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The Anatomy of Financial Destructiveness

Dr. Cay Hehner

Chapter 1: American Socialism?

Abstract: The 2008 financial crisis and the government's massive bailout of the financial institutions that were behind did more than just expropriate the American taxpayer. It has fundamentally altered the incentive mechanism that lies at the heart of the capitalist system. This paper asks whether the TARP bill has brought the American economy within the bound of socialism.

Imagine you are sitting in a large plane on an intercontinental flight and while walking through the aisles you perceive through a crack in the door of the captain's cabin that there are neither pilot nor co-pilot in the cockpit's seats. The cockpit is empty. You then remember an announcement from the flight attendant minutes ago that the autopilot is non-functional and the GPS system has been out of order due to a technical glitch. The flight attendant also informed the passengers in the same announcement that the continuation of the voyage and the landing from now on will be done "on sight." "On sight" is a euphemism for flying blind in order to avoid panic among air travelers. An unlikely occurrence, you say? A scenario for a horror picture unlikely or impossible ever to occur in real life?

The bad news is that this is the precise situation we find ourselves in economically at present- both domestically and globally. Let's examine the facts:

In the U.S. election in 2008, one of the two finalists proclaimed early on that he did not understand economics and the economy. The connotation or subtext being that presidential candidates do not have to bother to know about such trifles! The other candidate, who meanwhile has been elected into high office, has expressed himself only in the vaguest of terms on the matter and he has recruited a team of financial and economic advisors who represent the main economic schools of thought that have gotten us into the unprecedented "Great Recession" in the first place. This line of thought is led by the Chicago School and various business departments of Ivy League Schools. What is thus being offered to us by our economic disaster that few deny any

5 West 19th Street 2C, New York, NY 10011

Tel:(212) 889-8020 Fax: (212)-367-0940

e-mail: info@hgsss.org

www.henrygeorgeschool.org



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more we are headed for is a heady mix of Friedman and monetarism in finance, Keynes and deficit spending in labor and commerce, with a pinch of Marx and command-economics to round off the flavor of this alleged “back-to-wealth” cocktail. We may ask it is “back-to-wealth” for whom? (Gaffney, 1994/2009) Given that the median income of the working U.S. citizen has not increased since the 1970s, we may assume, it’s not wealth for all, but wealth for the rich and the super-rich who feel a little less rich than they used to. [1] According to a *Sunday Times* editorial, we are experiencing “The End of the Financial System as We Know It.” [2]

Various Georgist economists –including myself-have predicted a like even for at least two decades: *The End of Capitalism as We Know It!* by Andrew Mazzone has more accurately analyzed the coming crash based on the foreseeable cave-in of the real estate market and the credit crisis in 2005 than most. [3]

With the end of capitalism before us it does not make much sense to take recourse to remedies tried and found untrue in the past, or does it? When the financial energy giant Enron collapsed at the beginning of the first decade of the New Millennium it was sought to be the fraudulent exception to the rule of a fundamentally safe and sound system. The New York Observer voiced an opinion generally held at the time that communism had lost the Cold War and our “lightly regulated capitalism” had come out ahead as the clear winner. [4] Now capitalism appears on its way down just like communism. Both theoretical paradigms have systematically proven gravely flawed. Both economic theories have set out in the early and mid-1900s century with the clear platform to increase wealth for all and abolish world poverty. Both systems clearly have not delivered on that promise and failed! (Stiglitz, 2003)

The new president has repeatedly stated his intention of “jump-starting” the economy with a series of measures resembling F.D.R’s Work Progress Administration [W.P.A.]. This would improve this country’s superannuated infrastructure and would put millions of unemployed back to work. So in this sense the proposal is clearly laudable. Basically, it is the Keynesian idea of the State having to step in during an economic down-cycle to become the new employer of the unemployed until the “private sector” is back on its feet. Among its downsides the proposal clearly is meant as a fire-fighting measure, it is not meant as a permanent procedure for the simple reason that it would run dry the public purse in less than a generation. (Keynes, 1936)



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Henry George has repeatedly stressed the importance of watching the flow of products instead of the flow of money, to heed the primary factors of the production land/natural resources and labor/human exertion above and beyond the ancillary third factor [productive] capital/machinery/technology. He also told us that land value-as it is a function of population density increase and as it is thus communally and not individually created- should be the sole source of fiscal revenue, freeing the untaxed labor and capital to engage in a new boom, not followed by an inevitable and ever more painful bust as it is based on a sustainable not an unsustainable premise. (George, 1898)

If Henry George's ideas were applied to the new W.P.A. rescue package, that package then would not be financed by the deficit spending, which in turn would ultimately increase the financial burden and shift the toil and pain of payback to our children and children's children. The whole 20th century by and large was a clash of economic systems, not "clash of civilizations" which Huntington predicted for the 21st century. [5] It was an uneasy tug-of-war between capitalism as represented by the Austrian School, (Hayek, 1944) and Milton Friedman and communism as represented by Marx, Lenin, and Stalin. Maynard Keynes stepped in and tried to mediate and got clobbered from either side for being either a 'socialist extremist' or a 'bourgeois revisionist'. Keynes and Galbraith in his wake, however, brought a partial solution to the Great Depression and an intermediate, more evenly spread prosperity to the Scandinavian and the Northern European countries. (Galbraith, 1952) The late Bush Administration under the vigorous stewardship of Wall Street financiers/secretaries of treasury, after having denounced this Keynesian deficit spending for the better part of the decade and the entirety of their natural lives now buckling under the enormity of the calamity that would not go away even with eyes closed, figures rigged books cooked, and shoved under the carpet till the carpet hit the ceiling, this late administration now changed tack and engaged in the much maligned deficit spending. As they did not have any prior experience with these kinds of measures they did deficit-spend generously- it's never a problem to overspend with other people's money- without attaching conditions. What followed was the privatization of the public purse to bail out the rich, and socializing the losses for the hard-pressed middle class and the poor. Corporate welfare for the top and private risk for the middle and bottom of society. Enron and Lay (MacLean, 2003) were thought to have been an exception with Madoff [6] and many unprecedented bankruptcies of the giants of



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finance, banking, insurance, real estate, and industry later we are now learning that it seems to be the rule.

If all or most college students in a given course are flunked, it does not necessarily mean that the students were inept, unintelligent, or inefficient; it means merely and on the contrary: that the instructors failed and/or that the text books were bad. If all or the vast majority of economic participants in a given system default and go for Chapter 11, likelihood is that it's less their fault and that the system has unredeemable structural flaws.

We are told that part of the problem of the subprime crisis and the ensuing financial crisis was that loans were given to people who wouldn't pay them back. As long as there is monopolization of resources and access to lands at public expense the majority of the people will be hard pressed to earn a living. That is not private, but a structural failure. Future loan policies will have to take this distinction into account. The Financial Times [7], ran an article on page three including a diagram reminiscent of the horror movie, *The Incredible Shrinking Man*, under the header "The Rapidly Shrinking Banking Industry". The shocking decline in figures from 2007 to 2009 pretty well denote and denominate the fallout from a financial high ride for the "not so happy few" that was sold to us over the last decades as the conundrum of the "jobless recovery".

In other words, there was no increase in economic or productive capacity in real terms there was more and more paper pushing and less and less production and trade a.k.a. make-belief or "funny money" economics. Now it was only a matter of time that this unsustainable activity would explode in all of our faces. Money is always a means, an indicator and measure of economic value, a facilitator of production and trade, never an end in itself (George, 1898, last book). Taking it as an end in itself-as we were more and more wont to do on a global scale, imitating wrongly the financial wizards and hedge fund managers on Wall Street (in other words, ignoring altogether economic activity in real terms)- would put us into the positing of the Greek King Midas who found out late in life to his detriment that he could not eat gold. And as the fable goes, everything that he touched would turn to gold he would literally starve to death. Taking means for ends is one of the greatest liabilities of the political philosophy of Machiavelli. It didn't work in the Renaissance, it is not working now,



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and it will not ever work in the future as it is simply based on a flawed analysis of reality.

If we ignore physical reality and the natural laws governing it, we will find that we do so at our own peril. Being part nature ourselves and being exclusively dependent for our physical survival on natural means, ignoring and dishonoring nature amounts a collective suicide of humanity/ mistaking means for ends is this not only extremely short-sighted, it amounts to the example of the cat chasing its own tail. And a facilitating factor that was meant as a social boom would become an anti-social toxics Molotov cocktail.

To return to our initial metaphor of the passenger plane without the pilot-no Captain Chelsey “Sully” Sullenberger III there unfortunately, a figure, albeit real, right out of the Capra’s Christmas classic *It’s a Wonderful Life* [8] -bent hell-for-leather for the destruction of the entire planet: One major publishing event of the summer of 2008 was the economics bestseller *I.O.U.S.A.* [9] (Incontrera, 2008) In it two concerned editors with all the good-will in the world interview the U.S. greatest financial wizards and give them roughly 10-20 pages each. Greenspan, Buffet, Rubin. Volcker, Peterson, you name them and they are in there. They are collectively responsible for the state of the world economy either directly and mediately by instigating imitation of their policies.

The one common denominator of the book is that all voice grave concern about the hyper-indebtedness of the U.S. and the global economy and all of them to the man do not have the foggiest – I mean- they do not have the slightest clue or the remote notion of how to get us out of this calamity nor what has caused it in the first place! What’s being offered as remedies has all failed in the past or killed the patient it was meant to heal. The pilotless plane hell-bent through the heavens for destruction, the equivalent of the phantom ship and the Flying Dutchman of the immortal gothic sea-tales of Fredrick Marryat [10] or even Henry George himself (K.Wenzer, 2003)-this is (if we want it or believe it or not) our planet! As this is the only one we have, and intergalactic space travel has not progressed as far as Science Fiction writers have predicted, we have none to spare. So this is a troublesome set of facts, indeed.



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At the time when ATMs were coming to be generally used in the mid-eighties, my nephew, at the then tender age of five, after some deliberation remarked to his mother, "Mummy, I want a machine like this in my bedroom!" Can we blame people steeped with both legs in the till of self-serving themselves occasionally with a couple of millions of billions and then making up the difference in printing money so that it eventually comes out of everyone's ears because it has become so devoid of true economic value?

A remedy has been invented centuries ago to ward off this kind of peril. The French age-of-enlightenment philosopher Charles de Montesquieu elaborated upon John Locke's concept of the separation between State and Church. In other words without transparency of process and independent supervision even seemingly incorruptible people tend to go off. Why tempt the incorruptible, why bent the upright? In democracies true to and worthy of that concept supervision is not hierarchical but mutual and lateral.

At the beginning of this essay we asked whether the US after this unprecedented wave of nationalizations of key factors of industry, finance, and commerce was in danger of turning socialist. Before answering this question we would like to take a step back and as a corollary: what's wrong with socialism and communism? Again stated in economic terms are both forms of command economy, and as there is nothing under the sun, command economies are old as the most despicable, human-dignity-and-human-rights-defying tyrannies. In other words command economies wipe out and ignore the separation of powers and concentrate all power in all-too-few-and-thereby-all-the-more-corruptible hands. If we are interested in saving our very lives and if we are concerned about the mere survival of our planet-remember we have none to spare-than this is something we want to avoid at all costs!

Seeing the new president and vice president after the inauguration by a regular minister-a practice that an interdenominational prayer service administered by a regular minister-a practice that apparently dates back to the times of George Washington-is indicative of such separation of powers. The president taking the oath of office from the Supreme Court Chief Justice, even with the slight procedural imperfection that needed to be corrected later, is symbolic of the same.



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At the coronation ceremony, Napoleon took the imperial crown out of the hands of the clerical official and put it into his own head. With this gesture, he annulled the separation of powers and the trust of the people and the democratic achievements of the revolution he had been born and come to save. We do not need more Napoleons; we do not need more office seekers in search of an imperial presidency. This is a paradigm that has been exploded as lethal long ago. We need the unleashing of economic and social forces for the benefit of all.

When the Iron Curtain fell and the Berlin Wall came down in 1989/1990 people on both sides rejoiced and hailed the advent of a New Age. The reason why the Communist countries seem by and large all worse off economically speaking than they were before is due to the fact that they all tried to imitate capitalism, “outcapitalize” the Capitalist so to speak. Since both systems are based on the same flawed and untenable, unsustainable principles, they both can but fail. Georgist economists have accurately predicted this years, even decades ago. (Gaffney, 2009) [11]

As a remedy out of this global economic financial lethal dead end we propose something that could be called “Health-Wealth” Economics. Allow me to illustrate what I mean with a medical analogy. A few years ago, one of my favorite cousins was diagnosed with a supposedly lethal illness, an eight-months plan was mapped out for him: in July you will weaken, by August-September certain bodily functions will decline, by Oct,-November others will follow and by January of the following year you will be dead. Dutifully taking in the counsel of the health experts and paying fortune for the treatments that were painful and that he knew were not going to help, he passed on in December. Natural law implies respect of nature, one’s own and the nature of others as well as nature in general; it also implies the judicious use of natural resources and the good stewardship of the planet in the interest of all humankind, not just in the interest of a few privateers-profiteers-bucaneers-scallywags-econmic-royalists-monopolists.

A little while ago we had an illustrious guest speaker at the Henry George School, New York, Hugo Kierszenbaum M.D. In his presentation on the social implications of medical policy, he explained that health should be a right, but that it had been denigrated to become a commodity. I would like to elaborate on his analysis and add



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that originally health was neither a right nor a commodity but an equilibrium-and so is economics. Acupuncture, Ayurveda, Aikido, Chi Gong, Homeopathy, Tai Chi, and a myriad of other systems based on natural law attest to that fact. It remains for us to develop an alternative economic “healing system” using the guidelines given by the classical economists and Henry George in analogy to the above. In first studying, then understanding, and adhering to natural law the economic imbalance, and social injustice would be redressed and the social body would be restored to health and wealth, one may smile at and belittle the obsolescence of 18th century concepts of natural law. The American and French Revolution were based on this very concept, so were the best of the enlightenment philosophies, not to mention the French Declaration of the Rights of man and the American Declaration of Independence and the US Constitution, no mean concepts of any of these. Had we adhered to such concepts, we would have been spared the planetary environmental devastation and denigration we are at present experiencing, we also would have avoided the cyclical bust periods that generation after generation of neo-classical economists keep promising us they could do away with –to no avail as we are experiencing to our detriment globally, time and again.

Follow your bliss, said Joseph Campbell. If we manage to do this in accordance with the given rules of engagement, we will heal. Leaving the exploded paradigms of the Ivy League Business School and the Chicago School of Economics aside-the troubled Asset Remedy Program [TARP] is the latest pronouncement of the pundits, it may be likened to pouring large quantities of water into the desert sand to avoid threatening general draught- and embarking on a new quest we may as yet save ourselves and this precious planet.

For Buddha and Henry George among others the pursuit of “personal bliss” lay in the working out of programs for general, nay global justice, for some it lay in the plowing the High Seas, for others in the chanting of a Bach cantata, for Karpov and Kasparov it lay in the contemplation of Nature, no matter what it is for you personally, don’t give up at any cost, under any pretense, and we may as yet succeed.

To quote the educator and activist Dan Sullivan: “They are stealing our land, and then they rent it back to us at a cost. They are taking our money, and then they lend it back



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to us at an interest.” [12] Given the trust for humanity that is at stake we should be able to do better than that!

Notes

[1] Mason Gaffney (1994) actually engages in an elaborate study of what happened to the academic discipline of Economics at the end of the 19th century in the transition from classical to neo-classical economics in the US in reaction to social-justice-oriented classical economists like Stuart Mill and Henry George: “Neoclassical economics is the idiom of most economic discourse today. It is the paradigm that bends the twigs of young minds. Then it confines the florescence of older ones, like chicken-wire shaping topiary. It took form about a hundred years ago, when Henry George and his reform proposals were a clear and present danger and challenge to the landed and the intellectual establishments of the world. Few people realize to what degree the founders of neo-classical economics changed the discipline for the express purpose of deflecting George and frustrating future students seeking to follow his arguments. The stratagem was semantic: to destroy the very words in which he expressed himself. Simon Patten theorizes...

[therefore] economic doctrine must be recast.”, *ibid.*, p.29

[2] Michael Lewis and David Einhorn, *The End of the Financial System as We Know It*, in: New York Times, Jan. 4, 2009, op-ed page

[3] See Andrew Mazzone’s contribution, *Anatomy of Financial Destructiveness*, chapters 25, 26, & 28

[4] Tom, Acitelli, “George Lives! Economists Toast Single-Tax” , in: New York Observer, March 11, 2007

[5] See: Chapter 24 in this book: “The Economic Roots of the ‘Clash of Civilizations’”

[6] Jack Healy, “Madoff Sentenced to 150 Years for Ponzi Scheme”, in: New York Times, June 29, 2009

[7] . January 22, 2009

[8] Chelsey Burnett “Sully” Sullenberger III “rose to fame when he successfully ditched US Airways Flight 1549 in the Hudson River off Manhattan, NYC, on Jan. 15, 2009 saving the lives of all 155 people on the aircraft” (Wikipedia). One fact that is never mentioned is that Sullenberger did not only save the lives of the passengers and crew on board. Had the plane crash-landed anywhere in the metro area, surely many other lives would have been lost. It could have descended on any number of buildings and people coincidentally! As Michael Moore put it so pertinently: “I don’t want the people who fly my planes to be considered underpaid!”

[9] The best thing about the work is the title pun, appreciate it!

[10] Captain Marryat may be the most underrated of naval writers, he did write the version of the *Flying Dutchman* with the title *The Phantom Ship* (1839), George spent a good part of his late teens plowing the world seas, some of his adventures Wenzer has made available again, both Marryat and George have that over and above other tellers of tall tales of the world seas that they actually lived through about much of what they wrote!

[11] Gaffney here actually discusses various cyclical-crises theorists, *ibid.* p. 861 ff.; to Hoyd, Fisher, Harrison, and Foldvary need to be added Philip Anderson and Jeffery J. Smith

[12] . American Monetary Institute conference, Chicago, September, 2005, see also AMI website