

Note on Debt and Capital.

Market-originating debt is okay.

Every debt is also someone else's asset. Lending for long-term projects entails more risk than lending for short-term projects, all else being equal. During periods of increased profit expectations, there can be over-lending. But without the chance to borrow, some highly promising—highly productive undertakings would not be possible. If a business needs a better truck that can double its efficiency in distributing its products, the borrowed funds may generate not just interest on the loan, but perhaps several hundred percent on the investment. This will likely increase demand for the product when the price is lowered. It creates the need for more employees and is the principal mechanism that raises real wages across the board. It is the engine that lifts the standard of living. It is capitalism.

But when funds are not from the surplus that occurs after consumption, i.e., not from saving, there is no gain because the new credit is at the expense, in the end, of the rest of the investment economy. False wealth from printing money only erodes the unit value of all of the money holdings until there is no net real increase in funds. Then these loans, in the aggregate, must be diminished by losses from the pullback in available financing, which cannot sustain the expanded capital investments.