

Financial Markets and the Wealth of Nations

CEQLS, Bratislava, 13 October 2016
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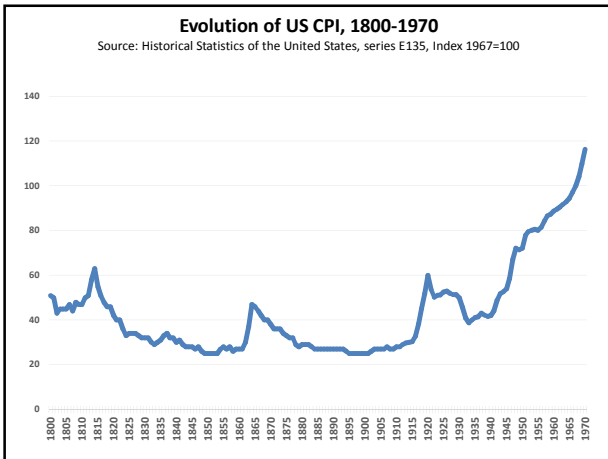
Plan

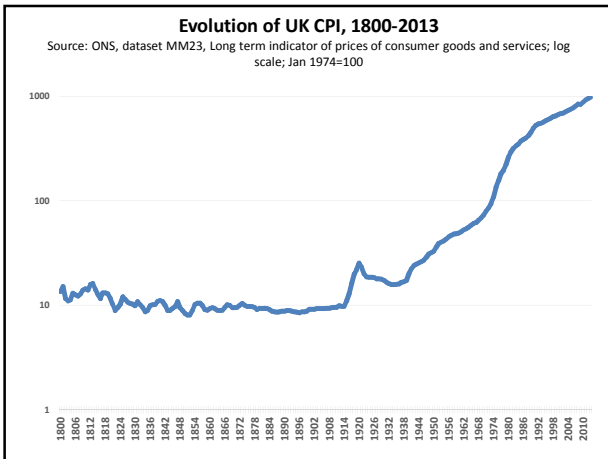
Analysis of the market economy . . .

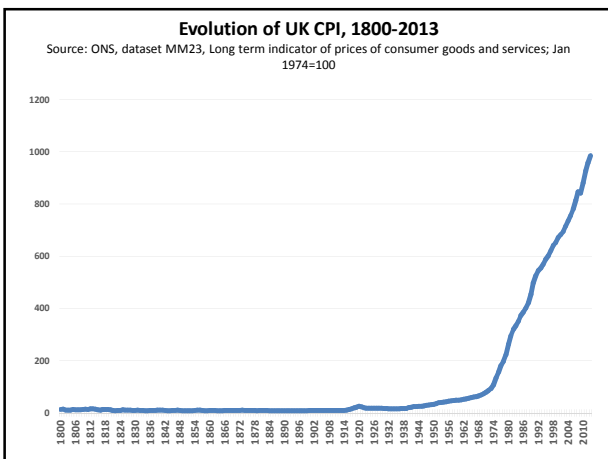
- 1) without financial markets and without monetary interventionism
- 2) with financial markets and without monetary interventionism
- 3) with financial markets and with monetary interventionism

. . . without financial markets and without monetary interventionism

Growth implies price-deflationary tendencies . . .







... without financial markets and without monetary interventionism

Growth implies price-deflationary tendencies . . .

- . . . also for durable consumers' goods . . .
- . . . and for fixed capital goods . . .
- . . . and even for capital !

So why would anyone in such an economy save and invest at all?

- Savings: everyone would still prepare his own future consumption
- Capital investments: the monetary return on capital might outweigh the loss of capital
- Capital investments: even capital is likely to increase in *real* terms . . .
- . . . and thus capitalists would have an incentive to save in excess of their personal needs

... without financial markets and without monetary interventionism

Implications for the real economy

- Consumer spending discouraged . . .
- . . . even spending on durable consumers' goods . . .
- . . . but not on fixed capital goods.
- Hoarding encouraged

Would this be bad for the real economy?

- Consumer spending drives the structure of consumers' goods . . .
- . . . but not the level of consumer-goods production
- Money hoarding finances other people . . .
- . . . and thus no monetary savings, whatever their form, are withheld from the market

... with financial markets and without monetary interventionism

Definition: financial market

Impact on the price level

- . . . and also for durable consumers' goods . . .
- . . . and also for fixed capital goods . . .
- . . . and for capital, too, . . .
- . . . and also for financial assets

So why would anyone in such an economy save and invest at all?

- For the same reasons discussed before

... with financial markets and without monetary interventionism

Implications for the real economy

- Consumer spending still discouraged . . .
- . . . just as spending on durable consumers' goods.
- Less hoarding than without financial markets . . .
- . . . **but a tendency for the overall savings rate to increase.**
- **Financial division of labour / specialised savers**
- **More competition**
- Consumptive uses of credits might eat away some of the savings . . .
 - Consumers' credits
 - Public debt
- . . . but such uses are discouraged in a price-deflationary environment.

... with financial markets and with monetary interventionism

Definition: monetary interventionism

- Repressive
- Permissive
- Banking-style inflation

Impact on the price level

. . . and also for durable consumers' goods . . .
 . . . and also for fixed capital goods . . .
 . . . and for capital, too, . . .
 . . . and also for financial assets

... with financial markets and with monetary interventionism

Implications for the real economy

- Consumer spending is now encouraged . . .
- . . . just as spending on durable consumers' goods.
- Hoarding becomes suicidal . . .
- . . . investments can be made with credit out of thin air . . .
- . . . and thus the incentives to save diminish.
- The consumptive uses of credits are greatly encouraged . . .
 - Consumers' credits, mortgage loans
 - Public debt
- . . . and thus diminishes the share available for productive uses.

... with financial markets and with monetary interventionism

Other notable implications

- Relentless growth of the credit market
 - supply of credits: money creation and flight from hoarding
 - demand for credits: leveraging current spending
- More resources are being drawn into the financial (credit) sector . . .
- . . . with adverse overall consequences.
- Debt finance replaces equity finance . . .
 - thanks to central banks acting as problems solvers of last resort
- . . . and makes the economy more fragile, thus more dependent, and more centralised.
- Government control of wealth is greatly facilitated.
- Ex nihilo money creation entails a massive redistribution of incomes . . .
- . . . and of wealth.

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Conclusion

NB: The problem is monetary interventionism per se, not any particular sort of “monetary policy”.

What should be done?

- Financial reforms without genuine monetary reform?
- Genuine monetary reform: currency competition
- Silver standards, gold standards

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