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Koen Byttebier

The Unfree Market and the Law

On the Immorality of Making Capitalism Unbridled Again

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Preface

Building further on the insights which have led to my previous books *Nu het gouden kalf verdronken is*[1] and *Towards a New International Monetary Order,*[2] in this book, I have made an attempt to describe the system of values of capitalism.

It hereby appears that, particularly since the rise of economical liberalism in the eighteenth century, the values of "selfishness", "greed" and "egoism" have gradually succeeded in claiming a central position in socio-economic thinking and behaviour.

Although one could argue that these "values" of "selfishness", "greed" and "egoism" already started determining the shape of so-called indirect trade economies[3] since their very beginning, as of the seventeenth century, a philosophical theory later in history referred to as "economic liberalism" would succeed in offering an ideological justification for this choice of values, which have since then increasingly determined the outlook of the world economy.

Various capitalist mechanisms which are based on these values have since then contributed to the success of capitalism as the current dominant economic system on earth, such as (*i*) the prevailing monetary system, based on the power to newly create money to a large extent being handed over to private banks; (*ii*) the model of organizing enterprises through companies and corporations, as well as the financial markets stemming from this; and (*iii*) the liberal and later neo-liberal principle holding that business profits are more important than the labour of hard-working people, hence, of people themselves, in addition to (*iv*) less obvious mechanisms, such as the liberal doctrines of freedom and equality, which translate into a variety of legal techniques, among which is the theory of voluntary association that forms one of the main legal building stones of the capitalist economy.

It has not been until far in the twentieth century and after two devastating world wars that initiatives were taken to create certain elementary mechanisms which have

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[1] See Byttebier (2015b). See also Byttebier (2015a).

[2] See Byttebier (2017).

[3] Referring to economies in which trading goods and services in a direct manner has mainly been replaced by trade based upon the payment of money.

aspired to counter (unbridled) capitalist practices. During the post-World War II era, this would lead to the introduction—at least in some countries—of the so-called welfare state model, which in substance is a collective term referring to mechanisms of socio-economic planning introduced by public authorities which aim at offering a certain type of protection to the working classes and, by extension, to the weak and poor within society, against the dominant capitalist exploitation mechanisms.[4]

Nonetheless it is a fact that, from the 1980s onwards, an economic ideology broke through which, in an even more aggressive way than the predecessing theories of economic liberalism, has attempted to reduce the entire world economy to one large "free market". Obviously, here reference is made to the theories of economic neo-liberalism,[5] which is in itself a collective term for a variety of doctrines in economical thinking which, summarized, advocate "more (so-called) free market" and "less state" and which, for that exact reason, oppose the mechanisms mentioned in the previous paragraph aimed at establishing a more just society than the one that resorts to a blind application of the free market system itself.

Since then, the implementation of the theories of economic neo-liberal thinking has taken a relentless rise which has been changing the appearance of the world more and more extensively. As a result, more than ever before in history, humanity is in the grip of the values of selfishness, greed and egoism, or, to make reference to the term used by Jesus Christ in the Gospels (see Matthew 6:24, and Luke 16:9-13), of "the mammon", the money devil which thus has obtained the status of the one god which is to be worshipped in accordance with the theories of economic neo-liberalism.

Meanwhile, the world is more and more in ruins, characterized, inter alia, by a threat to the ecosystem as a consequence of the interminable exploitation of the natural resources, a shameless exploitation of a major part of the human population, an increasing polarisation between the poor and the rich within society and, in general, a clearly unjust socio-economic order.

As a result, the world is increasingly becoming one where only money counts and where the rich dominate. Strangely enough, this has already been warned about for millennia, for instance by leading philosophers (such as Plato and Aristotle), next to prominent spiritual teachers from Buddha to Jesus Christ, whose doctrines, although being followed by billions, seem to have had little real influence on socio-economic structures, especially those preached by the contemporary gospel of economic neo-liberalism.

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[4] Taylor-Gooby (2013), p. 2, defining the welfare state as follows:

> The welfare state, the idea that a successful, competitive, capitalist market economy can be combined with effective services to reduce poverty and meet the needs people experience in their everyday lives.

Taylor-Gooby refers to the welfare state model as "the great gift from Europe to the world". (See Taylor-Gooby (2013), p. 2.)

[5] According to Bouquin, the theories of economic neo-liberalism already date back to the years after World War II. (See Bouquin (2015), p. 88.)

The question arises as to whether there is still anything to be done to counter this, and if yes, what.

This book aspires to offer an incentive to reflect on this matter, not by providing yet another treatise on economics, but by, on the contrary, on one side undertaking an inquiry into the value scales that, throughout history, have determined the content of the two aforementioned main economic schools, namely the schools of economic liberalism and of economic neo-liberalism, and on the other side wondering if there can still be alternatives perceivable for the many dogmas with which these both economic schools have brainwashed mankind.

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Contents

Chapter 1
General Background

1.1 Introduction

It may be a witticism to hold that, during the past decades, the world economy has gradually evolved into a unitary capitalist system.

In contradiction to what the ideology of economic liberalism and later the very similar ideology of economic neo-liberalism, which are the main causes of this,[1] would like us to believe, this has hardly been a coincidence at all.

On the contrary, among prominent economists, next to scientists from other disciplines, the awareness has emerged that the domination of capitalism as a unitary global economic system has been mainly the result of a deliberate manipulation of human thinking itself, with all its known detrimental consequences.[2]

This awareness puts the central economic questions of our time immediately in the right perspective that, throughout the ages, the word economy has been the arena of an ongoing struggle of values and ideas, whereby one can but observe that, especially during the past decades, the doctrines of economic thinking and action which emphasize greed, selfishness and egoism as central economic values, have increasingly gained ground from the doctrines which have attempted to promote the opposite values of sobriety, sharing and altruism.[3]

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[1] As a side remark, it can be observed that (economic) neo-liberalism is not much more than the contemporary manifestation of (economic) liberalism itself.

[2] See for instance Krugman (2008) and Akerlof and Shiller (2015).

[3] Fortunately, more and more people are meanwhile becoming aware of this.

A notorious example from the recent past has been Severn Cullis-Suzuki, a Canadian environmentalist who, since her youth, became famous for her commitment to the environment. According to Cullis-Suzuki, as a consequence of globalisation (and the world-wide copying of the Northern American consumer society model), people have started to live extremely artificial lives and are no longer connected to the environment. Cullis-Suzuki for instance gives as examples that people are totally disconnected from the production of their food, as well as from most other objects they use, and that they see unbridled consumption as the highest form of development. This has lead to the

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1.2 The Mystical World of Capitalism as Shaped by the Doctrines of Economic Liberalism and Economic Neo-liberalism

The notions “capitalism”, “(economic) liberalism” and “(economic) neo-liberalism” all comprise terms which are often used, but which cannot easily be assimilated into a precise definition.

Capitalism[4] has been referred to as the economic system based on the way businesses operate through the investment of capital, hence of (surpluses of) (savings) money, and whereby these businesses above all aim at maximising profits which, in the end, are meant to enrich capital investors. To reach this goal, these businesses produce all kinds of goods or services at the lowest cost possible, in order to sell them on the market at the highest price possible.

In other words, capitalism is substantially an economic system stemming from the practice of an indirect trade economy based on monetary traffic.

It is hereby obviously not easy to determine[5] a precise starting date of capitalism.

The question even arises if capitalist practices are not as old as the use of money itself, at least as old as the emergence of savings activities based on the use of money.

Nevertheless, certain authors have placed the general breakthrough of pre-capitalist practices within Western society(ies) in the middle ages, more specifically at the revival of the (interregional and international) trade from the eleventh and twelfth century on, a period during which the acquisition of possessions became a way of life for many, and methods of circumventing religious-ethical barriers to capitalist principles, such as the ecclesiastical interest ban which had been prevailing for centuries before,[6] gradually became more and more accepted.[7]

In the world of ideas, one could be inclined to link the emergence of true “capitalist thinking” with some of the fathers of Protestantism, notoriously Calvin, as he opposed the classic medieval ecclesiastical interest ban, clearing the path for the idea that money in itself could yield new money (= interest). In a more general way, protestant doctrines produced a caesura with Catholic Christian thinking which up

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fact that people have started to abuse the earth, whereby an individual is barely linked to the consequences of his selfish behavior. Another part of the problem is that politicians act in accordance with an alleged mandate that there should be unlimited economic growth, which has resulted in a set of values that needs to be completely modified again (see Kuin (2014), p. 218).

[4] Galbraith has indicated that (contemporary) adherents of capitalism prefer to avoid this term and rather refer to the “free-market”-system (see Galbraith (2004), p. 3).

[5] Bernstein (2004), p. 19.

[6] For a contemporary analysis of the interest-mechanism as a method through which the rich get richer to the detriment of the poor, see Stiglitz (2003), p. 81.

[7] Vandewalle (1976), p. 7; Ripert (1951), p. 13.

till then, under reference to the Scriptures themselves, had managed to resist the breakthrough of several capitalist practices. It is therefore probably not a coincidence that (pre-)capitalism as the general accepted economic system emerged first in the German territories (in the sixteenth century) and in Holland and the United Kingdom (in the seventeenth century) as these regions where among the first to embrace the ideas of Protestant Christian thinking. Since then, capitalism started to peak from the eighteenth century onwards, and especially in the nineteenth and twentieth centuries evolved into the dominant global economic system.[8]

Although the practices of capitalism for the first time in history gained a large degree of validation in Protestant Christian thinking, it has nevertheless been a number of at first philosophical, and later economic schools which would provide a strong ideological base which, in turn, has helped to contribute to the great success of capitalism as the dominating economic system of our times.

The most important of these schools are obviously the schools of "economic liberalism" (basically having installed capitalism) and of "economic neo-liberalism" (aiming at making capitalism "unbridled" again).

According to the theories of economic liberalism, dating back to the Scottish moral philosopher Adam Smith, private entrepreneurship (and more in general: private initiative) should play a central role within economies and public authorities should refrain from any action which could hinder their activities. Of central importance is individual property by which an individual can deploy his economic initiatives.[9] This goes hand in hand with the further idea that the capital providers of a business are seen as its (economic) owners, which is why it is considered normal that the profits resulting from businesses mainly should flow back to these "owners", i.e. the capital providers or shareholders, rather than to the labourers or to society in general.

It is evident that economic liberal thinking has, from its birth, been closely related to the interests of the bourgeoisie as the new prevailing class of the liberal society that took shape as of the eighteenth century, and mainly shaped capitalist economies in the course of the eighteenth, nineteenth and twentieth centuries in many European countries, as well as in their (former) overseas colonies.[10]

The doctrine(s) of economic neo-liberalism is (are) probably even harder to define than economic liberalism itself; to a certain extent, one could even define economic neo-liberalism in a broad manner as a collective name for contemporary philosophies and economic models in favour of capitalist practices.

[8] Ripert (1951), p. 14; Fromm (1979), p. 83 a.f.; Byttebier (2015), p. 129.

[9] Stiglitz (2010), p. 201.

[10] As a consequence of this, within liberal and neo-liberal thinking, one has traditionally advocated fiscal policies which serve the interests of the bourgeoisie, such as the idea that the operation of businesses should, as much as possible, be exonerated from substantial taxes; as a result, worldwide, taxes have mainly been impacting income from labour rather than income from capital. This will be discussed further in this book. (See, furthermore, especially under Sect. 4.6.)

Nevertheless, in terms of content, economic neo-liberalism is obviously very closely related to economic liberalism itself.

The doctrines of economic neo-liberalism have, for the most part, originated in a number of Western countries since the sixties of the twentieth century,[11] as a reaction to the breakthrough of the so-called “welfare state model” and the “mixed economy” to which this had led.[12]

The welfare state model hereby appeared to cause a serious challenge to members of the rich classes within society, as financing a welfare state was, in their view, undermining their business profits (of which, given the way capitalist economic model functions, indeed a part was needed for the financing of several welfare mechanisms).[13]

This opinion gradually led to the development of an ideological line of thought in which a central role was laid down for the myth of the free market. In this world view, anything hindering this free market should be eliminated as much as possible. In other words, in this neo-liberal approach, it is not the role of public authorities to work out a welfare state model, but their main task is to prevent the emergence of obstacles hindering free market operation, in addition to develop active policies of supporting such free market operation.

The implementation of neo-liberal thinking since then has in practice been accompanied by different governmental measures to achieve these goals, such as the economic theories and practices of “monetarism” and “consumerism”, next to techniques such as the privatization of state owned businesses and the cutting down on several government expenses, such as those related to public education and social care.[14]

Particularly with effect from the 1980s, the ideas of economic neo-liberalism have exerted a strong influence in many countries to the extent that, up till this very date, a majority of the world countries is more or less pursuing a social and economic policy which heavily relies on the doctrines and ideas of economic neo-liberalism.[15]

One of the major consequences of this liberal and neo-liberal (economic) thinking has been that it has strongly contributed to the expansion of capitalism and to making it “unbridled” again, at the same time shaping the currently prevailing societal model in which greed, selfishness and egoism have become the leading mechanisms determining relationships on a socio-economic level.[16]

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[11] According to Bouquin, the roots of neo-liberalism may already be situated in the period after World War II. (See Bouquin (2015), p. 88 a.f.)

[12] About the state welfare model, see Stiglitz (2010), p. 197.

[13] Compare, as regards the UK especially, Taylor-Gooby (2013), p. 2.

[14] Chomsky (2017), p. 68.

[15] Neo-liberal thinking links closely to political conservatism (mainly defending the interests of the rich and powerful within societies).

[16] Compare Congregation for the Doctrine of the Faith (2018), n° 9.

1.3 The Greed Is Good-Credo

As demonstrated in the previous Sect. 1.2, both economic liberalism and economic neo-liberalism are based on the belief that man is above all a selfish being who should behave in the most selfish way possible, especially in socio-economic relations.

This belief system is strikingly defined in the so-called "greed is good"-credo.[17]

Within this way of reasoning, selfishness is not only an end in itself, but also a means to give effect to socio-economic relations. This implies that, especially within a socio-economic context, every person has to make the best possible efforts to reach his own selfish goals, which will provide the economy with the necessary impetus for productivity and innovation resulting in the greatest possible level of prosperity for all economic players.

Moreover, as has been put forward by Skidelsky and Skidelsky, the ideology of economic neo-liberalism has been consistently hostile to the idea that any amount of wealth (or money) could ever represent "enough",[18] going hand in hand with the idea that the economy will and should keep on growing forever.

Through this belief system, economic liberalism and economic neo-liberalism obviously appeal to the lowest impulses of human behaviour.

As economic neo-liberalism has meanwhile become the predominant economic discipline on earth, both in every day practice and as the basic ideology determining government policies on a global scale, selfishness, individual greed and egoism also have gradually become the predominant moral values in socio-economic thinking and action.

This underlying thought implies that if every human being fully embraces the idea that he should behave as selfishly, greedy and egoistically as possible, everyone will act in an active and productive manner, causing economy to flourish and grow further, which in return will provide a breeding ground for a world where all people will be able to live a good and luxurious life (also referred to as the "trickle-down-economics").

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[17] The quote "greed is good" (purportedly) goes back to tot Gordon Gekko, a character from the movie "Wall Street" (1987) (a role portrayed by Michael Douglas who received an Oscar for it).

The movie character Gordon Gekko is (even so purportedly) slightly based on financial investors Ivan Boesky and Carl Icahn. In the movie Gordon Gekko holds a speech with following quote (see http://nl.wikipedia.org/wiki/Gordon_Gekko; last consulted on June 16, 2018):

> The point is, ladies and gentlemen, that 'greed' — for lack of a better word — is good. Greed is right. Greed works. Greed clarifies, cuts through, and captures the essence of the evolutionary spirit. Greed, in all of its forms — greed for life, for money, for love, knowledge — has marked the upward surge of mankind. And greed — you mark my words — will not only save Teldar Paper, but that other malfunctioning corporation called the USA.

Since then, the quote has been repeatedly referred to, even in economic literature. (See for instance Tyler (2013), p. 36; Peterson (2011), p. 96; Krugman (2004), p. 110.)

[18] Skidelsky and Skidelsky (2013), pp. 40–41.

It is crystal clear that, like is the case for many ideologies, economic (neo-)liberalism is intrinsically based on a utopian world view which is completely out of touch with reality, and that it has hardly been fulfilled in practice.

As a result, over the past years, many human scientists have come to the conclusion that both economic liberalism and economic neo-liberalism are mainly based on a number of imaginary principles and, above all, through their impact on the socio-economic system, have given shape to a completely unjust world.

This will hereafter, step by step, be further demonstrated and illustrated, where our attention will first go to a number of so-called "obvious capitalist mechanisms" (see Chap. 2), secondly to a number of so-called "less obvious capitalist mechanisms" (Chap. 3) and finally to some reflections on the outlook of the contemporary capitalist system (Chap. 4). In Chap. 5, we will conclude with a number of lines of thought about how the socio-economic organisation could further evolve for the better towards the creation of a system that truly promotes social welfare and societal well-being.[19]

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Chapter 2
On Some Obvious Capitalist Mechanisms and How They Evolved Under the Doctrines of Economic Liberalism and Economic Neo-liberalism

2.1 The Quasi Monopoly of the Private Bank Sector as Regards the Creation of Money

2.1.1 The Origin of the Western Banking System

The success of capitalism as the predominant economic system of our times is to a large extent the result of the way in which the prevailing monetary and financial system provides individuals, businesses, economies and even states with the means of financing their activities and operations.[1]

It is indeed especially through the monetary and financial mechanisms driving the money and capital markets that capitalism determines the distribution of global wealth, in a way that mainly expresses the motives of selfishness, greed and egoism which have been declared as the determining values by both economic liberalism and economic neo-liberalism.[2]

Although throughout history various systems of money creation have prevailed, and there even have been long periods of time during which money creation was mainly in the hands of public authorities, the breakthrough of capitalism from the seventeenth century on has completely changed the way (new) money is created, with itself caused money and capital, to a large extent, ending up in the private hands of a small elite of market players, in a process where practically all other social values have gradually been sacrificed to the hunger for ever money of a few individuals.

[1] Compare Kennedy (2013), p. 8, pointing out that "money", but also "capital", "labour", "credit" and "liquidity", all are "creatures of the law", implying that law not only regulates such things, but creates them. This implies that the history of political and economic life is at the same time also the history of institutions and laws.

[2] Chomsky (2015), p. 34.

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Indeed, since the rise of the modern Western banking system during the course of the second half of the Middle Ages, the power to create money has gradually ended up in the hands of a few private bankers.[3]

Private bankers getting hold of the power to create new money manifested for a first time when medieval money changers saw in the practice of deposits of coins issued by public authorities and cast from precious metals, an opportunity to issue so called "private paper money" for much higher sums than the underlying coins deposited by the general public with these money changers who, by doing so, themselves evolved into bankers. Such issuing of privately created paper money became in itself part of a practice by which bankers increasingly started to grant credit whereby, on each occurrence, new paper money was issued in excess of the reserves in precious metal coins which the banker held. This system was, hence, literally one where such a banker, totally "out of nothing" and "by doing (almost) nothing",[4] created new paper money.

The success of this practice supplied the economy of the western regions in which it occurred, with new money at a much faster rate and for far greater amounts than before in history had been possible in an economy based on coins cast from precious metals.

The upside of this (then) new mechanism of money creation by private market players "out of nothing" was that it provided a breeding ground for a much faster economic growth. The downside was that money became a synonym for credit, in which the initial borrower (who first received the newly issued money) was expected to produce a sufficient degree of economic wealth to be able to pay the credit back, implying that a very high pressure was placed on the collectivity of borrowers to aim for an ever-increasing economic growth that was needed to keep in pace with the increase of money that itself was issued in the form of a repayable credit.[5]

There is no doubt that this technique of creating privately issued new money out of nothing has played a crucial role in the development of capitalism, but, by extension, also in the way that man, as an individual, relates to his surroundings (which does not only include other people, but also the entire eco-system of planet).[6]

The expectation generated by this new monetary system was that the bank credits—representing money created out of thin air—would translate into true economic wealth that in its turn would enable the borrowers to pay the credit back.

As a result, this (at that time) new mechanism of creating new money would turn out to be of decisive importance in creating an economic setting in which, gradually, all society and, by extension, the whole planet, would be beholden to the objective

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[3] Galbraith expressed this as follows (see Galbraith (1977), pp. 164–166):

> With banks came the power, given to few private citizens, to create money.

[4] On the still prevailing ease of creating new money, see Cole (1937), p. 206.

[5] See also Galbraith (1977), pp. 166–167.

[6] See also Turner (2016), p. 133 a.f.

that credit resulting in new money being created "out of nothing" needed effectively to be paid back.

Looking at this process rationally, it is somewhat astonishing that this mechanism has been able to have such an economic and societal impact, and moreover, that the collectivity of mankind has been seduced to embrace the whole idea that such a system could be even possible.

Indeed, from the viewpoint of a banker (creditor) partaking in such a monetary system, the mere agreeing upon such a credit agreement resulting in newly created money, requires little or no effort. Through a simple decision (in fact a simple "yes"), such a banker/creditor exercises the power to create new money out of thin air, sometimes for large amounts. Hence, without much effort, private bankers obtained the power to create huge sums of new (paper) money.

However, already from the start, the story of private money creation through bank credits sounded a bit more complicated from the borrower's end. Under a credit agreement, the credit taker is bound by the obligation to repay the money (which the bank/creditor creates out of nothing) at a future moment in time. Otherwise put: upon entering into the credit agreement, the credit taker gets a sum of money at his disposal, by means of which he can finance various expenses. However, this happens on the condition that, in the near future (determined by the terms of the credit contract itself), the credit taker will manage to repay the credit. This in itself has to be done on the basis of a return obtained from real economic efforts (as opposed to the effortless decision of a bank to grant a credit), implying that a credit taker submits himself to an expectation of gaining a sufficient amount of money out of his economic efforts in order to be able to comply with the credit agreement's repayment terms and conditions.

This way, a bank credit agreement links the relatively simple act of private money creation, which can so to speak be approved by a simple nod from a banker, to the expectation that real economic efforts will be made so that the credit taker obtains an income which at the very least will be sufficient to repay the credit (on occasion: increased with interests).

It can be easily understood that this mechanism would create an immense pressure on the economy. As the collectivity of bankers under such a system had a wide range of clients/credit takers, this system soon also implied an immense competition between economic players (in their capacity of credit takers) which in our times has even degenerated "into an (economic) war of everyone against everyone"[7] and whereby every participant in this play of economics attempts to extract enough wealth from economic activities in order to be able to pay back his bank credit(s) (where applicable: with interests), as well as keeping a sufficient amount of profits for himself.[8]

[7] Further reference can be made to Sect. 3.3 hereafter.

[8] For further details, see Byttebier (2015), p. 115 a.f.; Byttebier (2017), under Sect. 3.3.3.

2.1.2 The (Medieval) Interest-Debate

During the rest of the Middle ages, a second evolution took place further emphasising said impact of the at the time newly developing technique of private money creation through bank credit agreements.

This second development concerned the way society started dealing with the ability (or inability) of contracting parties to agree upon a so-called "interest" (to be paid in addition to the repayment obligation itself).

From a contemporary viewpoint, the idea of interest payments is, of course, generally accepted (at least in Western economies and/or economies based on Western thinking). Hence, it may even sound perplexing that, from a historical perspective, also in the West, the interest mechanism has during a large part of history been anything but evident.

Drawing on the importance of philosophers from the Classical Antiquity (among whom Plato and Aristotle), but also on the Old and New Testament[9] and on the teachings of certain early "church fathers" (for instance: the Saints Ambrose and Augustine of Hippo), from the fourth century on, a church doctrine started prevailing that strongly challenged the permissibility of interest charging. In a nutshell, this church doctrine also known as "the (medieval) clerical interest prohibition", stated that the levy of interest was sinful as it introduced a method by which the rich could appropriate ever more wealth at the expense of the poor within society. Hence, such behaviour was considered to be opposed to the teachings of Jesus Christ Himself who on the contrary called for handing out one's wealth.[10]

Based on this clerical doctrine, already early on in church history, clerical authorities, among which the famous councils of early Christianity that dealt with the fundamental issues of the Christian faith, but also worldly Christian monarchs such as Charles The Great and his son Louis The Pious, tried to introduce an overall ecclesiastical interest ban which would cover all Catholic territories.[11]

Along with the renewed emergence of trade and, through this, of (pre-)banking in the course of the eleventh and twelfth centuries, the ecclesiastical interest ban would gradually be challenged, initially through the development of practices enabling to "bypass" the interest prohibition (a typical example was the use of discount mechanisms in the context of the letter of exchange) and, later on, because credits were openly provided at interest rates. Through this, it got gradually advocated that the interest prohibition should be abandoned. The latter opinion would even become one of the main stakes in the clerical schism, as a result of which interest would become a legitimate Christian credit practice in the European protestant regions.[12]

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[9] Including the words of Jesus Christ Himself, as recorded in the four Gospels.

[10] For a thorough (historical) analysis of this doctrine, see Byttebier (2017), p. 115 a.f.

[11] For a more detailed analysis, see Byttebier (2015), pp. 115–136; and Byttebier (2017), p. 115 a.f.

[12] Galbraith (1977), p. 164; Byttebier (2015), pp. 127–129.

2.1.3 The Evolution Towards a Credit Economy Dominated by Private Bankers

The emancipation process referred to at the end of Sect. 2.1.2 would have an important impact on medieval banking practices (especially in the second half of the Middle Ages).

As during this period, the levying of interest was deemed to be more and more legitimate, banking would increasingly base its practices of credit lending based upon the abovementioned new credit mechanism, where credit takers were increasingly expected not only to repay the principal, but also the agreed upon interests.[13]

It needs not much explanation that this interest mechanism increased the pressure on the economy even more. The levying of interest moreover made the granting of bank credits an increasingly lucrative activity. The simple granting of a credit by a private banker not only resulted in the issue of new paper money, but also created a (potentially very important) new source of income for such banker, at the first place due to the fact that the "out-of-nothing" created money had to paid back, given the fact that is was at the same time credit, and, secondly because of the interests the credit taker owed to the banker. In this way, very high profits were generated by the minor effort of saying "yes" to a credit request (hence: a decision to create new paper money).

Moreover, this mechanism allowed a considerable amount of freedom for speculative credit lending, where private bankers were increasingly tempted to provide high risk credits. Indeed, the losses from non-repaid credits could be borne by the interests effectively paid by "good" credit takers, especially when the interest rates were sufficiently high to take into account this risk margin of bad payers. This would not only lead to an increasing risk behaviour of the private bankers, but would also present global society with a new type of free riding behaviour (and even with "bad money"). As Western societies became increasingly dependent on private bankers for their supply of new money, good credit takers were also increasingly subjected to the risks created by bad payers, especially when private bankers started to base their calculations of the average interest rates they would apply on the risks imposed by these bad credit takers.

Probably one of the most important consequences of the new credit mechanism has been that both the continuous creation of new money it implied, as the interest mechanism it got based upon, above all created a high expectation of continuous economic growth. Credit takers were indeed not only expected to pay back the basic amount of the credit granted to them (which, as said, represented money that had been created out of nothing), but also the agreed upon interest.

In other words, the collectivity of credit takers within such an economic system were all more and more expected to generate enough income to pay back the credits

[13] On the history of (early) banking, see furthermore Ferguson (2009), p. 42 a.f.

themselves, as well as the agreed upon interest, obviously enhancing the prospect of economic growth even more.[14]

This historical evolution would eventually contribute to a fundamental shift of values. The expectancy of a continuous economic growth which was necessary to allow credit takers to pay back credits enhanced with interests, would already on itself create a breeding ground for the development of an economic system characterized by selfishness, greed and egoism. As more and more economic agents, among which even states and other public authorities, entered the capacity of credit takers who started existing and behaving under pressure to repay their credits and the agreed upon interests, this effect got over time more and more enhanced.

It is precisely this expectation of an ever-growing economy as implied by the private money creation mechanism that is based upon private bank credits that up till now has determined the shape of the capitalist world economy, with its many disastrous characteristics and consequences.

Nevertheless, notwithstanding the above, the path of private money creation has not always been a rosy one.

It is hereby crucial to be aware that the above explained medieval private paper mechanism model kept on presupposing an underlying commitment by the issuer of the new (paper) money, upon request, to exchange the paper money for an equivalent amount of money in precious metal coins. Earlier in history, coin money had indeed been the only type of money available, and it had been deposit agreements regarding such coin money which had brought private bankers to issue private paper money, initially as means of evidence of such deposit agreements, but later in excess of such deposits. Even after the private bankers were tempted to bring more and more paper money into circulation, as this provided them with high profits through the interests they started charging, the underlying exchange obligation indeed remained in place, enabling the holders of the paper money to exchange it back into precious metal coins at their convenience.

The more a private banker issued paper money, by definition above the amounts of precious coins he held in reserve, the more his ability to meet this exchange obligation decreased, as the amounts of precious coins held in cash by the banker remained relatively unchanged in comparison to the increasing amounts of paper money issued by the same banker.

It is evident (as is the case with any form of money) that such a mechanism implied a large degree of mutual confidence, which could only be maintained as long as a large number of holders of the newly created paper money expressed their confidence in the underlying exchange commitments of the private bankers. When, on the contrary, the holders of the new paper money lost their confidence that the issuing bankers would be able to meet the underlying exchange obligation, they got inclined to ask their coin money back, which of course made the new private money creation model inherently vulnerable.

[14] Galbraith (1990), p. 19.

2.1.4 Inherent Flaws of the Medieval Banking System and the Search for Remedying Them

In various parts of Europe (especially in large urban areas where banking activities were most prevalent), the risk of a confidence breach between the private bankers and the holders of paper money manifested repeatedly in the course of history and, in some cases even led to bank bankruptcies.

Moreover, these bankruptcies impacted highly on the rest of the economy when, due to the phasing out of a bank (who was per definition also a private issuer of paper money), the money issued by this bank became valueless (and through this, the purchasing power it had represented so far got lost), with all obvious consequences. To the extent that bankers were often also holders of each other's paper money, cascade effects could occur where, through the demise of one banker, other bankers were impacted as well; this could even have a highly disruptive effect on the whole of society.[15]

Especially when the inherent risks of this monetary system manifested, in the course of the seventeenth, eighteenth and nineteenth centuries, in many Western countries, governments started to look for ways to counter the flaws of this private money creation mechanism, which gradually resulted in the rise of an (early) central banking system.

Without the existence of a real blueprint—since the mechanisms described here have mainly been the result of a process of "trial and error", rather than the result of a well-thought upon system[16]—the central banking system in most European countries gradually adopted a similar structure, with as main characteristics: a prohibition on (or at least a strong restriction of) the ability of (ordinary) private banks to issue private paper money, next to the granting of the (exclusive) power to create paper money to a single central bank, which henceforward was not only given a monopoly to issue new paper money, but also usually was granted a role of supplying other (private) banks with the new (governmental) paper money, next to a role as lender of last resort for the benefit of these other (private) bankers.

2.1.5 Further Evolution of the Western Banking System

After these (early) government interventions referred to in the previous Sect. 2.1.4, it seemed for a while that a "monetary peace" had returned, be it that the private banking system, driven by its boundless hunger for ever more profits, would quickly

[15] Galbraith (1990), p. 20.

[16] One could even argue that, throughout all human endeavor, "trial and error" has been the usual "method" or rather "process" of creating societal systems, and for coming up with solutions to problems arising from living together (see Popper (1940), p. 403).

discover new opportunities of participating in the money creation processes which would gradually result in the monetary system prevailing up to this very date.

Looking back, it is difficult to avoid reaching the conclusion that mankind would, as a consequence of these evolutions, very quickly step into the same trap for a second time in history, whereby the real economy would be driven into a model of an expectation of continuous growth as a consequence of a hoax thought up by the private banking sector.

A determining factor of this evolution has probably been the willingness of many other market players to surrender to their own selfish profit motives, a willingness which was enhanced through new philosophies (such as "rationalism") that gradually took the place of former Church teachings as the guiding thought systems determining the outlook of European (and through Europe's colonialism, even global) civilisation.

The new technique of participating in the processes of money creation by the private banking sector which broke through in the course of the eighteenth century was all in all not very different from the earlier described processes of private creation of paper money.

As indeed, from the seventeenth to eighteenth centuries on (with certain differences between countries), private bankers could no longer issue newly created paper money themselves, they sought new mechanisms to facilitate bank credits. This led to the development of credit lending through methods of mere bookings on (banking) accounts. In simple words, this mechanism implied that a private banker granting a credit made the money available to the credit taker through means of a booking on a banking account held by this credit taker. As a result, the banker recognized a conventionally created debt, in particular the commitment to pay out the agreed upon credit amount to the credit taker, and, conversely, the credit taker obtained a claim for payment of the credit granted to him by the private banker. The credit taker could then make use of this claim on his private banker in various ways, either by a withdrawal in cash (i.e. the still also existing bank notes or coins), or by executing (scriptural) payment orders in the broad sense of the word. However (and obviously), at the same time, the banker also obtained a claim on the credit taker, as the credit taker had to repay the credit (usually enhanced with agreed upon interest payments).[17]

These in themselves fairly simple accounting techniques once more in history disguised what has probably been one of the most important findings in the development of the modern banking and financial system, notably the mechanism of private (scriptural) money creation through bank credits.

The new mechanism had in common with the method of the private creation of paper money as developed in the late Middle Ages that it led to the creation of new private money "from scratch" and "without any considerable effort": the simple granting of a credit led to a booking on an account of the credit taker which expressed a debt of the bank that could be honoured in different ways, among which cash withdrawals in bank notes or coins, next to techniques of scriptural transcribing the

[17] Ferguson (2009), p. 49.

obtained money to someone else's account. At the same time, the bank obtained a claim on the credit taker, as the credit needed to be paid back, enhanced with the agreed upon interests, so that private banks very easily could expand their wealth and fortune—and thus ultimately that of their shareholders—by simply granting new credit resulting in "out of nothing"-created new money.

The new mechanism ran even more smoothly than its historical predecessor, as new privately created scriptural money could be very easily brought into circulation by a simple booking on a bank account, thereby reducing the efforts of the banking system to issue new money (and, through both the repayment obligation and the interest mechanism, to make easy profits), to practically nothing,[18] without the banker (hence: private money creator) even needing to print paper money.

This technique of creating scriptural money out of nothing, bewildering simple as it were, nevertheless would generate one of the main drivers for the development of capitalism during the nineteenth and twentieth centuries, where the only (new) limitation was the conventionally agreed upon commitment a private bank issuing new scriptural money had to make to pay out the amount of the granted credit in the form of cash on the simple request of any owner of such a scriptural claim.[19]

As the private banks themselves were in most Western countries no longer authorized to issue (new) paper money (nor authorized to issue coin money), within the new system, they indeed needed to ensure that they always held a sufficient amount of cash money to meet their customers' possible exchange requests (regardless whether these were a consequence of an initial cash deposit, of benefiting from a scriptural payment by a third party, or of a credit booked to their account).

As, again, due to the way the credit mechanism on which scriptural money creation is based works, any bank started creating more scriptural claims for its customers than it held cash, a new precarious risk emerged (comparable to the position of the private bankers in the late Middle Ages that had developed private paper money), as such bankers could, by definition, never be able to honour all exchange requests from all of its creditors in case these would be made at the same time.

2.1.6 The Outlook of the Modern-Day Banking System and the (Excessive) Credit Economy It Has Created

Since then, the method of scriptural money creation resulting from the granting of credits (as referred to in the previous Sect. 2.1.5) has continued to be the most essential characteristic of the private banking industry.

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[18] There was even no need any more of printing (paper money) and of taking noteworthy safeguarding measures. However, it should be remarked that, in present times, the efforts of the banking system to keep the scriptural money system safe, have become remarkable higher (e.g. due to the need of safeguarding measures against cyber crime). (See, for instance, Jones (2016).)

[19] It should however be pointed out that, during the nineteenth century until the second half of the twentieth standard, many countries made the creation of new (paper) money by their central bank conditional upon the central back holding a certain amount of gold as underlying coverage.