

The Necessity of Overissuing Money and Welfare Policy Based on a Simple Model

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Abstract

Many economic theories advocate that currency issuance only needs to be proportional to social value. Even in Keynesian economics, excessive currency issuance is only regarded as a means to stimulate economic development during an economic downturn cycle. However, through our research, we have found that even in an economic environment without economic cycles and in steady development, excessive currency issuance is still indispensable. The reason is that every capitalist and individual is in pursuit of interests, so only keeping currency issuance proportional to social value will cause society to lose the source power of creating value. This article will use an extremely simple model to explain the necessity of excessive currency issuance and welfare policies. Although our model is extremely simple, it still has certain value and can assist countries in formulating reasonable monetary policies and even economic policies.

Keywords: Currency Issuance, Social Value, Keynesian Economics, Economic Cycles, Excessive Currency Issuance, Welfare Policies

1. Introduction

Whether it is the classical economics school[1], the neoclassical economics school[2], the monetarist school[3], or the Austrian economics school[4], they all oppose excessive currency issuance. Their reason is that excessive currency issuance will lead to inflation and even distort resource allocation. Almost all of them believe that the market can spontaneously achieve effective resource allocation.

Even the Keynesian economics school[5] believes that the market sometimes malfunctions and requires appropriate government interventions, including issuing currency. However, the Keynesian school also only considers excessive currency issuance as a means to stimulate economic development when the economy is sluggish and does not think that excessive currency issuance is necessary in a stable economic environment.

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In this article, we will prove that even in a stable economic environment, excessive currency issuance is necessary, otherwise society will lose the source power of value creation. In the second part, we will design a very simple economic model to discuss the necessity of excessive currency issuance. In the third part, we will give a specific example for this model to illustrate the problem. In the fourth part, we will discuss more complex situations and the shortcomings of this model. In the fifth part, we will discuss the necessity of social welfare policies.

2. Discussing the Necessity of Issuing Additional Currency with a Simple Model

If all enterprises and individual shareholders are regarded as a whole, and all employees are also regarded as a whole. For the enterprise whole to ensure profitability, its income must be greater than its cost; for the employee whole to accumulate wealth, his income must also be greater than his cost. Everyone's wealth needs to increase. Therefore, a lot of paper money needs to be printed in the market and distributed directly or indirectly to enterprises or the lower class in order to achieve balance in the entire system.

If no money is printed, it will eventually lead to the situation where the lower class has no money to consume or all enterprises go bankrupt. No one will have the enthusiasm to start a business and would rather keep money at home than start a business. Therefore, whether it is a country with rapidly increasing productivity or a country with sluggish productivity, issuing additional currency is necessary. Only by issuing additional currency can the continuous operation of the economy be guaranteed.

3. A Simpler Economic Model Illustrates the Problem More Intuitively

For example, if there is only one enterprise, one shareholder, and ten workers in the whole country. The enterprise can only produce eleven loaves of bread every year. The total cost of producing one loaf of bread is 100 dollars. To earn back the cost of bread, the price of each loaf of bread must be higher than 100 yuan. However, the wages of workers, which are included in the cost of bread, are less than 100 yuan. So if the country does not print money and distribute it to the lower class workers, the lower class workers cannot afford these loaves of bread.

4. More Complex Situations and the Shortcomings of Our Model

Of course, the model we discussed in the second and third parts has some problems. In actual situations, the fact that the lower class devotes more labor and the upper class receives more services will reduce the demand for excessive

currency issuance to a certain extent, and technological innovation will also reduce the inflation caused by excessive currency issuance to a certain extent.

However, our model is not completely useless. At least it has certain value and at least illustrates the necessity of excessive currency issuance to a certain extent.

5. The Trend of Capital Flowing and Concentrating Upstream Determines the Necessity of Social Welfare Guarantee Policies

For modern society, farmers no longer occupy a dominant position. Therefore, the lower class basically belongs to the pure proletariat. Due to the profit-seeking nature of capital and the dominant position of capital, wealth will gradually accumulate towards the rich class. Therefore, the printed money should be distributed more to the lower class so that the lower class has money to consume and can better stimulate economic vitality.

That is to say, whether it is a benign economy or a malignant economy, currency depreciation is reasonable. At the same time, it is also reasonable for a country to distribute welfare to the lower class people. Moreover, a sound social welfare guarantee system should be established.

6. Establishing Sufficiently Sound and Reasonable Policies such as Inheritance Tax and Land Tax Can Reduce the Demand for Excessive Currency Issuance, but It Cannot Completely Offset It

Although increasing the money supply can solve the problem of the economy's inability to operate continuously, a fatal problem is that if there is no technological innovation in this society, printing money to maintain system balance will lead to serious inflation.

Therefore, in addition to increasing the money supply, we should also improve various tax policies on capital. This is not only corporate income tax and value-added tax, but also inheritance tax, land tax, etc. which should be levied to narrow the wealth gap to a certain extent and reduce the demand for increasing the money supply.

Of course, taxation cannot solve the problem completely. If taxation is too heavy, it will cause capital to lose the motivation to create value. Therefore, whether it is an economy without innovation or an economy with innovation, excessive issuance of currency is still inevitable.

7. Conclusion and Discussion

This article discusses the necessity of excessive currency issuance for economic development with a very simple model. We reach the conclusion that even in a non-cyclical balanced economy, appropriate excessive currency issuance is extremely necessary. Otherwise, society as a whole will lose the vitality to create value.

Although this model is overly simplistic, the actual situation is far more complex than this model. For example, through various excessive services, the lower class can make some capital flow back from the rich class to the poor class, thus offsetting the necessity of excessive currency issuance to a certain extent. But this model still has certain value. We hope that this model can be continuously improved to better help countries formulate wise monetary policies and even economic policies.

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