

Money Printing Disease

Author Stephen Marchant December 2022

The Barons

Imagine a baron in medieval times with 1000 inhabitants. He would have shared out the farmland taking 10% (tithing) of the produce. He would create hundreds courts (every hundred inhabitants) to dispense his justice and he would live comfortably from the tithing which would maintain his castle and pay for the dispensation of justice with a small number of soldiers. He would issue money in the form of coin from precious metals on his territory which could be used for transactions.

All would be fine unless there was a failed harvest with insufficient food storage, or there was a war he waged to gain territory and resources or he was profligate (e.g. had too many servants to keep). He would try and increase the tithing say from 10% to 15% but met with revolt where inhabitants were hiding produce and/or their money. It would be a downward spiral and he would resort to debasing the coinage to create more money to maintain his lifestyle or to fight a war. There are now more coins chasing less produce so inflation rises for both the cost of food heat and hiring of servants or soldiers to fight wars. Inflation spirals with evermore debasement and eventually facing starvation the peasants find a leader (e.g. a Robin Hood) to lead a revolt.

In this modern period there is as yet no Robin Hood to lead a revolt but that is only a matter of time.

Contemporary Problem

The chaos of this modern era is all too apparent. Speaking from a UK perspective we see a decline in public service and much of our infrastructure and public assets sold for profit rather than being there as a public utility. As a local councillor I witnessed social housing, public toilets, libraries, working harbours and recreational spaces being sold off as part of political dogma of the Reagan/Thatcher era. The initial sugar rush of sales receipts was used to bolster council coffers whilst central Govt reduced its funding. This has continued with Town Clerks now replaced by a CEO (Chief Executive Officer) and department manager roles replaced with Directors mimicking their private sector counterparts. Even Councillors have become salaried rather than receiving modest allowances to cover and attendance.

During this same period of globalisation capital controls were removed and credit controls relaxed to drive consumer spending. Fractional Reserve banking allowed debt to spiral whilst Govt accounts were flattered with increased GDP and tax receipts. But inevitably busts followed booms in debt fuelled consumption until the biggest in 2007/8. The banks were bailed out to prevent a collapse of the private banking system but this led to further central bank money printing to maintain low interest rates and drive the financial economy and to allow debt driven consumption to continue.

We now have reached the point where wealth has been polarised between those who have benefited from this artificially cheap capital and those who are relying on earnings from employment doing useful work. The UK Govt now wants workers to suffer real terms cuts to their wages when the real culprits are those who have gained wealth through money printing and therefore cheap capital. Whether they be CEOs earning huge salaries and even bigger bonuses through share buy backs or fat cat sinecures on the public payroll there are too many profiting on the backs of those who keep the lights on. Much of the wealth has been drained free of tax to havens like Monaco rather than sharing the cost of maintaining public services.

Money printing since the dollar came off the gold peg in 1971 has allowed Govts and indirectly the private banking sector to steal wealth from those who have earned it honestly. We all need banks in a modern economy but when their solvency rules allow them to create multiples of actual deposits to the point where the debt they create drives global financial gambling and consumption rather than balanced productive investment they put society at risk. Without capital controls these banks care not for the nation state but serve a global elite rather than the nation in which they are based.

From a global perspective we have witnessed a huge growth in [Population](#) which correlates with the growth in global debt. Climate change whichever side of the argument you are on is driven by population growth and hence the debt that has been fuelled by money printing. This debt is now leading to [Conflict](#) as the dollar centred Western economies rub up against the Russia/China block and India that are at the centre of an Asian pivot away from dollar control. These blocks are jostling for control of resources and this is leading to peripheral flare ups of conflict.

The Fed and other central banks are belatedly applying the brakes by raising interest rates and pausing money printing but it is too little too late and the cost of living is bearing down on those with modest earnings and not eligible for benefits (i.e, Govt handouts). Refer [Benefits The New Tax](#) which gives an example of the UK benefit trap. This is dragging yet more down to the lower common denominator and further polarising society.

There will always be rich and poor but when we have the disease of money printing we wreak moral hazard on our societies. If we return to a gold standard or similar corset on money creation Govts would not be able to wage wars and waste money without raising it through taxation. Private banks would not be able to rely on central bank money printing and would therefore keep larger reserves. I know this would constrain growth and require higher rates of tax and even wealth taxes but this will be far more sustainable and lessen the moral hazard that is the disease of money printing. I liken it to an addict going 'cold turkey' but if Govts do not return to sound money the debt, wars and corruption will lead to complete chaos and societal breakdown as we approach a neo feudal system.