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IN PERSPECTIVE

Credit Crunch, Social Mobility and the Quest for Sustainable Communities: Revisiting the Possibility of Social Credit

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Introduction

The government-commissioned report on social mobility and 'Fair Access to the Professions' made a bold recommendation (Panel on Fair Access to the Professions, 2009, p. 141):

> Social mobility should explicitly be the top overarching social policy priority for this and future governments. The Government should develop new ways of embedding this priority across all government departments. It should develop new partnerships with civic institutions, professional bodies, community organisations and individual citizens to help deliver this priority.

The Panel began its work before the scale of the recent economic downturn was widely felt, and the relevance of its findings will therefore be determined by the twists and turns of the unfolding economic events. However, the culmination of the recession and social economic trends may in fact provide an opportunity to address the problems of social mobility and community economic renewal. In a 2008 press release echoing the government's own outlook of finding local

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solutions to local problems, the campaigns director of 'Unlock Democracy' wrote:

> The global economic downturn will have a huge impact on our local communities. . . If local communities are to weather this storm, they will need far more autonomy than they currently have. Local people are the experts on the problems of their areas and the solutions to them. (Bailey, 2008)

The drive towards sustainable communities was enshrined in the 2007 Sustainable Communities Act, which was aimed at promoting 'sustainability of local communities'. Experience in Britain and elsewhere has pointed to eight components of sustainable communities:

(1) Economy – thriving and vibrant local economy;
(2) Environmental – places for people to live in an environmentally friendly way;
(3) Governance – communities with effective and inclusive participation, representation and leadership;
(4) Equity – fairness in distributions of resources and opportunities, to foster social mobility;
(5) Transport and connectivity – well connected communities with good transport services and communications linking people to jobs and other services;
(6) Services – public, private, community, and voluntary/charitable services that are accessible;
(7) Housing and the Built Environment – high quality environmentally-efficient buildings;
(8) Social and Culture – active, inclusive and safe with shared community activities.

Sustainable communities are therefore places where people want to live safely and work productively, to improve life chances and social mobility. Such places epitomise the principles of sustainable development at the local level. Sustainable communities integrate the social, economic and environmental components of their community; they aspire to meet the needs of existing and future generations; and they respect the needs of other communities further afield.

Socioeconomic background is the defining link between sustainable communities and social mobility. Any attempt at diluting the impact of socioeconomic background (as measured by income) may militate against a meaningful understanding of the cross-fertilisation between social mobility and community development. As the Panel on Fair Access to the Professions (2009, p. 30) observed, young people from lower socioeconomic backgrounds are less likely to establish social networks beyond their immediate circle, thus restricting the wider support and opportunities available to them. The Panel also concluded that social networks of better-off families tend to be more diverse than the social networks of poorer families, and this capital gap has an important impact on social mobility outcomes.

Brief Discussion of the Consequences of the Recession

Historically, all recessions have had significant socioeconomic consequences; and in a major economic downturn (like the present credit crunch), the changes are inevitably intense. The Great Depression of the 1930s is regarded by social historians as a social and cultural era as well as an economic episode. The current crisis prompted changes in various areas, ranging from our daily leisure and recreational activities to our health, and is bound to have continuing significant consequences for both families and individuals, as well as long-term consequences for Intergenerational mobility.

Economic historians suggest that when employment is harder to find or less lucrative, people spend more time on self-improvement and relatively inexpensive recreational and leisure activities. During the Depression of the 1930s, that meant listening to the radio rather than attending theatres, and partaking in small-scale community and neighbourhood pursuits. Individuals and families stayed at home, and this trend persisted through the pre and post Second World War periods. In today's recession, we have witnessed families and individuals turn to less expensive activities – and this course may persist for years. According to consumer surveys widely publicised in the media, individuals appear to take greater interest in TV watching at home, internet browsing and the relatively simple pleasures of comfort diets, walks and gardening, instead of expensive vacations and paid entertainment.

In a paper published in January 2009, at the Annual Conference of the American Economic Association, Parker & Vissing-Jorgenson (2009) observed that, although the poor suffer most in a recession, as happened during the Depression of the 1930s, the rich (predominantly concentrated in Western and other affluent countries) would lose the most in relative terms. The current economic downturn has brought about a larger-than-usual decline in consumption by the hitherto well-off individuals and families. Of course, people who held much wealth in real estate or financial markets have taken heavy losses; but, importantly, the incomes of high earners have declined more than in past recessions, especially in the financial sector (Parker & Vissing-Jorgensen, 2009).

Naturally, recessions and depressions are not good for mental health and community welfare, but some experts also predict that in the West and other affluent countries, physical health may paradoxically improve, on average, during the economic downturn. People may take fewer car trips, thus lowering the risk of accidents, and may spend less on alcohol and tobacco. They also have more time for exercise and sleep, and tend to choose home cooking over fast and restaurant food.

In a 2004 paper, *Healthy Living in Hard Times*, the economist Christopher J. Ruhm, at the University of North Carolina, found that death rates fall as unemployment rises. In fact, he observed that a one per cent increase in the unemployment rate in the US, on average, decreased the death rate by 0.5 percent (Ruhm, 2004). An Australian study arrived at similar conclusions. David Potts studied the social history of Australia during the depression in the 1930s, and published his findings in a 2006 book, *The Myth of the Great Depression*. He concluded that Australia's suicide rate peaked in 1930, but overall health improved and death rates declined. After 1930, suicide rates also declined (Potts, 2006).

While many adverse social and security consequences of the current economic downturn are to be expected, this credit crunch and the resulting recession is paradoxically expected to develop a new form of intergenerational mobility, in the shape of a more responsible generation of leaders and decision makers. This argument is supported in the work of Malmendier of the University of California, Berkeley, and Stefan Nagel of the Stanford Business School, in a paper entitled *Depression Babies: Do Macroeconomic Experiences Affect Risk-Taking?* (Malmendier & Nagel, 2007). According to Malmendier & Nagel, a generation that grows up in a period of low economic returns is likely to take a more cautious approach to investing, even decades later. Similarly, a generation that grows up with high inflation will be more cautious about buying speculatively decades later. From a social point of view, the message is therefore probably less gloomy than the economic situation would suggest – today's youth may be less prone to making erroneous high-risk decisions in future financial markets. They are likely to miss some good business opportunities, but also make fewer mistakes and observe a higher standard of governance.

Writing in *The New York Times* (31 January 2009: BU4), Professor Tyler Cowen of George Mason University made significant observations about the social consequences and trends of the current global recession (Cowen, 2009). According to him, as job losses mounted, and public bailout costs ran higher and higher, the social costs of the economic downturn became clearer. For Cowen, the primary question was what could be done to shorten or alleviate these social costs?

Can Social Credit Help?

The recent economic crisis revealed that our current banking practices resulted in governments and regions being relatively powerless to maintain financial stability, at least in immediate terms. The present economic system, worldwide, is based predominantly on debt (through interest-based lending) as the mechanism for monetary growth.

Over 90 per cent of the money circulated in modern economies consists of electronic transactions, within which commercial banks collectively operate as a 'fractional reserve banking' system. This often results in banks raising and lending cash many times the value of their financial reserves, which is normal in a capitalist economy; but, with rising debt (i.e. with rising shortfalls against reserves) as the basis of the global banking systems, a credit crunch is inevitable. Addressing this credit imbalance (between lenders and borrowers) may therefore be the best long-term solution for a recession-proof economy.

According to the social credit framework, the consumer is compelled to pay for all the costs of a production or service, including waste, through a prevailing 'marker price' that overcharges consumers in order to generate profit (and recover the costs of inefficient production processes). The economic consequences of charging the consumer for the cost of both production and waste by-products is that the consumer is forced to work more to earn the income needed to pay for purchases; or (and this is where problems arise) borrow more, to absorb these costs. Eventually, a point is reached when defaulting on borrowed money becomes so widespread that the banking system would collapse under the strain of the ensuing credit crunch. In other words, the collapse of the banking system is a consequence of decades of poor governance, where the banks have privatised their gains but socialised their toxic assets, either directly through repossessions, or by seeking public bailouts.

The principles of social credit were formulated by the British thinker Clifford Hugh Douglas (1879–1952), who argued that economic hardships and economic crises resulted from an inefficient capitalist economy, which failed to provide people with sufficient purchasing power, reflecting society's true productive capacity. Douglas advocated the distribution of funds, hence social credit, so that people could purchase the tacitly over-priced goods and services produced in a capitalist economy. He believed that, under capitalism, the total wages paid to individuals who produced goods or services (which he characterised as quantity A) would always be less than the total costs of production or value of the service (B). This meant that, without social credit, there would be insufficient money in the community for the purchase of the goods and services produced; and this situation results in people borrowing and accumulating debt. This concept was known as the 'A plus B theorem'. To resolve this contradiction, proponents of social credit proposed a system of issuing dividends (or other appropriate forms of subsidy to the same value) to every citizen, the amount of which would be determined by an estimate of the nation's real wealth such as a country's Gross Domestic Product.

Douglas disagreed with classical economists, such as Adam Smith and David Ricardo, who focused on profits and charges within the classical production triad: the factors of land, labour and capital. He also disagreed with Karl Marx's claim that labour created all wealth. The social credit principle chimes with the emerging consensus that taxpayers and borrowers must not bear all the cost of an economic failure. It is worth remembering that the current credit crunch was precipitated predominantly by the subprime mortgage crisis in the US, and by banks borrowing and lending beyond their and their consumers' capacity for repayment. This may not have occurred on the same magnitude where alternative credit or mortgage arrangements were in place, based for example on a (co-owned) declining balance arrangement, where both lenders and borrowers would proportionally own the genuine market value of the assets during any stage of the cycle.

Douglas's famous objection to 'usurious' interest, as the basis of finance, was controversially presented in his famous book *Social Credit* thus (Douglas, 1973, p. 22):

> It is not too much to say that one of the root ideas through which Christianity comes into conflict with the conceptions of the Old Testament and the ideals of the pre-Christians era, is in respect of this dethronement of abstractionism.

At this point in this discussion, the question that we need to answer is: 'how could we apply social credit now, and what form might it take?' The proponents of social credit are in favour of three proposals, which are particularly appropriate within the context of sustainable development and social mobility, especially in the context of the recent downturn:

(1) A national credit agency to estimate on a statistical basis an inflation-indexed amount of social credit that should be circulating in the economy (as a compensation for the difference between the true costs of production and services, and the prices paid for these);
(2) A price adjustment mechanism to save windfall profits in times of inflation, and return them to citizens as value-added tax credits when the cost of goods during economic downturns exceeds the income available to acquire them;
(3) A national dividend (in the form of grants or tax credits) to give a basic guaranteed income to all eligible citizens, especially tailored to promote social mobility.

The pivotal role of (public and private) finance in encouraging social mobility was recognised by the Panel on Fair Access to the Professions. The Panel proposed that 'The Government should use the model of Social Impact Bonds as a means of leveraging state and private investment into the delivery of social mobility interventions' (Panel on Fair Access to the Professions, 2009, p. 144).

However, there are considerable challenges in applying any form of social impact bonds, ranging from measuring impacts and risks, to how disadvantaged individuals, families and communities might be directly incentivised to participate in such an arrangement. More specifically, all credible studies of social mobility appear to draw a strong correlation between income, employment and social mobility, thus rendering other social interventions as less effective. To quote again the Panel on Fair Access to the Professions report (2009, p. 19):

> Across the professions as a whole, the typical professional grew up in a family with an income well above the average . . . today's younger professionals (born in 1970) typically grew up in a family with an income 27% above that of the average family, compared with 17% for today's older professionals (born in 1958).

Conclusions

Good economy, governance and equity are essential prerequisites of a sustainable community. These tenets are integral parts of the tripod on which sustainability rests: environmental quality, economic renewal and social equity. In order to withstand the negative consequences of the credit crunch and promote social mobility, sustainable communities must be enabled to accommodate the following range of resources and activities:

- strong and viable local businesses with links into the wider economy;
- dynamic job and business creation for the local community;
- adequate supply of funds and infrastructure to support economic activity.

The linkages presented in this paper between sustainable communities, social mobility and social credit, point to the possibility of fostering socially mobile sustainable communities that are better equipped to survive the economic downturn. Socioeconomic background is the defining link between sustainable communities and social mobility; and this paper argues that social credit may be a suitable vehicle for a basic guaranteed income tailored to promote social mobility, especially during economic downturns. Any attempt at diluting the impact of socioeconomic background (as measured by income) will militate against a meaningful interpretation of the cross-fertilisation between community development and social mobility, especially as the study of social mobility frequently draws a strong correlation between income and social mobility.

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