FICTITIOUS CAPITAL, DEBT DEFLATION AND GLOBAL CRISIS

Nikolce Runcev
Ministry of Finance - Public Revenue Office, Skopje, N. Macedonia, nicolceruncev@yahoo.com
Trajanka Makrevska
International Slavic University "Gavrilo Romanovich Derzhavin", N. Macedonia,
makrevska_art@yahoo.com

Abstract: Market structures and broad economic patterns that classical political economists positioned at the center of their analysis are regarded as "exogenous" by today's established scholars. Monetarist teachings exclude the study of how nations have created banking practice to finance growth. Free trade doctrine and a profinancial ideology of deregulation are always related: "free markets" for predatory behavior and unearned income. Today's mainstream Consensus correspondingly supports free trade and minimal public regulation or taxation. These policies are restricted by privatization and a "flat tax" on employment, while untaxing real estate, property and high income brackets. The older practice — by which today's successful lead nations caught up with others and then achieved dominance — pursued active protectionist industrial and agricultural policy and state intervention.
This practice supports government subsidy of investment in infrastructure, education, research and development, progressive taxation of income and of reinter returns (land rent, financial returns and monopoly gains), and a financial system that stimulates tangible capital formation. Critics of free trade and financial deregulation have determine the proper aim of national policy to be active regulation and tax policy to define markets so as to maximize capital formation, in such a way that raise productivity and living standards. This is achieved by public investment in basic infrastructure, tariffs and subsidies to encourage capital formation, education, research and development, capped by directing the banking system towards productive credit creation to finance industrial capital formation. By denying the classical distinction between productive and unproductive labor and credit, today's national income accounts classify reinter gains as "earnings" on a par with wages and profits, adding to national product rather than simply being transfer payments. This perspective treats all wealth as being earned as part of the production process, not extracted from the economy in the form of a free lunch ("economic rent") by renters. . . The euphemism "free market" means central planning by the banks and high finance. Their plan involves untaxing reinter income and wealth, led by land-price gains (the "unearned increment") and financial deregulation. This shifts the allocation of capital and policy planning out of the hands of government into those of the banking sector. This financialization of the economy is more centralized than public planning by elected officials. And while government planning tends to be long-term, financial planning under neoliberal zed conditions is hit-and-run. Whereas government planning is supposed to encourage capital formation and full employment, today's financial planning makes returns by stripping assets, inflating asset-prices (the Bubble Economy) and minimizing the return to labor relative to reinter returns.
In the view of the fact that interest is a cost of production and enters into the cost of living, financial zed economies become more high-cost and for this reason uncompetitive. Nevertheless the dynamic of globalization in today's world is predominantly financial.
Keywords: Fictitious capital, debt deflation, regulation, wages, profits

1. INTRODUCTION

The question that arises here is how industrial capitalism turned into financial capitalism
It is claimed that the finance, insurance and real estate sectors have created a kind of "balance sheet wealth" not with new tangible investments and employment, but financially in the form of debt utilization and rent-seeking.
Such rental gains are costs that exceed the solvency of the economy
As a result, the current state of the economy is that of austerity, not the expanding markets envisioned in previous eras. Similar to the radioactive decay process, we are going through the short-lived and volatile phases of a bubble economy and casino capitalism, which now threaten to settle into lead savings and debt deflation.
This situation leaves society with a choice: either to write off debts at a level that can be paid (or indeed, to write them off with a clean slate), or to allow creditors to seize, concentrating property in their own hands (including whatever the funds are in public ownership to be privatized) and impose a combination of financial and fiscal savings on the population. This scenario will produce a weakening of the economy burdened with debts and taxes.
The latter is the path taken by Western nations today. It is the opposite of what classical economists advocated and what the writers of the Progressive Era expected.

Their optimistic focus on technological potential was thwarted by the political strata of the tenant's interests fighting the classic idea of free markets and economic reform to free industrial capitalism from the legacy of medieval and even ancient privileges and essentially corrosive, antisocial behavior.
The financial sector is trying to justify the deepening of today's borrowing with the explanation that it "creates wealth" by using the debt. After all, the product of banks is general debt.
The problem is that this leaves debt deflation in the loop as debtors try to pay by reducing their spending and investment. The declining economy falls further into a debt spiral.
Any "solution" based on maintaining high unpaid debt must cause debt deflation and economic weakening.
Strict measures raise standard rates, plunging the economy (and thus banks) into negative capital and reducing tax revenues, while economies try to squeeze out enough debt services to prevent default.
Arrears increase at compound interest rates, causing a wave of foreclosures that must end in a cascade of bankruptcies and an additional drop in property prices - causing an even bigger public deficit, more debt and foreclosures.
This leads to anti-austerity riots by debtors as creditors push for a privatization sale under difficult conditions.
When it is discovered that wrong policies continue for decades (today's financial orthodoxy is the same one that has endorsed destructive programs for many decades, there is always special interest.
Neoliberalism supports the interest of banks seeking to borrow against alternatives to save the real economy from over-indebtedness.
The next few generations will struggle over whether this will be the "real" economy of production and consumption or whether the claims of the financial sector will be a reality. The financial sector is leading the way in this battle and hopes to make its gains irreversible
Banks are holding their trump card, threatening to plunge the economy into crisis if they do not get their way, reversing the past trend towards more humane debt laws. The winning streak of creditors continues, it may take at least half a century for power to be restored, as the task is now much more difficult than it was a hundred years ago.
The heyday of the classical economy in the progressive era was familiar enough with public discourse to almost solve the problem of rent.
But landlords retaliated, insisting that debt could not cause a serious problem (as if all loans were productive!). And attacking the idea that governments could play a positive economic role as regulators of finance or its main clients (real estate and monopolies), or as a rival investor with a public infrastructure option.
Predatory monopolists and political insiders have sought to monopolize the public domain, using financial pressure to force governments to accept their self-serving "solution" - a solution that makes matters worse. The problem with their business plan is that the bank's profits and speculative profits are extracted from the economy, and there are no additions to the real output.
Indeed, with interest rates of up to 29% on credit cards and levels of distress for European government debtors, where is there room for growth and recovery in economies growing by only about 1% per year? 99% become poorer and deeper in debt, while 1% becomes richer. This polarization is the opposite of the progressive distribution of income and wealth that occurred during the 20th century.
Many observers are surprised that financial and fiscal savings are stifling and do not help to recover 99%. But what is happening is simply a repetition of the IMF "conditions" imposed on unfortunate debtors. Voters have been told that the way to recovery is to bleed the political body, not to feed markets with public infrastructure and social spending.
There is a false alarm that the government's budget deficit will increase consumer prices - without discussing how private sector loans weaken the economies.
The problem is that the loan is long - and paying off debts to bankers and bondholders (and different loan ratings) leaves less income available for spending on goods and services. So, debt deflation is the main problem today, not inflation.
Most reformers believe that economic rationality will overcome the dead ends and the failure to realize its potential.
After all, finances should ultimately make their money from the "real" economy. Interest can be paid only by economic growth, otherwise it reduces the markets, and the claims from creditors fall.
The question is whether finances will promote economic growth and rising living standards, or create unproductive loans and use the government to enforce creditors' claims by imposing austerity measures, reducing much of the world's debt population. The longer we look back in time, the clearer we think this issue is defined.
For example, during World War I, British economists debated whether German industrial banking, based on equity financing and long-term customer relations, was superior to the more pronounced Anglo-Dutch-American commercial banking that evolved from trade financing. After the Allies defeated Germany, banking in most

countries took the Anglo-American path. The stock market remained a game for insiders full of fraud. Banking has focused on real estate mortgages and mortgages and companies.

The same logic implicitly applies to domestic debt: Bankers' payments are spent back in the economy. While modern discussions trivialize the idea, "we owe ourselves a debt," therefore it does not matter that, on a balance sheet, 99% owe to 1%. The assumption that tenants spend their income in the domestic economy is an old story.

This prompted Keynes to acknowledge the role of demand in the revenue cycle. But financiers are recycling most of their debt borrowing into new loans, which is drawing even more interest. Their consumption is mainly for luxury real estate, art trophies and jewelry. When the supply of safe investments is exhausted, they lower their standards and lend more to less able borrowers — and turn to buy trophies that remain available.

Interest is treated as a "profit" earned by the production of a banking product: debt assumed by borrowers. Treating banks' debt-creating privileges as tangible industrial investments combines money and credit as a "factor of production" so that interest, penalties and fees appear as part of the production process, not outside it.

But if the creation of credit and its financial costs are the result of monopoly privileges extraordinary for production (as opposed to the costs of industrial plant and equipment which are ultimately reduced for labor), then national income and product bills are a double-counting exercise.

Debt analysis along these lines helps to explain why economies are polarized as creditors in the first 1% of the economic pyramid and receive debt service as financial debt from the bottom 99%. It also explains why the solutions proposed by policymakers to keep debt overhead (and hence financial sector payments) so dysfunctional.

And the fact that today's academic program excludes this line of analysis helps explain why so many observers publish their surprise when economies cope with debt.

Central banks are trying to raise real estate prices back to their former bubble levels, hoping to help banks escape negative capital. The idea is to cut interest rates and provide weaker credit to help the economy "borrow its debt". When this does not work, the government takes out bad bank loans that directly affect the balance of payments.

This public debt requires interest-bearing taxes on creditors who provide money to save and maintain the financial system as it is. Without the ability to simply monetize a new debt, the cost of this debt must be paid for by higher taxes. This imposes fiscal savings in addition to financial savings.

The internal paradox here is that squeezing more income to pay bondholders weakens the economy, and thus its ability to pay taxes and service debt. The crisis is deepening as national budgets and banks' balance sheets fall further into deficit.

This seeming lag (which "no one could have predicted") is not accidental. It serves the financial sector by streamlining government aid by 1% to 99%. Former writers warn that such policies increase costs by burdening the economy with progressive taxation.

But for financiers who make a fortune at public expense, it pays off to the annoying popular understanding of how financial systems inflate debt overhead. As a result of the blind spot, protests against government policymakers who are sacrificing the "real" economy of production and consumption of financial predators are diminishing.

A big contribution to this problem is the decision to reduce interest taxes. The policy provides a tax advantage for investors to acquire ownership of assets through borrowing rather than direct purchase.

It reflects an era when credit was the internal price of commercial trade. But most bank loans are now granted to buy real estate or take over companies, rather than to finance the production, sale and delivery of products. The main objects of bank credit are property, mineral wealth and monopoly privileges (now headed by a privatized infrastructure), not a new tangible capital formation.

What has most seriously contributed to making rental privileges the main subject of bank lending instead of new production and capital formation is the anti-classical policy of tax cuts for land leasing and natural resource leasing, as well as for gains on the cost of assets? . ("Capital" gains in asset prices) and short-term financial speculation ("interest bearing").

The resulting economic polarization has created special interests that elevate the structure of national spending by directing the economy deeper into debt. Budgets for households and businesses are shrinking while government social programs are shrinking.

Industry and the labor force bear the loss because austerity reduces costs, even as debts to the financial sector increase its profits and allow the rich to acquire (privatize or "grab") more wealth after hardship.

Thus, the world is drawn into a new form of economic warfare. Guided by finance against industry, as well as labor, it is also against government - at least, a democratic government, which has been turned into a means of extracting revenue and selling off funds to pay the creditor oligarchy.

The trick is to persuade voters to support policies that weaken the economy and throw state budgets into deficit, adding to the fiscal crisis in addition to the debt crisis - which the financial sector sees as an opportunity to keep nations under control.

The effect is to make funded economies more expensive, and therefore less competitive — and less able to get out of the depression with more exports.
Competitive advantage shifts to economies with lower debt, especially those whose real estate is lower than debt, and public infrastructure provides basic services at cost or subsidized rates.
But financed globalization is trying to expand its debt network around the world, achieving what it used to get by military force. In the name of "wealth creation", the financial sector has euphemized and transformed political ideology to the point that most countries have applauded the most horrific robbery of the public domain (government enterprises, land and mineral rights) by 16th through 18th century affiliation movements in England, and earlier military conquests of the New World and much of Europe.
What is not recognized is that the effect of financing the economy is much the same as the tax collection after the armed conquests.
Property ownership is transferred, under conditions that block governments from taxing income that is "spent" as interest or escapes through tax evasion transactions with offshore banking centers.
The sale of public monopolies such as roads and other infrastructure is turning into rent-seeking opportunities. This turns the economy into a set of tolls as benefits for customers increased for labor, industry and other non-financial "real" activities.
Revenues are "exempt" from antitrust rules and price regulation, and even from taxation, as property taxes are reduced to leave more revenue "free" to be paid as debt.

2. CONCLUSION

Today's question is whether the new wave of reforms will restore and truly complete the vision of classical political economy that seemed to shape evolution a century ago, or whether the era of industrial capitalism will return to a neo-feudal reaction that defends the interests of rent.
What is available is how society will resolve the legacy of unpaid debts. Will it allow the financial sector to evict and even force governments to privatize the public domain in difficult circumstances? Or will it write off debts for what can be paid without polarizing wealth and income, without dismantling the government and privatizing the public domain, and without shifting tax policy to financial lobbyists pretending to be objective technocrats?
As much as unwanted science ignores environmental pollution and denies global warming, the unwanted economy denies that what is stifling today's recovery is debt pollution.

REFERENCES

Acemoglu, D., & Robinson, J. A. (2012). Why nations fail: the origins of power, prosperity and poverty Crown Publishing Group, New York.

Carson, R. (2017). Fictitious Capital and the Re-emergence of Personal Forms of Domination https://ir.canterbury.ac.nz/bitstream/handle/10092/14503/22%20Carson%20CAPITAL.pdf?sequence=6

Davydov, D. (2014). Essays on Debt Financing, Firm Performance, and Banking in Emerging Markets,https://core.ac.uk/download/pdf/197966742.pdf

Durand, C. (2017). Fictitious Capital: How Finance Is Appropriating Our Future Paperback – https://www.researchgate.net/publication/316857924_Fictitious_Capital_How_Finance_Is_Appropriating_Our_Future

Fisher, H. I., & Mendoza, E. (2009). https://voxeu.org/article/crisis-lessons-irving-fisher-fix-debt-deflation-disease-not-its-symptoms#:~:text=Hire%20Irving%20Fisher,12%20February%202009

Hudson, M. (2003). Super Imperialism The Origin and Fundamentals of U.S. World Dominance Second Edition

Obuya, D.O. (2017). Debt Financing Option and Financial Performance of Micro and Small Enterprises: A Critical Literature Review International Journal of Business and Management 12(3):221 DOI:10.5539/ijbm.v12n3p221

Ratner, S. (2012). “The Rich Get Even Richer,” New York Times op-ed., March 26, 2012, based on data from Thomas Pickett and Emmanuel Saez, “The Evolution of Top Incomes: A Historical and International Perspective,” http://elsa.berkeley.edu/~saez/piketty-saezAEAPP06.pdf

Zubairu, U. (2018). A Systematic Review of the Field of Debt Financing Federal University of Technology Minna June 2018 https://www.researchgate.net/publication/326489949_A_Systematic_Review_of_the_Field_of_Debt_Financing

“Tech Bubble: Who Benefited,” available on http://michael-hudson.com/2003/08/tech-bubblewho-benefited/.

THE DISTINCTION BETWEEN FINANCIAL AND REAL CAPITAL ACHIM SZEPANSKI (2021 08-04) https://non.copyriot.com/the-distinction-between-financial-and-real-capital/

REAL VERSUS FINANCIAL FRICTIONS TO CAPITAL INVESTMENT WORKING PAPER SERIES NO. 566 / DECEMBER 2005 https://www.ecb.europa.eu/pub/pdf/scpwps/ecbwp566.pdf

https://www.crestmontcapital.com/blog/what-is-debt-capital

Your Money or Your Life! The Tyranny of Global Finance (2007) Translated by Raghu Krishnan with the collaboration of Vicki Briault Manus Library of Congress Cataloging in Publication Data

Toussaint, Eric.[Bourse ou la vie. English]