

## Gold by Alice Roth

### Creating something from nothing

*Some of our readers, hard money enthusiasts, believe you "can't create credit out of nothing." If that was the case, industry would not exist today.*

In my May 6 column, I responded to a letter from a subscriber, Count Sixtus von Plettenberg, in which he proposed that the government regulate the value of money in accordance with a fixed standard. The government should guarantee that the basic monetary unit is always "equivalent to the cost of that fraction of products and services used to compute the monthly 'cost of living index' which one human being needs for one day," he wrote.

I argued that such a monetary standard was unworkable because it assumed the existence of a no-growth, or "equilibrium-state" economy, in which daily living standards never changed. "The only valid measure of a healthy economy is ... an increase in the society's reducing power, its ability to produce higher rates of surplus at relatively lower cost. The purpose of money is to facilitate the circulation and reinvestment of that surplus output. The amount of credit extended will not be excessive as long as it results in the generation of additional tangible output equal to or greater than the debt incurred. The real issue is not: 'How much credit is too much?' but 'how is credit being used?'"

Von Plettenberg responded in a May 13 letter: "I am sorry that here again we have not reached the necessary understanding: the real issue is that those who create credit

out of nothing, i.e. the fractional-reserve bankers instead of intermediating idle money, i.e. savings out of money-in-being—imitate the act of God in that they 'create' something from nothing and on top of it, charge it with self-feeding 'interest,' while God's or Nature's gift of life is 'free'. It is this geometrical growth of parasitical interest which is now destroying the world body's cells like cancer in its terminal stage ... Those of your readers who find *EIR* unique for its singular combination of the philosophical bordering on the religious, with the economic, understand what I mean."

Perhaps without realizing it, von Plettenberg has in those few short lines placed himself squarely in the same camp as the Physiocrats, the 18th century "French" economic school upon which all subsequent British political economy from Adam Smith to Parson Malthus to John Maynard Keynes has been based. The Physiocrats, it will be recalled, argued that only agriculture creates value, because its product is a pure "gift of Nature"; manufacturing is sterile because it entails only human manipulations of what has already been created by Nature. If our ancestors had followed the Physiocrats' prescriptions, the great industrial republics of the U.S. and in Western Europe would never have come into existence.

The fundamental point is this: precisely because humans are not animals, but thinking beings "created in the image of God," we are capable of "creating something out of nothing," altering Nature in accordance with human needs. In fact, because "natural" resources are necessarily finite relative to a given technology, we are forced to "recreate Nature" at increasingly more rapid rates—developing new technologies and resources, such as fusion energy—to avert the extinction of our species.

Credit, when viewed from this standpoint, has nothing to do with *past* values created in the economy, either in their tangible form or in their monetary form as savings. Rather, credit is a claim against future production and future profits, and its proper purpose is to ensure that existing levels of surplus are distributed and reinvested in such a way that greater surpluses are realized in the future. Credit growth may become "cancerous," as the present-day Eurodollar mess attests, but this merely proves that the hegemonic Anglo-American financial institutions have misused credit—not that fractional-reserve banking is inherently evil.

From the standpoint of the isolated individual, it may easily appear that he is somehow being "cheated" by a banking system which creates new credit over and above his deposited savings. After all, in the present financial crisis, it is precisely those savings whose value the hard-pressed individual is struggling so valiantly to protect. Those past savings, however—whether they be in the form of paper or gold—are essentially worthless if the economy in which we all live dies.