Like 'Free Energy,' There Is No Such Thing as 'Free Money'

by John Hoefle

Feb. 6—In this issue we devote considerable attention to debunking the myth of "free energy," pointing out that what appears to be free can be quite costly if it is misused (see *Feature*). The same can be said for money.

The printing of money is not quite free, but the cost is negligible compared to the face value of the bills created. Electronic money is even cheaper, and as Fed chairman Ben Bernanke observed years ago, the government can create unlimited amounts of money at essentially no cost. That is true, but that does not make it free.

The question of cost really revolves around what is done with the money after it is created. The Fed could take all that money and lock it up in some vault, of course, but that would be pointless. The only reason to create the money is to spend it, and that's where the trouble starts.

Perhaps the most well-known example of the danger of free money is Weimar Germany, during 1922 and 1923. Truly prodigious amounts of money were printed during that period, yet the effect was not the creation of wealth, but its destruction. The more money that was printed, the faster it lost its value, leaving the nation in ruins. The lessons of Weimar should serve as a warning to us today.

Money Is Not Wealth

Just because you can take a dollar bill out of your wallet and buy something with it, doesn't mean that the money itself has value. The value is not in the piece of paper itself, but in what it represents. The bill has value only because we believe that it has value; a shopkeeper will take your dollar because he knows the bank will accept it from him. Without that belief, it would be a mere piece of paper. Money is not an object, but an *idea*.

The value comes from somewhere else, and that somewhere is the ability of the physical economy to produce wealth through the transformation of matter, from a lower state to a higher state. For example, take the case of iron ore which, sitting in the ground, is little more than common dirt. If that ore is extracted and smelted, it produces iron, which is far more valuable than the ore. That iron can then be turned into steel, which, in turn, can be machined into tools, and the tools used to build products such as bridges, trains, and spaceships. Each of those products is not only worth more than the materials from which it was created, but it also increases the productive power of society as a whole, amplifying the economic benefit.

To take it a step further: Consider how those transformations depend upon human creativity. That iron ore in the ground was just dirt, until man discovered the existence of the ore and its special qualities. Then, man discovered that the ore could be mixed with other materials, and heated to produce iron; he then discovered that the iron could be processed to make steel. That steel was formed into tools with which to build more complex products, again because of human discoveries.

The real source of value then, is neither the money, nor the raw materials, nor the products produced from them, but the ability of mankind to figure out the nature of the universe, and to intervene to create what had not existed previously. Human creativity is the source of wealth, while money is a mere convenience, a way to exchange wealth created elsewhere.

Thinking Our Way Out

Once this is understood, then the solution to our economic crisis becomes more clear. What we must do is tap into the creativity of our population, to rebuild our productive base, and to rebuild it at higher levels of technology. We must build our way out of this crisis, which means we must *think* our way out.

That requirement, naturally, put the Bush Administration at a distinct disadvantage, and the same can also be said for Wall Street, with its quasi-mystical belief in the power of the manipulation of money. Put simply, neither has a clue about real economics. Fortunately, the Bush Administration is history, and Wall Street has largely become a historical artifact. We have a new administration, willing to consider new approaches.

We see evidence of this willingness in the infrastructure component of the Obama stimulus program—but what has been presented so far is not sufficient to solve the problems we face. What is required, is a national commitment to put the banking system into bankruptcy reorganization, to stop the hemorrhaging, and then, to direct our attention toward rebuilding those elements of our economy which not only produce wealth, but also keep us all alive.

Reversing this disaster-in-progress must become a national mission, and the population must be enlisted to provide the political support to push through programs which are both absolutely necessary, and highly threatening to the global financial oligarchs of the Anglo-Dutch Liberal empire. In this fight there can be no consensus, because saving the nation requires putting the parasites in their place, just as President Franklin Roosevelt did in the 1930s and 1940s. If the parasites are not howling, we're not doing enough.

We must take the unused capacity of the auto industry, the plants, the machine tools, and the skilled workers, and use them as the basis for a national recovery program. We must ramp up as quickly as possible to build new, state-of-the-art nuclear power plants, and rebuild our decrepit national transportation grid with high-speed, maglev rail, and repair and improve our inland waterway system, including our deteriorating locks and dams. We must build the NAWAPA (North American Water and Power Alliance) and PLHINO (North West Hydraulic Plan) water systems to provide sufficient water to our arid West. These projects, and others of a similar nature, are what is required for a genuine stimulus, and a genuine recovery.

Many people know this, but implementing such a program requires a break with the monetary theory which has dominated our thinking in recent decades. It requires courage, on the part of policymakers, politicians, regulators, and citizens, to stand their ground, and defend reason, in the face of irrational demands from those whose delusions are being shattered, including their whores in the press.

Bad Banks

There will be a tendency to seek less dramatic solutions, more acceptable to the financier class which has provided so much in the way of campaign contributions in recent years. The current discussions about government purchases and guarantees of financial assets reflect such a tendency, as does the discussion of so-called "bad banks."

The "bad bank" plan, which is being discussed in Europe and the United States, is, at least nominally, based upon the idea that the assets in the banking system—the mortgage-backed securities, the structured derivatives and such—have value, and that value will return once the temporary liquidity crisis subsides, and the markets return to normal. In such a view, the current crisis is an aberration, and the bubble is the norm. Such a view is, to put it politely, insane.

We said nominally, because the bankers pushing this scheme know damn well that these assets have no value, which is precisely why they are so anxious to sell them to the government. *If the bankers really thought these assets had value, they would be fighting to keep them.*

The financial system is dead, and the masses of speculative assets made possible by the derivatives markets have been revealed to have no value. They are worth no more than casino chips after the casino which issued them has failed. Putting these worthless assets into a bad bank does nothing to solve that problem.

All the bad bank plan, or the purchase/guarantee plans would do, is move the worthless paper from one set of books to another, a cheap accounting trick. The assets would still be worthless, and the economy would still be bankrupt. It's a waste of time.

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