

WHO REALLY CREATES THE MONEY

It is often said that banks create currency out of thin air. But upon a review of the documents that the typical loan is predicated upon, we will find that the funding is authorized by the recipient of the loan. Remember, the “money” is the promise to repay the loan. That is why the treasury department says that federal reserve notes are backed by the full faith and credit of the United States. The United States tells the central bank to issue the currency and promises to pay off the loan in a certain amount of time. It does this via a treasury note or bond (or so their explanation goes).

Historically, currency was a promise on paper from a bank to pay the bearer of the note the amount of money that the note was issued for. That amount was always stated on the face of the note...and so were the terms.

Today, the currency has taken over the money and even though most of the legal tender currency is now in digital or electronic form, there still remains a document some place with a signature of a person that promises to repay the loan if the bank agrees to loan to them by crediting their account. That promise gives the credit its value.

The credit card is a good typical example of how current “money” is created. The card recipient makes a promise to the card issuer that it will repay the loan. Again, the promise to pay is the “money”. He who makes the promise makes the money...in the debt money system.

Maybe the banks bear some culpability for the economic mess they have steered the world into, but so do those who helped them by purchasing their services.