Re: The Credit Theory of Money

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>>Banks do not transfer wealth from you to them by
>>issuing money.
>
>Yes, of course they do, which is why unless they are
>prevented by government from issuing too much of it,
>they _invariably_ issue too much of it and destroy
>the economy.
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>[REPLY] They in fact transfer resources from the
>community to the borrower when they lend money.

Evasion. We're not talking about what the borrower
gets in return for paying interest. We're talking
about the interest the bank gets for creating money
out of nothing.
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[REJOINDER] The phrase "out of nothing" means simply
that modern money is in the nature of a contract
rather than a tradable commodity with intrinsic
value. That is the sense William Patterson meant
when he used the Latin equivalent (or the English
equivalent for the Latin term) of the phrase in the
founding charter of the Bank of England. The Latin
phrase was "ex nihilo" which had precise legal
meaning in Patterson's time. It referred to
commitments between the parties deriving from
agreement between the parties rather than prior or
external law imposing commitments between the
parties.

As to the interest "the bank gets," the bank "gets"
only the differential between the interest the bank
pays and the interest it receives. That is its gross
profit from which it pays ordinary business expenses
and dividends.

=>

>>Banks in
>>contrast to government lend to the credit of
>>entrepreneurs by effectively endorsing the promissory
>>notes they are tendering to the community, making
>>them fungible one with the other, and more generally
>>acceptable.
>
>What nonsense. Little of bank lending is to
>entrepreneurs; the great majority is to governments,
>rent seekers and consumers, and serves no purpose but
>to obtain interest from the debtors.
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>[REPLY] By bank I mean the generalized or
>statistical lender. The purchase of a security like
>a stock or bond is effectively lending.

The buyer of a stock or bond _does_not_ create the
money used to buy it.
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[REJOINDER] The same argument can be made when a bank
purchases the promissory note of the borrower by
crediting the borrower's account. It is impossible
to determine if money is being created in any
specific loan. We can only determine the matter
statistically, by looking at the flow rate of loans
for the economy as a whole as compared to the flow
rate in amortization for the economy as a whole. If
the flow rate of loans exceeds the flow rate in
amortization for the economy as a whole, money in the
form of checkable deposits is being created.
=>

>In the
>division of labor in banking one particular form of
>bank is the custodian of the type of deposit account
>the balances of which function as "money" in
>transactions. The fact that that particular form of
>bank is also a lending bank is irrelevant to the
>argument.

It most certainly is not.
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[REJOINDER] And here we have mere assertion without
argument. The power to create money is vested in the
financial sector as a whole rather than any one
particular corporate entity. The financial sector is

a cooperative endeavor that works in coordination,
like an orchestra with its conductor. In this
particular orchestra the central bank is conductor.
=>

>The money that they lend
>accumulate into deposits which are used to purchase
>stocks, bonds, mortgages, etc.

And obtain interest.

[REJOINDER] Which is another name for dividends from
the increasing wealth their savings as funding
sources helped create.
=>

>>The banks accomplish that by exchanging
>>their notes in the form of deposits transferable by
>>check or electronically for those of the
>>entrepreneurs, which they individually assess for
>>credit risk as agent in public service to the
>>community.
>
>If that was all there was to it, banks would just
>charge service fees. But of course they don't. They
>also charge interest in direct proportion to
>_the_amount_of_money_they_create_.
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>[REPLY] They also pay interest in direct proportion
>to the amount of money they create. Or didn't you
>know that?

They rate they pay is less than the rate they charge,
of course. Duh.

[REJOINDER] Duh? Are you really so clueless? Of
course they pay less than the rate they charge.
Banking is a business. What's wrong with being a
business? What's wrong with making a profit? But
banking is a natural monopoly where the profit is
unconstrained by ordinary market forces, which is why
we need regulation. By banking again I mean the
financial sector as a whole, within which individual
entities competitively juxtaposition for their
individual share of the financial sector profit "pie"
the totality of which being unconstrained by market
forces. The "money power" must have the government
regulator to keep it in check so it does not abuse

its privileged position.
=>

>Their gross profit is the differential
>between what they receive and what they pay.

Which kinda puts the lie to your claim that banks do
not transfer wealth to themselves by creating money,
doesn't it?
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[REJOINDER] The "lie"? Again, are you really so
clueless? They are earning a profit in remuneration
for services rendered. What's wrong with that?
=>

>>Sales of goods and services to consumers
>>commence the "reflux" back to the banks in the
>>lending−investing−amortization cycle. The
>>informational feedback mechanism from consumers to
>>entrepreneurs and their financiers is profit−loss.
>
>That would be true for investment banks that created
>no money and effectively just acted as agents to
>their depositors, like mutual funds.
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>[REPLY] It is true for all banks.

Wrong. There is a difference between lending money
as an agent for its owner and creating money ex
nihilo in order to obtain interest on it.
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[REJOINDER] Again, assertion without argument. The
"agent for its owner" earns interest on the
differential between the interest he pays the owner
and the interest he receives from the borrower. In
other contexts the differential might be called a
"commission." Rather than "banker" in other contexts
he might be called "broker." In the case of modern
banking, in its most general sense, the banker is
effectively agent for the community's credit. In his
hubris he thinks he is the owner rather than the
agent for the credit he dispenses, an attitude we
endeavor disabuse him of through appropriate
regulation and oversight.
=>

Money creation is a privilege. The only effective
difference between banks doing it and counterfeiters

doing it is the legal status of the money.

[REJOINDER] The implication you make is that it is a
privilege granted by government, a fascist notion.
I've already informed you that when counterfeiters
print and spend they are transferring resources from
others to themselves. That is what you want
government to do, ostensibly in the "name" and to the
"benefit" of the "people" because government knows
what is "best" for the "people." When bankers create
money they are transferring resources from the
community to the borrowers. They do so effectively
as fiduciary to the community. The idea is that the
borrowers will use those resources productively to
increase the generalized wealth of the entire
community to the benefit of all. It is the idea that
is the basis of entrepreneurial free enterprise and
has been so for centuries.
=>

>>It should be
>>observed that banking and government are functionally
>>distinct in concept.
>
>Right. Banks are governed by, and run exclusively
>for the profit of, their owners. Duh.
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>[REPLY] Which is why the natural monopoly of banking
>needs to be regulated by government.

?? Which refutes your claim above.

[REJOINDER] You indeed are quite clueless, aren't
you? The term I used is "natural monopoly." Have
you not heard the term? A natural monopoly is a type
of economic organization that is most efficient in
the service it provides when it is a monopoly.
Because it is most efficient in the service it
provides, it tends to become a monopoly in the
absence of coercive or fraudulent practices. Classic
examples are power and communication grids, like the
Internet. But because they are monopolies the
potential exists for those in administrative control
of them to abuse their position to the detriment of
the public. So we need regulation, which is where
government appropriately comes into the picture.
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