

Special on the Monetary & Economic Crisis

By David Creelman

With so much written about the economic crisis I hesitate to add more content. But there are two important things not well covered in the media, so I'll present them here. It's not HR but as HR professionals we are also business men and women and that means we ought to understand the economy and monetary systems. Your ability to talk thoughtfully about these issues is important in establishing your own credibility as a manager.

I. Information and Lubrication

Failure to understanding the role of money in creating information will lead countries to rely too much on fiscal stimulus which will cause dangerous levels of inflation.

One function of money is to lubricate the exchange of good and services. Without money we have barter. In a credit collapse it is a little like the oil has run out of the economic engine which is now seizing up. If you follow this metaphor fiscal stimulus makes sense.

However, less recognized is that money also serves as information. When the market functions well it sets "fair" prices so that we can make good personal and business decisions.

Before we go further we have to counter the neo-classical economists who believe there is no such thing as a "fair" price.

To the neo-classical economist the "right" price is just whatever happens to arise from supply and demand. They point out that air is extremely valuable but it is free because the supply exceeds demand. That there is no Platonic fair price for something is an important idea. However, we live in a real world with many existing practices and constraints. In any real world situation there is something that approximates a fair price. The fair price for shovelling snow for an hour ought to be pretty close to the fair price for someone spending an hour sawing wood.

The critical thing for an economy is that the fair price isn't overly volatile. If you buy a house at a fair price then you should be able to sell it for a similar price next year.

The credit bubble not only lead to a crisis that rapidly drained money out of the economy; it also led to the destruction of information. We no longer know what fair prices are. Many home owners are discovering they didn't pay a fair price for their homes and are in trouble as a result.

More importantly, the credit bubble made it appear that it was a good idea to devote a very significant percentage of the US economy to providing financial services (up dramatically from a couple of decades ago). As it turns out the information provided in the bubble economy was tainted—we don't need so

many people working in financial services.

Now the US is in a situation where a great deal of the workforce has been deployed in a field that produces no value. It is as if much of the population, including many of its most talented people, have been out building Easter Island statues.

Now that the bubble has vanished the economy will slowly rediscover the fair price of goods and services. With good information the invisible hand will gradually guide people and organizations to productive endeavours.

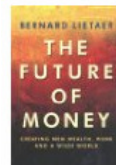
One reason that economists and politicians avoid the topic of how the credit bubble destroyed information is that there is not much we can do about it. Time does cure all, but being told that everything will be better in a decade or two is not a message most North Americans want to hear.

The policy implication is that we should not expect too much from fiscal stimulus and we should not overdo it (oops, I may be too late on that recommendation). We need to be patient, have a very long time horizon and provide safety nets that ensure individuals are not so damaged by the crash that they can never recover.

II. Monetary Systems

The really big story about the economy is rarely discussed and that is the nature of our monetary system. Our fiat based monetary system needs to be supplemented with complementary currencies or we will continue to have disasters like the current crisis and even greater disasters in the future.

Understanding What Money Is
Most business people have little idea how our fiat based currency works. I certainly didn't learn about it in my MBA or from decades of reading the business press. It was only in Bernard Lietaer's great book *The Future of Money* that it finally came home to me.



The Future of Money: Creating

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As the image above shows the book is available from Amazon, but only as a beat-up second hand paperback copy. If your eyes are good you'll notice the price: \$220.

Why would a 6 year old used paperback be selling for \$220? Well, I don't know if that is a fair price but it sure as heck is supply and demand.

If you are in Toronto you'll find it's listed in the collection of the University of Toronto library but last time I checked their copy was gone and presumed stolen.

Luckily, there is a pretty good primer on monetary systems on Google Video by Paul Grignon: "[Money as Debt](#)". The video somewhat overplays on a sense of outrage; in truth the existing monetary system has served us reasonably well in many ways. Also, one purpose of any monetary systems is indeed to facilitate debt. My favourite example is the simple matter of favours. If I ask my neighbour to help me shovel snow off the sidewalk then I have incurred a debt that may one day be repaid by

babysitting, loaning him my PC power cord or any number of other things. Debt is a great thing because it allows exchange. In fact, it's a good idea both in business and personal life to ask people you don't know well for small favours because it puts you in debt to them which in effect creates a form of money. Once money has been created (an owed favour) then future exchanges become possible. The economy of favours is a wonderful sort of monetary system although it limits exchange to people you know reasonably well or to a tribe of some kind.

What should be evident to everyone now is that our monetary systems has some pretty severe flaws. It is prone to blow up from time to time and there is still a chance that the explosions we've seen to date are just the beginning.

This should get politicians and citizens interested in learning about different sorts of monetary systems and how they can be used in combination.

The Most Dangerous Flaw of Our Debt Based Monetary System

I'm hoping the current financial crisis has peaked your interest in monetary systems. However, the current financial crisis is small potatoes next to the real problem with the existing monetary system.

You may have puzzled over why our society is so focused on economic growth. Is it a result of the Puritan work ethic? Is it a result of domination by the rich elite? Is it a result of mankind's inherent greed? No, not really. The biggest reason is that we have a monetary system where there is always more debt than money. As long as we

have this monetary system the political system and culture will demand exponential growth.

As is already evident this demand for exponential growth is eventually going to kill our civilization through environmental damage and resource depletion. So the biggest lever we have to save civilization is not changed attitudes or electric cars or even a carbon tax. The biggest lever we have is to change the monetary system. Without that change turning things around may be impossible.

Policy Options

Changing the monetary system is big and scary. Most economists and financial experts have so little knowledge of the subject that they don't even want to talk about it.

Nonetheless, it is a subject we need to broach and Bernard Lietaer has mapped the way forward. The best policy is to introduce complementary currencies that can complement and compete with the existing system.

In time we may switch out of the current system entirely, but we don't need to decide that now; what we need to do now is to develop the capability to work with alternative currency systems. This will put us in a position where we control the currency system instead of the existing model where the currency system controls us.