Where does Money Come From?

By Paul Grignon, the creator of "Money as Debt", the animated cartoon seen online by millions worldwide and available on DVD from moneyasdebt.net. This is a condensation of an article that may be downloaded from http://paulgrignon.netfirms.com/MoneyasDebt/Money_or_Credit.pdf

The simple answer to the title question is DEBT. Whether paper cash or numbers on a computer screen, all money (except coins) is "evidence of debt".

What is "cash" and where does it come from? Cash can be the familiar paper stuff, or it can be credit at the national central bank which banks use to settle accounts between banks. "Credit cash" at the central bank is always convertible to "paper cash" upon demand.

So, where does cash come from? Is it just printed by the government as we are shown on TV?

NO. Cash is created *out of thin air* by the central bank of the country (which is often privately owned). The central bank can just have it printed for the cost of printing, by the government or privately. The central bank then uses this cash it creates out of thin air to buy interest-bearing *public debt* in the form of government bonds.

Government debt is perpetual and thus interest paid on it is perpetual. Therefore a good definition of cash might be: *evidence of public debt on which taxpayers will be paying interest forever.*

So what is credit? Everything else that isn't cash.

Take for example your bank account. Your bank account tells you how much cash the bank OWES you *if you demand it*. It isn't cash itself. *All those numbers* in bank accounts are just "promises to pay cash", nothing more than IOUs created by banks. However, we typically think of these bank IOUs, or "checkbook money" as "money".

Little wonder. This checkbook money, especially in electronic form, is much more convenient and secure than paper money. Therefore we can transact all of our business with these *promises to pay cash instead of cash itself.*

So… are there more promises to pay cash than there is cash to fulfill them? You bet. That is because banks usually make what they call "LOANS" by *promising*, rather than *providing*, cash.

With a base of "cash" usually much less than 8% of the total they will "loan", banks create their so-called "loans" as "promises". How? It is astonishingly simple.

You, the so-called borrower, sign a document that promises to pay the bank X amount of money over time plus interest on the outstanding balance. Your promise is backed by the collateral you agree to forfeit and the effort you will expend to earn the money. Your promise to the bank is an ASSET to the bank. To balance its books, the bank creates a matching LIABILITY. The bank *promises* the borrower X amount of "cash" on demand.

The "loan money" that the bank puts in the borrower's account is not "cash". It is an IOU. It need never be cash unless the borrower demands cash. And, because we accept these IOUs as money itself, and do almost all of our business trading these convenient and secure IOUs instead of inconvenient and risky cash, banks can safely issue many more IOU's than there is cash to back them up.

Perhaps the simplest and most "magical" feature of this system is "net" transactions. Only *the net differences* of transactions between banks need to be paid in cash. In theory, if all the banks are getting as much bank credit coming in as is being withdrawn, all the IOUs balance each other out at the end of the day leaving a net difference of *zero.* No cash required at all, from anyone! In practice, banks are competing. Winners can demand losers pay in cash. But that amount is still only a small proportion of the whole amount of credit issued.

The exception to all this is coins. They don't begin as debt. The government Mint stamps them and the government sells them at face value to the banks, no returns. But coins are an *insignificantly small* part of today's money supply.

The significant thing about coins is that most people's understanding of money has not yet developed much beyond *the idea of coins*, simple POSITIVE *tokens of value*.

They fail to see how we have been ensnared by a money system based on NEGATIVE *shackles of debt*. The current system pretends to be "money" but is, in truth, a financial black hole sucking us all in to seemingly inescapable control by our so-called "creditors. The truth we need to see is that WE are the *real creditors*, because it is WE who produce the *real value* in the world, not the banks.