Ben Bernanke's speech: - An open letter to; the US Congress, UK Parliament and the European Parliament.

Ben S. Bernanke's speech, Five Questions about the Federal Reserve and Monetary Policy, http://www.federalreserve.gov/newsevents/speech/bernanke20121001a.htm
Presented at the Economic Club of Indiana, October 1, 2012, is to be seen as one of the great moments in economic history; not for what he said; but for what he did not say.

Before I elaborate, I turn to a new BBC TV series, Masters of Money presented by Stephanie Flanders www.bbc.co.uk/programmes/b01mzqw9 in which she describes the main philosophies of the three primary thinkers that have made an input to the subject of economics; Keynes, Hayek and Marx. Keynes, that governments should drive the economy, borrowing to invest; Hayek with the opposite view, that free markets must drive the economy with the minimum input from government; Marx, that capitalism is doomed to fail.

In particular, she ended the series with Marx:

> "It is truly amazing how well Marx seems to understand our world where we are more interconnected than he could ever have imagined, and where all the faces of capitalism, good and bad are on pretty much every corner of the globe. But he was the one who famously said it wasn't enough to interpret the world; the point was to change it.
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> To ask him what exactly was supposed to replace capitalism with; well, he had remarkably little to say about that.
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> Marx said we couldn't describe what the next stage of human development would look like, any more than a feudal serf could have described our lives today, which you might say, fair enough. Except you might also think that it was pretty telling, after all, nobody else has been able to describe a convincing alternative to capitalism either."

As anyone familiar with these iTulip pages will know, it is my opinion that we are not living under classic capitalism, but feudalism; that a feudal mercantile economy misuses the word capitalism to disguise itself from detailed scrutiny.

Why would I say that and for that matter; what on earth has that to do with both the BBC series and Ben Bernanke's speech?

Neither Stephanie Flanders, nor Ben Bernanke connect two words together; equity capital.

Bernanke does say:

> "the Fed **acts to reduce interest rates, which supports the economy by inducing businesses to invest more in new capital goods** and by leading households to spend more on houses, autos, and other goods and services"
>
> Or again: "bringing down longer-term rates should support economic growth and employment by **lowering the cost of borrowing** to buy homes and cars or **to finance capital investments."**

And that's it. Not one word from Bernanke about equity. Not one phrase from either Flanders or Bernanke about describing anything to do with the use or function of equity capital within an economy.

Imagine a horse drawn cart, but with only one wheel, not two; with the unsupported side of the axle hanging in space without any supporting structure; no wheel, not even a pile of old shoes to hold that side of the cart off the ground; nothing!

Keynes is famous for his "governments must borrow to invest"; exactly the point being made by Bernanke. Hayek is famous for free markets; yet it is perfectly clear to me today that Hayek never set into stone what exactly is a free market; how does the free market operate; what are the rules for a true free market? But most interesting to me is Marx, believing that feudalism, (in another guise), was what everyone today describes as capitalism.

None of them were correct; all were fooled into thinking about the economy from the one viewpoint that none of them would never be able to understand; the inventive, innovative mind of the feudal serf. Not one of them had ever been a feudal employee, slaving away in a dark satanic factory; yearning to be able to compete against their feudal employer.

Today, as a consequence, Ben Bernanke sits and speaks as though just another feudal Lord from another medieval age. He has not for one moment given any thought to that feudal serf. His opens with this statement:

> "The first question on my list concerns the Federal Reserve's objectives and the tools it has to try to meet them.
>
> As the nation's central bank, the Federal Reserve is charged with promoting a healthy economy--broadly speaking, an economy with low unemployment, low and stable inflation, and a financial system that meets the economy's needs for credit and other services and that is not itself a source of instability. ……
>
> But today I want to focus on a role that is particularly identified with the Federal Reserve--the making of monetary policy. **The goals of monetary policy--maximum employment and price stability--are given to us by the Congress. These goals mean, basically, that we would like to see as many Americans as possible who want jobs to have jobs**, and that we aim to keep the rate of increase in consumer prices low and stable."

Yet, at this moment, inside the United States there is 19.9% unemployment with 50% of the 16 – 19 age group and 26% of the 20 – 24 age group without any job. (Making 9 Million Jobless "Vanish": How The Government Manipulates Unemployment Statistics By Daniel R. Amerman, CFA) http://danielamerman.com/articles/2012/WorkC.html

Many years ago I had the great honour to meet with Sir Geoffrey Chandler, at that time Industry Adviser to the Royal Society of Arts http://www.telegraph.co.uk/news/obituaries/finance-obituaries/8478562/Sir-Geoffrey-Chandler.html

He had been saying that we need to create new jobs as though we were at war; and that phrase struck me recently; how do you fight a war? You fight a war with very small teams; each led by a strong leader that the small team look up to and respect.

Now add another phrase neither Bernanke nor Flanders used; free enterprise. Where in an army; everyone is under the control of the leading general; in an economy, certainly supposedly in the free world, everyone is free to make their own decisions regarding where they wish to live and work. That there must be set into place a recognised set of rules, accepted system, institutions; that permit them to do just that; to be free.

In which case, free enterprise is the accepted system where the manager of the business owns the business. Allowing them to be free; enterprising managers, in the same way that the people within their communities are free to work for the free enterprise manager, or not.

Just like the military troop, free enterprise suits a small team led by a leader they know and can admire. They are all free. So; with the greatest of respects; where is there any mention of the necessary mechanisms to permit the creation of those free enterprise businesses to employ the people? Keynes? No! Hayek? Not in a true free market. Marx? Not on your life, all he believed in was total submission of the feudal serf to work without freedom.

Now, perhaps, you can see why I titled this as a great moment of economic history. Until the leadership step out to describe what they understand as their role in the economy, we cannot in turn describe what is missing from their description. Now I will turn towards what is missing from both Bernanke and Flanders descriptions of so called capitalism.

The question to ask is; why, in the first place; did the employment of the people start to diminish?

Look at any graph of the long term Western Anglo-Saxon economy and you will see a sharp diversion starting late 1960's, early 1970's. From that moment we have had increasing instability; one crisis after another…….. Why?

We used to enjoy financial institutions led by strong individuals that saw their responsibility as holding the stability of the overall system together. We used to call them "savings institutions". In fact, they were usually insurance companies. They took a fee for insurance against any unexpected disaster and reinvested those premiums back into the nation; principally into companies that were already listed on the stock exchanges; or, importantly, they permitted the long term, stable, consistently profitable privately held companies, paying dividends every year; to become listed on those stock exchanges. Crucially their size was unimportant; it was dividend and management stability that was placed as the highest attainment.

Long term savings of the people were also invested into the stock of these listed companies; but very largely; by the people themselves buying the shares via a stock broker. So, for the elderly, your pension was your income from your savings. You either held your savings in very long term government debt, (totally safe but less income), or in long term stable dividends from listed companies that were slightly more risky, but paid a better income.

Again, another aspect now long forgotten; the people's own personal savings, used to purchase stock from a stock market **REPLACED** the investment of the savings institutions. In turn, freeing up previously invested institutional income for **FURTHER** investment back into the nation. Thus the savings institutions were the conduit for savings flow; not the final holder of the savings. They created the stable businesses into which the saver then placed their money to replace the institution

Crucially, the leadership of the savings institutions saw their primary responsibility as being to maintain the stability of dividend income for the saver; while at the same time, and for the same underlying purpose; they saw their parallel responsibility to maintain a steady flow of investment of their fee income from insurance back into the general prosperity of the nation. They went out and looked for independent people that were intent upon delivering new companies that would, in time, become replacements for those that always fall by the wayside within the major stock markets.

Banking, on the other hand, was almost entirely something for the wealthy or for business transactions, a very neat "fit" as both sides of that equation were from the same origins; the local business community. Banking is a working capital function to pay for the flow of work through a business. Equity capital was the base foundation of the structure of the business.

So we had essentially four layers of people within a prosperous nation; those that:

- Worked for a prosperous company; earned sufficient income for their own needs as members of their local community; paid their taxes and saved for their retirement.
- Were driven to create a new free enterprise company to then employ others around them, in the process creating vigorous competition; thus creating additional prosperity, as also to replace employment from declining companies. (Remembering that all companies are like people; they live full lives and die)
- Those that had taken stage two above forward to create a long term stable company that maintained long term profit and thus dividend stability.
- Were then recognised as sufficiently stable and prosperous and thus were invited to become listed on stock exchanges; so that their stock could be recommended for purchase by the lowliest saver in employment.

Between all these layers there was an acceptance of failure. Employees could move around to find the best job to fit their needs, if one job failed, they could easily find another. Potential employers found it easy to find investment in a prosperous local community and as the investment was made as equity investment by the local prosperous people in their local community; the money largely remained in circulation within the community. So all any such investment into potential new employment did, was keep that prosperity in circulation within the community. Any new business that prospered was an immediate bonus. Any that failed did not diminish the local prosperity. Everyone saving for onward investment into their local community, (as against saving to purchase shares of public companies verified by the savings institution), was always advised to buy into more than one company as there was also an acceptance of the potential for failure..

All of this created very long term stability in job creation and associated prosperity based upon free enterprise, where by far the majority of the new businesses created were founded by an individual or a very small group of such, who both owned and managed that new business start up. They only passed on their ownership of the company if it became listed and that transition from private ownership and associated management was also always a long term process. You could not buy out a private company, put your own management into it and immediately have it listed for a very simple reason; the leadership in those savings institutions were not prepared to lower their standards; all companies listed had to be able to show very long term stability; particularly of dividend income.

Yes, there were always long shots; usually mining companies, that would start as penny shares. But in the main, the stability of the entire employment cycle was maintained by on the one hand; local savings reinvested back into new small free enterprise businesses and on the other hand; by the managers of the savings institutions ensuring high standards for public stocks sold on the national and international stock markets.

It is also crucial that you understand that what this employment environment created was a great deal of what I call hidden prosperity. A long term stable company had cash in the bank, fully depreciated buildings and plant with another associated cash balance to cover that depreciation. Nice furniture, quality valuable paintings on the office wall, a private aeroplane or two, nice cars, and the founders were also prosperous with nice houses, spare money in the bank in addition to their own savings for their old age.

Their employees were also prosperous; earning a good wage, particularly as, with new companies constantly springing up around them, they could always move to better employment. So good employee relations; were always the bedrock of stability for the local company. Everyone benefited; all had a part to play and all knew where their prosperity came from; their savings invested back into a fully competitive truly free market free enterprise business environment.

What changed was, as I see it, two individuals based in London, Jim Slater and Peter Walker, saw this long term stable economy as an opportunity not to be missed and acted as raiders; they decided to plunder the hidden prosperity they could see all around them. What went wrong was no one saw the long term implications of what they proposed. They asked for money to be lent to them by a savings institution; to buy a controlling stake in a prosperous company, in turn to cash out the hidden prosperity and share it with the savings institution.

The savings institution should have refused and told them to go out and compete against any such existing business. Instead, they went along with the idea.

Of course, they made a lot of money very quickly and the idea spread like a wildfire across the entire savings institution industry; everyone started to make a lot of additional money from raiding. No one recognised the dangers of moving towards what is now a deeply feudal mercantile economy, where you only get funding for new business and thus new job creation if you join the raiders. But that sudden flush of additional prosperity at the institutional level, in turn set into motion the second element in this disaster. A constant flow of additional income flowing into the savings institutions generated a substantial increase in tax income for the government and they joined in to use that additional tax income to start their own fiefdoms.

You see, another aspect of this story is that at that precise moment, the 1960's, the United Kingdom was being forced to abandon their colonies. Colonies were being used as fiefdoms for public servants that were by then used to more than a century of acting as though emperors of whole nations. All of that was entirely based upon classic feudalism. So history added a deeply feudal element into the equation.

Executive government, awash with unemployed "Emperors" now had what they needed to drive their own agenda on job creation; they set out to colonise the British nation; in the process, building great empires by claiming to have the solution to job creation; which was steeply declining due to the rapid raiding removing all that hidden prosperity.

British Rail, British Steel, British Telecom, British Oil, British Leyland……..We are told, (but cannot confirm due to government secrecy), that today they own quite literally thousands of businesses. VERY recently, the latest being; British Business Investment Bank ………

But what you did not see from the other side of the Atlantic is that the same raiding had started there as well. Instead of government being the driving force, it was the Wall Street investment banks that set out to combine many small companies into huge behemoths entirely under their feudal control. While the US government took the same mindset into a Cold War to build gigantic companies entirely strapped to the government's treasure chest.

Both raiders and their government supporters were entirely dedicated to buying up every profitable company they could get their hands on to increase their internal prosperity and maintain absolute power over the wider economy. The raiders and government became allies. Each side claiming that capitalism was the answer; when each was selling another form of medieval feudalism dressed up as capitalism.

The idea that a poor "feudal serf" British inventor, lawfully acquired PCT patents in hand, could ever be permitted to compete against the combined weight of these two feudal tribes was a complete joke; was it not? I well remember Michael Powell in the FCC headquarters, seeing me walking towards him, turning his back and deliberately walking away from me.

Competition? - From a feudal serf? - Please do not make me laugh………

On both sides of the Atlantic Ocean local job creation declined while a few now much larger, indeed gigantic companies, seemed to be hugely successful; while all the time, local prosperity steadily declined under a smoke screen of increased government driven employment and associated welfare schemes all funded by borrowed savings.

And that brings us to the final act; with the savings institutions awash with cash from the raiding; government started to rapidly increase their borrowing from the savings institutions and to enable that, they set about systematically changing the rules for savings to ensure that flow of borrowing. That systematic change in turn changed everything. The entire savings industry was turned on its head and totally re-configured to deliver all the savings of all the nations, as borrowing internally; back into either raiding, (now called mergers and acquisition), or government inspired employment.

The savings institutions were now; NOT in any way at all responsible for job creation. As a London banker, (asked by the then Governor of The Bank of England, Eddie George, to interview me), told me in 1994; "It is the governments responsibility to create jobs". At the other end of the scale; almost every penny of that once prosperous hidden economy disappeared, to be replaced with debt to the retail and investment banking system in turn feeding borrowing to government.

The entire investment function of both the hidden prosperity and the original savings institutions has disappeared; driven into extinction by rapacious "raiders" and their allies, government employee "Emperors" desperate to keep control of their "fiefdoms". In turn, the external financial system; now totally dedicated to a deeply feudal mercantile economy, constantly raiding, merging and or acquiring any, even the tiniest company; on into ever larger, now huge global companies; has no contact whatsoever with their roots; the small, local community, free enterprise business economy. None!

At the same moment the banking industry, deeply mired in the failure of regulation, (driven by emperors desperate for more and more borrowing to cover up their own failures on both sides of the Atlantic), have sealed their own fate by taking savings and leveraging them up to more than fifty times, (I have heard rumours of more than several hundred times), and lending on this rubbish smoke and mirror money to every government desperate to keep building fiefdoms for their Emperors.

In the USA you now have nearly 20% unemployment; 50% youth unemployment and even that fact is being covered up by the self same Emperors, desperately trying to hide from the truth of their own failure. The banking system is bankrupt; the savings industry; dare I say it, completely intellectually bankrupt, perversely strapped onto a feudal economy that makes a complete mockery of any concept of freedom; and all everyone talks about is; where to save money within government spending….. by adjusting money market rates.

Today, the entire Western economic model has no mechanism to invest equity capital on free enterprise terms back into new very small businesses to create jobs.

Keynes believed in the power of government to address the need for prosperity without recognising the existence of a normal human society need for small teams led by local leadership to, in turn, balance the emperor mindset of government employees.

Hayek believed in the power of the market without fully realising that he had failed to address the need to clearly define what a true free market is and how it must operate to balance the raiding mindset of leaderless finance.

Marx believed in the expectation of total failure of what he believed to be capitalism, when, in point of fact; what he was describing is just another example of classic medieval feudalism.

Bernanke's half empty speech shows us that he, (and others in a similar position of economic responsibility), believe they can continue to ignore the truth regarding the numbers with no job and the total lack of any financial mechanism to capitalise the creation of new jobs with savings used as free enterprise based equity capital investment.

The leadership of the Western economies, the United States Congress; United Kingdom Parliament; European Parliament and their respective central banks; gosh, even the redoubtable BBC; are all working from an imperfect economic model based upon a combination of a central misunderstanding of how a real, human, small local community, free enterprise based, competitive economy actually works; an intentional mismanagement of the truth regarding the lack of jobs; a total failure to recognise the long term consequences of permitting unlimited raiding upon the underlying prosperity of the people; that is directly related to an associated lack of any understanding of why their economies are not creating those now desperately needed jobs.

The missing elements of Bernanke's speech must be replaced:

- Local prosperity once used to feed savings into the long term development of small, local community, free enterprise employment.

- Savings institutions dedicated to encouraging free enterprise in each and every local community; where those that show the determination to carry forward from their small beginnings on into a position of taking responsibility for managing the creation of long term stable dividends; commit to equally dedicated leadership by and from those savings institutions.

- A free enterprise partnership to provide economic leadership.

In the short term the principle missing element is the local prosperity; we have to have a way of very quickly replacing it in a way that will satisfy everyone.

As I see it, the only way out of this dilemma is to take a very large slice, (in the US, $2.25 trillion, in the UK £450 billion, and probably 5 trillion Euros in Europe), of the grossly over leveraged smoke and mirrors paper that is awash within the financial system and convert it into what I describe as Vanishing Bonds. In turn to be only used for direct investment as equity capital and very long term working capital into new, very small, free enterprise business creation. As with any new business so created; every penny so invested will be immediately deposited back into the retail banking system as new business banking deposits.

An immediate transfer of prosperity.

It is thus proposed to make a once only transfer of what was once hidden prosperity and put it back into the local communities. Yes, there has been a wide debate about the idea of just giving people money to spend. My argument is; that does not create stable employment, jobs, growth, in each and every local community.

The Western economies desperately need millions of new employers; tiny, privately owned, well capitalised, one to five employees companies, owned and managed by the founders. Millions of free enterprise based companies creating their own idea of future prosperity. I have set that out in detail some time ago and I dare to suggest that no one has yet to strike it down as a solution.

Continuing to debate interest rates for borrowed money alongside government tax and spend issues does not answer the question of where do you find the equity capital investment to create prosperous employment for the tens of millions now unemployed throughout the Western economies? Someone has to show the courage to admit the entire system needs a reboot.

So, who has the courage to look at some new thinking?

Perhaps embarrassingly, from a mere feudal serf!

http://www.itulip.com/forums/showthread.php/23688-Ben-Bernanke-s-Speech-An-Open-Letter-to-The-US-Congress-UK-Parliament-and-the-European-Parliament