Money
and
Prices corruption

Saint Sauveur workshop 2024

By Stanislas Ordody,
Doctor of Economics, Banking Executive

Introduction

- **At the heart of the monetary system**: the interest rate, at the intersection of the savings and investment curves, where two unilateral behaviors, which are motivated by opposing objectives, confront each other, and which, aggregated, would nevertheless represent all the opportunities expected in a world made up of great concomitant and interdependent balances, permanently achieved, for the benefit of all.

- As underperformances are accumulating, the interest rate is asserting itself as the central institutional variable through which the convergence of conflicts of interest between the various universalized players in the economy, including the State, is supposedly managed.

- The generalisation of individualism to the detriment of others thus reinforced leads to a lack of discernment that corrupts minds and stimulates the emergence of ideologies that alter and distort the reality of economic life, here prices.

- In the context of "financialisation", which means a transfer from the sphere of the real to financial economy, the players in the financial market confront the power that creates and manages money. **Which dominates the other? Is the State a "manipulator" or merely a "compensator of abuse"?**

The monetarisation of the economy

The nature of the interest rate

- Unlike any othe price, the contracted interest rate is durable rather than valid only for one moment. It freezes the present in time. It is characterised by its inertia over time to shocks and market dynamics.

- **Jean-Baptiste Say** described the development of credit, starting **with the discounting** of commercial paper refinanced by successive new bills of exchange. He criticised this process of perpetual advances together with regular debt write-offs. In the end, the banks' freedom to issue money leads, on the one hand, to the depreciation of circulating money, which distorts all contracts, and, on the other hand, to investments that are ill-suited to the needs of the economy.

- At the end, economists will argue not about the particular nature of the interest rate and its rigidity, **but about where it is formed.**

The monetarisation of the economy

Transfert of the interest rate on the money market

- To achieve monetary equilibrium, if the velocity of circulation of money does not allow for sufficient endogenous growth in the money supply to compensate for the excess demand for money generated by the interest rate, so that, as a result of this deficiency, the latter rises higher, **Keynes** believes that this must be remedied by the exogenous growth of money, independently of any inflationary considerations.

- The systematic lack of correlation between the real growth rate of the economy and the interest rate, insofar as the techniques of renegotiating securities or debts on the secondary markets fail to re-establish it, accentuates the phenomenon. If the process described above is repeated and interconnected over time, the temptation to manage the interest rate from a money market aggregated around it is established.

- With this second stage in the process of monetarisation of the economy, **the interest rate becomes nominal or monetary.**

The monetarisation of the economy

Management of the interest rate on the money market

- In the view of **Keynes**, savings and investment are not anymore equal for a certain interest rate. Savings are a residual function of overall income, whatever the level of remuneration, after the satisfaction of consumption needs generated by work and investment. The money market becomes the arena for trade-offs between inflation and employment (Phillips curve), without any remedy againts erratical evolutions of the interest rate, which is sacrificed on the altar of inflation.

- Only sustainable inflation wipes out sustainable debt. If inflation becomes a trend, the spiral begins. The inflation rate is incorporated into the calculation of the debt, which fights that way against its monetary erosion. And the additional cost of this is once again passed on in prices.

  Real prices are transformed into nominal prices.

  With price control policies, they have definitively no significant substance.

The financialisation of the economy

Interest rate related to rate of return or discount rate

- Uncontrollable quantitative credit management (concepts such as credit multiplier and divisor, perpetual debt, implicit contracts to be honoured, invisible handshake, etc.) has been replaced by a policy of banking disintermediation via the financial markets. This deregulation was characterised by the coming back of positive real interest rate remunerations on savings accounts, by the growth in investment funds. The distinction between money and securities, and the place of the last resort refinancing, have become increasingly blurred. The monitoring of an intermediate monetary aggregate linked to inflation has lost its grip.

- **James Tobin** attributes a real return to each of the categories of assets that make up total real wealth: money, government securities and capital. Return on money being assumed to be constant (neutral), any increase in the quantity of money is channelled directly into securities and existing shares, so that their prices rise and, as a result, the returns on securities and capital fall to find a new equilibrium point. Lower rates of return should stimulate the economy with emergence of new capital.

The financialisation of the economy

Capital value to be preserved

- The interest rate introduced into this model by the joint action of the Monetary Authorities and government policy, eliminates the hazard of determining anticipated future income. This reference rate assigned to bonds is even described as a "risk-free rate". This return on public securities serve as a benchmark for the return on capital. The economy is supposed to be steered via the financial sector.

- But, if the rate of economic growth is sustained and gives rise to fears of inflationary pressure, the financial markets anticipate an increase in the interest rate, having a downward impact on asset valuations in a nevertheless favorable context. As a result, the real activity of companies is squeezed if the interest rate rises excessively compared to their expected intrinsic profitability.

- The dynamism of the real economy is ultimately contained around a restricted equilibrium that will be described as "financial". Worse would be blackmail by financial operators who would force the Monetary Authorities to lower the interest rate in order to be sure the value of their existing capital to be maintained, so far to be increased.

The financialisation of the economy

But real risk remains, in addition to financial risk

- At the level of the economic agents, Böhm-Bawerk confers on present goods a technical superiority over future goods, with the relative value of the former identical to that calculated by discounting the future income of the latter. The incentive to exchange the former for the latter presupposes indeed a premium to be offered. But if the interest rate is introduced exogenously into the production system, it becomes the determinant of the price of capital but not of the value of the capital itself. Capital value begins to fluctuate artificially, without any basis.

- However, real activity retains its own hazards. An additional risk premium shall be incorporated into the discount rate, which gives to it a disadvantage compared with the reference rate. This risk premium, which may have several components, is assessed using so-called rational probabilistic expectations based on models developed by Robert Lucas, Robert Merton, Francis Breedon and others, taking account or not of the past.

  The discount rate is finally the sum of the so-called "risk-free" or "low-risk" financial rate of government bond issues and the so-called « risk premium », over the expected term.

The financialisation of the economy

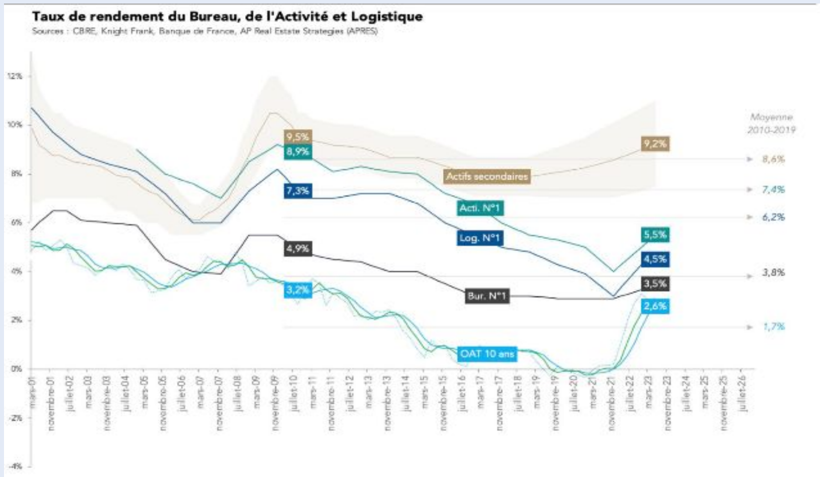
A high risk economy

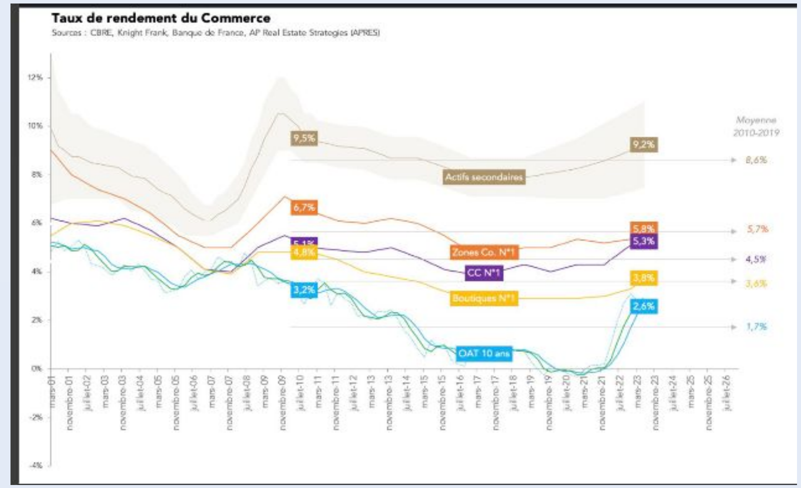
- This 'financialisation', which has driven up the prices of the old assets without limit thanks to the "Quantitative Easing" policy of increasing debt without counting, has not really stimulated growth, on the contrary has led to shortcomings in crucial areas such as short circuits production/consumption, health, environment....

- 2021 : Inflation comes back thanks to the "stop and go" of economic activity around the world, initiated by COVID. She provoked a wind of madness blowing over the consistency of the discount rate and the general level of prices. The 'risk-free' rate has suddendly increased and becomes the focus of attention while the 'risk premium' is being largely erased (see attached charts, case of real estate)

- **Thus, the interest rate, or the such influenced discount rate, definitively represents neither a capital value nor the price of a factor of production. On the contrary, in the system of production prices, it causes technological over-determination, even though it does not explain the emergence of capital. There is therefore no economic justification for it.**

Charts : case of real estate





risque immobilier	comparaison taux "prime" et OAT			
	T4 2020	T4 2021	T4 2022	T4 2023
OAT	-0,343	0,194	3,113	2,558
Rendt bureaux PCA	2,7	2,7	3,0	4,5
prime de risque immobilier	***3,04***	***2,51***	***-0,11***	***1,94***
Rendt bureaux 1ère couronne	3,60	3,60	4,00	5,75
prime de risque immobilier	***3,94***	***3,41***	***0,89***	***3,19***
Rendt bureaux seconde couronne	4,85	4,85	5,75	7,00
prime de risque immobilier	***4,85***	***4,66***	***2,64***	***4,44***
Rendt logistique	3,9	3,2	3,8	4,75
prime de risque immobilier	***4,24***	***3,01***	***0,69***	***2,19***
Rendt locaux d'activité	4,5	4,00	4,5	5,25
prime de risque immobilier	***4,84***	***3,81***	***1,39***	***2,69***
Rendt commerce retail park	5,25	5,25	5,25	6,00
prime de risque immobilier	***5,59***	***5,06***	***2,14***	***3,44***

The coming back to an administrated economy

Today's trend

- The trend today is for a coming back to an administrated economy via the money market and the banks, at the risk of a mismatch with the real needs of the economy over the long term, either because it is excessive or because it is badly calibrated or even misdirected.

- The arbitrariness that now governs the creation of money could lead to take the demiurgic temptation even further: using the creation of money by the central bank, or by commercial banks under its control, to finance what is, at the top, deemed to be a priority.

- The inflationary risk of such misallocations of ressources would then become unmanageable in practice. If this were to become permanent, safeguards would have to be devised.

To free the economy

L'affectio societatis

- To favor individualism at the expense of others lead to a lack of discernment that corrupts minds and encourages the emergence of ideologies that alter, distort and pervert reality. At the heart of this tension is the age-old debate on usury.

- Aristotle considers exchanges between people to be based on a principle of arithmetical equality. A person must receive the equivalent of what he gives. In the name of this **commutative justice**, the borrower is obliged to return to the lender the capital lent and to remunerate the lender for the new capital generated by the object financed. He asserts that money does not create money on its own

- Based on the law of interdependence between all markets so that the sum of excess supply and excess demand equals, Walras, neo-classicist, incorporated the demand for money and concluded that there was a dichotomy between the real economy and the monetary economy. The interest rate, at the heart of the mechanism, rigid par excellence, is a false price, disconnected from economic reality and a generator of artificial bubbles and imbalances.

- It is only the constantly upudated remunération (IRR) that is possible to plan to obtain the future which determines the value of capital.

- **And fair return on capital in respect of commutative justice is inseparable from the principle of "affectio societatis » betweeen lender and borrower.**

To free the economy

Participative financing with 4P Financing

- It has been stated the difficulty to define and evaluate the discount rate, even more complicated as the periodical calculation of an IRR on projected revenues.
- Participative financing should therefore be legally favoured over traditional ordinary loans, because the latter not only pass on exogenous rate manipulations, but also, if difficulties are encountered, increase the sums owed and the terms, which at some point no longer makes sense. It's better to accept to take the share of the shortfall, or even the loss, at any time. The real power lies in this permanent forgiveness of debt in return for an association with good fortune.
- The West will have to take the time to accept that it must, at all times and fairly, receive its gains and take its losses", because it takes time to accept this, because it is difficult to accept, because there are men who will always prefer a war economy that benefits them. It's a bit crazy, but not as crazy as war.
- He or she, any State or any institution, who claims to be the sole measure of things and of truth cannot live peacefully with his or her fellow human beings and collaborate with them (Art 142 of the Compendium of Social Doctrine of the Catholic Church)

Money and prices curruption

Thank you for your attention

FIDES

FINANCEMENT 4P

LE PARTAGE EFFICACE DE LA PERFORMANCE