



## Answering Your Questions

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### WHO CREATES MONEY?

To a large extent, there is still much confusion regarding the creation of **MONEY**. Some people still think the government actually creates **MONEY** as if this were ancient times. When I say **MONEY** is no longer **TANGIBLE** but it is **VIRTUAL** many seem to fail to grasp just how much the world has changed. In ancient times, the state minted the coins **AFTER** 600BC attempting to certify the weight to facilitate commerce. However, government quickly learned that there was profit to be made which is known as the “*seigniorage*” referring to the difference between the intrinsic value of the metal and the declared value. In such a world, money supply was predominantly created by the state, discounting leverage from banking and counterfeiting.

Today, that is about as far removed from the way the economy functions as the next inhabitable planet. In the example I used that if a foreign investor buys domestic real estate, he is in fact increasing the domestic money supply. The conversion of his local currency to the domestic currency is **NOT** dictated by some **FIXED** quantity created by the central bank. It is just electronic. Nobody actually prints anything and the central bank does **NOT** create even an electronic currency. It is just a book entry. Because the foreign investor is bringing in cash and buys a **TANGIBLE** object (real estate), the net amount of cash in the domestic supply of money increases the same when the Fed bought US bonds under QE2.

Banking also **LEVERAGES** the economy by creating **MONEY**. If you have \$1,000 on deposit and I borrow \$1,000, we both now have accounts reflecting \$1,000 each. Again, the state did **NOT** create that money. It is once more a book entry. This is how a **BANK PANIC** will take place. You go to the bank trying to get your \$1,000, but the bank actually lent it to me. As long as you do not try to take out that \$1,000, everything is fine and dandy.

Therefore, **MONEY** is not **TANGIBLE** and it is purely **VIRTUAL**! The idea that **MONEY** is supposed to be some **TANGIBLE** object actually ended in 600BC once government got involved and began to manufacture a profit from creating money. As long as the economy is free, then you are free to keep your wealth in whatever object you desire be it gold or real estate. **MONEY** is **NOT** a store of value for it has always fluctuated rising in purchasing power in recessions (NOW) and declining in booms.