The circulation of money

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Few people think about where the money that flows daily through our hands comes from. Many believe that our money is issued from the Central Bank and that it constantly circulates.
In fact, money is created by borrowing and is issued while the borrower pays his bills, but logically disappears by repaying loans.
That might surprise some. Basically nothing is against the creation and disappearance of money. Actually, it would work well, if money, just like the produced and consumed goods, appears and disappears. If that happends we wouldn't have to face most of the recent economic, social and environmental problems, which we are currently facing.
Unfortunately, our money circulation is not in this equilibrium. One reason is the common fundamental wish to earn more than to pay.
Basically, it is neither wrong nor harmful to save. Savings which are not used for later consumption, but only to be able to earn money out of money, disrupt economic circulation. If the whole amount of savings does not return back completely in circulation through taking loans for investment or consumption, then this money is missing as purchasing power. I call this money outflow from the sphere of good exchange profit. This money outflow generates deflation in the sphere of good exchange which I term as "real economy".
This cash outflow leads to sales crises. These sales crises are not necessarily a consequence of overproduction, but that of a lack of purchasing power. This lack of purchasing power is not caused by lack of money, but by bad money distribution. People having more money than they need to satisfy their needs (I call this "money without needs") are mostly opposed by people having "needs without money". While some have more money than they need for consumption or investment, others haver less money than they need to satisfy their needs. As a result of this imbalance goods remain unsold, not because there is no need or no money, but because some of the money is in hands of those who do not need or use it for consumption. Those who require this money to satisfy their needs are lacking it.
The lack of purchasing power in result to the money outflow must be compensated by newly issued money. This requires loans to be borrowed. Money, issued by loans for investments, could replace the money outflow from real economy. But no economy can grow forever. When growth stagnates, new sources of money issuing must be found to replace the cash flow.
Such a source of money is the so-called development aid. Development aid means, we sell our goods to countries which are receiving loans from us. As a result, fresh money flows into our economy, because developing countries becomes our debtors. In addition to providing our economy with fresh money, they pay us interest. So we deserve the double!
If interest put them under pressure and the national bankruptcy emerges, we would need new debtors. At least our own state must be at fault at least. Gouvernment started a deficit budget policy to preserve economy from deflation.
Any new issued money into real economy allows an undisturbed cash outflow. Private assets can grow without falling into sales crises.
Money, which is not used to buy goods or services, flows directly into the financial markets. As a result the financial market grows. This trade aims solely to earn more money with money. Trading on financial markets is a modern form of saving, because this money does not serve its actual destination goods or services to buy. As more money escapes from real economy to financial markets, it cause lack in the purchasing power.
As more money is spent on the financial markets, the faster the price rises. This inflation is desirable, because it promises speculators with increasing profits. The boom attracts even more money to the financial markets, therefore the outflow of money from the real economy is rising. The financial boom is boosted by the fact that banks are beginning to give each other loans. This creates new money only for financial markets. Hence prices can be further increased and the financial bubble is pumped up. A snowball system has emerged. The financial bubble grows until it bursts.

Parallel to this trend, government debt is growing year by year. The money newly created by borrowing from the government flows continuously through the detour of the real economy in to the financial markets. This is why the government must always borrow new loans. If more and more tax receipts are to be spent on interest, the more difficult it will be to borrow new loans. The policy will depend on the credit rating of the government by private rating agencies. But if the government is not constantly indebted, deflation threatens.
The less money through investment, development aid and government debt flows into real economy, the more important the financial markets becomes as a source of money for the real economy. With profits made here, some pensions are paid. Also income of the investment bankers partly flows into the real economy.
Money from financial sector also enters in to economy by buying land and real estate. States or private individuals are increasingly forced to sell property for money. If profits made on the financial market are used to purchase property, then money will flow from the financial economy into the real economy. Private individuals and government are famously exploited in this way. This expropriation takes place with money that was created in the financial economy out of thin air and was earned by speculation. Valuable resources are sold against worthless money because of the lack of money in real economy.
Dispite only a tiny fraction of the money generated and circulated in financial markets flows into the real economy, financial markets are protected by politics. This seems necessary, since real economy lost other sources of money.
This amazing and confusing circulation of money is a result of a confused historical development. A sensible, crisis-free money cycle would be possible. To this end, we must radically rethink and fundamentally change our ideas of what good money is.

To enable a crisis-free economy, we need closed money cycles. In order to make money a working medium of exchange, money must be created and pass away with the appearence and disappearence of commodities at the market . Unlike today, money creation should no longer take place for any other purpose. Money should not be created for investments or for securities trading. Investments can no longer be financed by issuing money, but only through genuine money-lending. That way savings have to be brought back directly into the cycle.
If more money is saved than needed for loans, the interest rate must fall to zero or below. Savings and borrowing (for investments or consumption) have to be balanced that way.
Without cash outflow from real economy we don't need national debts to compensate this outflow and protect economy from deflation.
States can adjust their taxes to its planned expenditure for infrastructure. Infrastructure then includes all expenditure on culture, education and health care and maybe also for local transport, as well as for utility networks for electricity, water, energy, data exchange, etc.
If the tax revenues are always fully spent on the maintenance and expansion of the infrastructure, and savings fully replaced as loans, there can be no lack of money.
Moreover, pensions then can be paid by adapting revenue and expenditure to one another.
What appears fantastic today becomes possible when any cash outflow from the real economy is made impossible. This requires, of course, a comprehensive package of measures.