Re: TURMEL: Ben Franklin, Prof. Flaherty, on Death gamble

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The "Ben Franklin" quote appended below is a complete
fabrication that dates back to post United States
Civil War "Greenbacker" propaganda, deriving from the
political controversies of that era. The real Ben
Franklin of three generations earlier never said any
such thing.

Now, regarding the alleged "death gamble" :−

JCT: It all sounds so simple until you do the
accounting. You have to take into account the growth
due to interest in each cycle. No matter what your
last piece of debt, the growth on it always makes it
larger than any money left.

$100 is created but $110 is due.
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[REPLY] Nothing is due until the terms of the
contract say it is due.
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JCT: After 6 months, you pay 55.
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[REPLY] At that point he has effectively paid
twenty percent annualized interest on a principal of
$50.00, which he just repaid. According to the
terms of his contract he still "owes" $55.00 as
stipulated above.
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JCT: $5, not $10 in interest stays in circulation,
$50 is knocked off and out against the principal. You
owe $50, you have $45, the bank has $5.
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[REPLY] But you started with the stipulation that $100.00 was created and $110.00 was "due." The payment of $55.00 leaves $55.00 still "due," does it not?
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JCT: When you earn it from the banker and come to pay out the remaining $50, you're still faced with the 10% on the remaining $50 for the last half year.
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[REPLY] Not ten percent but five dollars for the full year on the remaining principal of $50.00. The effective interest on the totality of the contract is greater than ten percent because $5.00 in interest was paid on $50.00 that was borrowed for only six months.
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JCT: $2.50 can never be paid. The interest on the last installment can never be paid.
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[REPLY] This utterly fallacious conclusion requires the assumptions that there is no money in existence other than the funds created by this one loan, and the economy is not an ongoing process with many overlapping loans facilitating production, distribution and consumption:

"Imagine that the only money in the entire economy is MCB [bank created money], that all money is created and loaned on January 1, and that principal plus interest at 10 percent is due on the following January 1. These assumptions granted, if say, $100 billion is created and loaned on one January 1, then $110b would be due and payable the following January 1. Clearly, however, if only $100 billion has been created there is only $100 billion in the system and thus the $110 billion of principal plus interest cannot be paid..."

Well, yes. Beyond the fact there are many overlapping loans in the real economy, all we have to modify for this simplistic argument to collapse is that there are two loans rather than one, staggered, say, six months apart. On January 1, $50 billion is loaned a ten percent, due and payable in one year. Six months later, July 1, $50 billion is loaned at ten percent, due and payable

in one year. On January 1 the next year there is
$100b in the economy, of which $55 billion is due and
payable to the banker. As the banker receives his
$5 billion interest income, he spends it back into the
community as does every businessman, so that when
July 1 comes around, there is a total of $55
billion in the economy, due and payable to the
banker. 55 = 55. Case closed on interest per se
being the cause of the problem.

The only way that "debt virus" can be salvaged in
any form is to demonstrate that bankers somehow
"underconsume" in a manner that is different than
is the case for any other group of transactors in
the economy. The mechanism how this can occur
needs to be actually described, not merely assumed
as some sort of unspecified "constant" that
"correlates" to observed data.

The ordinary "lag" between the receipt of a dollar
in income and spending that dollar is handled by the
"lag" in expensing the "costs" that dollar represents
through the conventions of accrual accounting.

There are ways around the conundrum that make
sense.

If the rate of spending from income falls with
increasing wealth, sales must fall in respect to
the costs of production. If income falls as
compared to the costs of production with labor
displacement, spending from income must fall in
respect to the costs of production.

Both effects can be compensated through accounting
adjustment at the point of retail. The first
through retail discounts. The second through
consumer dividends.

See:
http://www.geocities.com/socredus/compendium
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The Bogus Franklin

[When Benjamin Franklin was asked how the colonies
were prosperous when England was in hardship]
Franklin told them: "Why, that is simple! In the
Colonies, we issue our own paper money. It's called
'Colonial Scrip.' We issue it to pay the government's
approved expenses and charities. We make sure it's

issued in proper proportion to make the goods pass
easily from the producers to the consumers. In other
words, we make sure there is always adequate money in
circulation for the needs of the economy.

"In this manner, by creating ourselves our own paper
money, we control its purchasing power, and we have
no interest to pay, to anyone. You see, a legitimate
government can both spend and lend money into
circulation, while banks can only lend significant
amounts of their promissory bank notes, for they can
neither give away nor spend but a tiny fraction of
the money the people need. Thus, when your bankers
here in England place money in circulation, there is
always a debt principal to be returned and usury to
be paid. The result is that you have always too
little credit in circulation to give the workers full
employment. You do not have too many workers, you
have too little money in circulation, and that which
circulates, all bears the endless burden of unpayable
debt and usury."
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