

The "Occupy" Debt Serfs

November 28, 2011 - [Jonathan Wellum](#)

Editor's Note: Quantitative easing was once an obscure and unconventional monetary policy that central banks used to stimulate the economy. Central banks will buy financial assets to inject a pre-determined quantity of money into the economy. But now, quantitative easing is a far more common concept, with Christians fiercely split on its merits. Today Comment asked two of our leading economic and financial luminaries to tackle the question of quantitative easing. Earlier, [Charles Clark argued in favour](#) (<http://www.cardus.ca/comment/article/2999>); here, the counter in the series: Senior Fellow [Jonathan Wellum](#), against.

One of the age-old monetary debates concerns how governments use debt. How much debt, if any, should the government contract, and for what purposes? Is there an optimal term to maturity? Does it matter?

These questions take us back to the earliest days of humanity. The first recorded discussion I am aware of on the subject takes us back to Moses and the Levitical law, revealed to the Israelites approximately 3,500 years ago. In the book of Leviticus, a year of Jubilee was to take place every fifty years. This was the year in which slaves and prisoners would be freed, and all debts would be fully amortized or forgiven. The year of Jubilee helped to ensure that debts would not be perpetual and obligate the debtor unjustly. Their understanding was clear: excessive debt would strip borrowers of their dignity, freedom, and wealth and would eventually lead to an undue concentration of wealth. Whether the Israelites ever instituted Jubilee or not is open to debate. One point that is not open to debate: the use of perpetual debt on the part of government leads to abuse and eventual debt serfdom.

Today, we live in a world that has created the largest amount of debt in the history of mankind, all by expert design. The global economy is built on perpetual debt. Until the recent crisis, the very notion that governments would pay down any outstanding principal (unless forced) was dismissed as "puritanical" and ridiculed by our economic "elite." But ask yourself a simple question: How can country after country add compounding levels of debt on their citizens, including unborn citizens, without eventually hitting a wall?

Governments love to use debt. *Buy now, pay later* has become a social culture, not just a political one. Governments can often disregard the long-term consequences as they grow and become a larger and larger

percentage of the economy. As they take more responsibility for economic management, promises become bigger, money gets printed and inflation and debt rise ever higher. What most people, including those occupying our public spaces, seem to overlook is that, over time, indebted governments seldom cover their obligations and end up harming the very people they are supposed to be helping. Only in the divine miracle of grace can debt be cancelled. And even there, someone pays.

Government coercion is subtle but complete as future generations are saddled with unconscionable amounts of debt until they are forced to outright renege on their promises and start all over again. The worst institution in the world to trust with debt is the government, and next are big financial institutions that are in cahoots with governments through the linkage of the central bank. It is a gross error in judgement to distinguish the bankers today along with their avarice from the governments that regulate them. In reality they operate hand in glove in perpetuating the production of debt. The bankers love the debt because they can make paper profits and pay outrageous bonuses, and the government loves the debt because they can bribe their citizens with worthless promises of "prosperity" while all the time destroying their freedom, dignity, wealth, and future prospects.

None of this is new. Within the British Empire, Prime Minister Sir Robert Walpole is credited with the introduction of a perpetual debt-funding system in England during the 1720s. British acceptance of perpetual debt aided and abetted its growth throughout much of the developed world. Unfortunately this system was open to enormous abuse. It wasn't long before the national debt of a country was used not only in times of war but also to fund grandiose national projects and social programs.

In the early days of the United States, government debt was viewed as temporary, to be issued only for pressing national purposes and then discharged by those who contracted it. In a 1789 letter to his friend James Madison, Thomas Jefferson raised the philosophical and moral question of whether "one generation of men has the right to bind another." He believed the answer was no, even applied to government borrowing. After all, the following generation cannot have given consent to decisions made by their fathers, nor will they have necessarily benefited from the deficit expenditures.

British empiricist David Hume (1711-1776), referring to intergenerational debt and the abuse of debt by governments, stated, "The practice, therefore, of contracting debt will almost infallibly be abused, in every government. It would scarcely be more imprudent to give a prodigal son a credit in every banker's shop in London than to empower a statesman to draw bills, in this manner, upon posterity."

When we consider the total global debt, the best estimation is that our global debt is now in excess of \$200 trillion USD (three times the global GDP). Over the past 10 years we have witnessed a 100% increase in the level of global debt (and this does not include the massive unfunded liabilities/entitlements). During the past 40 years the annual growth rate of debt in the world far outstripped the annual GDP growth. Simply stated, all those "things" we have loaded up on were largely bought on credit, and these lifestyles we enjoy are unsustainable.

The global economy is a Ponzi scheme; it has to issue new and growing levels of debt at manipulated interest rates in order to roll maturing debt and cover existing deficits. This should not surprise us in the least since, in order to survive, all debt-based money systems must grow exponentially—a denial of reality. As a result, all debt-based systems must eventually collapse and restart.

How do we know we are at the end of the line, and need to hit the restart button? It's actually quite simple. When one of the pillars of your financial system becomes zero interest rates, the game is all but up. Over the past thirty years as our addiction to debt grew, we were able to fund this increase by manipulating our interest rates from over 18% in 1982 to almost zero today. Who can't afford a gigantic amount of debt when you don't amortize your principal, and you can borrow for almost nothing? This works very well until rates start to go up or someone actually wants some of their principal back. Talk to the Greeks, the Irish, or the Portuguese—and soon most countries in the developed world—to see how well this goes.

The "occupy folks" have sensed what more and more people are sensing, which is that our global financial system is in big trouble, and they are right about that one fact. When interest rates are manipulated by the State to levels that are far below your inflation rate and the mere holding of government bonds, more properly referred to as certificates of confiscation, ensures your erosion of capital, the system has become corrupt and is no longer stable.

Unfortunately the "occupy" folks to-date have not brought forth any real solutions, except more centralization of power, more government, more spending, more taxation, more regulation, more bureaucracy, and more academic solutions. In the end they are really promoting more of what got us into the hole in the first place. They remain part of the problem, not part of the solution.

Let's not forget that the real problem is a culture that leverages up its economy and saturates itself in debt to consume "stuff" it cannot afford, engineers economic theories and justifications for its greed and envy, and then turns around and expects the government to fund all its needs from cradle to grave. To blame the situation we face on capitalism or the free market system is appalling. It's the people that make capitalism either work or fail. Capitalism simply provides us with a greater amount of rope with which to hang ourselves. With the government consuming more than 40% of the economic pie, we gave up real capitalism decades ago. The problem is we have used our remaining economic freedom over the past several decades to further maximize our own situations at the expense of our neighbours'.

But why should this surprise us? Were we not taught to grab as much as we could with no thought of the long-term consequences? We live in a culture that is perfectly content to sacrifice its long-term interests for short-term rewards. But when a society loses its ability to self-regulate and demands that the government take care of everything from daycare and education to healthcare and pensions, to name a few, why would we expect any other outcome but debt serfdom and a morbid economy that cannot produce enough jobs?

If the "occupy" folks really wanted to effect change, they would be advocating true and radical change. That change would incorporate the massive shrinking of government and the balancing of fiscal budgets coupled with a long-term plan to eliminate government debts. For money to be real again it cannot be left in the hands of central bankers or the global power brokers, who can increase and reduce its supply based on their whims and convenience. Money must be rooted in a collateral standard that would limit the control of bankers and governments to manipulate its supply and steal from citizens through the debasement of their currency. Change would also focus on reducing unnecessary regulations and allowing people and companies of all sizes to fail and succeed. Restrictive government policies in core areas such as healthcare and education would be open to competition, and entitlements would be completely delegitimized. True human dignity is bound up with taking personal responsibility for conducting one's own affairs and not relying on the government—or,

even worse, on transnational organizations that are even less accountable than the governments to the people they are supposed to serve.

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