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Monetary Expansionism, Global Commodity Prices, and Global Inequality

Jongchul Kim



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Abstract: An early analysis of the imperialist implications of the surge of global commodity prices was conducted in 2014 by Jonathan Nitzan and Shimshon Bichler. However, their analysis did not consider how the US monetary and fiscal expansionist policies have contributed to the rise of global commodity prices. This article fills this gap. Arguably, under the current international fiat money system established in the early 1970s, the US has had the opportunity to use artificial money-creation mechanisms to enjoy the wealth produced by people outside the US without cost. This article argues that the US monetary and fiscal expansionist policies, including quantitative easing, are cases where the US takes advantage of such an opportunity and that the free transfer of wealth is a cause of the surge in global commodity prices.

Key words: quantitative easing; global inflation; monetary imperialism; international monetary system

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1. Introduction

Shimshon Bichler and Jonathan Nitzan’s (2014) analysis of high oil prices is an early analysis of the fluctuation of global commodity prices, because oil prices are a major part of global commodity prices. They identify that oil prices have often

risen sharply even when the production or inventory capacity of oil is high and argue that the reasons for the sharp increases have been found in growing conflicts in the Middle East and beyond. The limitation of their theory is, however, that they attribute the rise of the nexus of high inflation and conflicts only to the emergence of a global alliance among parties who benefit from high oil prices, including the integrated oil companies, large armament contractors, leading Western governments, and key oil-producing countries. This article argues that this is important but only a part of the whole story. To fully understand the upswing and downswing of the nexus since the early 1970s, we also need to consider monetary phenomena including the US expansionist monetary and fiscal policies, the US dollar's privilege as the world's reserve currency, and the breakdown of the international gold standard system of the Bretton Woods period.

The stable prices of commodities such as oil and wheat are a crucial basis for a stable life for ordinary people and the industrialization of emerging countries. Major commodity prices, such as the prices of crude oil and wheat, had been stable between 1948 and 1967: the price of wheat decreased by 29%, and the price of crude oil increased only by 17.7%, as seen in Figure 1. However, after the early 1970s, they have been incredibly unstable and skyrocketed. The high increase in global commodity prices contributed to creating food crises, serious hunger levels,

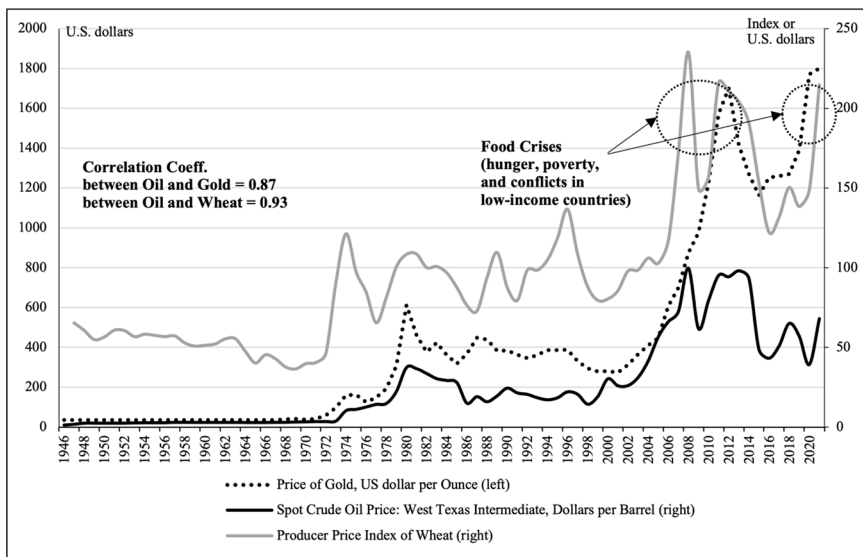


Figure 1. Prices of Gold, Wheat, and Crude Oil in the US

Source: Federal Reserve Bank of St. Louis, Measuring Worth (<https://www.measuringworth.com/>).

and various forms of conflicts including protests and uprisings in low-income countries around 2006–2007, 2010–2012, and 2021–2023. For example, the Arab Spring of 2010–2012 was triggered by the skyrocketing price of wheat and the resultant hunger that occurred between 2007 and 2008 and 2010–2011 (Ziegler 2013). These price surges happened even though the world had an unprecedented crop harvest during the 2006–2009 period (Ziegler 2013).

Why did this significant contrast between the pre- and post-1970s occur? Many regional conflicts before the early 1970s were also inflationary to commodity prices. Why had commodity prices been so stable despite regional conflicts—that Nitzan and Bichler consider to be major determinants of inflation—being unfavorable to the stability of commodity prices before the early 1970s? A major difference between the early 1970s and the following period was the monetary systems: the first being an international *commodity* money system and the other an international *fiat* money system. Under the latter system, the US has had the opportunity to use artificial money-creation mechanisms to enjoy the wealth produced by people outside the US without cost. This article argues that the US has tended to take advantage of such an opportunity and that this has been a cause of the surge in global commodity prices.

Michael Hudson, who developed the theory of *monetary imperialism*, did not consider the fact that the US expansionist monetary and fiscal policies led to the free transfer of wealth from the rest of the world to the US. At the heart of his theory of monetary imperialism is the “dollar-recycling” system in which the US issues surplus dollars to fund their high level of federal deficit, and the US balance-of-payments deficit supplies the surplus dollars to foreign countries that export goods to the US. The central banks of these foreign countries then send back the surplus dollars to the US by buying US Treasury securities (Hudson 2017). For Hudson, as the foreign exchange rate of the dollar has been decreasing since the mid-1980s until 2023, the amount of the decreasing value of the Treasury securities held by foreign central banks has become a tribute that the foreign central banks have paid to the United States. Hudson ignores the so-called inflation tax that the rest of the world has paid to the US due to the surge of global commodity prices caused by the US monetary and fiscal expansionist policies.

This article supports Marx’s view that the cause of economic crises is over-investment, not underconsumption. Marx ([1894] 1967, 410–411) argues as follows:

It is sheer tautology to say that crises are caused by the scarcity of effective consumption ... That commodities are unsaleable means only that no effective purchasers have been found for them ... But if one were to attempt to give this tautology the semblance of a profounder justification by saying that the working

class receives too small a portion of its own product and the evil would be remedied as soon as it receives a larger share of it and its wages increase in consequence, one could only remark that crises are always prepared by precisely a period in which wages rise generally and the working-class actually gets a larger share of that part of the annual product which is intended for consumption. From the point of view of these advocates of sound and “simple” (!) common sense, such a period should rather remove the crisis.

In the over-investment theory, the main cause of an economic recession is not a lack of demand for consumer goods but rather an excessive demand. That is, as over-investment in the industry of capital goods leads to an overall increase in income, more consumer goods are demanded than can be produced in the current production structure. This creates a surge of commodity prices and wages, creating inflation; and to fight this inflation, central banks engage in a contractionary monetary policy. This policy not only tempers inflation but also exposes the unprofitability of the over-investment in the industry of capital goods, resulting in an economic recession. This article assumes that expansionist monetary and fiscal policies are one of the causes of the over-investment that is at the root of the recession.

Arguably, banks’ creation of money grants banks and their clients additional purchasing power to acquire goods and services produced by other social members for free and thus transfers wealth and income to banks and their clients from the rest of society. This article examines how this wealth transfer has happened *internationally*, i.e., between countries. It argues that this has happened because the US has enjoyed the privilege of the US dollar being the world’s key reserve currency. It further argues that this privilege is possible thanks to the US military power and its alliance with Saudi Arabia. In other words, the free transfer of wealth is a political product.

If we successfully analyze the nature of the surge in global commodity prices, we can better identify a valid solution for it. To combat inflation, the monetary authorities of high-income countries, especially the Federal Reserve (hereafter, the Fed), rapidly increase interest rates and begin monetary tightening. However, since the 1980s, such monetary tightening has caused the flight of capital from emerging countries and thus led their currencies’ exchange rates to plummet, creating an economic downturn. During these crises, the financiers of high-income countries could buy the assets of emerging markets cheaply. Furthermore, these recurrent crises for the last four decades have strengthened the hegemonic privilege of the US dollar as the world’s key currency. Emerging countries, fearing a sudden exit of dollars and the resultant foreign exchange crisis in the future, have had to accumulate more dollars, increasing the international demand for dollars.

That is, monetary tightening to combat inflation has been a method to maintain the dollar's privilege.

To understand the mechanism of the international free transfer of wealth, we need to first understand how capitalist banking and governmental deficits are the mechanisms of money creation. The first section of this article begins with exploring this. The section also identifies that capitalist banking and public debt redistribute wealth among populations and thus contribute to creating inequality among them. These two methods of money creation are intrinsically vulnerable and can be subject to bankruptcy and thus it is difficult to maintain the stable purchasing power of their money. The second section of this article identifies that capitalist banking and the US federal debt could overcome this intrinsic vulnerability by allying with coercive power. In the case of capitalist banking, the allied coercive power is the state that can impose tax obligations on its citizens, while it might be the alliance between the US and Saudi Arabia in the case of the US federal deficit. The third section examines a mechanism by which the US expansionist monetary and fiscal policies have contributed to transferring wealth to the US from the world and thus to creating global inequality.

2. Free Wealth Acquisition and Inequality: Domestic

The shortage of money has been considered a major social problem in capitalism, causing trade stagnation and underemployment. Money is often hoarded privately and thus disappears from the economy. This hoarding propensity by private investors becomes intense especially when financial crises occur. In this situation, creating money and pouring it into the economy has been considered indispensable for rescuing a highly indebted economy suffering liquidity shortages. The capitalist money economy has developed a method to create more money: to use the magic of permanent indebtedness. Let me first explain how capitalist banking uses this method.

2.1. Capitalist Banking

The current law regards the demand-deposit-taking business of capitalist banks as a credit transaction where the banks become debtors to their depositors. What essentially differentiates credit transactions from other economic transactions is that creditors relinquish and transfer the present availability of funds to debtors until a maturity date. However, in the demand-deposit-taking business, depositors (creditors) do not relinquish the present availability of funds. Rather, the demand-deposit-taking establishes a double-ownership scheme where two groups in modern banking—a bank and the bank depositors—are the exclusive owners of the same cash kept safely in the bank's vaults. Thus, in demand deposits, a single

quantity of cash creates two cash balances of the same amount: one for the bank and one for the depositors. Consequently, the loaning of demand deposits to third parties by commercial banks creates a money supply, which is a mechanism through which private bankers create money.

The same mechanism of a double-ownership and money creation exists in money market funds. The shareholders of money market funds can withdraw their investment by writing checks at any time. Together with this open-endedness, by promising to maintain a net asset value of \$1 per share, money market funds create a double-ownership structure in which two exclusive owners—shareholders and institutional funds—enjoy the present availability of the same amount of funds.

The money creation of a commercial bank establishes mutual indebtedness. When it loans deposits to a borrower, it opens a demand-deposit for the borrower. Here, the bank also becomes a debtor to the borrower, because the current law regards a demand-deposit as a credit transaction where the bank becomes the debtor to the depositor (the borrower). Thus, the more money commercial banks create, the more indebted the banks, and the society as a whole, are.

Capitalist banking attempts to make it possible to turn short-term debt into a *long-term or permanent one*. From the standpoint of the holders of banks' debts—depositors—the credit was offered to the bank in the short term because the holders can withdraw it on demand. However, if a significant number of these creditors do not request withdrawals simultaneously, the banks can turn this short-term credit into a long-term or permanent one. If this happens, a portion of the pool of the credits to the banks remains permanently in the hands of the banks and thus becomes permanent capital that the banks do not need to repay. Continuously increasing the size of the pool is the main way banks reduce the risk of simultaneous withdrawals and increase their ability to create money.

Some economists have claimed that the demand-deposit of modern banking commits two frauds: one is embezzlement by a bank against its depositors, and the other is fraud by a bank and its depositors against third parties (De Soto 2006). Historical research on the origin of modern banking by J. Kim (2011) rejects the first fraud claim. He argues that goldsmith bankers, the first capitalist bankers, loaned deposits to third parties with the explicit or implicit permission of their depositors. However, he admits that the second fraud occurs, because a bank and its depositors have in fact contracted to create additional titles and claims to property when the depositors allow the bank to loan their deposits to third parties (De Soto 2006). This fraud grants bankers and their clients additional purchasing power to acquire goods and services produced by other social members for free and thus transfer wealth and income to bankers and their clients from the rest of society. This transfer of wealth causes inflation, commonly referred to as an “inflation tax,” by which society as a whole pays a tax in the form of inflation to

financiers and their clients. Not only do they accumulate wealth through business success when they create additional titles and claims and invest them to preoccupy social resources at cheap costs, but also their asset values increase as inflation occurs. This wealth transfer effect by modern banking and finance would also happen internationally as long as the US dollar is the world's key reserve currency and the Fed acts as the world's central bank in creating the reserve currency out of thin air. The next section of this article will examine this.

The money creation by capitalist banking creates an economic cycle of boom and burst. As mentioned, the money creation artificially explodes the monetary rights that could be exercised over the existing number of resources. Due to this artificial creation, long-term business projects that would not have been considered profitable if additional ownership titles were not made now appear seemingly profitable and are thus undertaken. This creates additional demand for production materials and labor and thus pushes up their prices. However, in reality, social resources for these long-term business projects are not sufficient to permit them to be complete, and thus some of the projects cut back their scale of operation, close down, or fail.

This failure eventually triggers bank runs in the banking and finance sectors, and the resulting liquidity crunches will further magnify the closure and eventual failure of the long-term projects. Without understanding this problem with the capitalist money-creation mechanism, for example, Karl Polanyi (2001) in the 19th century blamed only the gold standard. According to him, this commodity money played a role in monetary austerity creating a deflationary effect that could lead many firms to go bankrupt. This gold standard's role has now been replaced by the Fed's interest rate hikes and monetary tightening. Like Polanyi, many progressive economists criticize this austerity policy but show no interest in the US monetary and fiscal expansionary policies that have caused the surge of commodity prices and led many firms to embark on long-term capital investment that would eventually lead to failure.

2.2. Public Debt (or Government Deficits)

Public debt has been generally considered to transfer the costs of current expenditures to future generations, which can be seen as an intergenerational transfer of resources. However, the current form of public debt has already been transformed into permanent loans that future generations cannot and would not repay. That is, it has become free money, because the US government would need to increase its debts permanently. Thus, as long as the government can borrow money more and more, an increasing portion of the loans becomes capital that the government does not need to repay.

US public debt has already surged to such a high level (127% of GDP in 2021)¹ that the government would be unable to completely repay it even if it wanted to.

Moreover, the Congressional Budget Office expects that the US public debt will increase to 202% of GDP by 2051.² The following contexts require the US to accumulate more and more federal deficits.

The structure of the living space of the US is notorious for too much energy consumption: citizens have to drive even to buy cigarettes. Their profligate lifestyle is reflected in their carbon emission rate (especially the wealthy's). According to Thomas Piketty's estimation that includes consumers' contribution to the emissions, among the top 10% of the world's people responsible for 45% of the global emissions, North America represents 46%, Europe 16%, and China 12%. And, among the top 1% of the world's people responsible for 14% of global emissions, North America represents 57%, Europe 15%, and China 6% (Piketty 2020, 666).

Governmental expenditure is now in a growing trend. One of the reasons for this growth is the increasing inequality of wealth and income among US populations. The top decile shares of total income in the US already approached 50% in 2010–2020 (Piketty 2020, 666). To mitigate inequality, the US government has needed to spend more money on “transfer payments,” which include social security and unemployment insurance, by which the government redistributes money to those in need. Transfer payments were an average of 10.5% of GDP during the neoliberal period but increased to an average of 14.2% of GDP between 2008 and 2019, surging to 27.9% of GDP right after 2020.³

In contrast to the US people's high consumption level, their productive capacity is in a reducing trend. The annual growth rate of the US GDP has gradually decreased and is expected to reduce further according to OECD's long-term forecast.⁴ Furthermore, the average annual growth rate of labor productivity also portrays a decreasing trend, declining from 2.3% between 1982 and 2007 to 1.6% between 2008 and 2021.⁵ Resultantly, the marginal revenue productivity of non-financial debt has decreased from an average of 0.57 between 1982 and 2000 to 0.48 between 2001 and 2008, and 0.4 after 2008.⁶ That is, as the US nonfinancial sector has increasingly borrowed money, the revenue of the debt has decreased in productivity.

All these facts mean that the US has needed, and will continue to need, to accumulate more and more federal deficits and trade deficits to maintain the current lifestyle—which it has been successful in doing so far. The US has consistently run federal deficits since 1960, except for six years—1960, 1969, 1998, 1999, 2000, and 2001—and, overall, the size of these deficits has shown an increasing trend. Moreover, as seen in Figure 2, the US federal deficit as a % of GDP between 2002 and 2022 has been 3.37 times more than the average of its major trading countries including the Euro area, Canada, the UK, Japan, Switzerland, Mexico, China, and South Korea.

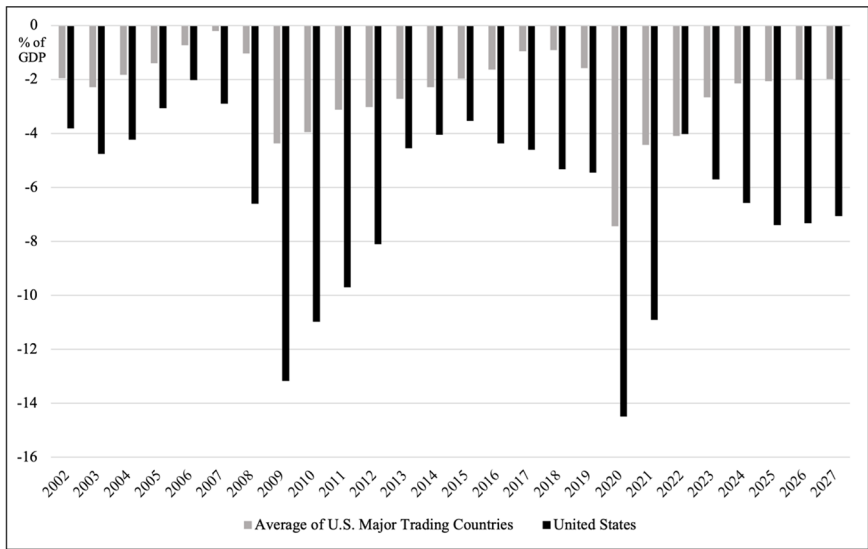


Figure 2. Government Deficits (% of GDP): US versus US Major Trading Countries*

Source: IMF Fiscal Monitor (<http://data.imf.org>).

Note: * US Major trading countries and region: Euro area, Canada, UK, Japan, Switzerland, Mexico, China, South Korea

Continuously increasing public debt is not a weakness of the US hegemony but its strength by which it turns its debt into its capital. This is the magic of permanent indebtedness. To continue this, the US has devised an unconventional method of borrowing—quantitative easing. Quantitative easing is a metaphysical trick that uses separate personhood between a central bank (e.g., the Fed) and a government (e.g., the US Treasury) to transform “debt” into “free money.” To achieve this, quantitative easing outwardly takes the form of a creditor-debtor relation between two persons—i.e., between the Fed and the Treasury—in which the former lends money to the latter. Since the financial crisis of 2008, the Fed’s purchase of Treasury securities—i.e., the Fed’s loan to the Treasury—has reached up to 22.9% of the GDP in the first quarter of 2021.⁷ To avoid confusion, I want to clarify that I am not suggesting that the Federal Reserve directly buys Treasury securities from the Treasury, which has been prohibited by the US Congress since 1981. Instead, the Federal Reserve conducts its purchases in the secondary market for Treasury securities, effectively lending money to the Treasury through these transactions.

In substance, however, the Fed does not lend money to the Treasury: it just pretends to be so. The reasons are as follows. The Fed must, by the Federal Reserve

Act, transfer to the Treasury its interest income earned from the lending of Federal Reserve notes. Any interest payment made by the Treasury to the Fed is a part of this interest income and must be returned to the Treasury. As shown in Figure 3, the Treasury was repaid 1.6 times more from the Fed than it paid in interest from 2018 to 2020. Why does the creditor (the Fed) return its interest gains (or more than its interest gain) to the debtor (the Treasury)? This would not happen in an ordinary creditor–debtor relationship.

In this respect, the separation between the Fed and the Federal government is a fraudulent trick. When the Federal government asks the Fed to transfer the interest income back to the government, the government justifies the transfer by citing the fact that the Fed is *a part of the Federal government*. The Fed exists because of an act of Congress, and its Board of Governors is a *presidentially* appointed agency of the Federal government that must report to and is directly accountable to the US Congress. However, when the Federal government wants to create a false impression that the government borrows money from the Fed and repays the debt with interest, it emphasizes the fact that the Fed is set up like a private corporation and is therefore *not a part of the Federal government*.

Quantitative easing is addictive and difficult to forgo after initiation. The US's addiction to it was proven by the 2020 financial crisis. During the financial crisis of March 2020, mutual funds, the household sector, and foreigners made a run on the Treasury market (Cheng, Wessel, and Younger 2020; Vissing-Jorgensen 2021). The sales were large in historical terms, amounting to \$266 billion, \$196 billion, and \$287 billion, respectively, for the three groups in the first quarter of 2020 (Vissing-Jorgensen 2021, 21). This run was unusual because, in previous crises, investors had fled to the Treasury market to buy Treasury securities, which were considered the world's safest and most liquid securities. The 2008 financial crisis was overcome when the public took on the debt burden of the private sector, and since then, the public has played a central role in providing money to the economy. However, this excessive reliance on the role of the public, that is, on Treasury securities, has increased the possibility of investors in urgent need of liquidity making a run on the Treasury market and worsening a financial crisis. This happened in March 2020, and in response to this illiquidity in the Treasury market, the Fed initiated another round of quantitative easing on a larger scale than that implemented after 2008. In the long term, the US would have difficulty managing this damaged Treasury market if the Fed does not purchase Treasury securities additionally. Thus, if quantitative tightening creates another illiquidity in the Treasury market, the Fed will implement quantitative easing again. In fact, the Fed recently implemented it again by the amount of \$297 billion between March 9 and March 15, 2023, when some US commercial banks experienced insolvency risk and thus faced bank runs in March 2023.

Furthermore, quantitative easing comprises a major means for the US government to reduce the overall burden of interest payments. As Figure 4 shows, the more the US government is indebted to the Fed, the less interest it is able to pay on its overall debt. Any attempt to repay a significant part of its debt to the Fed will destabilize government finances. It will increase the interest rate of Treasury securities and reduce the income from the Fed, as happened in 2018 and 2019 (see Figure 3). It will also decrease tax revenue because it will drop the prices and transactions of assets such as shares and houses, from which a significant source of tax revenue has been made.

As the US will rely on quantitative easing more and more, the US will have a chance to easily solve its extraordinarily high level of public debt: abolishing its largest creditor, its central bank. By removing its largest creditor, the largest portion of its debt obligation will also evaporate. While this idea may seem far-fetched, this will inevitably surface in future discussion of means of addressing the massive debt accumulated by quantitative easing. Otherwise, to finance the payment of the public debt, the US needs to impose a special progressive tax on wealthy people. After World War II, to pay the public debt, Japan, Germany, Italy, France, and other countries imposed a 40–50% tax on real estate and financial assets of wealthy people (Piketty 2020). However, it should be noted that the main reason for implementing quantitative easing would be to avoid this method of repaying public debt.

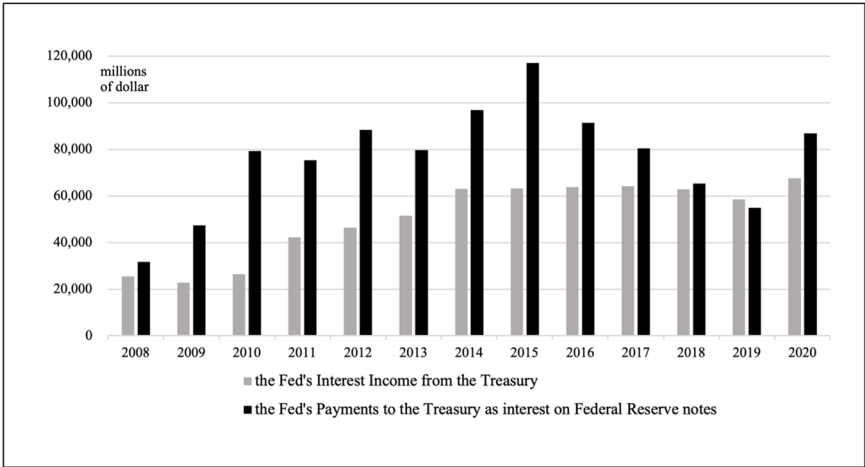


Figure 3. The Treasury’s Earnings from the Federal Reserve

Source: Federal Reserve Annual Financial Statements, see <https://www.federalreserve.gov/aboutthefed/fed-financial-statements-archive.htm>.

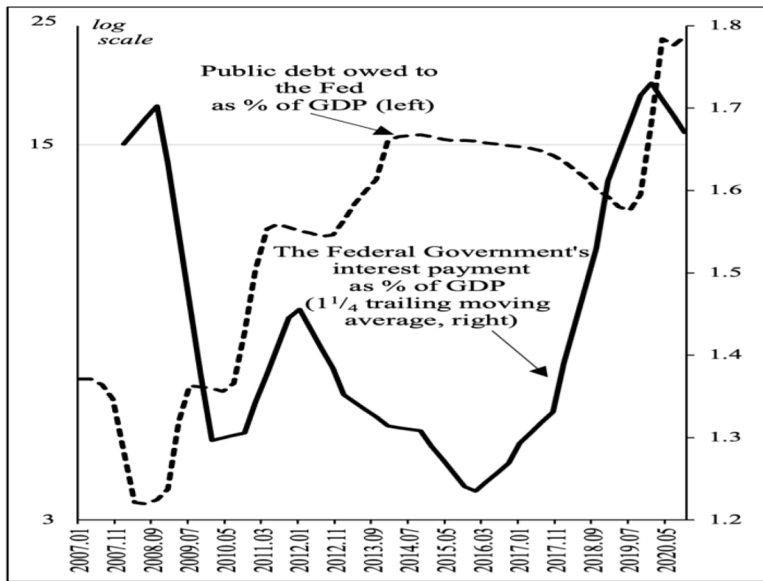


Figure 4. The Federal Government's Interest Payment and Public Debt Owed to the Federal Reserve

Source: US Bureau of Economic Analysis, see <https://fred.stlouisfed.org/graph/?g=1tYvX>.

The money-creation mechanism of capitalist banking and governmental deficits is socially and morally repugnant for several reasons. First, it makes whole societies indebted, in that it puts them into captivity, fastened with the chains of debt. Highly indebted social actors, including governments, business corporations, and individuals, tend to look at everything around them as a potential source of income, urgently feeling the need to repay the interest and principals of their growing debt. Furthermore, the money creation of capitalist banking grants bankers and financiers the power to decide which industry the resources of a society are allocated to. When making these decisions, their only concern is pecuniary, with other social values, including helping the poor and preserving the environment, largely rendered irrelevant. The money-creation mechanism also contributes to worsening inequality. It allows bankers and financiers to inflate the right to control social resources, which are only available to societies in limited quantities. In this sense, modern banking and finance redistribute wealth and income between social members, i.e., a free transfer of wealth and income to financiers and their clients from the rest of society. Moreover, groups of capitalists and industries that can initially borrow newly created money at cheap rates can also acquire social resources before other people and industries, thereby gaining market power to

obtain an edge in the competition for profits. Furthermore, bankers, financiers, and those who can initially borrow money at cheap rates have the power to impose *inflation taxes* on society since the newly created money will eventually cause inflation. All these privileges that they enjoy have contributed to growing inequality. Finally, it has created an economic cycle of boom and burst. Natural resources are overexploited during boom times and then wasted during a recession (burst). This unsustainable drive to exploit natural resources has now reached an ecological tipping point with the effects of anthropogenic climate change.

However, throughout history, there have been economic systems where monetary expansion is not required because money was not the dominant medium of exchange in these systems. According to David Graeber (2011), a credit economy and a money economy have been alternating across the Eurasian continent for the last 5,000 years. A credit economy is an economy where credit instruments, such as bills of exchange, are the dominant medium of exchange, while a money economy is an economy where the dominant medium of exchange is money, such as coins or fiat money. According to Graeber (2011, 213), a money economy, which includes the current capitalist money economy, predominated during periods of widespread warfare and plunder or periods of ruthless materialism and self-interest, while the credit economy tended to dominate during periods of relative peace or across networks of trust without the violent intervention of the state. In a credit economy, monetary expansion was not required because money was stockpiled in temples or public banks and was *rarely* used as a medium of exchange. In this economy, public banks or temples played the role of facilitating trade among merchants by offering both a deposit-taking service and a clearing service. For example, in the 17th century, the Bank of Amsterdam maintained a 100% reserve ratio, and merchants in Amsterdam were legally obliged to present their bills of exchange to the bank. The debts of the bills were cleared among the merchants by using their funds deposited in the bank. Furthermore, this economic system did not create the artificial business cycle of boom and bust because it did not artificially expand or reduce money. Moreover, a credit economy does not pour money into the economy to solve debt crises; rather, it directly restructures the social relationship between creditors and debtors. For example, the Babylonian and Sumerian civilizations had a highly developed credit economy, and peasant debts were often canceled by emperors during periodic “redemptions.” This cancelation of consumer debt was often seen as recovering the relationship of equality, strengthening social order, and contributing to the maintenance of the credit economy.

This way of recovering equality between rich creditors and poor debtors differed from the way a money economy treated debt crises: a money economy would pour money into the economy so that the *rich creditors could still be repaid*. Thus, in a money economy, a society can escape from debt crises but will have to

maintain and cultivate inequality between rich creditors and poor debtors. A similar phenomenon happened in recent quantitative easing measures. For example, as seen in Figure 5, inequality—represented by the share of total net worth held by the top 1%—has increased as quantitative easing has increased (Pearson's correlation coefficient of 0.83). There are several reasons for this strong correlation between inequality and quantitative easing. First, a large part of the money provided by the Fed to the economy has been directly used to allow creditors immunity from any loss incurred from financial crises. All financial crises are the crisis of creditors who would lose money due to the debtor's default. The riskier this default is, the more interest these creditors receive. In return for this interest payment, it is economic ethics that creditors and debtors should share the loss caused by the debtor's default. However, the government's 2008 bailout program protected creditors but let individual debtors, such as home mortgagors, lose their homes. This has resulted in the foreclosure of 5.3 million US homes since the beginning of the crisis of 2008 (Kruger 2018, 586). Second, a large part of the distribution of wealth has been made through the US banking and financial system. Upper- or middle-class people with good credit scores can borrow money at cheap prices from banks and invest in the stock market and real estate. As stock prices and house prices have soared, so has the wealth of the upper class.

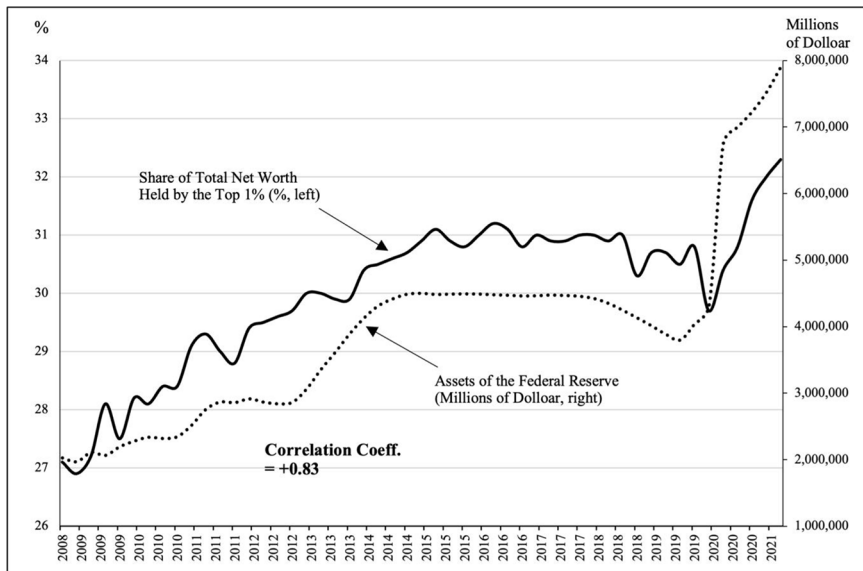


Figure 5. Quantitative Easing and Wealth Inequality in the US

Source: Board of Governors of the Federal Reserve System, see <https://fred.stlouisfed.org/graph/?g=1tYwz>.

Despite its drawbacks, quantitative easing undeniably played a vital role in fostering the economic recovery of the US, mitigating the potential hardships for the less fortunate. The infusion of substantial liquidity and the reduction of interest rates allowed corporations and households to refinance their debt. For example, if a homeowner's mortgage amount surpasses the value of their house, they typically cannot refinance it. However, the overall increase in house prices resulting from quantitative easing enables refinancing opportunities. Thus, the share of household debt service payments in disposable personal income decreased from 13.2% in 2007 to 9.2% in 2021.⁸ Furthermore, as US business corporations gained a competitive edge over their international counterparts by refinancing at reduced cost, the US GDP exceeded that of other nations. Since 2013, the US share of global GDP has grown. Quantitative easing also facilitated increased government spending on transfer payments, as mentioned earlier. Consequently, the expansion of liquidity through quantitative easing exhibits a similar effect to that observed in earlier money economies: temporary escape from debt crises at the expense of perpetuating inequality between the rich and the poor.

3. Relying on Coercive Powers

Capitalist banking is intrinsically vulnerable and subject to being bankrupt and thus, by itself, cannot maintain the stable purchasing power of its money. When capitalist banks originated in late 17th-century England, they failed to acquire third-party trust because they frequently suspended cc, and their bankruptcies were relatively common. This raises a question. How could the banks' unreliable paper money circulate so widely among a public that perceived it as untrustworthy?

Here, the key to such circulation would be earning the support of the coercive power of the state that can impose tax obligations on its citizens. The English state accepted the paper money of the Bank of England in the payment of tax right after the establishment of the bank. All citizens would then be able to accept the unreliable paper money of the bank because the paper money allowed them to finalize their tax payment obligations. The English state offered such support to the capitalist banks to use the bank as a way of extracting war resources (Kim 2013).

Karl Marx in his *Capital* Volume I emphasized that public debt and modern taxation had coercive and exploitative natures. According to Marx, public debt created an idle rentier class who made money without effort and risks, and to cover increasing interest payments on growing public debt, the government imposed *over-taxation* on its citizens. Public debt's coercive and exploitative nature would be best seen in the fact that it is part of a war machine, in that it is the most efficient way of extracting war resources quickly and on a massive scale. Knowing how public debt put international peace in danger, the 18th-century philosopher

Immanuel Kant argued that public debt allowed “the warlike inclinations of those in power” to wage war easily and was therefore “a great obstacle to be in the way of perpetual peace.” He, therefore, suggested that “no public debt shall be contracted with the external affairs of the state” (Kant 1991, 95). Capitalist banking would not become a sustainable social institution without the rise of public debt and imperialistic warfare (Kim 2013). That is, it could be such an institution because it contributed to efficiently transferring wealth and resources to military sectors from the rest of the English society.

The military–banking–public debt complex that existed in early modern England still holds for shadow banking in 21st-century America. Since the 1960s, the US government has had to continue increasing its public debt in order to wage wars, including in Vietnam, the Persian Gulf, and Iraq. Before the 1970s, commercial banks were the main purchasers of US public debt, but they could not extend the purchase because they were still restricted by the banking regulations set after the Great Depression. For example, Regulation Q had restricted commercial banks to interest rate ceilings for demand deposits from 1933 until 2011 and thus constrained the banks’ ability to create the money required to purchase US public debt. The government, therefore, sought alternative purchasers and allowed them to avoid the regulations imposed on commercial banks. This alternative has been “shadow banking.” Shadow banking has also needed the government’s legal and political support to ensure that its credit instruments are treated differently from other simple credit instruments, i.e., treated as money. A typical example was the US Congress’ overriding of the decision made by the US bankruptcy court in *In re Lombard-Wall*. This court ruled that a repurchase agreement is a credit and thus subject to the Chapter 11 bankruptcy process. This decision could bring back fairness among creditors because it defeated the artful self-serving attempts by lawyers and financiers to make loan transactions look like sale transactions to avoid the bankruptcy process (Schroeder 1996). However, Congress overrode it in 1984 by amending the Bankruptcy Code and exempting repurchase agreements from the bankruptcy process, because it feared that the court’s decision would impair the market of repurchase agreements which was one of the main buyers of Treasury securities (Schroeder 1996). Thanks to the government’s legal and political support, shadow banking’s growing ability to create money has increasingly supported the growth of US public debt. Mutual funds and money market funds have invested heavily in public debt. Prime dealers in public debt finance their activities by using repurchase agreements, in which, Treasury bills and bonds are used as the main collateral. In repurchase agreements, Treasury bills and bonds are used as the main collateral.

The amount of quantitative easing, i.e., the amount of free money that the Fed created out of thin air for two years and three months, between March 2020 and June 2022, was 4,775 billion dollars.⁹ With this quantitative easing, the US public

debt has also surged to 120% of GDP in the second quarter of 2022.¹⁰ If most countries were to print such an enormous amount of money and maintain such a high level of federal deficit and public debt, as William Engdahl (2003) writes, the increasing risk of their default would lead their currencies' exchange rates and international demand to decline sharply, resulting in an economic downturn. Why does this not happen in the US?

In fact, the purchasing power of the dollar against commodities has significantly declined as the US has implemented its expansionist monetary and fiscal policies since the early 1970s: it has declined by approximately -3,500%, as seen in Figure 6. The best way to calculate the purchasing power of a currency is to measure it against commodities. Thus, the global price index of commodities could be the best measure for it. However, because the index is available only after 2000, in Figure 6 I use the inverse of crude oil prices as the proxy for the purchasing power. Oil prices can be a good proxy for the total prices of commodities because the price of crude oil accounts for over half of the general commodity index and has tended to move together with the prices of other commodities, as

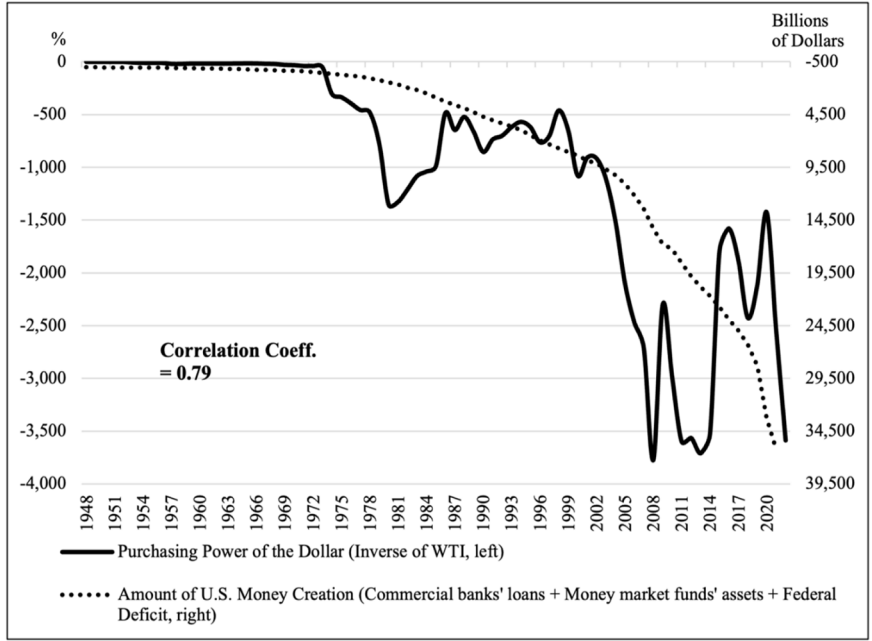


Figure 6. Purchasing Power of the Dollar

Source: Board of Governors of the Federal Reserve System, Federal Reserve Bank of St. Louis. See <https://fred.stlouisfed.org/graph/?g=1tYY6>.

Figure 7 demonstrates. The Pearson's correlation coefficient between crude oil prices and the overall trend of global prices of all commodities since 2000 is 0.9. When its absolute value is larger than 0.7, the relationship between two variables is generally considered strong. Why has the world accepted a continuously declining value of the world's reserve currency and held on to it? That is, why have they borne such an extreme loss?

Various theories have been advanced to explain why the exchange rate of the US dollar remains stable despite extensive money printing and significant trade and budget deficits. One notable explanation put forth by progressive political economists concerns the petrodollar alliance between the US and Saudi Arabia. They argue that the US has pressured oil-exporting countries to coerce them to accept only US dollars for their oil sales (Clark 2005; Engdahl 2003; Spiro 1999; Di Muzio and Robbins 2016). That is, US political and military power—specifically, the nexus of petroleum and the US dollar—has been a crucial

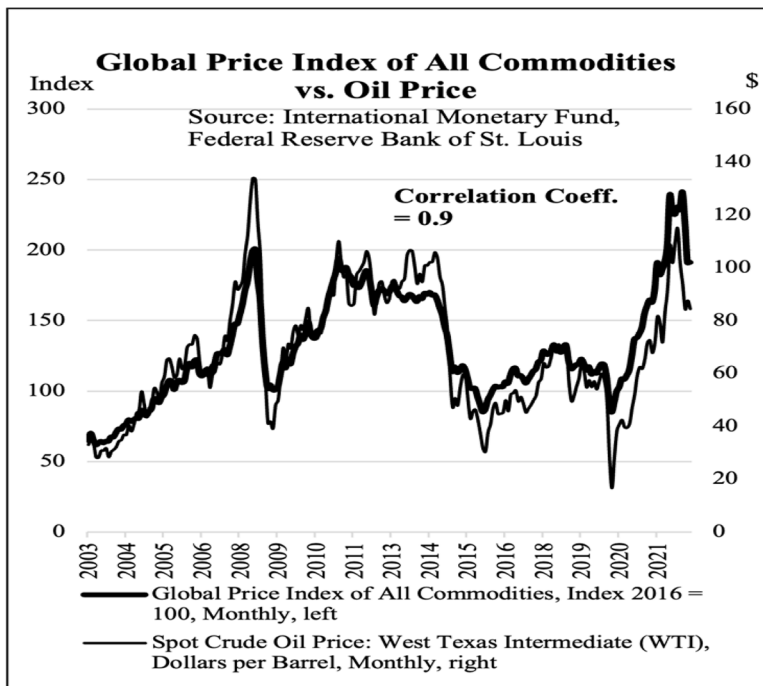


Figure 7. Global Price Index of All Commodities vs. Oil Price

Source: International Monetary Fund, Federal Reserve Bank of St. Louis. See <https://fred.stlouisfed.org/graph/?g=Z7bB>.

factor, as some political economists have argued (Clark 2005; Engdahl 2003; Spiro 1999). The arguments of those economists are as follows. Petroleum has been the most essential natural resource for every industrialized nation since the early 20th century. When US dollars are the only currency with which petroleum can be bought from OPEC (Organization of the Petroleum Exporting Countries) countries, dollars become the sole world currency. This occurred when Western countries settled on the Bretton Woods international system that existed between 1944 and 1972. When this system broke down, the dollar's privilege should have been deprived as well. However, the US maintained its privilege by allying with Saudi Arabia, the dominant power among OPEC countries: Saudi Arabia agreed to accept only US dollars when it sells its petroleum in return for US military protection (Clark 2005, 30). Secretary of State Henry Kissinger made this secret deal in June 1974, establishing the US–Saudi Arabian Joint Commission on Economic Cooperation, and in 1975 OPEC officially agreed upon it (Engdahl 2003).

Since then, according to those above economists, all attempts of other OPEC members to accept other currencies such as the euro for the sale of petroleum have been severely punished by the US. For example, in 2000, when Saddam Hussein announced that Iraq would accept euros for the sale of petroleum, the US invaded Iraq and removed him (Clark 2005, 28–30). As William Clark (2005) and Engdahl (2003) argue, the Iraq War was waged in part to thwart Iraq's attempt to switch to the euro. Thus, “one of the reasons Germany and France opposed the war in Iraq was that they knew Saddam Hussein's switch to the euro as Iraq's oil transaction currency enhanced the movement worldwide to the euro as a major reserve currency” (Clark 2005, xvii). In fact, Ron Paul, a US Congressman, admitted in February 2006, “[Saddam Hussein's] attack on the integrity of the dollar as a reserve currency by selling his oil in euros” was a significant reason why the US waged war (Paul 2006).

Initially dismissed as a conspiracy theory, this view by those above economists gained credibility as other OPEC members have also been the targets of US economic sanctions when they attempted to move away from the petrodollar arrangement. For example, Iran has attempted to sell its oil for payment in all other currencies. The US responded to this by unilaterally withdrawing from the Iran Nuclear Deal in 2018 and by re-imposing economic sanctions aimed at excluding the country from the world financial system and the world economy. There has also been a correlation between the US antagonism against Venezuela and Venezuela's moving away from the petrodollar arrangement. A year after Venezuela's ambassador to Russia stated that Venezuela would switch to the euro for all its oil sales, a coup was attempted against Chavez in 2002, “reportedly with assistance from CIA” (Paul 2006). When the US stepped up economic sanctions

on Venezuela in August 2007, Venezuela responded immediately by publishing its oil prices in the Chinese yuan rather than in the US dollar and selling its oil in a basket of currencies. Soon after, the US government signed another round of crippling sanctions on Venezuela (Chengu 2019).

The logic behind how the US dollar—whose value has continuously declined—has maintained its international demand is that every nation that needs petroleum to develop industries must acquire US dollars to purchase it.¹¹ The declining value of the dollar has been a kind of tax that every nation has paid to the US since 1944. Even if the US has maintained federal deficits 3.37 times more than the average of its major trading countries between 2002 and 2020 (see Figure 2), the dollar index that measures the dollar's competitiveness against its major trading countries has not declined due to the strong international demand: the dollar index in January 2020 was almost the same as that in February 2000 (see Figure 11).

Without the US's capability of maintaining the immense US public debt and federal deficit, the US government would not be able to finance its exceedingly large military expenditure that occupied 38% of global military spending in 2022. As seen in Figure 8, the total sum of the US military expenditure between 1947 and 2022 is almost the same as the total sum of the US federal deficits during the

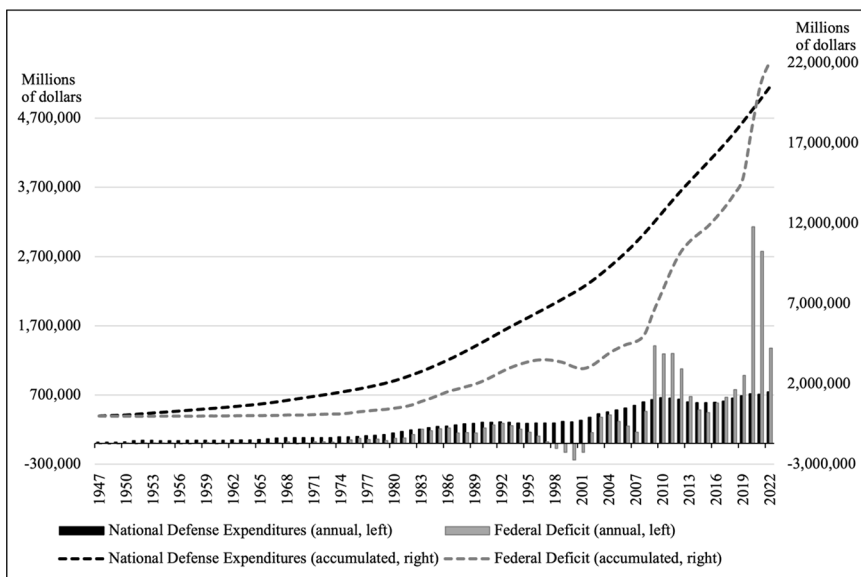


Figure 8. Federal Deficits & National Defense Expenditure

Source: US Bureau of Economic Analysis, US Office of Management and Budget. See <https://fred.stlouisfed.org/graph/?g=Z9k5>.

same period. To oversimplify, as Graeber (2011, 365) argues, if the US had not spent so much on military spending, it “would not run a deficit at all.” The truth is at least that the US’s capability to maintain an extremely high level of federal deficit has allowed the US to maintain such a high level of military expenditure stably. For example, as Figure 8 shows, thanks to its extraordinary capability, the US could maintain a high level of military expenditure even when the US suffered financial crises and thus its tax revenue significantly dropped in 2008 and 2020.¹²

Figure 9 shows the trend of yearly money creation since the early 1970s in the US. In the 1970s, money creation was largely led by banks. Afterward, between

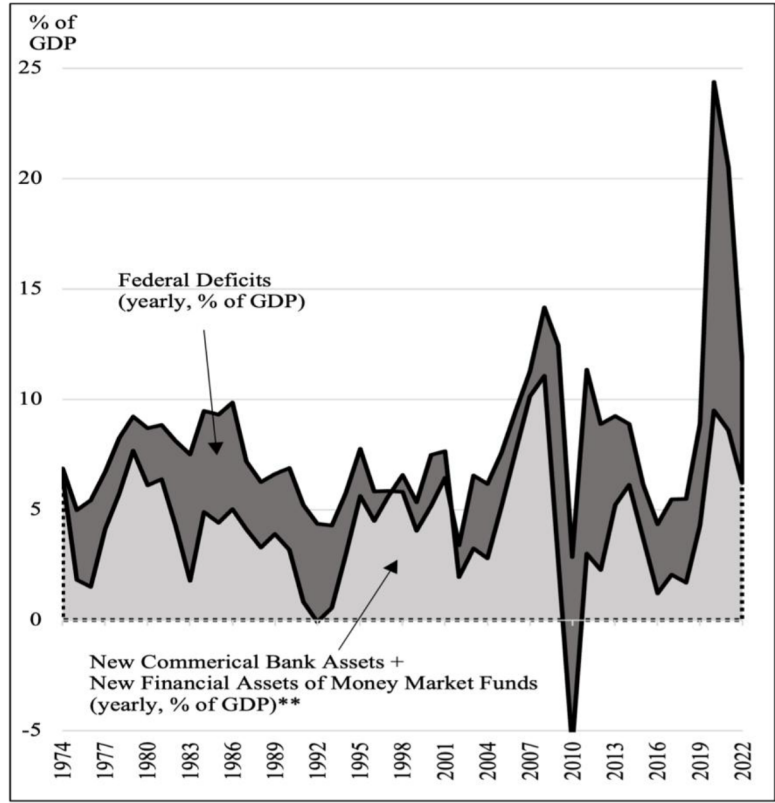


Figure 9. Yearly Money Creation of the US (Stacked Area Chart)

Source: Board of Governors of the Federal Reserve System, US Bureau of Economic Analysis, US Office of Management and Budget. See <https://fred.stlouisfed.org/graph/?g=129gf>.

Note: ** Their assets in the form of Treasury securities are subtracted to avoid double counting federal deficits.

1983 and 1994, it was led by a fiscal deficit. After 1994, banks, especially money market funds, again led money creation, but their ability to create money was seriously damaged during the global financial crisis of 2008. Since then, money creation has been led largely by a federal deficit.

To sum up, the US financial system consists of three main pillars (see Figure 10). Money-making by US federal deficit and capitalist banking has offered free money to the US. With this free money, the US acquires products and services produced by other countries for free. That is, the free money leads to the free transfer of wealth to the US from the rest of the world. This free transfer of wealth occurs because the US dollar is the world's reserve currency. Even though emerging countries have also used the money-making mechanism to facilitate industrialization, their use does not allow the free transfer of wealth to those countries from other countries. Its money-making led to a decline in the international demand and value of their currencies and thus redistributes wealth largely among their social members inside.

Furthermore, US money-making has funded the US's immense military expenditure that allows the US to have the most powerful military in the world. In turn, the US's military power has allowed the US to ally with Saudi Arabia, the leader of OPEC, and has forced the members of OPEC to use only US dollars for the trade of petroleum. Because the US dollar is the only currency by which other countries can buy petroleum—the most important commodity for industrialization—the US dollar becomes the world's reserve currency. The three pillars support each other. If one of them breaks down, the other two will also collapse.

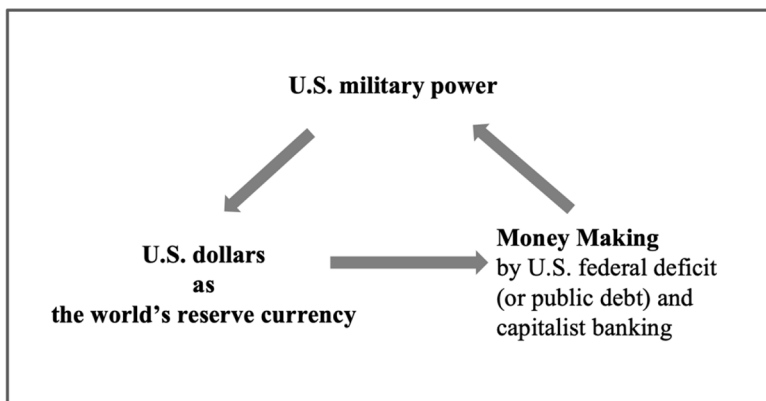


Figure 10. The Three Pillars of US Monetary Imperialism

4. Free Wealth Acquisition and the Surge of Global Commodity Prices

The surge of global commodity prices seems to be an expression of the free transfer of wealth. As the US sucks up the world’s resources with free money and thus makes it difficult for low-income countries to access goods and commodities, global prices of commodities rise sharply, contributing to global inflation. Let us examine the mechanism by which the US expansionist monetary and fiscal policies have been related to the surge of global commodity prices.

Figure 11 identifies that there has been a strong inverse correlation between the price of crude oil (and commodity prices in general) and the US dollar index since 2000. Macroeconomists have been intrigued by the correlation and have tried to explain why this has happened. The dominant view among them is that a causal relation largely goes from the dollar index to the price of crude oil. That is, a *slight* change in the relative value of the US dollar against other competing countries’ currencies has led to *great* volatility in the price of crude oil. A decline in the relative value of the dollar gave OPEC an incentive to make up for the loss caused by the declining value and to strengthen the cartel (Barsky and Kilian 2004, 126;

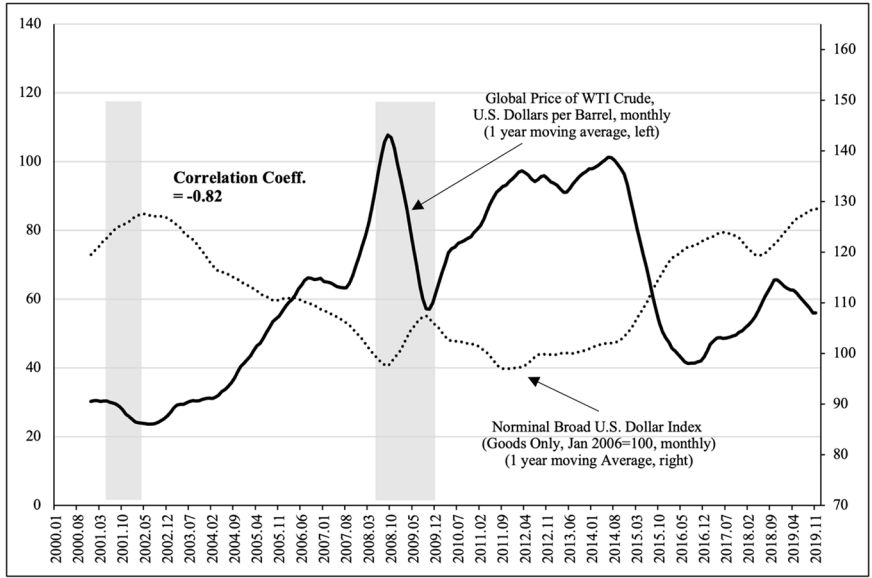


Figure 11. Crude Oil Price & Dollar Index

Source: Board of Governors of the Federal Reserve System, International Monetary Fund. See <https://fred.stlouisfed.org/graph/?g=1tZ12>

Bhar and Malliaris 2011, 1049). Scholars have also identified that the US government has not always favored low oil prices: it has preferred high oil prices when the relative value of the dollar declines, that is, when the dollar's status of being the world's reserve currency is being threatened (Bichler and Nitzan 2014, 63). When a declining relative value of the dollar leads other countries to attempt to forgo the dollar and thus weakens the international demand for the dollar, rising oil prices can reverse this trend because it leads every country to need more dollars to buy expensive oil from OPEC. Furthermore, as Nitzan and Bichler (2014, 63) point out, "rising oil prices were ... expected to skew the geopolitical balance in favor of the United States and Britain, which had their own oil resources, and against Japan and Continental Europe, which did not." Rising oil prices also pacify the complaint of its ally in the Middle East—Saudi Arabia—about the loss of its oil revenue due to the declining dollar and prevent it from accepting the euro or Chinese yuan. The US dollar's competitiveness against its major trading countries has been strongly affected by the amount of the US federal deficit and its trade deficit. As Figure 12 reveals, the latter precedes the former. This implies that as US federal deficits and trade deficits have increased, that is, as the US people "live

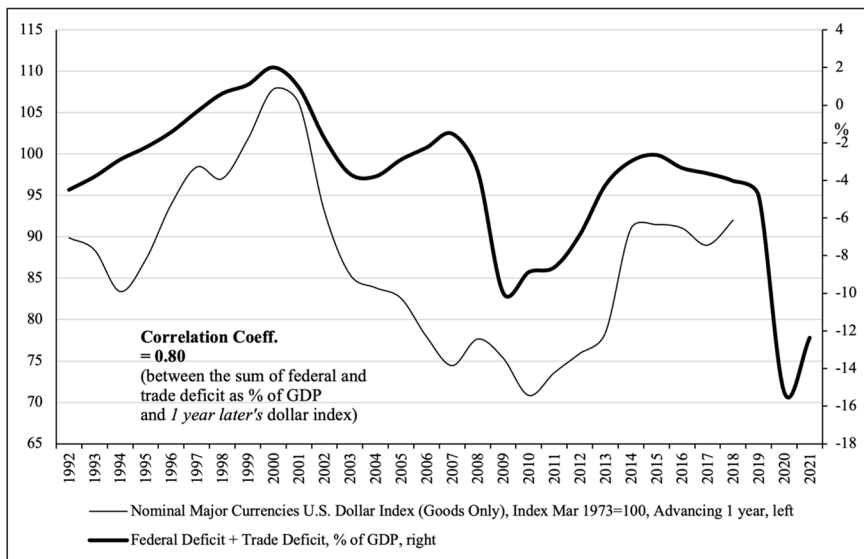


Figure 12. The Sum of the US Federal Deficit and Trade Deficit vs. Dollar Index

Source: US Census Bureau, US Bureau of Economic Analysis, US Office of Management and Budget, Board of Governors of the Federal Reserve System. See <https://fred.stlouisfed.org/graph/?g=Lxwp>.

profligately beyond their means” in Maynard Keynes’s terminology (Keynes 1980, 30), its currency’s value against major trading countries’ currencies has also declined approximately in one year. These declinations have contributed to global inflation that has caused food crises, serious hunger levels, and various forms of conflicts including protests and uprisings in low-income countries.

Commodity prices are affected by various factors. However, we can find that monetary factors have been major determinants of commodity prices if we examine a difference between two periods—before the early 1970s when the international commodity money system was established, and after when the international fiat money system was established.

The Bretton Woods monetary system has two aspects. First, its *commodity money* system contributed to stably maintaining the global price of commodities because the prices of various commodities including gold, petroleum, and wheat tend to move together, as seen in Figure 1. By anchoring the US dollar to 35 ounces of gold, the purchasing power of the dollar for other commodities had also been maintained stably.

Second, according to an international agreement for commodity buffer stock, during the two decades between 1950 and 1969 the government storage buffer held over two-thirds of the total US wheat stocks and almost one-half of the corn stock (Baines 2017, 505), and the government implemented the regulatory policies of the Texas Railroad Commission regime, by which the government maintained an excess capacity of petroleum production (Barsky and Kilian 2001, 169). By using large storage or capacity, if the prices increased excessively, the government flooded the market with those commodities and thus cooled down the surge of the prices. This international agreement for commodity buffer stock reflected Keynes’s economic idea for commodity price stabilization (Baines 2017, 504).

Even after the US broke its promise to convert dollars with gold in the early 1970s and gave up the buffer stock in the 1980s, the US wanted to enjoy the dollar’s privilege of the world’s reserve currency. However, the US’s desire to continue to enjoy the privilege of the world’s reserve currency did not begin just with the collapse of the Bretton Woods system. The seeds were already planted when the system was designed. We can find these seeds when comparing the two proposals of the Bretton Woods system, one by Keynes, the representative of the British side, and the other by Harry D. White, the representative of the American side. Both proposals aimed at restoring the gold standard internationally, but Keynes proposed to peg an international currency (called “bancor”) issued by an international clearing bank to gold, while White proposed to peg the US dollar to gold. In Keynes’s proposal, when any country suffered a balance-of-payments

deficit, it could borrow from the international clearing bank within a set quota. Keynes presents each country's quota as half of its annual trade value, which is the sum of the country's average annual exports and imports for three years, and allows loans up to a quarter of the quota on an annual basis without any restrictions. On the other hand, in White's proposal, only the US would receive unrestricted loans from the Federal Reserve. In this way, the privilege that only the US can sustain the large amount of fiscal deficit and trade deficit is designed in the Bretton Woods system. Of course, establishing the International Monetary Fund (IMF) opened up opportunities for loans to other countries experiencing balance-of-payments deficits, but loans were only available under strict conditions in limited cases.

However, despite this weakness, the international commodity money system of the Bretton Woods restricted the capacity of US money creation as long as the US promised to convert the dollar with gold. However, in 1971, when US President Nixon declared non-conversion, the United States was freed from the restriction of the international gold standard. As a result, fiscal deficits and banks' money creation in the US have periodically reduced the purchasing power of the dollar and have been a major cause of the hike of global commodity prices. As seen in Figure 6, the Pearson correlation coefficient between the purchasing power of the dollar against commodity and the amount of US money created since 1948 is -0.79 .

The abolition of the international commodity money system does not necessarily mean the sharp decline of the purchasing power of the world's reserve currency. If the US had maintained real interest rates positively and stably and had not been tempted to create money on a large scale, the value of the currency would have been stable. However, the US has often failed to resist the temptation of creating free money. Figure 13 shows the Fed's interest rate policies since 1955. Between 1955 and 1973, it stably maintained positive real interest rates (excluding 1957 and 1958). However, since the international fiat money system was introduced, the policy of real interest rate has been extremely unstable, and since 2003, it maintained negative real interests (excluding 2006, 2007, 2009, 2015, and 2019). Figure 13 also reveals the correlation between real interest rates and the purchasing power of the US dollar against commodities. The annual average purchasing power of the US dollar had been stably maintained between 1955 and 1973 when the Fed stably maintained positive real interest rates. However, it has fallen to the ground since 2008, when the Fed's monetary policy became extremely expansionist, that is, when its real interest rate policy was extremely negative. Figure 14 shows that as the US government's fiscal policy has been extremely expansionist since 2008, the purchasing power of the US dollar has fallen to the ground.

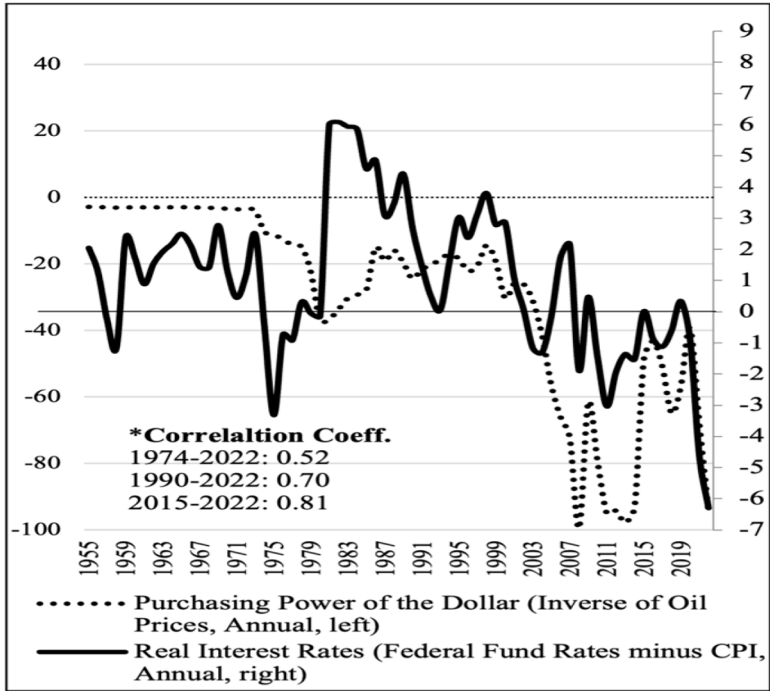


Figure 13. US Policy of Real Interest Rates vs. Purchasing Power of the Dollar

Source: US Office of Management and Budget, Board of Governors of the Federal Reserve System. See <https://fred.stlouisfed.org/graph/?g=Z59s>.

5. An Alternative Financial System

A dominant group of academics argue that the US federal deficit and trade deficit are inevitable because they believe these deficits play an indispensable role in providing the world’s reserve currency globally. According to these scholars, the supply or production of the world’s reserve currency has never kept pace with its demand given the rapid growth of international trade, finance, and investment. Consequently, they assert that the US, as the provider of the world’s reserve currency, is compelled to bear the burden of deficits to meet the global demand for dollars.

This mythical perspective is implicit in the well-known Triffin dilemma. The dilemma is said to arise because the US must consistently run a trade deficit in order to sustainably supply dollars worldwide. The dilemma suggests that this persistent deficit puts the international creditworthiness of the world’s reserve currency at risk, potentially leading foreign central banks to convert the US dollar to

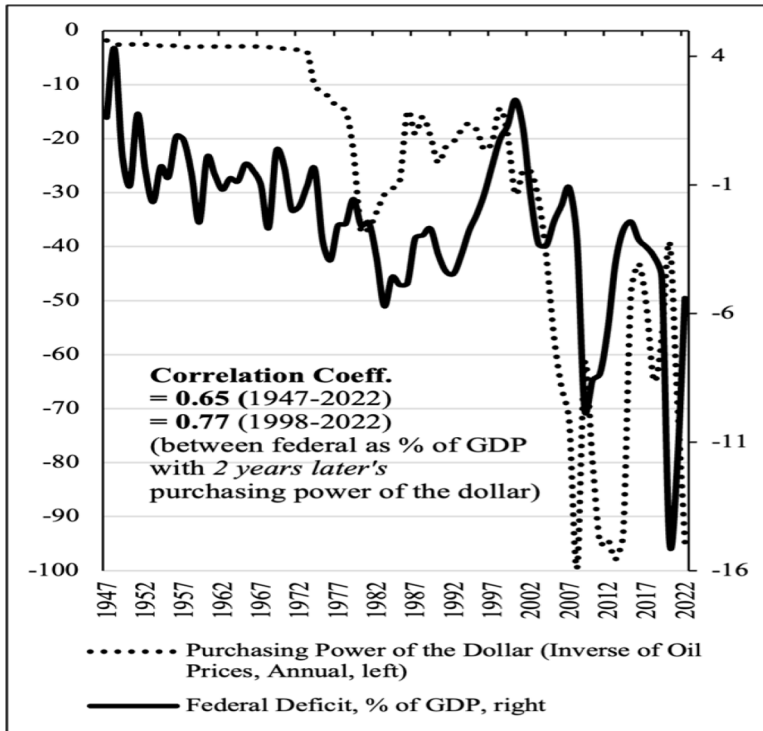


Figure 14. US Fiscal Policy of Federal Deficit vs. Purchasing Power of the Dollar

Source: US Census Bureau, US Bureau of Economic Analysis, US Office of Management and Budget. See <https://fred.stlouisfed.org/graph/?g=1tZKO>.

gold. This scenario could ultimately result in the US losing its privilege as the provider of the world's reserve currency. The petrodollar system can be seen as a temporary reprieve from this dilemma. By decoupling the purchasing power of the world's reserve currency from a fixed amount of gold and by mandating the use of the US dollar for buying petroleum, the petrodollar system allows the US to accumulate federal and trade deficits while delaying the risk of losing its status as the world's reserve currency provider.

It is not widely recognized, however, that this dilemma is exclusive to a money economy where money is used as a medium of exchange and therefore the demand for money increases as trade expands. This dilemma can be avoided by restructuring the international financial system into a credit economy, where money is not used as a medium of exchange, thus eliminating the need for monetary expansion to support trade growth.

Why don't economists recognize that there have been economic systems in which an increase in economic transactions did not require a corresponding increase in money, and therefore which did not produce the adverse effects of money creation that we have discussed, and that humanity could recreate if it wanted to? One reason may be that Graeber's anthropological research, unveiling such economic systems, was published only a decade ago and is therefore relatively unknown among economists. Or, even among those aware of it, some economists may find it difficult to imagine the implementation of a credit economy. Some scholars may argue that the benefits of money creation in facilitating large-scale economic activity outweigh the drawbacks and argue for maintaining a money economy. However, this belief is unwarranted, as historical evidence shows that large-scale projects funded through monetary expansion have often been for large-scale warfare or led to the over-exploitation of nature.

The ideological myth that an increase in economic transactions requires a corresponding increase in money has subtly influenced economists' proposals for alternatives to the international financial system. Of the three main alternatives proposed by economists (Ussher 2009), the first two are heavily influenced by the myth.

The first alternative is a key currency system, where the currency of a dominant country or group (e.g., the US dollar or the International Monetary Fund's Special Drawing Rights [SDRs]) serves as the medium for global transactions, similar to the current system. However, this arrangement disproportionately benefits the reserve currency country, allowing for permanent fiscal and trade deficits and excessive consumption. Non-reserve currency countries are disadvantaged and cannot enjoy these privileges. Moreover, the reserve currency countries exploit the labor and resources of non-reserve currency countries at a lower cost or for free.

The second alternative is the global fiat reserve system, in which a currency issued by international banks serves as the medium of exchange for international transactions. The main difference with the key currency system above is who issues the fiat currency. In a key currency system, the central bank of a major power is the issuer, but in a global fiat reserve currency system, an international bank established through international cooperation is the issuer. Keynes's international clearing bank mentioned earlier can be seen as a hybrid of this system and the gold standard. With the gold convertibility feature removed from Keynes's proposal, it would typify the global fiat reserve system. In Keynes's proposal, any country with a balance-of-payments deficit could borrow from the international clearing bank within a set quota. However, a potential problem arises when countries borrow competitively, leading to a rapid increase in international currency, causing global inflation. This inflation redistributes wealth among countries, favoring some and disadvantaging others.

The third alternative is a commodity reserve currency designed to stabilize global commodity prices and prevent global inflation. First proposed by Benjamin Graham in the 1930s and later supported by scholars such as Nicholas Kaldor in the 1970s (Ussher et al. 2018; Ussher 2009), this currency would be issued by a world commodity bank and anchored to a basket of storable commodities such as wheat, corn, and petroleum (Ussher 2009, 411).

While the first two alternatives assume that money expansion is necessary when economic transactions increase or during an economic crisis, the third alternative aims to prevent global inflation by making it harder for money to expand artificially. This third alternative is effective primarily in a credit economy where an increase in transactions does not require a corresponding increase in money.

6. Conclusion

Permanent debt, where a growing portion of the principal is never paid back, contradicts the conventional idea of debt. The US public debt, despite its outward appearance as a legal category of debt, is inherently a permanent debt that will not be repaid, evolving into the permanent capital of the US. This article has argued that the US government creates money through permanent debt. However, this magic of permanent indebtedness cannot be implemented forever. This is similar to the fate of the ancient Roman Empire, which had to rely on continuous territorial expansion to survive. Just as the Empire collapsed from within when it was unable to continue its territorial expansion, capitalist banking was on the verge of collapse in 2008 when it could not continue the magic of permanent indebtedness. As the state takes on this debt instead, the capitalist money-making system is only postponing its fate.

Political struggles have occurred between two opposing ideologies: “sound finance” and “fiscal and monetary expansionism.” At present, the expansionists appear to have almost won this ideological struggle. One of the reasons for this victory would be that the critical tradition opposing conventional *underconsumption theory* has been unfortunately marginalized. As this underconsumption theory has given a justification to expansionist monetary and fiscal policies that allow the people of the US to consume far beyond their means, it has contributed to putting our civilization at the risk of not only global inequality but also environmental disruption.

The correlation between expansionist monetary and fiscal policies and environmental disruption should be examined in the future research. The natural environment is an organic world that has the ability to regenerate on its own. However, its ability can be disturbed if the business cycle of booms and bursts that are created by expansionist monetary and fiscal policies periodically spends natural resources or discards them on a large scale too quickly.

Notes

1. See <https://fred.stlouisfed.org/series/GFDEGDQ188S>.
2. See <https://www.cbo.gov/publication/57038>.
3. See <https://fred.stlouisfed.org/graph/?g=1tYo>.
4. OECD Data. See <https://www.oecd.org/en/data/indicators/real-gdp-long-term-forecast.html?oecd-control-ed8cfcbb26-var3=1990&oecdcontrol-ed8cfcbb26-var4=2060>.
5. US Bureau of Labor Statistics. See <https://fred.stlouisfed.org/graph/?g=1tYqo>.
6. US Bureau of Economic Analysis, Board of Governors of the Fed System (US). See <https://fred.stlouisfed.org/graph/?g=1tYrw>.
7. US Bureau of Economic Analysis, Board of Governors of the Fed System (US). See <https://fred.stlouisfed.org/graph/?g=1tYtf>.
8. Board of Governors of the Federal Reserve System. See <https://fred.stlouisfed.org/graph/?g=1tYwP>.
9. Board of Governors of the Federal Reserve System. See <https://fred.stlouisfed.org/graph/?g=1tYWo>.
10. US Office of Management and Budget. See <https://fred.stlouisfed.org/graph/?g=1tSe6>.
11. For the details regarding the petrodollar arraignment, please see Clark (2005).
12. For example, the US tax revenue unusually dropped in the second quarter of 2020 by 63.7 billion dollars, according to the US Census Bureau. See <https://fred.stlouisfed.org/graph/?g=1u9wP>.

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