

## **An Aperspectival Opinion on the Future of “Smart Money”**

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Right off the bat let me tell you what I mean by “smart money,”  
“aperspectival opinion,” and “the future.”

Keynes, one of the most brilliant and clear-eyed economists the world has ever seen, used the word “enterprise” to designate financial investments that are based on forecasting prospective yields of productive activities. (“I think that this household gadget has a great future; therefore I will be rich by buying stocks in its maker, Shiny Gadgets International, Inc.” That’s “enterprise.”) In contrast, he called “speculation” all moves on investment markets that are based on guessing what everybody else expects, what others have forecast.

Since the mid-1930s when Keynes published these thoughts, his worst fears came true. “Speculation” has come to dominate over “enterprise.” It has multiplied to mind-boggling proportions. The world economy has become a

gigantic casino. To mark off the current situation, which is both quantitatively and qualitatively different from the one that prevailed three-quarters of a century ago, I have appropriated the *meme* “smart money” to represent the spectrum of all financial transactions that lack a palpable intention to provide a useful good or service for society. A wager-like derivative on certain mortgage-backed securities is an example. One player bets on default and another on no-default; neither of them has any interest other than possessing more money.

An aperspectival opinion strives to be maximally comprehensive and avoid judging events or phenomena from a fixed perspective. True, “smart money” may prompt platonic condemnations of base improbity and greed, but it may also be viewed in an integral and balanced way, implying a physical necessity (fate if you wish); or it may be evaluated through detached numerical analysis -- just as Gebser had envisaged integrality, giving place to the magic, the mythical, and the mental components of our consciousness.

“The future” is a lived world where mutation into space- and time- freedom on a global scale and the corresponding socioeconomic institutional and behavioral transformation has already occurred. Mankind having graduated

from its prehistory lives within its ecological constraints, probably with far-reaching plans to break out from its terrestrial cradle.

I have found the proposition that in that society there will be no place for “smart money” at the obscure intersection where Gebser’s insights, the thermodynamic interpretation of world history, and current events run into each other. I hope to show that such an intersection indeed exists; that it deserves to be lit up, and that revisiting it in the future is not passion spent on the dead.

Let me start by briefly recapping the thermodynamic take on universal history.

In Gebser’s spirit of searching for transparency through the integral, my project -- “new historical materialism” -- uses “Global Population Plus Economy” as the central variable. GLOPPE (for short) is both a material entity and a flux or throughput of matter, which by the second law of thermodynamics increases the proportion of inaccessible energy in the terrestrial sphere. As all other self-organizing entities that complexify as they grow in size, GLOPPE must also go through alternating phases of

relative steady states and chaotic transitions. World history is the human face of this thermodynamic phenomenon. Concentrating on the age of global systems (modernity in terms of macrohistory, the era since the breakthrough of time at Gebser) this necessary alteration may be summarized as follows:

Chaotic transition from 1789 to the mid-1830s led to the world's first global system -- GS1, *laissez-faire/zero multilateralism/metal money*. (1)

Chaotic transition from 1914 to 1945 (2) ushered in the second and current global order -- GS2, *mixed economy/weak multilateralism/minimum reserve banking* (3).

The world now faces a new episode of chaotic transition because GLOPPE has reached stochastically manifest but nonetheless insuperable resource and environmental constraints and GS2 is unable to guide transition to ecological sustainability because the required resource reallocation would curtail economic growth. Yet this system will collapse unless it can accelerate (4).

The crisis of GS2 is the crisis of mental consciousness (5).

Thus, we arrive at the intersection of the thermodynamic theory of history and Gebser. The structuration of consciousness as a unidirectional unfolding corresponds to the morphogenesis of socioeconomic self-organization. Each represents a way of looking at totality as a historical process. Magic consciousness is discernible as nomadic hunting and gathering; mythical consciousness corresponds to the predominance of agriculture, and the active presence of mental consciousness during the past two-and-a-half millennia encompasses the birth, slow development, and breathtaking push of industry in the age of global systems.

Whereas the chaotic transformation of GS1 into GS2 (which may be considered a submutation within mental consciousness) enabled GLOPPE to continue its expansion, the new chaotic transition to a yet-to-be determined form of global organization will have to emerge because, for the first time in history, planet-wide resource and environmental constraints are beginning to limit the size of global society and the scale of its activities.

This view of the world differs sharply from practically everything that mainstream economics has to say about current events, the third avenue at our intersection. Traditional analysis attributes the Great Recession to the

financial crisis of 2008, while economists with heterodox, ecologically informed opinions maintain that the mortgage market collapsed, triggering the financial fiasco because expensive gasoline hiked commuting costs to exurbia (6). Mainstream analysis has bifurcated into considering further increases in the U.S. national debt extremely dangerous, threatening default; and considering it harmless as long as further deficit spending is job-creating via New Deal style public projects. According to the heterodox opinion, one of the manifestations of GS2's crisis is that the national debt should neither be allowed to increase, nor could it be reduced without creating havoc.

Gradual transformation to ecological sustainability through existing institutions is patent of cornucopia-obsessed economic orthodoxy. The heterodox view is that such an outcome is an Aladdin's lamp caliber fairytale from kindergarten (7).

But nowhere is the rampage of "ratio" more apparent than in GS2's financial-monetary order. The acuteness of the situation in this domain brings Gebser's prophetic warning to mind. He characterized the end result

of escalating deficiency in mental consciousness as “the suicide of Western civilization<sup>1</sup>.”

Now let’s talk about money!

As you may know from any introductory course in economics, the bulk of our money supply is created not by engraving, minting, and printing but through monetizing loans. The essence of fractional reserve banking is that for each physical unit of the national currency, the money supply can expand manifold. Money created by debt to be repaid with interest is the link between the economy’s present and its ever larger and more complex future. In theoretical formulations, global output is expected to grow at the real rate of interest (8).

For over half-a-century this system catalyzed economic development, directing it in a decentralized way by allocating capital to the most profitable branches; to activities that best represented social needs and wants. But as Gebser observed, measure turns into mass as the deficiency of a

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<sup>1</sup> See, Gebser J. (1984), The Ever-Present Origin, Ohio University Press, Athens, OH (henceforth EPO), p. 357.

consciousness structure increases. By now, the world has accumulated financial obligations that exceed its ability to honor them by a catastrophic margin. Global GDP is around \$80 trillion, while worldwide IOUs amount to at least one quadrillion dollars; that is, 13 times bigger.

A variety of interrelated factors, in conjunction with fractional reserve banking, has led to this situation. Most notably, the financialization of the economy, the global role of the dollar, thermodynamic asymmetry between creating financial and material values, and angst in the face of already effective physical limits to growth.

Broadly defined, financialization refers to turning all tangible and intangible (e.g., proprietary technology, goodwill, and brand equity), present and future values into tradable instruments. Its most general consequence has been a growing dependence of business and government on bankers and financiers.

A correlate to the increased influence of money men has been the deregulation of banking; that is, a series of legislative actions that have eliminated restrictions on what commercial banks can do in terms of speculation on capital, commodity, and currency markets. Deregulation, of course, spurs financialization.



A main result of the interlocked financialization/deregulation process has been a dramatic increase in derivatives, which have their *raison d'être* in so-called risk management. In the U.S. economy alone, the total value of derivatives has increased from tens of billions of dollars in the late 1970s to \$300 trillion this year (9).

It should be quite obvious by now that these combination wagers and insurance policies represent the most blatant form of perspectival self-deception. Instead of eliminating risks, derivatives only shift and spread them. Step by step, their main “too big to fail” issuers have transmogrified into “too big to save” zombies.

The role of the dollar provides a further explanation of why the aggregate level of IOUs has left production; that is, income generation, in the dust. GS2's fractional reserve banking is aligned with using the U.S. currency as the money of the world.

The appearance of the euro in the new century only temporarily weakened the global role of the dollar, but did not endanger it even before it began to show its horrendous birth defects. To this day, the dollar has remained the

*lingua franca* of international commerce (the primary monetary reserve, the money of price quotations and invoicing). The result has been a chronic overvaluation of the dollar, incurable U.S. trade deficits, a huge external debt, and deindustrialization.

The flip side of a trade deficit (or more precisely of a current account deficit) is an equivalent capital account surplus. That is, each dollar difference between imports and exports is a loan from the rest of the world to the United States. The bottom-line: The perennial thirst for dollar as the main source of liquidity in the rest of the world has created a matching appetite for dollar-denominated interest-bearing assets. And these have been provided by U.S. Treasury papers, corporate stocks and bonds, and many other much riskier assets, such as mortgage-backed securities and derivatives.

Of course, much of the derivative business is strictly domestic in the United States and derivatives have been created in other countries and in denominations other than the U.S. dollar. Nevertheless, these instruments have remained dollar-centric and related markets are being decisively

influenced by competitive pressures exerted through U.S. innovation and government policies.

In addition to institutional reasons, there is also a physical one that explains the vertiginous expansion of IOUs worldwide. The creation of debt money and based on it, the concentration of financial wealth by making it “smart” is practically exempt from thermodynamic constraints; it is free to burst forth like unbridled imagination.

A laptop uses between 15 and 45 watts, less than a strong light bulb and much less than a toaster that runs on 1500 watts. Throw in a latte for the banker or financial wiz kid (the two have become one and the same as a result of financialization) and his use of energy in earning a million (or perhaps thousands if he happens to be a savvy day trader dabbling in miniscule margins) does not compare with the energy required to produce tangible values in industry, mining, agriculture and in most production-oriented services (10).

And now a word about anxiety that Gebser had explicitly identified as a crisis symptom of deficient consciousness (EPO, pp. 136, 137. For two other

manifestations of this crisis, see endnote no. 5). It is clearly detectable as the all-important, fourth factor behind the surrealistic mountain of world debt.

Economic growth is in a stalling mode but the reason for this remains analytically untranscended. The search is still on for policies that would bring back the doubling of global output every 24 years. There are no such policies but the conviction that the next high office holders will unmask their predecessors' simple-minded oversights is stronger than ever (11). The political drama of great democracies has turned into absurd improvisations on Beckett's "Waiting for Godot."

This is the circumstance that underlies the explosive growth in the demand for derivatives, which, as mentioned earlier, have been designed largely to reduce or eliminate business risks. By now, their total value is around \$700 trillion (according to BIS); that is, 70 percent of the world's roughly one quadrillion dollar worth of global payment obligations. Derivatives were the eye of the hurricane in 2008 and are most likely to be center stage in the upcoming financial crisis.

To illustrate how things can go wrong in the monetary-financial realm, picture all statements of debt as an inverted pyramid. At the bottom there is cash (12) and as we ascend, the IOUs are arranged in a descending order of liquidity and trust in their acceptability as means of payment. Next to the top are derivatives traded on exchanges and at the very top, derivatives sold over-the-counter in an unregulated, bilateral fashion. The money-creating potential of fractional reserve banking is well reflected in the fact that money in its broadest sense as a means to settle payments includes all debt instruments. U.S. T-Bills (very close to the bottom) are widely used in transactions; over-the-counter derivatives may be used in a limited way within a small network of businesses.

Only the expectation of vigorous economic growth keeps this precarious construct from losing balance. But accepting the premise that GLOPPE is already encountering physical obstacles, one must conclude that the terminal implosion cannot be far off. Once markets perceive the danger of widespread defaults, a rush toward the bottom of the pyramid ensues as economic agents seek to acquire real assets. Financial instruments lose value while the price of objects with use value shoots up. Aggravating this situation is the unlimited willingness of central banks to crank up growth,

save failing banks and bankrupt national governments by putting trillions of new dollars and euros on their balance sheets. There is hardly a better way to characterize this state of affairs than Gebser's expression: "rational chaos" (EPO, p. 303).

To round up the argument, the wide scale, generalized mutation into the integral structure will not be the result of self-development, an individually willed inward journey to our quintessential core, the "itself." Rather, it will be compelled along with the emergence of a third global system (GS3) that will take into account humanity's thermodynamic reality -- the limits to GLOPPE's growth. GS3's main attributes could be *two-level economy/strong multilateralism/maximum bank reserve money*. At one level, production in specific sectors; e.g., mining, the manufacture of structural materials and certain heavily polluting industries, will have to be controlled and divvied up among nations or multinational producers; and some activities, such as space exploration, will have to be financed and organized jointly. At the second level, private enterprise and free markets would flourish under thoughtfully conceived quantitative constraints.

GS3's multilateralism would represent the democratically valid consent of the world's population to a moral and legal authority to overrule local preferences in favor of long-term global interests. Frightening as this prospect may sound, as it evokes the specter of "world government," Gebser serves here as a source of optimistic reassurance. Since GS3 and integral consciousness are identical, the world is bound to discover that only the return of archaic pre-temporality, enriched with the unfolded powers of consciousness can assure both a more fulfilling, anxiety-free individual life and the world's survival under dignified conditions, materially and socially.

As far as the monetary subsystem is concerned, it would reflect the need to control both the scale and structure of economic activities. Maximum bank reserve would restrict the ability of banks to extend loans. Just as under the prevailing minimum reserve system, some banks in some instances may keep no reserves at all, under the maximum reserve system some banks in some instances might be required to keep 100 percent reserves. While such an arrangement may not eliminate the creation of money through debt it would certainly change its nature. The consent of depositors would be required to make loans, making financial intermediation once again the modest helper that draws together scattered household savings in order to

place them into the hands of *bona fide* entrepreneurs. “Enterprise” in the Keynesian sense will squeeze out “smart money”.

The GS3 society will judge GS2’s naive fallacies concerning “smart money” in a balanced way. The mental aspect will demonstrate its quantitative contradictions; our mythical constituent will show an integral and equalizing comprehension (perhaps using a thermodynamic frame of reference) and the magic will assure no emotional indifference towards the doubled-dyed power hunger for which it had served as a foil.

But to remain truly aperspectival in this moment, not even an opinion perceived by arrogating this adjective ought to be considered infallible. All attempts at meta-narration are subject to deconstruction. The one presented here should be no exception.



## NOTES

1. Lasting through the Victorian-Edwardian epoch, GS1 had accommodated a significant increase in GLOPPE. But the system expired because *laissez-faire* principles did not allow for government policies to keep the growth of increasingly complex, interdependent economies on an even keel; as the sheer size of GLOPPE demanded institutions of international cooperation; as the gold standard became a clumsy straightjacket on growth and the development of cross-border economic relations.

2. Bifurcation of GS1's control variables can be clearly dated to the onset of the First World War. The steady state part was over; chaotic transition began. Alternatives of restoring GS1, bolshevism, attempts to solve national problems through military conquest, and efforts to reform GS1 clashed in a generalized Darwinian showdown.

3. "Mixed economy" may be defined as "*laissez-faire* reformed;" a system in which national governments are legally obligated to effect full employment and price stability. "Weak multilateralism" refers to the United Nations and its charter organizations. This institutional framework is labeled "weak" because it can be played easily by national governments and because it has no authority over multinational corporations. "Minimum reserve banking" is GS2's monetary order. Its major attribute is a virtually unlimited ability to create money.

4. The irony of it all! Marx thought that the *laissez-faire* principle had to fail because of its congenital incapability of delivering the growth needed to provide material well-being for the masses. The exact opposite seems to be true. The biggest danger facing the free enterprise system (as we know it) is that it collapses unless the economy can ceaselessly accelerate.

5. The crisis of mental consciousness has many manifestations. One of them is the fixed and frozen perspectival objectivity in promoting whatever is in a person's immediate, direct material interest, overlooking or downplaying the comprehensive resource demand and environmental consequences of advocacy; disregarding institutional, economic, organizational, and legal constraints. The representatives of the natural gas industry talk of supplying the U.S. economy for a 100 years; the producers of nuclear energy extol the wonders of reactors, wind turbine manufacturers and their consultants are pushing wind energy; geothermal turbine producers agitate for geothermal energy; and the leather-lunged circus barker promises miracles through solar panels and cells as he stands before the tent of the "Cirque du Soleil."

A further symptom is the deficient intermingling of previously dominant structures. "We should do this; we should do that," one can hear at conferences and read in prestigious reports and uncountable blogs. The magic "we" may imply a close-knit clan or a community of believers equipped with a "group ego" in search of mythical wish fulfillment (Cf. EPO, pp. 58 and 129.) But in practice, the "we" could not be anything else but the state. Yet a GS2 government is not an executor of tribal wishes voiced in the Assembly Wigwam. Heart-warming paroxysms of "We should do this; we should do

that” camouflages an ineffectual puffery of magic-consciousness-secreted desire and *menin*; the accusative of *menin*; the first word in the Iliad that Gebser so masterfully tied to proto-manifestations of assertive, direct-solution-seeking mental consciousness. (Cf. EPO, pp. 74, 75, 76, 82, 91, 93, 94, 97, 124, 141, 142, 196, 197, 231, 255, 315, and 317.)

6. The mortgage market collapsed, triggering the financial fiasco because of expensive gasoline. You may remember the slogan from the heydays of the real estate boom: “Drive until you qualify.” If the young couple could not get a mortgage in the suburbs, it could get one in the exurbs. But the finely calibrated household budgets were derailed by rising commuting costs, causing a rush of sales, depressing home prices, and making mortgage-backed securities nose-dive. Of course, subprime mortgages were part of the problem, but they were not the match that lit the fuse that set the rickety deregulated “anything goes” capital market aflame causing a firestorm of negative economic developments. By identifying the small percentage of outrageously irresponsible mortgage deals as the main culprit, the searchlight has settled on a reformable imperfection, leaving the real culprit in the dark. This real culprit is none other than “peak oil.” The adjective “peak” stands for the recognition that the world has used up roughly one half of the planet’s cheap oil. Reaching such a midpoint in depleting a resource has been tied to maximum rates of output and unless there is a bad economy or suitable substitutes appear on the market, the price of the peaked resource will never decline. Since GS2 is incapable of delivering the substitutes on a decisive scale, the world finds itself on the devil’s seesaw. Vigorous movement toward full employment sends oil prices up to a level where economic growth is stunted. Then the price of the economy’s plasma falls, inviting activities to resume their merry motion again.

7. There is fumbling on the margin but the envisaged market-based, tax- and subsidy-incentivized gradualism does not add up to a strategy that promises to reach the tipping point in transforming the global economy’s energy base. The process faces multiple (strongly interrelated) obstacles that GS2 is unable to overcome. To be concrete: (a) the chicken and egg problem with electrical or natural gas-propelled cars and filling stations. (Who wants to produce electric- or natural gas-propelled cars without matching filling stations and who wants to build such filling stations without the mass production of the cited conveyances?); (b) any major energy program in the context of a booming economy would drive up oil prices to growth-disabling levels; (c) it is highly unlikely that traditional and alternative energy carriers would spontaneously find a price ratio at which both economic growth and the transformation of the energy base could continue uninterrupted for several decades; (d) once they perceived a menace to their fundamental interests, entrenched powers in the production and distribution of fossil-based carriers would surreptitiously sabotage the transformation; (e) most national governments are too indebted to afford major spending programs; (f) even if a single government would embark on such a program, other countries would immediately start legal proceedings against it at the WTO for providing public support to certain branches of the economy, thereby undermining the core principle of GS2 -- free competition.

In general, the largely private-initiative-based, decentralized shift from nonrenewable to renewable resources falters on the unwillingness of mixed economies to rock their boats

to a point where they would capsize. The government “picking winners and losers” would necessitate a command and control system that would amount to effectively changing the global economic order in a way that no one wants. The debacle of central planning is too recent a historical lesson to have been forgotten. But any comprehensive program that would fall between a drastic alteration of economic organization and the current inadequate approach predicated on trusting the private profit motive as much as it could be trusted in centuries past would end up disrupting GS2.

If the bulk of corporations cannot produce encouraging quarterly profit statements, their stocks would fall, endangering the level of consumption and the social safety net. Our entire health insurance and pension system, the financial resilience of banks and academic organizations are capital based. Robust as it has proven to be, this system could break down if tampering with its parameters went beyond a certain limit, which, of course, no one knows *a priori*. Making some sectors of the economy profitable at the expense of others (with the deployment of whatever administrative measures deemed to be mild enough to conform to broad market economic principles) could bankrupt enough businesses to spread the malaise through national economies, pushing worldwide unemployment and poverty to unmanageable levels.

8. The real (inflation-adjusted) rate of interest may be equated to the combined growth of population and productivity, thus encapsulating the two most characteristic factors of GLOPPE’s time path: quantitative increase in the human biomass and qualitative improvement in its level of living.

9. “Derivatives” are contracted regarding developments that affect stocks, bonds, loans, currencies, commodities, interest rates, even the weather. If a company’s stocks fall to a stipulated level; if the price of copper or oil increases above or the capacity utilization of Caribbean Cruise Lines decreases below a certain point; if the credit that a bank or an investment company has extended to another bank, a hedge fund, a business, an academic organization, an art foundation or a national government goes sour; if a real estate venture goes belly up, if precipitation in a region will be less than X inches, the seller of the derivative will pay buyer Y amount of dollars. Credit default swaps (CDSs) represent a subcategory of derivatives. It is an obligation to compensate the creditor if the borrower cannot pay up. Derivates are heavily leveraged. The buyer customarily borrows to make the purchase; the selling business often needs to borrow in order to make the payment. Some derivates may be used as collateral for loans, thus increasing the narrowly interpreted money supply. Warren Buffet has ominously characterized derivatives as “financial weapons of mass destruction.”

The declining percentage of GDP in the total value of financial instruments traded at a country’s exchanges and over the counter is a further indicator of financialization. Whereas, shortly after the Second World War, financial turnover in the United States was less than 10 percent of the country’s GDP; now the GDP is an estimated 2 percent of financial turnover.

10. If the second law only faintly applies to GS2's money and claims on material wealth derived from it, one may argue that the first (or conservation) law does not apply to them at all. Indeed, fractional reserve banking creates and destroys money. The central bank of a country expands the money supply directly by buying securities from banks and indirectly by encouraging the extension of loans through lowering reserve requirements and the discount rate, which is the interest rate a central bank charges commercial banks and other financial institutions for short term loans. The money supply is reduced through opposite policy measures; that is, by selling securities, increasing reserve requirements and the discount rate -- all this in addition, of course, to shredding bills and melting down coins.

11. Even at the 3-percent annual expansion (now considered the minimum required rate to maintain living standards for the planet's growing population), the global economy would quadruple in half a century. The realization of this prospect falters on the planet's ecological limits. If not GS2's domestic crises or international conflicts over resources, then a rise in the cost of hydrocarbons, water and several vital commodities would frustrate the continuation of postwar economic acceleration. *The problem is not that the world is running out of resources.* Rather, it is the diminishing ease at which they can be accessed and their mutual entanglement in the process of readying them for use: Rising energy costs will make the production of and the substitution for traditional metals more costly; more expensive water and metals will raise the cost of energy, and so on. For a comprehensive and accessible assessment of the world's resource predicament, see Diederer, A. (2010) Global Resource Depletion, Managed Austerity and the Elements of Hope, Delft, The Netherlands, Eburon Academic Publishers.

There are also mounting problems at the high-entropy-extruding end of the metabolic process we call GLOPPE. A few more decades of "business as usual" economic growth would fatally damage already overburdened environmental sinks, speed up the related climate change, cause further losses in biodiversity, amplifying the impacts of pollution into massive health disasters.

Not surprisingly, long-term growth prognostications by multilateral agencies, national governments, academic institutions, and private businesses (including financial empires, oil giants, and a bevy of consulting firms) have become much less sanguine in the past two years. And although most first-water oracles revert to the roughly 3-percent annual global economic expansion that prevailed during 1950-2010; at last one MIT study (released during the first half of 2012) is a notable exception. It predicts the collapse of the world economy by 2030.

12. To be more precise, at the bottom of the inverted pyramid there are the official measures of the narrowly interpreted money supply, M0, M1, M2, which represent a descending order of liquidity. M0 is mainly cash, which is absolutely liquid; M1 is cash plus demand deposits, and M2 is M1 plus time deposits easily convertible into M1.