# **Footnote:** Financial Interest

> *I work hard. I earn money. I pay the mortgage on my home. Interest rates rise. My wages don't. I can no longer pay my mortgage. House prices fall. I am forced to sell my house for less than I bought it for. I inherit a debt I did not have before. What have I received that I should owe this debt?* [PDF]

## A Sad Observation

I well remember the negative equity crisis of the early 1990s. On the one hand, there were young and middle-aged couples, who worked hard and treated money wisely, ruthlessly driven out of work, out of business and out of their homes by circumstances over which they had no control and no prior means of anticipating. They did not know what had hit them.

On the other hand, there were older and retired people who, because they had just happened, by chance, to save their money in the right kind of account or in property, were rolling in far more wealth than they knew what to do with. They thought the unshackled free-market policies, which gave rise to their unearned windfalls, were marvellous.

But neither the misfortune of the young, nor the serendipity of the old was directly by design. It was merely the arbitrary side-effect of an economic process far above their lowly and irrelevant existences.

## Globalisation

National economies are becoming increasingly interdependent. No nation can survive as an economic island any more. We now live in a global economy. This is the legacy of capitalism.

To operate in a global economy, each nation must exchange its currency with those of other nations. To remain both affluent and competitive, its currency's exchange rates with other nations' currencies must be stable. To achieve exchange rate stability, a currency must inflate at a rate as closely as possible to an international mean which is determined by the world's most powerful currencies. The global economy is a relativistic universe. Consequently, this international mean may in fact be different from the points of view of different national economies.

Each national economy has its own natural inflation rate. It is determined by complex dynamics which are, as yet, little understood, but which are heavily influenced by the size and nature of the economy concerned and its relationship with others. The natural inflation rate for the U.K. seems to be for the £ approximately to halve in value every decade. For other national currencies it is different.

## 'Licking' Inflation

The custodians of a nation's economy therefore attempt to engineer the inflation rate away from its natural value towards the international mean as seen from the point of view of their own economy. The problem is that they expedite this engineering using a sledge hammer. That sledge hammer is the basic interest rate. It is rather like trying to get a faulty television to work properly by kicking it.

A television is a complex but structured machine. It yields to the skills of the engineer. An economy, on the other hand is a complex dynamical system like the weather. It works by different rules which are still inadequately understood by mathematicians. Trying to control inflation is like trying to straighten the Mississippi. If you straighten it by short-circuiting meanders with canals, you end up with a meta-stable water flow. It will naturally shift silt and burst levees until it has re-attained its natural length. Then it will be in equilibrium again.

Controlling inflation by raising and lowering interest rates may push the currency towards the desired international mean in the short term. But this will be only a transient or meta-stable condition. The economy will, one way or the other, store up latent energies which will suddenly burst through the levees and flood back to the natural *status quo*. And the more artificial pressure is applied, the more traumatic, unceremonious and destructive will be its return to equilibrium.

## A Heavy Price

The pressure exerted by using the sledgehammer of interests rates to control inflation to push exchange rates towards the desired international mean, sets up untold stresses within a national economy. These intense stresses are destructive to the very elements of the economy - its households and businesses. The big picture looks great. Exports are doing fine. The balance of payments is manageable. The economy is growing. It implies a stable landscape of long-standing little businesses and trusted corporations providing constantly growing productivity in a secure climate of 'jobs for life'.

But beneath this idyllic overview is a writhing cauldron of stress, trauma, ruination and dispossession, where hard work earns no reward and luck hails undeserving heroes. There may be a lot of seemingly healthy businesses around at any given time. But a vast proportion of them are not the same as the ones that were there last year. They are part of a vast subsurface turnover in which thousands go bust only to be replaced by thousands more, leaving a trail of unsecured debts born by their small suppliers and pre-paying customers.

Raising interest rates lowers production. It makes workers idle. But it does not make money disappear. It leaves it sitting in the high-yield accounts of the rich. Here it gains high interest. Its numeric amount rises. However, since this is not accompanied by a corresponding rise in production, each £ comes to represent less wealth. The high yield accounts of the rich are thus the invisible crucibles of inflation. The inflation they create, however, only becomes manifest when interest rates fall again, releasing these numerically increased hoards of money back into circulation. This lag between cause and effect successfully hides the real culprits.

The all-encompassing effect is the further polarisation of wealth, each convulsion of the interest-rate/inflation cycle latching more of the nation's capital into the hands of the favoured few. Fuelled by the blood, sweat and long hours of the working majority and the poverty and hardship of those denied the privilege of a job, the rich thus grow forever richer and the poor forever poorer.

## A False Premise

The hardship and oppression caused by modern economics stems from a failure to recognise the fundamental difference between the needs of life on the one hand, and the mechanisms which create them on the other hand - and the fact that they cannot be meaningfully equated. The organs of government cause untold havoc to personal finances by failing to recognise this fundamental difference in the context of taxation.

The overwhelming manifestation of this failure is the notion of charging kinetic interest on static capital. It imposes a relationship which cannot logically exist. It attempts to do something akin to measuring speed and distance in the same units. They are simply not the same. It is like purporting that an economy can literally perform the miracle of the five loaves and two fishes. It can't. Usury cannot create or produce anything. All it can do is diminish the size of the unit of measure. In other words, feed inflation.

The problem will never be solved until every member of the human race is given back what has been wrongfully taken from him, namely, his lost inheritance.

## An Attitude of Mind

It is all to do with the attitude of mind the rich have towards the poor. It is the attitude capital has towards labour. It is the attitude the inheritors of the Earth have towards the dispossessed. This attitude was expressed well by an American song writer at the time of the Great Depression when, for reasons of economic and political expedience, the establishment of the time ruthlessly expedited the perfectly legal eviction and ruin of many ordinary hard working people.

> *As through this world I ramble, I meet lots of funny men;*
> *Some will rob you with a six-gun, some with a fountain pen;*
> *But as through this life you travel, as through your life you roam;*
> *You will never see an outlaw drive a family from their home.*
>
> From 'Pretty-Boy Floyd the Outlaw' by Woody Guthrie
> circa 1930s recession.

Only capitalists and their puppet governments concoct and perpetuate systems which stoop that low.

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