

# Unraveling Financial Frankenstein

*Usury Finance has created a money fiction out of debt on the basis of debt as collateral in a manner delinked from real economics. The consequence is that the innocent will pay for the sins of the guilty as the system crashes in on itself since we have all become financial slaves. And those who conjured this Financial Frankenstein seek to be rescued from themselves by us their debt slaves who, as ordinary people, will be left to suffer most from the already happening fiscal fall.*

*Joseph Edozien*

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Sooner or later, by one winding path or another, we are entering a new epoch of world history.

The current unraveling of the USA/EU financial system is terminal.

To the extent to which the USA/EU financial system underpins the current global conventional financial order, this financial credit breakdown originating jointly in New York and London is a global breakdown because of the intercontinental reserve currency status of the U.S. dollar: fronting also for the E.U. euro and the U.K. pound sterling. Therefore, the end of U.S. dollar hegemony heralds the end of European world hegemony in its USA manifestation. It will be a different world once this financial breakdown process runs its course not very long from now.

The root of this financial breakdown process lies in the machinery of usurious money creation and its use as an imperial political tool for the direction of global socio-economic processes. When one says that "money is power," one is simultaneously saying that "money is political."

When money is created as an interest bearing debt instrument it sets in motion an unstoppable growth dynamic which eventually ends in a catastrophic financial, and therefore eventually economic, implosion of one sort or another.

This dramatic end is usually disguised in war.

World War II comes to mind in relation to the Great Depression I of the nineteen thirties.

We are now entering the period of Great Depression II.

Compound interest, interest on interest, is exponential, meaning explosive, in character and therefore demands an infinite room for expansion. This is unsustainable because an infinite space for growth cannot be contained in a finite world.

For a time, this infinity-seeking existential imperative of compound interest driven monetary growth can be sustained, when it outstrips the possibilities of real economic production, in towers of debt built on debt. This is why usury leads inevitably to derivative exponentiation in one form or another. Usury needs derivative towers when monetary growth accelerates beyond all possible real growth.

The usury-based financial system of today is now at the existential limits of its self-sustainable self-expansion as a self-made credit bubble.

It is insolvent: bankrupt.

We have here an insolvency death spiral being disguised as a temporary liquidity shortage. And it threatens to bankrupt the entire inter-linked Western-centric central banking system of the world.

The underlying malignancy in the financial system today is that the credit creation system has followed its genetic infinite growth imperative to the limits of sustainable financial innovation. This system, now at the limits of a sustainable relationship between interest payments and the real income generation necessary to make those payments, is deflating catastrophically and is unworkable in the sense that it is systemically undercapitalised relative to its capital obligations when considered in the aggregate.

By virtue of its genesis in interest bearing debt, usurious money creation must grow faster than the real production to which it is ultimately linked. This is why usury-money is intrinsically inflationary. Moreover, it requires that the interest obligations it generates be paid in order to function over a long period. However, the generation of interest grows faster than the generation of income through real production. Though interest is a fraction of principal, at some point the accumulation of interest obligations in the aggregate becomes larger than the ability of real production to meet those interest obligations in the aggregate. At that point, the whole system, in the aggregate, becomes insolvent. We are at that point now.

In the past, when money was local, the collapse from insolvency could be locally contained. In the present, due to globalization processes and the inter-valuation and inter-trading of currencies, the collapse from insolvency can no longer be contained locally and it becomes global. Consequently, the insolvency of the USA/EU financial system is necessarily a global phenomenon. It will recognize no boundaries.

To keep itself going after real production begins to meet its interest payment limits, the lending system becomes no longer a financial intermediary in the true sense of the term but rather becomes a credit conjurer: creating more credit on the basis of credit as collateral in a manner delinked from real production requirements and solely in order to generate virtual profits to keep the system itself functioning since it is by nature a “grow or die” system.

In order to survive the natural limits and inherently slower pace of real economics, the lending system must now make loans secured by other loans which are themselves based on yet other underlying loans to several levels of loan-based collateral.

People blame this “financial magic” on greed, but it is more correct to blame it on the nature of the beast of interest-bearing money creation itself. The symptom of “greed” is simply the human incentive to make the system work as it must, once it is put in place.

At the “real-world” base of this tower of credit upon credit are ordinary working people living beyond their means, having been seduced by easy credit based on insecure incomes and now trapped on an endless work-treadmill in order to meet their credit obligations. A subtle form of “debt-slavery” for ordinary people is what keeps the system working at its base. And we need this debt for houses, cars, furniture, appliances, and so many other contrivances of modern life that advertising, and our own materialism, tells us we must have in order to live a decent and good modern life.

As the grim leveler of globalisation and forced overproduction in the face of insufficient consumption places downward pressure on mass wage levels and incomes, the foundation of the “tower” begins to crack and buckle and the whole tower starts teetering in a pre-implosive dynamic. Each level of the tower then falls in an unstoppable cascade as the floor beneath it buckles, sways, cracks, and sinks.

In one word, the hidden problem, the cat amongst the pigeons, is "derivatives."

Once you have loans used as collateral for other loans on several levels of borrowing and lending, the risk that defaults at any one level will lead to a chain reaction of defaults at other levels increases. Thus, the need for "default insurance" or "credit extension protection" becomes greater in order to keep the system lubricated and to attract other players into the game.

In effect, parties begin to gamble on who will default and who will not; some taking the chance that certain borrowers will not default, knowing they will pay if their bet is wrong and that they will receive a nice income stream if their bet is right.

However, there is no real cost to the debt “insurers” for this nice income stream, which is pure profit, and which is why they do it, other than the calculated risk that their bet may be wrong. But this “calculated risk” is most often willfully miscalculated by systemically under-estimating the risk because of the perverse incentive of hyper-profit generation at no real cost. All of this multi-level debt-conjuring, which we ordinary people never see or touch, eventually depends, at its real-world base, on the reliability of the average person to meet his or her credit obligations from his or her wages. It thus all starts to go wrong when ordinary people come under pressure due to inflation on stagnant to declining incomes, rising food and fuel costs, job losses, etc. When citizens finally break, those very high towers of debt begin to fall down in a chain reaction cascade. The downfall is then accelerated by all the credit protection schemes, the gambling on non-default, going on behind them.

This credit protection scheme is instrumentalised in a type of financial derivative called "credit default swaps," and it is these that have brought down the world's largest insurer: AIG. And AIG had to be "bailed out" to prevent a cascading collapse of "insured" debt obligations of global proportions which would create a crisis of legitimacy for the global financial system based on interest-bearing debt-money creation.

Unfortunately, credit default swaps are only one type of derivative. In fact, they are merely the now most visible tip of a truly most gargantuan iceberg. There are many other types of complex financial derivatives which are all ultimately "financial casino" gambles of various sorts on the sometimes predictable mutability patterns of market phenomena of various sorts and on the credit-worthiness of underlying financial securities of more or less estimable value. All of these "gambles" have become dangerously remote from real-world collateral.

Financial "derivatives" are so called because they are financial securities based on other financial securities, usually many levels away from the real collateral on which financial securities normally depend for their ultimate security. This is the hidden but potentially catastrophic problem that few people truly understand.

Since these financial derivatives are in effect based on statistical predictions about market movements and directional changes in the values of other financial instruments, they lose their value and become negatively priced when the bets on which they are based turn out wrong. In the aggregate, these bets assume perpetual economic growth as the enabling reality. In the aggregate, they can turn wrong during recessionary contractions or extended periods of economic stagnation. Both conditions of contractions and stagnation are present now, so all these bets are turning out wrong and are thus interactively pulling down the entire inter-locking derivative structures based on those aggregatively wrong bets. This is the fundamental nature of the current financial breakdown process.

The financial derivatives shadow economy behind the scenes of world finance is now well over thirty times the size of the world's real economy. But it is ultimately linked to the ability of the world's real economy, you and I who are now struggling to make ends meet, to service the underlying debt at the base of the global credit tower. That underlying debt is the day-to-debt that you and I now struggle with in increasing difficulty. Our struggles are now reverberating upwards as the downward pressure from above makes our ability to meet our obligations that much harder.

We are all now being squeezed by the debt monster growing like a Frankenstein out of the control of the too clever by half debt conjurers who created this financial freak.

When the debt repayment ability of you and I as the financial slaves at the real-world base of the credit tower becomes challenged, the shadow economy comes tumbling down. And what are lost are ultimately two things: the debt-based lubricant of the real economy and the confidence of economic participants in the transparency and efficacy of the financial system within which they work and do business.

When people lose their faith in finance, this becomes an existential threat to the whole system and its masters since the system is in the end a system of blind faith: a confidence trick.

This is why when the wily masters of high finance become "victims" of their own misdeeds, governments rush in to save them with a speed and urgency we do not see when millions of ordinary citizens suffer blows from hurricanes, tsunamis, floods, and other disasters not of their own making.

We have to ask: "who really is being saved?" Is it us, the real victims of usury-based finance, or is it the usurious systems and their masters that are being saved by extending our debt slavery? This is a reasonable question to ask. It is a question about economic justice.

In sum: the innocent will once again pay for the sins of the guilty.

In the name of saving the financial system of our jobs and pensions, you and I are now being asked, in truth, to save our financial masters from themselves in a manner that will only extend and entrench our debt slavery to them.

We are being tricked by being asked to hand over our tax wallets with the threat of a financial gun pointed straight at our livelihoods and our pensions. We are being told, in effect: *"hand over your tax paying ability, no questions asked, or we'll shoot down your job and your pension."* This indeed is robbery of the most brazen kind. But: what can we do?

We can first of all try to understand what is being asked of us before we do it. For if it is done there, it will be eventually done in other "theres," and maybe even here. What happens in America and Europe, for example, usually eventually spreads around the world. The American and European collapse will trigger corresponding aftershocks in most other parts of the world.

The Bush-Paulsen-Bernanke Plan in the United States is something worth considering in its bare essentials here and everywhere because it is likely herald of similar demands that will be made elsewhere as the financial breakdown spreads and deepens.

In sum, the American taxpayer is being asked to buy, at some fictional positive value, bad debt which is unpriceable because it has negative value. The American taxpayer is being asked to buy unredeemable liabilities as if they were genuine assets. Thus, a fiscal contagion is being unloaded from fleeing plutocrats unto the backs of unsuspecting citizens who have nowhere to financially run and hide.

In the American system, it is true that the taxpayer will ultimately hold the bag of bad stones, but it will be a bigger and heavier bag than he is being told.

First of all, the money to “buy” these bad stones is not there. It will be created by issuing government securities to borrow the money to buy those bad stones.

This money will be borrowed in the name of the American taxpayer from the very same people who ultimately now own the bad stones. Why? Because the US treasury will borrow the money from the US central bank which will issue the money as a loan. But, the interest on this loan will not be paid to the American public but to those who collectively “own” the Federal Reserve Bank, and that is not the American people but ultimately the very banking system which is the entity that is being “bailed out,” or “rescued” from themselves.

In other words, ordinary citizens, through the borrowing power of the American state via treasuries, will be forced to borrow from the debt conjurers in order to "buy" the bad debt held by those self-same debt conjurers: most of which, by an astronomical margin, are not even bad loans to ordinary citizens but bad loans made among the plutocratic financiers themselves. For example, investment banks loan billions to hedge funds who then use the billions to make private equity mega-deals worth multiples of the billions they borrowed, etc. If the public “bailout” of these usurious plutocrats were not so devious, one would marvel at the brazenness of the "rescue." It is cynical in the extreme and it is appalling. *"Innocent citizens, in the form of your government, borrow more from me to save me from the bad debts on my books which I borrowed from my friends to make more money for myself while the getting was good and after I've salted away my personal profits. If you don't borrow more from me now to save your job and your pension, and save me from myself and my friends, you will have to pay more later while losing your job and your pension in a financial system collapse of my own making. Your money or your livelihood!"*

This is the old technique of socialising the losses having privatised the profits.

The usual expedient of the monetary authorities, if they are themselves prior parties in the gambling game, in one form or another, and usually many confusing forms at once, is the socialization of their unredeemable debt. And if that fails, the expedient after that is usually war. Watch out. But first: watch your wallets.

Even if such schemes as they propose were to pass the confused and frightened citizen smell test, it would only set up an even more spectacular crash later as the already over-extended public is forced into even greater social debt, and at increasing interest too!

The basic problem, debt based on debt to multiple levels of debt creation, has by no means been solved. It is a "solution" of the same nature as the problem. We solve the "debt problem" by creating yet more debt, eventually leading to higher taxes, higher prices, lowered social security, lost pensions, and lost jobs for ordinary citizens.

All that has been accomplished, at best, is to delay the inevitable financial and economic collapse, and at ultimately even greater cost and vastly more widespread pain.

Moreover, the seven hundred billion dollar total cost figure being floated is a pure fiction. It is a number with no basis. At the very least, though it is not presented as such, it is merely an initial down payment. Given the truly epic size of the bad derivatives pyramid, certainly very much well over one thousand trillion dollars at the very least, any such “rescue” will end up costing in the region of ten trillion dollars at the very least if it is to have anything more than a temporarily delaying and purely psychological impact. More likely, it will take in the region of one hundred trillion dollars to save the derivatives pyramid and keep it from deflating catastrophically.

This system is not saveable no matter what anyone says.

And the last people we should look to for reassurance are the financial casino gamblers who created the problem in the first place. They must know that seven hundred billion dollars is insufficient and is an arbitrary figure. Their thought must be to lure the ill-informed taxpayer into their bad gamble and then keep him there once he is caught and has no way to escape the trap. They will then keep incrementally raising the price of the “bailout” to the taxpayer, each time being “shocked” at the unexpected increase in cost.

The main effect of this financial breakdown on ordinary people and the real economy will be a painful shortage of money since there will be a severe system-wide contraction in credit creation for real economic transactions. It will simply be harder to get loans to do anything productive. This will lead to a self-reinforcing downward spiral of cost-cutting, budget short-falls, “belt-tightening,” and generally reduced spending across the real economy.

We will eventually see hyper-deflation in broad categories of real and financial assets and unsellable large goods and durables simultaneously with hyper-inflation in many everyday consumable goods and fuels. I call this novel condition “Hyper-Deflation.”

There will be a Great Depression II, centered mostly in America and Europe. And it will be a long depression of at least one to two decades culminating either in new currencies of the same basic nature as the old, usurious, or in new types of currency and exchanges. Or there will be a large and destructive war, the conditions for which are being laid now. It all depends on the gullibility of the public and whether fear and pain leads the grassroots to compliance in their own financial dispossession or to a liberating and active search for new and better ways of economic and financial organisation.

It is time for the public to take a keen and informed interest in its own economic destiny given that public power lies in knowledge.

Ignoring the avaricious wolf at our door will not make him go away.

Sad to say, but most of us are trapped. We've already been eaten and we're living tensely in the voracious belly of our financial beast. We did not make this hungry predator, but he has captured us for dinner one by one: and now our children too.

We will need gentleness of soul so we don't rip each other apart in our frustrations and pain from broken material lives and dreams during the coming times of turbulence.

There will be no escape as the beast is everywhere and we were all complicit in our own entrapment. We will also need openness of mind and heart so we, the financially dispossessed, and we will be financially dispossessed, can find ways to work together to create functional living alternatives at the grassroots level where we all meet and live.

We have just been handed a once in a millennium opportunity to make high finance serve the public interest, on our terms, rather than the other way around as had been the case.

We must seize this unusual moment to make finance the servant rather than the master of our lives.

For over five hundred years now, the agency of world history has been seeded in Europe, particularly in London as the seat of the British Empire which has continued in another form in its transplantation to the soil of North America and is the foundation of American world dominance.

After five hundred years or so, European world agency has finally run its course.

And when one world historical era ends, a new one begins with initially new and multiple loci of agencies.

Over time, the new loci tend to converge in the direction of one primary locus, but the new era normally begins with many contending loci. Some interpret this multiple loci contention as a period of transitional chaos. Others interpret it as an experimental ground for new possibilities. I tend to the latter interpretation.

Africa's "weakness" is its strength.

Africa is not pivotal in the empire of usury finance except as a field for material exploitation.

The "peripheral" position of Africa will insulate it somewhat from Great Depression II. And in this relative insulation there lies the opportunity to create new possibilities.

In accordance with the aforementioned notion of an interregnum period of multiple loci of world initiative, Africa should develop its own financial system independent from the Western world which will no longer be imperial in world affairs.

The African Financial System should not be based on usury as this is alien to indigenous African communitarian values.

The new financial system should be "owned" by no-ones because it must be owned by everyone, including all in future generations for foreseeable commercial history.

True, Africa is neither a monolith nor a monoculture but it is one space for the spring of new human developments freed from the distortions of Eurocentric conceits and based on values that are more conducive to human flourishing in a manner consonant with planetary imperatives. In the end, the human is but a speck in the great ocean of life, and it is the mania of usury-driven material production that hides this truth from us in a self-destructive and self-delusory financial narcissism.

Given the complexity of scale and scope that human production processes have achieved during the course of the past millennium, and the global span of interaction that has been attained, any new financial system should be heterogeneous, multi-focal, multi-local, and multi-level in design. “One sort fits all” is no longer acceptable or even surviveable.

There should be many systems for many purposes in many places. But the systems should inter-operate so human trade can flourish across fiscal boundaries. Nevertheless, the creation of any money should not bear interest for money by nature is not fecund and so usury is thus contrary to its true nature.

The production that monetary based exchange facilitates is what is fecund and not the money medium itself. Money must not grow by its own agency but only as required by the organic needs of consumption led production. In other words, the true nature of money is to follow and not to lead.

Money is the servant of human need and not the master of human aspiration.

Freed from the mad dictatorship of Financial Frankenstein, humans can become what humans are meant to be: an integral part of the world that is their home rather than a crazed species driven to eat its own nest.

The new financial system should most certainly not be led from America and Europe. Rather, it should have many points of agency and Africa should be one of them.

The task ahead, then, is the creation of a new financial system that is a system of many systems whose ultimate facilitation is the nurturance of humanity in community in cooperatively co-creative commingling with natural planetary processes: strong and thriving local communities in the context of a non-hierarchical global cooperation that is preservative of the socio-cultural diversity which is the foundation of human adaptability and interactive richness.

This will be the work of a generation. But it starts now.

*Joseph Edozien is Chairman of the South African New Economics Network. He can be reached through [chairman@sane.co.za](mailto:chairman@sane.co.za) or via [www.sane.co.za](http://www.sane.co.za) A shorter version of this article was first published in the Cape Times of Cape Town, South Africa. Other versions were later published in the Johannesburg Star, the Pretoria News, and the Natal Mercury.*