

Feral finance

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Reuters has noticed that I was, a while ago, credited with creating the term feral finance.

So, for the record, [here's the article](#) where I brought the term into use. I might as well anticipate the fact they're going to be putting it out on a newswire.

And to also save time, this is how I defined it (all links are in the original article) :

As I'm explaining in my forthcoming book — The Courageous State — there is a two-part economy in this world. There's the real one — the one where you and I live and meet our needs, make and sell things (if only words on screens) and which is the measure of real well-being.

Then there's the other one — the feral one, if you like (feral as in wild and out of control) — existing way beyond the limits of the real economy and only loosely related to it, made up of the enormous financial balances denominated in cash of various sorts, existing only as entries in computer ledgers. Some of these cash balances are backed up by supposed assets, which are at best legal claims on property which may or may not realise real worth, such as shares (whose value usually have almost no direct bearing to the companies that lend them their names), property (which has been priced as a consequence beyond the reach of the real economy) and more obscure derivative products, which few understand and which even fewer trade in ever larger amounts.

This feral economy represents the wealth quite deliberately extracted from the real economy by those who have exploited it over the last thirty years of neoliberal domination by ensuring that the share of real wages in GDP has fallen from about 58% in 1980 to about 53% now (see diagram 1 here for detail) — with the cash they have extracted being stashed as unproductive wealth (often offshore). That unproductive wealth, whether held as cash or placed in assets that have near liquidity such as shares, property, derivatives, hedge fund and other portfolios, has had enormous consequences. There are many; let me just note two.

The first is that the refusal of the owners of this wealth to engage it constructively in the economy has been a contributory factor to underinvestment, stagnant real wages, and the rise in what has effectively been enforced borrowing by far too many households struggling to make ends meet — who have become increasingly indebted to the agents of the feral elite in the process (see diagram 3, here), reinforcing the whole vicious cycle as a consequence and withdrawing yet more and more funds from the real economy and into the free-floating world of feral finance. The relationship of feral finance with the real economy has, therefore, been wholly negative here.

Second, the use of those feral financial balances to undermine currencies in pursuit of short-term gain and maximum income returns has brought the whole edifice to the point of breaking. Breaking the real economy does nothing to the feral economy — downsides can be traded as much as upsides in the feral world of finance: gain is to be had in this world whatever happens in the real one. But the relationship of the feral economy with the real economy is again wholly destructive: those feral deals — done beyond regulation, assisted by the world of secrecy that tax havens provide, are bringing destitution, unemployment, real failure and fear to real lives.

There is only one way out of this — and that is to bring feral finance back under control. Of course, that economy will fight back — Bob Diamond already is as he's admitted that 90% of Barclays' profits come from feral activity — but that's a challenge courageous states have to face. And doing so is possible; the techniques are available. New, green quantitative easing, spent into the economy and not just given to banks, can reclaim this feral world and its resources for the real economy. Forcing new investment policy onto funds that have been exposed to feral policies, such as pension funds, can reclaim these assets for ordinary people. I explain how here. And if necessary the countries of Europe and beyond will have to demand that banks deposit their cash in Treasury deposit receipts with central banks (as happened in the UK in the second world war) to ensure resources are taken out of the feral economy and made available for the public good at a time of national and international crisis.

Do this and financial crisis can be averted.

Don't do it and the world of feral finance wins.

I stick by that.