Building a social and ecological economy through a social accounting model of banking

Long abstract (1184 words)

Defining the current socio-economic and ecological crisis with ambiguous terminology of “growth” and “debt”, is insufficient to the task of exposing pernicious monetary fallacies, thereby making it difficult to envision necessary transition of the political economy.

Problematic “economic growth” needs to be requalified as “exponential economic growth” to effectively identify and address the root cause and “invisible hand” consequences of a monetary system based on compound interest.

The late Margrit Kennedy distinguished three different types of growth (natural, linear and exponential), and explained that “throughout most of history, the circulation of money has been based on the payment of interest”, that “interest leads to compound interest” and that “compound interest leads to exponential growth” (1). As she demonstrated, a monetary system based on compound interest engenders “the operation of a hidden redistribution mechanism which continually transfers money from the large majority to a small minority, creating a social polarization which no democracy can tolerate”. (1)

Because the exponential function of compound interest automatically generates perpetual growth of interest bearing debt, total debt within the monetary system must continually expand, in order to pay past debts, and to create sufficient new liquidity (money) to prevent implosion of the monetary system and consequent economic collapse. Margrit Kennedy showed that a monetary system based on compound interest works as an “invisible wrecking machine”, characterised by “a high degree of monetary instability”.

As Thomas Greco summarises, "It’s the compounding of interest and increasing indebtedness in both the private and the public sectors that is the primary driver of economic growth. But this growth misallocates resources and prevents the emergence of a sustainable and equitable economy. Like a cancer, the political, interest-based, debt-money system destroys the environment, corrupts democratic processes, increases disparities of power and wealth, and shreds the fabric of society." (2)

The dictionary definition of “debt” is “a sum of money that is owed or due", which raises two questions: “what is money?” and “to whom is it owed or due"?

The late Mustafa Moini distinguished two co-existing paradigms of “money”: (i) money as a tangible and scarce thing with intrinsic value - “the commodity paradigm of money”, and (ii) money as a social relationship, defined through a species of credit involving reciprocal economic rights and obligations, and monetised as intangible and sufficient recorded information about the economic transactions within a community - “the informational paradigm of money”, which only functions as a symbol of value. (3)

Monetised credit is an unconditionally transferable purchasing right, arising from the reciprocal obligation to redeem it, in terms of goods and services produced within an economic community of specialised producers. Economic credit therefore belongs to the economic community as a whole, and can only exist as a common good within the credit commons.(4)

From this perspective two major fallacies are exposed: (i) the misappropriation of economic credit, belonging to the community, as an asset of the private banking system, in order to “loan” it back to the economic community through a privatised for-profit monopoly over the issuance of monetary instruments (notes, coins, deposits), together with (ii) the demand of interest payments on all monies (credit) supposedly “loaned” from the private banking system. Problematic “debt” generated through the function of compound interest within the monetary system, can also be redefined as “counterfeit credit”.

The imposition of compound interest in a monetary system can only be predicated under the paradigm of commodity money. Whereas an informational paradigm of money induces a “social accounting” function to the monetary system (5), through an alternative model of banking, provided as a not-for-profit public service.

Banking as “social accounting” (5) can enable territorial sovereignty in the allocation and multilateral clearing of non-commoditized and community-owned credit, for cooperative sustainable economic regeneration, on a democratic self-financing and usury-free basis.

Systemic economic extortion by the private banking system is predicated on the historical co-option of the State, through the agency of central banking, which enables the most powerful private banks to hijack the social contract to their pecuniary advantage. State enforced legal tender legislation, together with coercive taxation to pay the interest on the national debt, serve to enrich and concentrate political power in the hands of those who control the elite private banks, at the expense of society and to the detriment of the planet.

Under the guise of serving the public interest as “monetary authorities”, the central banking system (on behalf of the top-tier private banks) has been able to “regulate” away any legitimate challenge to the vested interest of private banks, regarding the monopolised control over economic flows and policy. This predicament is maintained through a sophisticated veil of deception and deliberate obfuscation that defies the understanding of most people. (6)

Around the 1970’s, the ecological limits of the planet put an end to the viability of the paradigm of exponential economic growth. The exponential rate of bank-debt credit creation needed to cover explosive growth of interest bearing debt, exceeded the ecological possibility of transforming nature and social relationships into money. This made it impossible for the financial system to redeem (clear) the process of inflationary credit creation at compound-interest.

Maintenance of the status quo was achieved by evacuating the growing bubble of surplus forged credit as “investment”, in the creation of “virtual profits” through various asset inflation schemes (dot.com, subprime etc), as well as the pyramidic recycling of interest-bearing debt in the form of derivatives and other so called “financial products”.

The consequent rapid expansion of the financial system (relative to the real economy), driven by speculation and virtual-profit creative accounting, as well as the persistent low central bank interest rates, are symptomatic of this underlying systemic problem of an increasing oversupply of destabilizing counterfeit credit produced by the financial system. It has been estimated that the present global volume of unredeemable forged credit circulating within the financial system (outside of the real economy), is equivalent to ten times the GDP of the planet.

Accelerating computerisation of the financial system has amplified the impact of inherent systemic dysfunctions, and facilitated the explosive growth of the speculative virtual economy, with all the consequent catastrophic implications for humankind and the planet. However, the on-going digitalisation of payment systems increasingly proves the redundancy of orthodox theory and practice in the monetary and economic domains, even to those who have a strong self-interest in maintaining the status quo (7).

This rapid technological evolution of the payment system, including mobile phone enabled transactions, not only exposes the fallacy of the existing monetary paradigm, but makes evident the need for the restoration of a pre-existing alternative monetary paradigm, which can transition the economy from its socially and ecologically destructive course, towards the realisation of a cooperative and sustainable economy, whereby every individual has the opportunity to accomplish their highest human potential, both materially and spiritually, in service to the common good.

References:

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