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Financial Oligarchy vs. Feudal Aristocracy

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Under the feudal mode of production, peasants were often allowed to cultivate plots of land for themselves on a rental basis. However, those tenant farmers rarely succeeded in becoming landowners in their own rights because a major share of what they harvested was taken away by landlords as rent, often leaving them with a bare subsistence amount of what they produced. When the harvest was poor, they incurred debt. If peasants were unable to pay off their debts, they could find themselves reduced to the condition of serfs or slaves.

Today, under conditions of market dominance by parasitic finance capital, a similar relationship can be detected between the powerful financial oligarchs (as feudal lords of our time), on the one hand, and the public at large (as peasant population of today), on the other. In the same manner as the landed aristocracy of times past extracted rent by virtue of monopolistic ownership of land, so today the financial oligarchy extracts interest and other financial charges by virtue of having concentrated the major bulk of national resources in their hands in the form of finance capital.

The Marxist term *wage-slaves* refers to those who, lacking capital or means of production, have only their labor power to sell to make a living. This describes the vast majority of people in today's capitalist societies whose sole means of subsistence is the sale of their capacity to work. "Just as the feudal-era serf had no choice but to enslave himself and his family to the manor-house lord, the modern-day serf must indenture himself to banks to own a car or home or buy a college education" [1].

In the latest edition of her book, *Occupy Money*, Professor Margrit Kennedy shows that today between 35 percent and 40 percent of all consumer spending is appropriated by the financial sector: bankers, insurance companies, non-bank lenders/financiers, bondholders, and the like [2]. Obviously, this means that, as Ellen Brown points out: "By taking banking back . . . governments could regain control of that very large slice (up to 40 per cent) of every public budget that currently goes to interest charged to finance investment programs through the private sector" [3].

Distribution Effects: Escalation of Poverty and Inequality

Like the feudal rent, the hidden tribute to the financial sector, the nearly 40 percent of consumer spending that is appropriated by the financial sector, helps explain how wealth is systematically transferred from Main Street to Wall Street. The rich get increasingly richer at the expense of the poor—not just because of greed or the blind forces of the market mechanism but, more importantly, because of deliberate monetary/economic policies, which have steadily come under effective control of the financial oligarchy. Indeed, the very mechanism of money creation and/or monetary policy itself exacerbates inequality.

Although obfuscated and/or mystified, the planned or premeditated mechanism by which redistribution of economic resources from the bottom to the top takes place is fairly straightforward. The insidious mechanism of redistribution in favor of the financial oligarchy is expertly sanitized and benignly called monetary policy. Private central banks (such as the Federal Reserve Bank in the U.S.) are usually the main institutional vehicles that carry out the monetary policy of redistribution. Central banks' polices of cheap or easy money benefits, first and foremost, the big banks and other major financial players that can outbid small borrowers who must borrow at much higher rates than the near-zero rates guaranteed to the big borrowers.

By thus gaining privileged access to nearly interest-free money, the financial elites can enrich themselves in a number of ways. For one thing, they can snap-up income-producing assets at the expense of small borrowers who lack access to cheap money. For another, they can boost the value of their wealth by creating an artificial demand (such as stock buybacks) for those ill-begotten assets with the cheaply borrowed money. In addition, they can skim vast wealth by loaning out the cheap they obtain from central banks to everyone below the top of the wealth/income pyramid—at near four percent (mortgages), at seven or eight percent (auto, student and other loans), and above 15 percent (credit cards). Obviously, this would funnel much of the national income stream to those who can borrow cheap and lend at much higher rate [4].

Instead of regulating or containing the disruptive speculative activities of the financial sector, economic policy makers, spearheaded by central banks, have in recent years been actively promoting asset-price bubbles—in effect, further exacerbating inequality.

Proxies of the financial oligarchy at the helm of monetary/economic policy making apparatus seem to believe that they have discovered an insurance policy for bubbles that burst by blowing new ones:

"Both the Washington regulators and Wall Street evidently believed that together they could manage bursts. This meant that there was no need to prevent such bubbles from occurring: on the contrary, it is patently obvious that both regulators and operators actively generated them, no doubt believing that one of the ways of managing bursts was to blow another dynamic bubble in another sector: after dot-com, the housing bubble; after that, an energy-price or emerging market bubble, and so on" [5].

It is obvious that this policy of effectively insuring financial bubbles would make financial speculation a win-win proposition, a proposition that is aptly called "moral hazard," as it encourages risk-taking at the expense of others—in this case of the 99%, since the costs of bailing out the "too-big-to-fail" gamblers are paid through austerity cuts. Knowing that the central bank/monetary policy would bail them out after any bust, they go from one excess to another.

This shows how the proxies of the financial oligarchy, ensconced at the helm of central banks and their shareholders (commercial banks), serve as agents of subtlely funneling economic resources from the public to the financial oligarchy—just as did the rent/tax collectors and bailiffs of feudal lords collected and transferred economic surplus from the peasants/serfs to the landed aristocracy.

Contractionary or Anti-developmental Nature of Parasitic Finance Capital

As mentioned earlier, today between 35 percent and 40 percent of all consumer spending is appropriated by the financial sector. Not only does this redistribute resources in favor of the financial oligarchy, it also drains the real sector of the economy of the necessary resources for productive investment and economic development.

Experience shows that, contrary to the extractive or parasitic private banking, public banking has proven quite beneficial to the developmental objectives of their communities and/or nations. Nineteenth century neighborhood savings banks, Credit Unions, and Savings and Loan associations in the United States, Jusen companies in Japan, Trustee Savings banks in the UK, and the Commonwealth Bank of Australia all served the housing and other credit needs of their communities well.

Perhaps a most interesting and instructive example is the case of the Bank of North Dakota, which continues to be owned by the state for nearly a century, and which is widely credited for the state's relatively healthy budget and its robust economy in the midst of budgetary problems and economic stagnation in many other states. The bank was established by the state legislature in 1919, specifically to free farmers and small business owners from the clutches of out-of-state bankers and railroad barons. The bank's mission continues to be to deliver sensible financial services that promote agriculture, commerce and industry in North Dakota [6].

Explaining how the Bank of North Dakota utilizes people's savings for productive credit and/or investment, Eric Hardmeyer, president of the bank, points out, "Really what separates us [from private banks] is that we plow those deposits back into the state of North Dakota in the form of loans. We invest back into the state in economic development type activities." The bank president further indicates that in the course of the last dozen years or so "we've turned back a third of a billion dollars just to the general fund to offset taxes or to aid in funding public sector types of needs" [7].

Contrary to the case of North Dakota, most other states, burned by interest payments and other financial obligations to private banks, are forced to cut investment on public capital formation, to slash jobs and liquidate state-owned properties or state-sponsored services—often at fire-sale prices**.** Consider California, for example. At the end of 2010, it owed private banks and other bondholders $70 billion in interest only—44% of its total financial obligations of $158 billion. "If the state had incurred that debt to its own bank," writes Ellen Brown, "California could be $70 billion richer today. Instead of slashing services, selling off public assets, and laying off employees, it could be adding services and repairing its decaying infrastructure" [8].

At the national level, the U.S. federal government paid in 2011 a sum of $454 billion in interest on its debt—the third highest budget item after the military and Social Security outlays. This figure amounted to nearly one-third of the total personal income taxes ($1, 100 billion) collected that year. This means that if the Federal Reserve Bank was publicly owned, and the government borrowed directly from it interest-free, personal income taxes could have been cut by a third [9]. Alternatively, the savings could be invested in social infrastructure, both human and physical, thereby drastically augmenting the productive capacity of the nation and elevating the standard of living for all.

It can reasonably be argued that the ravages wrought on today's economies/societies by parasitic finance capital's extraction of economic resources are even more destructive than was the extraction of feudal rent to the social fabric under feudalism. There are at least two major reasons for this judgment.

For one thing, the landed aristocracies' appropriation of the major bulk of economic surplus, or rent, required production and, therefore, employment of the farming labor force. This meant that although the farming workforce was, of course, exploited, it nonetheless benefitted from production—albeit at poverty or subsistence levels of remuneration. In the age of finance capital, however, profit making or surplus extraction by the parasitic financial oligarchy is largely divorced from real production and employment, as it comes largely through parasitic appropriation from the rest of the economy. As such, it employs no or a very small percentage of labor force, which means that, today, the financial sector generates income/profits without sharing it with the overwhelming majority of the public.

For another, whereas periodic cancellation of unsustainable peasants' debts by landed aristocracies were considered as restorative measures for maintaining the feudal mode of production and social structure, under today's rule of finance capital such healing measures are ruled out as omens of economic catastrophe. Historical records show that debt cancellation in the Bronze Age Mesopotamia took place on a fairly regular basis from 2400 to 1400 BC. Ancient documents decoded from cuneiform inscriptions have led many historians to believe that the Bronze Age tradition of debt cancellation in the Near/Middle East may have served as the setting or model for the Biblical pronouncements of debt relief.

Careful studies of those records indicate that, contrary to today's perceptions (shaped largely by the influential financial interests) that debt cancellation may lead to economic disorder, as epitomized by the *too-big-to-fail* refrain, those earlier practices of debt relief were carried out precisely for the opposite reasons: to restore economic revival and social harmony by undoing the ravages of debt wrought on the economy and the overwhelming majority of the population. Freedom in those days meant real, economic freedom—freedom from debt bondage—not the abstract or hollow concept of freedom promoted today.

"The type of economic freedom being referred to was the royal act of cancelling back taxes and other personal debts, restoring traditional family landholding rights and freeing citizens who had been enslaved for debt. These royal interventions ensured rather than encroached on general economic freedom" [10].

***What is to be Done*?**

Many critics of parasitic finance capital have called for a robust regime of regulation of the financial sector. Experience shows, however, that as long as the dynamics and structures of the accumulation of capital are left intact, regulation cannot provide an effective long-term solution to the recurring crises of financial bubble and bursts.

For one thing, due to the political influence of powerful financial interests, financial regulations would not be implemented in a meaningful way, as evinced, for example, by policy responses to the 2008 financial implosion and the ensuing Great Recession.

For another, even if regulations are somehow implemented, they would provide only a temporary relief. For, as long as there is no community or real democratic control, regulations would be undermined by the influential financial interests that elect and control policy-makers. The dramatic reversal of the extensive regulations of the 1930s and 1940s that were put in place in response to the Great Depression and World War II to today's equally dramatic deregulations serves as a robust validation of this judgment. This means that the need to end the recurring crises of the capitalist system requires more than financial regulation; it calls for changing the system itself.

Other critics of parasitic finance capital have called for public banking. The idea of bringing the banking industry, national savings and credit allocation under public control or supervision is neither complicated nor necessarily socialistic or ideological. In the same manner that many infrastructural facilities such as public roads, school systems and health facilities are provided and operated as essential public services, so can the supply of credit and financial services be provided on a basic public utility model for both day-to-day business transactions and long-term industrial projects.

As pointed out earlier, provision of financial services and/or credit facilities after the model of public utilities would lower financial costs to both consumers and producers by about 35 to 40 percent. By thus freeing consumers and producers from what can properly be called the financial overhead, or rent, similar to land rent under feudalism, the public option credit and/or banking system can revive many stagnant economies that are depressed under the crushing burden of never-ending debt-servicing obligations.

Even in the core capitalist countries public banking has occasionally been used to save capitalism from its own systemic crises. For example, in the face of the Great Depression of the 1930s, and following the Hoover administration's unsuccessful policy of trying to bailout the insolvent banks, the F.D.R. administration was compelled to declare a "bank holiday" in 1933, pull the plug on the terminally-ill banks and take control of the entire financial system. The Emergency Banking Act of 1933, introduced by President Roosevelt (four days after he declared a nationwide bank holiday on March 5, 1933) and passed by Congress on March 9th, guaranteed full payment of depositors' money, thereby effectively created 100 percent deposit insurance. Not surprisingly, when the banks reopened for business on March 13, 1933, "depositors stood in line to return their stashed cash to neighborhood banks" [11].

Similarly, in the face of the collapse of its banking system in the early 1992, the Swedish state assumed ownership and control of all the insolvent banks in an effort to revive its financial system and prevent it from bringing down its entire economy. While this wiped out the existing shareholders, it turned out to be a good deal for taxpayers: not only did it avoid costly redistributive bailouts in favor of the insolvent banks, it also brought taxpayers some benefits once banks returned to profitability.

Both in Sweden and the United States once profitability was returned to insolvent banks their ownership was returned to private hands! It is perhaps this kind of capitalist governments' commitment to powerful financial–corporate interests that has prompted a number of critics to argue that one definition of capitalism is that it is a system of socializing losses and privatizing profits.

In the absence of incestuous business–political relationship between Wall Street and the government apparatus, nationalization of banks and other financial intermediaries is not as complicated or difficult as it may sound; since banking laws already empower regulators to impose extraordinary controls and close supervision over these institutions. It is certainly easier than public ownership and management of manufacturing enterprises that require much more than record keeping and following regulatory or legal guidelines.

Indeed, in the immediate aftermath of the 2008 financial implosion, the U.S. and British governments became *de facto* owners of the failed financial giants such as Citibank, A.I.G, the Royal Bank of Scotland, and Anglo-Irish Bank. Through the provision of enormous amounts of public funds, these governments effectively became the main investors in the collapsed institutions. Were it not because of political and/or ideological reasons, they could have easily made their *de facto* ownership legal ownership [12].

The fraudulent compensation of Wall Street's gambling losses at the expense of everyone else is testament, once again, to the demagogical pretentions of the champions of austerity and neoliberalism that the government should stay out of the market's affairs.

While public banking could certainly mitigate or do away with market turbulences that are due to financial bubbles and bursts, it will not preclude other systemic crises of capitalism. These include profitability crises that could result from very high levels of capitalization, from insufficient demand or under-consumption, from overcapacity or overproduction, or from disproportionality between various sectors of a market economy. To do away with the systemic crises of capitalism, therefore, requires more than nationalization of banks; it requires changing the capitalist system itself.

References

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[4] For a concise and clear exposition of this insidious redistribution from the bottom up see, for example, Charles Hugh Smith, If We Don't Change the Way Money Is Created and Distributed, We Change Nothing .

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