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Sustainable Finance*

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Abstract

*The following is one of many concluding sections from the whole system book '*Global System Change: A Whole System Approach to Achieving Sustainability and Real Prosperity*'. The foundation for the strong positions taken here is established in more detailed and heavily referenced sections earlier in the book. Global and national financial systems strongly contribute to major problems, including concentration of wealth, unemployment and environmental degradation. Excessive speculation and high equity returns degrade society in many ways. This section summarizes important actions needed to implement a sustainable financial system that serves and truly benefits society. Non-judgment is a key system change principle emphasized throughout the book. The criticism in this section and throughout the book is never focused on individual leaders. It always is on the flawed economic and political systems that compel well-intentioned leaders to take actions that harm the environment and society.*

1. Sustainable Finance

Establishing a sustainable financial system is essential for implementing a sustainable economy. In a democracy, the economy is meant to serve all of society. The financial system is intended to serve and support the economy. But plutocracy has reversed this situation in the US and some other countries. The financial sector has become the master of the economy and society in many ways. This section broadly discusses how to evolve our current unfair and destructive financial system into a sustainable form. The Finance and Capital Markets section provides more detailed information about implementing a sustainable financial system.

As discussed in the Economic Growth section, growth is limited in the essentially infinitely more sophisticated implied economics of nature. Natural systems focus mainly on maintaining balance and stability, not achieving growth. This also was the case in human society for nearly all of human history. Up to the 1800s, most regions experienced little or no economic growth.[1] Industrialization and population growth have been main drivers of economic growth over the past 200 years.

As discussed in the Population section, one way or another, human population growth, resource consumption and waste generation will be limited. We either will figure out how to voluntarily live within the limits and laws of nature. Or nature will impose limits on human

* This article is an excerpt from Frank Dixon, *Global System Change: A Whole System Approach to Achieving Sustainability and Real Prosperity* published in 2017.

society involuntarily, probably in a highly disruptive and traumatic manner. The Population section discussed strategies for voluntarily limiting population growth and achieving sustainable population levels. Many other sections discussed how we can greatly improve the efficiency of human society, and thereby substantially reduce resource consumption and waste generation.

> *"Decentralization is the key to establishing sustainable economic and financial systems."*

Beyond industrialization and population growth, another driver of economic growth has been investor demand for superior financial returns. High investment returns are a main problem in the financial sector. For many years, wealthy investors have come to expect high, often double-digit, financial returns. It will be difficult or impossible to maintain this in a sustainable economic system. High economic growth facilitates high financial returns. But as we transition to sustainable economic balance, high financial returns often will not be available. When society and the economy are focused on maximizing social well-being, instead of economic growth and shareholder returns, the optimal state will be economic shrinkage in many cases.

For example, as we refocus the economy on providing continuously increasing customer and societal value, prices often will decline while product quality and longevity increase. In developed regions with stable populations, this often means that overall consumption will decline. Refocusing society, advertising and media away from materialism to lifestyles that provide true life satisfaction will drive further reductions in consumption. It often will not be possible to provide high returns on debt and equity investments in zero or negative growth environments.

This begs the question, how will citizens and productive organizations secure necessary financing? Fortunately, there are many ways to address this issue. We know that it is possible to support productive activities without high financial returns because nature has been doing it for billions of years. It also has occurred widely throughout human history.

Decentralization is the key to establishing sustainable economic and financial systems. In nature and human society for nearly all of history, economic activities mainly were decentralized. Largely as a result, high financial returns were not required. The main Founders of the US, including George Washington, Benjamin Franklin, John Adams, Thomas Jefferson and James Madison, believed that the future prosperity of the US depended on the formation of a decentralized economy comprised of free citizens, farmers and small businesses. As discussed in the Political Parties section, Thomas Jefferson and other Founders strongly opposed an economy that was heavily based on financial speculation. But Alexander Hamilton, along with wealthy bankers and merchants, short-circuited this plan by using political parties to divide the people and essentially steal their wealth and power. This facilitated the establishment of a large banking and business class that dominated the economy and concentrated wealth and production.

Centralization is a main driver of high financial returns. Centralized production, as we largely have now, makes society heavily dependent on a relatively small number of large companies. These companies often require large debt and equity investments to expand. Funds mainly are provided by large financial institutions and a small group of very wealthy citizens.

This situation gives wealthy citizens strong control over the economy and society. They often demand ever-increasing financial returns. Society is held hostage to this irrational, unfair and ultimately suicidal financial requirement. When the primary measured and managed focus of society essentially is ensuring that a small group of wealthy citizens gets continuously wealthier, everything else gets pushed aside. Rising prices, flat wages, and reduced employment and retirement security cause millions of people to suffer and struggle to meet basic needs, while a small group receives vastly more wealth than is needed to live comfortable lives. The centralized, big business economy facilitates the establishment of a leisure class that works little or not at all, while living off of high return investments.

Aside from being unfair, this situation is unsustainable. It will not last. The many public deceptions discussed in this book often mislead citizens into supporting a centralized economy that frequently impoverishes average citizens. As we raise public awareness about vested interest deceptions and economic unfairness, we will replace plutocracy with democracy. We will refocus the economy on doing what is best for all citizens, not just wealthy citizens. We will begin to decentralize the economy and rebuild local economies and communities. As discussed in the Trade, Scale and Competitive Advantage section, full cost, whole system analysis frequently will reveal that local production and economic activities produce the lowest cost, highest benefit outcomes.

Decentralization will reduce the need for 'big' finance (i.e. large transaction, expensive, high return) and loosen the grip of wealthy financiers on society. Some centralization will remain beneficial in several sectors. But we no longer will be held hostage to high financial returns. There are several less costly, fairer and more effective ways to provide debt and equity financing for centralized and decentralized production and other beneficial activities.

One of the most important financial system changes is to convert money creation from plutocracy to democracy. As discussed, banks create about 90 percent of the US money supply through fractional reserve lending. They often have most of the money because We the People allow them to create it. When citizens and companies need loans or financing, they frequently go to banks. Through control of the money supply, banks and other lenders set interest rates, decide who gets money, and determine how money is used in the economy. But banks do not own the money supply. We the People do.

As discussed in the Debt and Interest section, for much of human history, charging interest was considered to be a severe crime, often equivalent to murder. Charging interest was seen as abusing or taking advantage of people who need money to survive. Today, people are misled into thinking that banks have a right to create money and retain the profits from it. Once we reclaim our right to create and control the money supply, we will use the money supply in ways that benefit all citizens and broader society.

As discussed in the Finance and Capital Markets section, prior to 1980, charging high interest rates was illegal nearly everywhere in the US. But business-controlled government removed these societal protections (i.e. usury laws). This enabled wealthy citizens to abuse and take advantage of average citizens through high interest charges. Benchmark interest rates have been relatively low. Low interest rates enable banks and other financial institutions to pay depositors very little for the use of their money. But banks, credit card companies and other lenders often charge high interest, sometimes as high as 30 percent, on money that they create for free through fractional reserve lending or borrow at very low rates.

"Since the 1980s, stock market growth largely resulted from cannibalizing and degrading society."

Low interest rates benefit the small group of citizens who largely control government, media and society. Low returns on debt investments compel many citizens to place retirement savings in equity markets. Like a Ponzi scheme, as long as money is going into equity markets, share prices often go up. Hedge funds, electronic trading and other sophisticated investment strategies, that usually only are available to wealthy investors, enable these investors to receive most equity market growth. In other words, allowing the private sector to control the money supply and interest rates benefits wealthy citizens, but frequently harms most other citizens, by driving equity market growth and enabling lenders to charge very high interest rates.

As citizens take control of the money supply, we can put an end to interest rate abuse. Under a sustainable, more decentralized economy that is focused on maximizing social well-being, economic growth often will be low, zero or negative. The need to charge interest in this environment will be much lower or nonexistent. When citizens control the money supply, we can provide low or no interest loans to support citizens, businesses and other productive, beneficial activities. When interest is charged, We the People will get a return on our investment. The profits or interest from money creation largely will go to the rightful owners (all citizens), not just bank owners and other wealthy investors.

Providing low or no cost debt financing will be relatively easy once the people reclaim their right to create and control the money supply. However, providing affordable equity finance is a much more complex issue. The financial community puts strong pressure on companies to provide very high equity returns. This can make equity financing extremely expensive.

The situation with high equity returns is similar to that with high interest rates. There are upsides and downsides. With high interest rates, people usually focus on the downside. High interest rates make life more difficult for citizens and organizations because debt financing is more expensive. The upside (lenders making more money) does not receive as much attention. The situation with high equity returns largely is reversed. The upside (investors making more money) usually is emphasized. The downside receives much less attention. But in some ways, the downside of high equity returns is worse than the downside of high interest rates. High equity returns often degrade society more than high interest rates.

As discussed in the Finance and Capital Markets section, stock price is a collective opinion. It is not directly tied to any hard number. But profits and stock price usually are strongly correlated. Increasing profits is one of the most effective ways to raise stock prices. When the economy is growing and prosperity is broadly shared, as it was in the 1950s, rising stock prices can benefit society. But since the 1980s, inflation-adjusted wages largely have been flat, while prices often have risen rapidly. Corporate profits and value created by high equity returns largely were concentrated at the top of society. Value was not broadly shared. As discussed in the Stock Market Growth section, rising stock prices often benefited wealthy citizens by degrading the lives of the vast majority of citizens. The demand for ever-increasing profits and shareholder returns frequently compels companies to degrade the environment and society. As noted, 75 percent of S&P 500 profit growth from 2000 to 2007 resulted from cutting employee wages and benefits.

Since the 1980s, stock market growth largely resulted from cannibalizing and degrading society. This is the downside of high equity returns. When true, society-enhancing value is not being created, profits usually are increased by taking value from the rest of society. Speaking favorably of high stock market returns in this environment would be like saying that high interest rates benefit society because wealthy lenders make more money. In the same way that we rightly focus on the downside of high interest rates, we also should focus on the downside of high equity returns much more. Both high cost debt and high cost (i.e. high return) equity frequently severely degrade the lives of the vast majority of citizens, while benefiting a small group of wealthy citizens.

From 2009 to 2014, the S&P 500 grew by an average of about 15 percent per year. Over the same period, the economy and CPI rose by an average of about 1.2 percent and 1.6 percent annually in the US, respectively.[*] During this time, companies often experienced record profit levels, as indicated by high stock market growth. However, this corporate success did not create broad prosperity, as indicated by low economic growth. The benefits of stock market growth were narrowly concentrated among a relatively small group of wealthy investors.

Misleading CPI numbers hide the degradation of society. The CPI largely no longer measures actual inflation. If inflation were calculated as it was before 1980, it would be nearly 10 percent (as indicated by rising corporate profits and shareholder returns). With flat wages and rising prices, citizens often are forced to reduce consumption. This inhibits economic growth. Stock market growth and misleading inflation statistics hide the declining quality of life of the vast majority of US citizens.

As discussed in the Finance and Capital Markets section, the financial sector in the US and several other countries has grown rapidly since 1980. The sector is not focused on benefiting society. It is focused on benefiting the financial sector and a small group of wealthy citizens. Hedge fund and private equity transactions, mergers and acquisitions, and many other financial sector activities frequently reduce employment, raise prices, concentrate wealth and degrade society in other ways.

As We the People convert our country from plutocracy to democracy, we will rein in the financial sector. There is no divine right to earn high, or especially ever-increasing,

* GDP – US, Inflation, www.MeasuringWorth.com

returns on equity investments. Financial transactions and structures that degrade society will be restricted or prohibited. For example, financial activities that concentrate wealth by degrading labor, customers, the environment and other aspects of society frequently would be restricted.

Financial institutions compete to provide high financial returns. Strong financial community pressure to provide very high profits and equity returns is one of the most destructive forces in society. Maximizing the well-being of society demands that this pressure be substantially reduced. Many actions discussed in this book will help to alleviate this pressure. For example, shifting the focus of measurement and management from maximizing economic growth to maximizing social well-being will greatly reduce pressure to grow the economy and provide high financial returns.

Holding companies fully responsible for negative environmental and social impacts also will reduce this pressure. As discussed, internalizing the real costs of the centralized, big-company economy frequently will make local, smaller company production the lowest cost, highest benefit option. Holding companies responsible will reduce the size and/or number of large companies. This, in turn, will lower the need for 'big', high return equity finance.

In addition, holding companies fully responsible will reduce their ability to provide high equity returns. Compelling responsible behavior, for example by internalizing real costs, often will reduce profits. Companies no longer will be able to provide high profits and financial returns by degrading customers, employees, the environment and other aspects of society.

Substantially reducing or eliminating corporate welfare will further reduce the ability to provide high profits and financial returns. As discussed, extensive public wealth is transferred to corporations through many forms of corporate welfare. This public wealth often is used to inflate profits and provide high financial returns.

Beyond corporations, extensive corporate welfare also is given to wealthy citizens, for example through tax breaks and loopholes. Ending these forms of corporate welfare will substantially reduce the demand for high financial returns by lowering the volume of investments seeking high returns. Much of the income of the wealthiest citizens is unfairly extracted from society through corporate welfare. They frequently invest this unfairly acquired wealth back into the economy and demand high financial returns. Ending corporate welfare will greatly reduce the wealth concentrated at the top of society, and thereby reduce funds available for big, high return finance.

Providing greater retirement security, for example by substantially expanding Social Security, is an essential component of reducing high financial returns. As discussed in the Finance and Capital Markets section, vested interests have driven changes that often make the retirement security of average citizens dependent on capital market growth (such as converting defined benefit to defined contribution pension plans). The need to protect retirement security frequently compels government to cover the losses of wealthy capital market investors. From the perspective of very wealthy citizens, making the retirement security of average citizens dependent on capital market growth was a stroke of genius. This makes average citizens cheerleaders for a system that often impoverishes average citizens. Rather than giving trillions of dollars of public wealth to wealthy citizens every year, we should use the public wealth to guarantee a secure retirement that at least meets the basic needs of all elderly citizens. Providing retirement security will greatly reduce pressure to provide high equity market returns.

Another critical action needed to reduce high, destructive equity returns is to focus stimulus and economic development efforts on the demand-side, instead of the supply-side. Current efforts are heavily focused on the supply-side. We essentially give large amounts of money to wealthy business owners, for example through tax breaks and other incentives, based on the idea that they will invest this public wealth in the economy and create jobs. But this is not rational.

As noted, the foundational driver of the economy and job creation is demand for products and services, not giving money to rich people. Transferring public wealth from average citizens to wealthy business owners largely will not create jobs or stimulate the economy. Instead, it often will suppress demand, weaken the economy and reduce jobs. Wealthy business owners will not build factories and create jobs in the absence of demand for their products and services. Instead, they frequently will squirrel away their taxpayer subsidies in foreign accounts.

Using the public wealth to ensure that citizens can meet basic and other needs is by far the most effective way to stimulate the economy and create jobs. Public wealth used to support average citizens nearly always will flow straight into the economy, increase demand and create new jobs. Wealthy business owners do not need taxpayer handouts when demand for their products and services is strong because they have attractive value propositions for lenders and investors.

Ending tax unfairness also could reduce high equity returns. As discussed, equity returns frequently are taxed at a low capital gains rate, while working citizens pay substantially higher taxes. In other words, wealthy speculators, who have vastly more wealth than they need to live comfortable lives, often work little and pay relatively low taxes. At the same time, hard-working citizens who frequently struggle to feed their families pay high taxes. This tax unfairness impedes the economy and job creation.

As discussed in the Taxes section, low capital gains and top marginal tax rates encourage financial speculation. This increases inequality and inhibits widespread economic prosperity. Rather than promoting financial speculation, the tax code should be used to promote domestic manufacturing, research and development, and other activities that broadly benefit society. Financial speculators should be taxed at relatively high rates, while citizens who work for a living pay low or no taxes on wages. This would stimulate the economy, create jobs and discourage harmful financial speculation.

Taxing equity returns at a high rate could have a mixed effect. In some cases, companies might feel pressure to provide even higher profits to offset higher tax rates and make equity investments attractive. But actions discussed above and below will limit this effect. In addition, in this case, fairness takes priority over effect. Very wealthy citizens who are sitting at home collecting investment income should be paying higher tax rates than people who are working for wages and struggling to get by.

Vested interests often mislead citizens by arguing that wealthy citizens already pay most of the taxes. But this is highly deceptive. The key issue from a fairness perspective is not absolute taxes paid. It is the tax rate. As discussed, no one gets wealthy on their own. Wealthy citizens have an obligation to pay back more to the society that enabled them to become wealthy. A billionaire should not be paying a five percent tax rate (due to loopholes, government influence and other tax avoidance strategies), while working citizens pay 30 percent or higher.

One of the most important actions needed to reduce high equity returns is to increase competition. Making citizens dependent on large, for-profit companies enables them to provide increasing profits and equity returns by regularly raising prices and reducing quantity/quality/costs. As discussed, companies should be required to compete with all forms of productive enterprises, including NGOs, employee-owned, cooperative and public. The numerous competitive advantages of these types of organizations often will enable them to provide lower prices and higher quality. This competition frequently will greatly reduce the ability of for-profit companies to provide unfairly high profits and financial returns.

Holding companies responsible, increasing competition, and ending corporate welfare, fractional reserve lending and unfair taxation are critical macro-level strategies for reining in the financial community and reducing high, destructive financial returns. But decentralization probably is the most important aspect of sustainable economic and financial systems. Therefore, government and other programs that encourage it can strongly support and accelerate the transition to a sustainable economy and society.

As discussed in the Trade, Scale and Competitive Advantage section, centralization concentrates wealth and power, inhibits democracy, causes economic instability and often increases poverty and unemployment. As discussed in the Population section, the global trend toward urbanization is unsustainable. It is the opposite of what occurs in nature. It produces ghettos and areas of economic stagnation. It also causes unsustainable transportation as citizens commute long distances to work and goods are transported many miles.

We know from observations of reality and nature that decentralized production generates vastly greater economic stability, true prosperity and democracy. Citizens control their destiny. They are not controlled by distant large companies that degrade their environments and communities. Decentralization is far more likely to produce full employment, eliminate poverty, meet basic needs, help citizens to reach their fullest potential and protect local environments (because people living on the land control it).

Decentralization reduces the power of the financial community over society. Debt and equity financing frequently can be provided locally. Locally-owned or cooperative banks can be established that provide low or no interest loans to residents and local businesses, and channel surpluses back to citizens. Decentralization greatly increases opportunities for local equity investing, for example, through local ownership and investment in the local economy. Local debt and equity investing keeps wealth in communities and thereby strengthens local economies.

> *"Seeking high financial returns is a main driver of environmental and social degradation."*

Beyond efforts to specifically decentralize finance, activities that broadly promote decentralization can indirectly support the transition to sustainable finance. These activities include government programs, measurement of success, resource efficiency and cultural awareness. Government can facilitate decentralization by implementing programs that strengthen local economies, support small and medium-size businesses, and promote redesign of communities and society in ways that minimize transportation requirements.

Public and private entities can be established that provide advice, expertise and other services and resources to small businesses, cooperatives, employee-owned enterprises and other organizations. Providing expertise and services that frequently only are available to larger companies will level the playing field and facilitate economic decentralization. Smaller organizations also could be networked together in ways that provide economies of scale and facilitate competition with larger organizations. Small businesses and other groups might pay minimal fees for advisory services. Advisory organizations generally would not receive equity interests because the goal is to promote decentralized, not concentrated, ownership.

Refocusing the measurement and management of government and society on social well-being instead of economic growth will accelerate decentralization and greatly enhance local communities and quality of life. As society refocuses on maximizing the well-being of all citizens, technology and know-how will be used to reduce work hours and make it easier and less expensive to meet basic needs. Far more satisfying and family-friendly jobs will be created.

Improving efficiency is an essential component of reducing the costs of living, and thereby enabling citizens to spend more time doing what they love. Society's use of packaging and many other materials is overwhelmingly wasteful, unnecessary and environmentally destructive. We do not need packaging for many food and other items. We myopically treat the environment as if it can endlessly supply resources and accept our wastes. As discussed in the Waste section, nature produces no waste. But our unsustainable society generates massive amounts of waste that are rapidly degrading our life support systems. We must end this suicidal ignorance. Decentralization and promoting local economies facilitate reduced transportation, packaging and costs of living.

Changing culture is a critical element of decentralization. Our current society essentially is focused on making rich people richer. To achieve this, advertising and media compel citizens to compete on possessions, wealth and appearance. As discussed in the Advertising, Media and Culture section, this produces widespread senses of inadequacy, emptiness and unhappiness in society. People who do not compete well enough, for example by failing to have enough or the right type of possessions, frequently are implicitly or explicitly castigated.

In a sustainable society, we would change the definition of success, and use advertising and media to promote this new definition. As a democratic, wise and compassionate nation, we would use our great ingenuity to meet the basic needs of all citizens. Those with less would not be implicitly seen as less valuable. People would not seek success and happiness by wallowing in material goods. Success largely would result from giving, not receiving. The most admired people would be those who do the most to help others and society in general. The most successful and happy lives would not result from having full bank accounts, but rather from having lives filled with love and appreciation from those one has loved and helped.

Promoting decentralization and ending the pursuit of ever-increasing economic growth and shareholder returns are essential for achieving a sustainable and truly prosperous society. Seeking high financial returns is a main driver of environmental and social degradation. Our myopic focus on growth is killing us. Therefore, we must change our focus, limit our growth and stop pursuing high financial returns.

But limiting financial returns cuts to the heart of our flawed economic and political systems. These systems mandate a primary focus on growth. To protect growth, flawed systems frequently will compel wealthy citizens and large corporations to oppose necessary system changes. For example, vested interests often will strongly oppose ending fractional reserve lending, not only because they potentially could lose up to $500 billion per year in revenue. But perhaps more importantly because it would substantially reduce their ability to control the economy and financial system.

To further protect growth, corporations frequently will use government influence and public deception to oppose being forced to compete with the public sector, NGOs and other types of productive organizations. Competition will severely inhibit their ability to achieve ever-increasing profits and shareholder returns. As a result, they frequently will be compelled to suppress competition.

One deception that probably will be used to oppose competition is to argue that the profit motive is necessary to promote creativity and high productivity. Vested interests might claim that the public and nonprofit sectors are inherently less competitive because they lack this incentive. But this is incorrect. Several other factors can provide equal or stronger motivation than the profit motive. For example, the desire to pioneer, explore and discover and wanting to help others can be more powerful motivators than money.

Culture largely determines the focus of society. In many indigenous societies and US communities prior to omnipresent advertising and media, those who helped others received the greatest honor and respect. The desire to help others and do good in the world compelled people to be creative and productive. In our materialistic culture, people are socialized to believe that they will receive the greatest honor, respect and happiness by making lots of money. As a result, they frequently seek it. But their real underlying goal is life satisfaction, not wealth accumulation. Making lots of money often does not provide true life satisfaction.

As discussed in the Education section, money and other rewards often are good motivators when tasks are boring. But rewards and competition frequently inhibit creativity when tasks are interesting. Humans have a natural desire to be productive and reach our fullest potential. As we shift the focus of society away from making rich people richer to enhancing the lives of all citizens, we will make jobs far more interesting and empowering. The desire to be of service, advance science and technology, and reach one's fullest potential can be more powerful motivators than money. This is especially true when public wealth is used to benefit all citizens, for example, by implementing a strong social safety net that greatly reduces the fear that basic needs will not be met. The public and nonprofit sectors can take advantage of powerful nonfinancial motivators, and thereby achieve equal or better creativity and productivity than the for-profit private sector.

To protect ever-increasing financial returns, wealthy citizens and corporations often will strongly oppose greater government involvement in the financial sector. The structurally mandated focus of private sector finance is on narrowly benefitting lenders and investors. This often degrades other stakeholders and broader society. However, the focus of public sector finance in a democratic government is on broadly benefiting all stakeholders and society.

As we abide by our Constitution, end business control of government and establish true democracy, We the People will direct our servant government to use the public wealth in ways that benefit all citizens. This often will include providing public financing when it is the lowest cost, highest benefit option. As We the People reclaim our right to create and control the money supply, our servant government can provide low or no-cost loans to support productive, beneficial activities. We also might use the public wealth to provide equity financing when it is objectively less expensive and more beneficial to society than private sector financing.

Public funding can strongly benefit society. We the People can require that publicly funded activities do not degrade the environment or society in any way, and that benefits are fairly shared with all stakeholders, not just shareholders. Publicly-funded investments often will provide lower financial returns than private sector investing. As a result, vested interests frequently will strongly oppose greater public funding. It substantially lowers their ability to control the economy and earn high financial returns.

As discussed, our flawed systems are not focused on maximizing the well-being of society. They are focused on maximizing the financial wealth of a small group of already wealthy citizens and corporations. These systems often will compel vested interests to oppose greater government involvement in debt and equity financing. They frequently will attempt to retain control of debt financing by maintaining fractional reserve lending. Vested interests also frequently will attempt to retain control of equity financing by protecting trillions of dollars per year of corporate welfare. This ensures that they have the funds available to make high return equity investments. When wealthy citizens and corporations control debt and equity financing, they can ensure that investments are primarily focused on providing ever-increasing shareholder returns, as our suicidal systems require.

Establishing sustainable economic and financial systems requires a whole system approach. This illuminates essential solutions that lie outside the financial area, such as those related to democracy. For example, government probably cannot effectively provide debt and equity financing until it is converted from plutocracy to democracy. The US government largely is controlled by a small group of wealthy citizens and corporations. The puppet US government will continue to do whatever its wealthy masters tell it to do, including maintaining fractional reserve lending, corporate welfare and the primary focus on maximizing shareholder returns.

A whole system focus reveals that converting plutocracy to democracy requires raising public awareness about how vested interests mislead, divide and disempower citizens. We the People have all ultimate power. But we cannot exercise this power when we are divided. We must end the vested interest manufactured war between conservatives and liberals. We must work together on our massive areas of common interest, such as ending corporate welfare, protecting the environment and society, and using the public wealth to equally and fairly benefit all citizens.

A whole system perspective further reveals that we cannot effectively change the financial system by focusing first on the financial system. The financial system is the servant of the economy, which is the servant of society. Establishing a sustainable financial system first requires defining a sustainable society. This sets the parameters for a sustainable economy, which in turn sets the requirements for a sustainable financial system.

A sustainable financial system will seek balance and stability, not suicidal growth. The basis of competition in the financial community will be switched from maximizing shareholder returns to maximizing social well-being. Return on investment expectations will be lower. High ROIs generally will be seen as destructive and unfair, in the same way that high interest rates currently are. High investment returns might occur at times, for example, as new technologies are developed that experience rapid market penetration. But technology development should be managed with a primary focus on maximizing social well-being.

As corporate welfare is ended, more public wealth will be available for science, research and development. Publicly funded technology and research can be placed in the public domain. Then various types of organizations can compete to efficiently provide products and services based on it. As discussed in the Property Rights section, the great US Founder and inventor Benjamin Franklin did not seek a patent on one of his most profitable inventions—the Franklin stove. He put it in the public domain so that many citizens could afford this then leading-edge technology. In other words, one of the greatest US citizens put the well-being of society ahead of his own financial well-being. Thomas Jefferson also invented many useful devices, but never sought patents on them.[2]

We should strive to do the same thing. The primary purpose of human ingenuity and technology should not be to maximize the wealth of a few individuals. It should be to broadly benefit society. By wisely using the public wealth, we can expand publicly funded technology development, and thereby maximize the sustainability and well-being of society.

Dolphins have a larger brain-to-body size ratio than humans. They spend much of their time playing and hanging out with family and friends. We humans can do the same things. Many citizens are forced to work long, boring jobs to survive. When we refocus society on maximizing social well-being, we will use technology and know-how to reduce work requirements and vastly improve quality of life.

2. US Founders and Finance

Today's unjust, destructive domination of society by the financial community mirrors similar problems in the Founding era. In 1790, Alexander Hamilton, Founder of the Federalist Party and first Secretary of the Treasury, proposed a system for managing the nation's debt and money supply that was very similar to the system functioning today. Alexander Hamilton proposed, and Congress approved, the establishment of a national bank, the Bank of the United States, that would help to manage the national debt and issue money for the United States.[3] Like the Federal Reserve today, the Bank of the United States was largely owned and controlled by wealthy bankers and investors. The national bank acted on behalf of the federal government. But as Alexander Hamilton said, it was established "under the guidance of individual interest, not of public policy."[4]

The Federalist Party was established by wealthy bankers and merchants. In addition to supporting a privately-owned national bank, the Federalists supported the expansion of large companies and a more centralized economy. This facilitated trading and speculation in business ownership shares (equities).

Thomas Jefferson and James Madison strongly condemned and opposed Alexander Hamilton's financial plan for several reasons. The plan allowed a privately-owned bank to create money, a power reserved to Congress in the Constitution. It gave a small group of wealthy citizens great control over the economy and society by allowing them to strongly influence the nation's finances. The plan created the ridiculous and grossly unfair situation where government pays interest to use its own money. As discussed, the right to create money belongs tothe people. The Constitution assigns this right to the people's agent—Congress. When government creates money to pay off debt or fund a deficit, government and taxpayers pay no interest. However, when private banks create the money supply, government and taxpayers pay interest to use their own money. This causes huge, grossly unfair transfers of public wealth to wealthy bankers and investors (i.e. corporate welfare).

The Federalist financial plan enabled wealthy speculators to profit at the expense of the rest of society. Alexander Hamilton's plan was intended to pay off federal and state Revolutionary War debts by issuing new federal debt. But the plan wound up increasing the national debt. Maintaining high government debt benefits speculators who receive interest on it. When Thomas Jefferson was elected President in 1800, the Federalists were concerned that he would pay off the national debt and thereby reduce interest income to bankers and investors.[5]

During the Revolutionary War, lack of funds compelled the government to issue promissory notes to soldiers and farmers. In anticipation of Alexander Hamilton's plan to pay off existing debt by issuing new federal debt, wealthy speculators were buying up these notes at deep discounts.[6] Soldiers who had risked their lives defending their country and families of soldiers who lost their lives received a fraction of what they were owed, while speculators received full value.

Thomas Jefferson was concerned that the speculation promoted by Alexander Hamilton's plan was severely degrading society. He said, "Ships are lying idle at the wharves, buildings are stopped, capitals withdrawn from commerce, manufactures, arts, and agriculture to be employed in gambling; and the tide of public prosperity almost unparalleled in any country is arrested in its course, and suppressed by the rage of getting rich in a day. No mortal can tell where this will stop, for the spirit of gaming, when once it has seized a subject, is incurable. The tailor who has made thousands in one day, though he has lost them the next, can never again be content with the slow and moderate earnings of his needle."[7]

"We the People must take back control of the monetary system."

Thomas Jefferson also criticized the complex and confusing nature of Alexander Hamilton's plan. Complexity made citizens unable to understand how bank-created money and high financial speculation essentially stole the public wealth and degraded society. Thomas Jefferson said that Alexander Hamilton's financial system was designed "as a puzzle, to exclude popular understanding and inquiry." He argued that Alexander Hamilton intentionally made the system complicated so that "neither the President nor Congress should be able to understand it, or… control him."[8]

Referring to Alexander Hamilton, Thomas Jefferson said, "He gave to the debt in the first instance, in funding it, the most artificial and mysterious form he could devise… until the whole system was involved in an impenetrable fog; and while he was giving himself the airs of providing for the payment of the debt, he left himself free to add to it continually, as he did in fact, instead of paying for it."[9]

Following President Jefferson's election in 1800, the Federalist Party declined and then disappeared in the 1820s. The large majority of citizens understood that the Federalists primarily were focused on benefiting the wealthy, not all of society. The Republican and Democratic parties still are in place, largely because they have been much more effective at misleading citizens into believing that they are striving to benefit all of society, instead of just the wealthy citizens who control both parties.

While the business-focused Federalist Party ceased to exist, the financial system that they put in place largely has continued throughout US history. As Alexander Hamilton originally proposed, the private sector continues to create and control the US money supply. The financial community demand for ever-increasing shareholder returns dominates companies and the economy. Nearly everyone in society implicitly is expected to sacrifice so that wealthy speculators can get continuously wealthier.

Allowing a small group of wealthy citizens to largely control debt and equity finance severely degrades society and unjustly concentrates wealth. This grossly unfair financial system is perpetuated by confusion, complexity and public deception. We must pull back the curtain of deception and clearly expose the corrupt, unjust nature of the system.

It is time to finally do what Thomas Jefferson and James Madison, two of the most brilliant men to ever serve this country, strongly advised. We the People must take back control of the monetary system. Profits and other benefits of money creation should be shared equally with all citizens, not given almost completely to a small group of wealthy bankers and investors. We must end the absurd, suicidal financial community demand for ever-increasing shareholder returns. It is ridiculous that we allow financial returns to wealthy people to take priority over everything else, including the lives of our children.

Ending private sector control of the money supply and providing lower-cost, debt financing would be fairly easy. As discussed in the Money Creation section, this could be done by making the Federal Reserve part of the US Treasury and ending fractional reserve lending. This would produce a far simpler, more stable, easier to understand, lower cost and more equitable means of creating money, managing government finances and providing debt finance for productive, beneficial activities.

Increasing the availability of low-cost debt financing will benefit society by reducing the need for equity finance. The current equity finance system degrades society by unfairly concentrating wealth and making financial returns to wealthy citizens more important than anything else.

Decentralization could be promoted and high-cost equity finance reduced by delegating some of the federal government's debt issuing authority to states and local communities. Local communities could provide zero or low interest funding to local businesses and other productive organizations in exchange for long-term commitments to communities and guarantees to treat all stakeholders fairly. This approach would provide long-term economic stability and ensure that business success was shared fairly with employees, customers, communities and business owners. It also would enhance democracy by giving local citizens greater control over the types of businesses operating in their communities.

Substantially reducing the size, role and influence of private sector debt and equity finance would greatly lower the destructive speculation that was so strongly opposed by Presidents Jefferson and Madison. But the wealthy citizens controlling the current financial system often would fight to keep it in place. Many deceptions would be used to confuse the public and maintain the status quo.

For example, vested interests almost certainly would argue that robust debt and equity markets are needed to provide liquidity, facilitate commerce and maximize economic well-being. This liquidity facilitates buying, selling and merging companies. Businesses frequently are churned and turned over in ways that generate huge financial sector fees and concentrate wealth, but degrade society in many ways. 'Robust' capital markets facilitate churning, speculation and concentration of wealth. But these should not be the goals or results of the financial system.

The system should be focused on maximizing the long-term well-being of society. It should promote economic stability by incentivizing long-term, responsible business ownership. Business owners largely would be compensated through reasonable profits, not frequent buying and selling of companies and their stocks. Owners still would be able to sell their companies. Competition would put inefficient companies out of business and promote the development of more efficient ones. But strong financial incentives to churn ownership would be removed. Instead, the financial system would strongly promote long-term, responsible, decentralized business ownership and management. Under this system, robust (i.e. churning, speculative) capital markets would not be needed, or allowed.

> *"Excessive economic speculation that concentrates on wealth, degrades life support systems and makes millions of citizens unable to meet basic needs is not capitalism. It is an insult to the word capitalism to suggest or imply this."*

As discussed above, nearly all of our main Founders, except Alexander Hamilton, believed that a decentralized, stable, non-speculative economy and financial system would strongly benefit society. They were correct. This is how the essentially infinitely more sophisticated implied economics of nature operate.

The main Founders, again except for Alexander Hamilton, opposed the formation of a large banking and merchant class that would strongly dominate the economy and society. They believed that this was a root cause of the corruption, decadence and tyranny that had destroyed ancient republics and much of Europe.[10] They opposed an economy based on speculation and stock trading. Thomas Jefferson said "wealth acquired by speculation is fugacious [fleeting, tending to disappear]… and fills society with the spirit of gambling".[11]

In a free society, people are free to try to make money by gambling, as long as non-gamblers are not harmed. For example, gambling in a casino is fine because people who choose not to gamble are not hurt. However, gambling or speculating in the economy and capital markets is different than gambling in a casino. Citizens' survival and prosperity are strongly dependent on the economy. Focusing the economy and financial system primarily on earning high investment returns produces excessive churning and speculation in business ownership. It also forces companies to focus mainly on profit maximization. Unlike gambling in a casino where non-gamblers are not hurt, gambling or speculating in the broader economy often harms average citizens. It drives layoffs and extensive environmental and social degradation.

In a democracy, businesses have no right to earn high financial returns by degrading society, for example, by paying wages that do not enable employees to at least meet basic needs. Investors have no right to earn financial returns in ways that degrade the environment and society.

Our economy should be based on activities that produce real value, such as providing useful products and services. It should not be focused primarily on speculation that concentrates wealth and degrades society. Citizens' retirement security should not be based on how well they speculated in the capital markets. Our heroes should not be wealthy speculators who provide little real value and do little real work. As Thomas Jefferson said, the most honored people in society should be those who work hard, produce real value and help other people.

Those who profit from speculation often will attempt to mislead citizens into believing that economic speculation is capitalism and opposing it is socialism or communism. This ignorant position only can be believed through the complete absence of rational thought. Capitalism uses the private sector in ways that produce widespread true value and prosperity. Excessive economic speculation that concentrates on wealth, degrades life support systems and makes millions of citizens unable to meet basic needs is not capitalism. It is an insult to the word capitalism to suggest or imply this. Excessive speculation produces the plutocracy and business totalitarianism seen in the US. It definitely is not what the Founders intended.

Control of debt and equity finance by Wall Street and private banks has existed for nearly all of US history. Many people probably see the system as inevitable and unchangeable. Business-controlled advertising and media portray wealthy business owners and investors as our heroes. Many young people aspire to be like them and earn their own fortunes through speculation. Large, familiar systems can seem unchangeable. But they are not.

Our financial system violates the laws of nature and reality. It unfairly concentrates wealth and degrades the lives of the vast majority of citizens. The only thing inevitable about our financial system is that it will change. No amount of public deception or inappropriate government influence will keep this unfair, destructive system in place over the long-term. It is bound to fail.

Given the great injustice and suffering it causes, our financial system probably will change soon. We the People have the natural right to control our destiny, society, economy and financial system. We can demand the implementation of a financial system that ends destructive speculation and concentration of wealth, and instead serves all citizens equally and fairly.

Simplicity and clarity are critical aspects of sustainable finance. Maintaining an extremely complex financial system that largely is incomprehensible to average citizens blocks change and perpetuates concentration of wealth. As Thomas Jefferson implied, debt and equity finance can be far simpler and easier to understand than they are now.

Probably the large majority of citizens do not understand how money is created in the US and many other countries. If they did, they would demand an immediate end to this gross injustice. Non-expert citizens could understand the current complex system if it were clearly explained. To illustrate, citizens should be informed that money can be created by the private or public sector. When wealthy bankers create money through fractional reserve lending, they essentially own the money supply. This enables them to charge interest and keep the profits from money creation. When citizens create money through government, the people own the money supply, as they rightfully should. Under this vastly fairer and more beneficial system, the profits from money creation are retained by citizens and used to reduce taxes and benefit society in other ways. The gross injustice of private sector money creation is perpetuated by lack of public understanding.

Millions of people should not be suffering in this wealthy, intelligent, advanced, supposed democracy. We have the ability to greatly improve the quality of life of nearly all citizens.

But instead millions of people struggle to survive so that a small group of wealthy citizens can get continuously wealthier. It is time to end this insanity. Implementing a sustainable financial system is a critical aspect of ending this injustice and maximizing the well-being of all citizens and society.

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Notes

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2. Andrew M. Allison et al, *The Real Thomas Jefferson* (Washington D.C: National Center for Constitutional Studies, 2008), 197.
3. Allison et al, *The Real Thomas Jefferson*, op cit.Page 163.
4. Allison et al, *The Real Thomas Jefferson*, op cit.Page 163.
5. Allison et al, *The Real Thomas Jefferson*, op cit Page 207.
6. Allison et al, *The Real Thomas Jefferson*, op cit, Page 162.
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9. Allison et al, *The Real Thomas Jefferson*, op cit, Page 168.
10. Andrea Wulf, *Founding Gardeners* (New York: Vintage Books, 2011), 61.
11. Andrea Wulf, *Founding Gardeners*, op cit. Page 85.