

What if we hadn't created new money since 1945?

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Adam Sawyer offered a number of powerful comments on MMT on this blog yesterday, one of which included this para, [which I thought worth sharing](#). It was written to compare old, effectively gold standard money systems that existed pre 1971 with what we have now, which is fiat (government promise to pay) money:

We aren't just cycling existing money around as we do the same thing our grandparents did 50 years ago. Instead we're creating vastly greater quantities of money to facilitate completely different projects using new technology to serve three times the number of people as our grandparents' economy was capable of supporting.

Imagine we had restricted ourselves to the supply of money available in 1945, what would that look like? Well we'd have had a massively deflationary currency and economic growth and technological innovation would have ground to a halt. There could have been people sitting around willing and capable of doing useful stuff, there would have been mountains of unexploited real resources. In the end 2018 would look exactly the same as 1945! We would not have had sustained economic growth and so would not have been able to support population growth. Many of us who now enjoy being alive would never have been born. That's the power of fiat currency!

I think he's right. Fiat money has made our modern world possible.

Not all of the change has been desirable, but let's not ignore much that not only has been, but which remains so.

The challenge is to tame the rest for practical use, [as already noted this morning](#).