

Re: State Theory of Money

Source: <http://sci.tech--archive.net/Archive/sci.econ/2007-06/msg00216.html>

- *From:* "Mark M." <markm@xxxxxxxx>
 - *Date:* Sat, 23 Jun 2007 22:36:50 -0500
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Anarcissie wrote:

On Jun 23, 3:50 pm, "Mark M." <m...@xxxxxxxx> wrote:

Anarcissie wrote:

On May 11, 5:01 pm, w_b_r...@xxxxxxxx wrote:

"Money (dollars in bank accounts of the Treasury) is CREATED when the government spends money into existence."

Money is created when any transactor deficit spends with bank credit. The theorem is that loans create deposits; the repayment of loans cancel deposits. This theorem is very significant in an economy where most transactions are conducted by the transfer of bank deposits.

This is true whether the transactors are private or governmental institutions or individuals.

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If you'll look at the diagram archived
at http://www.geocities.com/new_economics/conrad-borrowing-2005.gif

from my good friend, Bud Conrad, you'll see
that

the largest amount of bank credit is
represented by
consumer debt, the second largest is federal
government debt, the third largest is business
debt,
and the smallest is state and local
government debt.

The theory that you outline is very close to
the State
Theory of Money concept that has recently
been
revived by the multi-millionaire Warren
Mosler.
The term was originated by the German
economist
Georg Friedrich Knapp, a favorite of the
Nazi's,
who experimentally tested the theory at
Theresienstadt, in prototype of their plans to
control
conquered peoples and races.

In point of fact, the Fed holds only a
relatively
small percentage of federal government
securities.
The large majority are held by domestic and
foreign
commercial banking institutions.

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On May 10, 1:14 pm, "The Trucker"
<mik...@xxxxxxxxxxxx> wrote:

For years I have been trying to explain this stuff in a way that even the minimally aware can understand it. Perhaps the best way to look at it is to (in your mind) coalesce the Fed and the Treasury into a single harmonious group. That is the reality anyway. These two institutions work hand in hand to do the job of government finance and monetary control.

Money (dollars in bank accounts of the Treasury) is CREATED when the government spends money into existence. The Treasury accounts in the central bank (spelled Fed) are NEVER overdrawn or insufficient.

The problem then becomes the control of all this money that has been created and thrown into the helicopter blades of government to come to rest we know not where. If the money is allowed to slosh around in the economy for too long then the amount of actual dollars will grow too large and the value of the dollars will erode. That is why we have taxes and the sales of various types of "interest" bearing mattresses called government bonds. What

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else will
the rich people who already have all the
money they
could ever use do with this extra money but
to put it
into bonds?

That is what keeps dollars scarce and keeps
them
worth something; this sale of bonds and this
taxation. If interest rates on the bonds are
very low
and there is inadequate tax revenue then the
amount
of real live spendable money increases and
the
currency is devalued. That is what has been
happening since 2000. And if short term
rates are
kept low and government borrows on the
short term
(lots of 6 month bonds) then both money and
bonds
continue to lose value. Over time this
SHOULD
attend to trade imbalances.

The time of reckoning is put off by the
current bond
holders. If they refuse to buy more bonds at
low
interest rates then the value of the bonds
they
already own at low interest rates will
deteriorate
even more than that value has currently
deteriorated. You must always remember
that the
only thing you can get for a bond is money.
And if
the value of the money has eroded then so
too has
the value of the bond.

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I keep using the word "value" and it is time to address what it means. Value is measured in one's control of labor and natural resources. Money buys both land and resources. As these prices rise we are actually witnessing the decline of the value of the dollar. The apparent stock market rise is also a part of that.

It seems obvious that there is a lot of inflation taking place, while the government's institutions and spokesmen pretend that there is not. However, the inflation has not been evenly distributed -- most of it has occurred in the stock market, real estate, and collectibles. We might call these the upper realm of the economy. The money hasn't yet flowed to the lower realm, where people labor for cash and spend it on commodities.

In thinking about the denouement of this obviously unstable situation, I am wondering to what extent contemporary money is real. For the moment I am considering commodities and claims on commodities to be real. But what I am wondering is whether a large part of the current monetary gas keeping the inflation of the stock and real estate markets going could just disappear overnight.

Money in our present systems represents prior production, claims on future production, and exchange price of land. Dollars can move between these three categories. Dollars representing a stack of cut firewood can be spent to buy land. Money from the sale of land can be used to buy cut firewood. Money that represents not the sale of land but the asset value of land can be used to buy asphalt shingles (home equity loan).

A general inflation of land prices (real estate bubble) need not affect prices of goods and services. Conversely, the dollars in assets that don't represent prior labor could in theory be deleted without affecting at all the value of existing

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goods. For example, a high tax on land rent would have the indirect effect of virtually destroying the selling price of land.

Bankers get rich on real estate bubbles. Unlike landlords, bankers don't need to first buy land in order to collect the rent. Because they know that nearly all the dollars they lend for buying land go back into purchasing land, Bankers can lend money that does not represent prior production. They in essence create money by lending for land. The mortgage payments are made by workers' production. This is the "real" money that bankers and their shareholders spend.

After I posted my query, I came across <http://wfhummel.cncghost.com/> (due to the mention of seigniorage; it's one of the sites you get if you Google that term). I have begun to read it, but as yet I would hesitate to attempt to summarize. I'd like your (and anyone else's) opinion as to its validity, interest, etc.

Hummel has been here and we've debated his stuff. Although he understands very well the way the present system works, he tends to use circular reasoning to explain why it ought to be this way; i.e. the banking system must work efficiently because that's the way it works.

As to whether the upper realm of real estate and stocks, and the lower one of labor and consumer goods, can be kept separate forever, there are certain points of contact which make me doubt that they can. For instance, there is the relation between housing rent, real estate prices, interest and taxes that seems inescapable.

Right. Mortgage lenders are after rack-rent (the most the market will bear rent). Prices for real estate are adjusted to accommodate rack-rent payments. As interest rates fall, land price increase.

Taxes on land are always deducted from rack-rent available for either landlord payments or mortgage payments. This means that increases in land value taxes reduce land price.

Should the real

estate, stock and collectibles market appear to be overpriced, I would think that money would tend to run towards commodities and hard goods, which are also bought by people living in the

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lower realm and will therefore cause inflation there.

Overpriced is relative. What brings investors to the land market is rate of price appreciation. As long as prices are going up, they will continue to go up. As soon as land price appreciation stalls, it must go down. Land prices cannot level off. This is because of the speculative premium that is rolled in land prices.

It seems

also likely that people in the upper realm may begin spending money in the lower realm — the trickle-down effect — causing inflation there for the services and goods available (e.g. illegal drugs).

When land price decreases, land is not dumped for better investment. OTC, land is held tight for the time in the future when the price will again rise. After all, land requires no maintenance, and we all need it to live and work on.

Of course, a lot depends on what money is these days. If it is something created privately by belief, then a lot of it could disappear very quickly. That is something I am trying to figure out.

A worthy subject of study. Let us know what you discover.

Mark M.

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