

How To Cancel Student Loans Legally (And Save The Chinese Economy)

Last year, Joe Biden - or whoever is really running America (into the ground) – promised to forgive a massive amount in student loans. This was a self-serving promise that he knew would be ruled unconstitutional, and which he could blame on the Republicans.

Although this was hyped as forgiveness, it wasn't, rather he was planning to shift the repayment of those loans to the taxpayer. Here is a [list of student loan companies](#). Most are not banks.



Banks are very different from other financial institutions because they do not actually lend money. Yes, you heard that right, banks do not lend money. Here is what actually happens. If a man comes to you and asks you to lend him say \$100 and you agree, you take the money out of your pocket and hand it to him in cash. Alternatively you may make a credit transfer or even give him a cheque. What happens if he doesn't repay you? That's right, that money is gone forever, someone else has it. Now what happens if instead he borrows that money from a bank? The bank may pay him in cash, but if it pays him in credit, here is what actually happens. It opens a

loan account and credits this account with \$100 or whatever sum. The man then draws the money and spends it. The recipient(s) pay that money into their own account(s) and thus \$100 of new money has been created at the stroke of a pen, or today by a blip in cyberspace. This is important – the bank has not taken money from another account, or from fixed assets, the new money has been created *ex nihilo*.

If the man repays the loan, as the money returns to his loan account, it is cancelled out of existence – every loan creates money, every repayment destroys money. The bank's profit is the interest on the loan plus any arrangement fees.

Although the great Major Douglas [proved this a century ago](#), until the turn of the Millennium this incontrovertible fact was little known, was ignored, or even laughed at, but with the rise of the Internet, and especially YouTube, the genie is now out of the bottle. That being said, there is at least one so-called socialist party in Britain that denies this reality, and socialist parties everywhere have absolutely nothing to say about the process unless it is to dismiss it as some sort of conspiracy theory.

So if banks can simply create money out of thin air, why do some go bust? It is true that a run on a bank can result in it going down; a run is when many customers try to draw out their money in cash and the bank is unable to cope. As cash is used less and less, this becomes less likely. Sound banking practice and banking regulations forbid banks from simply creating credit on a whim, otherwise hyper-inflation would result, but central banks – the Federal Reserve in the USA and the Bank Of England in the UK – *can* do this more or less on a whim. Usually they use a practice known as quantitative easing, which is printing money electronically although there is a bit more to it, as explained [here](#).

Now, returning to those student loans, what if instead of shifting the burden or repayment to the taxpayer, the outstanding debt were simply to be cancelled out of existence, would the sky fall?

That is what some people would have us believe, but in this connection we should remember that classic statement by Milton Friedman: All debts are paid. Normally, governments and their shells would have us believe all debts must be paid by us – the taxpayer, the ratepayer, the little people...The simple fact though is that they can be cancelled – ie the lender, or in the case of the bank, the credit creator, simply writes off the amount, and the sky will not fall.

What is often forgotten is that there is more debt in the world than money, so all these debts cannot be paid.

Banks, companies and individuals write off debts regularly. If a hotel guest runs up a bill of \$1,000 then leaves town without paying, has the hotel really lost \$1,000?

Here is a [recent example](#) of a massive debt cancellation. But isn't the man responsible for it supposed to be the second coming of Adolf Hitler?

China has a massive internal debt that is crippling its people; it should simply cancel most of this debt and allow the LGFVs to take the hit rather than the people. Again, would the sky fall? Obviously not.

The bigger picture is that the entire world needs to move away from a debt-based financial system. Thirty years ago, John Tomlinson published a book that explains what needs to be done. It is called *Honest Money* – something that no country has at the moment, even Islamic nations where usury is theoretically prohibited.

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