

The magic money sword: why money works like honours

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After a week in which I can fairly describe work as being hard because of the fatigue I felt last weekend, which it now turns out was most likely my fourth bout of Covid, I have decided to take this weekend off in large part, and as a result, we are reissuing three videos previously published. If television stations can do repeats, so can we, and each of these has been viewed many thousands of times, and this one remains as relevant as ever.

Most people in the UK still believe in the power of royalty — and the power of the honours system. We accept that a knighthood is created from nothing with a tap of the King's sword. Yet many refuse to accept that the government creates money in exactly the same way: by tapping a few keys on a keyboard.

In this video, I explain why knighthoods and money share the same foundations: state authority, public trust, and responsible stewardship.

Money is not limited. Knighthoods are not limited. Both can be over-issued. Both can be under-issued. And both are destroyed when they're no longer needed.

If you believe in the power to create honours, you already believe in the power to create money — even if you've been told otherwise.

<https://www.youtube.com/watch?v=YOqsHRFUEUw?si=kuJu6qbf7ZQSJRtn>

This is the audio version:

https://www.podbean.com/player-v2/?i=29h6r-1a6c819-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=f6f6f6&font-color=auto&logo_link=episode_page&btn-skin=c73a3a&size=315

This is the transcript:

Most people in the UK still believe in the power of royalty, and they still believe in the social hierarchy that is created by our honours system. In other words, they believe in knighthoods and the power of royalty to create new knights and dames of the UK.

But I've got a point to make. If you believe that the King can create new knights by tapping a sword on someone's shoulder, then you have no choice but to believe that using the same power, the government can create money by tapping a few keys on a computer keyboard.

The fact is that money is like knighthoods. Both are created out of nothing.

Both depend on the authority of the state.

Both can lose value if overused.

And both tell us a great deal about power and trust.

Everyone knows that only the King can make a knight. We do, of course, recognise that advisors might suggest names, and politics has a part in all of this. We also know that HM Revenue and Customs might sometimes object to somebody being elevated to whatever you might call the knighthood. But the point is, in the end, it's the King's decision as to whether to knight someone or not. And a sword touches the shoulder, and a knight is made.

And what's important to understand is that the knighthood was created from nothing. Before the moment that the sword hits the shoulder, there was no stock of knights waiting in reserve. There was no limit to the number of titles that could be handed out. The honour only exists because the King has chosen that it should. That choice, that act, and the tapping on the shoulder creates reality in itself; the knight is a product of trust in authority.

And this has to be done with care. Managing the currency of honour is something that the King has to consider. If too many people are knighted, the title would lose meaning. If everybody were a lord or a knight or a dame, then there would be nothing left for anybody to aspire to. Honour would be cheapened; the system would become disrespected. So creation is limited not by supply, but by the need to preserve confidence. It is power exercised with care that creates the currency of the honour system.

And this, of course, creates a direct comparison with the money system. Money does, in fact, work in much the same way. When the government decides to spend, it doesn't check a bank balance first. It tells the Bank of England to make the payments, and with a tap on a keyboard, somebody in the Bank of England creates new money that comes into being as a consequence.

There was no stock of money waiting to be spent. It was literally that act of creation through tapping on the keyboard that is the modern equivalent of the tap on the shoulder by the sword that creates a knight.

Both are acts of the state that bring something into existence, and both owe their existence, whether they be the knight or the pound, to public trust. Both depend on belief that the system is legitimate, in other words, and both rely on judgment.

If government creates more money than the economy can use, its value falls; we get inflation, we know that. That's why things like modern monetary theory are so obsessed with inflation and monetary control as a consequence.

But there is a corollary. If the government creates too little money, the economy can stagnate, and that is a real fear if the entire power to create money is passed over to the private sector. So, as with knighthoods, it's not creation that is the problem; it's creating the right amount for the right purpose that is the issue with money.

And we also have to remember that there's a process of destruction involved in both cases as well. In the case of knighthoods, they disappear as a consequence of their holders dying. I'm sorry if they don't like me representing that as a process of destruction, but that's what happens. And similarly, money disappears. That happens when taxes are paid.

Taxes exist to destroy money. When tax is paid back to the government, the debt that was created to guarantee that the money was sucked out of the economy by the process of that tax payment results in the money in question literally being destroyed; it's no longer there.

And that is why both systems of knighthood and money creation are dependent upon constant renewal to keep society functioning. Without new creation, activity would slow, and without limits, value would fade.

But that still doesn't mean that there has to be a precondition that there must be money in the bank or knighthoods spare in the cupboard to create new outcomes. There has to, instead, be an informed decision that says that the action which is proposed, whether it be the tap on the shoulder to create the knight or the spending by the government to put some action into place, is appropriate and that the consequences are the ones that we want. There is no preexisting right course of action. There's only a decision to take action, and that is vital. Both are acts of sovereign

authority. Both depend on trust and restraint. Both are renewed through use, and both lose worth through excess or neglect.

But what that means is that when politicians say there's no magic money tree, remember there is. It's the process of public money creation, used responsibly every day to fund society. We only pretend it doesn't exist. But let's be clear, if we pretended that knights didn't exist, we would devalue the hold of the hierarchy around royalty. Now, some people might want to do that. I have my reservations about royal power, but the point is that's the whole basis of the analogy I'm drawing. We have to decide to trust or not, and knighthoods and money show how power creates value, and that's the key point. Each is born from a decision by somebody with power, sustained by belief, and limited only by wisdom.

So the question is never "Can we afford it?" when it comes to money, but is, "Will we use our power well?" With the sword or with the keyboard, the choice is the same. The outcome we desire is something that benefits society in both cases. And the processes are so similar that if you believe in the right of the state to produce knights, you cannot avoid believing in the power of the state to produce money because you might as well search forever to find a difference.

What do you think? Do you think there's a similarity between the power to create knights and money? Do you think that both depend upon trust? Do you think that both depend upon purpose, and that there has to be an outcome that is socially useful as a consequence?

I know what I think, I've just explained it, but you let us know. There's a poll down below.

I want to thank Tom Butcher, a commentator on this blog, for the idea that sparked this video.

Poll

[poll id="255"]