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EDITORIAL

MONEY: Myth, Alchemy & Rip-offs

MILLIONS of jobs are being sacrificed by governments which claim they have a duty to "fight inflation." Their righteousness is spurious, their policies designed to mislead, and the electorate - the people who are deceived - pay the price.

Nowhere is the con being more blatantly employed to cover up culpability than in Britain, where Prime Minister John Major justifies his economic strategy in terms of the need to banish inflation "once and for all."

Money is a construct of our collective imagination: bits of paper, with no intrinsic value. To increase the efficiency by which we create wealth, we facilitate trade by using tokens - "money". Those tokens represent a claim on the goods or services produced by others. Ordinary folk earn theirs by delivering services to customers.

Dishonest governments that spend money without taxing voters, however, have the power to create worthless money - tokens that do NOT represent goods or services in the process of creation. Result: inflation. Inflation is a purely monetary phenomenon - a general rise in all prices as a result of the rapid expansion of the money in circulation. If the supply of money is doubled overnight, prices double as well. Who controls the money supply? Generally, governments. So who is responsible for inflation? Governments.

To obscure their responsibility, politicians pretend that inflation is something "real." It must be real - mustn't it? - because we are all called upon to fight this evil, banish it forever from the kingdom. The British government says: "We have to defeat inflation once and for all." Inflation can never be defeated "once and for all," because it can be generated at any time by those who control the printing presses.

Don't blame "inflation," the presence of which successfully exposes serious flaws in society. In the market economies, the cynical manipulation of the money supply bears witness to imperfections in the institutions of democracy. The most acute levels of inflation occur when a social system is under terminal threat - as in the USSR under Mikhail Gorbachev, after 1985 - and politicians try to maintain stability by pumping out bank notes. Latin American tyrants use inflation as one of their weapons of containment.

But it is not only the politician who misuses money. When people borrow money without any intention of increasing tradeable wealth, they disrupt production. The most notable example is when they purchase land. Power over land is the power to extract income from current and future production without adding anything to wealth. Neat: the nearest thing to alchemy, but the price for this trick is large scale unemployment.

So what is no more than a state of mind (money), an ingenious invention designed to ease the pain of producing our daily bread, is transformed by some into a malevolent power. Ultimately, of course, the problem is not money, per se, but rather our willingness to allow some people to manipulate the rest of us.