Understanding Money

There is only one definition and property of money: it is a medium of exchange. Many people claim real money has other properties, like being physical, fungible, divisible, and a store of value, but those things are not necessary for money to function as a medium of exchange. All something requires to become money is for two parties to agree it is money and use it as such, because "money" is just an idea in our heads. Money is an imaginary concept, for the federal government to say they don't have enough of it is admitting they don't have enough imagination.

Money is no longer arbitrarily limited based on the supply of any physical substance like gold. We live in a debt-based monetary system in which ALL money is created out of thin air as debt, just numbers in a computer ledger. Even paper money is matched by debt on the balance sheet of the central bank. Because all money is based on debt, this means the economy and incomes cannot grow unless debt also grows.

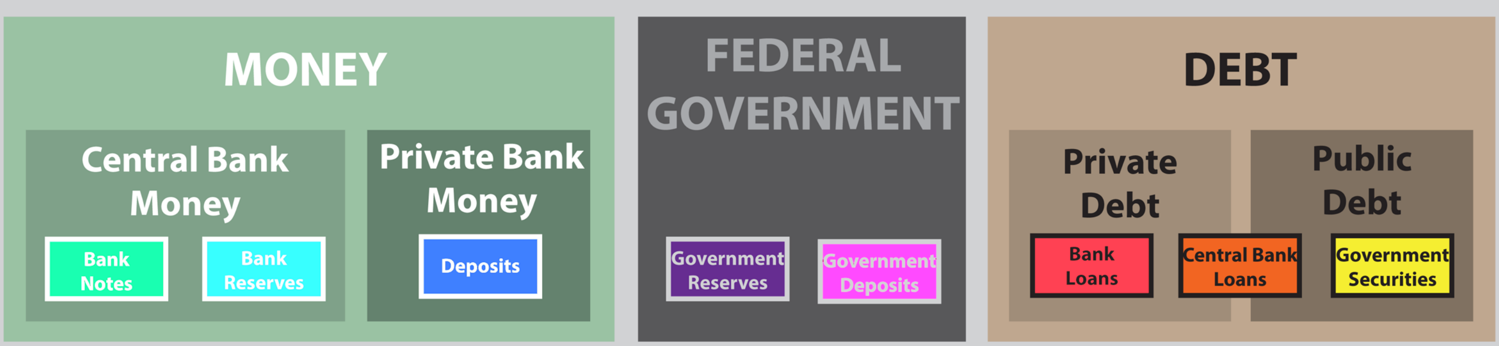
A federal government that is "monetarily sovereign", which is to say one that has its own floating currency and owns its central bank, can never go broke and always has the ability to create as much money as is needed for public good.

It is crucial the public understand the nature of our debt-based monetary system so that we are freed by money instead of slaves to it.

The Basic Monetary System

These are all the basic entities that interact with each other in the monetary system:

And these are all the basic elements of the monetary system:



www.understandingcanada.ca understandingcanada@gmail.com

Understanding Inflation

Inflation is the loss of money's purchasing power, or more simply, inflation is a rise in prices. The notion that government money-printing alone causes inflation is an obsolete notion from WWII and earlier times when supply of goods was much more scarce and there was much greater competiton for goods. If there was too much money with which to buy goods it could lower supply, and with low supply prices go up because retailers have less to sell to make the same profit.

Myths about money-printing and hyperinflation abound, like the Weimar Republic in the 30s, but most people don't realize that other external forces were the cause, primarily heavy reparations payments and currency speculators. Unless an increase in the money supply causes an increase in consumer demand which then lowers supply, it simply cannot cause inflation, especially if the increase in money is not going to buy goods but rather to buy financial assets or just gets saved.

In the context of a large, modern, globalized, mixed economy such as Canada, where supply of most goods is plentiful regardless of their price, inflation is almost entirely exogenous, meaning from external sources. The idea that inflation can be controlled by controlling the money supply was disproven by the experience of Canada and many other nations that attempted "monetarism". From the mid-70s to early 80s, using high interest rates and targeting the growth of the money supply, Canada tried, and failed, to contain the inflation that was sparked by the OPEC oil crisis in 1973. Now even the Federal Reserve admits that inflation has a very unreliable connection to the money supply.

So, what *does* cause inflation?

The most common source of current inflation is low supply which can be due to:

- poor crop yields, typically caused by bad weather or pests
- labour disruptions, such as COVID causing lumber production to stop
- supply chain backlogs, such as COVID causing a slowdown of international shipping

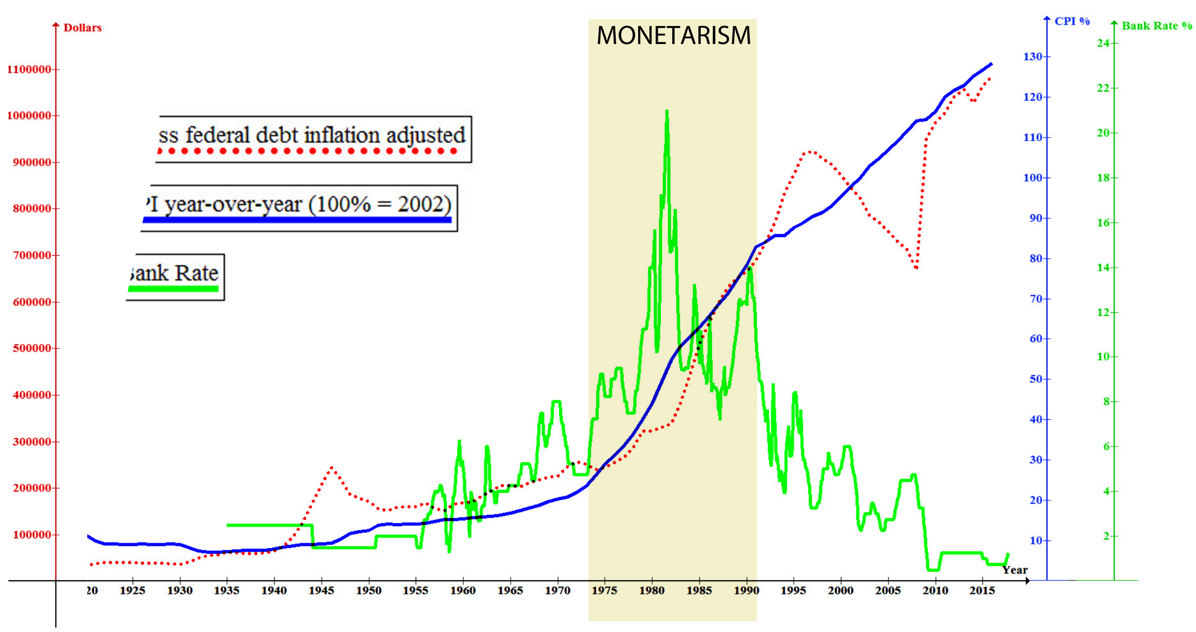
Inflation is also due to rising costs, such as:

- oil prices making transportation more costly
- wage increases for workers
- a lower exchange rate making a country's imports more expensive
- interest rates making debt more expensive
- an increase in overhead costs, like higher rent or utility bills

And sometimes inflation is simply a choice by producers, suppliers, and retailers, which we are seeing right now with our largest corporate chains raising prices while rolling in record profits just because they can. When inflation bumps, up the psychopathic profit-seeking logic of corporations see it as justification for raising prices, because why not if the public is starting to expect inflation anyways? This can also happen when a company or cartel has a monopoly and so can set prices as it pleases because it has no competition.

For the public to understand and counteract inflation we must throw out obsolete notions that money-printing is the cause and government spending is to blame.

Adam Smith, 21stC



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