Fractal money

MONETARY inflation, says Daedalus, is curiously popular. Steadily rising prices and incomes give a sense of progress. The endless pass-the-parcel rush as everybody tries to get rid of their money before it loses value is often mistaken for dynamism and economic vigour. An outmoded part of an inflating economy can decline discreetly without its turnover shrinking in numerical terms.

The trouble starts when the process accelerates into hyperinflation. The government prints more and more money, which loses value faster and faster. The traditional cure is a new currency. Sadly, this often catches the disease as well, so the process recurs.

Daedalus wants to tame this process by making it predictable. His model is the steady-state theory of the Universe. Galaxies expand apart; but as fast as they do so, new galaxies appear between them. The Universe inflates steadily for ever, always looking much the same. Similarly a currency (the pound, say) could depreciate steadily, predictably, until it was worth 10 per cent of its original value. The government would then decree a New Pound worth ten old pounds. It would exchange all cash and amend all accounts accordingly. This cycle would repeat endlessly.

As with all inflation, the government makes a steady profit. By printing money and spending it, it enriches itself while robbing its citizens. And a well designed steady-state inflationary regime, says Daedalus, could fund the government totally. Taxation could be abolished.

Modern taxation requires a vast state apparatus of questioning and snooping and grabbing. The oppressive, intrusive bureaucracy calls forth from the citizens even vaster amounts of form-filling and defensive accountancy. Freed from this massive unproductive burden, and with steady-state inflation safely stable and predictable, the real economy would surge forward as never before.

So Daedalus is wondering what steady-state inflation rate would allow the state to command half the citizens' wealth (a typical ambition these days). The naive answer is just 100 per cent, with money losing half its value per accounting period. Such an economy would replace its currency with new tenfold units every 3.3 such periods (with a small gain to the government each time: not all the old currency would be handed in). This answer ignores various subtleties; much hard-won experience will be needed to achieve the right steady-state inflation in practice. But the advantages for honest, fast-moving toil, and the disadvantages for cash-rich money-launderers, seem compelling.

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