

Shadow Financial System

We are caught in a systemic debt trap.

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Our world faces a large, profound, and very important problem: Systemic Debt.

We are each and all in debt, whether or not we have actually borrowed from anyone.

This is because our financial system is based on debt and interest on debt.

Our individual interest payments are disguised as taxes and hidden in the inexorable price inflation we each experience.

You are already directly in debt if you are a citizen of a country in debt, and all countries are in debt. The fact of your citizenship makes you liable even if you don't think you are personally in debt to anyone.

The collateral for each country's interest-bearing debt is the ability of its inhabitants to work and pay taxes. The taxes are used to cover the nation's interest payments, and since the interest is compound interest our financial system is biased toward unstoppable exponential growth reflected in price inflation.

So it becomes imperative to grow the economy in line with exploding interest-bearing debt so that money does not lose its purchasing power in terms of goods and services.

But real world growth is limited by the laws of physics (broadly construed) and ecology, since we live in nature; and by the laws of psychology and sociology since we live in cultures and are all real beings with finite needs. For example, no single person can live in a thousand houses. And we can each eat only so many meals in a day.

Even wars, which are tremendous growth engines since they hyper-produce to destroy and then hyper-produce to rebuild, cannot go on forever because they exhaust us: physically, psychologically, morally, and spiritually.

So: interest-driven debt needs to grow beyond real economies into a virtual world of financial "economies." In such a virtual financial world, in one form or another, debt is used as collateral for even more debt which then itself needs yet more debt and so on up for several levels in order to meet the growth needs of the financial system when it exceeds the capacities of the real world.

This virtual world of high finance, the shadow financial system, is invisible to most people, but it is by far the largest financial system on this planet. Its notional size is probably somewhere approaching the region of 100 times the size of the real world global economy.

This shadow financial system is now where real world power lies.

The so-called global financial crisis is a symptom of a fall in the notional value of the shadow financial system because of a cascading loss of confidence in the assets behind it.

When some deals went bad, insiders got nervous and rushed in unison to claim their "real" money -- but the money wasn't there, so deals began to unwind chaotically as values dropped since no-one trusted value anymore. It was essentially a financial panic in the shadow financial system.

Deals were frozen in the ice of uncertainty and losses, magnified through leverage, were made good through so-called "bailouts."

This bailout money is not trickling into the real world but is only "balancing the books" in the shadow world of super high finance and keeping the financial markets artificially inflated to make savers and investors feel their financial wealth is safe and holding value..

Asset hyper-inflation, whether in stocks or real estate values, is fake wealth which shows itself as such when the artificially inflated bubble finally bursts as it always does eventually.

The whole western-led global financial system has become a hyper-inflated bubble which will burst as all bubbles eventually do.

Whether or not we are rich enough to have money directly in the financial markets, we will all ultimately pay for the many trillions of dollars spent on financial bailouts through a combination of higher taxes and reduced public services in an economically depressed world.

The money for the bailouts of these super-banks and other institutions is borrowed by governments at interest, even from some of those same institutions being bailed out, and we are the collateral because our governments are guaranteeing the bailouts and pledging our taxes and our productivity as the basis for the guarantee.

In their time of dire need, by seeking government social welfare benefits, the biggest super-capitalists have suddenly become welfare indigents as the recipients of social grants: just like the poor people they so often accuse of being social burdens, useless eaters, and ill-educated drains on taxpayers and "free markets".

None of us ordinary people gained much from the shadow financial system we are all now supposed to suffer to save.

Even our pension and social security funds will be used as collateral to bail out this system (if they haven't secretly been already) if we get deceived or cajoled into allowing that to happen.

The fundamental problem behind the sovereign debt crisis is that the global economy can no longer create enough jobs to employ us all so we can pay the taxes to pay off this government debt.

Production is now far too capital-intensive and automated just as the world population of job-seekers is rising ever faster, and capitalistic "productivity," in practical terms, means more machines and fewer humans because that is cheaper and thus more profitable since social and ecological costs are not accounted for in capitalism.

The true carrying cost of capitalist finance is unsustainable in any possible real economy.

The shadow financial system needs a rescue from the real world that the real world cannot provide. Therefore, the financial system will eventually collapse because the shadow financial system will crash it.

This collapse will be a series of crises with ever shortening periods between them and then a vast convulsive last gasp disguised in a monumental war of some sort: even if that total global war is a "war against nature" to save us from climate change as we will be told.

The next crisis, coming on the heels of the spreading sovereign debt crises, will be a crisis of the global reserve currency system which will propel proposals for a new world currency and a global central bank and thus more attendant "global governance" mechanisms.

Before that time, all world citizens should ask serious questions about the power structure implicit in any new global reserve currency system and its collateral governance mechanisms including the ownership and control of any "new" global central bank.

And we should all demand a complete end to central bank secrecy and insist on full-spectrum governance transparency.

Deeper than that, we should all question the wisdom and benefit in increasing global centralisation.

War is a financial boom which generates huge debts and therefore makes big "money" in this financial system. It is no accident that the world has been in near perpetual war since the capitalist industrial system took off.

So far in the twenty first century we have been at low-intensity global war which is slowly spreading, intensifying, and coalescing.

After the technology bubble burst spectacularly in 2000, we embarked on the Global War On Terror in 2001 which somehow transmuted into successive and ongoing regional wars in Afghanistan and Iraq, and now in Libya, and emerging in Pakistan, and Yemen, and Somalia, and the “horn of Africa” generally, with growing sabre-rattling against Iran and Syria.

All of these current and seemingly imminent wars coincidentally arc around the rich oil regions which back petrodollars and surround the oil supply choke point to the rising Asian region.

It is thus not unreasonable to view these developments as the opening campaigns of an emerging world war whose starting event was the 9/11 action.

Interest-bearing debt-driven capitalism has a clear historical pattern of dying in depressions and resurrecting itself in wars.

This scenario is likely playing out now even as the risks to humanity in this pattern are greater than ever before and are likely demographically and ecologically catastrophic given the nature of today’s weaponry.

It is interesting, perhaps simply coincidental, that the current array of wars, which seem unconnected and confusingly disparate to most people, are coalescing just as the financial system is in an epic slow motion collapse

And the initiators and prosecutors of these wars, meaning those most heavily involved in heating them up, are the very "Western" powers which are at the epicentre of the accelerating global financial implosion.

Without a stupendous "spending" campaign, which means a rampant borrowing campaign, for some titanic global project such as world war or something just as big, the most likely ultimate outcome now is a gigantic global deflationary depression.

We are caught in a systemic debt trap.

If we reduce interest-bearing debt creation in the name of “social austerity” or “getting our houses in order” we will rapidly induce deflation and depression by starving the economy of money.

If we accelerate interest-bearing debt creation we will keep our economies afloat, even if stagnant, but eventually induce an even more catastrophic deflation and depression because we are not solving but simply delaying, at the cost of exacerbating it, the underlying systemic problem.

Any stable and sustainable solution to systemic debt is in fact impossible in our current capitalist economy because its driving financial system is in fact systemic debt.

We will need a new and completely different sort of financial system to solve the root of our current economic problems. This is certain.

Some of us know the sort of new financial architectures which can work.

But solving the problem elegantly and peacefully is not simply an issue of logic and system engineering and good intentions. It is also an issue of power.

Changing the architectural foundation of the global financial system cannot happen without a transformation of global power relations.

The benefits to the power structure in this system are far too great, in their system of values, for them to give it up for the good of humanity. They won't leave without a fight and they know they hold all the fighting tools in their hands. So we are all trapped.

Control of finance is the developing power struggle of the next stage of this century: elite control of finance versus people power over finance.

Africa need not follow the "West" in its inevitable financial descent because this continent has exorbitant intrinsic wealth, especially its people and land, even though Africa is for those very reasons still very much in the vice-like grip of a "Western" power structure not of its own making.

The real corruption of Africa is perceptual, self-perceptual, and epistemological . . .

Africa, in fact, is by far the richest and most virgin continent on this planet and the best positioned to chart a new course: not only for itself, but for the world too.

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This article is extracted from a more complete explanation available for interested readers at:

URL -- http://www.sane.org.za/docs/systemic_debt_long.pdf

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