

Re: Debtor Nation, another view

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- *From:* royls@xxxxxxxxxx
 - *Date:* Wed, 12 Oct 2005 16:57:01 GMT
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On Wed, 12 Oct 2005 08:04:15 -0700, William F Hummel
<wfhummel@xxxxxxxxxx> wrote:

>On Tue, 11 Oct 2005 22:07:34 -0400, "Dan in Philly" <djr8@xxxxxxx>
>wrote:
>
>>"William F Hummel" <wfhummel@xxxxxxxxxx> wrote in message ...
>>
>>> Debtor Nation, Without Rhetoric
>>> By Thomas Nugent
>>
>>Any relation to Ted?
>>
>>> it is fact – not theory – that
>>> government budget deficits add exactly that amount to the savings of
>>> financial assets that the rest of us hold.
>>
>>Budget deficits are matched by issuing financial assets (eg. T–bonds); that
>>doesn't mean that savings are unchanged.
>
>Apparently you mis–read.

No, he read accurately. Nugent is being deceitful.

>Nugent is saying that the aggregate savings
>of the private sector (the rest of us) increase when the government
>runs a budget deficit.

But that is deceitful, because it elides the fact that those "savings"
are nothing more than a liability for future taxpayers: a liability
that, because (unlike the associated government debt asset) it is not
owned by any particular persons, does not appear anywhere on the
private sector's books. But that doesn't mean nobody has to pay. The
idea that the owners of government debt get free income that no one
else has to pay for is just a lie.

>>> When the consumer borrows to buy (a German) car rather than using cash in
>>> his
>>> bank account (a more likely option), the bank makes a loan to the

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>>> consumer, creating a loan on the asset side of the bank's balance
>>> sheet and a new deposit on the liability side. (Loans create
>>> deposits.) After the car is paid for, the German car company has the
>>> new bank deposit. Note that consumer borrowing increased total bank
>>> deposits and funded foreign deposits (savings) of U.S. dollars. The
>>> widely held causal myth is that foreigners are funding U.S. consumers.
>>
>>yuck. Where did the bank's loanable funds come from?
>
>Loans create deposits. Thus "loanable funds" automatically exist if
>banks have the capital to back them. There is no finite pool of
>so-called loanable funds.

IOW, the bank just creates an interest-income machine for itself.
Very nice racket, that.

>>If the consumer hadn't
>>bought the foreign car, what would those funds have been used for?
>
>Those funds are created by the loan, and thus would not exist if the
>consumer hadn't bought the foreign car.

Don't worry, I'm sure the bank would have found some other reason to
create its interest-income machine.

— Roy L
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• **References:**

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 ◇ *From:* William F Hummel
- ◆ **[Re: Debtor Nation, another view](#)**
 ◇ *From:* Dan in Philly
- ◆ **[Re: Debtor Nation, another view](#)**
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