FIRST CAPITAL FINANCIAL

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Capitalism is not only resilient -as shown most recently through its ability to weather the hurricane force winds of Covid-19 -it is also innovative as well. A fascinating and almost forgotten example of this is ***Freigeld***, a form of money with an expiration date. Translated from the German as "free money", it was first conceived by Silvio Gesell, a 19th century German entrepreneur who believed that money served two roles that often came into conflict: it was a way for people to store wealth, and it was the thing that everybody needed to conduct business. The fact that money was a store of value meant its holders had a reason to cling to it, so Gesell wanted to create a new kind of currency that would "rot like potatoes" and "rust like iron" so no one would want to hoard it. Gesell advocated that money with an expiration date would become an instrument of exchange and nothing else. To avoid expiration, ***Freigeld*** bills would have to be periodically stamped for a fee, without which they would become worthless. Only by spending or investing it would you be able to avoid stamp fees. Read <here>.

Gesell called it "free money" because he believed that a depreciating currency would be freed from stockpiling. Like a game of hot potatoes, holders of the currency would want to spend it as quickly as possible when its value was highest. Ultimately this would keep money whizzing through the system, preventing future depressions and increasing public prosperity. It was a completely radical idea, especially at a time when nations were on the Gold Standard -a system that latched money to the stable value of gold, making money a pretty safe place to store wealth. Of course many people hated this idea, unsurprisingly especially people with a lot of money!

But after more than a century of obscurity, this idea is making a comeback and is being discussed at the highest levels of global financial governance including the International Monetary Fund and the U.S. Federal Reserve. Savings that have, effectively, a negative interest rate is comparable in practice to the massive government fiscal stimulus programs and near-zero interest rate policies set by Central Banks. Common to all is the end result in which a surge of consumer spending in turn generates economic growth. Interestingly, the Biden Administration's recently passed $1.9 trillion relief bill is similar to a bill (S. 5125) that was tabled in the Senate during the Great Depression. It would have issued a billion dollars (about $2 trillion dollars today) of money to be distributed nationally. Notably, the money was to be in stamped form.


Silvio Gesell

With interest rates already close to zero, governments and Central Banks will need another way to keep money moving should the economy go into recession. Negative interest rates on bank deposits won't do it, as people will just hoard cash which doesn't cost them money. Cash then becomes a roadblock to economic stimulus. One way around this is higher inflation which devalues or "taxes" money in real terms, but Central Banks have been shown to have much less power to increase inflation than previously thought. This is why serious economic thinkers are considering Gesell's ***Freigeld*** relevant again. In our technological age, a Gisellian system of unhoardable cash wouldn't actually have to involve stamping paper bills for a fee. It could involve government issued crypto-currencies that allow the Central Bank to subtract value from the currency if consumers refuse to spend it. Faced with the choice between being able to purchase a good or service with the money now at full value, or wait and get less for the same dollars spent, consumers will inevitably rush out to spend as quickly as possible. This surge in spending will be good for the economy, and ultimately cost governments less than the current bailouts that have pushed borrowing to record levels. ***Freigeld***, an utterly fascinating innovation that governments around the world may well turn to, and sooner rather than later.

Be safe, be well!

Martin
519-546-5088