

Section 4. Expansive prosthetics funded with state fiat money creation

“Overt” and “Covert” Monetary Financing

There are two different ways to fund prosthetics with state fiat money creation. The first one operates without public debt and without central bank debt holdings. Its proponents call it “*overt monetary financing*” (“OMF”). The second way is the presently dominating practice of funding prosthetics by states issuing public debt and central banks purchasing this debt with newly created fiat money and holding it on their balance sheets. The latter, more conventional way is known as “Quantitative Easing”, “QE” or “central banks’ asset purchases”. The purchased assets are predominantly sovereign debt. But central banks also purchase educational debt, credit card debt, housing debt, corporate debt or other private debt. “Overt monetary financing” presents itself as the more honest and more rational form to do what is being done anyhow and what is believed to have to be done, without alternative: money creation. This self-baptizing implies that the alternative, the conventional practice, should, consequentially, be called “*Covert Monetary Financing*” (CMF), which the adherents of the conventional practice will obviously not like. Ultimately, the naming-issue is irrelevant, but only the two options of funding prosthetics through state fiat money creation, either in conjunction with debt and central bank debt holdings or without debt and without central bank debt holdings – seem to exist.

The legality and legitimacy of both, “covert” and “overt”, monetary financing is disputed. Fundamental, classic-liberal or libertarian opponents of state fiat money creation for monetary state financing reject it as morally, politically, and/or economically illegitimate. Their main argument is that if the substitution of commodity money (with remaining value-in-exchange if demonetized) by state fiat money (without remaining value-in-exchange if demonetized) is at all acceptable (because of its practical advantages), it would be a corrupt abuse of state fiat money to create it to selectively redistribute wealth.³⁶ The Germans, in particular, were horrified by the experience of German and Austrian inflation in 1923, which came very close to a general “euthanasia of the creditors”. This inflation and the consecutive currency reform, in fact, economically annihilated the greatest part of the traditional German or Austrian political elites, which had been the backbone of the

36 In Germany, this is called “Ordnungspolitik”, literally “order policies”. The idea concerns the maintenance of abstract rules or of an order that enables a proper and “pure” operation of capitalism in a liberal, non-interventionist sense. It does not exclude social policies in general, but sets limits to them and, in particular, disallows infringement of a holy inner space of such structures. I do not know of a similar term in other languages. The trick of the term “Ordnungspolitik” is to coin as an active state policy that which, in fact, consists in a declaration of some sort of Wu Wei, i.e., of no-go-zones for the state.

“Kaiserreich” – and this annihilation surely contributed to paving the way for the Nazis.³⁷ In the forty years that followed World War II, the German “Bundesbank” was extremely conscient of this lesson and consistently supported a strong German currency, the Deutsche Mark; probably for this reason, the German Bundesbank had better approval rates than all German governments. Furthermore, the main German political parties only (ultimately univocally) convinced the Germans to acquiesce to the Euro-introduction with the (as we can now see: false) promise that the new European central bank would be as independent, unpolitical and supportive of a strong Euro as the German Bundesbank had. After that expectation was visibly disappointed, no surprise, conservative Germans brought numerous lawsuits to the German Constitutional Court to declare the European Central Bank’s debt buying programs unconstitutional. The German Constitutional Court, indeed, expressed significant concerns about this matter several times and even called for a conditional halt to the European Central Bank’s bond buying programs in a ruling of 5 May 2020.³⁸

It was also widely held in economic theory that central banks’ purchases, at least in “primary markets”, hence central banks directly making loans to states, is dangerous and should be omitted. Still many economists today consider it as inadvisable for central banks to transfer *newly* created state fiat money as “overt monetary financing” to states and jurists argue that central banks’ purchases in “primary markets” and “overt monetary financing” would be illegal in the Eurozone under Article 123 TFEU (which restates the consensus prior to the Euro-introduction).³⁹ Others argue that Article 123 TFEU at least does not prohibit asset purchases in “secondary

37 Polanyi (1944) page 24: “...the expropriation of the *rentier class*, which followed in its wake [of the German inflation, G.W.] laid the foundation for the Nazi revolution... the intellectual middle class was literally pauperized” (page 24, 25). As Niall Ferguson writes: “The hyperinflation could not wipe out Germany’s external debt, which had been fixed in pre-war currency. But it could and did wipe out all the internal debt that had been accumulated during and after the war, levelling the debt mountain like some devastating earthquake... This amounted to a great levelling since it affected primarily the upper middle classes, *rentiers*, senior civil servants, professionals.” (Ferguson (2008) page 106 et seq.)

38 2 BvR 859/15, 2 BvR 980/16, 2 BvR 2006/15, 2 BvR 1651/15. That decision was quickly sidestepped by the German government and the large majority of the German Bundestag by simply declaring that the requirements of the constitutional court had now been fulfilled by the European central bank, clearly showing the court the limits of its power.

39 Article 123 TFEU Sec. 1: “Overdraft facilities or any other type of credit facility with the European Central Bank or with the central banks of the Member States ... in favour of Union institutions, bodies, offices or agencies, central governments, regional, local or other public authorities, other bodies governed by public law, or public undertakings of Member States shall be prohibited, *as shall the purchase directly from them by the European Central Bank or national central banks of debt instruments.*” (italics added).

markets”, in particular, if they are made with the declared intent of an exit thereafter, hence, along the lines of the former “open market policies”. We will leave the constitutional and political battles as they stand, yet having to note that from a sober perspective there is no real macroeconomic difference between central banks’ asset purchases in “secondary markets”, purchases in “primary markets” or “overt monetary financing” without involving debt.⁴⁰

“Overt monetary financing”, State fiat money creation without debt and without central bank debt holdings

Of the two options, funding prosthetics without public debt and central bank debt holdings, “overt monetary financing”, is the purest, most naked, most radical, most utopian, and most technocrat version of funding prosthetics with state fiat money creation. We shall first look at it in more detail for this reason.

The view that debt is equal with money or is always connected to money and money creation has become the favorite view of many non-mainstream-economists. Yet, this view is flawed: Assume that a Spanish convoy of ships returns from Potosí, via Havana, to Sevilla or Cadiz, in the 17th century. The ship is filled with silver. The Spanish king will be at the port, might say a few words, praise God, the seamen, and himself, make a sweeping gesture and have his share of the loot carried to his vaults. He will get some coins embossed (some were already embossed in Potosí), will begin spending the new commodity money – and will wait for the next convoy. *There is no debt involved.* If he at all book the occurrence, he will book the silver as a new asset on the assets side and will raise his equity as a counter entry (debit: silver stock, credit: equity or earnings).

Centuries later, if in a fiat money regime, a state treasury has received a truck load of new monnaie papier from its printing-press, how will it book this? Not much speaks against applying the same procedure of the Spanish king. As the new *monnaie papier* has value-in-exchange – the state can pay suppliers and state functionaries

40 *Martin Wolf* also writes in the Financial Times of 7 April 2020: “Central banks must do what it takes. This means monetary financing of governments. Central banks pretend that what they are doing is reversible and so is not monetary financing. If that helps them act, that is fine, even if it is probably untrue”. The substantial identity of “outright monetary financing” and central banks purchasing sovereign debt in secondary markets is also quite clear in *Adair Turner’s* discussion of the case of Japan. “That debt [of Japan to the Bank of Japan, G.W.] could be written off and replaced on the asset side of the bank of Japan’s balance sheet with an accounting entry – a perpetual non-interest-bearing owed from the government to the bank”. “The immediate impact of this [of a write-off of government debt of Japan to the Bank of Japan, G.W.] would be nil, since the interest, which the government currently receives from the bank is currently returned as a dividend by the bank to the government as the bank’s owner.” (*Turner* (2016) page 229).

with it, who, in turn, can pay taxes and their creditors with it – and as the *monnaie papier* is certainly owned by the state, it can be shown as an asset on the assets side of the balance sheet. If we abstract from the costs of paper, printing, and transport, as little is debt creation involved as when the Spanish king received his gold or silver delivery. Nothing would change if the money were to arrive as an entry on credit accounts, be it with a central bank or with private banks,⁴¹ or as digital money. The proper counter entry would be “capital”, or “revenues from fiat money creation” in a profit and loss statement. In summary, whether a miner has found gold, an alchemist has produced gold, a robber has robbed gold, or a financial alchemist has created fiat money, this will increase the recipient’s wealth or equity, but will normally *not* involve debt.

If the state uses the arriving money, then this will lead to an expense. If the state has helicopters drop *monnaie papier* over football stadiums, if it stuffs bills into cash machines where withdrawals can be made for free, or makes transfers to bank accounts of citizens, e.g., as a monthly basic salary,⁴² then this is an expense to the state, which reduces its capital. In profit and loss statements, it may, e.g., be booked as “expenses for social transfers”.

There is no technical or mechanical economic reason why states should not orient their fiat money creation system in this direction. As we said, states could even compete with their central bank in fiat money creation or revoke the fiat money creation power, which they delegated to the central bank, and reassign it to sub-departments of their finance ministry. Many different combinations are possible depending on political circumstances. One path to general “overt monetary financing” could be for central banks, upon request of the state, to create fiat money and to purchase the existing sovereign debt from private bond holders and to waive the payment claims against the state, which it conveys. States would, thus, enjoy a grand ultimate debt-forgiveness and could, from there on, procure the money, which they

41 The account holder, of course, has a claim to the bank that he has his account with, but that is only a transitory technical debt resulting from the fact that money is held as book money, not the type of debt meant by the adherents of a money-debt-connection. This can be seen if the account holder has his credit paid out to him. He has the cash and nowhere is there any debt left.

42 The state can also annihilate existing debt in favor of private parties. It can, for instance, go through a list of debtors of educational debt, credit card debt or housing debt and selectively annihilate this debt by paying state fiat money some of the respective creditors. This can be done following the social impulse, e.g., to release those debtors of US-educational debt who did not make partner in a Wall Street investment bank or following the macroeconomic impulse to generate new productive spending (instead of sterile debt service), first by freeing existing income for the purpose, second by enabling new debt build-up.

need in excess of their income from taxes etc., by “overt monetary financing” alone – without new debt issues.

There is a notable backside to this. The burial of sovereign debt would also bury the sovereign debt market for the respective currency – image it would happen to US-treasuries – and be like an earthquake in sterile wealth markets in general. With the lack of tradable objects, Sovereign debt markets would cease to exist. As a result, the private money creation gland, private bank credit money creation, would shrink drastically, as private banks would lose a main debt customer. High income-accustomed traders in sovereign debt markets, the sovereign debt sub-departments in the fixed income departments of investment firms, and sovereign debt investment advisers would lose their jobs. For the lowered relevance of private bank credit money creation, the staff in private bank watchdogs could be significantly reduced. Moreover, 90 percent of the employees in central banks and in finance ministries, which had been were involved in sovereign debt issues and the administration of interest and debt payments or in sovereign debt purchases and collections of debt service, could be dismissed.⁴³ If finance ministers, thereafter, find out as part of their budget and tax planning that they need additional money, as they are sure to, they will simply determine the amount and make a proposal to the cabinet. The cabinet will pass a resolution that may be published in the Federal Gazette or some such, and the central bank (if it at all still exists and has not been swallowed by the state) will transfer the amount of money required to an account of the state. From there on out, it will be business as usual, money may flow opulently, without debt creation.

Some authors, e.g., *Adair Turner*, who have critically and sensibly analyzed the macroeconomic and monetary situation of the leading capitalist states, in fact, stress advantages, which “overt monetary financing” is supposed to have over essentially the same thing being done “covertly”.⁴⁴ First, they ask – with reference to rationalist tradition – is it not always more rational and intelligent to deal openly with a problem than concealing what is being done, in particular as this tends to also conceal the dangers and risks involved? Did speaking openly about sex not help to prevent the spread of AIDS? Second, if monetary financing is rightly judged

43 The question obviously arises concerning where the billions of money that used to populate the markets for sovereign debt of the respective state would go. We pursue the new practice of money creation further before we go to this important point.

44 The selection of the term “overt monetary financing” was a smart tactical move by its proponents. It implies that monetary financing takes place anyhow (which is correct) and, thus, already by its name belies the official view that there is presently *no* monetary state financing. This forces opponents of overt monetary finance to either also object to the long-established conventional practices (of “quantitative easing” etc.) or to explain where the differences are supposed to be (which is very difficult). It also reframes the debate into: “What we already do (and have to do!), given ideals of honesty and transparency, should it not be done in an open and better way?”

to be dangerous but if there is still consensus that it has to happen, then should it not better be taken away from private banks, who have a financial interest in overusing it to make profits, and be entrusted to the state? Do we not generally take dangerous activities, such as running armies, the police, the certification of drugs and atomic plants etc. away from private entities and assign them to the state? Third, “nationalizing” dangerous money creation via state fiat money (while scaling down private fractional bank money creation) would allow states to better steer the direction and volume of money creation. The collateral damage of private money creation, e.g., in the busts after artificial booms in sterile wealth markets, could be neutralized.⁴⁵ Fourth, could not “overt monetary financing” be an exceptional tool to annihilate excessive old sovereign debt, e.g., following a pandemic or war etc., and thereby support future traditional “covert monetary financing”, i.e., new traditional debt issues, after a clean-up of states’ balance sheets? The deletion of sovereign debt from states’ balance sheets would make states more eligible to take on new debt in the future again, would it not? “Overt monetary financing” and “covert monetary financing” could, thus, instead of being mutually exclusive, become a complementary system. For instance, “overt monetary financing” might require a constitutional political majority etc. – politicians will probably like this idea. Fifth, we have already touched upon the fact that covert monetary financing by central bank debt purchases requires many transactions between huge bureaucracies with significant costs, which can be spared. Moreover, states could spare the revenues that private banks and their consultants draw from the issuance of bonds and, possibly again, when the bonds are purchased by the central banks. One can see this as a foregone opportunity to keep that money in the public sector.⁴⁶ Finally, states and central banks could get rid of the intellectual embarrassment of pretending that what is obviously essentially the same – “covert” and “overt monetary financing” – is not the same. OMF could make states and politics honest again.

The arguments for “overt monetary financing” are, thus, quite plausible as such. If this is so, why did states and central banks not embrace them long ago? A pragmatic answer might be: The present covert practice still functions well, and there is no strong case why “overt monetary financing” should function so much better.⁴⁷ There is, hence, no need to rush into a switch, which remains available in the future

45 See Turner (2016) page 3, 218, 232, 239, 250. The line of argument resembles the Chicago Plan.

46 The pro-OMF argument puts emphasis on this. But it is also possible that states see the flow to private banks and consultants (who are often banks as well) as an advantage. By enriching banks, states stabilize the central bank-private banks-tandem-relationship.

47 In particular, as, by announcing that they *will* purchase new issues of bonds, they can already today initiate new private fractional reserve credit money creation if they feel that new prosthetics need to be funded. Why alter anything as long as it works?

anyhow. For the time being, states and central banks may also consider it as favorable to stay in the “cover” of a Byzantine hullabaloo, which plays to the illusion that they are still operating in the framework of conventional “open market operations”. This can de-thematize the movement of central banks into uncharted and novel terrains and maintain trust. Yet, as we shall see when we consider the dilemmas of funding prosthetics with state fiat money creation, states may have even stronger reasons to remain skeptical about “overt monetary financing”.

“Covert monetary financing”, State fiat money creation with debt and central bank debt holdings

As we have seen, “open market operations” had never really functioned in the way they were officially explained to function. They did not stimulate firms significantly to invest more in the productive economy through lower interest rates. The alleged sophisticated transmission belts – lower rates were supposed to bring about increased profitability of investments and higher business values – did not work. Yet, the mistaken sophisticated explanation hid simpler, more banal and crude mechanics that did.⁴⁸ Debt purchases returned cash for new debt issues to investors and liquid debt market raised their willingness to hold more debt. Furthermore, falling interest rates facilitated taking out loans by private borrowers as they became more

48 It is not all that uncommon for social institutions' official legitimation to be “half wrong”. I found the same result in my dissertation on criminal law. The “true” social function of criminal law is to sharpen and to strengthen social values and ideologies by re-expressing them and by re-elevating them through a monopoly to scandalously inflict violent damage to he who disrespected them. A fitting official legitimation of punishment – since the ascent of the state – was thus to measure punishment by the evil will which was expressed in the committed deed; a sort of an educated and emotion-free revenge by the state, which was targeted at the general values, which the state wanted society to hold, substituted the prior emotional and hateful revenge of the family of the victim, which targeted family values or an archaic order of custom. That justifying ideology ran into problems in the Enlightenment as an admittedly backwards-oriented practice (*Malum passionis propter malum actionis*) did not fit in a world of future-oriented social engineering. The enlightened punishment, thus, had to be based on its (alleged) future effects on the individual or on society. The modern, rational purposes of punishment, which are deterrence, incapacitation or betterment of the “patient criminal” arose from here. However, nowhere were they, in fact, allowed to fully displace the punishment of the evil will – as that would have threatened what society truly continuously wants punishment to achieve. As a result, social institutions or practices that “get the job done” (in the view of the ruling powers) tend to survive, even if ruptures in the official legitimizing facade become visible. In that sense, “open market operations” and talk about lowering interest rates and rising asset prices may remain the official story, while in truth the really workable effect is procuring money to productive spenders. On criminal law see *Wächter* (1987).

affordable and supported private bank credit money creation.⁴⁹ This way, open markets operations helped to further prosthetic employment-generating spending and to mitigate the modern master drama – even under conditions of primary fractional reserves bank credit money creation. Banks and wealth owners were ready to give more loans as they could rely on getting rid of them quickly and at decent terms.⁵⁰

While states could live well with this situation, a problem arose at the other side of the market. As the crisis of 2008 taught, wealth owners' willingness to absorb certain private debts, which were a large component of aggregate private debt, – “US-subprime private debt” – had been overstretched at some point. Similarly, as the European sovereign debt crisis of 2010 taught that wealth owners' willingness to absorb a certain type of sovereign debt – “European subprime sovereign debt” so to speak – had also been overstretched, at least at given interest rates or yields.

When the crisis hit – long before the head of the ECB *Mario Draghi*, in masculine warrior-tones, committed to “do what it takes” to save the Euro, the governments, not the central banks, had to act. States actually *love* emergencies and to unleash drastic political and legal measures. Within days they promised to provide loans to “system-critical” banks and other, mainly financial, firms and institutions, and soon actually provided government money in the form of loans as first emergency measure. This was necessary to save them from illiquidity as some of them could no longer finance their daily payment obligations. Such rapid loans would, though, only solve liquidity concerns, but could not, ultimately, improve the balance sheets and solvency of the banks and financial institutions. Equity-injections were required too. Yet, as there were limits to the readiness of states to make presents to private firms and as, according to – unfortunately still liberal – corporate laws, shareholders have to decide themselves whether they accept equity contributions and in exchange against how many shares, “shareholders democracy” came obstructively into play here. Yet, there was no time for observing the petty procedures of corporate laws or for a long-winded negotiation of deals. (Typically, an agreement would have been necessary by how much the stated capital of the affected corporations had to be reduced, and then increased again, and under what conditions, which mostly requires

49 Lower rates helped states, too, to build up debt. Yet, the obligation to pay interest only seriously burdens state budgets if the debt is still mostly privately held. As seen, the higher the percentage of sovereign debt, which is held by central banks, which return their profits to states, the less the nominal amount of interest rates matters.

50 Polanyi already wrote: “The integrating power of monetary policies surpassed by far that of the other kinds of protectionism...What the businessman, the organized worker, the housewife pondered, what the farmer who was planning his crop, the parents who were weighing their children's chances, the lovers who were waiting to get married, revolved in their minds when considering the favor of the times, was more directly determined by the monetary policy of the central bank than by any other single factor” (*Polanyi* (1944) page 214).

the consent of 75 percent of the shareholders.) Thus, the legislative dashed in in executive style and laws, which were made in a great hurry, allowed government buy-ins into “system critical” corporations *outside of normal corporate and capital market laws* and *even against the will of the majority of existing shareholders*. The emergency laws were arch-capitalist in their purposes, but commando-socialist, if not bolshevist, in their methods. They disregarded not only shareholder democracy but also the holy idea of property behind it (shareholder democracy is ultimately only *how* the owners manage their joint ownership). The emergency-commando-politics also – surprisingly? – disclosed consensus among the political elites of the leading capitalist countries, from the left to the right, that they did not at all trust the self-regulation of markets, which most of them normally so much praise. In a crisis, it appeared, that everybody was ready to give his Sunday-speeches and to interfere into capitalism as if liberalism and neo-liberalism had never existed.

After the first emergency phase of the mission was completed, time was gained to now grant loans to further increase the liquidity of the endangered businesses, in particular if new bad assets were discovered or if claims against insurers, which had insured bad assets, were raised. State guarantees also greatly helped to calm the nerves of creditors. This re-infused trust into the system.

Only now, after important battles were won, central banks joined the scene. They essentially repeated what the Bank of Japan had already done for almost two decades and which had become known as “quantitative easing”. As in innocent times of open market policies, they bought debt, but *much more than before* and they now did it utterly *unconcerned about selling it back* to private wealth owners any time soon. Economic, political, and cultural practices and institutions possess a remarkable flexibility to adjust to changes. At first, it appears that they are only used as they were used before; then it appears that they are adjusted to specific circumstances, later that they are being used a bit more often and at larger volumes than before.... However, the “filling of new content” into them, in fact, transforms “old tubes” – and soon they are something quite different.⁵¹ Such was the destiny of central banks’ previous “open market policies”. Even if they were never really working well as two-way open market policies, oscillating between “easy” and “tight”-money periods, now even the official explanation of the central banks’ doing in these terms could no longer be upheld. Too much debt was attracted in only one direction without any relevant effect on interest rates, which were already at zero or below, and it was held for too long. The times of “open market operations” were over and the times “non-conventional monetary policies”, i.e. debt accumulation by the central banks, had arrived.

51 In a similar sense, Polanyi (1944) page 192 writes “...it would be truer to say that no institution ever survives its function – when it seems to do so it is because it serves in some other function or functions, *which need not include the original*” (italics by Polanyi).

To be clear: All debt that is held by central banks normally only gets into their balance sheets because they *pay for it with newly created state fiat money*. Thus, central bank debt holdings as such normally indicate state money creation or monetary financing. Still, as long as the purpose of these debt holdings remains within the framework of traditional “open market policies” – to officially work as a vaccine to lower interest rates and to stabilize private debt markets – and as the volumes and the time of central banks’ debt holding are limited, that is one thing. Yet, this changes when central banks debt holding becomes a *substitute* for private creditors. *Perry Mehrling* has attempted to describe this change as central banks transforming from “lenders of last resort” to “market makers” or “dealers of last resort”,⁵² with the purpose of still securing the “shiftability” of debt.⁵³ Mehrling sees the trend, but he only describes what central banks, in fact, already did with their open market policies. His conceptualization also overemphasizes the formal side – whether loans are given or assets are bought –, yet he underrates the essence of the change. We have to go a step further in order to grasp the “qualitative jump”, which is happening. The central banks post 2008 became more than just dealers (which buy *and* sell). They instead became *net debt accumulators* or *debt absorbers of last resort*. They consciously ignited a massive uninterrupted flow of debt into their balance sheets, more voluminous and more quickly than ever before, and this debt was meant to stay.⁵⁴ The idea of a cyclical change between central bank asset purchases and asset sales had become obsolete.⁵⁵

Emergencies are times, at which pragmatists with lots of the “have-to-do-what-it-takes”-hormone offer themselves to step in. They know that somebody has to show confidence and they feel selected to be that person. This may explain why the helm of central banks were, since, more often taken by personalities who thought and acted like politicians, or had been politicians, and less often by typical scientific economists.⁵⁶

52 *Mehrling* (2011).

53 See *Mehrling* (2011), in particular page 132 et seq.

54 “It is the Fed’s acceptance of its role as dealer of last resort that finally put a floor under the crisis...” writes Perry Mehrling (*Mehrling* (2011) page 115). Yet, it may rather have been the Fed’s acceptance, to buy and hold the purchased assets, irrespective of any realistic expectation to shift them back to private debt holders, which brought about the healing effect.

55 If matured debt was repaid by the sovereign or private debtors, i.e., “rolled over”, then central banks would also buy the new, rolled over debt.

56 E.g., *Christine Lagarde* started off as a business lawyer (by chance in the Paris office of the international law firm, in whose Frankfurt office the present author began his career), then became French Finance Minister (amongst other government posts), followed her compatriot Strauss-Kahn after his unfortunate New York hotel-room-incident as managing director of the International Monetary Fund in 2011, and, although she was found guilty of abuse of office as finance minister (by accepting, as the French court found, an excessive

Occasionally, hope arose amongst the conservatives that there might be a way back to the status *quo ante*, that debt could be unloaded again to privates, interest rates would rise, and that “normal” “open market policies” could be resumed. The often-used terms “tapering” and “exit” pointed to this at the time. However, until after the Corona-crisis, the worlds’ central banks only bought more and more debt (and sometimes other assets) through “central bank asset purchase programs” etc., losing their “natural” inhibitions more and more. The volumes of intended new debt purchases were now even more generally openly announced before the fact – with the obvious purpose to let the subscribers know that they would not have to worry about opportunities unload the new debt quickly, reliably and profitably.⁵⁷ The Corona crisis, the Ukraine war, the coming armament build-up across the world in a now generally more bellicose geopolitical atmosphere (or even in extended wars), this all led or will lead to additional sovereign debt build-up. Therefore, it is hard to see that any significant unloading is coming soon, rises of interest rates and some inflation in the productive economy following 2022 (with the inflation appearing to partially result from the loss of output and interruptions of the cheapest supply chains in the Corona crisis and from increased energy costs following the Ukraine war) notwithstanding.

Overall, the combined effect of the state and central bank actions following the crisis of 2008, was to, in one blow, *retroactively refinance a huge part of the privately held outstanding debt*, which the central bank itself had indirectly enabled by its easy-money-policies, *by direct state fiat money creation*. From that point forward, a large chunk of all newly issued sovereign and working-class debt was picked up by central banks as well. This is what happened in numbers:

settlement payment made by France to Bernard Tapie) in 2016, became President of the European Central Bank in 2019. *Mario Draghi* was still an economics professor, but turned politician and became prime minister of Italy. *Janet Yellen*, too, was still an economics professor before she became President of the Fed and, then, US Finance Minister. It was also seen as a recommendation for a second term of *Jay Powell* as President of the Fed that he had “shown himself to be a nimble central banker and not tied unduly to dogma or ideology.” *Colby Smith* and *James Politi* quote this statement by *Peter Conti-Brown*, a Fed historian, in the Financial Times of 23 November 2021 page 3. Powell was also praised for having had his “Draghi moment and [to have] met it in any way” (loc. cit.)

- 57 This situation between states, sovereign debt creditors, and central banks compares to the situation that existed during the build-up of subprime debt: US saving banks would give out subprime (ninja etc.) real estate loans knowing that they could quickly resell them to other banks who bought them to structure, repackage, insure and resell them. Debt generation is encouraged if you can recoup the principal at a profit and soon hand over the risk to somebody else.

Figure 23: Total assets of Fed, ECB, BoJ and PBoC (individually)

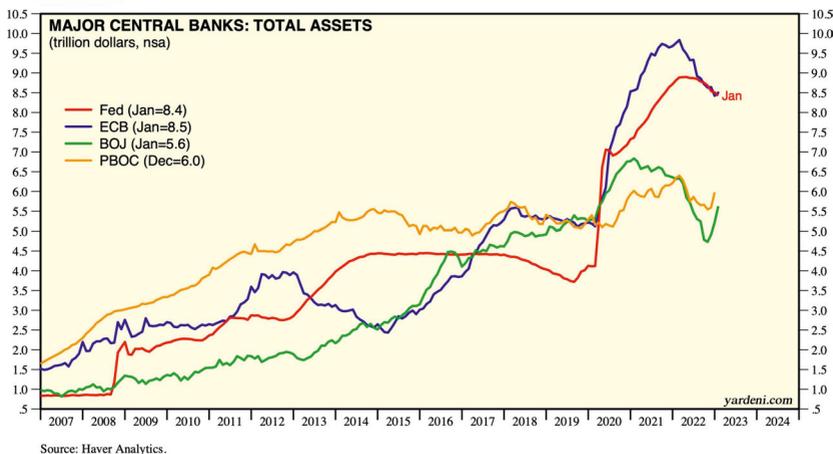
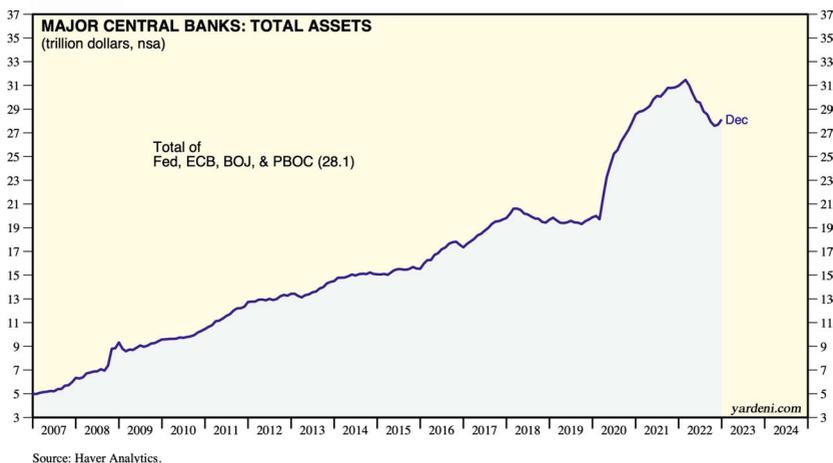


Figure 24: Total assets of Fed, ECB, BoJ and PBoC (aggregated)



Since 2007, the central banks of the most important capitalist economies (the Fed, the ECB, the Bank of Japan, and the People's Bank of China) have collectively increased their asset holding from roughly US\$ 5 tn. to just short of US\$ 30 tn. in December 2022.⁵⁸ Sovereigns, firms and workers issue debt to banks or wealth owners who sell this debt to central banks without much delay. Loans, which are ini-

58 <https://www.yardeni.com/pub/peacockfedecbasets.pdf>.

tially funded by old pre-existing wealth or by private bank credit money creation, are thereby re-financed by state fiat money creation. Existing wealth and fractional reserves bank credit money creation kickstart prosthetics funding, but the original financiers are bailed out after a short time. Of course, central banks will pay a premium to the investors who play by these rules. While there is not much money to make with the low interest, there may at least be some capital gains from selling the bonds to central banks. Some of it is an “anti-embarrassment-fee”, saving central banks face. Profits are no longer made by holding debt and collecting the interest based on the coupons, neither by reselling the debt at a capital gain to other privates, but by exiting from the debt to central banks, which investors have already in mind when they purchase the freshly issued debt.

Considering that in 2021/2022 the US had a GDP of approx. 26 trn., China of 19 trn., Japan of 4.3 trn.,⁵⁹ and the Eurozone of 14,5 trn.,⁶⁰ each in US\$, (together 63.8 trn. US\$, of a world GDP of approx. 104 trn. US\$⁶¹), as of this writing, these largest capitalist states have supported their economies with prosthetics financed with state fiat money creation through assets held by their central banks in a total amount of around 47 % of their GDP.⁶²

These 47 %, however, only express the volume of debt that could *no longer be absorbed by private creditors* or that central banks would rather not risk to sell to private wealth owners. *Privately held debt must be added* in order to appreciate debt's full prosthetic contribution to the output and employment of the respective economies in the past. In the aggregate, the amounts shown in the table “Development of sovereign and private debt in leading capitalist countries 1995–2020” on page 447 – between approx. 225 % (China, Germany) and 450 % (Japan) – were debt financed and pumped into the economies of leading capitalist states already until 2020. Sovereign debt can be expected to have largely, except to the extent it financed interest to private creditors, flown into the productive economy, either directly as social transfers or as spending on infrastructure or the military, which is, largely employment-generating.⁶³ The largest chunk of automobile debt, educational debt, and of other non-

59 <https://www.populationu.com/gen/countries-by-gdp>. (each 2022)

60 <https://tradingeconomics.com/euro-area/gdp> (2021)

61 <https://www.populationu.com/gen/countries-by-gdp>.

62 We abstract from objections that might be raised against methods of GDP-calculations; the statistical evidence is so strong that such details do not matter. We assume that most of the enabled spending was productive spending. The spending certainly did not always remain in the domestic economy, but there was crosswise spill over into other countries.

63 States seldom purchase wealth assets, particularly, they did not in the recent neo-liberal decades. State money, which is lost for productive spending, mostly goes into interest pay-

real estate consumer debt, such as credit card debt, can also be expected to have gone into employment-generating spending; the slippage, again, mainly consists of most interest payments.⁶⁴ Whether real estate debt is used productively largely depends on whether old or new buildings are financed and on the size of the share, which finances transactional costs. Corporate debt partially finances employment-generating spending, such as new factories, but also sterile asset purchases, e.g., of land, in M&A, by stock repurchase program, or short-term sterile portfolio or treasury investments in stock or bond markets. Corporate debt, which finances interest payments or sterile rent etc., is also lost as employment-generating spending.

After all, it is safe to say that the leading capitalist countries, as of today, have boosted their Output and employment by between 150 % and 300 % of the GDP,⁶⁵ only via debt financing in the past. Hence, they have used *prosthetic employment-generating spending in a volume of between one and a half and three years of their output*. Prosthetics financed in other ways, e.g., employment-generating spending drawn away from other countries via protectionism or procured by taxation, is not included. We are not talking about sub-Saharan Africa or other poor or undeveloped regions of the world; this is about what politicians of the far better-off capitalist countries, such as the US, China, Japan, the UK, and the Eurozone felt necessary to mitigate the modern master drama in *their privileged* home countries!

The dilemmas of funding prosthetics with state fiat money creation

Central bank purchases of old and new debt

The main story of the political economy since 2008 consisted in the re-financing of massive amounts of already existing debt, which had originally been privately financed and which had enabled prosthetic spending in the past, by the creation of new state fiat money. It was combined with, from thereon, financing larger parts of new employment-generating spending with state fiat money creation, only after a short interim-stop with private debt-holders. This combination, which also opened up new reservoirs for private loans, led to the historic peak of debt and prosthetic spending, which we witness in the early 21st century. Whether this practice will continue in the old merry-go-round-like style of “covert monetary financing” or whether it will wholly or partially be switched into “overt monetary financing” would not change the substance. Both forms lead into dilemmas.

ments. However, interest is presently low and has been for a long time and interest on sovereign debt held by central banks is recycled to states as central banks dividends.

64 Interest rates in this sector are obviously higher than for sovereign debt, particularly on sub-prime debt or if repayments are overdue. They were still generally rather low.

65 As the data are from 2020, they do not yet reflect spending due to the Corona-crises and worldwide increases of military budgets.

No low-rates-private debt holders available

Central banks' attempts to resell a significant part of the debt presently accumulated in their balance sheets to private wealth owners runs into difficulties.⁶⁶ The first difficulty lies in the limited will of private wealth owners to absorb risky low-rates debt. This limitation already caused the shocks of the US subprime crisis of 2008 and of the European debt crisis in 2010. These limits, while they are not fix and may move to some degree, have not gone away. The issued debt has even significantly grown since 2008, which raised the risks involved in holding it; this will hardly increase the hunger of private wealth owners to buy large chunks of it. On the other hand, true, interest rates have risen since the Corona-crisis. Yet, they have only risen from zero to the levels of around 2007 and the fact that private wealth owners were trying to unload their subprime debt in a hurry then, does not render it very likely that they may now massively buy debt at similar rates – even if the debt offered today is somewhat better than the historic subprime-debt. There is, thus, insufficient demand of wealth owners for low-rates-private debt.

States feel comfortable if sovereign debt is held by central banks

While it is difficult to unload debt held by central banks, already for the preceding reason, it is less difficult to keep debt on central banks' balance sheets. In the case of *sovereign debt*, this is, if old biases are stripped-off, even particularly simple, as interest paid by the state to the central bank is automatically cycled back to the state who owns the central bank as dividends. How much interest states have to pay to the central bank on central bank held sovereign debt is, thus, – it the matter is considered with radical sobriety – ultimately *no relevant factor* at all. The money leaves through the front door as interest and comes back in through the back door as dividends, and the amount, which is being re-cycled does not matter.⁶⁷

States could also live well with sovereign debt being held by private wealth owners

If sovereign debt is re-privatized, the interest on the re-privatized sovereign debt would flow into the private sector and stay there. States could still live with that.

66 Except for if OMF or a yet unknown fake maneuver is used to equip the private wealth owners with the needed money and/or to relief them of risks.

67 Of course, there are some politicians, economists, bankers, and central bankers out there, who, notwithstanding their radical doing, still think in old-fashioned terms and will, thus, suffer. They will suffer even more if the higher interest rates for new debt since the Corona crisis apply *generally to all sovereign debt*. This, yet, takes time until *the whole sovereign debt has been rolled over* and all low interest coupons have been replaced by the new higher coupons. As long as the outstanding sovereign debt still largely consist of old cheap debt, the average interest rate remains moderate. The good news is that the compensating effect of "dividends" from the central bank to the state will also apply to high interest invoices.

As states or their central banks sit on the state fiat money gland, they could simply have their central banks *also create the fiat money additionally needed* to cover the additional, even rising, interest-costs, which will not be recycled from the private sector (or only partially via taxes) – and have this money forward to them via “covert” or “overt” monetary financing. In times of “whatever it takes” the public will quickly get accustomed to this.

Sales of central bank-held debt at discount-prices lead into dilemmas

Central banks might consider to offload debt, which they hold, at attractive discount-prices. This would, yet, lead to higher yields on the old debt and, thus, raise interest rates for new loans, in particular to workers and firms. Such higher rates would, of course, also apply to roll-overs of old debt of workers and firms. This way, the re-selling of old debt at discount-prices would, via higher rates, infringe upon the possibility of maintaining and continuing the build-up of workers-debt, e.g., of housing, educational, automobile, consumer and credit card debt, which funds prosthetic employment-generating spending. The higher interest rates connected to cheap sell-offs of debt would also lead to collateral damage by giving *coups de grace* to “zombie-new-economy-firms” as well as “zombie-old-economy-firms”. High rates just do not go together with ongoing build-up of workers-debt and the survival of dubitable firms.

If states and central banks were to allow significant raises of interest rates, they would, accordingly, have to compensate for them by additional transfer payments to workers and firms. This would, though, require them to issue even more sovereign debt in the aggregate, which could raise interest rates further, the more so the higher the part of the debt, which is privately held. (Of course, if to avoid rising rates, central banks buy this new debt, they would again upload debt on the one side whilst they are trying to offload debt on the other). There is no way out. A return to normalcy regarding rates is paid for with less non-normalcy regarding central banks’ debt holdings. Both goals, more normal, i.e., higher than near zero percent interest rates, and more normal, i.e., lower, at before 2008 levels, central bank debt holdings, are incompatible with growing sovereign and other debt, which are though needed to fund prosthetics.

Central banks feel as comfortable holding high mountains of dubitable debt as states feel being indebted

If clearing central bank asset sheets of the debt mountains by reprivatizing debt to private wealth owners turns out problematic, why, then, not keep the debt on central banks’ balance sheets and allow a further build-up of debt there?

There is, in fact, no fundamental problem with that: As soon as debt arrives on a balance sheet of a central bank, it enters a better world. Central banks are not greedy and not obsessed with hunting profit; moreover, they are free of liquidity pressures,

survival constraints or other necessities, which may force them into reckless acts. They can be generous as they are blessed with the power to create as much money as they desire.⁶⁸ *They do not need it, but they can have as much of it as they could wish!*

Of course, as far as states are concerned, central banks are friends with their states. They are like wealthy fathers having purchased their lavish sons' notes; the sons can hope that the father may not claim the money. In fact, this comparison even misrepresents a crucial moment: The state is the *sovereign*, it can politically decide to dissolve the central bank, can create a new central bank or recall the fiat money creation power that it has conveyed to it; lavish sons normally have not so much power over their fathers. Apart from these political powers, central banks are also – in different constructions – legally owned by their states. Therefore, as we have mentioned, they have to return the profits from interest paid by their states to them as dividends to states as their owners. Central banks are not only very relaxed, but *subservient creditors* to their sovereign debtors (compare that to the obstinate private bankers of the states since the Middle Ages, e.g., the Jewish, Lombards, and Cahorsians!).⁶⁹

In the aggregate, the classic economic dilemma for states in commodity money regimes – issuing too much debt would bring them to the brink of illiquidity, insolvency, and bankruptcy, which exerted an unforgiving discipline over them – is no longer, at least not for the privileged group of leading states that can issue debt in their own currency, i.e., most major developed capitalist countries such as the US, China, Japan, the UK, the Eurozone-countries (to a lesser degree as they only have a “collective” central bank) etc.

Increase of the money volume and means to handle the additional money

However, even the privileged states that can indebt themselves in their own currency, and who can fund the prosthetics, which can no longer be lastingly financed out of existing private money or private bank credit money creation, by state fiat

68 Until, of course, some day when people no longer want fresh money as no more value-in-exchange is attributed to it.

69 As the public debt mountains on the shelves of the central bank grow higher, it is easily possible to conceal what is going on by all kinds of cosmetic moves. We may see transfers of debt to subsidiaries of central banks or subsidiaries of the state, even to apparently private units, which either do not have to pay a purchase price or ultimately receive finance from the state or from the central bank. We may also see debt contracts to be amended in different directions: interest lowered, delays granted, overdue payments waived, the debt mutated into some a conditional, mezzanine-like form of debt, etc. A lot is imaginable here for economists and lawyers to confuse others and themselves about the underlying realities. Ultimately, it is in the central banks' power to do what final disposal facilities for nuclear or chemical toxic waste can never achieve: Central banks can wholly do away with the debt by simply forgiving it.

money creation, and maneuver their central bank to take this debt on its balance sheet, cannot avoid that thereby the *money volume is greatly increased*. We may hold for a moment and ascertain where we are with our argument: Capitalism is structurally stricken with deficient employment-generating spending. Capitalist states apply a number of prosthetics, of which expansive prosthetics, by debt-build-up funded by state fiat money creation (“covert monetary financing”), has presently become the main method. It allows to handle the debt, which originated in the process, by simply accumulating it on central banks’ balance sheets. But what about the simultaneously also increased money volumes? Are *they* leading to dilemmas? What can be done, if anything, about such dilemmas?

We now see that the problem of deficient employment-generating spending is substituted by the *problem of having to handle the increased money volume*. There are two obvious means to do this. Both work via containment of this money and both were already practiced after central banks massive money creation following the financial crisis of 2008 and are still being practiced.

One option is simply to allow the additional money to be invested in such *assets markets, which are not simultaneously product markets*, hence in debt and stock markets. As long as sovereign debt markets exist, they offer themselves particularly well for this purpose, as money going there is, by the same token, refunding prosthetics. Already Marx, although he did not make a systematic contribution to state and prosthetics financing, observed, they are great money absorbers.⁷⁰ In fact, the usefulness of debt markets as playground for money may be a strong reason in favor of maintaining the conventional way of prosthetics financing, hence “covert monetary financing”. As long as with newly created money also new debt, in particular sovereign debt, is created on the flipside as an asset, it can at least still be offered to private wealth owners, and they may hold a portion of it. The two sides, which originate with “covert monetary financing” can pair and keep busy with each other. “Overt monetary financing”, which does not involve debt, forecloses this option.

The second option consist in channeling back the newly created money to their creators, the central banks. The storyline of this practice is: Central banks create money to buy existing debt-instruments. The wealth owners who receive this money deposit it on bank accounts or buy assets in asset markets from other wealth owners with it, who in turn deposit the received money on bank accounts... Ultimately, central banks absorb this money by offering to private banks to *redeposit it with central banks for some interest*. Central banks, observed *Benjamin Friedmann*, “have made it advantageous for banks to redeposit the additional reserves instead of lending against them.”⁷¹ Like central banks pick up the new debt by money creation, they also pick up

70 See e.g., *Marx* (1976) chapter 31.

71 *Friedmann*, The perils of returning a central bank balance sheet to ‘normal’, in *Financial Times* of 20 June 2014. The *Neue Züricher Zeitung* of 22 February 2010, page 9, makes the same

the newly created money – by also creating new money to pay interest on this money if it is shuffled over to them. What happens if these – or other methods – fail?

Inflation, employment-generating spending and prosthetics

Increases in the money volume lead to inflation where the money goes – if there is sufficient effectual demand.⁷² If the “money-containment” or other methods do not suffice, therefore, the newly created money will appear on *product markets* or on markets, which are *both product and asset markets*, and raise price there. Massive amounts of money have already taken this route after central banks’ increases of the money volume following the financial crisis and have brought about the effect, e.g., on real estate and commodity markets. More recently, the interruption of certain production activities of supply chains in the Corona-crisis and a further partial deglobal-

point: “Die Geschäftsbanken haben nämlich damals einen beachtlichen Teil der Notenbankgeldmenge aus dem Wirtschaftskreislauf genommen, indem sie den Notenbanken das Geld gleich wieder zurückgaben.”

- 72 If new state fiat money (or even private bank credit money) is continuously created and sovereign debt markets as classical money absorbers shrink, then a lot of the newly created and of pre-existing money, which is no longer absorbed by the debt markets, must go into other asset markets, e.g., real estate markets. Price rises in housing markets of major capitalist countries are already well underway since decades. The money goes into expensive areas and low-income districts (where the trend is called “gentrification”) and it has two-fold consequences. First, it has become increasingly difficult for average or low-income earners to find dwellings in attractive places. To some extent this raises salaries and to some extent states compensate the back-door effects of their own front-door prosthetics with secondary prosthetics, e.g., rent subsidies, state finance the construction of low budget housing, or support private financing working-class house-building through different schemes (which contributed to the US savings and loan or subprime crisis). States also make rental laws protecting tenants and restricting the freedom of contracts for landlords. The general result is still increased inequality and more acute social conflict. Conversely, asset inflation or bubbles in real estate markets are a serious opportunity for heirs of formerly less valuable real estate or for high earning workers to increase their individual wealth or to recoup some wealth for the social middle-classes. If they are lucky to have owned or acquired real estate, which is sucked into real estate bubbles, then they may – like fishermen in sea villages, which become fancy sea baths, or mountain peasants in areas, which become exclusive ski resorts – sell their property and make a killing. This will significantly increase their future consumptive productive spending. Such capital gains in favor of *nouveaux riches* contribute materially to the present consumptive spending, e.g., in luxury cars, luxury vacations, luxury housing, including productive spending in newly built houses, luxury watches, luxury clothes, luxury furniture, etc. – although the occurrence is essentially a one-time-event and will mostly be a goodbye-present. At least, the heirs of these lucky ones will likely leave the middle class again after having eaten up their capital gains. Afterwards, the properties will only be sold forward and backwards between sterile wealth owners without stimulating productive spending and only a sharpened class difference between owners and non-owners will be left over.

ization in favor of intensified trade in political blocks, e.g., the reduction of energy supplies of the West by Russia, significantly risen military employment spending, prices are now also almost generally rising in the productive economy, have further contributed to inflation.

If globalization was, as it was in many regards, a means of costs reduction – hunting low labor costs, low regulatory costs, low commodity costs and saving due to economies of scale – then deglobalization will by necessity mean *cost increases*, which firms will try to recoup with price raises. A decade ago, I visited Morocco on a business delegation. We were brought to a light Aluminum hall (with the main purpose to allow an air-condition to do its job inside), in which at seven or eight small kidney-shaped “islands”, tables at bar-level with bar-like stools, young men and women were sewing fine black ladders around what would become steering wheels for luxury limousines. The metallic wheel inside came from China. Afterwards, the wheels would travel to Poland to build in the electronics from Vietnam; only then would they go to final assembly into Germany and France. About the same time, I was told by an official of the German Traffic Ministry that the costs of transport for a large TV-screen from Shanghai to Hamburg (harbor to harbor) were 9 Cent per piece (at the time). Quite obviously, many such delicate supply lines will collapse if put in disuse for some time (as the Corona-crisis did) or hit by differently rising energy, labor or commodity costs or by expectation of political cuts. Prices will then rise a lot and even if new “nearly as cheap” configurations can be put together again, firms will nevertheless seek to maintain the higher prices, now for higher profits. Let us also not be naïve: Even firms, which suffer from no or little price increases, will take the news of generally rising prices as an invitation to raise their prices as well, almost as if they had formed a cartel. There is no shortage of agents that feel they are underpaid!

In what was called a deflationary period between 2008 and 2020 many mainstreams economist almost identified deflation and depression and central banks targeted an inflation rate of 2 % as if this would generate higher employment and growth. Even if this approach was dominating the talk of politicians talk and of the business media, it was never sound. Investment too obviously depends on the differences between M and M' or between $c + v$ and M' or on s etc., i.e., the gap between input-costs and the price for the output realizable in the market, but *not on the absolute level of prices*. Even if price rise at different speeds in different sectors, that will not always favor investment: E.g., if input-prices (labor, commodities, interest) rise before output-prices, it will work against more investment. In fact, in the most advantageous constellation, if output-prices, e.g., prices for consumption goods, luckily, rise first, this rise will almost necessarily be followed by rising input-prices, labor-costs in particular. And if not, nobody would be there to buy the additional goods...

Following these considerations, we must disparege, first, the idea that the inflation enabled by the increase of the money volume could possibly do away with

the deficiency of productive spending. Inflation will not generate full employment. Secondly, on the other side, inflation will also not render prosthetics unfeasible. The main effect of inflation will remain that he who has the option should better be holding assets than money during inflation and he who does not have the option will lose if the price rises overwhelmingly occur in what he has to buy, e.g., consumption goods, rather than in what he has to offer, e.g., labor.

The international monetary system and the perils of divergent inflation for the money creation glands of imperial powers

Yet, inflation is, nevertheless, not neutral, and it may be very consequential. The world is not one single economy but there are rivaling imperial powers, which are each predominantly concerned with their own economy and their own prosthetics, e.g., the US, China, the Eurozone, Japan, the UK, the BRICS-states. The currencies and the activities of these states and their central banks and of international institutions have integrated into an international monetary system, in which currencies, factually, and based on conventions of different origins, have assumed unequal roles. These roles can be more favorable or unfavorable. The worst position for states is not even to have a fiat money currency of their own, which they can issue. They can, thus, not even draw a seignorage from their own population and others on their territory at the initial issuance of state fiat money. States that do have a state fiat money gland of their own are better off; yet, will they also be able to take out loans, i.e., sell their debt, in this currency? This depends on their solvency and on whether their central bank, if needed, would print new money to buy the debt from the creditors, and whether creditors would want to hold this money; the latter, of course, depends on whether the currency will be foreseeably affected by inflation. If the before is not practically possible, the reach of their monetary sovereignty of states is very limited. States are far better off if they have a fiat money currency of their own and can indebted themselves in this currency as they are considered solvent, have a central bank who can buy the sovereign debt and if their currency is not expected to lose a lot of its value.⁷³ Such states mainly differ in the sizes of their economy and population, the ongoing evolutions, their political power, international alliances and military might as well as from different effects of existing institutional arrangements. Presently only the US and the Dollar assume an outstanding role here. This position is often described as the respective currency having a “reserve currency func-

73 In this sense argues *Wolfgang Münchau* that sovereign bonds from eurozone countries are actually structurally “risky assets because eurozone countries issue sovereign debt but no longer have their own autonomous central bank as a buyer of last resort. This is why the eurozone debt markets are inherently more crisis-prone than those of countries with an independent monetary policy.” (*Münchau*, Eurozone reformers act as if the crisis never happened, in: *Financial Times* of 18 February 2018).

tion". It means that private wealth owners and other states have a preference to hold significant parts of their wealth either in this currency in cash or in debt denominated in that currency, of debtors, which are considered solvent, before anything the sovereign debt of this state of course. This made the market for US-treasuries the most important asset of the planet (except for, may be, the planet's land) and the US-treasury-market "the biggest, deepest and most essential bond market" in the world.⁷⁴ It goes without saying that sitting on the gland, which can exclusively produce the commodity traded on this market, at very little costs, is in incredible advantage.

It is here, where inflation may become a crucial factor. It does not matter how much a unit of a leading currencies can buy compared to other currencies, e.g., whether one Dollar can buy more than one Renminbi; it does also not matter if general inflation reduces the purchasing power of all currencies by the same percentage and an elusive position of a currency is even often not endangered by the currency losing more purchase power than its competitors for some time... Still, *expected significantly higher inflation*, compared to other currencies in connection with an *expected worsening of the exchange rate* of the currency, will do great damage to a currency. It will disincentivize creditors to buy and hold debt in it and to even use it for transactions. This reduces the possibilities of the state, which issues the currency, to fund its prosthetics with money from private creditors. It may try to correct the situation by raising interest rates to improve the post-inflation-losses and post-exchange-rate-losses of investors, but that may not work. It can, then, only resort to finance more prosthetics with domestic money creation, which will expand the money volume once again and will worsen the situation even more. There is no difference in this regard about whether states go on with conventional monetary financing (accumulating debt on central banks' balance sheets) or switch to "overt monetary financing" (by central banks "printing" new money without new debt or waiving their debt repayment claims against states).

Ultimately, thus, expected future inflation in relation to other currencies determines how powerful a state's fiat money creation gland is. Foreign exchange rates and their trend make the relative power of the fiat money creation glands of different states most comparable. Wealth owners will prefer debt issues in currencies with no or little inflation and stable or improving exchange rates, so that states with such currencies have the best odds to attract private investors in the whole world as co-financiers of their prosthetics. Such favored states will, by the same token, be able to use their currency best to purchase goods abroad at advantageous prices.

States, accordingly, cannot help but *look out for means to strengthen their money creation gland*. This is, of, course, presently particularly a concern for the US with

74 Financial Times of 29 July 2021, page 1. At the time the market's size was \$22trn.

its enormous amount of outstanding sovereign debt of US\$ 31,5 trn⁷⁵ and with its geopolitical ambitions, as the geopolitical defender, and for China, as the geopolitical challenger, but, to a lesser degree, for the Eurozone, the UK, Japan and Russia, too. It appears the expanding BRICS-states are about to form an alliance to support the Renminbi. Unfortunately, as inflation of a currency and its foreign exchange rate greatly depend on the issuing country's *geopolitical might in other regards, and on its military might* in particular, which feedback on the economy and vice versa, this may render the future funding of home-prosthetics dependent on a defiant, adamant, assertive or aggressive or expansive geopolitical and military stance in the world.

Already the elementary (pre-prosthetic) economics of profit economies taught us that capitalism as such may be *pacegenetic*, i.e., operate via free exchange, as well as *bellogenetic*, i.e., operate via goods procurement by violence, and, thus, sometimes go to war, depending on the circumstances.⁷⁶ At a second level of observation we noted that as capitalism needs to fund prosthetics, and the funding of prosthetics can work via goods procurement by violence and protectionism, it may be induced to take aggressive stances as well. We now have to acknowledge a third-level, a more advanced dynamic, which yet again pushes towards confrontation and war: Even if states almost seem to abjure violent wealth procurement and protectionism in favor of financing prosthetics by domestic money creation, which appears utterly peaceful at first, we have to acknowledge now that they may be thrown back – by objective necessities – into a geopolitically and militarily unyielding and expansive position to only protect the power of their existing state fiat money creation gland. Deficient employment-generating spending necessitates prosthetics, prosthetics rely increasingly on state fiat money creation, the power of a state's fiat money depends on its relative political and military power... This politicizes the situation and forces states to strengthen their geopolitical might and military to strengthen their currency. Additional bellogenetic dynamics arise from here. The political economy and prosthetics ultimately glide into the purest geopolitical stuff.

A political-ideological dilemma

Prosthetics by state fiat money creation, finally, give rise to a political-ideological dilemma: States that open the floodgates of state fiat money creation, to mitigate the modern master drama, may, by the same token endanger capitalism's political-ideological bases. Capitalism is an owner society built upon respect for private property, which decides on the exclusive access to goods. These characteristics apply to money, too. The money code organizes and legitimizes the social distribution

75 <https://tradingeconomics.com/united-states/government-debt> (as of the end of 2022)

76 See on page 56 et seq.

of scarce goods through their exchange against scarce money.⁷⁷ The money code is, of course, still observed by making loans; the owner gives away the money in view of the future repayment of the principal with interest. The money code is also observed if somebody pays alms or charity, given that the money given away reduces the money held by the charitable person and that the transfer as a gift is based on a free decision of its owner. If states levy taxes, this constitutes an exception in so far as money wanders from one person to the state involuntarily; yet the existing volume of wealth is only redistributed, it is like a forced gift. If, now, though, money is visibly created anew but still exerts its usual grip on scarce goods, then the money code and, thus, the property-code, are partially lifted. Money is no longer stubbornly exclusive and scarce (like the property of something) but has visibly become a *mere technical method of goods re-distribution*. Money mutates from a neutral scarcity-mechanism into an administered political technique to distribute goods by state decision (like ration cards). Where this happens, “not having money” ceases to be a conclusive justification for why access is denied to goods, e.g., to dwelling, health care, children’s education, or the conveniences of life. If it becomes common practice that money is created *ex nihilo* to finance social transfers by political decision, the Pandora’s box is open and hedonistic, mass-democratic politics will likely want to make a lot more out of this possibility than the conservative central bankers who still sit on the money creation gland (and are torn back and forth between their neoliberal or even “Ordnungspolitik”-education and the pressure of politicians for prosthetics) dare to think of. General demands to increase sovereign indebtedness are already being made publicly today. They are *not* only raised by so-called “populist” parties but widely practiced by classical conservative, social-democrat, liberal parties and certainly by “green” parties, whose ideology is largely free of structured non-moral content. For the moment, central banks are still protected by a veil of misconceptions. Amongst them are a traditional respect *vis-à-vis* money, an unjustified memory of the times of commodity money, and a trust in a scientific and super-technocratic character of the doing of their managers. People are also impressed by the Byzantine cult of fiat money creation. However, that is already changing and it will not hold. A new brand of “unbiased” career-politicians is arriving at the helms of governments who are accustomed to cutting of old braise. Changes also arise out of the ideological sphere of economics. Conservative and liberal economics is under attack worldwide since the financial crisis of 2008, rightly so of course. So-called “Modern Monetary Theory” formulates a credo, which, even if it is too simplistic to become the official doctrine of monetary politics in the near term, may well function as *hidden mental door opener* to massive state fiat money creation; it is so simple that even politicians can understand it. The Institute for New Economic Thinking (INET), which had organized very stimulating economic discussions in its founding

77 See on page 53 an 78 et seq.

years, has now transformed into a platform, which promotes ant-traditional economic contents of a wide spectrum, many of a lesser quality, but which willingly offer themselves for use by taboo-breaking politicians. Digitalization, as everywhere, will allow to create further confusion, e.g., by involving some kind of digital money in the mix.

Already the dot.com-bubble, the financial crisis and the Eurozone debt crisis, which resulted from debt build-up and money creation, lead only to more debt-build-up and more money creation. Arrived the Corona pandemic, as a real bad surprise, leading to, once more, debt build-up and money creation. With the demise of the virus, the most “classical” reason for debt-build-up and money creation raised its head: war. And there is unfortunately probably more war to come at the main geopolitical fault lines between the West (plus Japan, Korea, Australia etc.) and Russia and China (plus some other BRICS- countries). The leading capitalist states stumble and the world stumbles from one exceptional state into the next one, each getting worse and more dangerous, letting, in hindsight, the merely *financial* crisis of 2008 appear as quite innocent. For the moment, fear of war and preparation for war, alone, suffice to justify further debt build-up and money creation at large scale and silence even the most hard-core austerity advocates.

Two main future developments appear possible from here: If a grand war can be avoided, politicians and the people of developed capitalist states will nevertheless get more accustomed to the benevolent effects of prosthetics and we could enter into a situation, where the democratic discourse – with arguments from morals, religion, beauty, truth, universal love, or political ideologies, etc. – may demand permanent “super-prosthetics”, including a social redistribution of wealth with the help of the money printing press. While previous discourses in favor of a more egalitarian wealth redistribution, e.g., the socialist-communist discourse, were so *honest* as to acknowledge that their realization would require *taking away* wealth from others, which necessitated a moral or historical *justification*, this may now be considered as superfluous, to some extent. If the state can create value-in-exchange with an alchemistic money creation gland, apparently, without taking anything away from somebody else, then much of what may have been in the way of generating more equality in the past may disappear. Proponents of greater equality or “super-prosthetics” may now believe to be able to doing good to everybody without doing bad to anybody. The state may, e.g., be expected to build decent dwellings for low-income strata, pay for their better medical treatment and education or, to even buy them Janis Joplin’s proverbial “Mercedes Benz” – all this funded by monetary financing. The illusionary moment that *is already* (!) intrinsic to fiat money – the distinction between *valeurs* and *non-valeurs* becomes fluid – could replicate itself in the realm of political ideology as the illusion that a more just world can peacefully be achieved through the money printing press. What may result from this is unclear.

With a view to the Ukraine war, the military build-up throughout the world, and the increasing bellicosity between the West, Russia and China, the even greater problem, and the second possible development, may be that we will not even learn how specifically the extensive debt build-up and money creation would have exploded, imploded or not. Rather we may witness, as times before, a reset of the economic and political systems on the graves of millions of dead, the ruins of hundreds of cities and of thousands of factories, and, possibly, on ten thousand or more square kilometers of radiated land.

