

Economics Outside The Box

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The financial system does three unique things — it creates and destroys money, it prices the money it creates, and it distributes the money.

The world has come to rely on the financial system's products, which are various forms of credit including deposit balances and currency as the principal means of exchange.

How effectively do forms of credit, deposit balances and currency serve as a means of exchange when it comes to the ability of farmers to stay in business and people being able to acquire food?

Some of the least-fun things to do is apply for a loan, worry about payments or be chronically stressed over having enough income. Yet these are the mechanisms used by the financial system to create and distribute money and extract wealth for itself. The financial system is merely the “middleman” between people and access to the goods and services of the physical economy.

The financial industry grades how effectively we use their products (forms of credit, deposit balances and currency) to effect economic activity in the physical world. The industry issues report cards on things like worker productivity, factory efficiency, gross domestic product. It measures how deeply we had to get into debt to the financial industry to invoke the deposit account balances and currency used to facilitate economic activity.

As the financial world thrashes about with its speculative and lending excesses, are we forgetting what the goal is — to have a constructive means of exchange that moves food from the farm to the eater and goods produced by eaters back to the farm?

If financial markets behave irrationally and are prone to volatility, is the financial industry the best place for the economy to source its mechanisms of exchange — always just a step away from calamity?

The nation's food and farming landscape is a good place to isolate and examine the financial system's role in the food economy. The total spent for all food in the United States in 2006 was \$1.1 trillion — a segment of the economy large enough for a grading sample. The primary question is: Does money show up at the right place and time to feed people and keep farmers on the land?

Today, 12 percent of the nation's population is food-insecure. This is an indication that financial products (forms of credit, deposit balances and currency) are less than effective in connecting these peoples' energy and talents with the physical goods and ser-



vices needed to sustain them. So these people live under tremendous stress — a major contributor to medical conditions. So in the end, everyone loses. The eater does not eat enough, and farmers and grocery stores lose sales.

Grading whether or not money (forms of credit, deposit balances and currency) shows up at the right time to buy food, for one in every eight Americans, a failing grade is probably appropriate.

To make up for the shortfall for money not showing up at the right place at the right time, government must step in with nutrition assistance programs the largest of which is food stamps — approximately \$33 billion a year. How would taxpayers, often stressed with financial worries of their own, grade a system that requires them to make up for the inability of money, to serve as a means of exchange to serve the food-insecure? Feelings may range from an F to an A, depending upon how giving a taxpayer feels.

To make up for the shortfall of government nutrition programs, food banks must step in with charitable feeding programs using a network of over 50,000 charitable-feeding agencies and over 1 million volunteers. The volunteer might grade his satisfaction in helping others with an A and when looking at the plight of the food-insecure, give that situation a grade of F.

For a growing share of Americans struggling to make ends meet, the finance industry has created payday loans. Payday loans are a logical expression of the financial system — getting maximum return for minimum investment. Some estimates are that 30 percent of payday loan advances are used for food purchases. This makes the cost of money (a means of exchange) to purchase food prohibitive. It threatens the financial survival of the individual or family. Estimates are there are approximately 22,000 payday loan outlets in the United States generating some \$40 billion a year in loans and \$6 billion in finance charges. ▶



Photo - Touch the Soil

The main event in a grocery store is at check-out. Financial-system products serve as the sole mechanisms of exchange.

For the millions of payday loan customers, a satisfaction grade of the financial sector might range between a D- and an F.

While the finance industry undergoes the joys and misery of its sub-prime lending, somewhere we lost the concept of a constructive means of exchange to buy food. What kind of a grade would those millions of people, falling into financial and/or homeless misfortune, give to a situation where there is insufficient money to buy food? Would an F grade be too high?

For the remaining percentage of the eating population which has money to buy food, the financial system may receive grades ranging from D- to A+.

Let's now change the focus to farmers. From its peak in 1935, when the nation had almost 7 million family farms, those numbers have dropped to around 2 million farms today. From its peak in 1954 of 1.2 billion acres of land farmed, the nation is now farming some 275 million acres less.

The financial industry's products (forms of credit, deposit balances and currency) have a track-record of flowing through rural communities only to gather up what's there and leave. How would the almost 5 million bygone farmers grade the effectiveness of money as a means of exchange in keeping them on the farm?

So here we have farmers and eaters, whose use of financial products as a means of exchange ends up removing most of the farmers from the land, removing a growing number of eaters from the dinner table and recklessly removing farmland from the nation's pool of food-security assets.

Compensating for the inability of financial products to facilitate a sustainable economic relationship between farming and eating, the idea of consumers buying directly from farmers has become popular. Embedded in this movement is the idea to remove the

middlemen as much as possible in the hopes of directing enough money to farmers to keep them on the land.

Of course, there remains the issue of whether or not the products of the financial middleman, can, in the long term, bring about economic sustainability between eaters and farmers. If financial volatilities and concentrations of capital continue to distract the role of financial products (money) in serving as a constructive means of exchange between farmers and eaters, alternative process will grow and even new processes of exchange will undoubtedly emerge.

It is not uncommon for local farms to now have work-for-food programs. It is not unreasonable to foresee America's 1 million food-bank volunteers growing to 2 million and giving birth to a much broader application of "volunteer economics."

Americans may well start using information systems more frequently to arrange more complex trades of goods and particularly labor, as labor is the single largest ingredient in the economy. The world of local or community currencies will grow as well.

In a financial world reeling from corruption and instability, the development of a world where consumers and farmers connect up directly and spread the concept of mutual cooperation to other parts of the economy, may be precursors to the paradigm shifts that will usher in a new age of security and sustainability.

For other information, visit the Web sites referenced below. Also, see the story on infrastructure on page 44. ■

Web Resources

Reciprocal trade / Barternews: www.barternews.com

Local currencies: www.reinventingmoney.com

E.F. Schumacher Society: www.smallisbeautiful.org