Interest-Bearing Transactions

by

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caveat lector

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> An expanding economy is very dangerous. The faster it expands, the more dangerous it is.
> —Saturday, December 10, 1994
> *Milam's Notes*

I've long believed that interest-bearing transactions ruin an economy. However, the economists have enshrined interest-bearing transactions as being almost sacred. They've presented such transactions as being essential to a growing economy and a growing economy as being essential to our way of life. They've taught people that individuals ought to place their funds into interest-bearing investments, where the funds can "work" for them. With unfortunate but predictable stupidity, people have believed what the economists have told them. That makes it difficult to persuade people that a growing economy isn't necessarily a healthy economy. It makes it difficult to persuade people that the kind of growth that results from interest-bearing transactions is unhealthy growth. It makes it difficult to persuade people that interest-bearing investments don't increase their wealth but only diminish the value of the increasing number of the dollars that they possess.

> Economists, like all pseudoscientific charlatans, know that they can hold onto their high-paying jobs only as long as they can keep the common people convinced that money matters are so mysterious that only economists can understand them. —from *The Way to Dawnworld*
> by Bill Starr

I once attempted to persuade a former friend that interest-bearing transactions are inherently ruinous. He opposed me with an analogy. Consider loans, he said. Paying interest on a loan, he said, isn't any different than renting land. A loan is merely renting money, he said. Paying interest on the rented money, he said, is analogous to paying rent for the rented land. The analogy, of course, is flawed. When funds are borrowed (rented, according to the flawed analogy), payment for the use of the rented funds is made in exactly the same thing that was rented. That is, additional funds are given to the lender as payment for the use of the lender's rented funds. Thus, for the analogy to be accurate, the payment for the rented land must be made in exactly the same thing that was rented. That is, additional land must be given to the landlord to pay for the use of the landlord's rented land. Viewed that way, it's easy to see that it won't work. If land is used to pay for the rental of land, then it's difficult to acquire the land with which to pay the rent. The longer such an arrangement continues, the more difficult the payments will become. Eventually, all available land will be transferred to the ownership of the landlords and further such rentals will be impossible.

> **The Rules of Money** — To be money, a thing must be durable, portable, divisible without loss, available in limited quantity, generally accepted as money, and must have intrinsic value as money. The better a thing satisfies these rules, the better it will work as money. —from *Money*
> by Sam Aurelius Milam III

The supply of real money is limited, by definition. Indeed, anything that's available in unlimited quantity isn't real money, by definition. See my essay *Money*. When an economy uses real money, then the supply of that money is limited just like the supply of land is limited in the corrected analogy that I mentioned above. When real money is used to pay for the rental of real money in a loan, then exactly the same difficulty arises with the interest payments for the rented money as when land is used, in the corrected analogy, to pay for the rental of land. That is, as interest payments continue, it becomes increasingly difficult to obtain real money because more and more of the limited supply of it is transferred to the lenders. Eventually, all available real money will be transferred to the lenders and the payment of interest on further loans of real money will become impossible. The only way to avoid the problem is to continuously increase the supply of real money. However, since the supply of real money is limited, by definition, the amount of it cannot be continuously increased. Thus, if the economy uses real money, it will eventually become impossible to pay interest on loans. Indeed, it will become impossible to do anything that requires real money because all of the available real money will be in the hands of the lenders.

The economists have caused us to believe that the funds in general use in our economy today are the same thing as money. However, the belief is untrue. Rather, the economists have contrived various substitutes for money, such as currency, phoney ledger entries, electronic funds, bank loans that lack substance, and so forth. The Rules of Money assure us that such substitutes aren't real money. The utility of the substitutes for real money is that the supply of those substitutes can be increased without limit. That prevents the transfer of funds to the lenders from causing the depletion of the available funds. Thus, interest-bearing transactions not only provide the excuse for the replacement of money with substitutes for money, they make such replacement absolutely necessary.

> **Gresham's law**.... The theory holding that if two kinds of money in circulation have the same denominational value but different intrinsic values, the money with higher intrinsic value will be hoarded and eventually driven out of circulation by the money with lesser intrinsic value. [After Sir Thomas GRESHAM.] —*The American Heritage Dictionary of the English Language*
> Third Edition

The availability of unlimited funds, in the form of the various substitutes for money, provides a way to pretend that the problems caused by interest-bearing transactions don't exist. That is, the supply of something that is available in unlimited quantity cannot be depleted. Thus, no matter how much of the available funds are transferred into the hands of the lenders, additional funds will always become available. However, as the supply of the substitutes for money increases, the value of each unit of the substitutes decreases. Gresham's Law assures us that, increasingly, the substitutes will drive any lingering real money out of circulation. After that, the economy will function using only the substitutes.

As the value of each unit of the substitutes continues to decrease, we must constantly strive to acquire more and more units of the substitutes, just to avoid a net loss in the value of our funds. Since the decreasing value of each unit of our substitutes causes us to struggle, just to stay even, we will eventually be forced to borrow additional funds. Increased borrowing will reinforce the trend.

It's clear that interest-bearing transactions will destroy any system of real money by making necessary the use of substitutes for the real money and, thereafter, forcing the real money out of circulation. Such interest-bearing transactions will force a continuing increase in the quantity of the substitutes for money and a corresponding decrease in the value of the substitutes. An inevitable consequence of interest-bearing transactions is to create a dependence, in the economy, on an ever-increasing number of additional interest-bearing transactions. The self-amplifying character of the process can justifiably be viewed as a fatal cancer within the economy.

> The most hated sort [of wealth-getting], and with the greatest reason, is usury, which makes a gain out of money itself, and not from the natural object of it. For money was intended to be used in exchange, but not to increase at interest. And this term interest, which means the birth of money from money, is applied to the breeding of money because the offspring resembles the parent. Wherefore of all modes of getting wealth this is the most unnatural.
>
> —Aristotle (384-322 B.C.)

The Federal Reserve System controls the availability of the funds that are used as substitutes for money. The Federal Reserve System controls the interest rates at which those funds are loaned. Those two powers of the Federal Reserve System, by themselves, give to the Federal Reserve System all of the power that it needs to regulate how difficult it is for us to survive. The Federal Reserve System can make our survival sufficiently easy to keep us docile but sufficiently difficult to make sure that we must use all of our energy just struggling to survive. It's an insidious tool of control. It's used to insure that we never escape from a condition of helplessness and servitude.

> Sacrifice might be demanded of the individual, but never compromise: for though only the society can give security and stability, only the individual, the person, has the power of moral choice.
>
> —from *The Dispossessed*, chapter 10
> by Ursula K. LeGuin

We've become so entangled in the system of interest payments that it seems impossible to survive without it. However, I believe that we can. With sufficient sacrifice, we can get out of debt. With sufficient integrity, we can remove our funds from all interest-bearing investments. With sufficient determination, we can deal only in cash. Better yet, we can try to deal only in real money, if we can figure out where the lenders have hidden it and get our hands on some of it.

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