

Main argument against modern monetary policy and central banks with high inflation (case of Georgia and not only)

Dr. Nodar Chinchaladze

University of Georgia (UG), Georgia.

Abstract: *In modern days more and more frequently is possible to hear that this or another action from the government is needed for the wealth of society but never and no one speaks about wealthy of a person, like society is something out of individuals, it exists separately from individuals and the individual should sacrifice his interests to this mythological society. And no one can explain what kind of thing society is.*

One of the things from above is the monetary policy. Officials are always ready to speak about the importance of their job for society and never say a word about the continuous problems of individual people. The curiosity of the situation is the fact that these officials always are right, for any case they have answer that they did this or another action because of the wealthy of society and if not their action on this way the situation would be much worse than it is now. Every time anyone asks for their responsibility about increasing inflation, they bring different exogenous factors that had bad influence on the current situation, that the factors from the outside of country did stimulus to the inflation and that is not their fault! even during Azerbaijan – Armenia conflict, inflation in Georgia was bigger than in these belligerent countries, but the officials are saying – this exogenous factor stimulates inflation in Georgia more than there...

Despite their words, every minded person should ask important questions to themselves and try to find answers to them. One of the most important questions for thinking is given at the end of this article in conclusion: If the development of the economy is ensured by this monetary policy and it is good for everyone, then why is one's paper devalued?

Keywords: *inflation, value of money, devaluation, monetary policy, central banks, human wealth.*

1. Examples for Thinking

The recent rise in prices and inflation has led to an intensification of discussions on the Central Bank and monetary policy. As a rule, the role of the National Bank in this issue, its need and necessity, the expediency of using monetary levers are actively discussed. The diverse interest of various agencies and questions of the currency regime's justification create such a

situation that it is impossible to reach an agreement on this issue.

However, it does not seem that the matter is very difficult here, and it is impossible to understand where there is truth and where there is demagoguery. After all, the truth is the truth and there are some interests behind demagoguery. But here should be seen what the main argument is. The main argument against the National Bank is not what the argument is about but something else, what about is written in this article, after the specific facts. It is interesting how monetarists (or Neo Keynesians) will manage to deny these facts!

Before that, here should be explained one thing with simple examples that show how unconvincing some of the arguments that are sometimes brought to justify the actions of this or that agency:

Example 1. Chinka in the room (chinka - ჭიჭი - not visible living soul in a forest, by Georgian mythology, variety of demons).

There is a chinka living in the room, it is invisible, it moves silently, it has no smell, and it will not be noticed in any way, that is the nature of the chinka. However, if something breaks, it's Chinka's fault: did the glass fall and break? - Chinka threw it away - it's his fault!

Now, let anyone try and prove that chinka does not exist... No one can prove it, this story is not falsifiable, scientifically speaking. And since it's not falsifiable, it's not scientific, it's completely frivolous to take such a thing seriously.

Example 2. exogenous factor.

The Armenia-Azerbaijan war is an exogenous factor, but it caused high inflation in Georgia, as the head of the department says, what is the result? How did it turn out that Georgia has higher inflation than Armenia and Azerbaijan? What can anyone say about this? considering this seriously is more frivolous than example 1!

In general, exogenous factors exist, existed always, and will exist always. The justification for the existence of the National Bank is just that: to implement such a monetary policy that it does not miss the target rate of

inflation. If it is unable to do this and the waves of exogenous events changes it on continually and uncontrolled ways, what the hell is the need for the National Bank of Georgia (NBG)? If the US dollar was used as a means of payment or the euro, the influence of these exogenous factors would be much less.

After all, maybe the National Bank has great goals, maybe it should develop the economy! but, In short, from the same point of view, its necessity is very doubtful!

2. Meaningful Comparison with the Historical Values of Meants of Payments

Now take care about some facts. These facts are real facts, not "exogenous factors" that have been heard somehow. There may be a small deviation in the given numbers (depending on the source), but it is not important for our reasoning.

Fact1: $100USD_{1813} = 51.13USD_{1913}$ -by data from [1]

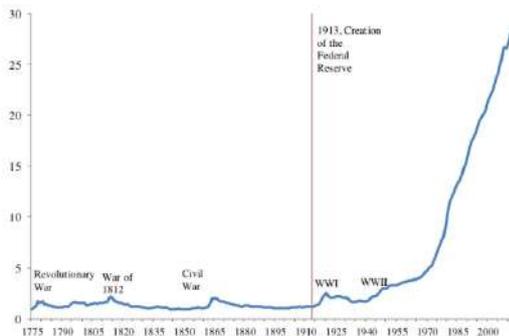
That is, if one earned \$100 in 1813, by 1913 it buys \$100 more (almost twice as much).This is acceptable for individual, because his earlier work is valued more today, why not?

Fact2: $100USD_{1913} = 2322.25USD_{2013}$
 $\Leftrightarrow 100USD_{2013} = 4.27USD_{1913}$ -by data from [1]

That is, if one earned \$100 in 1913, by 2013 that \$100 buys 23 times less than it did back then! That is, the work at that time evaporated, 96% evaporated (more precisely 95.73%).

For better visibility costs to look at this chart:

Figure 1. Consumer Price Index, United States, 1775-2012 (level, 1775=1)



Sources: Bureau of Labor Statistics, Historical Statistics of the United States, and Reinhart and Rogoff (2009).

Chart is taken from [2]. Should be underlined that the upright line continues to go up in modern days, unlike from the 19th century, where the chart curve is nearly horizontal.

Fact3: $100GEL_{1995} = 420.08GEL_{2020}$
 $\Leftrightarrow 100GEL_{2020} = 23,80GEL_{1995}$ - by data from [3]

That is, if one earned 100 GEL in 1995 (when Georgian Lari was issued and the salary was given in GEL for the first time), which let's say employee saved, that 100 GEL is now equal to 23.80 GEL at that time. ! shortly: $100GEL_{2020}=23.80GEL_{1995}$

"Money and other good things, like wealth, are the children of courage and grace, not the mother" [4]. Yes, it should be so, not opposite, opposite not possible.

Ilia Chavchavadze mentions it in 19th century many times:" As money circulates in the country - if it becomes one or two, the prices of goods will rise one or two only..." or "There is nothing to multiply money alone, when goods do not multiply..." or "The abundance of money, if the number of goods in our country is the same, will not add anything to us" [5]. And this is true in modern days too, only possibility is to redistribute wealth...

3. Conclusions

It is possible to look at many things in different ways, but the main is human, everything exists for humans. If not, then what is the greater purpose? What is the purpose of the action, which hurts every person (apart from some privileged groups), but nevertheless everyone has to bear the loss and obediently continue to work, so that someone can pick his work out of his pocket? Let them reveal this 'great goal' to the public too! In the childhood of author of this article, the great goal was to build developed socialism and then communism. Undesirable perspective!

The main is a person, an individual, and not some great goals!

Murray Rothbard says: "It would be very difficult for a robber to convince people of the value of his theft by arguing that by spending the stolen money he is innovating the retail trade. However, it is enough to wrap this theory in Keynesian equations and connect it with the "multiplier effect" that, unfortunately, it already becomes convincing" [6].

Today the society literally have a modernized system of slavery; Binding a person to get benefits from him used to be done by chains, now by monetary levers. Well, let anyone try and run away, it was easier to escape from the chain then than it is today.

This does not mean that everyone who defends the existing monetary system is a bad person, by no means. It costs to remember that there were slave owners who

treated their slaves humanely, although at that time such slave owners and their slaves could not imagine (probably) how society could be organized differently. A normal relationship between a slave owner and a slave, between a master and a serf was a common story in those times (recalling Tigerskin, Shermadin does not consider himself oppressed by Avtandil [7]). But this does not mean that such a relationship is somehow acceptable from today's point of view. Today, most people think that a certain group of bureaucrats have the right to appropriate our work, but this does not mean that it is right.

Here is the question for thinking: If the development of the economy is ensured by this monetary policy and it is good for everyone, then why is one's paper devalued?

References

- [1] <https://westegg.com/inflation/>
- [2] CHART: Inflation Since 1775 (businessinsider.com)
- [3] <https://www.geostat.ge/cpi/>
- [4] Ilya Chavchavadze, about self-action as a trace, Tbilisi, December 14, 1888.
- [5] Ilya Chavchavadze, 1882, December. XIX domestic review.
- [6] Murray N. Rothbard, Anatomy of the State.
- [7] Shota Rustaveli, The Knight in the Panther's Skin.

Authors' Biography



Nodar Chinchaladze is Phd doctor of University of Georgia. He has done work about monetary policy's influence on business subjects, showing that this policy doesn't help business subjects on their activity.