

Time To Separate Capitalism From Finance

What is the difference between the laws of nature and the laws of economics?

If you don't know the answer to that question, it is that the laws of nature are immutable while the laws of economics are not. In other words, the laws of economics are not really laws, they are statements about the human condition that are flexible.



For example, Say's Law states that production creates its own demand. That is true up to a point, but only if a manufacturer is producing a product someone wants to buy.

It is generally accepted that something is physically possible only if it is financially possible. This may be true for individuals and corporations, and indeed for governments subject to one big and two smaller exceptions. These are war, large scale disasters, and crime.

The big one is war. As Professor Quigley pointed out in his *magnum opus* [at page 316](#):

“Wars, as events have proved since, are not fought with gold or even with money, but by the proper organization of real resources...The outbreak of war on August 4, 1914, found the British banking system insolvent in the sense that its funds, created by the banking system for profit and rented out to the economic system to permit it to operate...could not be liquidated rapidly. Accordingly, the bankers secretly devised a scheme by which their obligations could be met by fiat money...but, as soon as that crisis was over, they then insisted that the government must pay for the war without recourse to fiat money...but by taxation and by borrowing at high interest rates from bankers.”

In other words, England was technically bankrupt at the outbreak of World War One, yet somehow it managed not just to fight but win what was at that time the bloodiest war in history. More generally, no nation ever lost a war because it ran out of money. During war-time, the laws of economics are miraculously suspended.

During the so-called English riots of August 2011, a totally shameful scenario, the courts worked overtime to process offenders. In the early 1980s, there was a shortage of prison places in England which resulted in prisoners being held in police stations. Money was never a bar to locking people up.

Finally, disasters, usually large scale natural disasters, always see similarly large scale efforts by the nation or many nations to bring shelter, clean water, blankets, food...to those affected. No one ever says “we can’t afford to help these people”. It is simply done.

Although the current coronavirus pandemic is a natural disaster, it is affecting more or less the entire world, so it can be considered the one big exception. And what has been happening? On both sides of the Atlantic, governments have been producing money out of thin air to keep the economy running including especially for those in need, hospitals, etc. It can be done, and will be done, but after it is over we must not allow the banks to do what they did in the wake of World War One. There must be no punitive taxation, no increased taxation at all.

Although it is called Federal, the [Creature from Jekyll Island](#) is a *de facto* private corporation along with all the other central banks of the world. With the very small exceptions of the coin and note issues, and the still nascent digital currencies like Bitcoin, central banks have what the great Major Douglas called [the monopoly of credit](#). The Trump Administration is in effect bypassing the Federal Reserve at present, which means in future it will not be needed and can be abolished. The power to create credit for the United States Government should be vested in Congress so it can print its money debt-free. Of course, if governments could simply print money during a crisis, poverty would have been abolished before any of us was born, but no one should be intimidated by that old canard about hyperinflation. Inflation is caused by too much money chasing too few goods. Do you know anyone who claims to have too much money?

Under normal circumstances, there is indeed a shortage of money; the shops are full of goods, individuals and organisations are offering services, but we have people sleeping on the streets of the wealthiest nations on Earth. The current situation is slightly different because the shops are

running out of goods due entirely to panic buying; our governments need to pump more money into circulation, both to stimulate production and to tide over those who are currently unable to work due to the shutdown of restaurants and many other businesses.

The provision of goods and services largely by the private sector is what is known as capitalism, true capitalism; the provision and often the manipulation of funds for the sake of it, is what is known as finance. While the people who work in your high street are contributing to the economy, most fund managers are not. True, there are managed funds that specialise in investing in start-ups, but as the financial journalist Tony Levene points out in his classic 1987 monograph *The Shares Game*: “For every correct decision made in the stockmarket, there has to be a wrong one”.

Levene’s conclusion is that unless they get lucky, professional fund managers can’t beat the market because they *are* the market. When you invest in a managed fund there are fund managers and other staff to be paid, rents, rates, advertising and more, and that before you or any other investor sees a penny profit. The best way to invest in shares is to do so directly. Buy your shares and hold onto them.

A quarter of a century after *The Shares Game* was published, the author was vindicated in spectacular fashion when an experiment in South Korea left so-called professional investors embarrassed. There were ten humans and one parrot involved. The parrot picked out shares with its beak. And came third!

When ordinary people rail at capitalism they don’t generally mean *bona fide* capitalists, rather they mean fund managers and professional so-called investors, men and increasingly women who contribute little or nothing to creating real wealth. In the United States, the Democrats are trying to use the coronavirus pandemic to pass a raft of absurd legislation that would have no impact on the crisis but would simply promote their own dangerous agenda. The Trump Administration and governments worldwide need to take steps to separate capitalism from finance, to make finance the servant of the people in the same way as is the free market. The very first step in this process is to strip the banks of their power to create money out of thin air. It will be interesting to see how many people who profess socialism support this proposition, and how many, undoubtedly a far greater number, who oppose it.

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