Command & Control Economy

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Central Banks are desperately trying to keep debt fuelled consumption growing. Their only tools are currency debasement through further 'money printing' and rate reductions to encourage more borrowing. With $13trn of nominally negative yielding debt and much more with effective negative yields we are entering the final stages of a 50 year experiment for the fiat dollar. Govts and their bankers have two choices:-

1) Allowing the debt bubble to burst as interest return to normal levels. This would inevitably mean mass bankruptcies and a severe recession, nay depression with huge political risks.

2) To continue money printing and low rates but to funnel the money to Main Street rather than Wall Street. If done over a long period of time with careful targeting to infrastructure and production capacity it need not be too inflationary. However, there is likely to be a panicked reaction from our political class which will lead to quick fixes to fuel the consumption and hence stagflation would be the result.

It is unlikely that the political class would risk the upheaval and social chaos of depression and therefore it is very likely they will splash the cash and trigger UK 1970s style stagflation. If nothing else was done, we could see 'leap frog' inflation as worker groups competed to gain wage rises ahead of inflation forecasts. Govts would likely bring in tighter regulations for corporate pricing and even price controls to try and stem the stagflation. Those with most industrial muscle would probably break through leaving weaker, more vulnerable groups losing out.

Pensioners would be the big losers as Govts can control the state pension and even private sector pensions have an inflation cap that could greatly reduce purchasing power over several years of high inflation.

Rent controls are highly likely and the UK Govt have already tightened the private sector with landlord licenses and bans on 'no fault' evictions.

Living costs such as utilities of water, energy and communications would be targeted for price control – the UK has already applied an energy price cap. France and other countries that still have major public stakes in utilities may find it easier to control prices without having to force private companies into financial difficulty.

Capital Controls will likely return to prevent haemorrhaging of currency and to shore up the exchange rate.

The US with its more laissez-faire attitude to prices and welfare will have the greatest problem controlling inflation but could mitigate the effects with a 'new deal' similar to that of the Roosevelt administration in the 1930s. European countries like France with a large welfare state would use command and control to the maximum and may have more success in controlling inflation. Their Achilles heel is the unions which still have considerable wage bargaining strength.

If history is anything to go by there was a sea change after the 1970s that ushered in the Thatcher/Reagan years and unleashing 'free market' principles with the associated explosion of debt. This time we may see the reverse as a new era of sound money perhaps a sort of gold standard and even crypto currencies hitting the mainstream population. Sound money would mean returning to old values (http://www.money-liberty.com/gallery/backtothefuture.pdf) where both nations and citizens lived within their means. Govts would be judged not only on domestic issues but also the balance of payments which would be a corset on any unfunded economic expansion.

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