Why regulation and debt-based economics is a farce

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Abstract

By taking a slightly different view of types of people it is possible to see how the financial situation has arisen and why it is likely to arise again, only much worse.

One solution is to move from a debt-based economy to a current or credit-based economy to reduce the impact of the financial experimenters; unfortunately 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:[1]

- People who swim against the river[2]
- People who stand in the river
- People who go with the river, and
- Those who stand on the bank chronicling it all

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

Those who stand in the river 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.

The people who go with the river are swimming into known waters; there are anchor points, rules 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 the strategy or how the team has been configured for a particular match[3]

Aside of 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

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[1] For a more detailed discussion please see http://fundamentally.typepad.com/blog/files/four_types_of_person.pdf

[2] I use the analogy of a river because rivers flow with different speeds and with different volumes – so the analogy plays to strengths and aptitudes, it's not a way to put people in boxes

[3] Another analogy is the striker who misses goal, the spectators decide he's rubbish and invite him to leave the pitch; his colleagues who gather round, offer support with the winger apologising for crossing a yard too early, a player who knows the pitch apologising for not pointing out the wet spot and the centre telling him to stick in there as there will be another ball crossed pretty soon.

Putting people into context in the financial system

If we apply the types mentioned above in the financial market and single out one in particular – the iconoclasts who works for themselves – there is the scenario of them inventing all manner of abstruse financial instruments that no-one understands except themselves.

The regulator, who needs anchor points and regulations, has nothing to compare this new offering with and so has nothing to validate it's worth; consequently this, and other experiments like it are allowed to flourish unhindered.

The regulator cannot regulate due to lack of rules and case studies; the financial adventurer will not approach the regulator – as the regulator is seen as the 'sales prevention department'.

And what is government going to do? – introduce more rules and regulations which have no foundation in the fast moving reality of the financial entrepreneur. The impact will be even less dialogue between the two and even more scope for mischief as the gulf between them is made even wider by a government besotted with regulation.

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; or chronicling 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?)

Is there an alternative?

There is a theoretical alternative to move away from a debt-based economy as it is the accumulation of debt that leads to these awkward situations[4], however the options are potentially quite disastrous:

- A big chunk of bank profit comes from lending money to people who can't afford to borrow
- The entire British economy as it now stands would collapse – we'd have to start adding value to things instead of trading imaginary money

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

- Postage stamps
- Insurance
- Oyster cards

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

- The agricultural revolution
- The industrial revolution
- The social revolution
- The communications revolution

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

[4] Please see 'birds in trees' http://fundamentally.typepad.com/files/birds-in-trees---the-new-economy-1.pdf