

## Re: Money and Inflation

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**From:** Bill Ryan ([william\\_b\\_ryan\\_at\\_hotmail.com](mailto:william_b_ryan_at_hotmail.com))

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In a modern fiat money system, the net monetary wealth of the private sector is due to government spending.

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No, it's not.

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Currency issued by the government has replaced gold as the monetary base.

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Mo modern government issues currency. Currency notes are tokens of central bank credit in every modern country, with the possible exception of Zimbabwe.

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Base money derives its value from the fact that it is required in the payment of taxes.

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The term "base money" is not found in any generally available textbook. It may not be found in any textbook. Money derives its value to its holder through its acceptability in trade. So it is true that money does derive some of its value from the fact that government will accept it in payment for taxes. General Motors will accept it in payment for cars. Microsoft will accept it in payment for Windows. I can use it to purchase food at the corner grocer's, etc.

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Bank deposits retain value because the government requires them to be converted into currency on demand.

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There is no requirement from government that banks do so. If there is, please cite it. Convertibility is a function of the private contract between banker and depositor, which differs from contractual arrangement

to contractual arrangement.

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A bank loan creates both an asset and a liability, and therefore does not result in net monetary wealth.

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The first clause in this sentence is true; the second is patently false. It reflects the "net to zero" fallacy that comes from Hummel's poor understanding of the theory of accounting. He has no comprehension what net worth means. He fails to recognize that while accounting figures are denominated in the dollar sign (\$), they are not money. He has no comprehension of the capital account.

This is the theorem that is relevant to a fractional reserve system with a central bank that also makes loans: Loans create Deposits; the Repayment of Loans cancel Deposits. Loans in this case include loans by the central bank as well as the commercial banks. The purchase of securities by the central bank (or any bank) is the functional equivalent to loans.

In the relevant three-sector model, the central bank is logically aggregated with the financial sector – regardless of whether or not government putatively owns it; the government is aggregated with the firms sector – inasmuch as it is a special type of firm. In the more extended model government is disaggregated from firms and considered separately as a fourth sector. The consuming sector interacts with the other two (or three) sectors depending on the level of sophistication in the analysis.

As a matter of accounting, the net wealth of the consuming sector (reflected in the aggregate of their capital accounts) increases with the increase in loans because (in a well balanced system) the entrepreneur is financially enabled to bring forth increasing productive capacity, made possible from innovation, invention and discovery – that he organizes into their most productive combination, as ultimately judged by his customers the consumers in free markets. In principle but also as matter of accounting, the consuming sector is the beneficial if not titular "owner" of productive capacity, as reflected through accumulation to their net worth according to the rules of accounting.

The discussion-groupie William Hummel is paying too much attention to his crank mentor, Warren Mosler.

He really should learn something about accounting and the meanings of its terminology.

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The growth of credit money depends on the demand for bank credit and the willingness of banks to lend.

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Which includes the central bank. Central bank credit and commercial bank credit are completely fungible, one with the other, and therefore indistinguishable to seller or purchaser.

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TO BE CONTINUED.