



Too Big to Live: Why Letting Banks Fail
Is Actually Good For Real People
Douglas Rushkoff

As the financial institutions we have come to rely on appear to topple under their own weight, our natural instinct is to rush to support them. These are the banks, investment groups, and insurance firms to which we have outsourced our savings, financing, and investing. They fund our businesses and lend most of our currency into existence.

Were we just a bit more aware of how this dependency developed, and what it costs us in the long run, we might choose instead to exploit their temporary vulnerability toward very different ends. Indeed, if we had our wits about us, we would seek to put our biggest banks out of our misery, for good.

The current economic crisis is less a function of poor decision-making by a few bonus-seeking executives than it is the embedded logic of a banking and currency system developed during the Renaissance for reasons that had little to do with promoting wealth and opportunity. Back then, the aristocracy was growing increasingly threatened by both a rising merchant class and increasingly prosperous local economies. Less and less business activity involved the standing aristocracy. So they came up with two business innovations to reverse the trend.

The first was the chartered corporation. In return for shares in the company, a king would grant it a monopoly charter to do business in a certain region or industry. Free from competition, the company could forget about innovation and focus on exploitation. The monarch, meanwhile, could write laws that favored the corporation's operations. This is why American colonists, for example, were forbidden from fabricating clothes from the cotton they grew. They were required to sell the cotton to the British East India Trading Company, at fixed prices, that then shipped it back to England where it was made into clothes, and those clothes were shipped back to America for purchase. The colonists were not allowed to add value to the resources they extracted from their territories by fabricating anything from them; they were only allowed to deliver the resources to the company. The corporate charter worked to prevent anyone but the chartered corporation from creating or exchanging value in ways that could not be immediately extracted by the corporation. Any value could only be created through, and extracted by, the chartered monopoly. In order to participate, one had to work for a company, buy from a company, or invest in a company.

The other main innovation, centralized currency, was also designed to prevent people from exchanging value directly. Throughout the late middle ages, towns were getting quite wealthy using their own currencies, based in grain. A farmer would bring his harvest to the grain store and leave with a receipt that could be broken up into smaller pieces and used as cash. Instead of accruing interest, the money lost value over time; the grain store had to sell the grain to make money back, and some grain was lost to rats or spoilage.

This meant people spent the money as quickly as possible, reinvesting it in preventative maintenance, high wages, and local activity. People ate well and worked less than we do today. They had so much extra cash to invest they built the great cathedrals of Europe which, contrary to popular belief, were not funded by the Vatican but by small towns creating highly profitable pilgrim and tourist sites for the benefit of future generations.

The royal stop loss measure on all this decentralized prosperity was to make local currency illegal, and mandate that everyone use coin of the realm. These centralized currencies were no longer earned into existence by farmers, but lent into existence by the central bank—often just another chartered monopoly. Unlike abundant local currency, the bias of scarce, precious metal-based currency was not towards spending but towards saving. It favored the rich, by design.

Neither corporate charters nor centralized currency were developed to promote the free market, but rather to prevent its unbiased distribution of wealth. That's why Adam Smith detested government and its corporations equally. They are partners in crime.

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Today, central currency is still loaned into existence—not by the government (who must borrow money like the rest of us) but by the central bank. The central bank loans money to its affiliates, at interest, who then loan it to smaller banks, at a higher rate of interest, who then loan it to businesses. For every \$100,000 loaned to a business, some higher amount will have to be paid back. Where does that extra money come from? Another business that borrowed from the bank. For one to succeed, the other must go bankrupt—or grow.

Thus, the growth requirement of bank-driven investment capital. The rate of a business or market's expansion is dictated not by the demand of its consumers, but by its debt structure. Corporations become little more than names on debt, or the stories through which more is incurred. The only ones who earn for keeps in this scheme are the lenders.


This is why it is particularly ironic that, when these institutions are caught over-leveraging their advantage over us and entangle themselves in their own interest trap, our first response is to pay their way out of insolvency. We would rather spend our grandchildren's money on saving the banks than come to an understanding of how they work against our interests in the first place. Banks are a burden to the economy, not the source of its fuel.

None of the bankers or investment strategists I have interviewed over the past decade were even aware of the history of the money they work with, or of the biases of its functioning. "There's other kinds of money?" most asked me.

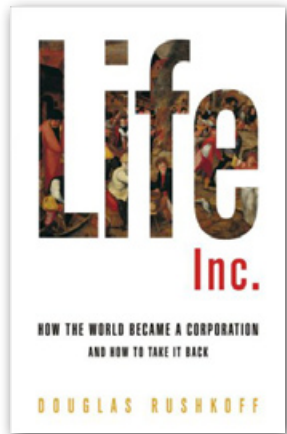
Yes, there are. And other kinds of lenders. In my own town in Westchester, a restaurant called Comfort, when rejected by the bank, issued its own dollars as a way of funding an expansion. Townspeople spend \$100 for \$120 worth of food. A 20% return on investment for us, and cheaper money for the restaurateur. Plus, we get a better restaurant in our town. Right now, dozens of local currencies are emerging and thriving throughout America, under the radar of speculative capital, for use on everything from auto repair to babysitting. This is the real economy, emerging by necessity.

The failure of giant banking is less a crisis than it is an opportunity to rediscover the long lost art of local commerce. (Make no mistake, a majority of the banking interest is alive and well, thriving off the traditional savings and loan business model of taking deposits from people or businesses and making loans to others. They're not part of conversation, or even invited to the hearings.) President Obama is misguided to believe the economy's ills are owed to large banks' refusal to lend. (They had more money to lend than we needed to borrow; that's what created the housing bubble to begin with.) Rather, like hostages suffering from the Stockholm Syndrome, we have come to regard the institutions that have commandeered our economy as our benefactors.

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We must stop accepting the current operating system of money as a given circumstance of economic reality, and the speculative economy in which they operate, as measure of the real world's economic health. **They are not. They were invented—by people with interests opposed to ours, and who have long since left the building.** 

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Douglas Rushkoff is the author of ten books, and the writer of the *Frontline* award-winning documentary *The Merchants of Cool*. He teaches at New York University's Interactive Telecommunications Program, where he founded and runs the Narrative Lab, which explores the relationship of narrative to media in an age of interactive technology. He lives in Brooklyn, New York.

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