# Why regulation and debt-based economics can be difficult bed-fellows[1]

Steve Mullins, BSc, BSc, MCIM, FRSA, FIBC, Director of Ascot Associates Ltd.

Abstract

By taking a slightly different view of types of people it is possible to develop one view of how the financial melt-down has arisen and why it is likely to arise again.

One possible solution is to move from a debt-based economy to a current or credit-based economy which would reduce the impact of the financial experimenters; however there is every sign that there is too much vested interest for this to happen.

## Setting the scene

By repositioning the descriptors of various psychometrics it is possible to recognise four types of management people:

- People who swim against the river
- People who stand in the river
- People who go with the river, and
- Those on the bank chronicling it all

In commercial terms, the people who swim against the stream are variously described as the entrepreneurs, the original thinkers, the iconoclasts – people who move businesses forward into new territory and for whom there are no fixed rules, anything is possible and experimentation is the norm.

Those who stand in the stream are the managers, pragmatists, deliverers – people who ensure things happen; they are normally good decision-makers, have excellent mental models and can be impatient to move on to the next task; living in the here and now.

The people who go with the stream, swim into well charted waters where there are anchor points, rules, case studies and established wisdom to guide and support them. Often these people will be at their most comfortable as regulators, administrators or in some of the professions.

The fourth group are the actors, writes and musicians who are recording and reporting; like the football spectator, seeing more of the game than the players, but not quite understanding what's going on, the strategic intent or how the team has been configured for a particular match[2]

In addition to these four management types, there is a category which doesn't seem to be recognised by any of the psychometrics:

- People who *work for others* – prevalent in the caring professions
- People who *work for themselves* – the fat cats and greedy bankers

## Putting people into context in the financial system

If we apply the types mentioned above to the financial market and single out two groups in particular – the first group is the Original Thinkers who *work for themselves*, which provides the scenario of the invention of all manner of abstruse, high risk, financial instruments that few other people can understand and for which there is no precedent.

---

[1] The scenario is also relevant to many other fields e.g. Research & Development; bio-engineering or micro-technology

[2] For example, the striker misses goal, the spectators decide that this is a rubbish player and 'invite the striker to leave the pitch'; however colleagues gather round and offer support, the winger acknowledges passing a yard too early; a player who knows the pitch apologising for not pointing out the wet spot and the centre saying to stick in there as there will be another ball crossed pretty soon. All the time, the spectators are getting a bit perplexed and quite restless unable to provide an in-depth scenario for what's happening on the pitch and come away having conflicting views of events (a bit like some of the journalists)

The second group is that of the Regulator who goes with the stream (and is responsible for monitoring these increasingly complex emerging instruments) yet needs anchor points, rules and examples to be properly effective, but has nothing available to compare this new offering with and so has no means to validate it's worth or its risk profile; consequently this and other *experiments* like it are allowed to flourish, sometimes clandestinely and often unhindered.

The Regulator cannot regulate due to lack of rules and case studies and the Original Thinker will not approach the Regulator – as the Regulator is generally seen as the 'sales prevention department'.

***And what might government do?*** – Typically introduce yet more rules and regulations which have little foundation in the turbulent reality of the financial entrepreneur. The impact of these rules will be to risk even less dialogue between the Original Thinker (trader) and the Regulator as the gulf between them is made even wider by increasing regulation, which could introduce yet more scope for mischief.

The other two characters: the person in the stream and the one on the bank will continue as normal: fire-fighting the issues of the day, day after day, without much regard for what caused them and too busy to take a proper view of events; and the chronicler who reports events from a position of supreme ignorance (if the regulators, who are directly involved and committed, don't know what is happening what chance has the spectator?)

<u>Is there an alternative?</u>

There is a theoretical alternative to move away from a debt-based economy; as it is the accumulation of debt that has led to these awkward situations; however the impacts are potentially quite disastrous:

- A big proportion of bank profit comes from lending money to people who can't afford to borrow so the banks would have to find new ways to make money
- The entire world economy as it now stands would collapse – we'd have to start adding value to things instead of trading imaginary value (perhaps re-inventing manufacturing!)
- A shift from working for self to working for others

However, we do have examples of credit based economics which can be seen in a number of arenas:

- Postage stamps
- Insurance
- Oyster cards

To make it work would demand a significant cultural change, and changes do come about – but normally every 100 years or so, starting somewhere around the 60's or 70's of each century:

- The agricultural revolution (1670)
- The industrial revolution (1770)
- The social/transport revolution (1870)
- The communications revolution (1970)

Maybe we will have to wait until 2070 for the economic revolution

Steve Mullins

Created 20th July 2009
Revised 29th May 2010