2
Costless Money and Costly Credit

The Colonel: I don't read no papers, and I don't listen to radios either. I know the world's been shaved by a drunken barber, and I don't have to read it.
Long John Willoughby: Hey, stop worryin', Colonel, fifty bucks ain't gonna ruin me.
The Colonel: I've seen plenty of fellas start out with fifty bucks and wind up with a *bank* account!
Beany: Hey, what's wrong with a bank account, anyway?
The Colonel: And let me tell you, Long John, when you become a guy with a bank account, they gotcha! Yes sir, they gotcha!
Beany: Who's got him?
The Colonel: The helots!

From the film *Meet John Doe* (1941). Directed by Frank Capra.
Writing credits Richard Connell and Robert Presnell Sr.

Money and debt-creation

Money and its link to debt-creation is not well understood. However, the link is firmly established. By creating money at virtually no cost, charging high real rates of interest on loaned money, and then adding additional 'charges', banks and creditors:

- extract assets from the productive sector in a manner that can fairly be described as parasitic;
- transfer assets from those without, to those with assets;
- make a claim on the future;
- build up exponentially rising levels of debt, which are unlikely to be repaid in full.

A. Pettifor, *The Coming First World Debt Crisis*
© Ann Pettifor 2006

The debt becomes ultimately unpayable because the rate of interest, or the rate of return on this privately created credit, exceeds the rate at which society (broadly Industry and Labour) and the ecosystem can be renewed, can generate *additional* resources, and can repay.

This would be bad enough, but Costly Credit is a crime against society and against nature for another reason: it demands exponential rates of return on an asset, money, which is costless to create. This chapter sets out to explain simply, how costly, debt-creating money is generated by private banks; and how all but short-term interest rates are determined by the private sector.

But first I must acknowledge my own debts. This chapter draws on the work of John Maynard Keynes, and in particular on his monetary policies. I am beholden to Dr Geoff Tily (Tily, 2005) and Professor Victoria Chick (Chick, 1983) for drawing my attention to these policies and helping me unravel some important confusions – not only about Keynesian theory, but also about money; confusions shared by most mainstream economists and repeated in textbooks.

Money defined

Money is all things to all people. It can be made up of beads or shells, coins or notes; cigarettes or sweets; cheques, credit cards or digital information.

It emerged, so the historians and anthropologists tell us, because of the limitations to barter. When women going to market to swap their chickens found there was nothing they fancied to *exchange* for the chickens, business would come to a grinding halt. It then proved useful to invent a metal token, to which both the chicken-farmer and others in the market gave a value. Using this metal token meant that the chicken-farmer, having sold one speckled hen, but failed to exchange a product to show for it, nevertheless came away from market with a token in her pocket. This represented the value of her hen. She could defer her purchase, until, say, a tinker visited the village, offering something she really wanted (like a leather purse) which she could buy with the metal token.

Economists argue that this metal token, or money performs three functions: it acts as a *store of value*; as a *standard of value* (which everyone accepts, e.g. determines that one hen is worth the same as two rabbits); and as a *medium of exchange* – i.e. it helps make an exchange at an exact price.