Preface to the Chinese edition

Today, in all countries of the world, the production of money is controlled by government interventions. In particular, governments have set up central banks that are endowed with special legal prerogatives to protect them from competition. Central banks are therefore able to produce immaterial fiat money, in the form of paper notes and book entries, and to grant credit to governments and others, *without any technical or commercial limitations*. This institutional set-up is commonly believed to be very beneficial and superior to all known alternatives. However, this belief is wrong. The purpose of the present book is to explain why.

On the following pages we shall stress the fundamental insight that monetary interventionism is not beneficial from an overall point of view. What monetary interventionism does is to artificially increase the quantity of money. But this does not benefit the nation as a whole. Rather, it benefits only a part of the population at the expense of other parts. This insight reaches back to Greek philosophy and inspired medieval Christian thought. In the 18th century, it also inspired the Scottish philosopher Adam Smith and his disciples, the "classical economists" who rejected the notion that the wealth of nations could be increased by producing more money. Today this tradition is kept alive by the Austrian School of economics.

Monetary interventionism, designed to create ever increasing amounts of credit, undermines personal responsibility. Easy credit encourages its beneficiaries to waste the capital entrusted to them, because they can always hope to cover up their losses with new credits. However, the waste of capital is just a short-run consequence, and it concerns only material objects. Of greater importance is the impact of easy credit on the very persons of the beneficiaries. In fact, because they do not suffer the full negative consequences of their choices, they have a minor incentive to learn to *understand* the consequences of their actions, and also to personally *care* for these consequences. In short, lacking responsibility tends to destroy thinking in terms of causes and consequences, and also thinking in terms of good and bad. Thoughts become muddled. Personal respect and compassion give way to indifference, or at best to vague *professions* of respect and compassion without any personal commitment, demonstrated through *action*. Man is still a moral being, but his morality becomes deeply wounded.

These tendencies have been manifest all over Western society, particularly in the last forty years. Governments, business companies, and households have amassed skyrocketing debt. At the same time, growth rates remained moderate, despite one of the greatest – and certainly the fastest – technological revolution mankind has ever experienced, and despite the massive global extension of the division of labour. The combined force of information technology and globalisation should have created double-digit real growth rates all over the planet, at least during the past twenty years. In fact, however, the countries of the European Union grew by just about two percent and the United States by about four percent per annum. All the possible productivity gains were squandered through excessive private and public consumption, made possible by easy credit.

The corollary was moral decadence, especially in those countries in which easy credit was used to expand the welfare state. Among the better-known symptoms of this decline are high divorce rates, the decline of marriage and of the traditional socio-economic role of mothers, increasing numbers of children raised by single parents, obesity, increasing drug addiction, increasing homosexuality, decreasing church attendance, the spreading of agnosticism, atheism, Satanism, and nature worship, evaporating standards of taste in virtually all the arts, as well as a general rise of unhappiness and mental depressions.

This is not to say that easy credit is, or has been, the *only* cause of moral decline. However, easy credit did play a fundamental role, not only to the extent that it funded life-styles that are not financially viable, but also because it actually pays people to be lazy, and to be indifferent to others and to themselves.

The present financial and economy crisis, too, can be directly traced back to monetary interventionism. Central banks producing immaterial fiat money were supposed to stabilise the banking system and the rest of the financial markets. But these stabilisation policies have created perverse incentives for bankers and investors to make irresponsible choices. They sought out particularly risky investments, promising particularly high returns, because part of the risk was "socialised" through the assistance coming from the central banks. Moreover, they reduced their own precautions against risk by operating with ridiculously low equity ratios, which in many cases were as low as 1%-3%. Clearly, these choices, though rational from the point of the individual banks and investors, were disastrous from an overall point of view. Yet it cannot be emphasised enough that these choices were made, not in spite of the so-called stabilisation policies, but precisely because of the policies. Monetary and financial stabilisation policies turned out to be de-stabilising. They have made the financial industries prone to be hit by crises, and will have the same consequence in the future.

In short, monetary interventionism is very harmful in material terms and, above all, it is morally wrong. Fortunately, as we show in the present work, there is a straight-forward alternative. It consists in taking the control over the money supply away from the governments, and entrust it to private enterprise. Money can be produced competitively by individuals, associations, and companies. On a truly free money market, immaterial money tends to disappear and give way to commodity money such as silver and gold. It is then no longer possible to produce just about any amount of money, and it is then equally impossible to grant just about any amount of credit. Thus decision-making on all levels becomes more responsible. Material waste and moral decadence are reduced to moderate and stagnant proportions.

China has not yet gone through the recent experience of the West, though some of the symptoms mentioned above have begun to make themselves felt. As an important part of the world economy, she has been hit by the financial crisis that originated in the United States. Thus the citizens of China, too, must make up their minds about these issues. They will do so based on a national experience with immaterial fiat money that is much older than the one of the West, an experience that most notable included the abandoning of material money and the return to commodity money. It is our hope that the present book will be helpful in assessing the different policy options.

However, the main focus of this work is not on economic policy, but on universal problems of money production. Our discussion is squarely based on economic science, but it is also informed by a Christian moral perspective. In the Catholic faith, each person has been created in the image of the Almighty, to flourish down here on earth until reaching eternal life. The flourishing of the person as a whole is based on his or her spiritual and moral development, and thus on the willingness and ability to make responsible choices. This point too is well-known in China, which today counts more practising Catholics than all of Western Europe combined. Greetings therefore to our Catholic brothers and sisters in the great nation of China! You are a beacon of hope for the future of all humanity.

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