Systemic problems of the current system

Objective 7.1

To introduce key systemic problems embedded in the current money and financial system, in particular how money is created as debt by private banks, and, in contrast, how it has been done differently in the past.

Since the 2008 financial crisis, debt levels have escalated significantly. Inequality is accelerating. Ecological crises are deepening. One key driver of debt escalation is how the exponential nature of compound interest cuts across the entire economy. This problem is central. It impacts costs at all levels, shaping people's decisions—from the household to national governments. Adding to the problem is how the global financial system is dominated by speculation ($1,778 trillion, exceeding by 25 times the real economy of $70 trillion). This global casino is made up of derivatives, currency speculation, and stock markets. It is disconnected from solving the challenges we face, generates huge profits for a few, and unfortunately for the many is a major source of economic and financial instability, most recently illustrated by the 2008 meltdown.

7.0 Watch A Flaw in the Monetary System (7:38)

Privacy Badger has replaced this Vimeo button.

Allow once

Moneta. "A Flaw in the Monetary System," video, 7:38, posted by Moneta to Vimeo, accessed January 28, 2019. https://vimeo.com/71074210 (https://vimeo.com/71074210)

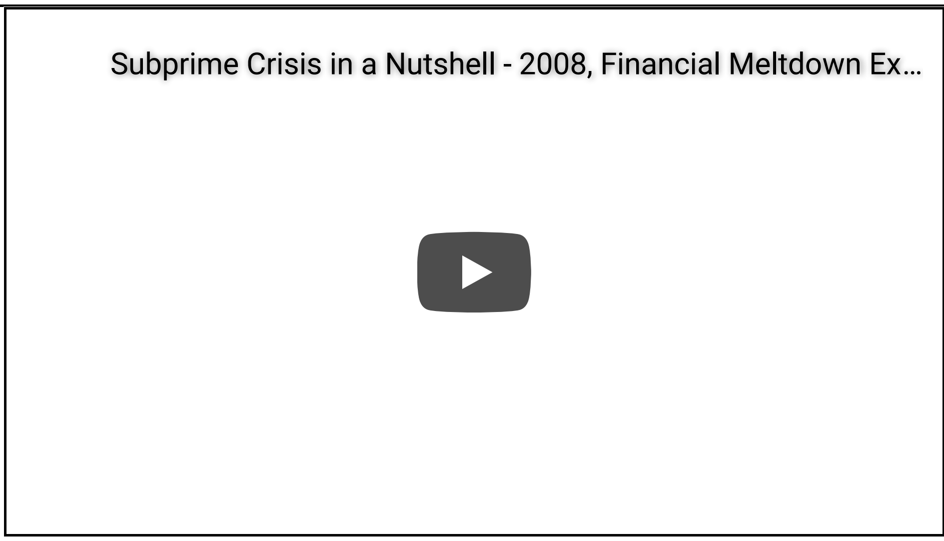
What is money and who creates it? The answer most people would give is "the government." Commentators of all stripes continuously talk of government printing money. However, the reality is different. Governments create between 3% and 10% of the total money supply—the bills and coins in our wallets. The balance is created by the private banks, out of thin air, when they make loans. In other words, the money supply is created as debt to which compound interest is attached.

7.1 Watch "What is Money?" (2:34)

Positive Money. "What is Money," video, 2:34, posted by Positive Money to YouTube, May 13, 2013. https://www.youtube.com/watch?v=01lusDeSPE4 (https://www.youtube.com/watch?v=01lusDeSPE4)

Creating money as debt shapes and reinforces chronic dysfunction, corruption, and financial crises, the most recent example being the 2008 sub-prime mortgage fiasco. Millions lost their homes, banks collapsed, and taxpayers footed the bail-out costs. This video brilliantly unmasks the players and process that led to it. It is a vivid illustration of how accumulation by dispossession thrives under the poorly regulated neo-liberal form of capitalism we have experienced over the last four decades. Pay attention to the supply chain that fed the 2008 meltdown; from the lowly mortgage broker who sold mortgages to people who could not afford them, to Wall Street specialists who bundled bankrupt mortgages into derivatives called mortgage backed securities, to the banks and investment houses that sold them as safe investments to institutional investors in the global market. After you absorb the corruption in this supply chain, ask yourself if the community land trust tenure model that we learned about earlier in the course would be vulnerable to this kind of devious chain of exploitation.

7.2 Watch "Subprime Crisis in a Nutshell—2008, Financial Meltdown Explained" (10:54)



Gaurav Jha. “Subprime Crisis in a Nutshell—2008, Financial Meltdown Explained,” video, 10:34, posted by Gaurav Jha to YouTube, January 13, 2014.
https://www.youtube.com/watch?v=xWBl8xVJlvw (https://www.youtube.com/watch?v=xWBl8xVJlvw)

7.3 Read “What Problems are Hidden in our Current Monetary System” (5 minutes. When you arrive at the site, look for the four short articles that begin on the left-hand column with an introductory paragraph. Then click on “read more” to access each.)

Moneta. “What Problems are Hidden in our Monetary System,” accessed January 20, 2019.
https://monneta.org/en/ (https://monneta.org/en/)

These four short commentaries will reinforce and extend your understanding. Each of these four problems is embedded in the financial system, and succinctly summarized here (take notes).

- The money system requires continual growth.
- The money system causes a systematic redistribution of wealth to the rich.
- The money system causes constantly growing debt.
- The money system creates its own crises.