

Central Bank Funding of Economic Growth and Economic Justice Through Expanded Capital Ownership

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Introduction: The Twin Threats

In 1911 the British author Norman Angell published the book **The Great Illusion**. This book sold more copies than any work up to that time except the Bible. The author was knighted by the king. The thesis of the book was that the process of globalization, which began in the 1870s and by 1911 was in full swing, had reached such a degree of interdependence among the great powers and many of the smaller "civilized" countries that general war among them was unthinkable (i.e. a "great illusion").

Publication of **The Great Illusion** was followed three years later by the outbreak of World War I, which involved all of the then seven great powers; by the worldwide depression of the 1930s; by World War II, which involved all of the great powers once again, and finally by the Cold War (effectively World War III), between the two remaining great powers. When the Cold War ended in 1991, eighty years after the appearance of **The Great Illusion**, three world wars and one universal economic crisis later, tens of millions of people had been slaughtered, often by their own governments, and uncountable quantities of the accumulated wealth of mankind had been destroyed.

After 1991, only one great power was left, bestriding the world like a huge, clumsy Godzilla, which among many other results, gave rise to the publication of an article entitled "The End of History" by one Francis Fukuyama, then of the Policy Planning Staff of the state department. The thesis of this worthy successor to **The Great Illusion** was that since history was largely the record of wars and disasters, history had effectively ended with the triumph of democracy and capitalism, embodied in and enforced by the United States of America. Effectively, globalization had made the world so interdependent that wars and economic crises were phenomena of the past, except for minor conflicts among third-rate countries in obscure corners of the world.

Eleven years after the end of the Cold War (and "of history") Godzilla had engaged in numerous military actions with dubious results; had been attacked in its turn by terrorist groups; other countries had participated in full-scale wars (some lasting for years), and there had been a seemingly endless series of economic/financial crises, starting with Mexico in 1994/95 and moving on to East Asia in 1997, Russia in 1998, Brazil in 1999 and Argentina in 2001, with more to come. Mr. Fukuyama has not been knighted, but he

is now a much-quoted and respected pundit, author of more articles and books, in none of which has he recognized the fact that "The End of History" was ludicrously wrong.

The twentieth century was the bloodiest and most destructive in the history of mankind, and that is saying a great deal. The twenty-first century indeed shows some potential of becoming the end of history, in a somewhat different sense of the phrase. Godzilla is beset on all sides and the triumph of democracy and capitalism is looking rather precarious. The Cold War alliance has broken asunder; weapons of mass destruction proliferate in countries ruled by petty but dangerous tyrants; their activities are eagerly supplied and financed by many of the very practitioners and beneficiaries of capitalism, and the millennial scourges of fanatical religious and ethnic hatred are rampant in huge swaths of the earth's surface.

Globalization has become a dirty word -- a grim joke to hundreds of millions around the world, a web of lies woven to protect and hide those who manipulate the system to their own, or at the very most, to their class' benefit at the cost of everyone else. This, then, is the twin threat that is at the basis of all the ills; political, social and economic, of the post-Cold War world:

(1) Chattel slavery effectively ended with the abolition of the ownership of human beings in Brazil in 1888 after thousands of years of being accepted as a perfectly normal social arrangement. Wage slavery continues, however, and in many cases the wage slaves are objectively worse off than the chattel slaves used to be. That is, they are free; free to endure endless poverty, ignorance and disease without so much as the (self-interested, to be sure) protection of an owner. All of this because the significance to production of the ownership of labor and capital has been replaced by the ownership of capital alone, at a time (since the industrial revolution of the late eighteenth century) when capital as a factor of production has steadily increased in importance compared to labor, the contribution of which to the total value of production is now minuscule; its remuneration maintained and sometimes increased to provide a market for the goods produced and to avoid a monumental social explosion.

(2) The huge disparities in the ownership of productive capital lead inexorably to derivative imbalances in the international sphere, which in turn result in serial over-indebtedness and misallocation of capital investment to areas where the return is often nil or negative or at best below that level which would enable the countries involved to service their debt burden. The result of this is recurring debt/financial/economic crises that are both endemic and resistant to treatment. The measures taken to respond to these crises have often exacerbated the disparities that led to them in the first place, thus completing the vicious circle.

Traditional Solutions to the Twin Threats

Since the mid-nineteenth century, in the face of radical movements spawned by gross income disparities and monopolistic capital ownership, society's response has taken the form of either "social ownership" (socialism or communism) of the means of production or various forms of coercive income redistribution in order to provide those without capital ownership with at least a minimal revenue stream beyond their actual contribution to the value of production. Redistribution has been supplemented in the more prosperous countries by a vast expansion of credit for the consumption of perishable goods and housing to be paid for from the revenue stream assured by the welfare statist programs mentioned. In the United States, this has reached truly huge proportions with the housing para-statal Fannie Mae and Freddie Mac issuing debt in quantities rivaling that of the federal government and way beyond that of state, local, industrial or commercial debt.

In the international arena, the traditional way of dealing with financial crises, which always includes the collapse of commercial credit, involves lending by governments and international financial institutions (IFIs), especially the International Monetary Fund, to repay other lenders or in the ultimate idiocy, themselves, under conditions of strict conditionality, which if adhered to make the underlying conditions worse, by making economic recovery more difficult. More recently, support has developed for the adoption of some form of international bankruptcy status, which would guarantee the total cessation of commercial credit availability to the countries availing themselves of it and make them completely dependent on official financing sources, whether governmental or international.

None of these traditional methods of addressing the twin threats works, because the underlying negative conditions are not addressed by them. In the case of socialism and communism the oligopolistic owners of productive capital are substituted by the monopolistic state, which makes a bad situation infinitely worse with utterly disastrous results. The welfare state is at best a palliative which reduces the pain as the patient gets steadily (if sometimes slowly) worse. Over-indebtedness for the acquisition of consumer goods and housing adds to the problem and makes an eventual solution more difficult. Internationally, lending more money to insolvent countries simply leads to increased indebtedness, often under conditions which make addressing the underlying problems even more difficult.

Central Bank Financing of Expanded Capital Ownership

A full discussion of central banking is impossible in the compass of an article. For our purposes it suffices to say that a central bank can purchase any asset with the currency and credit it issues. Over the history of central banking, starting in the late seventeenth century, central banks have issued currency and credit on the basis of purchases of precious metals, other currencies, commercial paper (industrial, commercial, agricultural or export) and other assets. The fact that at present most central banks, including the Federal Reserve System in the United States, fund their currency and credit issue primarily through the purchase of government securities (their own or other governments') is simply part of the vicious circle mentioned above -- the monetary

system is based on the government debt, a logical absurdity made necessary by the requirements of the welfare state. The total bankruptcy of this system was amusingly demonstrated when at the end of 1999, terrified by the specter of hordes of depositors demanding their money at banks paralyzed by the (as it turned out non-existent) Y2K computer problem, the Federal Reserve greatly increased the money supply, and since it had run out of government obligations to buy it bought huge quantities of Fannie Mae and Freddie Mac paper instead. Perhaps a better metaphor for this operation than that of a vicious circle might be that of a dog chasing its own tail. Recently the Bank of Japan has begun a program of purchasing the shares of businesses from the commercial banks to try to render them once again liquid and the central bank of Brazil has begun to buy export paper due to the lack of international credit available to the sector.

The central banks could address directly the first of the twin threats by discounting bankers' acceptances issued by the commercial banks for the expansion of productive facilities based on financing through employee stock ownership plans (ESOPs), consumer stock ownership plans (CSOPs), community investment corporations (CICs), or other forms of expanded capital ownership structures. The central bank can do so by discounting such paper at a rate only sufficient to cover its costs, probably less than one percent. Other borrowers would have to have recourse to commercial sources of credit at market rates.

Internationally, the international financial institutions could and should establish rediscount facilities for export paper discounted by the central banks of countries with liquidity problems, thus acting as lenders of last resort to the export sector of the countries involved, with such self-liquidating obligations as collateral, rather than depending on the taxing power of distressed borrowers. In this way the IFIs could become part of the solution to both immediate and underlying problems, rather than adding to and exacerbating them.

The twin threats, if not addressed promptly and in a meaningful fashion are inexorably leading the world to disasters that will dwarf the horrors of the twentieth century. The traditional solutions are completely bankrupt. The anti-globalizers have no idea what the real problems are or what to do about them. The situation is literally one of reform or perish. Due to a real "great illusion" we are rapidly approaching a most disastrous "end of history".

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