Finance, debt and credit growth

finance

Financing our economy resides largely on the adventurous spirit of those who are self-sufficient enough to be able to take financial risks. In fact, risk is the single most important factor in the reproduction of wealth throughout societies.

Because of its inherently adverse effects, realistically, risk only attracts two categories of individuals or entities.

The first (1) is one that knows how to offset the risks it is willing to support by pre-emptively allocating its potential negative consequences onto others that will help bear the brunt of any failures and associated losses of wealth their enterprise may face. This means that this first category of risk-taker must always consider one principal and non-negotiable condition: the foundation of his/her livelihood (including that of any closely associated partners – be they blood-related or pledge related) can never be compromised. The gamble or risk taken will always be drawn from the excess wealth (unnecessary to the maintenance of his/her livelihood in the foreseeable future).

The second category (2) of financial risk taker is that identified as the entrepreneur and most closely related to the businessperson willing and potentially able to risk energy, time, and his/her own funds as well as those s/he manages to attract from the first category of investor outlined above. The most prominent characteristic of this second type of risk-taker is that they are willing to risk all without tangible recourse to any preserved or protected fallback funding that may be considered their mainstay in times of failure.

Of course, there is a third category (3) of risk taker which I will not focus on here because it is made up of all the remaining populations for whom being born is in itself the risk or opportunity and who, whether employed or unemployed, are characterised by the fact that their lives is a tale of living ‘hand-to-mouth’, from salary to salary, from meal to meal and day to day, and who make themselves dependent on the waves and tides created within the financial systems

plotted and managed by the profit-led alliance of categories 1 and 2 of risk takers defined above, unless they find a way to break through into one or both of those two categories.

As with most things, whether we talk about the weather, the traffic, or the financial ebbs and flows experienced by all of us, 'tides and waves' mark both the times and seasons, the opportunities and recessionary periods, as well as the execution or management of all individual transactions within a range of, at one end, international stock markets, and, at the other, personal investments of all kinds, small as they may be.

The adapted synchronicity through business transactions of categories 2 and 3 above, which I'll call 'entrepreneurs' and 'consumers' respectively, will define and support the effectiveness of the original risk-taking activity because this is where the wealth deriving from category 1 investors expresses itself, and where it gets to trace the path of behaviour evidenced by society. [1]

Such a pattern has proven to be the most reliable and widespread, underlying form of economic exchange and is evident and acknowledged within capitalist societies while also remaining solidly entrenched in so-called communist societies despite the reluctance from authorities in those countries to acknowledge its pervasiveness.[2]

Consequently, regardless of ideology, levels of energy, dedication, and or stakeholder intention, the single most important element defining and structuring the creation of wealth in society through risk-taking activities is 'debt'.

debt

There is debt directly linked to finance and debt that, though ultimately linked and expressed through financial transactions, is created through assumed ownership.

[1] For an analysis of where and how wealth is accumulated by the top 0.1% of society see: https://www.stlouisfed.org/publications/regional-economist/2023/may/where-wealthiest-get-their-wealth

[2] The prevalent paradigm of communist countries such as China to measure themselves both internally and externally by primarily financial parameters and to compete for pre-eminence against 'the rest of the world' shows clearly that, despite ideological differences, the results that matter to communists and capitalists boil down to financial power first and, only then, to other criteria. https://www.weforum.org/agenda/2021/12/global-income-inequality-gap-report-rich-poor/

We understand financial debt easily enough as expressed through instruments such as loans, mortgages, credit card borrowing, bonds, etc. But there is a type of debt that grows out of a sense of ownership among humans and that is often ultimately expressed through informal obligations which, in themselves, though eventually triggering financial commitments, are more integral to the human condition and the behaviours it evidences. Family, clan, tribal, party, group affiliations or allegiances represent perhaps the most essential forms of such obligations.

There exist however, those other types of debt that have been woven into the fabric of society by continuous, mostly unrestricted financial exchanges and that have become, to a large degree, independent forms of debt underpinning and providing the 'bread and butter' support for the investment exercises of category 2, but mostly of category 1 risk-takers. Examples of these are the stock market, banking, insurance, natural resources, communications, and real estate. This type of debt-generating vehicles are based on two specific points of reference:

1. They refer to sources of wealth that are near enough or considered to be infinite in nature,
2. They are unmanageable in their totality as sources of wealth because they are intangible, unless constricted by artificial/assumed ownership and regulation.

Essentially, because these debt-building vehicles (or playing fields) rely on their inscrutability as business objects, they must be brought under the control of the instruments of regulation and the state (the representation of the peoples) so that they may then be further administered.

Subsequently and more importantly, these vehicles will be put to use for the creation of wealth by those who have the wherewithal to acquire rights, build the infrastructure and manage the service provision, even though, all along, these category 1 risk-takers do not own and have never owned or have ever had any right above and beyond that of any other individual apart from that of wealth ownership or hoarding, to occupy such privileged positions.

Accordingly and effectively then, through the construction of such vehicles and the nurturing and embedding of such debt-building proxy effect based on seemingly unlimited sources of marketable goods, the rest of the population becomes indebted to category 1 risk-takers.

I'll briefly explain the infinite nature and inscrutability of these debt originator vehicles by providing three specific examples:

the stock market

The stock market's source of wealth generation is speculation. Speculation is achieved by the purchase of a promise of substantial (compared to the size of the original investment) and speedy wealth generation (compared to the amount of time it takes to generate such potential wealth through the more established methods of salaried/waged employment, or business creation). The basis for stock market speculation's infinite nature is two-fold: a. there is no apparent or stipulated ceiling to the potential gains to be achieved through it and, more importantly, b. the basis of any potential gain is only delimited by chance, which is itself intangible, apparently unlimited, and abstruse for most people involved in it.

This means that, as opposed to the routine expectations offered by employment in the traditional sense, dealing in stocks (even when only investing small amounts of money), provides a potentially limitless source of independent earnings that may prove to be a viable substitute for the tedious routine presented by salaried work, or for the investment-heavy outlays required in setting up a business venture. Investing in stocks also refers directly to, and depends on the element of 'available time' which, in theory, is limitless or, at the very least, remains as durable as our own life may be.

Together with the universally available element of time, chance invokes the unlimited scope of unending probability which, though not truly unlimited and may be computable, presupposes the carrying out of constant calculations most people involved in stock market speculation cannot and will not be able to perform beyond certain basic measurements, or will need to outsource to a broker for a fee, thus losing part of their originally sought for independence.

Understood in this way, the stock market represents a fuzzy, chance-led, incomputable form of debt creation. An earning is only an earning once the sale is made and the investor has effectively exited trading. Until that happens, stock holding is to all intents and purposes a debt incurred (or a credit given with no security of return) and stays at the mercy of the fluctuations of the market. Before then, earnings and losses are only nominal and remain well within the scope of the gamble taking place across nations and industries. These investments also remain out of the control of all but a very limited number of disproportionately large stock owners, all of which makes stock holding a debt, acquired from risk, in all but name.

In fact, the best approximation one can offer as to the workings of the stock market may yet be achieved by providing an illustration. As I see it, the stock market behaves like a school of fish in the ocean. The large majority of stockholders and their stocks are the component parts of the school and may be represented faithfully by individual fish. The stock market (the school) moves from place to place as a group in the ocean ensuring its survival, following flexible patterns of expansion and contraction, upwards and downwards, and allowing individual stockholders to join or leave the group depending on whether they belong to the 'facultative' (free agents) or 'obligate' (institutional investors) species.

The individual stockholders and the stocks they own as members of the school can be attributed the status of 'prey'. That is, they are dependent on and at the mercy of the oceanic conditions and the behaviour of 'predators'. Predators are larger stockholders ('sharks', within the enlarged fish simile) who do not rely on school (prey) behaviour and can, from a distance, observe and pick their interventions towards the more predictable group behaviour of the school and its stakeholders and their stocks.

Additionally, and within the school of stakeholders, there are those who lead and those who follow, those who mark a direction and who are followed mimetically and within clear calculated rules of behaviour or movement (buying and selling) at specific, symmetrical distances between each other controlled by the purchasing and selling rules of the market, opening hours, and ancillary regulation. These synchronised movements are reflected in the polarisation effect so clearly visible in schools of fish being filmed underwater, in their

corporate reactions to movement and attacks (large purchases and sales) from shark-like predators, and other environmental effects such as financial news, companies collapsing, business deal successes, acquisitions, hostile takeovers, government intervention, wars, etc.

Moreover, the predictability of stockholder behaviour is rendered more patent and precise by the fact that the riskiest parts of the school (short-termists and die-hards) is that closest to its periphery, while the safest under normal market conditions (conservative/long-termists) or furthest removed from potential predator behaviour is that closer to the centre of the school which moves by inertia and effectively travels the least distance (expends the least transactional effort and cost) by comparison to those on or closer to the periphery of the school. [3]

This form of debt creation represents for both category 2 and 3 investors a source of real indebtedness based on, principally, wagering bets within parameters (time and probability) that are subjective in terms of interpretation and the time of decision making (buying and selling), and are therefore unlimited and effectively unmanageable in the standard sense, thus heightening the element of risk on which they are originally built.

No one owns the stock market; in effect, we could say that stockholders own it. Yet the truth is that only the very few, disproportionately large stockholders will be able and in fact do make the decisions that affect 'the market' in terms of ebbs and flows, boom and bust, wealth generation and poverty. The resulting prodigious running of national economies at the behest of stock markets represents a momentous form of debt creation for taxpayers who see the wealth of their governments, financial institutions, fiscal policy, pension savings, and other allegedly sheltered forms of wealth creation effectively taxed by the rule of usurious and predatorial behaviour on the part of the few in exchange for the promise of a risk-augmented gamble on products not truly owned within an undefinable measure of time.

[3] (Partridge, 1982, p. 114) For a scientific description of schools of fish behaviour.

natural resources

Natural resources also represent a sector given to an artificial form of debt creation marked by the same general principles outlined above of inscrutability and illimitability. Water, for example, belongs to all of us, to the earth let us say. Its origins may be considered a gift inherited by successive generations of people who, throughout the centuries have organised themselves into administrative units such as families, tribes, clans, villages, regions, countries, and blocks of countries.

The administration of water as a resource, and this includes the vast amount of salt water made available to us all in oceans and seas, but also that more crucial drinking water available to us through a network of rivers, lakes and streams, and dependent on subterranean depots, glaciers and, ultimately, on precipitation, has gradually become the source of speculation and a means of indebting world populations based on the erroneous assumption that water is unlimited and that, because of its several sources of availability, will always be, inscrutably (or somehow), available. [4]

Since no one individually owns water as a resource, business and financing has developed over time a mechanism (or finance vehicle) to appropriate the administration of nominally free water resources, making the populations of the world indebted and dependent on the infrastructure investments (from the well to the dam) made by the few for the benefit of the many, but also securing a substantial and elitist financial return on investment no one should – assuming water belongs to all the peoples of the earth – benefit from exclusively.

Therefore, not only have world populations become effectively indebted to large investors, government, and to management companies (who administer water resources on behalf of the government), but despite the lack of a real mandate and/or a contract to enter into such credit/debt agreement, populations worldwide are also made to pay for the upkeep and

[4] Arte's The documentary 'Lords of Water' or 'Marche de l'eau' outlines and highlights the inherent dangers of commoditizing water supplies around the world.

renewal of such infrastructure on the basis of investments made for personal or institutional profit. [5]

communications

The latest arrival into this field of financial debt creation is communications. The advent of the internet clearly shows that not only information, but the sharing of such information represents a limitless environment. Its inscrutability, that is, the defining element in its configuration that prevents users from knowing what will come next and where or when information originates in, is similarly a tangible reality for all to acknowledge.

Nevertheless, the assumption or belief that both the Internet and the information shared on it, including that managed on social media platforms, is free, amounts to a mirage. Apart from the fact that it is increasingly difficult to ascertain whether the information shared online is truthful, reliable, and/or usable, the myth that it is all free remains the most concerning of effects.

Not only is the information now shared by information platforms (the media, social media, and industry at large) not free, it is the main generative cause of indebtedness (both psychological and material) among individuals and states.

The fray to become immediately, automatically and globally available, visible and purchasable online whether we want to sell our product(s) or sell ourselves, requires investment of an seemingly intangible nature mostly defined by the amount of time we devote to these activities and which inevitably results in the outlay of additional personal and corporate resources all encouraging indebtedness for a return that remains unproven, often unfulfilling, mostly immaterial, and to all extents and purposes inscrutable.

Moreover, the underlying fracas of economic activity and the tussles for preponderance at categories 2 and 1 levels are so comprehensive that, in order to generate category 3 (consumer) investment in time and money to secure the success of their enterprise, and

[5] The broad outline of this phenomenon is shown in this BBC article: https://www.bbc.co.uk/news/science-environment-65626241

seeing the palpable and exponential number of opportunities appraised by businesses and risk-takers available in terms of sheer numbers of potential buyer/debtors, [1] finance has pushed the world of government and business to the partitioning of space (another intangible resource) through concerted LEO and MEO satellite proliferation programmes specifically involved in the enablement of communications infrastructure building across the world. [6]

credit growth

The opportunity for the creation of debt can only be supplied by credit. Debt and credit are two sides of the same coin. Nevertheless, whereas debt represents that which is owed and for which a liability is incurred, credit stands, in its widest definition, as the undefined source of 'good will', allowing for the creation of debt and the growth of economies.

To draw a picture and provide a simile: debt is the breakfast cereal we eat and need to renew daily to keep going, while credit is the bowl made available for us to place it in. I explain. It is pointless and untrue to equate credit to infinite and inscrutable, usable, or consumable constituents, be these money, resources, or products of any kind. Credit is not defined by what creates debt, the money lent, the provisions purchased on credit, or the liabilities incurred in an investment or protection vehicle.

Credit is irremediably tied to the prospect of growth and, as such, represents the receptacle rather than the contents of what we term indebtedness as an economic and social phenomenon. That is, the creation and facilitation of credit represents both the origin of all growth and the instigation of all debt.

Banks, both national and private are the clearest illustration of such a notion. Individuals and countries alike go to their banks to solicit the ability to spend money that is in excess of what they may currently materially possess. Banks then build up their own loans on such theoretical ability to handle the cumulative excesses requested by both nations and individuals, and bet against future returns (interests and repayments) while not having anywhere near the promised amounts of money materially in their vaults. National banks' quantitative easing

[6] According to statistical projections, the number of smart mobile phone users worldwide will exceed the world population by 2028: https://www.statista.com/statistics/330695/number-of-smartphone-users-worldwide/

policies instituted as standard policy since the 2008 world financial collapse has provided the 'third (fictitious) leg' for both national economies (social services) and private banking to stand on and keep on feeding the growth dream.

Subject to unconditional availability, open to extended timeframes in its operation (an average mortgage will take between 20 and 30 years to repay for example) and left to the strategizing of category 1 and 2 risk-takers, credit becomes an engine causing repeated waves of boom and bust, growth and recession, wealth and poverty unfolding into what constitutes a vicious cycle of materialistic ownership and dependence where financial gain is by far the first priority.

Therefore, the 'credit bowls' created thus for the administration of intangibles defined by the concept of 'good will credit', and which translate into the specific debt vehicles exemplified above (the stock market, natural resources markets, and communications among others), generate in our economies an extreme separation between levels of wealth and wellbeing among the (mostly invisible) owners (category 1 risk-takers), and the business and state (category 2 risk-takers) creators of the vehicles that induce and push at an even further remove, populations worldwide (category 3 risk-takers) engaging in the economy.

These breakfast bowls of credit and the associated vehicles that enable the creation of business interests, guide governmental regulation, and provide the basis for the interpretation and explanation of business strategy and government policy, simultaneously depend on and are underscored by consumer indebtedness which they (categories 1 and 2) themselves have formed and managed, and from whose obligations and restrictions they remain remarkably and disproportionately aloof.

The actual needs of the individual whether in so-called 'prosperous and advanced' societies or in impoverished ones are very much the same. We all need a daily provision of food, accommodation, clothing, and a purpose often fulfilled through an activity that generates wealth sufficient for the satisfaction of our daily needs (and those who depend on us), in sickness and in health, throughout our lives.

In prosperous and advanced societies and to a very large degree, such needs are inflated by a disproportionate and unnecessary availability of choice generated by business and by government and supported financially by category 1 risk-takers in pursuit of visionary objectives through mechanisms for profit generation and [7] invariably resulting in perpetual imbalances not only across large parts of the world but also within the economies and countries that appear to most benefit from such enterprises.

The paradigm is brought up constantly by world 'watchdogs' such as the World Bank and the World Economic Forum [8] and mention is repeatedly made about the need to implement "redistribution of wealth" and reduce "income inequality". This message is supposed to be, again, one of good will, yet it is precisely the long-standing ability of the few to offer 'the redistribution of wealth' that has created and perpetuates the problem in the first place.

We should ask, how will the self-same agents that have formed and established the foundational elements of unconditional credit frameworks (public and private debt-generating vehicles and instruments) and debt perpetuation through the growth of unlimited and unwarranted needs, how exactly are they going to redistribute wealth and bring income to parity without dismantling the current mechanism that has brought them to the pinnacle of their success?

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[7] For my views on the business cycle you may want read my article: 'On sustainability and consumer behaviour': https://www.academia.edu/36728547/On_sustainability_and_consumer_behaviour

[8] https://blogs.worldbank.org/opendata/march-2023-global-poverty-update-world-bank-challenge-estimating-poverty-pandemic
https://www.weforum.org/agenda/2021/12/global-income-inequality-gap-report-rich-poor/