Faked money – Reality under the rule of nothing

Everyone know the expression „Money rules the world" But what does that mean? Money is a driving factor in today society.
Usually, we use money without knowing much about it. We have grown up with money, which means money existed before we were born. We didn't create it and so we never think about its coming into being. We hope it works well because we can't imagine that it could be otherwise. But past years have shown us that there are a lot of problems with money. Remember the financial crisis of 2007. It looked as if things were getting out of control. Governments all over the world suddenly spent billions of Dollars and Euros to save their currency systems.

Where does all the money come from?

This question comes to many people's minds because governments all over the world have often told us they have no money for public health, or a better education system, for road construction, or equipment or infrastructure reconstruction. They tell us there is no money for all the things societies really need.
But despite austerity (a money saving policy) in many countries, suddenly now money seems to be around in abundance. This means that governments seem to have lots of money that they themselves didn't even know they really had. So if a bank asked for a billion, sometimes it looked as if they were answered: Will this be enough,or should we give you two billion?
So the question is again: where does money come from? Usually, we think governments themselves or their central banks are creating money. But if so, why do all governments have such large debts? Why do they always borrow money instead of creating it?
The truth is, neither central banks nor governments are allowed to create money. The only institutions allowed to create money are commercial banks. Commercial banks are the banks we are all dealing with.
Commercial banks provide bank accounts for people like us and entrepreneurs and business companies and governments.

How do commercial banks create money?

They do so by giving out credits. This means, if you ask a commercial bank to loan you money (to give you money as a credit), they create the money they lend you just out of nowhere, out of the blue, out of nothing.
This may surprise some of you, but the money <u>any</u> commercial bank is lending you, has never existed before you asked for it. It is **created, just** for you.
The way to get a credit is that you have to sign a loan or credit agreement. With your signature you make a promise to pay the money back later. Just because you promise to pay back later, you get the money now. So money will be created in order to meet your credit agreement.
With your signature you created a bond and this bond becomes an asset in the bank's balance sheet.
The bank is entering your credit agreement as an asset (bond) on the left side of its <u>balance sheet</u> and in the same procedure an equivalent deposit

on your account is added on the right side of the bank's balance sheet. This transaction is called balance sheet extension.

What is a balance sheet?

In former times it was a book that listed all debts and deposits. Debts or credits were (and still are) listed at the left side of the balance sheet, deposits or money on accounts at the right side. So, if a new credit was granted, the list became longer. That's why a transaction of creating money by granting a credit is still called sheet extension. The <u>sheet</u> is called a <u>balance sheet</u> because the totals on each side of the list have to be equal at all times (at least on call or key dates or due days).

Money circulates all over the world as a result of credit agreements. When you get a credit from a bank, you never get money out of the savings of other people. You have to realize, that money is always created by lending it. It is created out of nowhere (out of the blue) just for you. This is the top secret of all banks.

You may think this would be the way to create book money, book money is only a number on your bank account. It is completely virtual money you never can touch. You can only transfer it to another account. You may think, cash, such as coins and banknotes, is real because this kind of money is not created by credit agreements. But I'm sorry to say you are wrong.

In fact, commercial banks are not allowed to print money. This means they are not allowed to **produce** money.

What is the inherent difference between producing and creating money?

Governments have the duty to mint coins and central banks have the duty to print banknotes. If minting or printing were no different to creating money the workers in a mint or a printing factory could become very rich. They could, simply, put the money in their trouser pockets and go home. But they are just the money manufacturers not the money creators. Nobody in the businees of money manufacturering is allowed to use the money he or she prints or mints. They are just paid for doing the job, nothing else. The manufactured money is deposited in the central bank's safe.

How does cash come into the world?

The only way to get money out of the central bank's safe into circulation is through borrowing. A commercial bank has to borrow cash from a central bank. In exchange, the commercial bank has to transfer created bonds to the central bank. Firstly, every commercial bank has to present bonds. Secondly, the central bank has to check/examine the bonds. If the bonds are correct the commercial bank gets cash in exchange.

Usually, only secure certificates of debt are accepted by central banks and changed into cash. But lately, at least since 2007, central banks confessed to having, also, accepted bad bonds (so called toxic papers).

They accepted bad bonds and changed them into cash just to prop up our currency system.
Consider, first the financial market crashed and after that, to keep up our currency system, banking laws were rescinded. That means central banks flouted the existing laws.
There goes the idea that the liberalization of banking laws was a reason for the collapse of the financial markets and for the 'crash' that followed. If you reconstruct the development of bank laws in connection to the development of financial markets you'll find the relationship quite the opposite.
During yhe 1970s, in most countries of Europe and also in North America central banks lost control of the amount of money created by commerial banks. As a result of this loss of control bank laws were deregulated. You'll understand, later, why commercial banks ignore laws and governments in order to have these laws rescinded. To understand that you have to know how, on one side, central banks try to control the amount of money and why, on the other side, commercial banks try to increase the amount of money, in circulation, permanently.

How do central banks try to control the amount of money?
This takes us back to the question of how cash comes into circulation. Usually commercial banks have to hold about 5% of their balance sheet in cash. To get cash the commercial banks have to transfer secure certificates of debts to the central bank. If a commercial bank has not enough secure bonds to exchange, it is insolvent.
Of course, cash is only a very small part of the total amount of money. Before 2007 it had to be about 5%. (in this case only $10.5 m) Only this small part of the total amount of money is controlled by central banks because central banks control only this little part of bonds. The other 95% of the balance sheet totals of any commercial bank could be covered with bad bonds.
In the summer of 2007 it became obvious that less than 5% of the entire amount of money was covered with secure bonds. This was possible because parts of the created book money did not appear on the records controlled by central banks. The unrecorded balance sheet totals was used for gigantic speculations. When these speculations suddenly began to fail lots of commercial banks were unable to get enough cash (or just central bank deposits) to pay their speculation debts. But, what did the central banks do? Just to keep up our currency system afloat, they accepted bad bonds. So the central banks gave up their very last part of control of the amount of money in circulation. Since then, not even the amount of cash is covered be real values. You, perhaps, can imagine how low the value of money is, if commercial banks are unable to prove that 5 % of their balance sheet totals are covered by commodities or real estate.
So, liberalization is not the reason for the crashes that have occurred since the 1980s. In fact the opposite is the case. Liberalization is the results of the crashes. As happened in 2007, central banks accepted bad bonds in exchange for cash. Commercial banks violated banking laws step by step. Instead of tightening controls and sharpening laws governments stepped back and deregulated laws and controls. Liberalization is the

result of violations of laws because governments always think that using the existing laws could destroy the currency system. We'll see, that in a kind of way this is true.
Why all this talk about creating money? If we don't know this, we will not understand a big problem in modern economy. The question now is:

Where does profit come from?
Long ago Karl Marx asked this very question.
In the second volume of " Das Kapital" he wrote:

> [Wie kann nun die ganze Kapitalistenklasse beständig 600 Pfd. St. aus der Zirkulation herausziehn, wenn sie beständig nur 500 Pfd. St. hineinwirft ?]

"How can the entire bourgeoisie class usually take 600 pounds out of circulation, if the entire class is throwing no more than 500 pounds into circulation?"
That seems to be a simple question. Actually, it takes us into deep trouble. Of course it is interesting to know that Marx himself didn't find an answer. When following the long trail through Marx' "Kapital", Rosa Luxemburg was one of the few, to realize that Marx had never detected or explained, where the 100 pounds came from, the bourgeoisie always was more into receiving than spending.
Marx thought it would be enough to produce a surplus (in goods) and sell it to earn more money. He never worried about where the money came from. He presumed there was enough money on the market.

We have to look a bit deeper to understand how a few people in society are able to become richer and richer. To tackle the problem, let us imagine we are beamed onto an island. Every one of us has a few coins and banknotes in his or her pocket. Now, if one of us starts a business to accumulate money by earning more than we spend, what is going to happen? There is only one way. He or she has to win or in some way obtain our money. In order for one of us to becomes richer, we, others, will have to become poorer.
If, at some stage all the money on the island is in the rich person's hands, how then can the this person increase his or her accumulated wealth. At that moment, someone has to create fresh money by making debts to ensure further profit.
Back home, in a big intransparent economy, we now understand that an increasing public debt is necessary to guarantee permanent profit. For this reason permanenty increasing deposits in one or a few hands inescapably needs permanently increasing debts.

But why can't governments stop accumulation of money, when economic growth comes to an end?

Why does it seem impossible to run an economy without profit?
We are indoctrinated to believe that nobody would go to work without speculation on profit. But is this true? A worker as well as an entrepreneur of a small or medium-sized business is already used to going to work without expecting a profit. Most people in society work each day without

earning more than an income which is just enough for a living. More often, instead of saving money for the future (by accumulting it), their income is not enough for paying the running costs. We know that a growing group of the working poor can't even think of saving money, they only wish to earn enough for a simple living. Despite these facts we still believe that the economy can not work without profit.
Why do we think permanent profit is necessary for running an economy? We will understand why our current, contemporary economies depend on profit speculation if we look back at 'our island'.
While on one hand one single person owns all the money, on the other hand history tells us that society needs money for the exchange of goods. This person does not realize that money is a common thing, a medium of exchange, needed for easier trade to save common wealth. The person who collected all the money, will never provide this money for common trade without expecting a profit. And society, used to the use of money, accepts the call for profit from the money owner. Just this situation, on the one hand an accumulation of the common medium of exchange (money) in a few private hands, whilst on the other hand the need of money for the distribution of goods or commodities, makes us accept that money owners require profit. We all depend on money, so we pay for its circulation.

Where does permanent profit come from in a limited world?
Nowadays profit is made more and more in financial markets. But don't think financial markets are a new phenomenon, their existence dates back to the 13th century. So there has been time to develop a lot of mysticism. At least today people believe that stocks, bonds, securities, obligations, assets and so on represent real values. This is an illusion. In fact, so called investment banks are creating so called financial products with one hand and book money with the other,both just pulled out of the nowhere, the blue, the nothing. This is just a chain-letter-system.
Only because people pay money for a financial product, do they believe in its value. And they pay money for a 'paper' expecting they could sell it for a higher price. Just the hope to make money with nothing other than money, keeps financial markets alive. If the boom is over, everyone realizes that the real value of most financial products is zero.
As long as financial markets are booming, buying and selling of 'papers' in expectation of a rate of return, keeps the illusion alive that money and bonds, both created out of the blue do have a real value. But this is just an illusion, kept alive to ensure profits far from the development of real economy. This is possible, because the financial world is nearly, totally disconnected from the real economy. This disconnection is necessary to keep money in circulation.

[A point in fact;
A constant amount of goods needs a constant amount of money for its distribution. If the money – needed for this distribution of goods – is privatized, we have to pay for the use of this money. Of course the money owners don't need the total profit for their consumption, so a part of it will always accumulate. Therefore their deposits increase, and that needs

increasing debts. But the real economy does not increase. There is always a constant amount of goods to circulate, which need a constant amount of money. But because we have to pay for the use of money a constant good production needs an increasing amount of money for its circulation. Therefore a ‘not-growing’ real economy needs a ‘permanent’ growing financial market to create profit for the money owner. Of course this money has no real value but nevertheless it can buy real values such as, land and houses and other estates.]

How can we figure a way out of this trouble?
If society takes care that money is not accumulated and stockpiled in a few hands, it will not be necessary to pay for its return into circulation. This means, if money were evenly distributed, so that all people could hold a part of it, nobody would have to pay to get money. Of course, this sounds a bit like communism. Taking care for the equal distribution of money, doesn’t need the demand of equal income for all. There should be a guarantee that everyone’s income and consumption are in balance. This means everyone may earn as much as he or she likes or as he or she is able to, but all money not consumed within a certain period of time should be absorbed (skimed off) by a kind of tax.
I know I haven’t enough time to explain this offer. To discuss this we need much more knowledge about economy. I just want you to know we can think our way out of the trouble.
I’m sure we can run an economy without profit. Remember, even today entrepreneurs in small and middle-sized businesses still run their business without profits. In such a world we don’t need unlimited economic growth to establish a permanent growing amount of money, because, we all just work for a living, not for the stockpiling of money.
You may fear that in such a world there wouldn’t be enough money for investments. I’m sure that people like to save money for their next holidays, a new car and things like that. So people will save money without expecting an interest, just for good sleep and security. These amounts of savings, I’m sure, will be enough for all the investments really needed in the real economy.
In this world there will be no need for increasing public debt because there will be no increasing of private deposits. I know, to realize such an uninterrupted/ continuing flow of money needs more regulation than I can outline here. It also needs more knowledge about former and modern ‘money’, to attempt to understand and then solve our current financial problems. I only could give you a few ideas to think about money in a different way.

[I don't know what you have learned about the history of money. You have to know that in the Middle Ages money was created by uncontrolled coinage. That means, the coin manufacturers didn't sell the coins to a central bank like today. Usually the kings, or other nobles and clergies were authorized to coin money by using gold or silver. So in the past the amount of money depended on the available amount of gold or silver. The feudal system of creating money by coining died slowly and secretly, while our current capitalist system of creating money by taking loans came into being. That it happened unnoticed and unremarked was due to the ban of interest, which was a common law all over Europe, introduced by the catholic church. Most people don't know, that the possibility of creating money by bonds or by credit agreements dates back to the 15th and 16th century.

If we know that in the Middle Ages coins were created by kings and secretly, another medium of exchanging so called 'acceptances' were created by merchants, then we will understand where the idea that 'profit is possible' came from.
In the Middle Ages merchants had a treasure chest filled with coins. They used these coins to prove their credit-worthiness. This credit-worthiness allowed them to pay for goods with 'acceptances' signed by themselves. These 'acceptances' stated where, when and how much money would be paid to whom. The seller accepted an 'acceptance/bill' of exchange instead of cash because, in those days, in Europe, it was dangerous to travel with a lot of coins. It was easier travelling to other destinations with 'acceptances' instead and to get cash from a local bank when needed. The point is that merchants could write as many 'acceptances' as they liked whilst using the same amount of coins to prove their creditworthiness. As long as 'acceptances' were accepted by sellers and other merchants, every merchant could buy goods with this kind of money, money he had made himself.
But how could he pay all his bankers who had cashed his 'acceptances'?

Of course, the merchant sold all the goods he had bought by using 'acceptances'. He sold his goods against coins. So, if he was successful, he earned enough coins to cash all his 'acceptances' when they were due to be paid. In the Middle Ages this was possible because <u>coins came from quite a different and separate source (the coinage by nobles) from 'acceptances' (the medium of exchanges created by the merchants themselves)</u>. In the Middle Ages there had been creators of money (coins) namely the nobility, and accumulators of money, the merchants. While the nobility permanently coinaged money, without thinking about a connection between the amount of coins and the amount of goods, the merchants could permanently accumulate money without running short of money in circulation.
Today feudal coinage by nobility and the clergy is forbidden. So this source of profit is closed. But nobody, not even economists, have realized that profit is not available without increasing debts.]