The Nottingham Economic Recovery and Renewal Consultation - Part Four

The Rebel City, Debt Slavery and Energy

According to the Institute of International Finance, *"the pace of global debt accumulation has been unprecedented since as far back as 2016, increasing by over $52trn. While some $15trn of this surge was recorded during the pandemic, the debt build-up over the past four years has far outstripped the $6 trillion rise over the previous four years."* (Global Debt Monitor)

Note that, once again, the Covid Pandemic has intensified and "brought forward" a crisis that already existed before SARS Cov 2 started its world tour. When the Covid crisis is all over the debt crisis will still be intensifying. This is a reason why it is a fantasy to assume a quick "V shaped" economic recovery. The economic future is far more likely to be "K" shaped. A small number of rich people and their hangers on might continue to get richer for a while but most people will get poorer as the economy shrinks.

While the global and British economy is struggling with debt, some of the people who may do well, a very small number, might be the developers of what is called "platform financialisation". This means the integration of digital infrastructure, big data and intrusive surveillance technologies into the finance sector. I mention and explore it here partly because this idea is written into the "Recovery Plan" in the mention of fintech as a growth sector.

Platform capitalism and platform financialisation – what are they anyway?

The key feature of platform capitalism is the collection of large volumes of data on people's financial and other behaviour, preferences and actions largely without their awareness. For example in 2016 Facebook used at least 52.000 behavioural attributes to classify users, ranging from 'age' and 'gender' to the more predictive 'pretending to text in awkward situations' or 'breastfeeding in public'…
https://sustainablefinancelab.nl/en/the-platform-economy/

Platform financialisation is a variant of platform capitalism that applies specifically to peoples' financial arrangements -for example their borrowing or insurance arrangements.

Data left behind when their actions are recorded is fed into computer algorithms to predict what they are likely to do and those predictions are then used for selecting how their subsequent data searches and other actions are answered. The pattern of their previous behaviour is analysed and used to steer what they see when they do searches on google, or what articles appear in their news feed. The patterns in past data help to choose targeted marketing and "nudges" to behaviour. These are the adverts that just happen to appear on your computer screen that uncannily anticipate that you would like to buy foreign exchange when you are making arrangements to visit somewhere abroad or pictures of a pair of boots you were thinking of buying a few days ago but had not got round to yet.

Given a trend to an "internet of things" in which "smart" objects feed back information to their originating company about you, there is no end to the financial and other possibilities for manipulation – for example the car which the insurance company locks you out of if it considers that your driving has been too fast and too erratic, according to the data the car sends back to the company as you speed with a sick person to the hospital. As explained by a Dutch project website:

….New forms of inequality may emerge as a result of commodification. A recent poll by Dutch platform engineering firm TJIP shows that a large portion of consumers is willing to give insight in their financial data in return for a lower interest rate on their mortgage. Paying less money for housing may seem like an appealing offer, but giving up privacy instead sounds less attractive. An economy-wide trend of payment with data can bring about a split between people who can afford privacy and those who cannot.

In financial services, the selection process can manifest itself in the form of tailor made financial advice. An algorithm searches for the loans, insurance products or energy provider that best suit your needs based on your transaction and behavioural data…..

Those apps provide tools that make the lives of consumers easier, but conflicts of interest present in traditional comparison tools apply equally to the new ones. For instance, a tension exists between the profit motive and impartiality of advice. This tension is even more pronounced in the digital environment, where consumers are used to 'free' services. To gain market share, companies provide their core service at no cost which pressures them to look for alternative ways to make money. A profit-driven company might be tempted to push offerings that pay the highest commission.

In short the relationship of creditors and debtors is about to take on a whole new set of dimensions which make sure that debtors are manipulated by their creditors – because they know every damn thing about you in their "datafication" of your actions, the profile that they have built up about you and the tools they can use to "nudge" you to accept their financial advice, based on their calculation of how best to milk you of any remaining positive cash flow into your account. (For details of how "smart" objects can communicate on the internet, and be used to manipulate behaviour, see Shoshana Zuboff's book "*The Age of Surveillance Capitalism*". *Profile Books 2019* and my two part review of that book *at https://credoeconomics.com/surveillance-capitalism-at-the-limits-to-economic-growth-social-controls-through-digital-infrastructures-have-bio-physical-limits/ and https://credoeconomics.com/part-two-of-surveillance-capitalism-at-the-limits-to-economic-growth-social-controls-through-digital-infrastructures-have-bio-physical-limits/*

I am not sure how these intrusive and manipulative technologies would work in a general debt crisis but the prospects appear worrying. Will "Alexa", the "friendly" programme that can recognise your voice as you watch a "smart TV," be one of a number of instruments used to keep the financial system show on the road? I doubt it but I fear that fintech will give creditors a whole armoury of tools to browbeat and manipulate debtors as they debt crisis gets worse. If so fintech may well end up driving even more debtors into nervous breakdowns.

This is because there is a lot of evidence that the personal disempowerment and worry associated with debt leads to psychological distress. The distress extends to the lenders as well as the borrowers. This finance sector and its ancilliaries, like the credit ratings agencies, spread a lot of sickness into society….

This is a quote from my book Credo intended to spell this out – it's a few years since I wrote it but I doubt that the fundamental issues have changed.

There is a striking correlation between mental ill health and debt - on both sides - lenders as well as borrowers. Among other things, it is now well documented that self-reported anxiety increases with the ratio of credit card debt to personal income; that the onset of mortgage debt has a negative impact on mental health on males; that of people receiving debt advice, a high proportion (62% in a UK study) reported that their debt led to stress, anxiety and depression which they are likely to consult their doctor about; that there is a relationship between debt and post natal depression; that debt is the strongest predictor of depression; that difficulties in repaying debts are strongly connected with suicidal ideation and self-harm; that debt is associated with feelings of shame, social embarrassment, a sense of personal failure, negative self-identities and is implicated in isolation, social exclusion and strained relationships. (Fitch, Chaplin, Trend, & Collard, (2007). Debt and Mental Health: the role of psychiatrists. Advances in Psychiatric Treatment , 194-202 2007)

Now let us turn to look at the situation on the other side, among the people who lend money, or at least those who manage and direct the credit markets.

Mental health problems can be severe in the heat of financial competition. Drugs and alcohol are commonplace on Wall Street. In a study of 26 men aged 22 to 32, all prestigious Wall Street brokers, researchers at Florida's Nova South-eastern University examined how work stress affects brokers" physical and mental health. Led by John Lewis, Ph.D., a psychology professor at NSU, the study found that a broker's average workday was 10 to 12 hours long, and that those earning the most also slept the least. The participants rarely missed work, calling in sick an average of twice a year but suffering from the flu or a virus at least twice as often. And despite being wealthy, the brokers were unhappy. Thirty-eight percent met the criteria for subclinical major depression, while 23 percent were clinically diagnosed with major depression—shocking, considering only 7 percent of men are currently depressed in the U.S., according to *the National Institutes of Mental Health. (Gorrell, C.* Wall Street Warriors. ***Psychology Today****.2001 update 2009)*

(Brian Davey. ***Credo. Economic Beliefs in a world in crisis.*** *Feasta Books 2015 p 349-350)*

Does a "rebel city" really want to base its future prosperity on the finance sector while the finance sector is expanding out of control and battening down on the rest of society? Where has this financialisation come from and what are its consequences? Let us wind the clock back and look at money lending and debt in historical perspective to see whether a Tsunami of debt is actually sustainable.

Debt and economic growth

For most of the history of humanity a growth of finance and debt has only beensustainable in the long run in economies where production and services were also growing. If an economy is growing then incomes are rising – and individuals and companies can anticipate having more income in the future than in the present. This enables them to borrow, confident that they can pay back later and service the debt by paying interest on it too.

In societies where the economy does not demonstrate a regular growth path, debt, plus compounded interest payments threatens to bring ruin and destitution to those who have fallen on hard times. For most of the history of humanity prior to economic growth, debt with interest on it has carried this implication and has been rejected on ethical grounds. Lending to people in hard times (like harvest failure) and charging a high interest rate to take advantage of their misfortune was regarded as immoral. This was a central teaching of early economics which was a branch of moral philosophy.

By the time of Adam Smith in the late 18th century, ideas about borrowing and lending had changed in Britain. The buzz concept at this time was that "commercial societies" generated wealth by their activities. In fact, much of this early wealth was plunder from the colonies in India and the Americas, but the coal based technologies started a process of rapid increases in production produced by powered machinery in the factories and mills – and transported to markets around the world in steam powered trains and ships. Borrowing money to invest in the commercial and then the industrial revolution was not the same as lending to distressed people in an agrarian economy. The surplus value produced by the powered machinery, after the workers had taken their meagre share, was so great that it could be shared between industrial capitalists and financiers.

Rising income based on the growth of a fossil fuel powered society made it possible for debt arrangements to be sustained long term and for a finance sector to develop. Particularly when energy has been cheap and plentiful, this has underpinned growth, and the finance sector was able to flourish and participate in the share out of wealth.

The economy and finance sector in Britain

Cutting a long story very short, British coal production peaked at the time of world war one and was in decline thereafter, but was sufficient to sustain an industrial economy plus a banking sector until after world war two. In the meantime oil and then natural gas became even more significant sources of energy particularly in the USA and powered a massive period of global prosperity and economic growth after world war two up to the 1970s. Then things started to go awry. Oil production peaked in 1970 in the USA, and things were not looking good in the UK either ,where the economy became very unstable as the empire melted away. The discovery of North Sea Oil and Gas temporarily resolved that.

Margaret Thatcher and her sycophants claimed that her economics, derived from Milton Friedman and Frederick Hayek, were what gave her economic success in the 1980s – but the truth was that North Sea oil was the real source of new wealth. The City of London was now propped up by oil wealth and sterling became a petro-currency. Apart from a period of instability brought about when North sea oil stalled, due to the Piper Alpha disaster, the oil wealth set up Britain and London as a major global financial player operating through a network of seedy tax havens and secrecy jurisdictions where the world's crooks, financial gangsters and corporations could stash their money without questions being asked. (See Nicholas Shaxon's book **“Treasure Islands. Tax Havens and the Men who stole the world”** London, Bodley Head, 2011) about the network of tax havens)

It did not last long. North Sea oil production in the British sector peaked in 1999 and fell rapidly to about a half of its 1999 peak at the time of the global financial crisis in 2007. This was the British part of an evolving global energy crisis.

The energy crisis and the global financial crisis

Across the world the peak of conventional oil production happened early in the new century and the oil price reached nearly $150 a barrel in 2007, making it difficult for individuals and companies to pay their fuel bills and service their debts at the same time. This helped tip Wall Street, the City of London and other financial markets into a credit crunch.

Since the time of the global financial crisis, the finance sector has been in trouble and has come very close to collapse. The response of global central banks has been to try to keep the show on the road by driving interest rates right down using the technique called “quantitative easing”. (Central banks create money and use it to purchase financial securities which drives up their value. If, say, a £100 security was earning £2 a year and now central banks have pushed up the price of such securities to £400 the yield will no longer by 2% but 0.5% - a £2 income for a £400 asset. It becomes cheaper to borrow generally. This has gone so far in some cases as leading to negative interest rates – the European central bank paying people to borrow.).

A debt crisis has been put off by lending more at cheaper interest rates. An “everything bubble” and a speculative inflation in asset values occurred. Cheaper borrowing has rescued “zombie companies” who are just surviving because debt servicing costs are now so cheap.

It also made it easier for the oil and gas sector around the world to raise money to attempt to find new sources of oil and gas by using high volume hydraulic fracking to get out oil and gas from shale reservoirs. However, conventional oil and gas production has continued to decline and fracking has proved a very high cost way of extracting oil and gas. Between 2008 and today most exploration and development companies that operated in shale oil and gas fields in the USA (and the UK) never made enough money to repay their creditors. Year after year the oil industry made losses because the price for oil and gas that would be high enough to enable the industry to make a profit was not affordable to the rest of the economy. Without high enough profits, the oil industry is no longer investing in finding new reserves and future falls in production are anticipated.

The crisis of the energy sector and the end of growth...undermining the future viability of the finance sector

Covid 19 has brought this crisis to a head. Lockdowns and the restrictions of travel and economic activity have dramatically reduced demand for oil and further reduced the affordable oil price well below the price for oil that would allow the oil and gas industry to cover their costs and make a profit. Investment in drilling new wells has fallen in the USA and it is anticipated that in 2021 American oil production will fall dramatically. It is true that renewable energy systems have increased in recent years, but globally wind and solar only provide about 3% of electricity. They have barely started to substitute for oil and gas.

The era of cheap energy fuel growth appears to be over after 200 years and that has profound implications for the financial sector. If we are entering a period of contraction, millions of people and companies will be in difficulties servicing their debts. Without growth, the viability of the finance sector is over. There is a tremendous threat of a Global Financial Crisis number Two.

This is a completely new economic landscape and reading the Consultation document of the Growth Board and One Nottingham it is appears that people whose names are are endorsing the document are walking into this new landscape completely unaware of what is happening and unaware too of how profoundly challenging it will be. The cherry on the cake is that the people who govern the UK have decided to do a No Deal Brexit at this time. The Charge of the Light Brigade comes to mind – except that this is not just a cavalry regiment, it is 68 million people.

The assumption that you can solve a debt crisis by more and cheaper debt is based on the idea that growth will eventually resume so that when the debt becomes due for repayment, incomes will be higher and high enough for the debtors to have the money so that repayment can take place. In effect the current debt is managed by borrowing from the future, on the assumption that the future will be better off. But the underlying trend based on an energy analysis tells us a different story. The energy cost of energy, EcoE, which is the energy used by the energy sector itself in order to deliver energy to the rest of the economy, is getting bigger. Because of that real prosperity, based on net energy, is falling and the future will not be able to redeem the debts and we are heading to defaults, fintech or no fintech.

At this point I will let Tim Morgan take up the story :

Where this top-down situation leaves our 'average' person is with deteriorating prosperity. It might not look that way to him or her, but this is because both macro and micro perceptions have been obscured by the use of financial 'innovation', which has included sub-zero real interest rates (by which people are paid to borrow), and monetary expansion (which back-stops this escalation in debt and other obligations). Wages and other forms of income have continued to increase, but only because we have been taking on between $3 and $5 of new (debt)commitments in exchange for each dollar of apparent "growth" in GDP and, therefore, in incomes. A point will, inevitably, soon be reached at which we have to renege on some of these promises, either by walking away from them ('hard default') or by devaluing them through inflation ('soft default'). The idea that this somehow 'doesn't matter' is a fiction, because one person's debt is another person's asset, and because broader promises (such as pensions) form the real basis on which people plan their lives.

The deterioration in prosperity has been experienced first in the Advanced Economies, and prosperity per capita has been falling in almost all Western countries since the early 2000s. The high levels of complexity in these economies carry extensive maintenance costs, meaning that prior growth in prosperity goes into reverse at comparatively low levels of ECoE (between 3.5% and 5.0%). Less complex EM (emerging market) economies enjoy greater ECoE tolerance, but they, too, have now reached the ECoE inflexion-points (between 8% and 10%) at which prior growth in their prosperity, too, goes into reverse.

This, of course, means that the average person – first in the West, latterly in the EM countries – gets poorer. So far, at least, the rate of deterioration in top-line prosperity has been pretty gradual, but its effects on the average person are leveraged by taxation; by the priority that must be given to household essentials; and by the liens on income created by the increasing financialization of the economy.

Here's a simple illustration of this leverage effect. A person has an income of $100. Of this, $35 goes in tax, $40 must be spent on essentials, and a further $15 goes out in interest, rent and various subscriptions and stage-payments. This leaves $10 of discretionary income for the person to spend as he or she wishes.

If this representative person's income falls by $5, from $100 to $95, it's mathematically true to say that he or she is worse off by 'only' 5%. But, because of the leverage in the equation, his or her discretionary spending capability has slumped by 50%, from $10 to $5.

This person may – and, in the real world, increasingly does – counteract this 'discretionary squeeze' by taking on extra debt, or by stringing out (staging) payments for purchases that hitherto would have been paid for up-front.

But all that this does is to increase the future cost of debt service and other liens on income.

https://surplusenergyeconomics.wordpress.com/2020/11/23/185-the-objective-economy-part-two/

The stress and misery that this is already and will produce among millions of people will be collossal. At best (if that is the right word) fintech will allow the finance sector and those caught in its web, to string out the agony over a longer period. The story of the Nottingham economy is a minor sub plot of this saga and maybe Experian will be called on more and more to check if people can manage more debt, increasingly finding that they cannot.

This is not a viable basis for the future of the Nottingham economy.
To be continued