and internal markets remain tightly regulated, however, and no doubt use industrial networks and other Internet-based methods of harnessing supply and demand to ambitious growth plans: a considerable advantage over the earlier and wasteful Soviet centrally-planned economies. {7}

As domestic wages began to rise, direct foreign investment began to consider domestic markets. In 2004, the secondary sector's share of foreign direct investment stood at 71%, compared with 23% for the tertiary sector. By 2008, the tertiary sector accounted for more than the secondary. The sums are large, moreover: Chongqing alone attracted an estimated US$10.8 bn in 2011. The Chinese increasingly expect more from life: medium real wage have increased at 17% p.a. since 2009, and workers now take home nearly five times what they did in 2000. {8}

Though China could possibly fund development through its trading surplus, currently exceeding US$ 3 tn, it needs foreign expertise. Thousands of its brightest students are sent to study abroad every year, and its own universities and industrial parks now meet international standards. But practical know-how is paramount, and China aims to learn from the west, not being over-scrupulous about patent and intellectual property laws in developing its own systems. {9}

The global slowdown has hurt this model, and real-estate development (accounting for over 10% of GDP), fell by 16.3% year in the first half of 2012. The knock-on effect in construction materials, furniture, and appliances caused annual growth in fixed-asset investment to fall from 25.6% to 20.4%. {10}

US Rivalry

An undeclared currency war now exists between the US, China and the EEC, which only adds to global instability. {11}

In January 2010, for example, President Obama proposed a doubling of exports, which were causing a -3% drag on the American economy but a +3.5% boost to the Chinese GDP.

Consumption was to increase in China, where it accounts for only 38% of GDP, in contrast to 70% in the USA. When that appeal met only a token response, America resorted to quantitative easing (printing money). Such open market operations increased the cost structure of every major exporting nation. The inflation exported to China amounted to 9% in January 2011, an unwelcome development as inflation had been one of the catalysts of the 1989 Tianamen Square protests. Many essential commodities are also priced in dollars, and the rise in foodstuffs precipitated riots in Egypt, Jordan, Yemen, Morocco and Libya, leading to the 'Arab Spring' and the overturning of governments friendly to the USA. Inflation also spread to the euro-zone countries, which were understandably uncooperative at the Seoul G20 summit. {12}

In March 2011 came the Japanese earthquake, and the yen surged further against the dollar in anticipation of massive repatriation of funds for reconstruction. Japan held $2 tn of assets outside the country, of which $850 mn were in dollars. Happily, the G7 countries moved to devalue the yen by massive sell-offs on March 18th 2011, and some of American inflation was undone. {12}

China now holds $1.7 tn of US debt. By a complex web of bank loans (in both directions) America's trade fortunes are tied to the EEC, and vice versa. China has indeed been asked to bail out insolvent members of the euro-zone, and there are moves to limit Chinese influence and encircle the country with US military bases. China has not retaliated yet by selling its dollar holdings en masse and destabilizing its opponent because the cost of doing so would be too high. Although the immediate sale of $1 tn holdings would cause the dollar to collapse on foreign exchange markets, mortgage costs to skyrocket and US property prices to fall, China would lose an essential export market. Nonetheless, the country could avoid economic suicide by slowly shifting its mix of US Treasury purchases, replacing the long term maturities by 3 month maturities. China could also change its foreign currency holdings from dollars to yen, euros and sterling. {13}

Outbound Investment

Indeed it is already doing so, but since these are insufficient to meet its needs, China is buying commodities: mines and metal producers, water rights, land to grow foodstuffs in Patagonia, etc. China has greatly increased its gold holdings. Russia and China are in talks to price oil and gas in currencies other than the dollar. China and Argentina have agreed a currency swap of yuan and peso in place of the dollar, and something similar has been agreed with Brazil. The IMF has called for greater use of SDR (Special Drawing Rights: effectively a basket of currencies under its supervision). A report by the Rhodium Group suggested that Chinese outbound FDI could reach $2 trillion by 2020, with Europe being the favoured destination. {14}

Chinese investment in large-scale engineering and construction (2005-10): {15}

Area	Investment (US$ bn)		Sector	Investment (US$ bn)
Latin America & Canada	61.7		Agriculture	3.4
West Asia	45.2		Energy & Power	102.2
Africa	43.7		Finance & Real Estate	39.2
Middle East	37.1		Metals	60.8
Europe	34.8		Technology	1.5

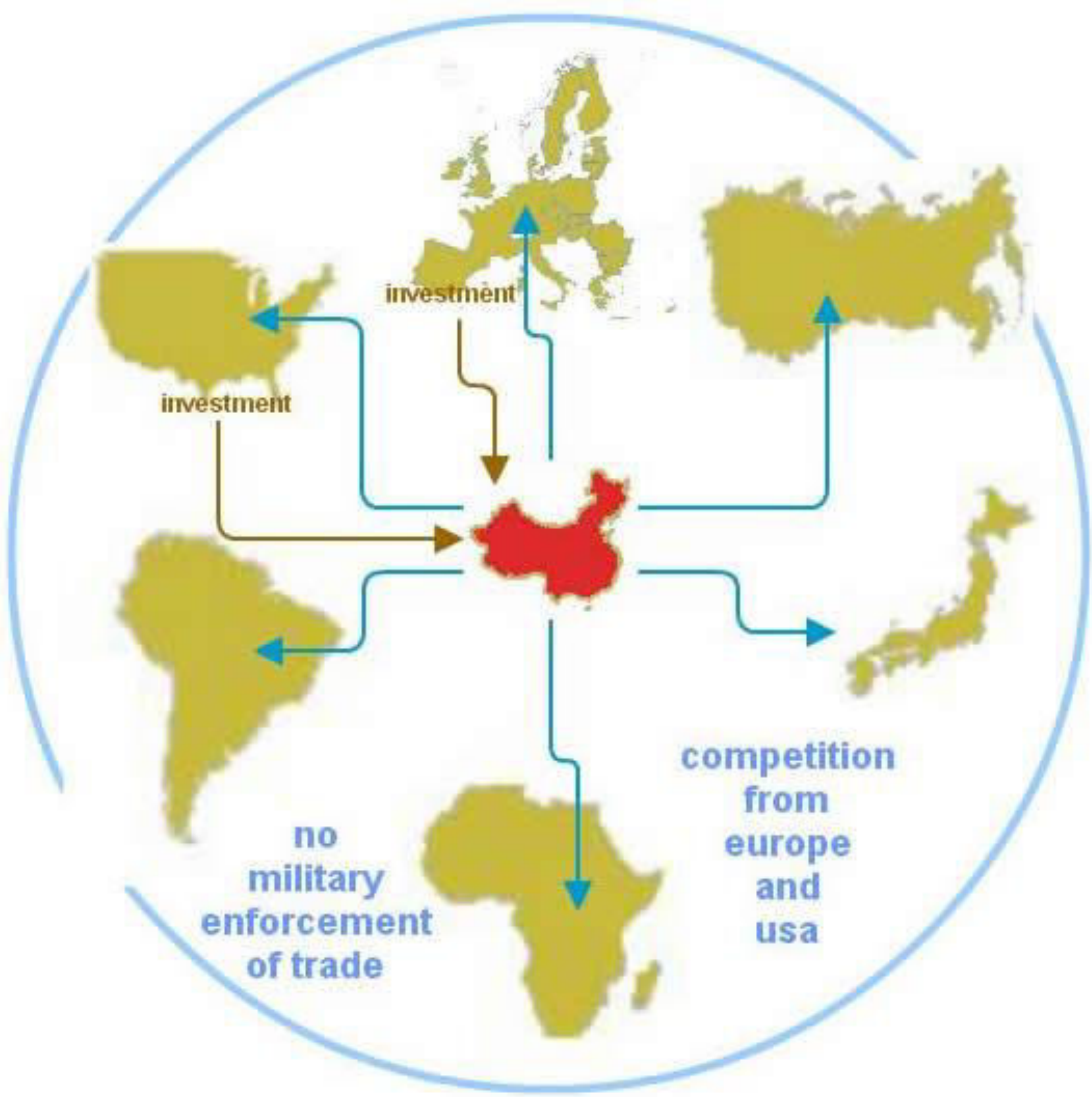
Australia	34.0		Transport	7.3
East Asia	31.6		Others	1.1
USA	28.1			

China's overseas investment resembles the colonial model, but lacks one essential element: military force. Development is being watched carefully, but far from being in a controlling position, China faces competition from Europe and elsewhere. Indeed, since the US runs a large deficit, China's own dollar holdings are helping to fund a military threat to itself. {16}

Outlook

China is following the Japanese nineteenth century model in obtaining western know-how and technological development. Trade surpluses are being invested abroad to prevent yuan inflation and to invite western development. Barring social upheaval, China will become the foremost economic power within a decade or so, and increasingly set the global agenda. {17}

China has a long history, and is picking what it needs from outside models. It has learned from Singapore's experience in building a modern 'Chinese' city with foreign investment, from Japan's neo-Confucian 'industry policy' methods and disregard of Western financial disciplines, from the Nationalist Party's cultural alternative to Mao's communism and from Taiwan's adoption of some US manufacturing techniques. Its tussle with a US hegemony seen by Americans as fairly won by honesty, hard work and international beneficence but very differently by the Chinese, is unlikely to be confrontational unless provoked: by NATO meddling in its western neighbour's affairs, or a needless build up of US bases and fleets in its offshore waters. Similarly, China holds too much of its savings in US treasury bills to instigate a run on the dollar, and will no doubt infiltrate world trade as debt, militarism and political conformity have taken over US governance — by stages, quietly and by outward adherence to existing institutions. Increased democracy is inevitable as economic expectations rise and the better-off return from overseas tours, but the western notion of 'one man one vote' is only one possibility to be drawn from its diverse social history. China has been both innovative and outward-looking (Han and Yuan dynasties) and morbidly xenophobic (Ming dynasty and communist period), depending on perceived threats to its existence, and a more cooperative approach by the west would be in everyone's interests, though hard to achieve in the current standoff. {18}

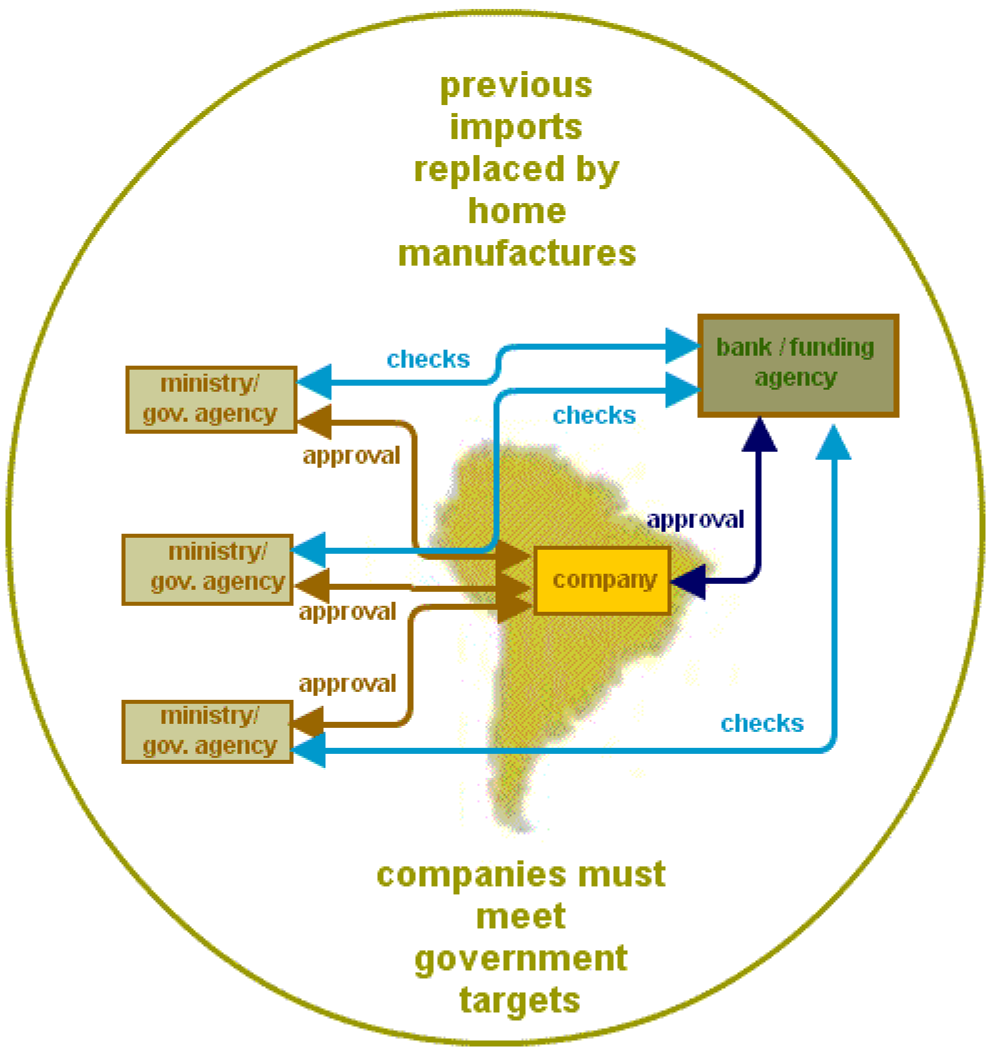


Many also doubt that China's current growth is sustainable. Collectivisation allowed a country with 22% of the world's population feed itself on only 7% of the world's arable land, but lives were uniformly hard. Nonetheless the 'clay rice bowl' rural policy guaranteed user's rights to the land, and lifetime jobs and benefits were similarly guaranteed to workers in state enterprises. These have been reduced or removed under Neoliberal policies. China now has its millionaires (250,000 in 2005, premier Wen Jiabao's family alone having a wealth estimated at $4.3 billion), but petitions, demonstrations, strikes and riots are everyday occurrences (280,000 incidents were reported in 2010), usually over environmental issues and land confiscation. Lung cancer has increased 60% over the last decade. 70% of China's rivers and lakes are severely polluted. Corruption is endemic: more than 90% of the richest 20,000 are believed to be related to senior government or communist party officials. Vast new building estates stand empty, and highways are built to nowhere. In other areas an austerity programme reigns: consumption, government investment and spending on education have all fallen sharply since 2002. The Chinese stock markets are particularly unstable, expanding 130% over the 2014-5 period, and then contracting 50% in the year following, but the country is an increasingly important player in global finance. {19}

China weathered the 2008 financial crisis remarkably well, but the country is still closely tied to the offshoring needs of multinational companies. In 2009 the $500 iPhone, for example, cost $179 to assemble in China, but only $6.50 were labour costs, the remaining $172.50 being the costs of parts produced in other countries. Work is typically sub-contracted but any attempt at wage rises would see the multinationals move to cheaper countries: to Vietnam, Indonesia, etc. Assembly workers are generally migrant labour returning to the countryside after a few years — often indeed within the year, such is the monotonous nature of work, the cramped accommodation and the poor food. Wages are typically 65 cents/hour (52 cents after cost of food is deducted) for an obligatory 83-97 hour week.

Accidents are common: 368,383 serious work-related accidents were reported in 2010, of which 79,552 were fatal. No doubt a more independent or even autarkic Chinese economy could be developed, but only with the threat of social unrest, which China is presently unwilling to risk. {20}

Other Countries: Brazil



Other countries emerging from centralised economies have similar mixtures of political control and market freedoms. In Brazil, for example, the Plano Real, instituted in 1994, pegged the currency (real) to the dollar and brought inflation under control. Government deficits remained in the 6-7% range throughout the 1990s, however, and the real was overvalued, hurting exports. As a spill-over from the Asia crisis, capital that had flooded into the country under liberalization measures took flight, investment falling from US$31.2 bn to US$4.9 bn between 1996 and 1998. The result was a deep recession. GDP growth in Latin America as a whole was 5.3% in 1997, but fell 2.3% in 1998 and then to 0.3% in 1999. Over US$10 bn in rescue loans were provided by multilateral banks, but raised external debt. In 1999 Brazil owed $244 bn or 46% of GDP to foreign creditors. The currency had been set to a crawling peg, which allowed the currency to depreciate at a controlled rate against the dollar, and in early January 1998 the IMF provided a $41.5 bn loan to help Brazil defend its currency when it decided to improve its export position by devaluing its currency by 8%. The move panicked investors, however, and the real had depreciated 66% against the US dollar by the month's end. {21}

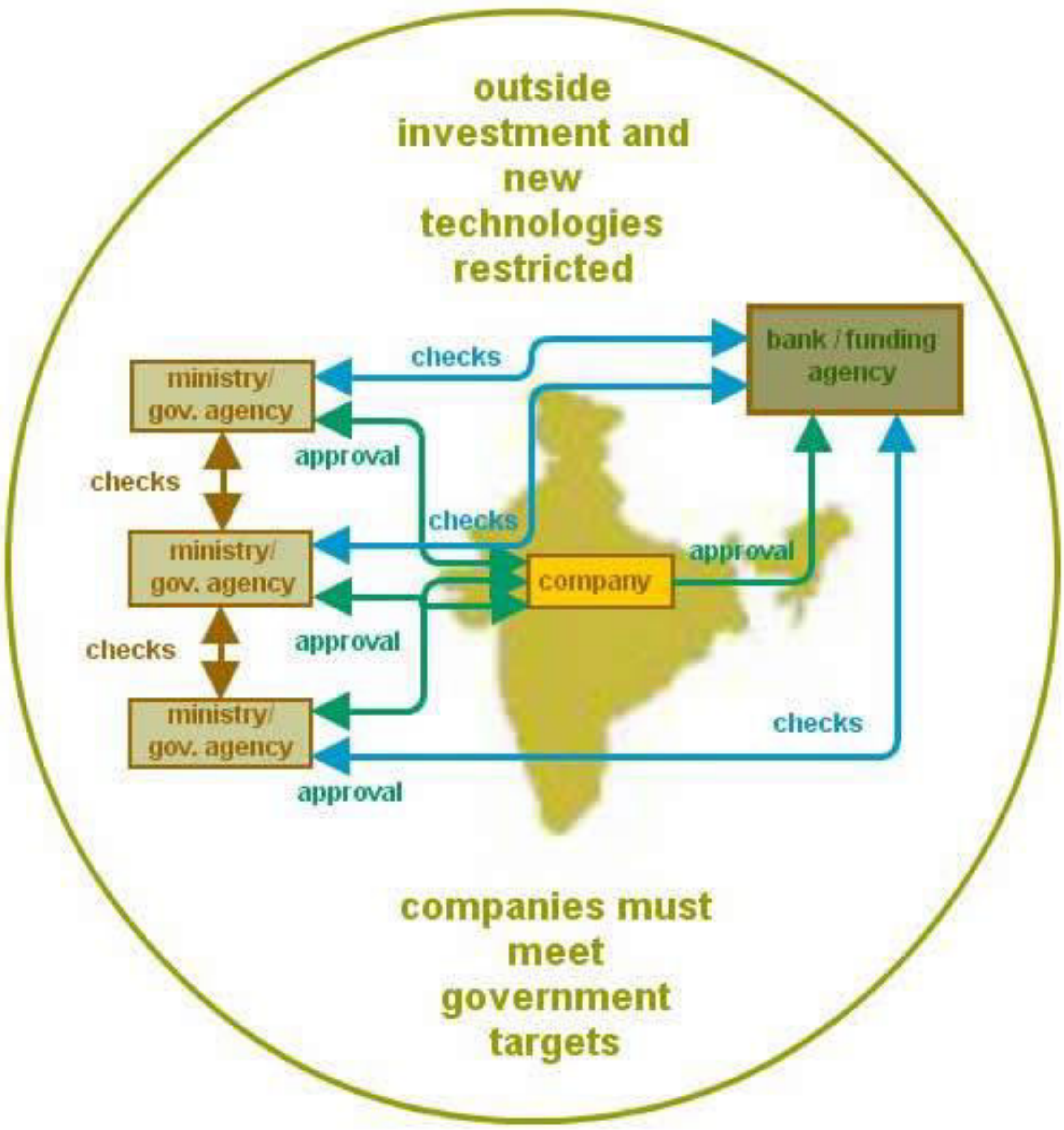
The depreciation made payment of Brazil's debt more difficult, but did allow its trading position to improve. GDP growth increased from 0.8% in 1999 to 4.3% in 2000, but worries over Argentina and the leftist credentials of the presidential candidate triggered a confidence crisis. Luis Inácio Lula da Silva won the election, proved not so radical after all, and the economy began to grow more rapidly: 5.7% in 2004, 3.2% in 2005, 4.0% in 2006, 6.1% in 2007 and 5.1% in 2008. The global slowdown struck Brazil in 2009, but GDP growth recovered a year later to reach 7.5% in 2010. Efforts to curb rising inflation, and the deteriorating international economic situation, slowed growth to 2.7% in 2011, and 1.5% in 2012, but Brazil overtook the UK as the world's seventh largest economy by GDP in 2011.

Other Countries: India

India under Nehru focused on heavy industry, at the expense of agriculture reform and export industries. Import substitution was stressed, and licenses placed under state control. Indira Gandhi revived agriculture but further tightened state control over every aspect of the economy. Banks were nationalized, trades were restricted, price controls were forced on variety of products and foreign investment was reduced. The Foreign Exchange and

Regulation Act of 1973 shut out foreign technology during much of the 70s and 80s.

Deregulation started in early 1980s and accelerated in the 1990s. Trade, financial and industrial policies were liberalized, and subsidies, tax concessions and export incentives offered through currency depreciation. GDP that had been around 3.5% in the 1970s grew to over 5% in the 80s, but restrictions and the tariffs continued to be among the highest in the world. {22}



India complied with many reforms required by IMF in 1991, but trade union power and subsidies remained 'uncorrected'.

The opening of India to international competition came at great cost to its rural poor, however. Besides the usual requirements — allow free entry to capital, reform banks, tax and investment legislation, slim down the public service, cut social welfare and infrastructure projects, and sell off the more profitable public enterprises to large, often foreign companies — the IMF recommended abolishing the minimum wage, which was already low, effectively US 10-15 cents/day on farms though higher in factories and industrial concerns. Large companies like Bata were enabled to replace their payroll workers on US$3/day with independent cobblers on $1/day, a pattern repeated in the jute, small engineering and garments industries. Public servants and private sector workers were laid off, some 4-8 million in a workforce of 26 million, and trade union resistance appreciably weakened. {23}

Destitution was particularly acute in rural areas and some hundreds of thousands of farmers and local craftsmen have either starved to death or committed suicide to escape the onerous loans they had been compelled to take out. Genetically modified cotton has become a further burden, being more vulnerable to water shortages, and requiring costly pesticides and the repurchase of stocks as the seeds lose their vigour after one generation. Large businesses eventually prospered under open markets, but with a net flow of assets from the impoverished to the more comfortably off as foodstuffs and manufactures were diverted from local consumption to overseas markets. With social distress and polarization has come unrest and religious fundamentalism, unwelcome in a political system still notably corrupt. {23}

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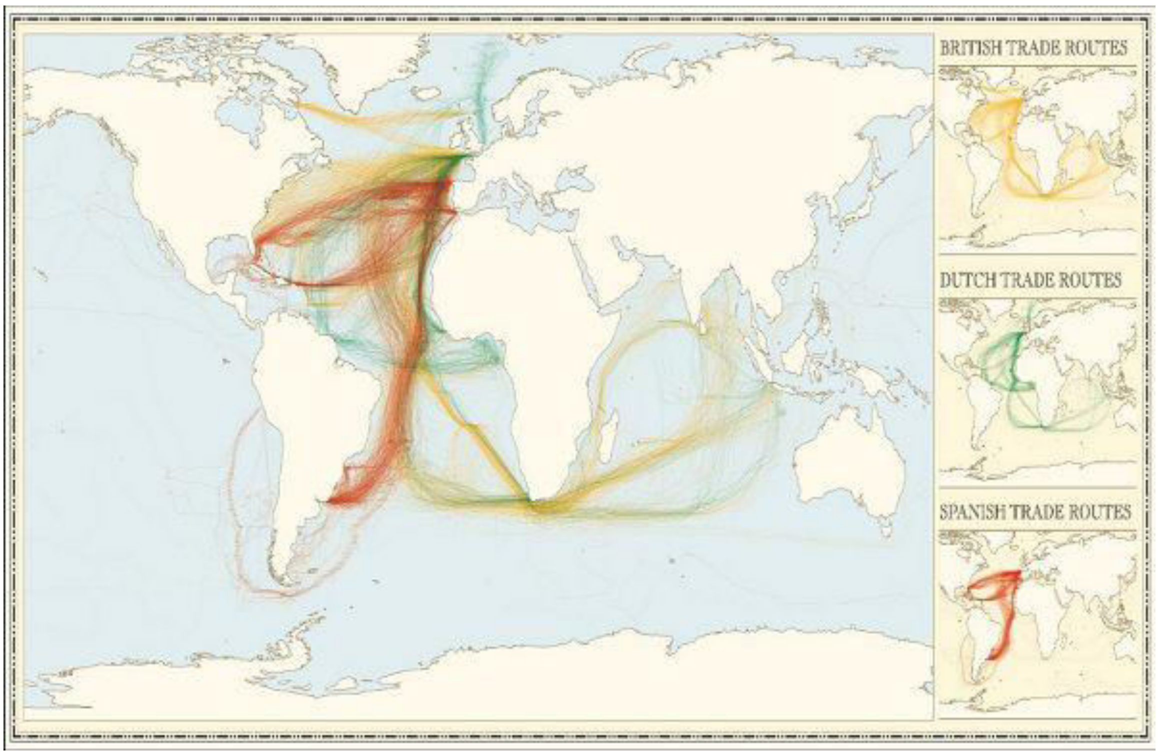
36. Mercantile Empires: Britain



Industrial Britain

Among the European nations, Britain is closest to the United States in its militarism, foreign policy, financial institutions and business attitudes — not simply by virtue of a common language that serves as a bridge for American investment in Europe, but through a shared history.

Britain began the Industrial Revolution, and dominated the world economy during most of the 19th century in the way American has since. Britain was a major innovator in machinery, railways, steamships, textile equipment, and tool-making equipment, inventing the railway system and producing much of the equipment used by other countries. It also led in international and domestic banking, entrepreneurship, and trade, accumulating a world empire in the course of its century-long rivalry with France. Originally protectionist, Britain practiced 'free trade', with no tariffs or quotas or restrictions after 1840. Between 1870 and 1900, the GDP per capita rose 500 per cent, generating a significant rise in living standards. Thereafter the country was gradually overtaken by the USA and Germany. GDP per capita in 1870 was the second highest in the world (after

Australia). By 1914, it was fourth highest. {1-7} In 1950, British output per head was still 30% ahead of the six founder members of the EEC, but by 2000 it had fallen behind the USA, many European countries and several in Asia. {7}

18th and 19th Century Britain

Land enclosures and then the Industrial Revolution changed the face of Britain, creating the patterns of town, land use and class divisions that still characterize the country. Agriculture was of first importance in the 18th century, and farmers sought to increase yields by making farms sufficiently large to benefit from new approaches, notably deeper ploughing and seed-drills. Similar improvements were made to the rearing of animals, and indeed the two were interlinked in a mixed farming economy where grass and root crops were grown to feed cattle, and their manures were used to fertilize the fields. Production improved in the larger farms, but at the expense of the old social order. Common lands were enclosed, denying the poor the traditional pastures and woodlands needed to tide them over in times of hardship. Tenant farmers who had their rents raised 4- to 10-fold had no option but to move on. Small holders fared no better, and between 1740 and 1788 the number of separate farms fell by 40,000. The pace of enclosure slowly increased. There were 15 enclosure acts between 1728 and 1760, but 1,727 between 1797 and 1820. More than 4 million acres were enclosed by such legislation, and many were forced sales. A few sellers set up new businesses, but the sums received generally only allowed sellers to become waged labourers or work in the new industrial towns. Cottagers, who held their properties by custom rather than legal writ, fared worst of all: there was no compensation for their eviction. The economic changes were threefold. The land was made more productive. A 'reserve army' of wage earners appeared. And an internal market for

British manufactures was created among those lifted from subsistence farming . {8}

Coal came to replace wood and charcoal as British forests were progressively stripped and not replaced. Coal production rose from 2.6 m. tons in 1700 to 10 m. tons in 1795. When the coke-smelting of iron ore became a technical possibility, the way was open to large-scale iron production. The 17,350 tons of pig iron output in 1740 had risen to 125,079 tons by 1796. The first iron bridge was built in 1779, and the first iron ship in 1790. Better quality iron, and the invention of the lathe with slide rest and planer facilitated the construction of elaborate machinery. Because transportation costs were high on British roads, canals were built across the country, conveying wheat, coal, pottery and iron goods to the midland ports, and coal to all parts of the country. Roads improved during the 19th century, but railways that became the preferred means of transport for raw materials entering factories and for manufactures being exported to the country at large and thence overseas. {8}

Weaving inventions increased the quality of woollen goods, but it was the embargo on cheap and attractive Indian textiles that stimulated the multiple cotton spinning and weaving inventions making Lancashire a world leader in cotton exports. When the mills became steam-driven, and no longer dependent on river location, new mills and town sprung up across the country. Predominately, the work force was children, often of Welsh, Scottish and Irish parents impoverished by land enclosures, the elimination of cottage industries and rural depression. Though the Poor Rate, which had stood at £700,000 per annum in the mid 18th century rose to £7 million towards its close, it was not sufficient to cover high wheat prices, and there were bread riots throughout the country. The Speenhamland Act of 1795, which sought to base wage assistance on the cost of living had the perverse effect of raising the cost of poor relief, and so bankrupting the smaller farmers who had provided fair wages to the rural poor, requiring them in turn to accept whatever was offered by the larger estates. Children's employment in mills and factories became a necessary income to poor families, and the population increased. Bad harvests from 1789 to 1802 increased the misery, and the British establishment faced ideas perilous to the social order from Republican and then Napoleonic France. {8}

Jacobin ideas of liberty, equality and fraternity were directed against the aristocracy in France, but the target in Britain was the bourgeoisie, who faced demands for universal suffrage and annual parliaments. Though agitation was ill-coordinated and easily suppressed, Pitt suspended habeas corpus in 1794, and enacted laws restricting public meetings. Tom Paine fled to France. Nonetheless, the country was terrorized by strikes, bread riots and machine wrecking, and had to be closely garrisoned with troops, which became an army of occupation in industrial areas. Many looked across the Channel, where Napoleon's genius for rapid deployment on selective targets were outdistancing the old methods of warfare. {8}

But such wars were ruinously expensive to all parties. British costs (£50 million subsidies to European powers prepared to raise armies against Napoleon) were met by taxation on necessities and a large National Debt. A labourer earning 10s a week could expect to pay half that on indirect taxes. Government revenues increased from £18.8 m./year in 1792 to £571.9 m/year in 1815. Interest on the National Debt rose from £9.5 m to £30.5 m. over the same period, and indeed over Pitt's administration another £334 m. was added to the National Debt. To support such measure, banking and credit facilities had to be improved, and some hundreds of financiers admitted to the Peerage. Yet the war often went badly for Britain. Defence of British landowning interests in the West Indies cost 80,000 lives, and a threatened uprising in Ireland led by Wolfe Tone was only averted by force of arms and appeal to the Irish middle and upper classes. {8}

Napoleon also had his troubles. Populaces that had enthusiastically welcomed French forces liberating them from the old regime were less happy with heavy taxes and conscription into seemingly unending wars. Napoleon instituted a ban on British goods, but was met with a more effective blockage by the British navy. Sir Arthur Wellesley coordinated resistance in Spain and Portugal, and his irregular warfare tactics became unstoppable when Napoleon withdrew troops for his disastrous Russian campaign. After defeat at Leipzig, Napoleon was exiled to the island of Elbe, but returned for a short campaign that ended with the Battle of Waterloo. The Bourbons were restored to the throne, but the Code Napoléon could not be undone, either in France or the German states. Britain, which had entered the war as an agricultural country, emerged as an industrial one with the strong banking facilities needed to become the workshop of the world. Territories acquired from France laid the foundations for an overseas empire. {8}

The 1815 victory at Waterloo, which put an end to the Napoleonic Wars and the threatening experiments of the French Revolution, was followed by a slump. Europe was too impoverished to buy British manufactures. Iron fell from £20 to £8/ton, and 24 out of 34 blast-furnaces in Shropshire had to close. To lay-offs were added 300,000 demobilized soldiers and sailors. Paper money had to stay in place to cover the continuing high taxes, and there were widespread disorders when the Corn Laws kept food prices high. National Debt charges amounted to £30 m. in 1820 in a total revenue of £53 m., and such high taxation and inflation levels delayed economic recovery. Habeas corpus was again suspended in 1817, and public meeting likewise restricted, but agitation continued nonetheless, even after the notorious 'Peterloo massacre' of 1819. The Six Acts rushed through Parliament, which banned public meetings, authorized house searches, and punished sedition with transportation, only drove agitation underground. An 1820-26 industrial recovery absorbed some labour, however, and the decline of small-scale plants before large-scale industry, an uneven decline that lasted to the 1840s, split affected parties into different groups. There were still riots, rick-burnings, organized gangs of poachers and an 1830 'labourers' revolt' against threshing machines, but agitation was not coordinated, and gradually subsided until the trade-union led disturbances of 1871. {8}

Working conditions also improved. From 1800 to 1815, Robert Owens' New Lanark Mills demonstrated that profits were still achievable with working hours as low as ten and a half a day: the secret was larger, more efficient machinery and steam-power in place of water. Laissez faire capitalism became the order of the day, though workers were forbidden to form combinations to improve pay, and the landowners could still prohibit the importation of cheaper foodstuffs. The Factory Acts — bitterly resisted by claims that higher wages would make British exports uncompetitive and so ruin everyone — gradually restricted the ages of the employed and the hours worked. Continual improvements in spinning, weaving and other machinery improved efficiency, though some had contradictory effects. The Davy lamp, introduced to prevent underground gas explosions, encouraged mine-owners to extend workings beyond what was safe. Nonetheless, factory legislation led to machines rather than workers being pushed harder, though the large capital requirements naturally led to closer ties with the financial institutions. {8}

Industrialists could purchase country estates, but were still not accepted into the land-owning aristocracy represented by the backward-looking Tory party. But change did come. A police force made detection rather than savagery of sentence a deterrent. Tariffs were reduced when they interfered with trade. The British Government supported liberation movements in Greece and Latin America. The 1832 Reform Bill swept away rotten boroughs and gave suffrage to house owners and tenant farmers — for all that reform had to be urged on by carefully staged riots. Suffrage increased from 220,000 voters to 14 million, and the Commons gained power at the expense of the Lords. Yet the poor who had fought hardest for reform were not represented at all, and the common people turned from parliamentary hopes to Chartism and revolutionary trade unionism. {8}

Reforms continued under the ascendant Whig parties. In 1834, when relaxation of income tax after the Napoleonic Wars, and the sheer cost of the Speedhamland system, brought many parishes to the brink of bankruptcy, the Poor Law was amended, giving recipients a choice between factory work or the poorhouse. The last were particularly resented — the work was often senseless and degrading, breaking up the family unit — and many indeed were burnt down. But the labour market picked up in the 1830s and 40s when the railway boom needed construction workers, and low transportation costs boosted industry. UK exports rose from £69 m. in 1830 to £197 m. in 1850. Pig iron production rose from 678,000 tons in 1830 to 2.7 m. in 1852. Coal production rose from 10 m. tons in 1800 to 100 m. tons in 1865. All created employment opportunities: on the railways, in coal-mines and factories. Working conditions were ameliorated by the 1847 Factory Act, Coal Mines Act and the Ten Hour Act. Even the Corn Laws were repealed in 1846, free trade being then extended to sugar and timber. {8}

Farming also benefited from investment and innovation. Cheap loans authorized by Parliament allowed farms to modernize. Mechanized pipe-making aided irrigation. Nitrates, guano and bone manure came into common use as fertilizers. The Royal Agricultural Society Show in 1853 exhibited no less than 2,000 implements. Farm wages rose as competition from railways and factories drew men off the land — though they fell again in the 1870s when Australian wool and American wheat came flooding into the country. {8}

Twentieth Century Britain

The twentieth-century economic history of Britain is commonly divided into: {6}

1920s: war debt, deflation and life under the gold standard.
1930s: mass unemployment.
1940-50s: austerity, rationing, war debt, but full employment, new welfare state and rising living standards.
1960s: confidence, prosperity and alternative cultures.
1970s: era of discontent: strikes, 3 day weeks, inflation, boom and bust.
1980s: Thatcher years of monetarism and financial deregulation, two deep recessions, mass unemployment, and then boom.
1990s: recession and then the great stability.
2000s: financial innovation and deregulation, housing boom — leading to bank/building society collapses and government bailouts.
2010s: austerity and recession.

1979-90 Margaret Thatcher Experiment

The Keynesian policies of consensus government assumed a reasonable rate of economic growth, but Britain's economy generally lagged behind those of its European competitors. An obvious problem was a balance of payment deficit, which continually placed sterling under strain. As employment increased, costs and wages rose, and imports were sucked in. Since sterling was an international currency, making devaluation unthinkable, the only recourse was to cut demand. Unemployment rose as a result, and the government subsequently had to raised the level of demand, when the stop-go cycle started all over again. The deeper problems were equally intractable. The UK had kept to its minimal early 19th century model of entrepreneurship, in contrast to a Japanese state-led or European corporatist model. Banks and businesses favoured the short term, promoting accountants and lawyers to their boards rather than engineers or scientists. There was no real power sharing in companies, nor collaboration across class lines. Nor was there a Labour Market Board as in Sweden, or the statutory Works Councils of Germany. UK companies did not treat all workers as members of a community, promote senior employees to the board, put service to their workforce, communities and customers before those to shareholders, or resist the perpetual take-overs that benefited only the shareholders of the company being taken over. No effective remedies were offered by the main political parties. The Labour Party looked to increase state aid, though this resulted in bloated bureaucracies. The Conservatives looked for a change in attitude, but found no underlying morality or community of interests. Companies had ignored Callaghan's 5% norm, as they had Macmillan's 'guiding light'. Thatcherite policies therefore championed the market, though the reasons given were often bogus. The proportion of GDP spent on public services was in fact lower and not higher than the majority of Britain's competitors. State intervention, far from crippling, had in fact been very beneficial in Sweden, France and Japan. Inflation was not necessarily bad for growth. France and Japan had high growth and high inflation. West Germany had high growth and low inflation. America had low growth and low inflation. Britain had low growth and medium-high inflation. {9}

The Conservative government inherited weak management, poor industrial relations, ineffective research and development, and low levels of vocational training. Despite the rhetoric, these remained largely unchanged, though the Thatcher government was successful in meeting its chief aims — to master inflation, reform the trade unions and privatise the state monopolies. The cost — increased unemployment, fractured communities, fraying social cohesion and growing distrust of the political process — was high, and the long-term benefits are still debated. {9-10}

Faced with a large deficit (50 bn sterling in 1993), an ageing population and more single-parent families, the Conservatives carried through a three-phase programme. They restructured the welfare state, reduced public provision in favour of private, and transferred resources from the less to the more well off.

The stated aim was to reduce the public sector borrowing requirement, and to gain votes through tax breaks. Thatcherism was part of an international Neoliberal movement that aimed to increase deregulation and privatisation, phase out government subsidies, reduce high marginal rates of personal tax, free labour markets and reduce collective bargaining, deregulate capital markets and reduce disincentives like social benefits. {9}

Current Picture

Britain slowly adjusted to its loss of empire. {11-15} Services took precedent over manufacturing, and financial services currently employ over a million people, accounting for 9% of UK GDP and 12% of UK tax receipts. Their contribution to GDP (8.8%) is higher than that of other advanced nations (USA 8.4%, Japan 5.8%, Germany 8.3% and France 5.1%). UK fund managers hold £3.2 tn in financial assets. Foreign companies invested £33 bn in the UK financial services sector between 2008 and 2010, more FDI than in any other sector of the economy. Of the 953 foreign companies authorized by the FSA in 2010, 420 were US-owned. {16}

Online transactions more than doubled to nearly 6 billion between 2005 and 2010, but London's GVA (gross value added) in financial & insurance activities fell by 2.2% in 2010, growing by 1.5% in 2011 but expected to grow by only 0.1% in 2012. Though not part of the euro-zone, London's performance is much influenced by the global economy, and financial & insurance activities are indeed forecast to slow to a halt as the euro-zone crisis damages investor confidence. The higher liquidity and capital requirements in Basel III, the required separation of retail and investment banking, and the general restructuring of bank operations are further threats. {15-17}

The CIA summary gives the salient points:

'The UK, a leading trading power and financial center, is the third largest economy in Europe after Germany and France. Agriculture is intensive, highly mechanized, and efficient by European standards, producing about 60% of food needs with less than 2% of the labor force. The UK has large coal, natural gas, and oil resources, but its oil and natural gas reserves are declining and the UK has been a net importer of energy since 2005. Services, particularly banking, insurance, and business services, are key drivers of British GDP growth. Manufacturing, meanwhile, has declined in importance but still accounts for about 10% of economic output.'

'In 2008, the global financial crisis hit the economy particularly hard, due to the importance of its financial sector. Falling home prices, high consumer debt, and the global economic slowdown compounded Britain's economic problems, pushing the economy into recession in the latter half of 2008 and prompting the then Brown (Labour) government to implement a number of measures to stimulate the economy and stabilize the financial markets. Facing burgeoning public deficits and debt levels, in 2010 the Cameron-led coalition government (between Conservatives and Liberal Democrats) initiated an austerity program, which aimed to lower London's budget deficit from about 11% of GDP in 2010 to nearly 1% by 2015. The Cameron government raised the value added tax from 17.5% to 20% in 2011. It has pledged to reduce the corporation tax rate to 20% by 2015. However, the deficit still remains one of the highest in the G7, standing at 6.0% in 2014.'

'In 2012, weak consumer spending and subdued business investment weighed on the economy, however. In 2013 GDP grew 1.7% and in 2014, 2.6%, accelerating unexpectedly because of greater consumer spending and a recovering housing market. The Bank of England (BoE) implemented an asset purchase program of £375 billion (approximately $586 billion) as of December 2014. During times of economic crisis, the BoE coordinates interest rate moves with the European Central Bank, but Britain remains outside the European Economic and Monetary Union (EMU).'

Britain is not a fully functioning democracy:

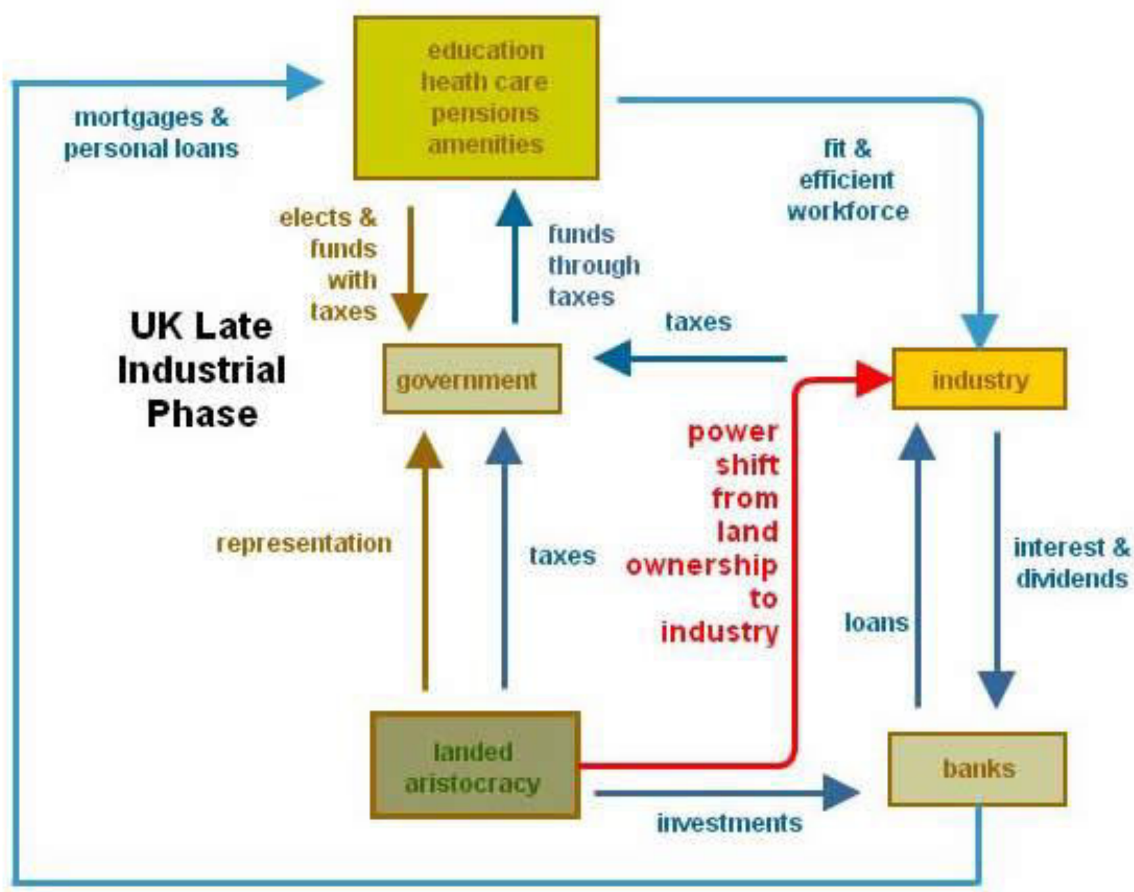
'Looking back on the landscape of power which I have surveyed in this book, whether in the regions of government or of business, I find it hard to recognise it as belonging to the British democratic tradition, with its small clusters of self-enclosed, self-serving groups on the peaks, and the populace on the plains below.' {20}

Sampson's detailed survey of Government, the Civil Service, the Legal Profession, Academia, Broadcasting, Newspapers, Corporations, Banks and Financial Institutions found that not only were they unaccountable, very largely, to the groups they purported to serve, pursuing their own agendas, but they were remarkably incompetent. Many institutional heads couldn't do the job, and didn't do the job, and were fired, eventually, with handsome compensation, when someone equally unsuitable took over.

Beneath the announced recovery may indeed lie disturbing trends. Serving oneself and friends rather than the community is widespread, {21} even among MPs, {22} and outsourced torture has been routine but unspoken about for decades. {23} Property prices continue to increase (some 15-20% being bought by buy-to-let landlords), but volumes are down 40% in eight years. Unsecured debt now stands at £10,000 per household, and even a minor increase in interest levels would create mortgage arrears in half a million households. A quarter of the population have nothing put away for a rainy day, and 60% have less than £1,000 in savings. Full time jobs have collapsed in the UK since 2008, and now account for only 1 in 40 of new jobs. MarketWatch and others believe the stock market has only begun its correction, which may well be worse than 2008, pitching into recession an unproductive and unbalanced economy. {24} Perhaps to forestall trouble, Britain's Internet and email surveillance now exceeds that of America's NSA. {25} Tax avoidance by large companies (with apparently government collusion) is an accepted fact of life. {26}

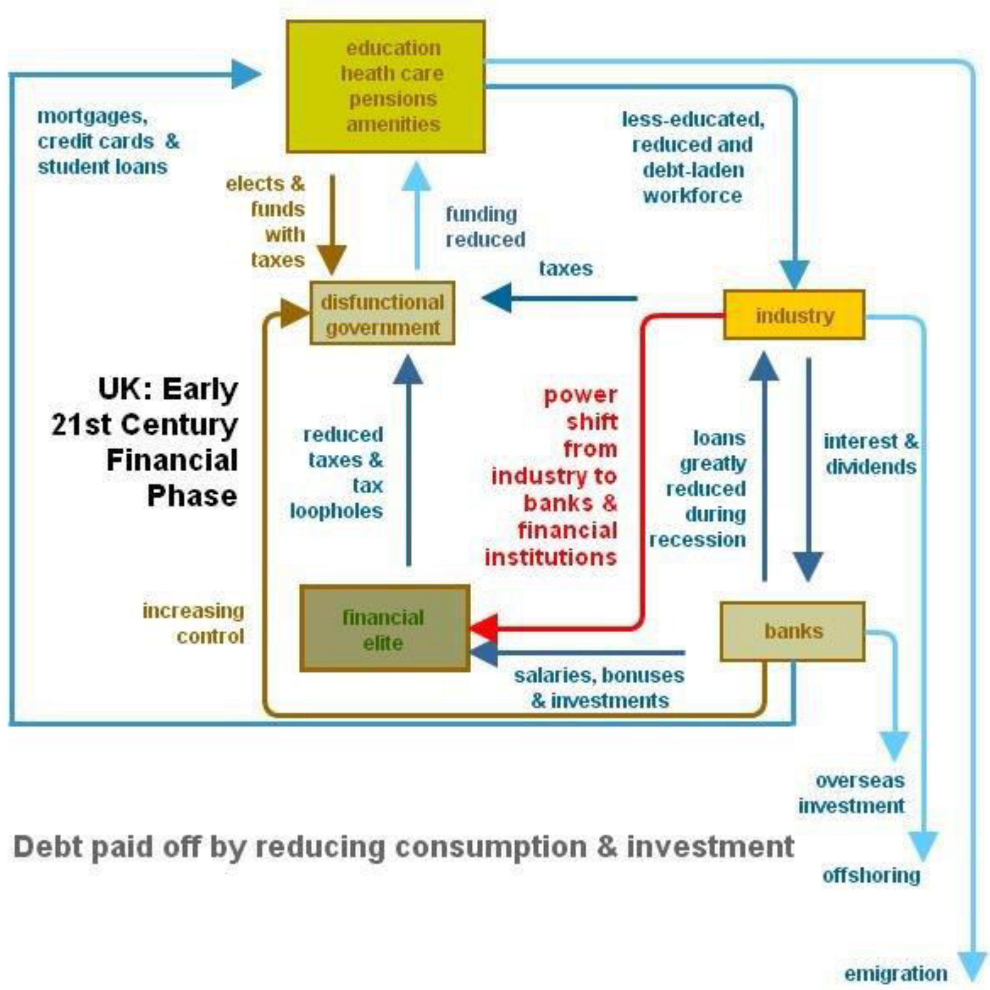
Economic Models

Under its previous coalition and current Conservative government, the UK adopted both the EEC austerity approach and the US preferential treatment of banks.



Michael Hudson's analysis of the US scene {27} therefore applies to the UK, and recognizes a two-century-long industrial phase where governments have taxed the 'unearned' income from land rent and natural resources to provide a higher standard of living to the workforce employed in mines, farms, businesses and industries.

Starting with the Thatcher years, however, the model has been reversed, with the banks and financial institutions gaining the power formerly enjoyed by the landed aristocracy. Failing banks have been bailed out with taxpayers' money (with the government obtaining a voice in their management, however). Public services have been privatised and/or cut back. Debt has been increased by the Bank of England's quantitative easing /printing money, and the orthodox economics appearing in university courses and business magazines has become an instrument of power, making no distinction between productive (investment in industry, innovation and training) and non-productive (capital gains in land prices, stocks and bonds). UK economic performance has been unexciting. {28}



Hudson's forecast is of increased inflation as the financial elite bid up land prices and stocks — coupled with deflation as interest payments reduce expenditure on goods and services. Something similar to Japan's 'lost decade' is possible, and it's worth noting the widespread riots of 2011, {29} and that ten percent of British nationals now live abroad. {30} Civil rights are being further curtailed. {31}

Britain has a diverse and often innovative workforce, {32} but many problems are deep-seated. Organized labour still resents its treatment in the nineteenth century. British industries were slow to modernize because investment went preferentially to colonies, {33} and those overseas investments have been protected by a foreign policy presented {34-35} as enlightened but often colonialist: British governments were complicit with reprehensible events in Indonesia, Kosovo, Iraq, Afghanistan, Kenya and Malaya, {36} helped as always by draconian Official Secrets Acts. {37} Yet even the nineteenth century, as Polanyi emphasized, was anything but simple. {1} The Speenhamland Act of 1795, introduced to supplement land wages and curb the drift to new manufacturing towns, paradoxically demoralized and pauperised the rural communities. A flood of legislation to make factory work safer was not forced through by organized labour in the later nineteenth century but by the factory owners themselves in answer to more egalitarian outlooks. Nonetheless, the governing classes gave up power slowly. Sedition was suppressed {38} and the Chartist agitation for universal suffrage was denied until society had settled into more stable social classes, which on the eve of W.W.I. still had dangerous, anarchic strands. {39} Even the gold standard, which was to operate across political boundaries, had the perverse effect of heightening international rivalry, which increased the scramble for colonies and put an end of the old order with the First World War. {1}

Prisoner of the Past

Britain is not a modern country like Germany or Italy. Nor was its monarchical structure swept away by republican revolution in the French manner. Class is an ever-present aspect of social life, and when American actors play English roles, for example, they invariably miss the hundred and one distinctions shown by dress, manners, speech and deportment that the English imbibe with their mother's milk. Those distinctions led to gross inequalities in the nineteenth century, and are still remembered. Tony Blair's achievement under New Labour was to encourage the working classes to forget their grievances and benefit from middle class opportunities, but the Tory party under David Cameron has again deepened social divides and created the Brexit vote. Land is the preferred distinction of the socially ambitious, and indeed 50% of rural land is owned by only 0.6% of the population. {4} That land is managed professionally, of course, and no doubt Lord Salisbury's comment that government should not be in the hands of those tempted by greed remains a wise counterweight to thoughtless universal suffrage. {38} But not all those favoured by wealth recognized their social obligations, and a new moneyed class is even less bound by noblesse oblige. With a bob to democracy — the royal family project a middle class life style, and stately homes are thrown open to the public — appearances have been kept up, but at some cost to natural abilities. Investment that went abroad in the twentieth century now goes into financial services, and not generally into projects that could make Britain a more equal, productive and forward-looking country.

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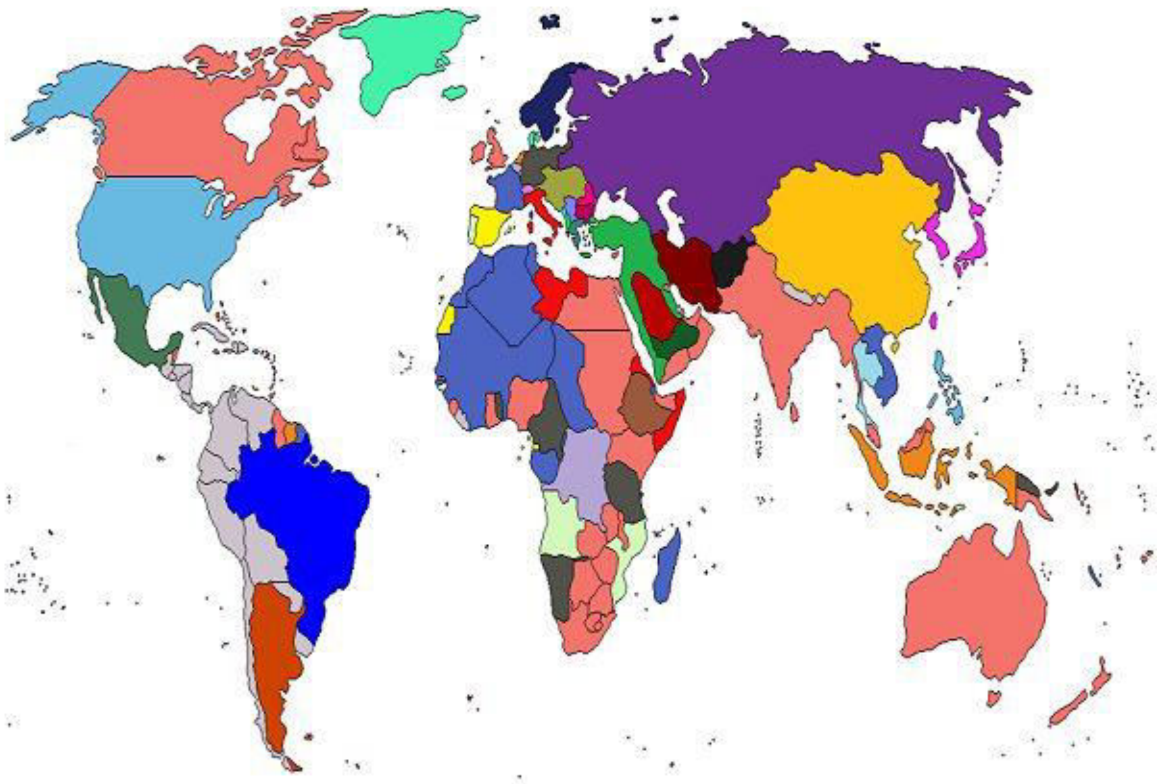
37. Colonial Empires



Colonialism is a complex and contentious subject, where historians dispute who or what colonization really benefited. {1-9} Britain certainly could not afford to retain her colonies after WW II, and all colonies (with the partial exception of Chechnya from Russia) regained their independence eventually, though not always easily. The most protracted struggle was in Chechnya, with over 150,000 deaths, and Indochina, which left 58,000 Americans and over a million Vietnamese dead. {10} To the extent that generalizations can be made, the European powers developed colonies to obtain raw materials for their expanding industries, and markets for their manufactured goods. The elements of modern administration, health and education were introduced, but colonies were not allowed to threaten European dominance by industrializing themselves. Colonial boundaries did not always represent ethnic or religious divisions, moreover, which caused dissent when European control was removed on Independence. Many countries, to secure independence in more than name only, sought to industrialize on gaining their freedom, but did not realize what was needed: a disciplined and educated workforce, legal protection of land, investment and innovation, a transparent and equitable taxation system, and markets that were not rigged against them — the USA, Europe and Japan subsidized their farmers and maintained high tariffs on agricultural imports. {11-12}

History

Medieval Europe was largely self-contained until the First Crusade (1096-99), which opened political and commercial communications with the Muslim east. The oriental land and sea routes terminated at ports in the Crimea, Trebizond, Constantinople, Tripoli, Antioch, Beirut and Alexandria (Egypt), and here Italian galleys exchanged European for Asian goods. Competition between Mediterranean nations gradually narrowed to a contest between Venice and Genoa, with Venice winning out when it defeated its rival in 1380. Thereafter, in partnership with Egypt, Venice principally dominated the oriental trade coming via the Indian Ocean and Red Sea to Alexandria. Florentine banks (Bardi in the 14th century and Medici in the 15th century) initially funded this trade, with the Augsburg houses of Fugger and Welser becoming important in the following centuries: they furnished the capital for voyages and New World enterprises. Sea power shifted to the Atlantic nations in the 17th century, from the Mediterranean to the nation-states of Portugal, Spain, the Dutch Republic, France, and England. Maps, navigation and ship building gradually improved, and colonialism by the European nations began around 1500, following discoveries of a sea route around Africa's southern coast (1488) and of America (1492). The Treaty of Tordesillas (1494) partitioned the non-Christian world between Portugal and Spain, and was the basis of Portuguese rule in India, the East Indies, and Brazil. Spain did not immediately follow up Columbus' discoveries, but Hernán Cortés' conquest of the Aztec Empire, and the Pizarro brothers' conquest of the Inca Empire opened up large gold and silver resources, first as plunder and then as mining enterprises using forced native labour. Nearly three centuries of colonial rule followed, the territories being treated as the king's private estate. The Spain crown in fact drew more wealth from taxation than its precious metal mines, but this added wealth did not encourage investment but lavish court spectacle and extravagant wars, which eventually bankrupted the state. From the 17th century, Portugal drew its own supply of jewels and gold from Brazil, but again lost much of its wealth and status as the Dutch, English, and French took an increasing share of the spice and slave trades. {1-5}

For many years, the English West Indies exceeded North America in economic importance, but that was reversed as their populations increased. New England became a region of small farms; the middle Atlantic colonies one of larger-scaled and more diversified farming, and the southern colonies one of slave-based plantations growing tobacco, rice, and indigo. By 1763 several towns had grown into cities, including Boston, New York City, Philadelphia, Baltimore, and Charleston, South Carolina. The loss of the thirteen American colonies spelt the end of the first British Empire, and the start of the USA's growth into a world power. {1-5}

Social amenities in Europe improved as native products and then plantations supplied new crops, materials, foods and beverages — coffee, tobacco, tea, cotton textiles, potatoes, sugar and spices. Institutions also changed as the restrictive trade practices and monopolistic privileges sustaining the slave trade, colonial plantations, and trading companies gave way to industrialisation. The demand shifted from gold, slaves and spices to raw materials for industry (cotton, wool, vegetable oils, jute and dyestuffs) and foodstuffs for the swelling industrial areas (wheat, tea, coffee, cocoa, meat and butter). {1-5}

Colonizing Process

Colonization was instrumental in shaping the modern world, with both its advantages and continuing problems, and brought about wholesale changes to existing communities. Such changes did not impinge on the Chinese, Russian and Ottoman Empires, and had only a limited effect on India, all of which were powerful states, but did transform smaller and unprotected indigenous societies. Before the Industrial Revolution, European activities in the rest of the world were largely confined to: (1) occupying areas that supplied precious metals, slaves, and tropical products; (2) establishing white-settler colonies along the coast of north America; {3} and (3) setting up trading posts and forts, so applying superior military strength to achieve the transfer to European merchants of as much existing world trade as possible. However disruptive these changes may have been in Africa, south America, and the isolated plantation and white-settler colonies, the social systems otherwise remained unchanged. They were self-sufficient small communities, based on subsistence agriculture and home industry, which provided limited markets for the mass-produced goods flowing from the factories of the colonizing powers. Their existing social structures were also unfavourable to commercial agriculture or bulk mineral extraction. {1-5}

The industrializing powers therefore: (1) overhauled existing land and property arrangements, introducing private property in land where it did not previously exist, and expropriating land for white settler use or plantation agriculture; (2) created a work force, either by forced labour or taxation that required wage earning; (3) spread of the use of money and exchange of commodities by imposing money payments for taxes and land rent; (4) closed down competing home industries; and (5) curtailed or prevented export of native products to the mother country. Adding to social upheaval was emigration. Some 55 million Europeans left their native lands in the hundred years after 1820, the result of economic dislocations at home and the attraction of new lands, jobs and social advancement, plus the search for religious and political freedoms. {1-5}

The increasing demands of the Industrial Revolution, for raw materials and market for finished goods, also encouraged colonists to take over large areas of land, either by (1) exterminating indigenous peoples and moving survivors to reservations, or (2) conquering indigenous peoples and transforming their societies to meet the changing requirements of the mother country. So grew a disparity in technologies between the leading European powers and other nations, which only increased with advances in communication, transportation and armaments. Railroads in particular helped consolidate foreign rule over wide areas. With technical superiority came racism and arrogance on the part of the colonizers, an ignorance of viable native customs, particularly Islamic cultures, and much-resented feelings of inferiority among the colonized. {1-5}

The struggle for power and wealth among the European powers was also played out in their colonies and associated military and marine bases. The Portuguese were ousted from their East Indies possessions by the Dutch, who in turn proved too powerful for English companies, which had to content themselves with India. In both India and Canada it was the French who initially held the stronger hand, but their entanglement in European affairs allowed the British to become the dominant power in both continents. Indeed the concept of empire changed. A worldwide trade network, overseas banking, the export of capital to less advanced regions, and the leading position of London's money markets — all under the shield of a powerful navy — led to Great Britain's economic pre-eminence and influence in many parts of the world, even in the absence of political control. Rivalry increased in the late 19th and early 20th century as the number of colonial powers increased, and Africa in particular became a scramble for new territories. {1-5} {13-14}

Egypt

An instructive example is Egypt, which remained largely unchanged until the nineteenth century. The medieval Islamic dynasties came and went, and the Ottoman empire crumbled away, but the peasant societies remained self-supporting, dependent on the annual flooding of the Nile. But once the Suez Canal opened in 1869, and controlled the passage to India, the country became of strategic importance to Britain. Equally important was its potential for cotton, whose supply to English mills had been threatened by the American Civil War. To expand cotton production, the khedive Ismail rapidly developed his country, building railways, canals, telegraphs and extensive docks at Suez and Alexandria. As British banks funded the enterprises, the indebtedness of Egypt steadily mounted, reaching £80 million in 1876. The annual interest alone amounted to £6 million, which had to be extracted from state revenues of £10 million. The peasants were ruthlessly taxed to meet these sums, and in 1875 the khedive was eventually obliged to sell his Suez shares to Britain. 1878 saw a cattle plague and widespread famine. As the machinery of government broke down there was agitation to grant a constitution and more independence from Britain, a situation that endangered banking interests. Britain therefore replaced Ismail by the more compliant Tewfik. Nationalism grew just the same, however, and in 1861 army officers led by Arabi seized control of the government. Britain responded by sending warships to Alexandria, where they employed Bedouin assassins to murder Christians, landed forces to deal with the 'emergency', and defeated Arabi at Tel-e-Kabir. The country was placed under British military control, a 'temporary' measure that lasted 25 years. Under Sir Evelyn Baring, more land was irrigated and brought under cotton cultivation — exports rose from £8 million/year to £30 million/year in 1907. Food had now to be imported. Egyptian society was no longer self-sustaining, and the opposition was such that the country had to be placed under martial law for the duration of W.W.I. A nominal independence was granted in 1919, but the reality of British rule continued through the occupation of the Suez Canal and the Sudan. {15}

The Victorian Bun Penny

It was the most pleasing of portraits: bold, sensitive and incisively drawn. The head fills the flan and the bust, decorated with pleasing details of dress, extends to the coin's edge. The queen is seen in late youth, with a little fullness to the jaw but the mouth set firm and forming part of a forward-looking profile expressive of calm and dignity.

Victoria was still an attractive woman, a very attractive woman and cognizant of the fact, but also queen and empress. Her hair is done up into a bun behind, the strands sensitively detailed, with the laurel wreath emerging forward from the strands of hair to emphasize the responsibility of office, and the ribbon behind bifurcating, one strand falling behind her head, and the other breaking the wide expanse of the neck and shoulders.

Britain. Ae one penny. Obverse: Bust of Victoria facing left. Victoria D.G. Britt. Reg. F.D. around. (Victoria By Grace of God Queen of Britain. Defender of the Faith.) 22mm 28 gm.

Britain. Ae one penny. Reverse: Britannia seated facing right, holding trident and shield. ONE PENNY around. 1862 in exergue.

Above all, this portrait by L.C. Wyon was an extraordinary balance of elements: the bare but subtly-modelled expanse of face and bust, the plain background, the legend and delicacy in the details of hair and dress. Victorian art is often stigmatised as sentimental, prudish and clogged with detail, but here, under the aegis of a continental engraver, is a romantic conception, of a woman expensively dressed but so pleasing in her bodily charms that the personality overwhelms any fussiness in dress or coiffure.

On the reverse appeared the seated figure of Britannia. Her left hand holds a trident that extends to the coin's rim. Her right holds a shield. Left and right appears a lighthouse and a ship in full sail, a discreet reference to Britain's naval power. The legend says simply ONE PENNY and the date, 1862, appears in the exergue below. Once again the design fills the flan, and Britannia, looked at carefully, is a strangely impressively figure. She is feminine, clearly so, but also muscular and elaborately mantled, and wearing a fantastic helmet, the rich plumes of which fell almost to her shoulder.

Victoria's coin image is not an over-delicate portrait, however: the jaw is square-set and a little heavy, almost

lumpy. Nor is it entirely faithful: the queen was 43 in 1862, well into middle age. Indeed a contemporary photo shows her so. But it is an appropriate one. It depicts an accessible human being, one that is almost middle-class in an age that was slowly becoming so.

The Victorian period is one of bustle, commerce and industry, less concerned with class differences, enjoying more mobility and access to greater commercial products that made everyday life agreeable, often with their raw materials transported across a colonial empire that spanned the globe: the queen eventually ruled one in five of the world's inhabitants. The bust, as it were, steps out of the frame, and we are invited to make her acquaintance. But it is an appropriate one. It depicts an accessible human being, one that is almost middle-class in an age that was slowly becoming so.

It was not so before. The 1854 penny shows a remote, classical being, the portrait severed at the neck and rather too large for the flan, crowding the legend, which is otherwise attractively balanced between the three words and date. That strong jaw is present, and the sloping profile no doubt emphasizes determination, but the effect is somewhat Germanic: a cleanly chiselled outline that looks taut, forceful and controlled. Words omitted from the obverse legend have to appear on the reverse, which is therefore ornate and somewhat decorative: roses in the exergue rather than the date.

Design in coins serves a purpose: beside the practical utility has to be displayed authenticity, power and legitimacy, words similar in meaning but extending over different fields of human understanding, and generally expressed differently. Authenticity here is assured by the technical competence of the piece: faultlessly machine-struck in good-quality metal. No one would counterfeit such a low denomination, or perhaps could do so.

Legitimacy resides in the legend: *Victoria by the grace of God / queen of England, defender of the faith*: titles the kings and queens of England have used since Henry VIII. But power is more indirectly expressed, primarily by the reverse. The Britannia of the 1854 penny is an attractive woman, thickly swathed, no doubt, but with the drapes seeming both light and decently concealing: she seems innocently lost into her costume. In contrast, the 1862 Britannia is a much more assertive figure. The trident reaches to the coin's rim, and the surrounding emptiness of the flan ensures its point is made: Britannia has the attributes of Neptune, the Greek god and ancient ruler of the seas. Nonetheless, she takes her place beside the lighthouse and the sailing vessel, protected by one and protecting the other. But these explanatory references are missing from the 1900 penny. Ship and lighthouse have disappeared, and Britannia is now an imperial power needing no false modesties or fripperies of dress in her statements. The figure, unclothed in arms and legs, grasps the shield firmly, and her manifest destiny is emphasized by the cuirassed bust.

Coins have to be accepted by their users, of course, or, put more crudely, sold. What marketers call the 'inside-out' 'versus the 'outside-in' models — i.e. 'how can we sell what we have' versus 'what do our customers really want' alternate between the three coins. The 1854 coin is a token of classical restraint and gentlemanly manners: you are free to own her while you abide by the laws and customs of the realm: she sells herself to us as something desirable, while not of course appearing to do so. The 1860 is more 'outside-in' in approach: the queen is almost one of us, or how we would like to be. By 1900 the approach has again reversed: she imposes on us as something essential, to emphasize the country's destiny and uphold British values, wealth and supremacy. {16-23}

Imperialism

With later colonialism came imperialism, where the economic benefits were often less than the costs of wars and armaments, and where needed social reforms could be indefinitely postponed. Some historians have seen this as a mixture of patriotism, philanthropy, and the spirit of adventure, driven by the pressure of capital seeking investment outlets beyond the congested and over-competitive situations in the mother countries. Marxists, however, find in it a new phase of capitalism, monopoly capitalism, where tacit alliances between large industrial and banking firms allow for cooperation rather than wasteful competition. The accompanying need to obtain an exclusive control over raw material sources and a tighter grip on foreign markets encouraged rivalry for colonial possessions by the big powers, and therefore empire building. {24}

Joseph Schumpeter reached similar conclusions from another perspective. Surveying empires from earliest times, Schumpeter identified three factors. First was a persistent drive towards wars and conquests that served no rational, utilitarian aim. These drives were, secondly, not innate but evolved as peoples and classes took up arms to avoid extinction, and continued long after their warrior mentality was really needed. Thirdly, the drive to war and conquest served the domestic interests of ruling classes, often under the charismatic leadership of individuals who had the most to gain. Without these factors, Schumpeter believed, imperialism would have been swept away long ago since capitalism thrives best under peace and free trade. With monopoly capitalism, however, the fusion of big banks and cartels creates a powerful pressure group that sought higher profits from what they could control more easily. But where Marxists see empire building as a natural consequence of capitalism, Schumpeter saw it as an artificial graft. Monopoly capitalism requires protection behind high tariff walls — without which there can be large industries but not cartels or monopolies — and those tariffs are set by the state, which is therefore a fusion of the previous autocratic state, the old war machine, previous feudal interests and ideas, and capitalist interests. Imperialism is still much debated, but most historians accept some variant of Schumpeter's thesis, though the same model will not fit all situations. {24}

Religion, imposed or rekindled, played a part in many imperial ventures. {25}

Marxist thinkers stress the individual social contexts that today cause inequality, unemployment, and environmental degradation. General economic categories such as 'finance', 'manufacturing', 'banking' and 'services' are historically disembodied entities unless both the political economies and the source of financial wealth are properly understood, some of which are legal, and others less so: the drug trade, money laundering, real estate speculation, etc. International finance has superseded imperialism, though military force (declared or covert) has sometimes been resorted to. {26}

Africa

Looked at more carefully, with the British African colonies as an example, it is sometimes helpful to distinguish four phases of colonialism. In the first, which lasted to the 1930s, the colonies were run for the benefit of the mother country, supplying raw materials for home industries and providing a market for its manufactures. Suppression of the slave trade, and the search for substitutes had led Britain, for example, to acquire Sierra Leone in 1808, Gambia in 1816 and the Gold Coast in 1821. To handle the foreign trade on which colonial prosperity depended, expatriate banks were set up — generally branches of banks in the mother countries, which were hived off as independent entities once justified by the volume of business. The mother country also provided the colonial currency, which often had to be 'cash', i.e. silver coins or even native money. In the second phase, which lasted to Independence, the preference was reversed, i.e. the countries were more run for their individual benefit and not necessarily that of the mother country. Agriculture and local manufacturing was still orientated towards export, often to the mother country and encouraged by emigration, {11} but rudimentary institutions and facilities were developed that the colonial country would need on achieving

Independence. In the third phase, which lasted from Independence to the quadrupling of oil prices in October 1973, the newly independent countries embraced central planning and Keynesian economics and indeed made, most of them, considerable economic progress, though often lapsing into one-party states. All that came to an end in the fourth phase, after the oil price hike, when increased energy costs and the trade slowdown required them to borrow heavily: they rapidly became indebted to western banks and then to Neoliberal policies, which have kept many of them poor. {27-28}

Other commentators view African colonialism in a less kindly light, noting that the USA and European powers became more aggressive during the 1873-93 'Long Depression', no longer content to respect local rulers and Ottoman oversight, but intervening directly in African affairs to grow commodities and extract raw materials. {29}

Modern Europe

Contrarian commentators regard the economic and financial pressures that the big corporations and banks exert on smaller countries as colonialism in all but name. Wealth is transferred by 'soft power' to western interests. The Greek debt deal, for example, benefits not the Greek people or its institutions, but financial interests — the European Commission, European Central Bank, IMF, and European Stability Mechanism — that will acquire Greek assets at fire-sale prices. US and EU bankers were installed in December 2014 in Ukraine as Ministers of Finance and Economics. Debt in that now bankrupt country rose from $12 billion in 2007 to $100 billion in 2015. Wealth will be extracted by interest payments and privatisations. Some 342 former government enterprise companies are slated for sale in 2015, including power plants, mines, 13 ports, and farms. {30}

Other Countries

But not all new states are poor. Singapore's 5.4 million are wealthier in GDP per capita terms than the citizens of the United States or Germany. Helped by an authoritarian government, an open pro-business economy, excellent education, a strong work ethic and quality public housing, the GDP per capita rose from $4,756 in 1980 to an estimated $52,179 in 2013. {31} Chile is another success story, benefiting from pension reform, privatisation, honest government and low taxes, though with widening inequality. {32} Nigeria, by contrast, is not: ethnic divisions, inept military governments, endemic corruption and now religious strife have more than counterbalanced its enormous oil wealth. {33} Each country is different, with its own set of advantages, customs and problems. {34-35}

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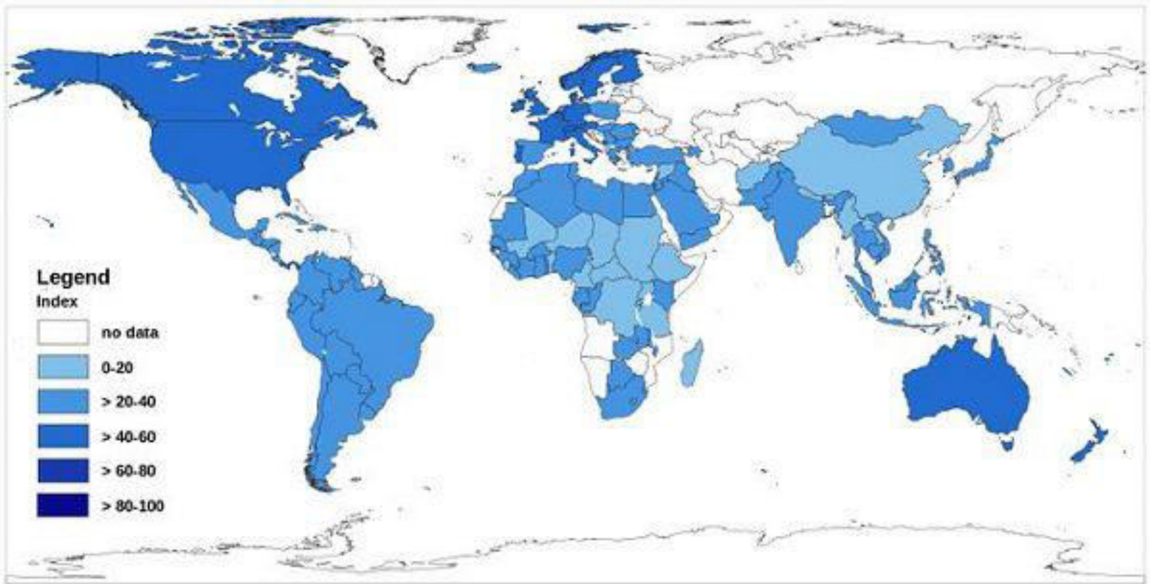
38. Globalisation



Globalisation refers to a large number of business enterprises being carried out in many different locations across national boundaries. Much more than just importing or exporting from one country to another, true globalisation involves one firm procuring from, manufacturing in, and selling to many different countries. There has been an increasing trend in the world towards globalisation, which is characterized by such trends such as: {1-7}

1. Greater free trade.
2. Greater movement of labor.
3. Increased capital flows.
4. Growth of multinational companies.
5. Increased integration of global trade cycle.
6. Increased communication and improved transport, effectively reducing barriers between countries.

Economists generally stress the interconnectedness in their definitions:

'Globalisation can be defined as the intensification of worldwide social relations which link distant localities in such a way that local happenings are shaped by events occurring many miles away, and vice versa.' Anthony Giddens {8}

'The concept of globalisation reflects the sense of an immense enlargement of world communication, as well as of the horizon of a world market, both of which seem far more tangible and immediate than in earlier stages of modernity.' Fredric Jameson. {8}

'Globalisation as a concept refers both to the compression of the world and the intensification of consciousness of the world as a whole.' Roland Robertson. {8}

Benefits

In theory, globalisation offers many advantages: {2, 9-11}

1. Lower prices for consumers.
2. Greater choice of goods.
3. Bigger export markets for domestic manufacturers.
4. Economies of scale through being able to specialize in certain goods.
5. Greater competition.
6. Greater employment opportunities.
7. Access to bigger markets.
8. Faster spread of new technologies.

Globalisation is a fact, and even the Jakarta cab driver may be wearing sandals manufactured in China, and be sporting a shirt from Bangladesh and/or a watch from Taiwan. He will pass hoardings advertising electronics made in China and Korea, and have to wait behind buses made in India. Even his midday meal may include rice imported from Vietnam or Thailand.

Globalisation began millennia ago with Eurasian trading patterns. {12-13} Northern regions supplied furs and amber. The European countries, ever at war with each other, produced weapons, plus wool in the north and grain, wine and olive oil in the south. Precious metals came from many sources, but increasingly from Mexico and Peru after the Spanish conquest. The Indian subcontinent produced high-quality cotton textiles, and China was the source of tea, spices, porcelain and silks. Under this mutually-beneficial system, the Hanseatic League handled the northern European trade, the Italian trading cities sold on the goods brought from China, the medieval Islamic states grew rich on protecting the overland caravan routes, Indian fabrics found a market everywhere, and China received its ever-needed silver for currency purposes. {14} The system drew to an end when the break-up of the Mongol empire into smaller kingdoms threatened the security of inland routes, and the Atlantic nations sought cheaper, sea-borne passages to China. Then came the Industrial Revolution, colonization by the western powers, trading under the self-regulating gold standard {15}, and finally the unfettered competition we know today.

So were sown the seeds of present world. Britain, industrializing first, did not maintain its lead when the large London banks found overseas projects more attractive than investment in British industry. France industrialized slowly, and its attachment to agricultural subsidies still causes difficulties. Russia industrialized too fast, and, when the Tsarist and Kerensky governments were unable to feed urban populations during the First World, suffered a Bolshevik revolution. Islamic countries, deprived of trade contacts and revenues, and hampered by social restrictions, have fallen prey to religious fundamentalism. {16-17}

Only in north America did industrialization proceed fairly smoothly. Immigrants expanded into lands cleared of Indians by disease and sometimes wholesale killing, {18} shook off European hegemony, and — endowed with space, natural resources and a swelling work force through immigration — developed the mass production models that served it well during the Second World War and for thirty years afterwards. {19}

Imperial China enjoyed an excellent internal trade which allowed individual families to diversify in agricultural products, and also preferred to keep its young women in the family rather than allow employment in factories: two conditions that retarded industrialization until the second half of the twentieth century. Women's status differed in Japan, where western ideas flooded in with the new Meiji government, allowing the country to industrialize quickly, defeat Russia in the 1904-5 war, and become the world's second largest economic power on recovering from its 1945 defeat. {12, 19}

Unless possessing large oilfields (Nigeria, Indonesia), both Africa and the world's former colonies stayed relatively poor. Exceptions are Canada, Australia and New Zealand, which more closely resembled America in resources and adopted similar development models. {20}

Disadvantages

Globalisation has also brought problems: {2-10}

1. Exposed the less-developed countries to the forces of superpower markets.
2. Created an unlevel playing field where smaller companies lack the resources to compete effectively.
3. Made countries critically dependent on each other.
4. Linked countries, allowing adverse economic conditions to spread quickly and become mutually reinforcing.
5. Facilitated the spread of disease in humans, animals and plants.
6. Led to a drain of higher-skilled workers.
7. Destroyed cultural and species diversity.
8. Taken over public life and eroded the power of democracies.

The present system is unstable, and places smaller countries, i.e. those outside China, the US and Europe, at a widening disadvantage. {21} From 1960 to 1995, the ratio of per capita income between the richest and poorest groups of countries increased from 30:1 to 80:1. {22}

Predatory Capital

Many countries have suffered attacks on their currencies: Britain in 1992 {23}, Mexico in 1982 and 1995 {24}, Russia in 1998 {25}, south-east Asia in 1997-8. {26} In all cases there were weaknesses waiting to be exploited, but the resulting capital flight plunged the countries into difficulties, allowed assets to be acquired cheaply by foreign concerns, and enriched foreign banks and businesses.

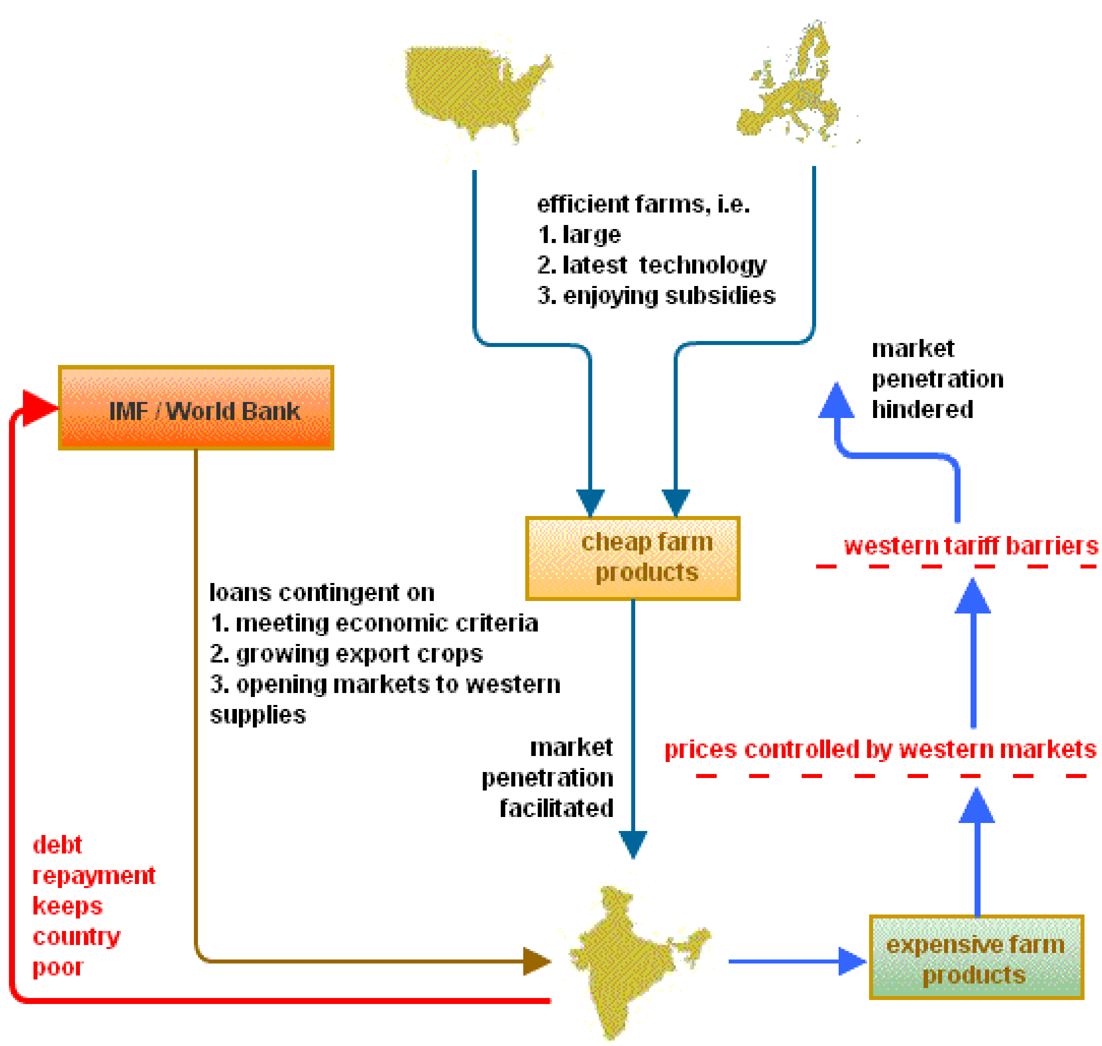
Social unrest and foreign control of Mexican industry led to the nationalization of railroads in 1929 and 1930, and of the petroleum industry in 1938. American investment returned to Mexico in 1970s, under the Portillo government modernization and industrialization program, where GDP grew at 6-8% p.a. Beset, however, by falling oil prices, higher world interest rates, rising inflation, an overvalued peso, a deteriorating balance of payments, and disappearing foreign reserves, the government devalued {27} the peso three times in 1982, declared a moratorium on debt repayment and then nationalized the banking industry. {28} The result was capital flight, and onerous loans from the IMF, which one commentator described as 'the most concerted organized looting operation in modern history'. {29-30} Mexico's reputation for safe investment had been restored by 1994, but the country was persuaded by the US to devalue by 13%. Before the announcement, however, some US$4 bn left the country, and the peso plunged 39%. Banks place the blame with the Mexican authorities, {24,31-32} but Wall Street firms were the beneficiaries, gaining ownership of financial assets previously closed to them. {31}

Such actions, presented as simple market reactions in the mainstream and textbook press, are often seen very differently by the developing world, {33-34} even as an arm of American policy {35-36} stated by the Clinton administration as the right of the US to use military force unilaterally to ensure 'uninhibited access to key markets, energy supplies, and strategic resources.' {37} It is worth quoting the Brazilian delegate to the 1990 annual meeting in Washington of the IMF and World Bank:

'Since the beginning of the debt crisis Latin America has transferred roughly $250 billion to creditor countries whereas it has received only $50 billion in financial resources. The figures are eloquent enough: the region exported resources in amounts several times greater than those of the Marshall Plan.' {38}

Even the short-lived 'Arab spring' was more a protest for affordable food than for political freedom, and inflated food prices were not helped by market speculation. {39}

Subsidies and tariffs by the rich agricultural nations create not only an unlevel playing field, locking the world into inequalities of wealth and opportunity, but close the door to markets for more sophisticated western goods. {40} Rich countries spend $1 billion every day on agricultural subsidies. IMF and World Bank programs force poor countries to open their markets to unfair competition, often requiring them to grow export crops, which are notoriously subject to market swings. Some African crops, like palm oil, have not received the research enabling the plants to do better in south-east Asia. {38} Exports to rich country markets also face tariff barriers four times higher than those encountered by rich countries. The barriers cost poor countries $100 bn a year, twice as much as they receive in aid. {41} Health requirements are often too high for poorer countries to attain — disease-free areas, inspection prior to export, maximum levels of pesticide or insecticide use — or even US farmers. {41-46}



World Picture

Prosperity came slowly and unevenly. Per capita GDP in 1990 international dollars: {47}

Year	West	Asia	Latin America	East Europe & USSR	Africa	World
1	569	456	400	406	472	467
1000	426	465	400	400	428	450
1500	753	568	416	498	416	567
1820	1,202	581	691	686	421	667
1870	2,050	556	676	941	500	873
1913	3,988	696	1,494	1,558	637	1,526
1950	6,297	717	2,503	2,602	890	2,113
1973	13,379	1,718	4,513	5,731	1,410	4,091
2003	23,710	4,434	5,786	5,705	1,549	6,516

Growth in the early capitalist period, 1820-70, was largely confined to the USA, Europe and Latin America. The old 'liberal order' of 1870-1913 extended growth to other counties. The period following, plagued by world wars and depressions, was poor for everyone. The golden period for global growth was 1950-73, when global GDP grew 3%/year. Growth in 1973-2003 achieved only half that.

Population in millions: {47}

Year	West	Asia	Latin America	East Europe & USSR	Africa	World
1	26	168	6	9	17	226
1000	27	183	11	14	32	267
1500	60	284	18	30	47	438
1820	144	710	22	91	74	1,042
1870	234	765	40	142	90	1,272
1913	372	978	81	236	125	1,791
1950	481	1,383	166	267	228	2,526
1973	610	2,249	308	360	390	3,916
2003	741	3,734	541	409	853	6,279

With the growth in trade has come branding and advertising, and even today countries retain traditions that allow products to be sold at a premium: America for electronic innovation, Italy for hand-crafted fashion goods, and Germany for solid engineering.

Progress is still slow. {48} Dani Rodrik {9} has urged developing countries not to rely on financial markets or the international financial institutions, but first put their own house in order. Important were property rights, the rule of law, sound money, and honest public finances — indeed just what fostered the Industrial Revolution in England. There is no simple recipe for growth. {49} Six key matters were export subsidies, domestic-content requirements, import-export linkages, import quotas, patent and copyright restrictions, and directed credit.

Global Economy

There is no need to demonise business leaders and politicians, who largely work with the world as they find it, securing what social and moral justification they can, but there are good reasons for doubting any trade model based on market economics will bring prosperity and greater equality. {50} It is intellectually flawed, and does not correspond to reality. Indeed, its limitations are probably well known and accepted, as the burgeoning debt, increasing wars, and further restrictions on civil liberty all point to powerful interests determined to prevent a move to more equitable economies.

But the most compelling evidence comes from the study of global economics. {51} Countries did not attain prosperity in the ways advocated by the World Bank, and would not have done so had they tried. Free trade would have prevented their growth of internationally competitive industries, and kept them as suppliers of raw materials or simple assembly goods. Industrialization is capital intensive, and only succeeds when it replaces high-paid jobs. Labourers in emerging markets are poor, and work in factory conditions similar to those of the early nineteenth century: low technology, low capital investment and low wages, e.g. footwear and garment manufactures in Bangladesh, Malaysia and Vietnam. Wages are kept at subsistence level to make the factories viable, and those low wages are insufficient to fund further local development. Companies simply move elsewhere if threatened with wage demands, and only large and increasingly militarised countries like Russia and China can provide the protection needed to make large leaps forward. Hence the aggressive stance of America and NATO, which often seems to be recklessly threatening, but finds itself defending a system where US hegemony is imperative. {52} Without the strength of the US dollar, the western world would be forced to address national debt problems and adopt less favourable market models.

Politicians, business and army chiefs do not conspire behind locked doors towards a fascist takeover of the world's resources, of course: they simply read the mainstream press, which is staffed by journalists brought up in the same traditions and interests. From that perspective, countries are simply poor because they haven't adopted free trade policies, and there is no incentive to look for deeper explanations. Besides, if the 1% control business in the western democracies, power is even more concentrated in the political elite of Russia and China, whose lifestyles and outlooks increasingly resemble those of their western counterparts. Political systems work for many interests, not only those of the average citizen. In general, superpowers need to foster re-distributive policies {53} and common purpose. {54}

Even ethics can work against poorer countries. Islam prohibits the economic exploitation implicit in western market models. Many African peoples have a semi-nomadic existence. Under colonisation they were drawn into western notions of money to pay taxes, and sometimes given a more tribal nature so that friendly chiefs could enforce the policies of their colonial overlords, but they remained communal societies at heart, self-supportive and redistributing goods more than individually competing for wealth. Political, health and education standards were kept rudimentary, which again prevented real growth when Independence came. {55}

Today it is inefficiencies in food distribution and the ravages of war that keep a billion people hungry, though the overpopulation threat is real. Countries need to co-operate to manage land and water resources more effectively, educating women, introducing better farming techniques {56} and limiting human reproduction sensibly. Agriculture accounts for one third of greenhouse gas emission, and farmers use 171 million tons of nitrogen as fertilizer every year, much of which ends up polluting water supplies and even the oceans themselves. Genetically modified crops are aggressively promoted, but often require special fertilizers, insecticides and more water than poor farmers have access to. Only a move away from grossly expensive warfare to self-sustaining development {57-63} will solve the looming problems of the world {64-67} where over 70% live on less than $10/day.

But globalisation affects not only the third world but western democracies where public decisions increasingly follow corporation agendas, aided by political leaders more concerned at finding lucrative employment afterwards than defending the electorates they ostensibly serve. Trans-national organisations have unlicensed and growing power. Of the top 100 economies of the world, 51 are now corporations, and only 49 are countries. The top 200 corporations have more wealth than 182 countries combined, have twice the economic influence than 80% of humanity, but employ only 0.3% of the world's population. Five of the top 20 corporations are banks. Fraud, rigging, insider dealing, and money laundering continue unchecked, and the daily derivative trading is now a third higher than before the 2008 crash. The European Parliament has recently passed the Trade Secrets Protection Directive that gives corporations extra powers to criminalize and prosecute whistleblowers, journalists and news organisations that publish leaked internal documents, for all that those corporations increasingly use transfer pricing and tax havens to evade their larger responsibilities. {68}

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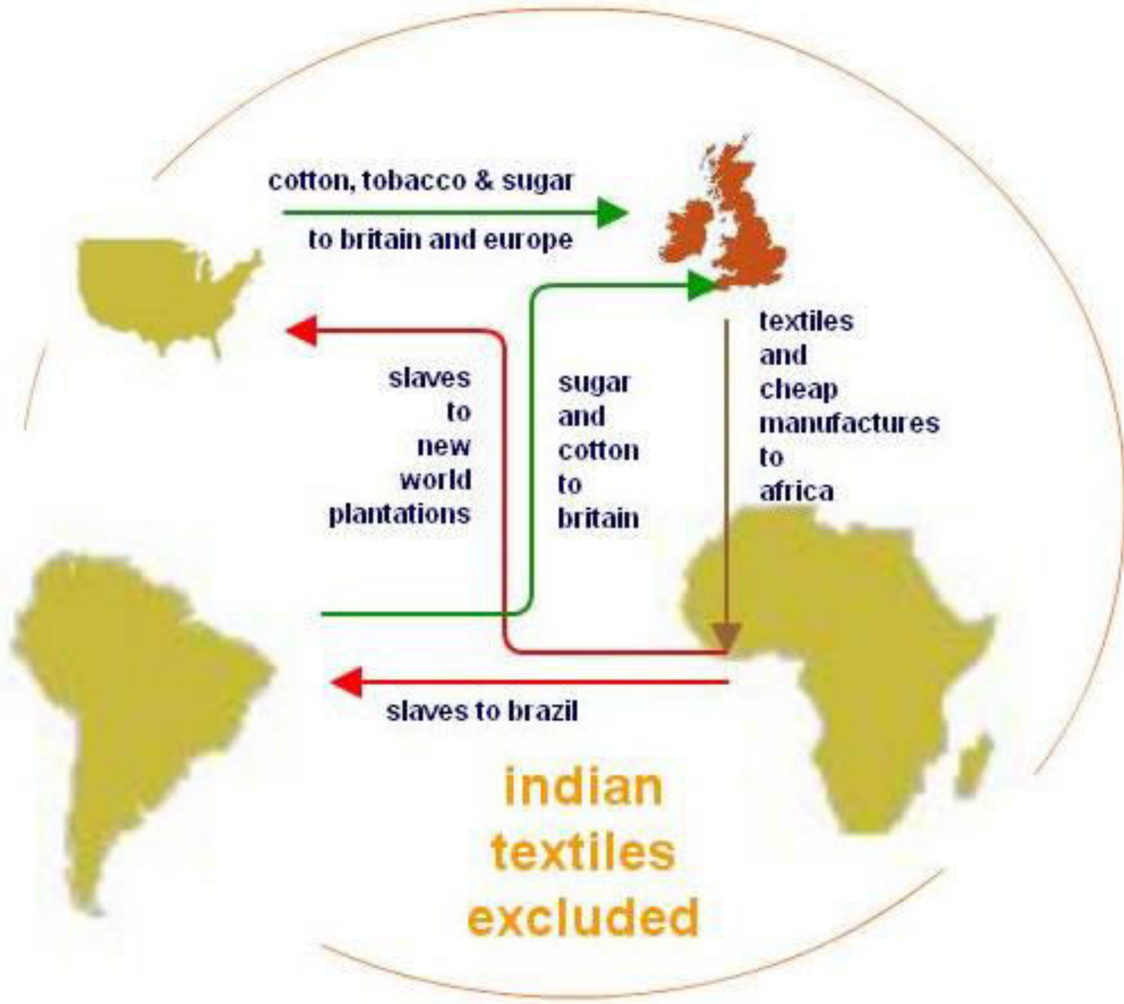
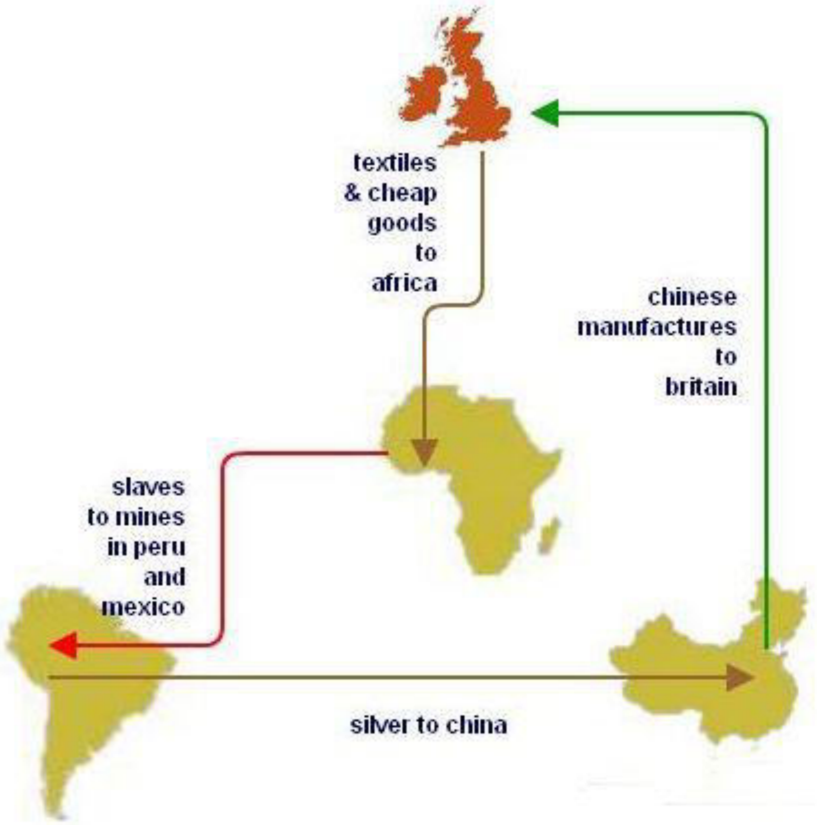
39. Industrial Revolution

The British Industrial Revolution began in the fifteenth century with enclosures of common land for sheep farming, which afforded some welcome money from taxes to a government debasing the coinage. New poor laws followed, to cope with the dispossessed 'surly beggars' threatening order in the countryside and the settled life of towns. Many were thrown into hardship, but town and countryside both grew richer as a result of land improvement. Contemporary with these social changes came a proto-Industrial Revolution where craft skills were learnt from the more advanced European countries and their machines copied. So appeared blast furnaces, tin mines, paper mills, powder mills, canon foundries, glass works, sugar refineries, and many such home-grown industries that absorbed some of the dispossessed labour. Such industrialisation slowed after 1640, however, and agriculture resumed its dominance. More labour was shed in the 18th century as farms became larger and land was enclosed in large estates, particularly under the 1760-1870 parliamentary enclosures, where one sixth the area of England was enclosed under some 4,000 acts of parliament. Materially, many aspects of English life improved, but whole classes of workers were cast into poverty as their small-holdings and livelihoods disappeared.



Workhouses were instituted to provide relief, and the Corn Laws repealed to let in cheap wheat from the American prairies. Long hours in the mills and factories became the norm as the new poor found employment in the rapidly expanding towns, first in the large textile mills driven by waterpower, and then in factories powered by steam engines that employed locally-available coal and iron ore. {1}

To protect its cottage industries, Britain first banned Indian textiles, and then, under mercantile-orientated governments enshrining industry and property rights, employed waterpower to run large cotton mills. The first machines were rudimentary, but benefited from continual improvements and inventions. Goods were initially transferred by canals, but pithead pumps and steam engines quickly developed into cheaper railway transport. {2}



Conditions were grim indeed in the overseas tobacco, sugar and cotton plantations, and in the precious metal mines of the New World that formed an essential part of this trading model. Britain received tobacco, sugar and cotton from slave plantations in Brazil, the American colonies and the Caribbean. The cotton it wove into cheap textiles, which were exported to clothe plantation workers, and buy slaves from Africa. The slaves were transported to Britain, and thence to plantations, and to mines in Latin America. {3}

The silver obtained in return from Potosi and the Mexican operations was used to purchase tea, china and silks from China, these being sold to merchants in Britain, Europe and the American colonies. When Chinese demand a century later threatened to empty British banks of silver, the British East India Company promoted the sale of Indian opium to China, overcoming local resistance by wars, which eventually opened up the country to British (and other European) manufactures. The Chinese had no answer to steel-built gunboats that were the products of the Industrial Revolution, any more than had the Japanese confronted with Perry's fleet in 1853. {4}

Contemporary historians have generally disliked this Williams model, noting that slave trafficking contributed to less than 5% of British trade revenues. But who profited from the trafficking is less important than the undoubted importance of plantation products, which were created by labour without the need of sustenance in England: a type of 'manpower at a distance' that was gradually taken over by water power and then coal-fired steam engines. Equally important — indeed more so, given that millennia of slavery had not led to an industrial revolution before — was the growth of enterprise in Britain, a change in mentality, from landed wealth, conspicuous consumption and/or regal display to investment, innovation and respectability. Britain had natural resources in coal and iron ore, and scientific experiment was encouraged. The government created a national market by abolishing internal tariffs, investing in transportation, erecting an external tariff to protect fledgling industries, creating banks to stabilize the currency and mobilize domestic savings for investment, allowing land, natural resources and labour to be treated as commodities, promoting religious freedom and finally undertaking mass education to prepare people for industrial work. Land was protected by title, and joint-stock companies restricted investors' liabilities to the shares purchased. The profits made by enterprise did not encourage population increases in Britain because the profits were not shared but kept within hardworking business families, who commonly purchased land and joined the gentry class. {5}

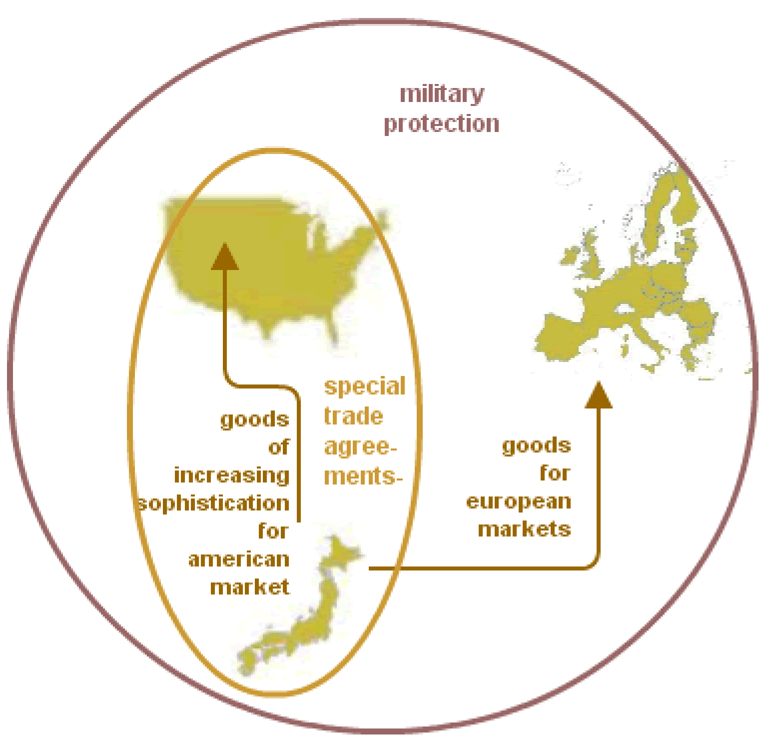
The Industrial Revolution may have begun in England because abundant coal tipped the balance against other western countries. Coal, and such cheap fuel sources were not available to Ming China, though conditions were otherwise propitious. But the root reason was the ratio of wages to the cost of capital. Whatever the individual injustices, land improvements under the enclosures acts and the flourishing overseas trade, had created a comparatively well-paid working class, several times higher than subsistence. Banking was well established. British wages were therefore high relative to the cost of capital, higher than the case in other European countries, and markedly more than in China or India. Coal in fact gave mills and factories the cheapest energy in the world. Cotton textiles grew from an insignificant addition to British GDP in the mid-eighteenth century to be its largest, accounting for 8% in 1830 and 16% of manufacturing jobs. Technical improvements drove down the price of fabrics until they undercut the vast but handicraft textile producers of India, forcing their weavers workers back into agriculture. In England, when cottage weavers could not compete with cotton mills, their recourse was to mill and factory employment, as the workhouses instituted by the new Poor Laws made charity an unattractive option. {6}

Other Countries

The Industrial Revolution soon spread to other countries. France was spinning 54,000 tons of cotton a year by 1840, far less than Britain's 194,000 tons/year, but still appreciable and made possible by further-improved mill technology. Germany was still only 11,000 tons/year, but heavy industry soon caught up and exceeded Britain in many respects, through R&D and banking capital, supplied long term at low rates for Board representation. In 1880 Britain produced 23% of the world's manufactures, against 18% by France, Germany and Belgium combined. By 1913, however, the ratios had shifted, to 14% and 23% respectively. {7}

That ratio of wages to the cost of capital was still important, however. It made no sense to introduce industrialisation into low-wage countries. A jute and cotton industry did flourish in Bombay, however, and was processing 360,000 tons of raw cotton in 1913, but the industry made only a small impact on so large a country, employing well under 1% of the labour force.{7}

Matters were again different in north America. Canada was a 'staples' economy, supplying cod, furs and timber to Europe in exchange for manufactures. Pennsylvania exported wheat. The southern states exported rice, and the Caribbean sugar, generally using slave labour. Mexico and the Andean countries produced silver, under appalling conditions but employing only a small percentage of their labour forces. It was in the prosperous northern states, where wages were comparatively high (twice Britain's in 1830), that industrialization took place, again with cotton that was grown across the US south to supply Britain's industrial needs. Eli Whitney had invented the cotton gin in 1793, and Francis Cabot Lowell built an integrated spinning and power weaving mill in 1831. Oliver Evans built an automatic flour mill, and American government arsenals were making interchangeable parts for muskets in the 1820s, laying the foundations for the automated assembly line that was important the following century, in automobiles and armaments especially. {7}



Different again was Japan, which employed the 'great leap forward' or 'big push' industrialization process at a strategic stage, as did Russia and then China. The Japanese story falls into four parts. The Tokugawa (1603-1868) period restricted trade but created communities tightly knit by social custom. Industrialisation began under the Meiji period (1868-1905) where sweeping reforms paid off the samurai, and feudal domains were surrendered to the crown. The four classes of society were abolished, allowing anyone to take a job, and the western 24-hour clock was introduced. New varieties of wheat were planted, and irrigation improved for other crops. Education was encouraged, and promising students were sent to study abroad, bringing back technical knowledge and ideas. Large factories were built, but modified to take advantage of cheap labour costs: double shifts were introduced and parts often constructed of local materials. The banking system was chaotic, and stayed so for fifty years, but the funding gap was closed by venture capital. The most important development of the Imperial period (1905-40) was the direct intervention of the state through institutions like the Ministries of the Interior and Industry, which brought in foreign experts for short periods, trained up engineers, and ensured that metallurgical, engineering and chemical industries were funded by state concerns. The Japanese were encouraged to save, and these close-knit associations of finance, state and industry (kaibatsu) protected Japan from outside competition. GDP per capita rose from $737 in 1870 to $2,874 in 1940. The final period, when Japan recovered from WWII, is termed the 'big push', when all components of an advanced economy — steel mills, power plants, vehicle factories and whole cities — were constructed simultaneously, ahead of supply and demand. Capital investment reached a third of the national income in the 1970s and, helped by trading agreements with America and Europe, GDP per capital averaged 5.9% between 1950 and 1990, touching 8% in the 1953-73 period. Despite the rise in wages, Japan became the world's cheapest steel producer, and its automobiles out-designed and out-priced models in America and Europe. {7}

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40. Capitalism

Capitalism is a politically-loaded word understood differently by the various shades of economists, political thinkers and historians, {1} but is broadly taken as an economic system stressing capital accumulation, competitive markets and wage labour in which trade, industry, and the means of production are privately owned and operated for profit. {2} Some forms or aspects of capitalism were present in many societies, of course, but capitalism gradually replaced feudalism and through trade, colonialism and empire-building became the dominant world system, evolving into globalisation and largely displacing centrally-planned economies, though some governmental planning and/or control is still found in 'mixed economies'.

Neoclassical economists champion the market. Keynesians stress the need for government regulation to prevent monopolies and to soften the effects of boom and bust cycles. Marxists speak of class warfare and exploitation of labour. {2}

Historians often stress the social aspects — An 'economic and social regime in which capital, the source of income, does not generally belong to those who make it work through their labour' — quotes Braudel, {3} who extends capitalism back to the 15th century, showing the importance of trade, finance and state legislation in the trans-national nature of capitalism, which long preceded today's globalisation and multinational corporations. {4} Indeed there was a progressive shift of economic centre from Venice in the 15th century, to Holland in the 17th century, to England in the 18th and 19th centuries, and then to America from the 1930s. Each centre shifts the pattern, concentrating financial services in the capital city and drawing goods, services and wealth from the surrounding global area. Competition is the essence of capitalism, and results in exploitation if the peripheral areas lack bargaining power — e.g. Vietnamese electronic goods, Bangladeshi textiles and Chinese assembly plants today.

Orthodox economists believe the inequality of the capitalist system evolved naturally from the market economy of the Middle Ages. By the 12th century many agricultural areas of Europe had passed the stage of self-sufficiency, and peasants came into town regularly to sell their excess produce, and sometimes to purchase goods that the skilled crafts turned out within the safety of the city walls. With that division of labour came the interdependence of town and country, each relying on the other, though the town rapidly gained ascendancy. Towns became cities, increasingly important when adorned by Church and the seats of government, extensive markets and flourishing guilds, the workshops and the soldiery we see in Renaissance Italy. Life in the country changed slowly, if at all, but the great cities became competing states with a patrician class imposing rules on the merchant and labouring classes. Sienna vied with Florence, extracting what it could from the lands, trades and manufactures it owned. Venice outdid them all. Wars, so constant a feature of Renaissance city life, were ferocious, and not always local.

Coins need metals, and the larger mines supplying those metals were capital intensive. Shafts had to be sunk, the ore dug out, the metals extracted, refined to an acceptable purity, and the metal transported to market — a long process that clearly needed advance funding and an efficient inter-linkage of labour, expertise, markets and finance, i.e. the capitalist system in embryo. Banks were often involved at every stage.

The revival of German mining of gold, silver, copper, tin, cobalt and iron in the 1470s stimulated metallurgical improvements and a larger scale of working to hoist the ores and drain water from the workings — which Agricola illustrated — but equally important was the stimulus the mining provided to other industries in the region (metal working, leather trade, paper production, armaments, etc.), to improved means of transport, and the extension of credit networks. {5} There were 50 crafts guilds in the Lübic of 1946, 42 in Cologne and 28 in Frankfurt-am-Main. Antwerp's pre-eminence was challenged as Venice opened more contacts for the silver she needed to trade for Levant gold. {5} Many German miners originally belonged to guilds, but gradually sunk to being poorly-paid wage earners as the mines became less profitable. Later, in the 15th and 16th century, there were rough mining camps in the Alps, Carpathians and Erz Gebirge, where the miners were at least their own masters, but the output was small.

Marxist historians generally recognize four phases in capitalism. The first, mercantilism, ending in the eighteenth century, sees the rise of large plantations, workshops and mines. The second, competitive capitalism, originates in the Industrial Revolution, beginning with textile factories and then moving into large-scale industries, transport and communications. In both these earlier phases the business is owned and managed by hard-working and forward-looking entrepreneurs, but this changes eventually to control by financial interests: banks and shareholders. The third phase, monopoly or corporate capitalism, spanning the last quarter of the nineteenth century and much of the twentieth century, is marked by the concentration of capital, and the rise of big corporations that cooperate rather than compete in arriving at output, prices and investment decisions — across the country and, increasingly, internationally. The final phase is monopoly capitalism on a global scale, tending to an over-accumulation of capital, and investment in more profitable financial markets rather than in industrial plant. {6}

Marxist feminists stress the unsung role played by women in the process, and the resistance by feudal and more communal societies to land enclosure and waged employment — in which coinage and banking obviously played a key role. Throughout the Middle Ages there were repeated uprisings and attempts to create more equitable societies, many of them religious or utopian, but all put down with great savagery. Capitalism did not arise naturally, therefore, but was imposed, often by the merchant classes allying themselves with the church and powerful nobles. {7}

The gold and especially silver that came flooding into Europe from the New World after 1540 was extracted by slave labour, and miners working the gold alluvials of Minas Gerais and Goyaz were little better off. What money these Brazilian miners could earn was soon gambled away in neighbouring flesh-pots. Even the owners of the colossal Potosi operations high up in the Andes, which at its production peak employed over 100,000 labourers in the most wretched conditions, rarely had much to show for their efforts. The setting was bleak and unfriendly. Everything had to be carried in by mule train, and was exorbitantly costly. As is seen generally in these early forms of capitalism, it was the merchants who consistently made a good living by advancing minted coin, rations and the mercury needed to extract the silver. {8} Indeed a pattern was established that still prevails today: control by finance in the world's capitals, a range of salaried professionals who make the system work, and the periphery areas that supply raw materials or basic products with low-paid labour.

Though capitalism eventually transformed the world, making Britain and then America the global economic power, the increased prosperity of western nations came at a great social cost, as it still does in third world countries following IMF and World Bank dictates. If the poor in England suffered continual hardship and injustice, {9} far worse was the American scene — the African slave trade, {9, 10} holocaust of native peoples {11} and the destruction of an amazingly rich habitat. {12}

Philosophic Background

Capitalism became an article of faith among successful business people, but thoughtful political economists — across the political spectrum — also recognized the dangers:

'Their claims were many and diverse: that the familial hearth was being invaded by the forces of commerce; that civic virtue was disappearing; that the willingness to defer gratification upon which capitalism depends was in decline; that individualism and selfishness were destroying any sense of collective purpose; that work was losing its meaning; that men and women were besotted by consumer goods they did not need; that the international market was destroying historical cultures leaving only a colorless syncretism or hedonistic nihilism; that the spread of market values was eroding the very traditions and institutions on which capitalism depended; that the technological limits of growth had been reached; that the rich were getting richer while the poor were getting poorer—that for all these reasons and more, capitalism was in crisis.' {13}

Far more than is generally realized, the arguments for and against capitalism have been extensively debated in three centuries of European thought. Though his own business activities were often deplorable, Voltaire (1694-1778) did much to make trade respectable. Commerce encouraged men of widely different faiths and political opinions to cooperate peacefully for the good of all, and the merchant was more conducive of public virtue than kings, courtiers, prelates and generals. Adam Smith (1723-90) detailed the advantages of free markets, whose 'invisible hand' (through multiple divisions of labour impossible to entirely follow or legislate for) led self-interest to produce efficiently what was most needed by society — a society that nonetheless required wise government with social cohesion, equitable laws and the protection of property. {14}

Justus Möser (1720-94) was an early critic of what is now known as 'globalisation'. Rather than facilitating diversity in goods and customs, the market *destroyed* local cultures. Standardized laws in Europe — needed if the merchant was not to simply move to the most advantageous countries for his particular trade — meant doing away with local laws and customs that gave countries their individual well-being. Honour, property, livelihood and political participation were intertwined in Europe, and their weakening must also weaken the status quo. Sweeping rationalisation, however worthy, overlooked how people actually conducted and saw themselves. A person's status, largely hereditary, depended not only on his occupation, but his sense of who he was, his duties and obligations. In Osnabrück, where Möser spent his life, the town council comprised merchants, lawyers, clergymen and government officials. Guilds controlled a wide variety of skills and trades. Nobles could not engage in trade but lived on their rural estates, drawing their income from feudal dues from serfs and independent peasants, both of whom were largely self-supporting. All that was threatened by the merchant class who encouraged a taste for fashions and unnecessary luxuries. Because status was essentially based on land-owning — from nobles, who governed their estates, to serfs, who were tied to the soil — wage labour was a particular threat to Osnabrück. Every year saw 6,000 peasants leave the bishopric for work in nearby Holland, and their wages helped many marry at 20 rather than the customary 30, so leaving them exposed to the whims of a changing labour market. Many lived on the edge of subsistence, and only harsh laws would keep them from thievery and begging. Osnabrück also had its cottage industries, notably linen weaving and dyeing, and the wages of this winter work again caused distortions in the social order. {14}

Edmund Burke (1729-97) also sought to conserve society, but his England was already highly trade-orientated and dominated by a commercially-minded landed gentry. Throughout his life he championed the profit motive, but also campaigned against intellectuals with an exaggerated conception of reason, and against money men unrestrained by legal or cultural responsibilities. Burke was an Irish intellectual who, through patronage, entered and greatly influenced Parliament, which he saw as a deliberative body not representing constituents but governing for the country as a whole. His speeches, carefully drafted, were delivered in the House, and then published to influence public opinion further. His main targets were an abstract reason shorn of social context (which led to 'the Fairy Ground of Philosophy') and financiers in the City of London who made money to the exclusion of all else, i.e. were socially irresponsible. Burke believed in the free market, and fought against all restraints, even those intended to provide relief for the poor, against profiteering, for example, and international trade restrictions. Prices should be negotiated between employers and the employed, for example, and not set by well-meaning but uninformed justices of the peace, who generally made matters worse. No doubt the poor envied and resented the rich, but acted against their own interests in overturning societies that accumulated needful capital and made everyone richer. His greatest invective was reserved for the British East India Company, which ruled large areas of the subcontinent, exercised a monopoly on its trade, and purchased blatant influence in Parliament. In a similar vein was his great polemic of 1790, *Reflections of the Revolution in France*, which charged lawyers and speculators with promoting abstract principle to destroy the social fabric of the country and expropriate church property. The cold calculations that made for success in finance were disastrous for government. The protection of property was an important function of a state, and the new French government should be a balance of the new and old. Otherwise (as Burke correctly predicted) the government would lack authority and, failing to raise taxes, would quickly descend to anarchy — leading to the massive use of force and eventually military rule. Almost everything that makes life worthwhile, he argued, is a result of society, its inherited codes, knowledge and institutions. 'The restraints on men, as well as their liberties, are to be reckoned among their rights.' Culture is then a means of sublimation, diverting the passions to more elevated goals, and creating restrictions on the expression of domination and self-gratification. Society is not a contract between its members, moreover, but an inherited complex of duties and obligations. {14}

Far from being a pure theoretician, Georg Wilhelm Friedrich Hegel (1770-1823: 14) was a practical philosopher, educator and administrator, taking a key role in the modernized Prussian state created after its defeat by Napoleon in 1806. Hegel accepted Burke's conservatism, but examined more closely the institutions needed for an ethically-ordered society. How is the natural self transformed by historically-developed social and political structures through which the cultural norms are conveyed to individuals and internalised by them? What was the ethical order that created our habitual dispositions to act well towards one another, so that duties coincided with feelings? Unlike the Romantics, Hegel did not view duties and obligations as limitations on the real self, but as a means of giving the turbulent inner life a rewarding sense of direction. He welcomed the bourgeois society where everyone is treated as self-sufficient individuals but that society also included property rights, the market, the judiciary and police to enforce the law. The rights to control one's own person and property are essential, but they are not innate, but grew from evolving cultural understandings. State administration requires taxes, but no citizen pays taxes willingly, i.e. naturally. Private property allows for the expression of individual preferences and personalities, but the term 'private' also implies that no one has rights over other peoples' property. That was the merit of the modern age: rulers could not confiscate property or exact arbitrary taxes. The market was a social institution, and because an individual's need can only be met through the work of others, the individual must orientate himself towards others and make his actions consonant with their needs. Beyond supplying basic wants — food, housing and clothing — the market created products answering to man's imagination and historical evaluation. This ever-increasing refinement of wants was open-ended, and ever evolving. Entrepreneurs were a major force in expanding the imagined wants of consumers: the market not only satisfied wants but created them too. The search for markets to meet products in oversupply led to ventures abroad. {14}

Karl Marx (1818-83) is the best-known critic of the market, which he based on ethical considerations. {14} Marx rejected Hegel's view of mediating institutions, and envisaged a society in which money making and religious and national differences were all abolished. When an academic career seemed untenable, Marx turned to journalism, which enabled him to travel and see society as it really was. He was horrified. Capitalism was built on avarice and selfishness. Competition set everyone against everyone else, and society was a fraternity of thieves. Prices were continuously fluctuating because supply and demand also fluctuated, turning everyone into speculators who profited by betting on the misfortunes of others. Markets, even the stock market, were war by other means. Capitalism came down to mindless production governed by the chance nature of supply and demand: the two rarely came into balance, spelling frequent ruin for entrepreneurs and misery for workers. The repetitious, culturally benumbing nature that the division of labour called for — so compendiously championed by Adam Smith and others — in fact alienated man from his better self. As the successful bought up the less successful, the rich grew richer, the poor grew poorer and the middle class faced extinction. { {14}

Money made from money, however indirectly, was usury, which Marx stigmatised as 'vampirism'. Labour alone mattered, and the quantity of labour accounted for economic value. Profit was surplus value, the difference between selling prices and wages paid, and was therefore 'exploitation'. Of course the factory owner also had other costs to meet: rent — interest on money borrowed, payment for machinery and raw materials — but these were all the result of past labour, what Marx called 'congealed' or 'dead labour'. But as companies reduce costs by investing in more capital-intensive machinery, they employ correspondingly fewer workers — indeed must to remain competitive and avoid being bankrupted or swallowed up by more profitable concerns. More workers are thrown out of work, and wages inevitably decline with the labour surplus. Marx documented in horrifying detail the wretched lives of the industrial workers in England, though it was not always a balanced picture. Real wages of factory workers rose 17% between 1850 and 1865, for example, and hours worked continued to fall. However hard the immediate prospects were for factory workers — and they were exceptionally hard — Marx's theory of labour blinded him to the long- term prospects. {30} Throughout Europe, in fact, 'marginalist' economists like Menger, Jevons and Walras attacked the very foundations of his theory (though marginalism has its own problems), and

Marx himself in his expanding *Capital* never quite answered his critics. Advancing technology in fact opened up new industries — chemical, electrical, communications — which employed more workers rather than fewer, and increased demand for better skills and further education. {14}

Rather than group contemporary society into two classes à la Marx — business owners versus workers — German political economists of the later 19th century examined how capitalism worked in practice. German society in the last two decades before W.W.I. had grown enormously complicated and prosperous. Helped by state-funded universities and research institutes, German production had increased six-fold between 1871 and 1914 (Britain only two-fold), and these vast, competitive enterprises had been achieved by mergers, vertical integration and diversification into new products. Division of labour extended into management itself as owner-managed companies became large bureaucracies of skilled administrators. Railroads, mines, steelworks and industrial plant had capital requirements far beyond what was possible with share-owning partnerships, moreover, and joint-stock companies became the rule. By the 1890s, Germany had important commodity exchanges for grain, flour, coffee, cotton and sugar, and the country was importing bread, meat and sugar from Australia and the America at prices European suppliers couldn't match. Commodity futures could also be traded, providing more financial stability, and the practice of arbitrage (buying at one place to sell for a profit at another) was becoming common. The fortunes made in this way were naturally resented by the land-owning and working classes, but Max Weber (1864-1920) argued that the future lay in more of such enterprise. The 1896 controls and restrictions Act (later repealed) were unhelpful, and to call stock exchanges (where 2 million of Germany's 50 million citizens held shares) a modern example of usury was antiquated nonsense. {14}

Georg Simmel's (1858-1918) *The Philosophy of Money* argued that the abstract nature of modern money in fact created an extended web of social and commercial interests, achieving 'what usually only love can do: the divination of the innermost wishes of others, even before he himself becomes aware of them. Antagonistic tensions with his competitor sharpens the businessman's sensitivity to the tendencies of the public, even to the point of clairvoyance, responding to future changes in the public's taste, fashions, interests . . ' Everyone became conscious of everyone else, but the bonds of occupation and social class were loosened because the individual played a role in multiple and overlapping circles — cultural, social, commercial, scientific, religious and so on, all infinitely subdivided and so impossible to dominate. Indeed the modern citizen was spoilt for choice. Money, moreover, had a 'surplus value', representing not only what is bought with it, but what *could* be bought. Nonetheless, as Matthew Arnold in Britain had argued, acquisition of money was still only a means to an end, certainly not a sensible end in itself. {14}

In contrast, Werner Sombart (1863-1941) viewed modern capitalism with despair. It destroyed the soul, robbed men of inner peace, soiled their relationship to nature and to the religious faiths of their fathers. In this he saw the hand of Jews with their egoism, self-interest and capacity for abstraction. By these wholly false accusations he prepared the way for Nazi anti-Semitism, itself fuelled by the preponderance of Jews in the leading professions of Weimar Germany {14}

Nonetheless, In their different ways, Weber, Simmel and Sombart all welcomed W.W.I, which they saw as a 'spiritual turning point', where individual doubts and interests were subsumed in duties to the fatherland. Equally dramatic was the effect of German defeat, of course, when capitalism was largely abandoned, and the country fragmented into extreme versions of left- and right-wing politics. In his *History and*

Class Consciousness (1923), Georg Lukács reversed the claims of Marxism to be a strictly scientific analysis of social and economic change, recasting it as a fundamentally different and irreconcilable worldview. Even if Marx's predictions were false, Marxism would still be a valid perspective on life and culture, and should support the doctrine of Socialist Realism in the Soviet Union. {30} Modern life no longer formed a 'totality', and a meaningful existence was impossible in what had become a self-made prison more than a home. Throughout his life, Lukács espoused Marxism in place of the emptiness and moral inadequacy of capitalism, however illogical that position might be, or the reality of life inside the Soviet Union. Workers under capitalism became a mechanical part of the system, unable to see its evils and too willing to compromise their rights for small improvements in pay and conditions. Only thorough and steadfast rejection would serve. From the beginning, he hated the war, which only demonstrated the fundamental inhumanity of nationalism and capitalism. Enraged by four years of senseless slaughter, soldiers and workers had set up revolutionary councils in the major cities of central Europe — Vienna, Berlin, Hamburg, Munich and Budapest — and though they were ultimately unsuccessful in challenging the Social Democrats, Lukács sympathized with their movements, joining the Hungarian communists, and editing their paper. An uncompromising egalitarianism was imposed on Hungary by the Béla Kun government, and after the 'red terror' (which drastically reduced productivity and alienated everyone) came the repressive 'white terror', which obliged Lukács to leave Hungary for Vienna. Thereafter, Lukács went to Berlin, Moscow and finally back to Hungary, where he became the leading exponent of Marxist thought and a major figure in the Hungarian uprising. {14}

The same retreat from reason marks the writings of Hans Freyer, but here the flight was towards the political right.

Freyer was neither an anti-Semite nor a racist, but came to see the National Socialists as an escape from the dead end of capitalism (as did many intellectuals, including Heidegger, who distrusted language complicit with the social order). In his student years, Freyer identified with the youth movement, which had thrown off materialistic values, looked for a revitalising relationship with country life, and yearned for a deep community of purpose that was missing from Wilhelmine Germany. For Freyer, the war was an unusually uplifting experience. He emerged a hero, and in later years looked fondly back on his years of command and camaraderie, where he served the people en mass (the Volk). He returned to university life, holding Germany's first chair of sociology at Leipzig in 1925, and writing memorably for a wider audience. Like Hegel, Freyer believed that all human communities, values and natures are products of history, but that history now, he felt, no longer had discernable direction or purpose. There were many such Volks, and none was superior to others because no independent standards existed. But to be born into a particular Volk was nonetheless to be elevated into a consciously affirmed fate, which in turn bestowed purpose on a selfish and otherwise aimless capitalist society. Those Volks coalesced into a resurgent 'total state', a Germany that would wipe out W.W.I defeat and its imposed reparations and trade treaties. That Germany would be all-powerful, a closed, self-sufficient and self-affirming community, and would not avoid war. So Freyer came to advocate the fascist state, to support the rise of Hitler whose autocratic methods cut unemployment and made Germany the first economic power of Europe again. After W.W.II, a deradicalised Freyer rethought his political outlook, but he never embraced capitalism. Institutions were now to provide meaning and purpose, including those of the family, religious traditions and the professions. {14}

Joseph Schumpeter (1883-1950) began his teaching career in the final years of the Austrian-Hungarian Empire. Like many in upper-class circles, he was attracted to the Nietzschean idea that social development depend on the exceptional individual — the far-sighted, strong-willed and original entrepreneur who will not be understood by the dullard majority, and will inevitably suffer their resentment. Schumpeter taught at the universities of Czernowitz, Graz, and Bonn, served briefly as Minister of Finance in the Austrian government in 1919, and joined the faculty of Harvard University in 1932, teaching there till 1950. He left a Europe falling to socialist ideas and governments, and came to an America in the throes of the Great Depression. Yet capitalism was dynamic, thought Schumpeter, not something resulting from inevitable, abstract laws but created by individuals with a 'will to power'. True leadership demanded not only energy, intelligence and vision, but the ability to inspire, manage and lead men. Socialism was irrational, and could only be seen as a religion. Where was the incentive to strive without vast profits falling to the successful and destitution hounding the unsuccessful entrepreneur? Deprived of property to call their own, or any incentive for social or material betterment, citizens would not maintain the previous production levels, and some coercion would doubtless become necessary. {14}

Nonetheless, socialism might well happen: confiscation and redistribution of consumer goods had an irresistible attraction to the disadvantaged, and more so to intellectuals without practical experience of life. Being concerned with power and status, intellectuals — and here Schumpeter included all who earned their living by thinking: teachers, those over-educated for modest jobs, journalists and moulders of public opinion — might well use the rational enquiry that capitalism encourages to undermine what had been extraordinarily successful. US agricultural output had increased by 50% between 1900 and 1926, and industrial output by 400%. Where the rural worker had languished in poverty, the urban worker could afford canned foods, washing machines, refrigerators, telephones, radios and even motorcars. Thanks to contraception, upwardly mobile families had sensibly limited their offspring, and spent their earnings on educating them better. True, that prosperity had vanished in the Great Depression, triggered by the October 1929 Stock Exchange crash, but reflecting the reduced buying power of farmers, and the interlinked banking scandals that spread their damage round the world. In Germany, unemployment rose from 4.4 million in 1930 to 5.6 million at the end of 1931. Even in America, unemployment reached levels of 10 million, or nearly 1 in 5. Many blamed the devious selfishness of banks, with which Roosevelt concurred, capitalising on public disaffection to introduce the New Deal, a popular but unsuccessful set of policies. He increased taxes on the rich, and put a surtax on undistributed corporation profits, which was counterproductive. Business cycles were inevitable, and discouraging investment with high taxes only delayed recovery. Through his influential *Capitalism, Socialism, and Democracy* of 1942, Schumpeter looked to a bright future for capitalism, which would rise to its challenges and find new ways of exploiting new resources. Though this would happen (Schumpeter was proved abundantly right, of course: people's lives did improved markedly on both sides of the Atlantic from the 60s) capitalism could well perish of its own success, giving way to some form of public control or socialism. As companies became larger and more complex, the dynamic owner-manager would also give way to armies of managers and the internal politics of bureaucrats, none of whom would be more than wage-slaves to the comfortable status quo. {14}

John Maynard Keynes (1883-1946) believed the state should be the employer of last resort. His was the most influential economics in the 1930-70 period because Keynes gave economics a high moral purpose and advocated measures that politicians could profitably use. As the Great Depression only too plainly showed, markets were not self-correcting, and during long slumps the state should find work for the unemployed. Their wages would pay taxes and increase consumer demand, thus encouraging businesses to invest again and take on more people. Though that case was argued in his *The General Theory of Employment, Interest and Money*, Keynes was not always clear or consistent. Anticipating Modern Money Theory, he suggested that wage reduction would not reduce unemployment, which was best tackled by increasing government spending (even on projects that gave minimal returns) and running a budget deficit. He was optimistic about capitalism, but hoped it would give rise, in a few generations, to more sensible lives — which he modelled on Bloomsbury Society: an active interest in the arts, cultivated friendship and public service (not unlike the scholar-administrators of imperial China, incidentally). Simmel's view that money had a surplus value he called the 'marginal propensity to save', linked it to usury and thought it primarily responsible for the Great Depression. {14}

Keynes' vision was vindicated by events. Post-war European countries became as prosperous as America had been before the Depression. College education exploded, and new technologies and materials of every sort were the result of free trade, free capital movements and stable currencies. The market ruled, but it was a market guided by governments where corporations compromised with trade unions to ensure affluence for all. {14}

Like Lukács, Herbert Marcuse (1898-1979: 41.4) was radicalised by W.W.I., but his ideas found their seedbed in the west. Marcuse was a socialist sympathizer in the Weimar Republic, but he neither joined the Socialist Democratic Party or the Communist Party, disdaining the last for its authoritarian Stalinist organization. Instead he worked for the

Institute of Social Research in Frankfurt, where he studied the policies of the National Socialist regime. Most observers stressed its repressive nature, but Marcuse was struck by how enthusiastically people embraced the Nazi party and its policies — it advocated premarital sex, a cult of nudity in art and entertainment, more tolerance for illegitimate children and their mothers, and less emphasis on the family for protection, nurture and education. Marcuse continued studying the phenomenon when the Institute moved to America, and his services were sought by the government. The Nazis, he thought, had liberated individuals from social restraints, but also encouraged expression of more sinister instincts. {14}

Marcuse left government service after W.W.II, and taught at Brandeis University from 1954 to 1965, and then at the University of California at San Diego to 1969, when the publication of his *One-Dimensional Man* made him the darling of the New Left. Though better jobs and material improvements had prevented the proletariat uprising — as Marcuse suggested in his *Eros and Civilisation* of 1955 — the larger dimensions of life were unfulfilled by capitalism. In the psychoanalytical language of the time, he explained that man's necessary erotic energy had been reduced to genital sexuality, leaving the rest of the body available for the unpleasant task of earning a living. Certainly there were compensations, but work for many was meaningless, and what should have been a serious drive for change was blunted and diverted by advertising and mass entertainment. The great artists and thinkers of the past were studied as never before, but their challenge was absorbed and neutralized in a welfare state. Even the Soviet Union and communism was a threat largely manufactured to sell the American dream. Indeed his *One-Dimensional Man* saw western society as under slavery to materialist and stultifying concepts, and the book soon became the bible of hippy drop-outs, students demonstrating against the Vietnam War, and socialist movements in France and Germany. Marcuse's astonishing influence waned after America's withdrawal from Vietnam, but continued quietly among younger academics, who saw politics everywhere and disputed the university ideal of disinterestedness. The anti-capitalist strain further ramified into new fields: radical critical theory, feminism and colonial studies. Thence it spread to modern management manuals that advocated creative and self-organising work groups in place of the older authoritarian and hierarchical structures. {14}

Friedrich August von Hayek (1899-1992) came of age in the anti-capitalist cultures of a 1920s Vienna menaced by both communism and fascism. Though he published his most seminal work in the 1930-70 period when living under western governments that regarded increased social planning was both desirable and inevitable, it was from his native Austria and to two decades of life in Britain, that Hayek drew his outlook and theories. The 1944 *The Road to Serfdom* defended individual freedom against 'collectivism' of all persuasions. With his comrade in arms, Milton Freeman, his was the most important influence on the Neoliberalism movement of the 1970-90 period, but he also concluded that modern liberal societies must be bound together by more than shared cultural commitments: democracy could be a potent threat to social well-being. {14}

Capitalist economies were resourceful and dynamic in the way central planning could never be. Certainly capitalism was unfair: a large number of men worked for a talented few in what they did not want to do — work harder, change their habits and think beyond the immediate present. Prices did not reflect certain knowledge, but were the subjective evaluations of informed individuals. Markets were based on self-interest, but that interest could be altruistic or selfish. Adam Smith's conception of freedom was too narrow: freedom is the state where everyone uses their knowledge for their own best purposes. Restrictions arose inevitably, and there was no economic realm distinct from those of politics, religion and culture. Nor could government planning avoid impinging on and restricting those freedoms, however well intentioned. Except perhaps in time of war, the state had no overall or moral purpose: it was simply a piece of utilitarian machinery intended to help individuals develop their gifts, ambitions and personalities for themselves {14}

Heretical and alarming as these thoughts seemed in the 1960s, they became orthodoxy as stagflation afflicted western democracies with rising inflation and declining output. Keynesian policies no longer seemed to work, and taxpayers began to mutiny at high levels of government spending. Strikes swept Ronald Reagan to power in the USA and Margaret Thatcher to Conservative victory in Britain. Entrepreneurship was again encouraged. The state enterprises were reined back, and trade union power curbed. Tariffs were reduced to encourage international trade. The Soviet Union dissolved when no longer held together by military repression: the truth of the socialist system, its falsification of output statistics and lack of incentive, could no longer be hidden. {14}

As {13} many have noted, academic thought has little influence on the political scene, and what was illuminating, subtle and qualified in books and articles is commonly flattened into simplistic slogans for everyday use. We live today in societies under many tensions, pulled conflicting ways by our jobs, professions or trade unions, our religions, political beliefs, family needs, and personal aspirations. None of the thinkers summarized here, even the most enthusiastic champions of capitalism, viewed the market as other than a social institution representing ethical, cultural and political needs, and therefore quite unlike the mantras repeated by the business press.

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41. Economics

Classical Economics

Classical economics refers to the broad arguments made in the eighteenth and nineteenth centuries for the free operation of markets. The arguments proceeded more by observation and logic than by models or trade statistics. Today these come under the heading of macroeconomics, which develops models that explain the relationship between such factors as national income, output, consumption, inflation, investment, savings, trade and international finance. Of particular interest to governments are business cycles and long-term economic growth. {1}

William Stanley Jevons (1835-82) made many contributions to economic theory, most notably in the fields of price indices and marginalism. In the last, he argued that companies will stop producing when the cost of manufacturing the last item exceeds the price they'd receive in selling that item. The 'marginal' item was the key to events, not what had happened before. Differing from Marx's theory of congealed labour, he regarded past expenditures as irrelevant: sunk costs could not be recovered. {2}

Coming from a family of Utilitarians, Jevons was concerned to give concepts like the 'greatest good for the greatest number' a sound mathematical basis. His first articles were on the railway and land problems in New South Wales, where he had gone to work as a gold assayer, but he returned to London in 1859 to finish his education, and then entered academia, though he did not enjoy lecturing so much as the independence and solitude required to develop his remarkably wide spread of ideas in science, logic and economic modelling. He championed accurate statistics and graphic models, substituting them for the ‘guess work and groundless argument’ of previous writers, and came later to concentrate on the utility and consumption of individuals. {3}

With Carl Menger (1840-1921) and Léon Walrus (1834-1910), Jevons laid the foundations for econometric modelling and ‘indifference curves, all essential to contemporary microeconomics. Menger also attacked the Marxian approach, arguing that value does not lie in the amount of work or other goods needed to produce it, but the importance we place on it through the satisfaction we believe that it can offer. Walrus argued for equilibrium in markets, which would reach stability when supply and demand were satisfied. Alfred Marshall (1842-1924), founded the neoclassical school of economics by combining marginalism with the wealth distribution of the classical school (i.e. Adam Smith, David Ricardo and John Stuart Mill). His 1890 *Principles of Economics* became the most widely read manual in microeconomics of its time. {4}

Multicentric Organizational Models

Many less market-orientated economic theories derive from the work of David Ricardo (1772-1823), Thorsten Veblen (1857-1929), Karl Polyani (1886-1964), Piero Straffa (1898-1983) and John Kenneth Galbraith (1908-2006).

Ricardo concluded that incomes of most workers would not rise above subsistence levels, which was indeed the case for much of the nineteenth century. {5}

Veblen's *The Theory of the Leisure Class* (1898) saw capitalists as modern manifestations of the ancient warrior class, gaining wealth and power through predatory manipulations. Far from being free and rational creatures, consumers were culturally induced to show off their wealth by 'conspicuous consumption'. {6}

Polyani's *The Great Transformation* (1944) argued that the market is always embedded in a cultural and political context, and the transformation of workers, nature and monetary gold into 'fictional commodities' was responsible for the destruction of community, environment and democracy. {7}

Straffa re-established political economy through commodities produced by commodities, and was critical of simplistic and atomistic approaches. Based on Ricardo's writings, he constructed equations that would yield consistent prices, something he demonstrated that neoclassical economics was unable to do. {8}

Galbraith was a popular author who argued that mathematical modelling was unrealistic, often resulting in 'certainties' that misled their authors, (as did derivatives in the financial crash). He stressed the power that corporations tend to seek, often through advertising, and the increasing numbers of specialists they employ: scientists, engineers, lawyers, accountants, marketing specialists, government liaison officers, etc., the so-called 'technostructure'. His *New Industrial State* (1967) identified eight controlling strategies:

1. Creation of consumer demand by advertising.

2. An aim for steady profit that provides dividends for stockholders and reduces outside loans.

3. Collective bargaining with 'tame' trade unions.

4. Prices set by companies and industries rather than by markets.

5. Relentless expansion in each market sector by competition or takeovers.

6. Funding and therefore control of relevant university research.

7. Influence on government policies and budgets.

8. Identification with popular culture, spending revenues gained in avoiding tax on public relations exercises.

Galbraith further argued that Americans are happy to believe that all is generally well in their country, ignoring dangerous inequalities at home and indulging in wishful thinking abroad. Government does not serve reality but only the cosy beliefs of the 'contented majority'. Action is always short-term, because long-term improvements benefit only later generations. Work that is especially hard, unpleasant and socially demeaning is by definition given to the poor. Bureaucracy is endemic: big companies employ teams of specialists so that directors can build empires by delegation, thereby avoiding what they're paid to do, i.e. to think. Far from self-correcting, modern capitalism is self-destructive: management buy-outs, junk bonds and other devices have devastated reputable companies, saddling them with enormous debts or driving them into bankruptcy. Government expenditure — except on banking, insurance, the military and perhaps education — is seen as a burden on the taxpayer. Dissent from the majority view — from left-wing journalists, scholars and minority politicians — only enforces the fiction of democracy: it has no real influence. {10}

Gloomier outlooks prevail in these models. Workers are not necessarily better off under market economies because companies aim for wealth and power rather than the most efficient satisfaction of consumer wants. Unless prevented by legislation, competition is a race to the bottom, and wages must trend towards subsistence. Industrialists are equally vulnerable unless they have exclusive access to scarce resources, and often depend on governments and lobbying to maintain or extend their operations. Reducing everything to commodities priced in money terms by the market devalues human beings and encourages over-exploitation of natural resources. Alongside private affluence grows public squalor because profit is internalised by market forces but social costs are externalised. Companies are happy to use a workforce housed, fed and educated by the country concerned, but see no responsibility to that country beyond paying the going wage. American companies in particular evade their social responsibilities by off-shoring and widespread tax avoidance. {11}

In practice, economics cannot be divorced from politics and national interests. Globalisation has unfairly benefited the richer classes in both the west and developing countries, with the main burden of social costs falling on a dwindling middle class at home and on the poor in developing countries. According to US government figures, for example, the inflation-adjusted incomes for the lowest 20% of households have increased only 2% over the 1979-2004 period, but incomes of the top 20% have increased 63%. The top one percent has done even better, with a 154% increase over this period. Even in 2000, a UN University study found that the bottom 50% of the world owned only 1% of its wealth, while the richest 1% owned 40% of global assets (land, buildings and financial assets). {86} Between 1979 and 2013, US productivity grew 64.9 percent, while hourly compensation of production and non-supervisory workers, who comprise over 80 percent of the private-sector workforce, grew just 8.0 percent. Nonetheless, it was the banks whose recklessness caused the recession that were bailed out with public funds, even while the military-industrial complex pushed for armed intervention overseas, receiving government contracts that were often poorly supervised. {12}

Marxist Models

Marxism of course derives from Karl Marx (1818-1883) but was developed further by Vladimir Ilyich Lenin (1870-1924), Gramsci (1891-37) and Spike Peterson, and many others. {176} {13}

Marx laid the foundations of this most important group of economic theories through a penetrating critique of nineteenth century capitalism. His three-volume study, simply called *Capital*, looked at the nature of capitalism: where it came from, how it worked, what was wrong with it, why it was a temporary phase in human history, and what was needed to speed up its demise. He studied the ugly factory towns and their exploitation of labour under the most oppressive conditions, and took from David Ricardo and Thomas Malthus the view that what allowed the exchange of commodities was the amount of labour time involved. Marx was more philosopher than economist, but his 'dialectic materialism' (as his system came later to be called) envisaged: {14}

1. All phenomena are interrelated and interdependent: Marxism is not reductionist.

2. All societies are in a state of change, and even markets do not tend towards equilibrium.

3. Change is evolutionary: primitive communism evolved into ancient civilizations, and these into feudal Europe and then capitalism, which in turn will evolve into communist societies.

4. Change is driven by contradictions or tensions between classes.

5. The basic reality for men is not ideas but material existence: food, housing, fighting ill health, competing with others, etc.

6. From these material phenomena come men's ideas of himself and his purpose in the world.

7. Relationships between these material phenomena are regular, and may be studied in a scientific way, though the approach must be holistic and the underlying forces need some ferreting out: people's lives are often driven in certain

directions while they themselves are preoccupied with other matters.

8. The scientific approach must combine theory and practice: detached observation lacks the essential contact with reality.

9. Capitalists make their profits from 'surplus value', the difference between the sale price of an item and the average socially necessary amount of labour time spent in bringing it to market: that labour time included creation of food and housing, construction of plant and marketing, etc.

10. Workers own only their labour, and are locked in a continual struggle with capitalists for a share of the latter's profits.

11. Though the extraction of surplus value from labour would drive wages down to subsistence levels, the inevitable shift to using less labour and more capital would lead to business cycles and eventually the destruction of the capitalist system.

12. Money is a commodity. Precious metal becomes a measure of value because mining and minting employ labour. That labour (or, more exactly, 'congealed labour time') is the basis of money's ability to act as a universal measure of value.

Lenin argued that capitalists' investments were more easily protected under imperialism, which paid little heed to local needs or cultures. More famously, he led the Bolshevik Revolution in Russia, though the Stalinist Soviet empire was a parody of Marx's views of an ideal society. {15}

Gramsci modified Marxist thought to take more account of civil society and cultural controls. {16}

Peterson surveyed how capitalists cut labour costs by using women in part-time, non-unionised and poorly-paid work. {17}

Contemporary Marxists have a long catalogue of social ills, even for a rich country like the USA. Only a minority of workers belong to a trade union, or have health insurance. Ideology is propagated throughout society by advertising, education and the media. Capitalists employ divisive social issues in political campaigns to divert interest from more fundamental issues: abortion, immigration and same-sex marriage. The rich get richer at the expense of other classes in America and elsewhere. {18}

As in any other branch of economics, Marxism is not without its theoretical problems. If expended labour is the common denominator of price, how are land, labour and capital to be equated? Clearly they are different: capital is mobile, labour much less so and land not at all. Other economic models treat them as necessary inputs to surplus value, and hence profits, but Marxism continues to wrestle with its labour theory of value. {19}

Other Economic Models

Economists, like academics generally, are a community with many strands of thought. Modifications to mainstream neoclassicism include:

1. Austrian school: similar to neoclassicism but with less emphasis on market equilibrium. {20}

2. Post-Keynsian economics: builds on the work of Keynes and Kalecki: more emphasis on uncertainty. {21}

3. Complexity and econophysics: attempts to apply nonlinear dynamics to stock markets and economic issues: much is proprietary to companies engaged in the work. {22}

4. Evolutionary economics: treats the economy as evolving systems, sometimes with complexity. {23}

5. Monetarism: associated with Milton Friedman and concentrates on the money supply: influenced waned in the 1980s. {24}

Other economic theories are not taught at undergraduate level in America, and alternative economists have difficulty getting their papers into mainstream journals, though often publishing widely on the Internet.

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2. Michael Hudson at his Michael Hudson blog.

3. Dan Denning at Daily Reckoning.

4. Max Keiser at The Keiser Report.

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7. Bill Mitchell on the Billy blog.

8. Steve Keen on his blog.

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42. Neoliberalism

Markets are central to economic theory, and none more than to Neoliberalism, which holds that free markets, free trade, and the free flow of capital create the greatest social, political, and economic good. The discipline of the market should rule everything, from the production of armaments to the privatisation of health and the opening of economies to foreign competition. It is a view proselytised in business studies textbooks and reflected in mainstream news outlets like Businessweek, the Financial Times, Wall Street Journal and the Economist. {1}

Proponents point to its stunningly successes in countries like China and India, while detractors argue that benefits go largely to the already wealthy, widening social divisions and contributing to the unemployment woes of middle-class America and Europe and the destitution of rural communities in India and elsewhere. Benefits will come to everyone in due course, proponents say — a view contested by Marxist academics who point to an unending pool of impoverished labour. The matter is complicated — development in China and India is still largely state controlled, and many rules were broken to create the European Economic Union — but a strong case can be made for contending that: {2}

1. Market operations are abstractions devised by economists, whose concepts and procedures are open to question.

2. The pre-eminence of the market evades obvious social and moral concerns: simplistic ideas are elevated to an impersonal science imposed to serve sectional interests. Other, less market-dominated, models give a truer picture of economic reality.

3. Markets are in practice rigged, by governments and wealthy investors.

4. Dictates of the marketplace often serve as a fig-leaf for political realities.

5. Even the economics profession has been corrupted by money concerns.

To its critics, economics is a self-perpetuating priesthood, divorced from reality, ignorant of how business really works, and therefore dealing with hypothetical situations through concepts plucked from the air. {3}

Market Operations

Economists call their discipline a science: the study of the allocation of scarce resources. It is unlike other sciences in deducing effects from models, however, rather than inducing laws from observation. Economics still sees itself as objective, however, allowing practitioners with the same procedures to draw the same conclusions from evidence agreed to be relevant. Politics and national interests may well guide business practice, but market economics regards these as unimportant, or deviations from fundamental and unchanging relationships. The market — a simplified abstraction of conditions that only partially hold in the real world — is the controlling factor, and prices are set by supply and demand in everything: labour, commodities, land, intellectual property, etc. The market is efficient, rational, fair, not affected by historical factors and works best when unhindered by social or political constraints. Both workers and industrialists are better off under market economies, and governments should simply set, interpret and enforce the rules. Indeed all resources are optimally allocated by the market, which is self-correcting: slumps and unemployment occur rarely, and only because the market is being kept from its proper functions.

Most economic concepts originated in a pre-industrial, mercantile society — and were indeed a self-justification of laisser-faire capitalism against the medieval condemnation of usury. The greatest originator was Sir William Petty (1623-87), but his ideas were codified by Adam Smith (1723-90) whose 'invisible hand' nonetheless stressed the need for banking regulations and progressive taxation. Much was subsequently a campaign against a socialist view that workers should partly own the product of their labour. William Stanley Jevons (1835-82) introduced marginal costs, and John Maynard Keynes (1883-1946) tried to adapt the concepts to deal with widespread unemployment.

Much is unfortunately built on sand. Both economics and law are branches of ethics, but motive, so central to law, is missing from economics. Man is a social, emotional and spiritual animal — aspects entirely overlooked by practical economics. The enlightened self-interest of economic man is too often assumed than demonstrated: in a complex, interrelated society men rarely know where their best interests lie, particularly in a world saturated with advertising and stage-managed politics. Economic laws reflect relationships between groups of people and so vary with societies and their history: again all ignored by classical economics. The attraction, and probably the success of market economies, lies in the freedom afforded societies from officialdom and subsistence living, though neither is guaranteed. In 1900, for example, when the British Empire ruled one person in five of the world's population, one quarter of London's population lived in direst poverty: a situation accepted as natural by mainstream economics and the ruling classes. Neoclassicism has culminated in globalisation, which has ostensibly brought astonishing growth to China, India and other countries previously languishing under centrally-planned economies. {4}

Neoclassicism is simple in principle, but uses statistics to collect representative data, and often a good deal of advanced mathematical concepts in its analyses. The basic principles of neoclassical economics are well set out in textbooks and Internet sites — such matters as supply and demand, output, growth and capital, inflation and unemployment, money supply, trade, taxation, trade unions, competition, government spending: there is hardly an aspect of modern life in which economics has not something to say. {5}

Neoclassical economics is still the lingua franca of the business press, but critics allege that economic forecasting has been ineffective: few economists predicted the current crisis, or previous ones. Reliance on economic theory, particularly market efficiency, has played a large part in the financial disasters of the last few years. Globalisation and the free market have created unemployment in western countries, and widening inequalities in the third world. Money has become an abstract, quantifiable thing, and economists argue the best societies are those that aggregate money most effectively, at whatever cost, to whatever ends, whether productive or not. Companies that buy back their shares and enhance their value to shareholders are therefore behaving responsibly, for example, even though investment in R&D and new facilities suffers, and thus the long-term health and competitiveness of the companies, are endangered. Even the basic tenets of economics are shaky or demonstrably false. Economic models are remote from business realities, many models being 'blackboard diagrams' or 'armchair theorizing', sometimes more obscured than illuminated by mathematical treatment. The world simply isn't as economics supposes.{6}

The Power of Markets

Economic theories generally see human beings are rational creatures propelled by narrow self-interest who nonetheless have sufficient knowledge and ability to make consistently sensible judgments toward their subjectively defined ends. 'Homo economicus' attempts to maximize utility as a consumer, and economic profit as a producer. {7}

Much of economic theory is through modelling of diagrams, which is basically a calculus of nineteenth-century utilitarianism. Human beings are not rational, however, do not have a clear view of opportunities and their consequences, and are not always self-seeking in the manner supposed. No company would survive if its workforce were so constituted, and indeed most try to inculcate a sense of loyalty, common purpose and service to their customers. {8}

But why has economics, and neoclassical economics in particular, become so influential? Because, critics argue, it allows companies to sidestep ethical considerations and need for social change by claiming they are simply following market dictates. Some think this is socially unwise, and that maximizing profits to shareholders leads to short-sighted policies, where the need to watch the share price and prevent takeovers inhibits long-term investment. {9}

Only a minority suppose that economics is worthless. Economists are continually compiling the statistics of matters vital to economic life, and trying to understand them. Without access to detailed international statistics and reports, no government can indeed maintain a viable economic policy. Criticism is levelled at sterile arguments over models that have little currency outside academic journals, and/or which justify wrong-headed business practices. {10}

Blackboard Modelling

Steve Keen provides a detailed critique, summarizing the assumptions as: 'Economic behaviour can be modelled by a single consumer, endowed with rational expectations, who aims to maximize his utility from consumption and leisure. His income derives from the profits of a single firm in the economy, of which he is sole owner and in which he is sole worker. The profits he receives are the marginal product of capital times the amount of capital employed by the firm. The wages he receives are the marginal product of labour times the hours he works in the firm. The output of the firm determines output today, and today's investment (minus depreciation) determines tomorrow's capital stock. The single consumer/owner/worker decides how much of current output to devote to investment, and how many hours to work, so that the discounted expected future value of his consumption plus leisure plan is maximized. Technology facilitates the expansion of production, the expansion growing at constant rates but subject to random shocks The shocks may alter the equilibrium levels chosen for labour and investment, but the system will gravitate to equilibrium conditions.' {11}

Scarcity may well put up prices, but only because society sanctions such practices. Distributive communities do not, and Imperial China indeed outlawed merchant profiteering. In fact, even that neat concept of the clearing price, established by the intersection of the demand and supply curves, is a fiction. Products don’t suddenly sell themselves at a certain price, nor unaided. Heavy marketing costs are involved, and these can exceed the costs of manufacture, R&D, and distribution. Business is increasing controlled by corporate and multinational companies, and such companies do not compete with each other, but more collaborate in setting standards and codes of conduct. Price wars are disastrous to all parties, as is negative advertising. Grouped under product differentiation and selective marketing, the selling policies of large companies are complex and diverse — in no way resembling the clearing price concept. {12}

Even the concepts are hypothetical, and their mathematics flawed. Mainstream models generally assume that a. individual preferences can be quantified, and b. they remain unchanged even though income rises. Models then reduce a complex society to an idealized citizen whose needs can be measured in units of satisfaction or 'utils'. Cook an adequate meal at home or go out to dinner? The choices could be measured and compared in terms of 'utils', and be extended to heating, clothing, freedom of action, and so on. Individuals would rationally aim to maximize their amount of 'utils'. Curves linking the same totals of 'utils' were curves of the same satisfaction, and are therefore called 'indifference curves'.

The indifference curve can be quantified if we know the value of x and y utils — i.e. the prices of x and y — and the income of the individual concerned. By a. holding the income fixed, b. reducing the price of one of the utils (say x) and c. keeping the price of the other for the other util (y) constant, a demand curve is constructed for x. It is downward sloping and applies only for the one individual. Substitution is likely if income increases (the individual buys ground coffee in place of instant), but the substitution effect can be neutralized by retaining the shape of the indifference curve while shifting its position (the Hicksian compensated demand curve). In this way — without reference to empirical data — the demand curve receives its characteristic shape. {13}

Unfortunately, once the single individual is replaced by a society of interacting individuals (i.e. a more realistic picture, though still hampered by hypothetical 'utils') the demand curve can adopt almost any shape. Indeed, since individuals differ in their preferences and earning abilities, the Law of Demand will only apply if there is just the one consumer, a highly unrealistic scenario that is nonetheless employed to argue against redistributive economic policies.

Even without these hypothetical entities, the marginalism that sees prices rising to the point at which no extra profit can be made from the manufacture of one extra unit blithely overlooks how companies act in the real world. Economies of scale operate. Prices at which companies offer their products are not fixed and independent of output. Output is generally limited by demand, which is itself a combination of employment and wage levels. Labour is not always flexible, moreover, and if new staff are taken on they have to be trained, which is an expensive and lengthy process. In short, companies do not price their products as market theory says they should, but employ advertising and sophisticated business models to stimulate demand. {14}

Equally damaging is the internal inconsistency of economics: the discipline can be logically disproved in its own terms. The supply curve doesn't exist, for example, because the concept of marginal cost of production on which the supply curve is built (the additional expense incurred in producing just one more item of production) rests on the error of supposing that a small figure equates to zero. Correct that error, and a competitive market will set a price above the marginal cost, which makes it impossible to draw a supply curve independent of the demand curve. {15}

Other suppositions fare equally badly. The distribution of income is not based on merit, nor determined by the market, but reflects the power of various classes and professions. Money traders, bank and managerial staff do not have their high wages because they are more productive and/or contribute more to the marginal product of labour and capital, but because their high wages are part of an accepted socio-economic structure, a circular argument for the status quo. In the high debt situations of today, increasing wages for the many (i.e. contrary to austerity programs) may indeed create the necessary inflation better than printing money. {16}

Static versus Dynamic Scenarios

Situations are always changing, and to assume that actual situations are merely transient states on their way to equilibrium conditions shuts the door to more helpful treatments. Keynes' work addressed the persisting unemployment of the 1930s, though his policies did not become orthodoxy until much later. Minsky's modelling of bank share, wage share and unemployment disclosed a 'death spiral' of debt that would not exist in a static world. The well-known Phillips relationship between inflation and unemployment was only one result of adding a time factor to economic modelling. {17}

Are Markets Efficient?

Are markets efficient? Yes, said Paul Samuelson and host of brilliant economists from Yale, MIT and the University of Chicago in the 1950s and 1960s. A decade later appeared the work of Scholes, Merton and Black on the pricing of options, which won their authors a Nobel prize, and opened the door to the explosive growth of financial futures and derivatives. Intrinsic to these is the normal distribution of risk, that familiar bell curve that pushed severe events so far to the extremes of the curve that major disasters could happen hardly at all. On this was built the value as risk (VaR) concept and the Long-Term Capital Management (LTCM) hedge fund with assets totalling $126 billion. {18}

But stock markets events are not independent of each other but retain some 'memory' of the past, and the better model is one of complexity, where disasters are far more frequent, indeed to be expected. VaR was used to manage risk in the decade that led up to the financial crash of 2008, and contributed to its $60 tn loss. LTCM had to be bailed out. {19}

Efficient Market Hypothesis

The efficient market hypothesis argues that all relevant information is already incorporated into the market price, and that stock prices move randomly and therefore unpredictably. Fundamental analysis is therefore pointless since no one can see the future. Most economists hold to this hypothesis in one form or another, and it is regularly taught to business studies students.

In its 'strong' form, the EMH asserts:

1. Collective expectations of stock market investors are accurate predictions of the future prospects of companies.

2. Share prices fully reflect all information relevant to the prospects of traded companies.

3. Changes in share prices are entirely due to changes in information concerning future prospects, that information arriving in an unpredictable and random fashion.

4. Stock prices follow a Brownian movement or 'random walk', where past movements give no indication of what future movements will be. The hypothesis was built on elegant economic models in the sixties, and gained support from studies that showed investment managers do not consistently beat the market, but is now being modified by behavioural market theories. {20}

Investors argue that markets may be efficient some 85-90% of the time, but not always because: {21}

1. Some investors do consistently make money. Indeed, by simply holding stocks in the top ten Fortune 500 companies over the period 1976 to 2006, investors would have outperformed the S&P 500 index by some 4.85 times.

2. Investors can wildly overvalue stock during stock market bubbles, as they did in the 1997-2000 dot.com bubble. How did those stock prices incorporate relevant information and not market hype?

3. Stock prices fell immediately after 9/11. In what sense were mining companies, makers of cars and semiconductors, and service industries suddenly worth 5-15% less?

The EMH has collected a large literature. A review of the evidence by Malkiel in 2003 concluded that markets were more efficient but less predictable than commonly believed. Efficient markets can make valuation errors, accept irrational behaviour from investors, but do not allow investors to continually earn above-average returns without accepting above-average risks. Markets in the short run may be a voting mechanism, but act as a weighing mechanism in the long run: true value is disclosed eventually. Many stock market anomalies appear on analysis, but the transaction costs involved still argue against consistently profiting from such anomalies, though a buy and hold policy with 'value' stocks may still be possible. {22}

Efficiency and predictability are not necessary bedfellows. It is possible for markets to be efficient — or sufficiently so to prevent trading strategies being consistently profitable — but still be somewhat unpredictable. If investors watch other investors — i.e. the previous day's prices enter into their buy or sell calculations, for which there's good evidence — then stock markets are not static systems tending to equilibrium, but time-dependent complex systems which will inevitably throw up bizarre results from time to time. The standard deviation of daily movements on the Dow Jones Industrial Average is roughly 1%, but over 60 daily movements of 5% were recorded in the twentieth century: the very odds against that happening shows that movement isn't random. Moreover, since stock markets are complexly interlinked, bizarre movements can trigger worldwide disturbances, which is possibly an explanation for foreign currency crises sometimes laid at the door of hedge fund manipulation. {23}

Attention has also shifted to intermediaries — fund managers, banks, fund managers, brokers and other specialists — who have better information than lay investors but may be driven more by commissions than service to clients. Market momentum distortions may also be increased by investors transferring from under-performing to over-performing fund managers. {24}

Strategic Management

Another nail in the coffin of market theory is strategic management, what managers actually practise to get the best from their workforce. It has nothing to do with economics, but evolves in response to new studies, perceived opportunities and threats, and apparent excesses or oversights of previous strategies. Not all theories have been progressive, universally accepted or even helpful. One decade has sometimes had to undo the harm the planning of the previous one inflicted. Managements can be found embracing mixtures of theories, some not contemporary or mutually compatible. Charismatic CEOs leave; new competitors appear on the horizon; the world suddenly looks different. Reorientations take time to filter down and be implemented.

Several overlapping and sometimes blending phases of strategy formulation can be recognized. {25}

1. Planning in Large Multi-product Companies: 1950s-60s

Aimed to produce large, multi-product firms, although accompanied by decentralization and diversification into attractive but often unrelated businesses.

2. Planning in Large Multi-product Companies: 1965-75s

Adopted the Boston Consulting Group's (BCG) micro-economic approach, concentrating on areas where market leadership was possibly, and divesting in others. In detail:

1. Focus on cash rather than profits.

2. Aim for cost advantage over competitors.

3. Force competitors to withdraw from the company's main profit segments.

4. Use debt to finance growth.

5. Reinforce market leadership.

6. Raise returns for stockholders.

7. Avoid overextending the product line or building in too much complexity or overhead.

8. Use excess cash flow to diversify into new areas.

Though not central to BCG's world-view, companies also tended to build large central planning departments in conglomerates, and diversify excessively: both caused problems later.

3. Retreat from Strategic planning: mid to late 1970s

Central planning retreated into pragmatism as:

1. Micro-economic techniques for analysing competitive advantage became more powerful.

2. Central planning and conglomerate diversification became intellectually tarnished.

3. Oil price hike of 1973 and stock market crash of 1974 hit the more progressive companies.

4. Creative Reaction to BCG school excesses: from 1973 to present.

Focused more on the intuitive, adaptive and creative aspects of strategy, making managers less reflective planners and more face-to-face communicators and decision-makers.

5. Rigorous micro-economic analysis: from 1980s to present.

6. Elaboration of the BCG framework of competitive advantage to include:

1. Threat from new entrants.

2. Bargaining power of customers and suppliers.

3. Threat from substitutes.

The overall message was that companies should find markets and market niches they could dominate, erecting barriers against competition by low costs or product/service differentiation.

7. Skills and capabilities: from 1990s to present.

Focus has shifted to a company's skills and capabilities (its core competencies). Corporate strategy is more seen as the definition, creation, stimulation and reinforcement of competencies across many market segments. Drawing on works of military strategy, these approaches observe that plans give way in practice to the judgment of frontline officers making snap decisions. The battle plan must always be complemented by the instincts of the leaders. Similarly, a good strategy should give managers the general direction and focus, while remaining open-ended and not over-planned. People are more valuable than plans, which is why strategy should be developed by company executives and not outside consultants.

Other influences have been:

1. Integration of strategic analysis and cost reduction through business process re-engineering.
2. Improved data-gathering and analysis on competitors to better select acquisition candidates.
3. Unlocking customer value.
4. Cutting times in developing and delivering products to customers.
5. Concentrating on fewer products and relying more on outsourcing.

In short, the key today is seen as:

1. Differentiating the company from its competitors.
2. Developing skills and positions that no competitor can approach.
3. Specializing in areas that fostered a superior better technology, product or service, or a lower cost position.

Business strategies themselves owe nothing to economics, moreover, but are commonly grouped as:

Outside-in: what do our customers want from us?

Inside-out: how can we sell what we've got or could develop?

Unbundled: how can get our businesses to improve by standing on their own feet?

Multisided: what strengths and economies can we achieve by getting our different divisions / acquisitions to work together?

Government-supported: how can we use government aims and institutions to assist sales?

Loss leading: how can we attract customers with initially free or low-price offers?

Long tail: how can we make a profit with the sale in small numbers of a great range of products?

Open model: how can sell what originally comes free?

Custom value leader: how can we be seen as the best in this market?

Value innovator: how can serve a need that hasn't been recognized before?

Customer capitaliser: how can we earn even more from our customers?

Brand capitaliser: how can we improve and get more from our brand reputation? {26}

Markets are Rigged

Far from being rational and fair, markets today are rigged, and in three ways:

1. The sums available to hedge funds, particularly those operating out of tax havens with looser regulations, are sufficient to manipulate markets. Commodities and currencies are sold short — i.e. 'bought' from a friendly

trader, kept with the dealer without payment while rumour and sudden selling depress the price, and then actually bought so as to return the shares (now purchased at a lower price) to the dealer, the difference being a handsome profit. In this way were engineered — by taking advantage of 'structural' weaknesses and government mistakes: the financial crises of Latin America, Russia and Asia. {27}

2. Large banks and/or quasi government agencies also maintain 'market stability' with shadowy institutions like the Plunge Protection Scheme (Working Group on Financial Markets) and the Exchange Stabilization Scheme. {28}

3. Greater quantities of commodities like gold and silver are 'sold' than are actually deliverable. {29}

Economics is a Fiction

A minority of critics go further and claim that conventional economics acts as a cover, a fig-leaf of respectability to power politics. Largely missing from trade models are economic power, military spending, 'hot money’, capital flight, smuggling, and fictitious transfer pricing to evade tax, all with government complicity. Recessions do not simply happen through the interaction of market greed and fear, for example, but are created by banks working with government and big business. F. William Engdahl observes that banks and big business have furthered US globalist ambitions, and will be supported for that reason, even at the cost of American jobs and civil liberties. {30}

Such analyses espouse political realism of the Morgenthau school, i.e. that countries are motivated by perceived national interests, or national interests disguised as moral concerns. Sometimes the national interests are more sectional interests. A case in point was the 1973 quadrupling of oil prices, which is commonly seen as retaliation imposed by the OPEC countries for Israel's occupation of Arab lands after the Yom Kippur war, but analysed very differently by Engdahl. The 'oil-shock', which permanently damaged US industries, leaving industrial wastelands and the attendant problems of unemployment, social deprivation and crime as manufacturing gradually moved offshore — arguably the single most devastating blow to western and third world growth — was created in Washington to favour oil interests, banks and the American dollar. Preposterous as the story must seem, a summary is this: The Shah of Iran, who owed his throne to CIA actions in 1953, was allowed to strengthen his army with American weaponry in exchange for oil price hikes. Saudi Arabia, with whom the US had an agreement to trade oil for American protection, was similarly instructed. Other OPEC countries followed. The new profits created a world awash with petrodollars, which were first invested in New York and London, enriching the oil families and banks handling the transactions. From banks the petrodollars went as loans needed by third-world countries now suffering from recession and increased energy costs — loans made essential by the 'oil-shock' but increasing the debt burden under which they still labour. North Sea oil, uneconomic at earlier prices, became profitable, and demand for the dollar in which oil is bought (but previously weakened by dollar printing to fund the Vietnam war and by money laundering activities in Europe and Lebanon) strengthened its position as the world's preferred currency. {31}

Corruption of the Economics Profession

Contrarian economists contend that mainstream economics has betrayed its principles. Far from being a science, i.e. objective and disinterested, the economics taught at college and published in academic journals is now subservient to those who ultimately (however indirectly) pay the salaries: i.e. banking and big business. Michael Hudson, for example, observes that the wealthiest 1% have rewritten the tax laws to a point where they now receive an estimated 66% of all returns to wealth (interest, dividends, rents and capital gains), and a reported 93% of all income gains since the Wall Street bailout of September 2008. {32}

To achieve that success, the rich have secured control of the major news media that shape peoples' views, and have used the financial crisis they themselves created to argue for further privatisation. The public debt is now too large for everyone to be paid, and the financial interests representing the wealthiest 1% have unconscionably argued that a reduction in social services, education, Medicare and upkeep of local amenities is imperative. Books have to be balanced, they argue, forgetting that productivity increases will cover expense, and that sovereign states are not businesses but can print money, as they famously did in bailing out Wall Street. The problem in fact, contends Hudson, is not social security and the like, which can be paid out of normal tax revenue, as in Germany's pay-as-you-go system, but the lopsided treatment of real estate, oil and gas, natural resources, monopolies and the banks, which unfairly benefit from light taxation and tax loopholes. {33}

Some writers indeed argue that economics has never been a science but an elaborate justification of the status quo. Routh: 'By leaving this [power] out, and thus separating itself from politics, economics has become an arrangement for preventing the citizen and student from seeing how he is governed.' And: 'Of course this neglect of the real world in favour of creations of the mind is a leading feature of orthodox economics. That it is generally accepted gives it academic respectability and removes the danger that economics might be used as an instrument in reshaping the world.' {34}

The financial crisis is not an aberration, critics of globalisation argue, but part of a carefully orchestrated policy to run a society on debt — a debt forgiven banks by bailouts but maintained in student loans, mortgages, and business loans. Free money (quantitative easing) furthers the interests of the banking and military machines but not the ordinary citizen. On the latter's default — and defaults are inevitable — the funding institutions pocket the collateral, further increasing their wealth and political influence. Market economics is a small part of a larger picture involving the Washington consensus, and possibly 'deep state' power. Some believe economists overlook the obvious, that it's energy costs that are curtailing world prosperity, and one where alternative energy sources are not receiving the needed research. {35}

Monetarism

Monetarists emphasise the role of governments in controlling the amount of money in circulation, believing that variations in the money supply influence national output in the short run and the price level over longer periods. Best known through the advocacy of Milton Friedman, monetarism was influential in the 1970s and 1980s, though governments in the USA, Chile and the UK were generally unsuccessful in controlling the money supply. The simple relationship is given by:

$MV = Py$

where M is the money supply, V is velocity (turnover), P is the price change and y is real growth. There are several measures of money, and not all are easy to regulate, but the V is the more troubling measure. It is based on psychology, general feelings. For the USA, population growth is about 1.5% p.a., and productivity increases around 2 to 2.5%. From those figures, the country ought to comfortably manage a GDP increase of 3.5-4% year on year. But the velocity of money peaked at 2.12 in 1997, and has been on downward course since, falling to 1.67 in 2009 and levelling off at 1.71 in 2010. The Fed has therefore been printing money to offset this fall in money velocity. {36}

The Fed indeed controls the monetary base, about 20% of the money supply. Banks create the remaining 80%. Between January 2008 and January 2011, the monetary base has been increased by 242%. As that was having little effect, the Fed used other methods to boost confidence. For a while it supported house prices. When that proved impracticable, it turned to another indicator that is closely watched: the stock market, which is now being manipulated. Bernanke is quite open about depreciating the dollar, hoping a fear of inflation — echoed in magazine leaders across the country — will push Americans to consume more. {37}

Markets in Practice

Free markets should allow the free movement of labour, but in practice most countries prevent or limit immigration, placing the social order above market concerns. Highly qualified Indian doctors could make US medical fees more affordable, for example, but overseas staff are generally restricted to those undergoing training. Europe is also stemming the flow of immigrants from Africa and the Middle East, by force if necessary, although many are escaping the destabilising effects of western military action.

Politics plays a central role in the organization of all societies, and thus in markets. Even in western democracies, politics is not a simple choice between policies by informed electorates, moreover, but is often based on class attitudes common to occupation and social background. Voters are also guided strongly by their genetic make-up in being more comfortable with conservative or liberal policies, even against their best interests. Wall Street is corrupt. {39}

Commentators who favour a mixed economy argue that free market forces should apply in the private sector, but that government regulation is essential otherwise. Free markets are not automatically efficient, fair and sustainable. Fundamental research and development often needs government investment to get off the ground, and to ensure successes are not hampered by burdensome patent protection. Indeed as economic life becomes more complex and interconnected across the world, there is a corresponding need for government involvement and cooperation. {40}

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43. Modern Banking

European banking originated in the 'merchant bank' of Lombardy, where grain merchants gradually displaced Jews, who were not allowed to hold land in Italy. Payment was advanced against the future delivery of grain shipped to distant ports, and then developed into services for third parties: settling trades for others, holding deposits, and issuing bills of exchange. To avoid carrying large sums of cash with them, merchants carried documents issued by moneychangers that were redeemable at fairs distant in time and space, and these documents could be discounted at rates that reflected the date and likelihood of redemption. Henry II of England levied a tax in 1162 to support the Crusades, and it was the Knights Templar that introduced more sophisticated banking practices from the Muslim east, until, grown dangerously rich and powerful, they were suppressed by Philip IV of France in 1307. The first Venetian bank with guarantees from the state was established in 1157, and by the mid 13th century banks throughout Italy had found ways of evading the medieval ban on usury. The Acciaiuoli, Mozzi, Bardi, Peruzzi and Medici banking families were prominent in Florence, and Lombard moneychangers travelled the busy pilgrim routes throughout Europe. Bankers came to dominate large areas of trade, and were correspondingly restricted or expelled, from Aragon (1401), England (1403), Flanders (1409) and Paris (1410). Nonetheless, two great banking families emerged in Germany of the fifteen century, the Fuggers and the Welsers, who controlled much of the European economy and dominate international high finance in the following century, which also saw important banking dynasties rise in Genoa. {1}

Banking innovation then moved to Holland which, after the 1585-1620 Dutch Revolt, offered a wide range of modern investment products — public bonds on a national, provincial, and municipal level, marine and commercial insurance, shares in publicly-traded companies like the Dutch East India Company (VOC), and their derivatives. Institutions like the Amsterdam stock exchange, the Bank of Amsterdam, and the merchant bankers set strict standards which, with the Dutch propensity to save, helped produce a large capital stock and so set the scene for Dutch finance systems under the new Dutch king of England, William III.

The Dutch also employed bonds to finance the maintenance of canals, bonds that were continually renewed (as they were in Venice). Earlier to start even were life annuities, which go back to the thirteenth century in France. By 1535, 60% of Amsterdam's annual budget went on debt and annuity payments, and in 1671, de Witt's *Value of Life Annuities in Proportion to Redeemable Annuities* recognized the importance of life expectancy — which led to the proper study of probability by mathematicians throughout Europe (in which they were somewhat preceded by Sung China). {2}

England

Innumerable projects, large and small, foreshadowed banking in England, from the opening of the Royal Exchange in 1566, the draining of the Fens, the various joint-stock companies created for overseas exploration and trade, city loans by goldsmith-bankers, insurance in the Dutch manner, and the small loans farmers habitually needed to tide them over till harvest time. Most banks — and there were 119 country banks in 1784, and 552 in 1822 — were small, local affairs, limited to a few hundred pounds capital, though often with links to larger London banks that gave them security and greater opportunity. Most loans were for working rather than fixed capital, and the large merchant banks of London were much more interested in overseas opportunities than investment in British industry — one reason why the country did not maintain its early lead in the industrial revolution. {3}

But the Bank of England was a new departure, and by issuing banknotes against a national debt introduced the modern conception of capital creation. A limited liability corporation was formed in 1694 to provide a £1.2 million loan to the government of William III that was needed for war with France. Funds came from forty private individuals. The loan did not have to be repaid but an interest of 8% would be levied annually by taxes. The bank was the only limited-liability corporation in the country allowed to issue bank notes, which were thus a promise by the government to accept tax payments in paper money. From this modest proposal developed a national bank, one that proved immensely useful in an England strengthened by its union with Scotland in 1707, and went on to play a large role in the successful outcome of the Napoleonic wars a century later. The Bank of England also tied financial institutions to the Whig party and the Hanoverian monarchy, incidentally: a Jacobite party — popular with landowners — might have returned England to a Stuart policy of raising funds by taxation, greatly restricting trade and investment. The Bank Charter Act of 1844 rationalized matters, and the Bank of England gradually became the sole note-issuing authority. The bank acted as lender of last resort in the financial panic of 1866, but only a small part of its reserves (no more than

4%) were held in gold. In fact, Britain came off the gold standard in 1931, when the Bank was already transforming itself into a national entity under the governorship of Montagu Norman. It was nationalized in 1946, but was given considerable independence in monetary policy under the Labour government of 1977. {4}

Like all state banks, the Bank of England controls the money supply by a. setting the minimum reserve requirements for the individual commercial banks, b. the buying and selling, interest-bearing bonds, and c. adjusting the interest rate at which it lends funds to banks, (which in turn controls the rates at which they lend to customers and to each other). {5}

America

From a banker's point of view, the history of coinage, currency and banking in the United States is one of increasing order, from ad-hoc local currencies in colonial times, through a burgeoning of poorly-licensed banks in the nineteenth century, to a well-regulated banking system overseen by the Federal Reserve Bank. {6}

The early colonists adopted local currencies of fur and wampum (strings of shells) for trade with native peoples, and a wide range of materials for internal transactions — country money (tobacco, rice, wheat, etc.) foreign coinage (especially Spanish and Portuguese silver), British coinage (golden guinea, silver crown and shilling and copper penny, halfpence and farthing: the official coinage but scarce) and their own coin and bank notes. All were inter-convertible at rates that varied across the country, and North Carolina in 1775 had no fewer than seventeen types of money declared legal tender. Bank notes were often over-issued, of course, which led to inflation and bank failures. As is well known, the British Government passed measures to prohibit paper money, which, with ill-thought-out taxation, led to social unrest, war and the Declaration of Independence.

Under its Coinage Act of 1792, the new republic adopted the dollar, which was defined as 371.25 grains of silver or 24.75 grains of gold — i.e. both the newly minted gold and silver coins issued by the Philadelphia mint in 1794 were to be legal tender. Unfortunately, because the minted silver was slightly overvalued (at 15:1 gold) more silver was brought in for minting than gold, which became rather scarce. Other silver to gold ratios prevailed abroad, and it was not until 1834 that America came into line with the British ratio of 16:1. {7}

To raise funds for the 1861-65 Civil War, the Union first levied taxes, raised tariff duties and issued 20 year government bonds offering 5% interest. Similar measures were adopted by the Southern States. Much more successful was the $450 million issue of 'Greenbacks', which were in effect a fiat currency, not convertible to specie, but authorized as legal tender for all payments except customs duties and the interest on government securities. A 2% tax was imposed on State bank note issues in 1862, which was raised to 10% in 1866, but State banks survived. They declined in number from the pre-war peak of 1,601 in 1861 to 247 in 1868, but then grew more popular again. State banks were indeed overshadowed by private banks, and the number of all banks in the USA reached the staggering total of nearly 30,000 in 1921. {7}

The National Banking Acts of 1863 and 1864 attempted to bring order to this confusing scene by creating a system of national banks, a uniform national currency, and an active secondary market for Treasury securities to help finance the Unions funding of the Civil War. A Treasury Department, the office of Comptroller of the Currency, was instituted to insure compliance with the regulations, to hold Treasury securities deposited there by national banks, and, via the Bureau of Engraving, to design and print all national banknotes.

The Fed, a consortium of private banks that controls American monetary policy, was set up in great secrecy in

1913, first to address financial panics but then with the stated public aims of maintaining maximum employment, stable prices, and moderate long-term interest rates. It was preceded by a study of foreign banking systems running to 24 volumes, the most thorough of its kind, and the Pujo committee in 1913, which reported that it had 'no hesitation in asserting that an established and well-defined identity of interest. . . held together by stock-holdings, inter-locking directorates and other forms of dominion over banks, trusts, railroads' etc. . . ' has resulted in a vast and growing concentration and control of money and credit in the hands of a comparatively few men'. The Fed was to correct those dangers. It would act in a supervisory central bank, as a clearing house, and the lender of last resort. By buying Government Treasury bills from selected commercial banks, and automatically creating the money to do so, the Fed would expand the money supply. To contract the money supply it would sell those Treasury bills again. {7}

Those critical of banking see matters very differently. {8} The preceding panics and bank runs were engineered so that financiers like Morgan and Rockefeller could acquire companies cheaply and consolidate their hold on key industries. Creating the Fed only furthered that ambition, and the institution is still a private cartel, operating without democratic oversight but in close association with Wall Street. Far from making banking socially accountable, the Fed imposes yet another layer of secrecy on actions that have favoured cartel members more than US citizens, especially during the Depression years and the financial crash of 2008. Indeed the whole process under which silver was gradually outlawed as legal tender, and a gold standard imposed, brought the American machinery of government under private and possibly foreign control. Two well-known quotes are:

'Some people think the Federal Reserve Banks are US government institutions They are not . . . they are private credit monopolies which prey upon the people of the US. for the benefit of themselves and their foreign and domestic swindlers, and rich and predatory money lenders. The sack of the United States by the Fed is the greatest crime in history. Every effort has been made by the Fed to conceal its powers, but the truth is the Fed has usurped the government. It controls everything here and it controls all our foreign relations. It makes and breaks governments at will'.

— Congressman Louis T. McFadden, Chairman, House Banking and Currency Committee, June 10, 1932 {8}

‘This is a staggering thought. We are completely dependent on the commercial Banks. Someone has to borrow every dollar we have in circulation, cash or credit. If the Banks create ample synthetic money we are prosperous; if not, we starve. We are absolutely without a permanent money system. When one gets a complete grasp of the picture, the tragic absurdity of our hopeless position is almost incredible, but there it is. It is the most important subject intelligent persons can investigate and reflect upon. It is so important that our present civilization may collapse unless it becomes widely understood and the defects remedied very soon.'

— Robert Hemphill, Credit manager of Federal Reserve Bank in Atlanta. 1935. {9}

Collapse of the Banking System

US Crisis 2007-2012

The financial crisis of 2007-2012 — which brought about the near-collapse of large financial institutions, the bailout of banks by national governments, stock market downturns, housing evictions, business failures, the European sovereign-debt crisis and unemployment across the world — wiped out several trillion dollars in consumer wealth. The story is well known through films, articles and books, though the remedial actions are still controversial.

Banking was once a safe occupation earning modest profits, around half that of the non-financial sector in America through the 1960s and 70s. Following deregulation in the 1980s, however, profits rose to 4-12%, considerably more than the 2-5% of non-financial firms. Many companies turned themselves into finance houses, and the ratio of financial to non-financial assets in US corporations rose from around 0.4 in the 1970s to nearly 1 in the early 2000s. {10}

Banking also became more enterprising in the 1970s, addressing the housing needs of disadvantaged Americans through 'subprime' loans at competitive rates. To aggressive selling was added easy credit, deregulation, financial status fraud and financial complexity. Loans were often sold as a second mortgage, and often again to those who didn't read the fine print on the higher repayments being charged after year two. Defaults weren't the problem of the originating mortgage company because the loans were securitised, i.e. branded as assets (secure streams of income) and sold on as complex financial products, often through a chain of intermediaries. Many observers were aware of the risks but said little, being unwilling to spook the markets or interrupt its moneymaking powers. The regulators assumed that Wall Street knew what it was doing, and Wall Street assumed the market was self-regulating: indeed their (faulty) models assured them they were fully covered. But when mortgage holders began to default in droves, those revenue streams became problematic. Good and bad loans had been complexly diced together, often several times over, which made all such assets suspect ('toxic'), and so untradable. The rating agencies had recklessly branded the financial instruments as safe investments, and guarantees had been issued by large insurance houses (often through CDSs, credit default swaps), though these guarantees became worthless when the houses could not meet the increasing extent of their commitments. The insurance houses were indeed linked to other investment companies, which in turn were interlinked further, creating a complex web of commitments whose ramifications often eluded the understanding of their own managements. {11}

The mortgage market reached saturation around 2005, and when the higher payments began to kick in, and the Fed several times upped interest rates, the bubble burst. Real estate values fell as properties were repossessed, devaluing the assets which had been sold to banks round the world. Banks had little collateral in many cases, sometimes only a few percent of loans, so that asset devaluation effectively bankrupted them. Potential losses were not confined to investment banks because repeal of the US Glass-Steagall Act in 1999 placed even high street customers deposits at risk. Banks refused to deal with each other. Nor would they lend without a proper assessment of their financial standing, which was impossible in many cases: no one could value the assets, or indeed wanted to. Banks were nonetheless complexly indebted to each other and to countries across the world. All were damaged. Businesses suffered. Companies cut staff or folded altogether. Stock markets crashed.

Lehman Brothers went bankrupt, as did many mortgage companies. Merryll Lynch was taken over by Bank America. AIG, Fannie Mae and Freddie Mac, and others had to be bailed out by the government — plus a host of non-finance companies, including General Motors — with TARP (Troubled Assets Relief Program) for $700 billion, with another $13 trillion earmarked for relief, of which $6.8 tn had been spent by June 2009. {12}

Protection from undue government regulation had been purchased through political campaign donations and lobbying. Countries seeking safe homes for trade surpluses (China, Japan, the Gulf oil states) invested in US treasury bills, or (less safe) financial products offered by the Wall Street banks. These were zero sum plays: the sums lost by some investors would equal profits made by others. Wall Street was preferred as the dollar is the world's currency.

America enforced dominance by 'agreements' with trading nations (e.g. 1985 'Plaza agreement') and by exploiting weaknesses (Mexico peso crisis of 1994, the Asia crisis of 1997). {13}

World Financial Crisis

Other countries suffered their own defaults. A share in Northern Rock, Barclays and RBS had to be acquired by the UK government. There were serious bank failures in France, Iceland, Spain, Greece and Italy. Contagion proved hard to contain, but countries faring best were those with conservative banking regulations and a variety of measures to improve foreign currency financing. {14}

A Little Terminology

OTC

Over the Counter is stock (commonly debt securities and other financial instruments such as derivatives) traded through a dealer network rather than over a centralized exchange. ETDs (exchange-traded derivatives) are traded via specialized exchanges

Derivatives

Derivatives are simply contracts between two parties that specify the conditions (date, quantity, price) under which payments are to be made. Derivatives often have special legal exemptions, making them an attractive way to extend credit, but their complex and opaque nature can underprice credit risk, which indeed contributed to the financial crisis. All have useful aspects, however, and business would be scarcely possible without them. Common groupings: {15}

1. Forwards: contracts to buy at a specific time in the future at today's predetermined price.
2. Futures: contracts to buy or sell before a future date at a price specified today.
3. Options: contracts that give the right, but not the obligation, to buy (call option) or sell (put option) at a

specified (strike) price. How long the right exists is specified by the maturity date.

4. Binary options: contracts that provide the owner with an all-or-nothing profit profile.

5. Warrants: long-dated options (maturity date generally over a year): generally OTC.

6. Swaps: contracts to exchange cash (flows) on or before a specified future date, based on the underlying value of currency exchange rates, bonds/interest rates, commodities, stocks or other assets prices.

7. Swaption: option on a forward Swap.

Hedge Funds

Hedge funds are large investment vehicles used by wealthy individuals, pension funds and insurance companies, which probably account for half the daily turnover on the London and New York stock markets. Hedge funds invest internationally in anything that makes a profit, and are naturally secretive about their activities. Many charge high fees and do better for their managers than investors.

By using complex strategies, hedge funds aim to produce a positive return whatever way the market goes. Four main types are often recognized:

1. Market neutral or relative value, which try to exploit market inefficiencies or mispricings.
2. Event driven, which invest on anticipated mergers, bankruptcy or corporate reorganizations.
3. Long/short, which allow fund managers to buy some assets but sell others they do not yet own.
4. Tactical trading, perhaps the most volatile of all, which speculate on the future direction of markets.

Hedge funds are regulated by the appropriate authority (SEC in America, FSA in the UK), and tend therefore to be based offshore where tax and other liabilities are less onerous.

Hedge funds are not merely passive beneficiaries of market changes, but have the financial clout to make the changes, often through 'shorting'. Shares, bonds or currencies are 'borrowed' through a compliant broker, often without money actually changing hands. The market is influenced with rumours and/or a short selling spree, and the shares are 'sold back' at a lower price. The difference (less broker commissions) is profit. Naked shorting (borrowing without paying for the stock, i.e. not actually owning it) is illegal in many countries, but not in tax havens where many hedge funds are located. {16}

Credit Default Swaps

A credit default swap (CDS) is a form of insurance, a financial agreement in which the seller of the CDS will compensate the buyer in the event of a loan default or other credit failure. To receive this protection, the purchaser of the CDS makes a series of payments (the CDS 'fee' or 'spread') to the seller. Credit default swaps began in the early 1990s, and increased in use after 2003, rising to a total of $62.2 trillion at the end of 2007. CDS are unregulated but extremely useful, providing a measure of how the market views the credit risk of sovereign states, corporations and financial institutions. Since they can be purchased by anyone, even those without an insurable interest in the loan ('naked' CDSs), they may be used by large hedge funds to profit when their influence has been sufficient to trigger payment. In December 2011, the European Parliament banned naked CDSs in sovereign nation debt transactions. {17}

Asset-Backed Security

An ABS is a security (revenue stream) whose value and income payments are derived from (backed or 'collateralised') from a pool of underlying assets. The pool typically consists of small and illiquid assets (credit card, mortgages, auto loans, leases, royalty payments, student loans and movie revenues) that are bundled together ('securitisation') to make a financial instrument attractive to investors. In this way, the credit risk of the underlying assets is transferred to another institution, the originating bank can remove the value of the underlying assets from its balance sheet, receive cash, improve its credit rating and reduce the amount of capital that it needs to hold. The disadvantage is moral hazard: the mortgage originator has little interest in the borrower once the loan is sold on. (Nor could the householder negotiate with the mortgage company, incidentally, which no longer existed: a current legal tangle.) ABSs are usually awarded a rating by a credit rating agency: another conflict of interest if the agency puts profit above principle. {18}

Collateralized Debt Obligation

CDOs are a form of ABS with multiple 'tranches'. Each tranche offers a different of risk and return, from pension fund holders (low return and low risk) to high growth assets (high risk but also high returns). The 'senior' tranches are the safest securities, and the junior the most risky. Interest and principal payments are made in order of seniority, so that junior tranches offer higher coupon payments (and interest rates) or lower prices to compensate for the higher risk of default.

Synthetic CDOs are a step further, there being no collateral behind the ABS, only 'exposure' to events. The financial product is thus a form of gambling on the performance of investments, though a relatively safe one unless there is massive default. Some synthetic CDOs were also traded as normal bonds.

Finally (in this very brief summary: financial products are complex) came derivatives in which CDSs (credit default swaps) were bundled with CDOs or synthetic CDOs and sold by banks to their more trusting clients. A top rating by one of the rating agencies was essential as the products were difficult to assess. Because the banks owned the CDSs, and the clients the CDOs, the banks were able to unload their riskiest assets onto clients and still profit when the CDSs failed (as most did). Many of these products were deemed unethical in the investigations that followed the financial crash, but not illegal. {19}

Current Situation

Little has been done to make another financial collapse impossible or even improbable. The new act (Dodd-Frank Wall Street Reform and Consumer Protection Act of July 2010) gives the Fed more investigative powers. Regulators can ferret out systemic risk. A new consumer agency will see fair play and help borrowers withdraw from loans they cannot pay. Otherwise, the changes are largely cosmetic, although banks must now submit contingency plans. Shadow banking continues, bank scandals multiply, and the bonus culture is alive and well. Through Wall Street banks, the Fed is thought to be supporting the US stock markets, a policy driving away the smaller investor, and further increasing debt levels. The US Attorney General has admitted that some banks' operations are too big and complex to police. Banks are indeed using their 'excess' deposits — the excess of deposits over loans — as collateral for borrowing in the repo market, increasing the risk of default by entering into businesses that greatly extend their purported role: acquiring airports, toll roads, and ports, power plants and the like. Some view their growth as not merely parasitic but a dangerous cancer on the capitalist system, which must ultimately destroy even itself. {20}

Left-wing economists go further in their criticism of financial institutions. By making money out of money and not through socially-responsible investments in industries, infrastructure and public services, Wall Street has effectively bankrupted the country, transferring funds from middle- and working-class families to a small percentage of the already very wealthy. Some profits have certainly been ploughed into tangible capital investment, but more has gone into military spending, overseas investments, into loans for real estate, and purchases of stock and bonds. Far from enjoying the leisure economy predicted from the 1980s, American families are harder-pressed than ever. Productivity has gone up, but the gains are not reflected in higher wages: quite the contrary. On current labour participation rates, women will have to work 18 hour days by 2020 if economic trends are not to falter. Savings have been run down, and consumers, real estate and industry left in debt. Corporate raiders have hollowed out viable companies, raiding pension funds, cutting the work forces and achieving a paper profit to pay back loans granted entirely for that purpose. Corporations may also evade their obligations to the state that provides them with a healthy, disciplined and educated workforce: internal book-keeping fictions allow them to provide different statements to their shareholders and to the relevant tax authorities, at home and abroad. Finance unnecessarily inflates land prices: some 80% of bank credit in the USA goes to buy real estate, whose value depends largely on what the banks will lend. Financial institutions have successfully lobbied to keep interest tax-deductible, again inflating stocks, bonds and land prices. Anyone marrying today has commonly to pay off their student debt, take out a 30 year mortgage and an auto loan. Education has been privatised, and Social Security is under threat. America is not the democracy of free enterprise but closer to an oligarchy of the rich. Job insecurity has indeed kept pay increases muted, as workers live from wage to wage packet in paying off their debts. {21}

Other countries have fared worse: Iceland, Ireland, Latvia. One third of the latter's population has emigrated abroad or is planning to, inevitably when public sector wages have been cut by 30%, and when from wages taxed at 59% have to be paid large mortgages and fees to privatised services. The European Central Bank has ensured that creditors and bondholders of reckless loans made by Irish banks are paid back through higher taxes and lower social spending in the country as a whole. To pay its debts — which increase on each 'bailout' — Greece has had to surrender real estate, public buildings and services, port facilities, electric utilities and oil and gas rights in the Aegean. In short, the long-term goals necessary to public services and industry are being sacrificed to the destructive short-term interests of banks. The solutions are obvious, but unlikely to be implemented when finance and big business own governments and the media: reform the Supreme Court, reinstate the Glass-Steagall Act, send crooked bankers to prison, tax speculators, close down tax avoidance in offshore accounts, cancel bad debts that are never going to be paid, and invest in infrastructure and public services, keeping them unprivatised. Quantitative easing has enabled banks to reflate their assets and avoid government takeover. {22}

The Transnational State

Some commentators view the traditional economic model of finance as superannuated. With well-developed stock markets, futures markets, real estate markets, commodities markets, derivatives markets, and similar markets for speculation, a large part of company profits is no longer reinvested into capacity building but diverted into making money out of money. Prior to 1980s, corporate and financial investment moved in tandem — both about 9% of GDP — but have since diverged. Corporate or real investment has declined to about 4% of GDP, while corporate profits have increased to about 12% of GDP. Approximately 80% of bank loans in the English-speaking world are real estate mortgages, and much of the balance is lent against stocks and bonds already issued. The so called FIRE sector (finance, insurance and real estate) has grown astronomically. Over the 1980 and 2005 interval, profits in the financial sector increased by 800%, more than three times the growth in non-financial sectors. In the early 1990s there existed only a couple of hedge funds; by 2007 their number had grown to 10,000. The number of mortgage brokers, replacing old-style Savings & Loans and regional banks, has likewise mushroomed in recent years/decades: 50,000 thousand of them, employing nearly 400,000 brokers, more than the whole U.S. textile industry 'The money that's made from manufacturing stuff is a pittance in comparison to the amount of money made from shuffling money around. Forty-four percent of all corporate profits in the U.S. come from the financial sector compared with only 10 percent from the manufacturing sector.' The damage is to American jobs, but finance is now truly transnational, and often more powerful than the democratic will of even the largest countries. {23}

Some critics of banking go further. Ellen Meiksins Wood distinguishes between the Roman 'empire of property', a land-based system that stimulated unending territorial conquest; the Arab, Venetian and Dutch 'empires of commerce', dedicated to the protection of trade routes and market dominance; and the British 'empire of capital', marked by the imposition of market imperatives on conquered territories. Globalisation is the 'new imperialism' , the USA acting as the great enforcer — hence the overweening size of the U.S. military and that military's need to leap into foreign entanglements that have no clear connection to U.S. interests. The likely end is constant war, currently termed an unending war on terrorism. {24}

Regulation of Banks

Banks generally resist regulation, arguing that such checks and restrictions interfere with free market forces. Yet money is not simply a commodity but also a measure of the trust inherent in making the loans that create and support business opportunities — essentially a trust that the loan will be repaid under the terms agreed. Money and credit is therefore a social relationship of trust — between banks and their customers, buyers and sellers, governments and their citizens. Long experience has obliged societies to create institutions to strengthen and safeguard that trust: the law of contract, standardized accounting procedures, the criminal justice system, codes of conduct for banks, and often a central bank to regulate and become the lender of last resort. All are essential, and need to work in a fair and transparent manner. Countries or periods of country's history lacking these guarantees see credit drying up and economic activity declining. Because they diminish the supply of credit, and the opportunities to apply that credit, European austerity measures have been generally counter-productive, as they indeed have throughout history. {25}

Nor have the banks behaved properly. Irregularities, fraud and criminal actions of banks continue to make headlines, and many see government action, or rather inaction, as another example of complicity with financial shenanigans. No banker goes to prison, and the large fines imposed become simply 'the cost of doing business'. Given the symbiotic relationship between government and big banks, and the ability of government to now access and manipulate individual bank accounts, the current drive towards a cashless society may make the banks even less accountable, (though digital *state* banks are one way of curbing the power of financial interests). Release by hackers of bank-accessing NSA software now allows even criminals to empty accounts. {26}

Banking regulation in America during the last century not only greatly reduced bank defaults, but — coupled with trade union power — led to greater social equality. The 'golden period' of the 1950s and 1960's was not created by unshackled capital and entrepreneurial enterprise but by shared responsibility. Social commentators therefore argue for fairer taxation of capital gains, the closure of corporate tax loopholes, and a financial transactions tax — all of which would steer investment away from 'rent seeking' into manufacturing and social improvements. But few now in the public arena want to take on the banks. As the European Commission president, Jean-Claude Juncker, memorably said in 2013: European politicians know very well what needs to be done to save the economy. They just don't know how to get elected after doing it. Clearly, western democracies will continue to be menaced by financial institutions until honest but unseated politicians can be found worthwhile employment elsewhere in the system, when they can turn their career needs to public service again. {27}

Predatory Capital

Modern capital is mobile and predatory. In 1997 the ‘tiger nations’ of south-east Asia suddenly caught a chill. There was nothing fundamentally wrong with their industries, and not all were heavily indebted to overseas banks and financial institutions, but, once some investors began to pull their funds, individual doubts turned to general panic. Some $600 bn. fled the region in a year. The IMF, though indeed set up to help in such situations, did nothing for several long months as currencies in Thailand, South Korea, Indonesia and Malaysia plummeted, credit dried up and thousands were laid off. When IMF loans did come they were accompanied by austerity conditions: employment had to be cut, social safety nets removed and investment deregulated. All but Malaysia accepted the terms, but their economies did not bounce back. Spooked by the crisis, investment did not return. In the resulting chaos, industries and local businesses were ruined and anti-Chinese riots in Indonesia left hundreds dead. Foreign banks and financial institutions made a rich killing, however, acquiring key industries at fire-sale prices. Over this period some 24 million lost their jobs. Of the 63.7% South Koreans who counted themselves ‘middle class’ in 1996, only 38.4% saw themselves so in 1999. The Asian threat to US manufactures was clearly checked, and continued so: economies have not recovered to pre-crisis levels. {28}

Future of Banking

Should something so vital to the public good remain in private hands? Many argue for state banks that offer loans only to prudent and successful local businesses. The Bank of North Dakota is often quoted: it flourished quietly through the 2008 financial crash. Others have suggested a 100% reserve solution, i.e. banks can only loan what is actually deposited with them, rather similar to 1911-67 US Postal Savings System. Sweden and Denmark offer interest-free and loan facilities, making a charge to cover costs. Governments are not always less efficient, as the unsuccessful privatisation of California's electricity and Britain's railways show. Indeed there are many banking possibilities that eliminate the casino mentality of private banking. {29}

Do we need banks at all now? Commercial banks face such competition from less well-regulated institutions — pension funds, mutual funds, investment banks and the like — that they have been obliged to shift away from the core business of issuing loans to more lucrative practices, thus adding to the great recession following the 2008 financial crash. Today the business of the big banks lies in four areas: funding their own portfolio with cheap money, corporate finance, selling their own securities and market trading. Many enterprising individuals, towns and areas have set up their own equivalents, which were remarkably successful until closed down by the authorities. Examples include Guadiagrele in Italy, German cities during Weimar hyperinflation, the Global Exchange Network after Argentina's bankruptcy in 1995, a system that eventually had 7 million members throughout Latin America, 30 local currencies in north America, and various electronic currencies. All offer the most basic of banking services, cash deposits and withdrawals, and do not speculate with loans and commissions applying. {30}

Radical Proposals

Some of the most radical proposals come from academics and economists associated with CADTM (Committee for the Abolition of Illegal Debt). Far from following through on promises to make the banking system more responsible, to separate commercial banks from investment banks, to end exorbitant salaries and bonuses, and to actually finance the real economy, they note that the banks have continued their risky and sometimes illegal practices. Even since 2008, over fifteen have been convicted of toxic loans, fraudulent mortgage credits, manipulation of currency exchange markets, of interest rates (notably, the LIBOR) and of energy markets, massive tax evasion, money-laundering for organised crime, and banks have been bailed out with public funds in France, Italy, Belgium, Portugal, Cyprus, Slovenia, Holland and Austria. There is an immediate need to:

1. Restructure the banking sector by breaking up the bigger banks and separating their commercial from investment activities.

2. Eradicate speculation by outlawing the practice outright, prohibiting derivatives, requiring financial products to be first inspected and authorised, and prohibiting shadow banking, high-speed trading and naked shorting.

3. End banking secrecy by prohibiting OTC trades, tax haven dealings and the present unaccountability of banks to their customers.

4. Regulate the banking sector by increasing the equity/ assets ration to 20%, taxing profits fairly, protecting deposits by customers, prosecute transgressing directors, increasing the liability of major shareholders to bank failure and instituting sound procedures for the orderly wind up of failing banks.

5. Find alternate ways of financing public expenditures, probably requiring banks to hold some quota of public securities and offer loans to public authorities at zero interest rates.

6. Bring banks back into the public sector, strengthening those that still exist and nationalising those that have been privatised.

Few of these proposals are novel, but CADTM has a socialising mission, urging major changes to banking law and oversight that would enable:

1. Citizens and public authorities to escape the influence of the financial markets,

2. Public authorities to finance projects more cheaply and securely, and

3. Banking to dedicate itself to the common good, effecting a transition from a capitalist, production intensive economy to one more concerned with social and environmental matters.

Many of these will be fiercely resisted, especially nationalisation, i.e. the expropriation of banks with compensation only to smaller shareholders, creation of alternative public services for simple saving, credit and investment needs, proper transparency to customers and a banking system answerable to public needs. {31}

Blockchains

The most radical of recent proposals would do away with traditional banks altogether through 'blockchains'. Physical cash and commercial banks would slowly become unnecessary as citizens held digital accounts, making transfers through central banks with 'digital blocks' that are verified through databases held by thousands of computers across the world. Each transfer would be a unique record with a unique history, making fraud well nigh impossible. The technology exists to process 80,000 transactions a second, and to date- and location-stamp each of them. It is indeed already in use in some American states, companies, pension funds, and by millions of individuals.

Sceptics wonder if the drive towards a cashless society using currencies like bitcoin is yet not another erosion of citizen rights, and whether the human ingenuity required to set up such a system could not be undone by a similar ingenuity working in reverse. Bitcoin units have also been very volatile in value, and attracted transaction charges as high as 7%. Nonetheless, if extended to eliminate settlement time between trades, and augmented with automatic credit-worthy assessment, the system would change every money transaction system we know, eventually dispensing with banks, clearing houses and brokers. Banks are reportedly developing similar technologies themselves, but have been leery of linking to existing schemes like Bitcoins because of associations with elicit activities. Countries at present vary in their acceptance and regulation of such schemes. {32}

Bonds

Not all capital is raised through share issues or bank loans Companies also employ bonds, which run for a set period of time at a stated interest rate. Upon maturity the loan (bond principal) is returned. Interest is usually paid every six months. Bonds are also issued by municipalities, states and (most importantly) by sovereign governments. {33}

Bonds are traded. If a $1 bond yielding 1.5% interest is sold at 80 cents, reflecting doubts on its future value, the interest is effectively $1.5/0.8 or 1.875%, the acquirer being rewarded with an increased yield for accepting a higher risk. Many factors enter into risk assessment (interest rates, maturity of the obligation, credit risk, liquidity, embedded options; and tax treatment of the obligation). Spreads are the differences between two stated prices or other variables, and provide a measure of market concerns. In money markets, for example, the TED spread, a difference between T-bill and Eurodollar rates, compares the difference between a 'risk free' Treasury rate and a comparable commercial rate. Spreads between LIBOR (rate at which banks lend money to each other) for different currencies also indicate their relative strengths, and may determine forward exchange rates. {33}

Conclusions

In short, banking, and the financial world, generally is a multi-faceted and intricately interlinked machine running on trust and perceived levels of risk. Changes in any input, from individual investors to state enterprises, can have unexpected and sometimes serious consequences — far more than economic models will predict.

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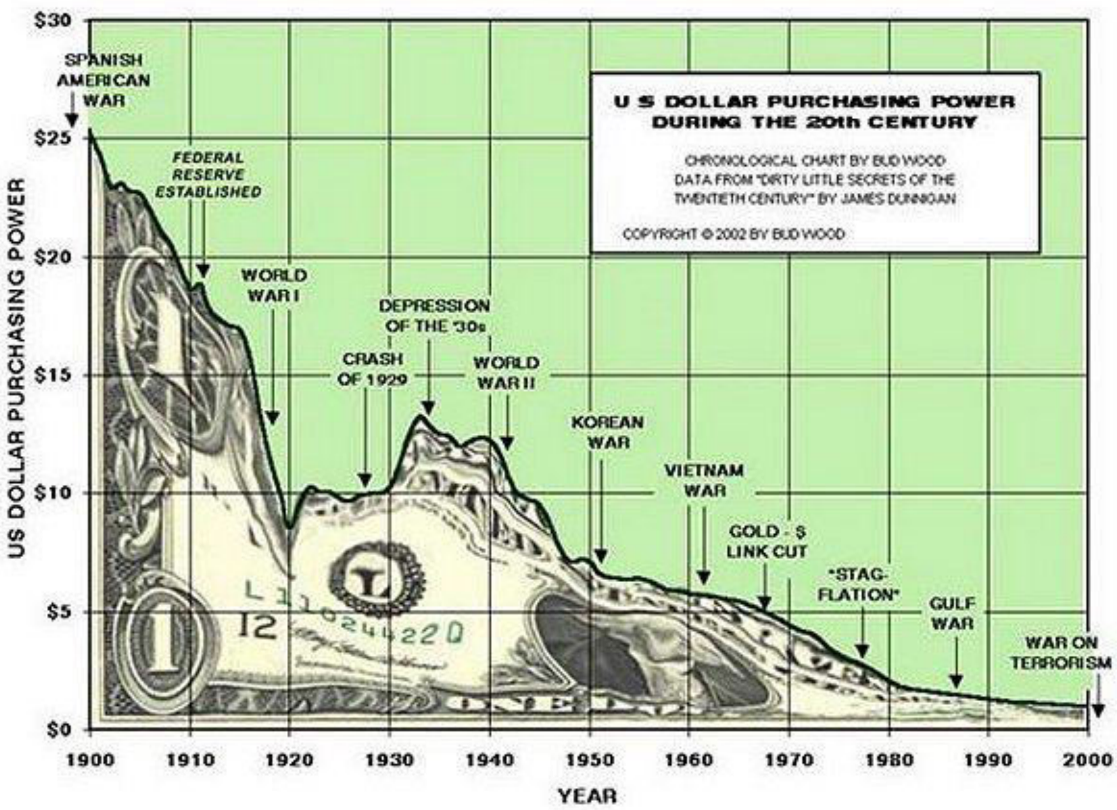
44. Financial Meltdown



Inflation has been a feature of our economic life for a century or more, eating away at savings and reducing living standards of those on pensions and fixed incomes. To confound theorists and their explanations, the rates have fluctuated widely. The inflation rate is now comparatively low, but, even so, something purchased for US $1 in 1913 would now cost $24. Inflation is often modelled with those familiar supply and demand graphs questioned by the chapter on market theory, and many still argue for a natural rate of unemployment consistent with acceptable levels of inflation, for all that the Phillips curve applies better to the US than the UK economy. {1}

In theory, exchange rates adjust to reflect the buying power of currencies, but the matter is much affected by the complex inter-linkage of lending institutions, and the economic (and sometimes military) clout of the country concerned. Matters are often difficult to predict. Prices in modern economies are not set by supply and demand, for example, but by monopolistic understandings at close to the point of maximum profits. Wage increases will cut into those profits, but increased wages may also swell their customer's buying power. The business may be able to raise prices with product diversification, moreover, and/or find a new market sector. The entry into the market of a new, more innovative competitor will generally make for adverse effects, of course, attracting away better staff and providing stiffer competition. Price rises of raw commodities in an isolated market will be met by reduced consumption, but in most markets today the businesses will try to increase their prices, be forced into short-term borrowing and/or bring out cheaper quality lines. Overall it is innovation and new product lines that offset supply shocks, and that innovation also brings down prices. Compared to models available in 1983, for instance, computers today are a quarter of the price and ten thousand times more powerful. {2}

Government policies from the 1980s in Britain and the USA have generally targeted inflation rather than unemployment, reducing top rates of income tax, cutting the power of trade unions, and rewarding those managers that squeezed more from their workforces by handsome bonuses. While most employees have had to work harder for less, the top managers have enjoyed the means to acquire more assets: land, jewellery, company shares, etc. Banks have also been happy to advance loans to the new rich for such purposes, again fuelling asset inflation. Oil exporting countries were awash with petrodollars after the 1973 'oil shock' moreover, which was a windfall for the banks and property markets, but saw little investment in goods and services needed by the middle and lower classes. The Thatcher and Reagan governments also flirted with Milton Friedman's Neoliberal concepts of money supply as a constraint on inflation, but quietly dropped the policies some three years later on finding money supply difficult to measure, and even more to control. Nonetheless, debt of all types has increased, the more so with the 1990 Iraq War, which was not covered by increased taxes or war bonds, and again with the rescue of big banks in 2008. After a decade of high levels in the 1980s, inflation has been brought down to acceptable levels, but at the cost of increased unemployment, inequality and debt levels. {2}

Much more dangerous than inflation is hyper-inflation, however, which may destroy the state altogether. We look at several instances below.

Roman Empire

Inflation was a constant problem in the Roman empire as the coinage was progressively debased, but historians recognize the late third century to mid fourth century as particularly threatening. {9-12} The pay of the legionary soldier was 225 denarii a year under Augustus (31 BC-14 AD) but 500 denarii under Septimus Severus (193-211), when the silver content was only 60% of face value. Caracalla (211-17) raised that pay by 50%. The empire desperately needed funds to pay armies confronting mounting barbarian threats, and Caracalla replaced the denarius with the antonininus, nominally worth 2 denarii, but not accepted as such. Under Gallienus (253-68) any pretence at sound money was abandoned, and the antonininus became a bronze coin with the thinnest of silver washes. Nor was Aurelian's (270-75) revaluation of the antonininus to 5 denarii any more successful. Prices rose. A loaf of bread cost twice what it had a century before. Shop keepers would not accept the coins at face value, and money changers discounted them heavily. Worse still, the government would not accept its own coinage for tax payment, but insisted on being paid in kind. {9} With the loss of Dacian gold mines, gold coinage practically disappeared, being struck only as donations for troops. The result was unmitigated misery. In Egypt, for example, where 30 litres of wheat had cost 7/8 drachma in the second century, the same quantity cost 12-20 drachmas in the first half of the third century, and 120,000 by Diocletian's time (284-305). {3}

Diocletian reformed the currency, striking substantial, indeed handsome, pieces in all three metals. The silver pieces were clearly marked as worth 5 denarii, as Aurelian's had been, but were twice the size. Gold was issued to an exact standard of purity, and even the silver pieces, worth in metal content less than their face value, were the best seen for a century. Yet the attempt failed. Gold, against which other denominations were measured, fluctuated in value as supply and demand dictated. The steepest inflation for 50 years occurred between 290 and 300. In 301-2, Diocletian issued an edict to fix incomes and prices, the latter for over 900 commodities. That too proved a failure: goods simply disappeared from the market. A pound of gold at the time was valued at 50,000 denarii. A decade later the valuation was 120,000, and 300,000 by 324. {3}

Whatever the misery for the great mass of Roman citizens, the army had to be paid. Gold donatives became an expected part of their pay, and these huge sums had to be raised by taxation. Many novel taxes were devised: an extraordinary income tax (crown money), indirect taxes, death duties and taxes on the liberation of slaves. When these were no longer remunerative — and they fell disproportionately on the already impoverished — soldiers were given free rations, clothing and raw materials for weapons. Provincial governors were ordered to supply such materials, and these orders were passed to landowners, who inflicted them on tenants. In Italy, and Rome in particular, these orders became an added drain on resources. Over one hundred thousand lived on hand-outs, and 80,000 people in Constantinople received food distributions under Constantine. {3}

A census was instituted, and the land measured out in units (iuga) from which a certain amount of crops could be expected. The expectations were applied uniformly, and adjusted annually, a striking example of state power.

Surprisingly, though that also failed, some notion of value persisted all the same. Land expectations were measured in cash values. Soldiers and government officials were paid in cash. And some taxes were still paid in cash. Those notions of value reappeared in the solidus issued by Constantine. It was a smaller coin than the aureus of Diocletian, but it was of high purity and produced in great numbers, the gold coming from war booty seized from the defeated Licinius, and later the melting down of statues in pagan temples. To assert the legal tender nature of the solidus, Constantine insisted that two new taxes be now paid in gold, and all rents from imperial estates. Few saw gold in their normal lives, of course, and the silvered bronze currency continued to depreciate at alarming rates. The 300,000 denarii to the pound of 324 rose to nearly 20 million by 337, and to 330 million twenty years later. Indeed the inflation spiral expressed in 'silver' steepened even further until the Byzantine emperor Anastasius (493-518) issued large bronze coins that the populace would final accept as legal tender. Much of the rural economy outside large estates would have resorted to exchange and barter in these terrible years, but the solidus — like the gold standard fifteen hundred years later — gave confidence in the state's powers, even as that state removed the last vestiges of individual freedom. {3}

New World Silver

Across Europe prices rose six-fold between the early 16th century and mid 17th centuries, an inflation level averaging 1-1.5% p.a. over 150 years. Though modest by contemporary standards, the inflation was not matched by comparable wage increases, and so caused hardship and civil unrest. The cause has traditionally been laid at the door of the large influx of bullion, particularly silver, from the New World mines in Bolivia and Mexico, coupled perhaps with the pressure on food prices by a population recovering from the Black Death. Food prices did indeed rise steeply during the epidemic that carried off a third of the workforce, but fell quickly afterwards when there were fewer mouths to feed, resuming an upward trend when agricultural land was not brought back into production. But inflation began three decades before the arrival of New World bullion in appreciable amounts, so that historians must now take into account other factors, particularly the south German mining boom and the increase in credit facilities. The first started in the late 1450s and reached its peak in the 1530s. Yet that silver was largely exported to the Levant in exchange for gold and Asian luxuries, at least till 1515-29, when Ottoman expansion closed these routes and diverted silver to the Antwerp market for shipment out of Europe. Even northern countries like England suffered silver shortages, and smaller families had sometimes to melt down their silver plate to pay taxes that demanded payment in metal. The more prosperous families escaped these problems, however, and were able to use nascent banking facilities to enclose lands, improving their yield but also adding to the dispossessed for whom new (and savage) laws of vagrancy were devised. {4}

Few in Spain or Europe generally actually saw New World bullion either, as it was placed on arrival in warehouses owned by Genoese bankers, ready for shipment east. A revived China under the Ming dynasty had discontinued the use of paper money and required the silver, which its own mines (and those of Japan later) could not supply. What the Genoese bankers provided were interest-bearing annuities that encouraged unrealistic Spanish dreams of conquest, as the notes could endlessly multiply the actual value of the bullion, which was anyway considerable, often amounting to 20% of Spain's revenues. The bills circulated at a discount, and were traded at large fairs like that of Medina del Campo outside Seville, constituting an early form of bank notes, which paid for troops in the Netherlands and Italy, built a large navy and maintained forces in Germany, and increased consumer demand at home. Much went into court spending and lavish display, but the notes were also used in the town and countryside, putting up food prices and making Spanish manufactures uncompetitive. Charles V fell heavily in debt to banking firms in Florence, Genoa and Naples, and Philip II outright defaulted on his debts. {4}

The Weimar Republic Hyper-Inflation

With hindsight, the causes of the runaway inflation of the Weimar Republic are clear enough: the heavy reparations imposed on Germany by the Treaty of Versailles, under which the country was required to pay sums amounting to three times the value of its land and industry. Since reparations had to be paid in hard currency, and the country could not borrow such sums outright, and had indeed come off the gold standard, the only strategy left was to keep printing marks and hope to keep ahead of their rapidly depreciating value on foreign exchanges. {5}

Parties to the Versailles Treaty had different motives. France wanted security and intended a weakened Germany, a country demilitarised and unable to repeat its 1870 and 1914 aggressions. Britain wanted reparations to continue at more moderate levels, afraid that France, by invading Germany to extract payment in kind, would upset the power balance in Europe. American banks saw Germany as a bulwark against the spreading contagion of communism, and quietly continued to fund large Germany businesses up to, and sometimes through, the Second World War. {5}

The tragedy had several components. Expecting a speedy war, Germany had borrowed rather than impose an income tax to pay for armaments, which had depressed the value of the mark: it had fallen throughout the war from 4.2 marks to 8.9 marks to the dollar, and continued falling thereafter. The new Weimar Republic was not strong enough to impose punitive taxes to pay for what seen as demonstrably unfair, and ran unbalanced budgets, which depressed the mark further. Industry was unscathed by war, however, and with its well-trained workforce might well have turned Germany into the powerhouse of Europe again. Moreover, the interim 20 billion gold marks were perhaps achievable. But in 1921 came the 'London ultimatum', demanding reparations amounting to 132 billion gold marks (50 billion in gold marks plus 26 percent of the value of Germany's exports). The mark plunged further, and the country suffered more civil unrest, political assassinations in extreme left and right wing parties, and loss of business confidence. As inflation took hold — the July 1914 wholesale price index measured 100 in July 1922, 194 thousand in July 1923 and reached the meaningless 726 billion figure in November 1923 — coins became worthless, and barrow-loads of bank notes were needed for everyday purchases. {5}

Though unemployment initially remained low, living standards fell, and food itself became scarce. Pensioners and those living off savings were rendered destitute. The rich, faced with high taxes and declining wealth, spent prodigally, which only fuelled class animosities. The industrialists survived well enough, though even these were sometimes bankrupted when the mark fluctuated too wildly, confounding their business plans. In the crucial summer of 1922, the government itself took an unhelpful break from the turmoil, and note printers went on strike. But that hardly mattered: official currency was practically worthless, and businesses paid wages on account or issued their own IOUs. Anyone who could do so naturally sold their depreciating currency as fast as possible. Many speculated, and the Reichsbank, ostensibly the State bank but in fact private and driven by commercial interests, facilitated that speculation by offering easy loans. Investors sold the mark short, i.e. bet on its decreasing value by borrowing at one conversion rate and returning the 'loan' by currency 'purchased' at a lower rate, so pocketing the difference. Such puts and calls are an entirely legal transaction, of course, being widely used to protect companies from adverse currency or commodity price swings, but here the device was distinctly unhelpful to the country, and soon other banks were lending for the same purpose, accelerating the mark's downward spiral. In January 1923, determined that something should be paid, even in kind, France and Belgium invaded the Ruhr, Germany's key industrial area accounting for 85% of its coal production, 80% of its iron and steel manufacture and 70% of its traffic in goods and mineral. Ruhr workers promptly went on strike, preventing reparation payment altogether, but also adding to Germany's creeping unemployment problems. Amid despair and civil unrest, the German Chancellor declared a state of emergency and put the country under military rule. {5}

Inflation came to an end in 1923 when the Reichsbank was put under strict regulation, a new denomination issued, and easy access to loans eliminated. The new denomination, the Rentenmark, was ostensibly backed by hard assets — agricultural land and industrial plant — and issues strictly limited. Twelve zeros were removed from prices in the old currency. Nonetheless, the old currency continued in circulation, and in November 1923, one US dollar was worth 4,210,500,000,000 Reichmarks. A year later the denominations had fallen further, to a third of their agreed exchange rate with the Rentenmark. But the situation slowly righted itself. An exchange rate of one trillion to the Rentenmark was agreed, debts, government loans and mortgages restructured in the new currency, the rates being based on the US dollar and the wholesale price index, and their legality established in court. {5}

But immense damage had been done, and the episode still casts a long shadow over current EEC policy. Europe had become another country, and one where American banking power was clearly important. The Rentenmark was called a 'confidence trick', but it was confidence that German industry desperately needed, and in this the Dawes Plan, under which Germany borrowed from American banks, may well have helped. In a deal that owed much to the American financier J.P. Morgan, the first four years (1924-9) would see the country loaned $800 million, repaid by modernized industrial output. Unfortunately, the attached guarantees allowed Germany to once more live beyond her means, and indeed many companies were being lavishly rebuilt when the 1929 New York stock exchange crash ended loans, and the country returned to economic turmoil. {5}

Foreign trade declined as countries retired into protectionism. Worse still, austerity was imposed by Chancellor Brüning’s programme of spending cuts and tax increases. German unemployment climbed from 1.3 million in 1929 to over 6 million in 1933. Average real incomes fell a third as economic misery and criminality increased. But banking is an international community, and Germany's problems were soon part of a larger picture. Between 1924 and 1931, German federal debt increased 6.6 bn marks, and German local government debt went up 11.6 bn marks. Foreign debt, excluding reparations, amounted to 18.6 bn marks. After 1930, however, foreign loans were practically unobtainable, and a flight from the mark caused a great drain of German gold reserves. Business dwindled as the money supply dried up, and unemployment became a burning political issue. German banks themselves came under pressure, having to call in reserves from London banks as customers withdrew deposits to survive. These actions in turn drained British gold reserves. As Britain had re-embraced the gold standard, i.e. the money supply had to be matched by gold reserves, German deflation spread to Britain as the reduced money supply restricted loans, in turn causing businesses failures and unemployment. Faced with a loss on its extensive British investments, America arranged a one-year moratorium on reparations, but on terms that proved unacceptable to Germany. At the Lausanne Conference of June 1932, German reparations were cut to 3 bn marks, but the agreement was not ratified because the US Government refused to cut war debts in equal measure. {5}

The economic misery brought the Nazis to power, and in 1933 Hitler simply repudiated reparations. In all, Germany had paid 21 billion marks and borrowed nearly 19 bn as overseas loans. Contrary to prevailing economic theory, then and now, the Nazis turned the country round by having an independent monetary policy and instituting a full-employment public-works program, even before appreciable armaments spending began, though the anticipated expansions certainly convinced businesses that government promises would be kept, and so sustained the recovery. In four years a ruthlessly authoritarian and autarkic state built the strongest economy in Europe. {5}

There, according to mainstream economists and historians, the alarming tale of Weimar inflation ends, in wavering returns to business confidence. Contrarian historians, however, see the matter much more in terms of individuals and underlying, camouflaged, commercial policies. Though these views are commonly dismissed as ‘conspiracy theories’ they have their documentation and do fill many gaps in our understanding. The devastating importance of war reparations is not denied, but both the Weimar inflation and the rise of the Nazis were consciously engineered by banking interests in Britain and America, who sought to gain control of financial and political events in Germany. {5}

Towards the end of W.W.I, which the Axis powers looked likely to win, some $8 bn were owed by the Allies to American banks, who then started a massive propaganda exercise to bring America into the war and recover their threatened loans. Reparations were then purposely made excessive, by France, Britain and America to check the industrial potential of Germany, but the American banks quietly waited until the French occupation of the Ruhr had failed before launching their Dawes Plan that would render Germany industry, the second-largest in the world, entirely dependent on US interests. That lifeline was severed when American banks themselves were caught up in the Great

Depression and Britain came off the gold standard in 1931, but, through intermediaries, notably Thyssen and I.G. Farben, the Nazis were secretly funded and enabled to become the second largest political party in Germany. Schacht was made head of the Reichsbank once again, Germany obtained a loan of $2 bn from Britain, Standard Oil built oil refineries in Germany, and that country also took secret delivery of American aircraft production machinery. Some US bank funding continued through W.W.II. as the underlying aim was to replace London banking supremacy with Wall Street's, achieved when a victorious Britain had to pay back American loans after the war. The Marshall Plan was a generous offer, but also kept Europe within the American sphere of influence, dependent on NATO and serving as a growing market for American manufactures. {5}

Zimbabwe

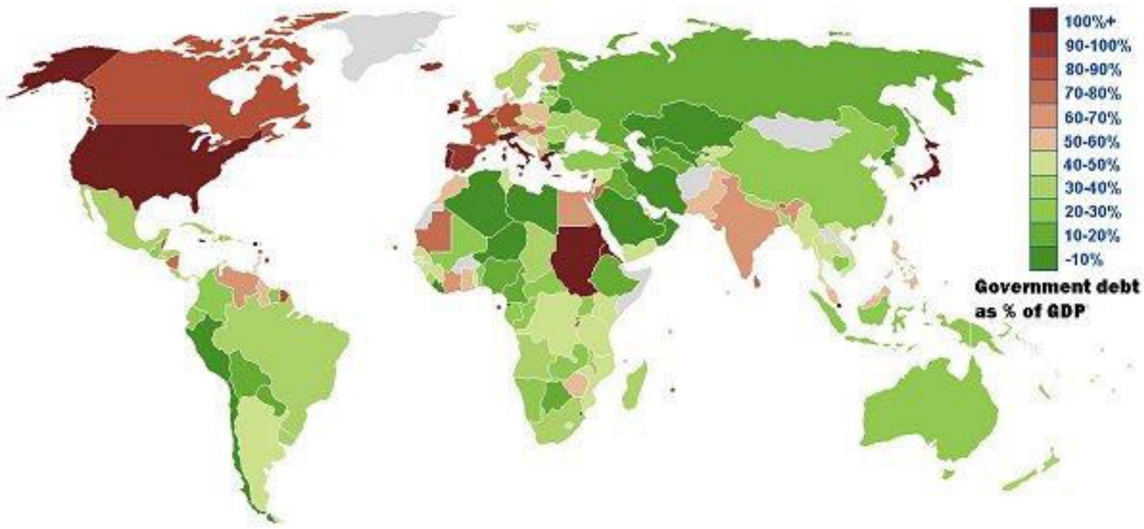
Money is a hard-hearted affair, and disaster can come from the most laudatory motives. In 1998, the Mugabe government of Zimbabwe expropriated land owned by white farmers, who had largely acquired their disproportionate holdings under colonial rule. Unfortunately, the new recipients had no knowledge of farming, or indeed much interest in the work. Food production fell disastrously, and unemployment climbed to 80%. Food had to be imported, depleting foreign currency reserves that were otherwise needed for capital items in transport, mines and businesses. All declined in their turn, and lack of maintenance prevented railways carrying mineral products to the coast for export. Austerity, or radical reduction in living standards, is the prescribed remedy, but one that was politically unacceptable: people would have starved. {6}

As always, the picture is a little more complicated, with blame attaching to several parties. The Republic of Zimbabwe was created from the former British colony of

Southern Rhodesia in 1980, and initially did well, particularly in wheat and tobacco production. But between 1991 and 1996, the Zimbabwean Zanu-PF government embarked on the usual Economic Structural Adjustment Programme (ESAP) recommended by the IMF and the World Bank, which led to an immediate rise in the inflation rate. The Mugabe government blamed the IMF for the problems, but was in fact quietly printing money to finance wars in the Democratic Republic of the Congo. In the unrest that followed, in the late 1990s, the government began redistributing land to Zanu-PF fighters, who indeed had no experience or training in farming, a situation that led firstly to EU and American economic sanctions being applied to the country, and secondly to falls in food output and then in other sectors. Between 1999 and 2009, outputs fell as follows: food by 45%, manufacturing by 26-29%, and employment by 80%. The sanctions were serious — asset freezes, visa denials, and travel restrictions — and the Government, refused an IMF loan in 2001, took to printing its own money, declaring price rises illegal, and continuing to pay government workers in depreciating Zimbabwe dollars. The banking sector collapsed, and with it the confidence in the government as inflation took off, reaching 11.2 million % p.a. in June 2008, when the Zimbabwe dollar was discontinued. Much business is now done on the black market, and Zimbabwe citizens use foreign currency, usually the American dollar, for everyday transactions. {6}

Debt Empires

If banking — with its arcane jargon, strange book-keeping habits of showing deposits as liabilities, and the confidence trick of issuing paper money on the unfounded assurance that all could be redeemed by gold — has an air of unreality, it is because the mental concepts are indeed hard to grasp. Many famous economists, Keynes and Galbraith among them, thought they were purposely kept so. How are bank loans conjured out of thin air? Why was Wall Street bailed



out by printing money in the 2008 financial crash when homes and business of the innocent parties were not? What indeed is money now, a commodity or IOU? Economists generally call it neither, of course, but simply a 'neutral veil' obscuring more fundamental matters, for all that money most certainly buys political power and hence influence on economic policy. Moreover, if money is now a fiat currency, created by the powerful interests of banks and governments, with no more backing than a confidence in those institutions, what moral obligations underwrite our use of money when those institutions are found to be cheating, as they increasingly are? What happens, worse still, when the respected edifice of market economics is shown to be an elaborate charade, not simply 'backboard models' but a way of keeping citizens from a fairer division of the economic spoil? {7}

Such matters may seem remote from coinage, but coins are not simply tokens recording trade, and the face they show to the world, indeed their emergence at all, reflects deeper, more intangible but important realities. The Industrial Revolution that largely created the modern world was only made possible by banking sleights of hand, and to many observers the austerity programmes imposed on EEC countries today are not only unnecessary, but represent a woeful and perhaps deliberate failure to understand how money really works. For Marxists at least, and probably others, credit is the monetisation of the future productive power of individuals, or whole groups of individuals. Banks do not lend money, theirs or anyone else's: they create money in the act of extending credit. That is the only way money is created, on the expectation that the borrower will work to pay back the principal, plus interest, the last being a time-based rental fee. {8}

How Debt Works

Loans attract interest, and interest, if not promptly paid, rapidly accumulates to sums impossible to pay off. Usury, the practice of making money out of money, has for 2,000 years proved much more lucrative than making or growing things. Religions have naturally castigated the practice, and rebellions have often centred on land redistribution as homes, families and persons were reduced to penury and worse. But if debt causes dangerous inequalities, it is something built into our contemporary money system. {9}

Suppose a prospective house purchaser borrows $100,000 as a mortgage from his local bank (bank A). Four things happen.

1. After assessing the risk, and establishing collateral (probably the house), Bank A creates the money 'out of thin air'. It does not allocate the deposits from other customers to this new loan, but simply adds a digital entry into its books, showing the $100,000 loan as a liability and the collateral as an asset.* By this method is money created, and by no other way (bar some 3% as notes and coins issued by the Mint). {10}

2. The loan of $100,000 is credited to the customer's bank account. The customer can then write a cheque for $100,000 against that account, and hand the cheque to the seller of the house. Suppose the seller pays the whole $100,000 into his own bank (bank B). If that bank must by law retain 10% assets to cover loans, some $90,000 will be available for new customer loans. Those loans are paid into bank C, that

bank in turn will have 90% of $90,000 available for its own loans, i.e. $81,000. That sum can be further lent to other banks, and so on, the loans progressively diminishing. But that $90,000 plus $81,000 plus $72,900 plus . . . add up to an appreciable sum, in fact to $1000,000. By the fractional reserve requirement of 10%, some ten times the original loan is eventually lent out by the banking system. In short, the money supply is increased ten times. {11}

3. The prospective purchaser has to pay the interest on his mortgage, and must do so by his own efforts. If the interest itself amounts to $150,000, he must engage in competition with his fellow man to make this money and pay it 'back' to the bank, which has done nothing to earn it beyond some trifling paperwork (rationalized as risk and opportunity cost). Not only is the economic system inevitably competitive, but inflationary too, because that $150,000 has also to be created by banks as further loans. There is no other way of creating money. Although much contested and obfuscated, debt is what underlies our current money system. {12}

4. For loans not covered by its fractional reserves, a bank will borrow from the Fed or the money market, and so pay some modest interest on its own borrowing. The Fed in turn creates that loan 'out of thin air' by levying a loan on itself, and so increasing the money supply. {12}

If business is slack, and loans are not being sought, a bank will invest some of its reserves in safe government securities, again showing the investment as securities purchased and liabilities at the Fed.

(* Or more strictly as assets (loans + securities) = liabilities (deposits + securities + capital). Even that is much simplified. In practice, derivatives and inter-bank loans will enter into any major bank’s assets and liabilities, an unstable situation that is on the rise. Deposits accounted for 73% of French bank liabilities in 1980, for example, but only 26% in

2011. Loans accounted for 84’% of assets in 1980, but only 29% in 2011. {13})

In practice, banks are not limited by their reserves, but will make loans regardless, simply borrowing the additional funds needed from the Fed or central bank at negligible rates of interest. Since the Fed conjures the additional by drawing on itself, i.e. out of the air, and the boundaries between commercial (which can make loans) and investment banks (which should not) is paper-thin and often ignored, banks can and do acquire businesses by making no more than a few key strokes in digital accounts. Banks are liable for bad loans, of course, but only advance loans against collateral that can be seized when loans turned sour. In their riskier gambles, moreover, the ‘too-large to fail’ banks have been further covered by bail-outs drawing on the tax payer: a surreal win-win situation.

Banking is also a competitive world, and banks must use their assets as productively as possible. Before the 2008 financial crash, the big banks took further risks, which can be summarized as: {12}

1. Reduced their collateral or fractional reserve to 3% or less, making them technically insolvent when a major loan went bad.

2. Created their own investment derivatives, often with subprime mortgages or 'casino' gambles, selling them to gullible clients worldwide. The derivatives were based on complex but often false market models. The derivatives were optimistically awarded a AAA rating, and given insurance cover by AIG and other large insurance agencies. Unfortunately, those insurance agencies lacked the assets to cover such large trades, and had their own assets complexly interlinked with the banks they were protecting, becoming as vulnerable to risk as the banks themselves.

3. Got legislation (Glass-Steagall Act) repealed that formerly separated commercial and investment banks, so enabling

investment banks to create derivatives that involved everyone's money.

4. Evaded legislation by operating 'shadow' accounts, where transactions were kept off the books. In time, these accounts became too complicated even for management to understand properly.

Rates of Interest

Critical to loans being affordable, and so beneficial to business, is the rate of interest. International capital is mobile, and quickly drains from countries offering good returns to those offering even better, often leaving a trail of havoc in its wake: wrecked societies, industries and currencies. High interest rates prevent many needed investments in underdeveloped countries from going ahead, and oblige long-term projects offering steady employment and development opportunities to morph into short-term plunder of the environment. Mines have to be high-graded, timber extracted without reforestation, and large-scale agriculture practised without regard for local needs. Before banking was deregulated in the 1970s, and so made free to charge exorbitant rates for risky but lucrative (generally financial) ventures, the rate of interest had been falling. Indeed the return on British investments fell from 6-8% in 1700 to 3% in 1751, and that 3% proved sufficient to launch the agrarian and industrial revolutions that transformed Britain's place in the world. Low rates favour business and enterprise generally, but not the rentier class that banks represent and governments increasingly serve. The larger banks today have more financial clout than medium-sized countries, and with the failure to regulate credit and interest rates has come a widespread distrust of government and the democratic system altogether. Even if governments were truly elected to represent their informed citizen’s interests, those governments would in practice, and of necessity in today’s world, remain subservient to the financial institutions. {13}

Compound Interest

If interest on a loan is not repaid, that interest is added to the capital loaned, and builds up exponentially. Had, for example, the Indians who sold the island of Manhattan for $24 in 1626 invested the money in an account yielding 8% compounded annual interest, the account today would be sufficient to buy back all Manhattan, with several trillion dollars left over. Totals over longer intervals are even more intimidating. A single penny saved at 5 percent interest at the beginning of the Christian era, compounded annually, would by the eighteenth century have earned equivalent to a solid gold sphere 150 million times bigger than the Earth. {14}

That picture is unreal, but there is nothing imaginary in the debt hanging over our contemporary economies. {16}

	External Debt (US$ trillion)	External Debt as % of GDP	As of Date
USA	17.7	106%	September 2014
China	0.9	37.5%	June 2014
India	0.4%	20%	December 2012
Japan	2.9	60%	March 2014
Germany	5.5	142%	March 2014
France	5.7	182%	March 2014
UK	9.6	406%	March 2014
Russia	0.7	23%	March 2014
Portugal	0.5	223%	June 2011
Ireland	0.2	1008%	September 2014

Brazil	0.4	15%	December 2012

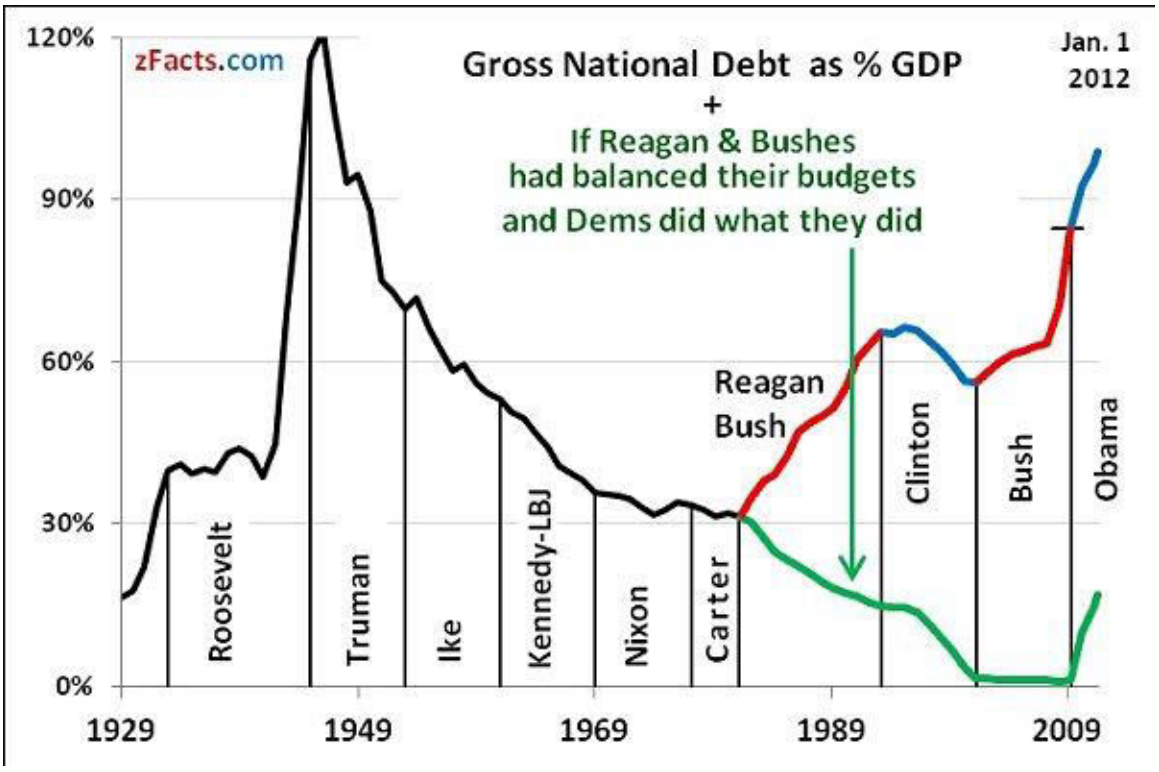
Like banks, lenders will continue making loans at favourable rates while there is every prospect of loan being repaid, i.e. the economy is thriving and under no external threats. What percentage is critical? A World Bank study found that debt to GDP ratios over 77% start dragging down economies, Every percentage point above this figure will cost developed countries1.7% in growth. In emerging countries the situation is worse: each percentage point above 64% will cost 2% in growth. But much depends on who is lending. Japan's total-debt-to-GDP ratio is in fact 228%, but most debt is held by Japanese citizens, and so not under risk of recall. {15}

Debt is historically written off by inflation, widespread bankruptcy or in debt redemption. America and the western nations have so far chosen to ignore these precedents, reducing their debt burden by debasing the currency (inflation) and printing money (quantitative easing). To maintain so inherently unstable a system the US has also been obliged to support the dollar by economic pressures abroad and the threat of military action. The UK also practises quantitative easing but is more exposed to capital flight. Ireland and Portugal are under austerity measures. {16}

Growth of Debt

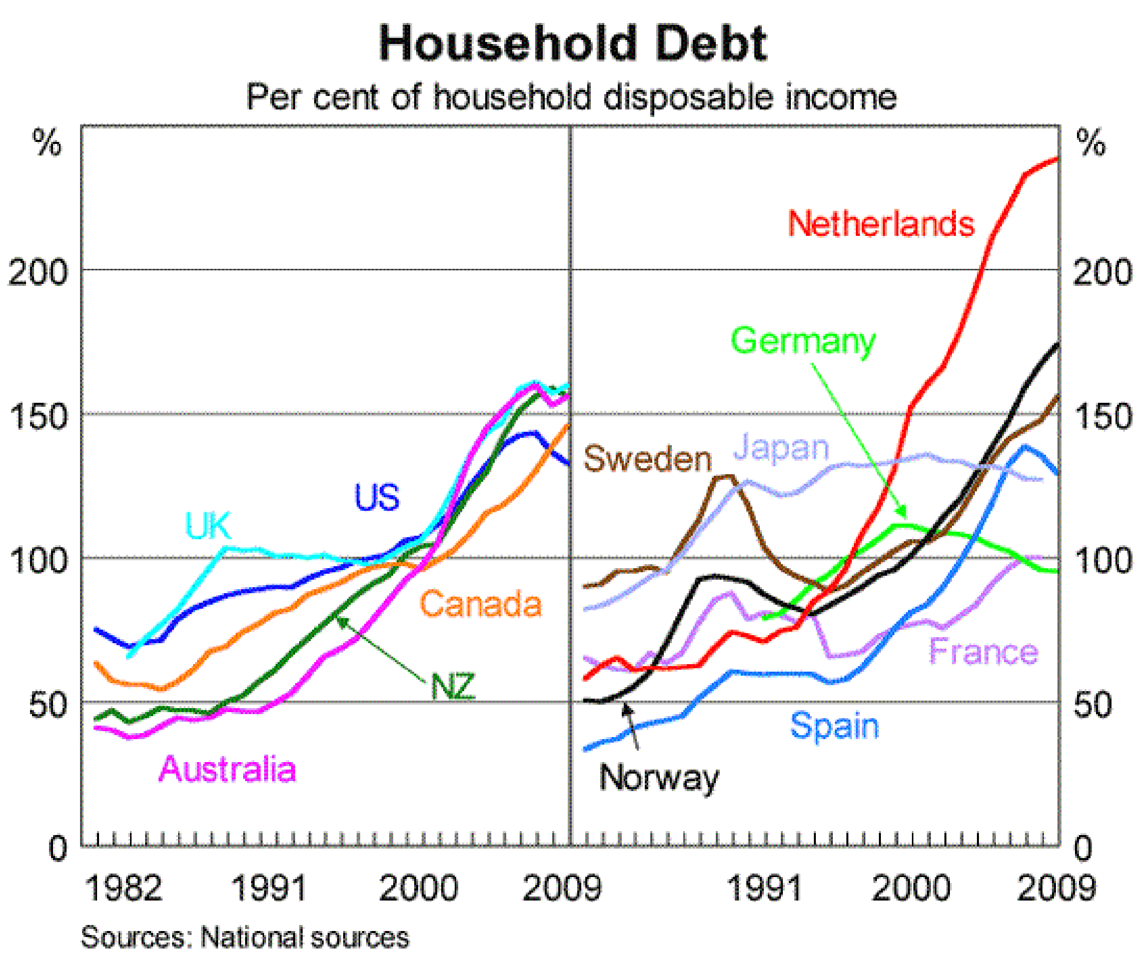
As of September 2014, the US national debt stood at $17.7 tn, to which should be added $7.8 tn for federal employee retirement benefits, accounts payable, and environmental/ disposal liabilities, plus $23.8 tn in Social Security obligations and $27.3 tn for Medicare obligations. The national debt has grown steeply after major wars, been 'paid back' (generally inflated away) but increased in recent years by the 'war on terror', bailing out Wall Street and quantitative easing.

{12}



The UK's national debt shows a similar pattern: an increase with wars, recessions and increasing trade deficits.

Equally striking is household debt: {18}



Suggested Solutions

Because the US national debt will soon be unsupportable — i.e. the interest payable becomes too socially destructive, or indeed impossible to meet — methods of reducing the debt are constantly being discussed. *Truth in Banking*'s solution is to greatly curtail the power of commercial banks by: {17}

1. Replacing them with state-owned banks offering high street banking facilities after the North Dakota model.
2. Paying state taxes through interest payable on loans: 2% for mortgages, 6% for credit cards, and 3-4% for commercial and vehicle loans.
3. Returning taxpayer surpluses, often amounting to trillions of dollars.
4. Educating the public in how money is created and controlled.
5. Nationalizing the Fed.
6. Abolishing the fractional reserve system.

These simple measures would end the increasing demand for resources and power inherent in our money policies, which are arguably the root causes of wars, social deprivation and environmental destruction.

Laurence J. Kotlikoff proposes switching from debt-based to equity banking. Banks would offer mutual funds comprising assets of various categories, duration and risk, an approach enjoying a large and contentious literature. The key problem, as always with utopian schemes, devolves on who supervises the guardians. Who will guarantee that the new, enlarged Federal Financial Authority will act in a fair, responsible and transparent manner? {18}

No doubt some more transparent scheme of checks and balances is not beyond the wit of man, but how could the national debt be paid off without collapsing the money supply, since every dollar 'in circulation' is matched by a dollar plus interest in debt? There are two ways:

1. The government could simply write off the debt by massive quantitative easing: the Fed would write a cheque to pay off the creditors of national debt, effectively abolishing

itself. Creditors returned their money would need some other way of investing their funds, but the action need not be inflationary because no new money is created, particularly if done carefully, in stages to avoid panicking the markets. {19}

2. The second way is similar but uses the fiction of a 'high value platinum coin seigniorage'. Essentially, the US Treasury mints a platinum coin, declares it worth $70 tn, deposits it with the Fed, and effectively writes off the national debt. Again the debt disappears, and with it the expensive interest costs imposed by the international banking houses.{20}

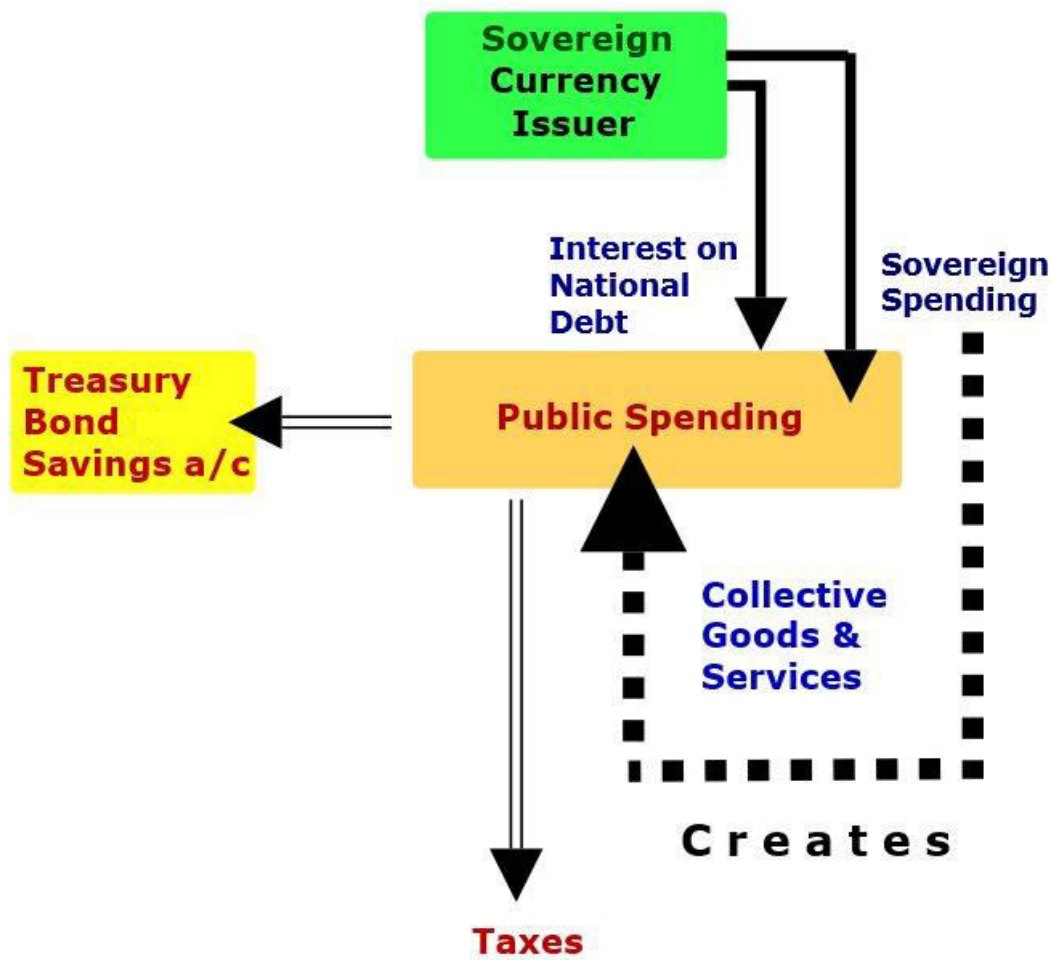
Modern Money Theory

An entirely different approach is offered by Modern Money Theory. Good government aims at price stability and full (i.e. not less than 98%) employment, and so a more equitable society. The principle is simple, but counter-intuitive, or at least contrary to what banks, mainstream economists and politicians preach. We start with money, which in modern fiat currencies is simply a tax credit.

A one dollar bill is an IOU *issued* by the Federal Government to the effect that the bill is good for the payment of one dollar of tax. No more than that. But note that money *originates* with the Federal Government. It is not made in the private sector but *'created out of nothing'* by the US government, which is a sort of sovereign currency machine. That money 'pays' for Government spending on collective goods and services which the private sector supplies. The more money the Government spends, the more everyone benefits, the private sector accessing and leveraging that money through banks loans to create a healthy society with all the necessary goods and services. {21}

Certainly the government must control that money, to prevent too much money being issued for the same goods (inflation) or too little (deflation) but the constraints on an economy are labour, materials, energy and technical know-how. {24}

Sovereign Spending is Beneficial



Today most transactions are not made with coins or bank notes but by digital transfer. One account is credited and another debited electronically. Nor are taxes used to fund government spending. What would be the point of government collecting its own IOUs? Taxes are used to control the amount of money, and redistribute it between American citizens. Most payment is by digital transfer, and taxes simply drain the money out of the private sector, and cause it to disappear. In short, the Sovereign Currency Issuer creates collective goods and services by sovereign spending. It also pays interest on the National Debt, which is simply a measure of the total dollars that have been transferred from a checking account that pays no interest to a Treasury Bond account that does pay interest. That interest is not paid by present or future citizens from their hard-earned wages, therefore, but is again simply issued by the Federal Government. The trillions of Treasury Bonds owned by China are not then a threat to America's future: when repayment falls due, a digital entry will transfer them into China's checking account. {22}

In that light, many received wisdoms of the mainstream media become illusions. Governments do not resemble businesses or individuals that must balance their income and outgoings. Money is not what governments are indeed short of, but resources, employees and skills. Governments can always afford their spending programs. Government deficits mean increased wealth in the private sector, and 'balanced budgets' achieve nothing (budget surpluses being even worse, of course: they impoverish the private sector.) Social Security is not broken, nor is the trade deficit unsustainable. It's trust that manages banks and financial institutions — which makes it essential they act transparently and responsibly for the public good. {23}

An approach so threatening to the established order has not gone unchallenged. Thomas Palley argues that MMT would cause trade problems and serious financial instability in an open economy with flexible exchange rates. Robert P. Murphy called it 'dead wrong'. Monetarist governments in practice had great difficulty in measuring, let alone controlling the money supply. Logically, MMT may be irrefutable, but economics is not an abstract science independent of human needs, but an idealization of existing social behaviours — generally a rationalization or apologia for the world as it is. Economic downturns do indeed follow government surpluses, and policies that enabled all citizens to enjoy a more prosperous and productive life are surely to be welcomed. But money is far from being governed by the overreaching abstract laws of economics. Indeed, as the early Bank of England indicates (and Celtic coinages suggest), money may be created for one purpose but used for quite another. That the dollar bill is simply good for the payment of one dollar of tax may well be true, but that dollar has also come be used in many other ways that reflect our emotional and material needs, not least of them status, jobs, material satisfactions and purpose in life. MMT is likely to have little influence on mainstream thought, at least for the present, because its concepts do not represent current values, traditions, customs and institutions, though these will doubtless have to change if a modern democracy would evolve in an orderly manner. Similarly, Monetarism also lacked a detailed engagement with social realities. Its heyday was brief, and its achievements are still contested. {24}

Doomsday Scenarios

The likelihood of impending financial doom depends on our view of money, therefore, and the power of accounting sleights of hand to roll up debt. Another financial collapse would nonetheless place pressure on an American administration still persuaded that industry should serve finance rather than the other way round — even though many see finance as now destroying the American economy. {25}

Mainstream economists are divided in their view of debt, despite the sums involved. Whatever actions western governments now take, some form of bankruptcy seems increasingly likely, if only because debt is expanding exponentially, beyond the capacity of industry to absorb it by linear wealth creation. Currently, some 24 nations are technically bankrupt, and another 14 approaching bankruptcy. No major western nation can repay its debts, nor can Japan, or many of the emerging markets. China is in trouble, and the U.S. is the most indebted of all, having lived beyond its means for 50 years. Global sums are enormous: $200 trillion debt and $1.5 quadrillion in derivatives. Bail-ins that seize deposits to pay for hedge fund gambles will be unpopular, and ineffective: the sums are too large. Debt redemption of some type is therefore inevitable, though procedures are uncharted waters. The alternative is massively destabilizing trade reduction, and a fall in global stocks, bonds and property values of some 75-95%. {26}

Advocates of Modern Money Theory are much more sanguine. Debt is simply the money drained from the banking system to control inflation and employment. Repayment is a matter of digital entries, no more than that while the social and financial institutions remain sound: it's a non-issue if clear thinking and strong nerves prevail. {27}

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44. The Future of Money

Present Picture

We have seen how money arose in the Mesopotamia city states as a debt or obligation owed by individuals to the community. Inescapably, money became part of the fabric of social life, which it therefore tokenised and partly controlled. Coinage arose much later, widespread with the growth of centralised states needing taxes to pay for large mercenary armies, but also vital for trade. Gradually, as feudal states gave way to mercantile societies and these to commercial empires, financial institutions became laws unto themselves, today exceeding in power even the largest of western democracies.

Yet what money actually is, and how that power is justified, rests on nebulous arguments, most of them tacitly accepted rather than properly established or understood. Some indeed are demonstrably false, like market economics, or promote the interests of small sectors over the needs of industry, commerce and the community at large, as do share buy-backs, quantitative easing and bank bailouts. Marx based his theories on ethics, on the needs of prosperous and equitable societies, but communism has been roundly trounced by capitalism, which holds undisputed sway over governments that nonetheless face mounting problems over distribution of the earth’s resources.

Moral Dilemmas

To most observers, there are no moral dilemmas. Economics is a science, a discipline that outlaws moral concerns beyond a simple obligation to allocate scarce resources appropriately. Mainstream writers emphasize the obvious, {1} that little of our contemporary world would have been possible without equally powerful banking services, and that, if problems were high-lighted by the 2008 financial crash, banking is only a mirror that displays our common human failings. {2}

But banking is not simply a mirror, but often appears an abstruse conjuring trick solemnly performed by otherwise model citizens — industrious, well-educated, liberal-minded and often as cultivated as were the Medici of Florence. {3} Banking in England was a gentleman's profession, and the bankers who advised the disastrous return to the gold standard after W.W.I were doubtless acting in good faith. {4} Acting in a comparable fashion today are Wall Street bankers, who must often turn down investment in the developing world because there are minimum criteria to follow: ignoring the required ROI only brings grief. {5} But, as David Graebar noted, the results are often bizarre. {6} Hernán Cortés behaved outrageously towards Mexican native populations and to his own men because he was indebted to Genoese bankers. The third world debt burden has increased, although repayments now amount to several times the original loans. {7} The first trading companies employed an early form of banking — the joint-stock company — to trade in arms, slaves and drugs (spices, tea, coffee and sugar), and today the same items make an appreciable part of bank profits (armaments, human trafficking and drugs). {8} Most of these practices, so clearly injurious to the world at large, would disappear if banks applied due diligence. But banking is a fraternity of self-interest, and would see giving up lucrative practices as a treason to its shareholders. Small business and home-owners were not bailed out in the last melt-down, and another crash may well see 'bail-ins', i.e. depositors' assets seized. {9} Money still breeds a socially irresponsible attitude. 'You only need to make your fortune once' is the motto, and the greatest risk-takers are the best rewarded. {10} Both vulture capital and hedge funds so perilous to currency stability draw their resources from banks. {11}

As must be evident, 'the financial system serves the wrong policy. Instead of facilitating to the greatest possible extent the efficient delivery of those goods and services that people can use with profit to themselves, the conventional financial system centralizes wealth, power, and privilege in the hands of those who have acquired monopoly control over financial credit.' {12-16}

But there are larger issues that anthropologists, historians and economy-minded sociologists probe by asking such questions as: What is debt exactly? How can personal obligations be measured in abstract money terms? How did whole nations become ensnared in western banking practices? What is the rationale behind growing inequalities in countries and classes that economics claims result from pure market forces, when those market forces include a good deal of political control, economic coercion and the threat of military action? Eight questions are worth asking: {17}

1. Modern banking began with the Bank of England, a private business loan to the king. But what started as simple promissory notes have become — with the worldwide expansion of banking services and universal suffrage — a debt that everyone owes to banks, which do only a little paperwork to earn that power and wealth, the more so now that risks are borne by tax payers. {18}

2. How do banks act as bridges of respectability between areas of collective madness: the tulip mania of 1637, {19} the South Sea Company of 1720 and the Banque Royal of 1721? {20} Like coinage, banking seems to give an aura of legitimacy to dubious activities, often beyond the control of electorates. {21}

3. How has a network of moral obligations that citizens owe each other in any functioning society turned into an arm's-length, impersonal and abstract system of self-interest? Banking has no allegiance or loyalty to anything but itself: its returns, commissions and business reputation. Is that a proper foundation for any state, and not rather the root cause of increasing cynicism in politics and public affairs? {22}

4. Is the freedom of capitalism any more than autonomy in consumer choice, especially when some 50% of those living in former communist countries would apparently prefer to go back to the previous cradle-to-grave welfare system? Does it not merely oblige each citizen to fend for himself, where, far from being free — not with careers to train for and navigate through the politics and downsizing in the workplace, a family to bring up, insure for sickness and old age — it simply relieves the state of these complex and troublesome tasks? Very strong cases have been made for the liberating powers of capitalism, but they have acted within state control, and hardly apply to rural areas of India where market forces divorced from social responsibility have driven hundreds of thousands to ruin and suicide. Even in western economies, the unrelenting drive for profit brings a host of problems. {23}

5. The capitalist view of enterprise is suspect. The reward for abstinence — the classic argument for interest earned on capital — also applies to employees: they turn up for work rather than take a holiday. Entrepreneurs may lose their money, but employees risk their skills and health. Holding shares in a company cannot be really entail owning its land,

plant, labour and capital, but only the right to share in its profits, to vote at general meetings and to have a share of remaining assets when a company is wound up.

6. Are not societies becoming over-complicated, a recipe for past civilisation breakdown? {24} Banks are surely growing larger and more complexly interlinked in a way no engineer would allow. Engines need decoupling clutches, and forestry plantations build firebreaks for the same reason. Time-dependent situations, where the situation today depends on its previous situation — unavoidable in currency operations — are inherently unpredictable. {25}

7. Many of these issues arise because of reification, of supposing that abstractions, processes and social engagements are concrete entities remaining real and unchanged across all possible worlds. Marxist labour theory is a case in point. How can labour, plant, land and investment be equated? demand contemporary western economists. But Marx asked the more imperative question: how could such desperate poverty arise in a God-fearing and supposedly free country? The bourgeoisie were no cleverer than the proletariat, no more human, responsible or supportive of others, nor worked harder. Why should the accident of birth give leisure to a few and misery to the rest? Social justice required that people benefit fairly from their efforts.

But Britain was not an egalitarian society, and had never claimed to be. Only a small percentage had the vote. If the bourgeoisie were better off, they were also better connected and better educated, just as a class-segregated society should be. Economics can never be divorced from politics, since both involve power.

Truly classless societies are hard to achieve, moreover, and bring their own productivity problems. With the benefit of hindsight, we know that communist societies have indeed not been a success, but must also accept that the tyrannies needed to overthrow the old order were kept in place to control the new — indeed had to be when other institutions and social structures were swept away by war and civil strife. The old regimes in Russia and China were too rigid to cope with needed social change, or at least yielded too slowly. The time scale is always important. Illiterate farmers became university professors in secularised Iraq and Afghanistan, but the process took several generations. Men do not readily give up their traditional ways of life because those ways give purpose, status and significance to their lives.

8. Banking turns human beings into numbers, and, however sophisticated may be the way those numbers are handled, they remain dependent on what was first selected, and how. For all its claims, economics is not a science, not *derived* by measurement and observation, but *model building* supported by selected evidence. But even in physics, one of the 'hard sciences', relativity theory reminds us that nature presents herself as an organic whole, with space, matter and time commingled. Humans have in the past analysed nature, selected certain properties as the most important, forgotten that they were abstracted aspects of a whole, and regarded them thereafter as distinct entities. They were then surprised to find that they must reunite these supposed separate concepts to obtain a consistent, satisfactory synthesis of knowledge. Likewise, new concepts like quantitative easing, bank-bail-outs, irremediable national debts and modern money theory cause us to re-examine what money really means. {26}

What’s In A Word?

Much confusion arises from using the same word for only broadly similar functions. Personal debts are in no way like government debts. If, for example, someone makes a loan to a friend for old time’s sake, and so generously that the lender’s own lifestyle is seriously endangered, then most of us would expect the loan to be repaid on time. But if a bank makes the loan, and takes the house or business as collateral, is the moral injunction to repay so strong? After all, the bank does not lend its own or anyone else's money. It simply makes a digital transfer. Governments don't have to balance the books in the way of the ordinary company or householder, moreover, and creating a budget surplus, which is often lauded as desirable by politicians and public officials, in fact takes money out of the system, i.e. is deflationary and generally harmful to the public good.

Individual debts have to be paid off with money individually earned, in competition with others. Government debts do not have to be paid off, by taxes or anything else, but can be settled digitally with a few keystrokes. Government projects can always afford their expenditures as they are not limited by funds but by labour, resources and technical know-how. {27}

Expenditures are also controlled by attitudes to work and our fellow human beings. The Athenians could well have built their navy to counter the growing Persian threat by imposing corvée labour on their citizens. Instead, they employed the silver from the new find in the Laurion mines, which enabled everyone (except the wretches employed as miners) to prosper while serving a public purpose. Money turned an individual's need for economic gain into the state's survival.

Money as a term has various meanings, many of them shadowy and vaguely bound up with tacit beliefs, values and the working methods of institutions that constitute a functioning state. Economics claims to be a science, to model things that exist 'out there', independent of our senses and human values. Neoliberal economics is based on the market, where rational human beings act with enlightened self-interest. Unhappily, human beings are not rational, and marketing, which now holds sway in most areas of life, from choice of washing powder to US president, is precisely intended to make our choices non-rational and ill-informed, even against our best interests at times. Public opinion is overtly managed by mainstream media owned by a few corporations only. Nor are markets substantially free in the sense that participants fully understand the wisdom and consequences of their choices. Indeed no one could, even in a world free of advertising and misrepresentation. Life is simply too complex to be fully grasped, and the situation is made even more unfathomable by time-dependent feedbacks, which inevitably give rise to complex systems and so render the simple nineteenth century models employed by economists, government planners and politicians haplessly ineffective.

Inherent in words are many expectations and histories of usage. Meanings of scientific words are generally defined by the relevant institutions, as are meanings in accountancy, and in the trades and professions generally. Meanings in the humanities, however, or even everyday use, are far more protean and elusive. Literary theory has to use special concepts to map out what is probably being meant or understood by a text. {28-29} Hermeneutics, for example, examines the social, cultural and historical aspects of context, and how we interpret a text from our own current perspective. Such a procedure, which we follow in bridging social usages, takes into account not only abstract meaning, but an individual's experiences, affections, character, social and historical setting. Hans-Georg Gadamer {28} takes issue with the prevailing Enlightenment view that man would live happily and at peace if old prejudices and superstitions were swept away. Inevitably, if only in part, we live on our historical inheritance, in a dialogue between the old traditions and present needs. And there is no simple way to assess that inheritance except by trial and error: praxis: living out its precepts and their possible re-shapings. Rationality of the scientific or propositional kind is something we should be wary of. It evades what is seen by Gadamer as important: our direct apperception of reality, the ‘truth that finds us’. But if the flow of existence is a continuing disclosure of meanings, how are we to recognize these meanings and know they are correct? Gadamer asks us to think of the law courts, where rulings represent not rubber-stamped social conventions but a process of continuing refinement and modification as the old rulings meet difficulties — the hermeneutic adjustment between the particular and the general. Validity comes from a communality of practice and purposes, not by reference to abstract theory.

Jürgen Habermas {28} also criticizes the rationality of mathematics and science as effectively placing judgement in the hands of specialists, an undemocratic procedure. Man is entitled to his freedoms — from material want, from social exclusion, and from perversions that alienate him from his true nature. So his interest in Marxism, not to justify Marxist prophecies, but to rationalize and update Marx's criticisms of societies that force men to act contrary to their better natures. Labour is not simply a component of production, but how men are forced to live.

Mikail Bakhtin stressed the multi-layered nature of language, which he called heteroglossia. Not only are there social dialects, jargons, turns of phrase characteristic of the various professions, industries, commerce, of passing fashions, etc., but also socio-ideological contradictions carried forward from various periods and levels in the past. Language is not a neutral medium that can be simply appropriated by a speaker, but something that comes to us populated with the intentions of others. Every word tastes of the contexts in which it has lived its socially-charged life, which is tacitly recognised in such terms as ‘dirty money’, ‘money laundering’, ‘slush funds’ and the like.

To what extent do speakers really understand each other? Many analytical philosophers would argue that understanding is potentially complete — beliefs, emotions, experiences must be particular to individuals, but statements otherwise can be converted into an objective, literal language, and checked against the facts. Conversely, some literary critics would argue that understanding is an inherently incomplete, or perhaps meaningless term. Interpretative communities have different paradigms or frames of reference, and cannot be compared except to some universal frame of reference, which does not exist.

Bakhtin's work allows us to recognize both views as extreme. There is no purely literal language, and concepts of truth and meaning have finally to be treated as ways of reacting to experience rather than as logical concepts per se. Theorists often overlook the ways we do reach understanding, how we are constantly checking and adapting our paradigms against our understanding of the world. Paradigms that fail to make sense of our surroundings are dropped, or held by very few people. And this, very naturally, is how communities evolve, even the business community. There exists no centralizing programme or policy, but only a network of alliances, overlapping and shifting frames of reference which are constantly being modified — by chance, ignorance, experiences, conversations, by television, newspapers, magazines and books. {29}

No doubt that seems theoretical and remote from issues with money. But problems with reification, of turning attitudes and processes into 'real things that exist across all possible worlds', as philosophers like to put the matter, crop up in all areas of life. What do psychological tests really measure, for example? Intelligence and personality testing is a billion dollar industry, increasingly used to control admission into colleges and jobs. But does the intelligence quotient objectively exist, independent of our measuring it? Or is IQ only a 'latent variable', something more submerged and all-embracing that is elicited by the tests. Perhaps IQ should be defined operationally: it is simply something that IQ tests measure, nothing more. Or again IQ may be social constructs, something manufactured out of the web of attitudes, classes, ethnicities, experiences and gifts in individuals comprising society. These are not idle questions. Many think psychological testing has been over-promoted, and professional psychologists can each be found espousing other views. {30}

Truth may not be grounded in evidence, therefore, but consensus, making language shared ways in which societies understand themselves. The concept of money, by the intimate role it plays in our lives, necessarily takes on shades of meaning and intention that vary with context and their author's view of its functions.

Science and Its Limitations

Readers who have been surprised to learn that simple terms like money can be questioned by literary theory, will be further disturbed by contemporary views on the way our brains may create reality. One such view is metaphor theory, which suggests conventional views of science, philosophy, society and even abstract disciplines like mathematics have a basis in innate human dispositions. If we cannot find an objective meaning for money except as something reflecting and facilitating transactions in human societies, when those societies themselves evade full capture by rational processes, the reason may lie in outmoded concepts of certainty. The world is inherently ambiguous, and what seems but plain facts to one generation may be arrant nonsense to the next. Always there is a need for evidence, and close argumentation, but nothing in the humanities or sciences is ever permanently settled, any more than widely differing political views can be finally reconciled, or a definitive account be written of some period in history. We select and abstract the evidence in ways that seems important; we assemble that material in the patterns and pictures we are comfortable with; we find comfortable largely what our backgrounds, experience and personalities dictate; those individual aspects must conform in many ways to the societies in which we live, and those societies are in turn influenced by us. In such complex and interlocking situations, all that we can make of viewpoints are partial and transitory models that correspond to innate bodily processes — models are what metaphor theory calls schemas.

Metaphor commonly means saying one thing while intending another, making implicit comparisons between things linked by a common feature. Scientists, logicians and lawyers prefer to stress the literal meaning of words, regarding metaphor as picturesque ornament. But there is the obvious fact that language is built of dead metaphors. Metaphors are therefore active in understanding. We use metaphors to group areas of experience (life is a journey), to orientate ourselves (my consciousness was raised), to convey expression through the senses (his eyes were glued to the screen), to describe learning (it had a germ of truth in it), etc. Even ideas are commonly pictured as objects (the idea had been around for a while), as containers (I didn't get anything out of that) or as things to be transferred (he got the idea across).

Metaphor is a commonplace in literature, and generally regarded as a rhetorical device, simply a means of persuasion. {31} Metaphor has only a supporting role in meaning, and certainly not seen as something actually *constituting* meaning. Yet such is the suggestion of Lakoff and Johnson. {32} Metaphors reflect schemas, which are constructions of reality using the assimilation and association of sensorimotor processes to anticipate actions in the world. Schemas are plural, interconnecting in our minds to represent how we perceive, act, react and consider. Far from being mere matters of style, metaphors organize our experience, creating realities that guide our futures and reinforce interpretations. Truth is therefore truth relative to some understanding, and that understanding involves categories that emerge from our interaction with experience. Schemas are neither fixed nor uniform, but cognitive models of bodily activities prior to producing language. The cognitive models proposed by the later work of Lakoff and Johnson are tentative but very varied, the most complex being radial with multiple schema linked to a common centre. Language is characterized by symbolic models (with generative grammar an overlying, subsequent addition) and operates through propositional, image schematic, metaphoric and metonymic models. Properties are matters of relationships and prototypes. Meaning arises through embodiment in schemas. Schemas can also be regarded as containers-part-whole, link, centre-periphery, source-path-goal, up-down, front-back.

The matter is technical, with schemas recognising different styles of human expression. Linguistic functions are propositional and symbolic. Propositional logic uses basic-level concepts only (entities, actions, states, properties) and meaning is built with link schemas. Complex propositions are built from simple propositions by modification, quantification, conjunction, negation, etc. Scenarios are constructed of an initial state, sequence of events, and a final state structured by source-path-goal. Syntax is simply idealized cognitive models (part-whole, centre-periphery, link, container schemas). Knowledge and truth, however, are radial concepts depending on basic-level concepts and social context, these indeed being the only grounds for certainty. Objectivity is never absolute, and we can only look at a problem from as many aspects as possible. {33}

The approach is also controversial. It contests the claims of philosophy or mathematics to pre-eminence, and places knowledge in a wider context. Meaning lies in body physiology and social activity as well as cerebral functioning. Our temperaments and experiences colour our thoughts, and the philosopher's search for abstract and indisputable truth is an impossible dream. How human beings act in practice is the crucial test, and in practice humans paraphrase according to context and need. Comprehension can never be complete, and specializations that would base truth on logic, mathematics, invariant relationships in the physical world or in social generalities make that comprehension even less attainable. Indeed the approach is entirely misconceived. Multiplicity is what makes us human, and we live variously in conceptions that arise from the totality of our experiences — physiological and mental, private and social.

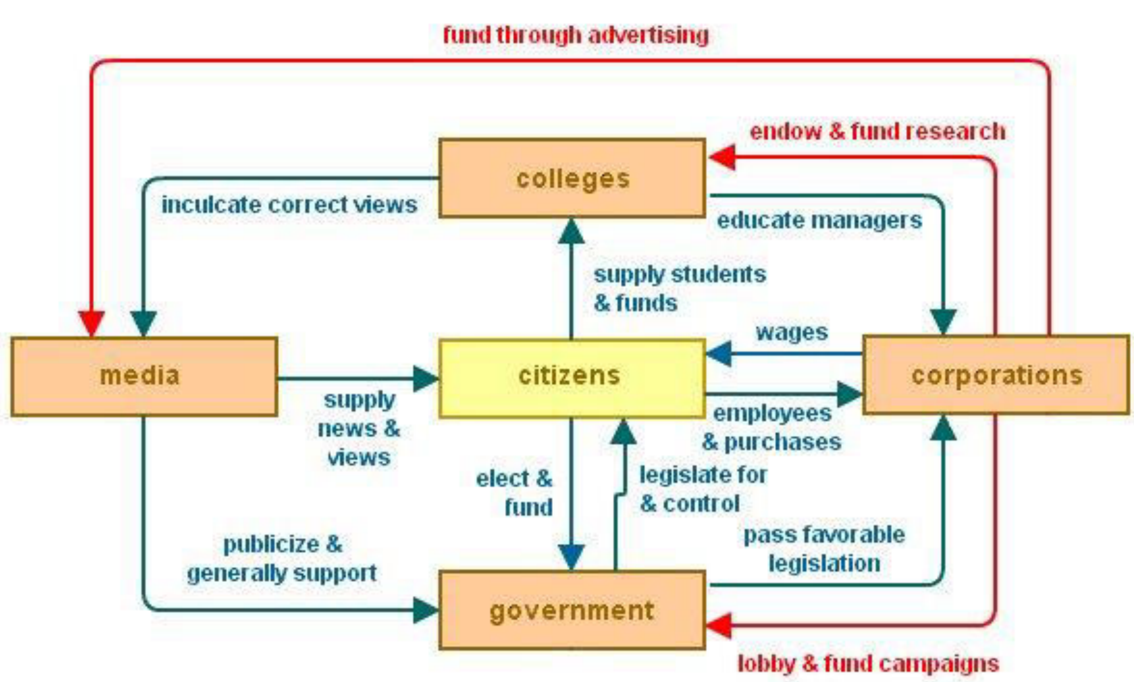
In contrast, economics has imitated science in looking for invariant underlying rules, often cooking the books to do so, but has neglected the completeness of experience. Science and the arts are slowly, very slowly, converging to give us a fuller and more comprehensive view of the world, and that view is anticipated by schema that draw no sharp line between rationality and irrationality, between thought and emotion, between the world out there and our private universes, between our mental and our bodily activities. Yes, the distinctions can be made — and indeed have to be made for practical purposes — but the distinctions represent a narrowing of conception and possibility.

Science itself recognizes the shortcomings in the old attitudes. The descriptive sciences never fitted the formula well, and the social sciences failed altogether. Many complex situations evade mathematically modelling, and are best approached through successive approximation or neural nets. Chaos theory destroys determinism in many areas, emphasizing the importance of the contingent and unforeseen. {34} Economics, when not simply descriptive (i.e. adopting multicentric organizational approaches), has constructed models that are not only over-simple and remote from reality, but intellectually flawed. Worse, according to metaphor theory, economics holds notions of money that are at odds with a prosperous, equitable and sustainable society, and should never be alone in the driving seat. Indeed, far from being the truth, the 'hard facts of the market', which have to be followed, allowing only some palliative measures to keep the marginalized and impoverished masses from open revolt, market economics is no more the special pleading of a business class that naturally wishes to maintain the status quo. Coinage gives tangible reality to authority, but that authority is only how men have traditionally chosen to live together: customs, which we can change, and will have to change if we are to survive on this small planet.

Confidence

Historically, coins rarely contained their full face value of metal, making them to some extent a fiat currency, and one that rulers could exploit by adding base metal to the silver or gold content. Provided government remained strong, the coins were generally acceptable. The coinage of Imperial Roman was consistently debased but occasioned no riots. Intrinsic value was even less a concern in Anglo-Saxon pennies, and issues of Edward the Confessor (1042-66), for example, vary in average weight between 17 and 27 grains. {35}

Money in modern times is overwhelmingly a fiat currency, where confidence is all. Despite assurances, loans were never fully backed by gold, even in the nineteenth century. To be able to 'see the money' gave confidence, but Britain also led the gold standard by reason of a worldwide confidence in its industry, its military strength, and probity of its institutions. Long and stable government gave everyone a faith in the system, and that trust still underpins the financial



institutions. Here lies the reason why the banks were bailed out in 2008, and not the innocent parties, though the terms probably guarantee another crash. Sound money is needed by all regimes, and counterfeiting carries heavy penalties: it is not simply unethical but suborns the integrity of the state.

States are self-sufficient entities that today use the media, educational and other institutions to promote an image of authority and civic virtue. In the past, that image was also promoted by coinage, which was persuasive by virtue of its design, workmanship and precious metal content. Even through the appalling carnage of the Thirty Year's War, the parties to the conflict still turned out a competent coinage, in some instances very beautiful coins indeed. Song bureaucracy ensured that China remained a functioning state until the very last years of its ferocious struggle with the Mongols, when its paper currency also collapsed because frantically over-issued to meet the war effort. The Treaty of Versailles made the Weimar Republic an unreal entity, one that clearly didn't own anything, and which was therefore susceptible to hyperinflation.

Money as a Life Force

In truth, money is far from being an inert accounting device, but something that possesses its own propensities, for good or ill. Nature abhors a vacuum, and so do trade and industry when it comes to stable or predictable currencies. Money can be predatory, and those countries obliged to open their doors to overseas investment when OPEC (or Washington) engineered an oil price hike and set payment in dollars — which has left many perpetually in debt to western interests — had currencies too weak to simply buy dollars on international exchanges. Their modest, self-supporting economic systems did not produce enough in overseas trade to make their currencies attractive to banks and import businesses, and, just as colonial powers introduced currencies in native states by imposing taxation, so by overseas investment the international community drew the smaller countries into its dollar dealings. The result was often to leave them vulnerable to capital flight, and so subservient to western interests. {36}

Currencies often act as states in miniature, jealous and suspicious of each other, allowing no rivals. Disaster has struck those nations presumptuous enough to plan an independent gold dinar: bombings, downed aircraft and regime change. {37} The matter is only aired in the alternative media, no doubt, and Kennedy's assassination seems more likely to have come from attempts to rein in the CIA, than re-issuing silver certificates. {38} BRIC countries have also suffered attacks on their currencies, though attacks were limited by measures the countries took to prevent currency manipulation. China and India indeed enjoyed their greatest GDP growth when they sheltered their currencies from global speculation, and we must also remember that GDP simply measures what is produced in a country, not what remains when profits are returned to investors. {39}

Modern Money Theory

Modern Money Theory (MMT) stresses the obvious, that money should simply enable citizens to work equitably and fruitfully together. Accordingly, it is sovereign governments and not private enterprises that today create money. {36} Money is put into circulation by banks, state and private, and surplus money is drained off by taxation. The two processes ensure that the State will acquire the goods and services it needs to function properly in areas of common good: schools, roads, state security and the like. Paradoxical as it must seem, governments that run balanced budgets therefore harm their economies, since it is only through government *deficit* spending that wealth ends up in private hands. {40}

We have lived for centuries in societies run on debt, and major changes will be difficult to explain and implement. But MMT points out that the federal tax burden is quite unnecessary, and could be eliminated. The US tax code is a godsend to clever lawyers – an impenetrable 17,000 pages of legalese, where only a third of the taxes raised goes to service government debt: one third is lost in waste and inefficiency, and another third covers tax evasion. {41} Government borrowing is equally unnecessary: it is simply a public subsidy to private investors, though one enshrined by practice from the days of the Bank of England and the National Debt. Nor is there any rationale for private banks charging interest for government loans. {42} Even private and commercial loans need to be rethought. As Keynes put it in his *Treatise On Money*

'[I]f the banks can create credit, (why) should they refuse any reasonable request for it? And why should they charge a fee for what costs them little or nothing?' {43}

What is needed is a fairer and more efficient system that offers proper incentives, rewarding effort, know-how, co-operation and practical ideas. The argument rests not on ethics but experience.

Matt Ridley's {44} superficial, selective but persuasive defence of free enterprise suggests that the world will go on getting better for everyone. Climate change can be accommodated. Poorer countries have made great strides towards material prosperity in recent decades, and will continue to do so, even in Africa. Much remains to be done — a truly enormous amount — but there is no cause for the pessimism so prevalent today.

Many of the views are contentious — that labourers left the land willingly to escape rural poverty, that threats to species and the environment are exaggerated, that fossil fuels and nuclear power are still the best if not the only power options, that British cotton goods undercut Indian supplies by fair competition, that economic divides are deepening only in the US, that GM crops are beneficial — but the central message is clear. Successful societies exchange products and ideas, learning from each other and mutually improving themselves if not prevented from doing so by church and state (i.e. excessive regulation, patents, etc.) Need is the mother of invention throughout, and innovation comes more from shop-floor pressures than fundamental scientific research. High debt levels, contracting world trade and financial instability will be overcome by ad hoc adjustments just the same, though asset markets, i.e. banks and currency flows, do need to be regulated. In the last 50 years, more people (practically everywhere but not in North Korea, or presumably in the Middle East) have come to enjoy greater choice, greater material prosperity and freedom to go their own way. The world is not about to run out of water, oil or food. There were food shortages that created the unrest of the Arab Spring, certainly, but a contributory factor was foodstuff farming diverted to create biofuels. Again in the last 50 years, GDP per capita has become lower only in Afghanistan, Haiti, Congo, Liberia, Sierra Leone and Somalia. Life expectancy is lower only in Russia, Swaziland and Zimbabwe. Child mortality has declined. People live longer, and enjoy better health. Living standards fell only in China (1960s) Cambodia (1970s) Ethiopia (1980s) Rwanda (1990s), Congo (2000s) and North Korea throughout. The rich got richer, but the poor did even better (except in the UK and USA). Even those designated poor in the USA generally have electricity, running water, flush toilets, refrigerator, TV, telephone and even a car and air conditioning (the last two in 70% of cases.) Absolute world poverty may well disappear around 2035. Declining inequality stalled in the UK and USA in the 70s, and increased in China and India, but only because the really rich got even more so. Measured in terms of labour needed to produce the item, everything has got cheaper. Competition creates millionaires but also affordable products. Housing is an exception — because of government policies: restricting supply, tax relief on mortgages and preventing property busts. People richer materially are also happier, on balance, but more important is social and political freedom. Of course there are black spots: war, disease, corruption and the continuing post-2008 recession. Debt levels are high, but increased productivity will see them brought down to manageable proportions. The curse of resource-rich countries is not the resources themselves but rule by rent-seeking autocrats. GM crops bring better productivity. {44}

Large companies are commonly inefficient, self-perpetuating and anti-competitive, but not do generally survive for long. Trust, cooperation and specialization (not self-sufficiency) are the key. Agrarian societies spent much of their income on food (e.g. 35% in modern Malawi), which today takes only 14% of the average consumer’s take-home pay. And life for modern hunter-gatherers around the world is not idyllic: two thirds of their time is spent under the threat of tribal warfare. 87% experience war annually. Disease, starvation, murder and enslavement are never far away. Homicide rates in Europe fell from a medieval 35% to 3% in 1750 to under 1% in 1950. World population is increasing, but at declining rates: it will probably stabilize at 9.2 billion in 2075, allowing all to be fed, housed and given worthwhile lives. {44}

Rome’s energy source was slaves, supplemented by water-power, animals and simple machines. Windmills became important in Europe, and peat fuelled Holland’s success. Britain’s industrial revolution was made possible by coal and America. The country got sugar from the East Indies, timber from Canada, cotton from the southern American states, and power equivalent of 15 million acres of forest from her coal. However unpleasant the life in industrial cities, it was far worse in the countryside. Birmingham began as a centre of metalworking trade in the early 1600s, helped by being free of a civic charter and restrictive guilds. Success bred success. A disposable income enabled a consumerist society to begin here in the 18th century, well in advance of France and other European countries. American land open to settlers prevented the division of holdings between multiple heirs – the problem in Japan, Ireland, Denmark and later in India and China. Planned parenthood is counter-productive and unnecessary. Mothers automatically limit their families when the child mortality rate declines. They turn to education, improve the lives of their families, follow individual inclinations and take a paying job. Over half the world now has a fertility rate below 2.1, which in some countries now places a strain on loan repayments and pensions. {44}

Ridley's views are not Pollyanna hopes. Mankind now has the technologies to purify saline and contaminated water for US 0.2 cent/litre, to generate biofuels from algae, to make alternative energy sources competitive with oil, gas and nuclear energy, to grow food more cheaply in 'vertical farms', to replace meat sources by artificial protein growth, and to bring health care to the poorest by mobile phone technology. {45} All that is missing is the political will to abandon ruinous resource wars, and engage in more equitable and fruitful dialogue.

Mankind currently faces many problems: environmental degradation {46}, climate change {47}, looming shortages of land and water {48}, corporate takeover of government {49}, rising levels of global debt {50}, debt peonage {51}, surveillance and erosion of civil liberties {52}, the threat of world war as Russia and China challenge American hegemony {53}.

Nuclear annihilation is the greatest threat, yet warfare is not written into our genes but only a legacy of social attitudes. Organized conflicts go back some 6,000 years, well before the creation of money, but not 300,000 years to the origin of Homo sapiens. For 98% of his time on earth, mankind has lived happily and cooperatively without the need for wholesale killing, and of the three animal species known to engage in warfare — ants, some species of chimpanzees and man — man is by far the least aggressive. {54}

War will not now benefit anyone, even the victors, because economic treasure and blood will have been diverted to wasteful ends. {55} War creates destructive inflation — as it did in Rome, Song China, Spain, Germany and the USA — which in turn brings a host of social evils, even the wholesale collapse of societies. Steven Pinker’s findings in his popular *The Better Angels of our Nature* {56} are no cause for complacency. The major powers may not now be in open conflict, but they still fund proxy wars in the Middle East and elsewhere, and exert ‘soft pressure’ on smaller countries to adopt policies that benefit their trans-national corporations. Pinker’s tables are suspect, {57} and overlook too many instances of the world coming to within a hair’s breadth of nuclear annihilation. {58} On all these matters, money acts not only as a colouring agent tracing out the financial arteries of our interconnected world, but as a power that can subvert even the largest democracies.

By perpetuating the status quo, money enters into the very fabric of our lives — the jobs we choose, whom we marry, the sort of people we become. Because money legitimises — strengthens and justifies — existing social structures, the shaping of the modern world is also money’s creation, both in what has been achieved and the threats it faces. Vietnam War debts brought an end to the gold standard, which was replaced by floating currencies — i.e. brought the control that the larger banks and financial institutions exert over all but the largest economies, and possibly even them. Keynesian policies gave way to Neoliberal market-based concepts, and the shorter working week predicted in the seventies has in contrast become longer and harder for all but the rich.

The oil shock ended growth in many third-world countries, and these countries, being obliged to cover increased energy costs, found themselves subject to heavy loan repayments to banks that had simply ‘conjured the money out of the air.’

Banking greed led to the 2008 financial crash, recession and to the imposition of austerity policies in Europe and to quantitative easing in the USA. Both favour the already rich, and add to social unrest and inefficiencies. Money has corrupted politics, brazenly so in the USA, but also in most countries: China, Russia, Brazil and Europe. Many scourges of mankind — armament, drug and people smuggling, government corruption in the third world, continued proxy wars — would be eliminated by proper oversight of banks and government, but the Neoliberal ‘profit at all cost’ remains abundantly alive and well. Money invested, or rather not invested in new technologies, have ensured that we still pollute with coal-fired power stations or threaten the health of future generations with nuclear power. We are still addicted to oil, and so to resource wars in the Middle East, however dressed up in the mainstream media.

The dangerous stand-off between the NATO powers and Russia, and the USA against China, threaten nuclear conflict while the west still has the advantage — Russia and China are developing missile technology against which NATO will have no defence — but the whole planet will suffer immediately afterwards. None of this is sensible: Matt Ridley’s account emphasises the need for co-operation at all levels, internally and globally.

Money is therefore not the simple measurement tool of economists. Nor is it restricted to markets. Just as laws and institutions grew up to preserve, protect and extend the tradition, customs and inherent values of societies, so money comes to embody and facilitate social transactions. As such it is always complicit with power, with countries and social classes that have the final say on supply of goods and services. As earlier economists understood, money is part of political economy.

Marx may well have been over-simple in seeing money as congealed labour, but the co-operation increasingly needed in today's world requires we stop looking at money as an accounting device and more at how money is earned, distributed and invested for the future. Islamic business practices have long held that view, seeing western economics as an attempt to evade the medieval ban on usury. Far from being inert, money in the Christian west promotes the values, interests, and behaviour of the social elite. It always has, and always will while power is equated with social position.

Sensible and sustained investment is essential, but the overriding challenge is to find better models than doctrinaire capitalism or socialism — without endangering the material creativity of the first or the human values inherent in the second. The besetting sin of both is over-simple conceptions, i.e. that societies should bow to the obvious dictates of the 'market' or the 'people'. In contrast, thinkers on capitalism have stressed the intricate and ever-changing make-up of societies, where power is diffused through interlocking mechanisms of individuals, companies and organs of government, each therefore being given a part to play. For that reason, the most productive systems have been intelligent co-operations between state banks, large companies and well-trained work forces: i.e. the Japanese and German models. Internet technology has the power to make all parties even more well-informed and cooperative, but, whatever is chosen or developed, somewhere in the mix will be the marvellous agency of money. We have used it for four millennia, and will continue to do so while man remains the creature he is.

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No one will sensibly make a coin collection today without first devising some plan that encompasses what's available and at what cost. Numismatic literature is essential here, and a few of the more general / useful books are:

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Classical Numismatic Group. http://www.cngcoins.com/
Coin Archives. http://www.coinarchives.com/

Dealers

There are hundreds, probably thousands of coin dealers, who will help you build your collection of choice. Most are reliable, or largely so, especially the major dealers and auction houses with long-standing reputations to protect. Only those in the trade really know the shifting strengths and weaknesses of rivals — and often who is buying what at auction for whom — but the usual advice is ask around, check prices against grades, and read the fine print. Very few dealers will not honour their returns policies.

A very brief listing of relevant material:

Recommended Dealers.
http://tjbuggey.ancients.info/dealers.html
CoinDealer Directory: Coin Talk.
https://www.cointalk.com/directory/
Coin Price Guides. http://www.coinweek.com/coin-values/coin-price-guides/
Baldwin's. http://www.baldwin.co.uk/
Spink and Son. http://www.spink.com/
Steve Album. http://db.stevealbum.com/php/home.php

Coin Fair Listings

Baldwin's Listing.

CoinInfo's Listing.

Australasia's PTA.

UK Coin Fairs

Coin Trade Shows.