

Can We Trust Government Money?

Part 2 on the Topic of “Trust”

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Inflation is a wonderful thing when pumping up a bicycle tire; it's terrible when it means that you can no longer afford a bicycle tire. Canadians are rightly concerned about the wild inflation we are experiencing today. Rising interest costs, fuel costs, electricity costs, housing, food prices and the cost of transportation, lodging and household goods have put most Canadians back on their heels, with no sign of relief in sight. It's a well-known fact that any one of these increased costs of living has a perverse impact on all other costs of living. When fuel prices go up—whether due to carbon taxes, increased wages in the oil and gas sector or other factors—there is an immediate and automatic increase in the cost of goods delivered by truck, train, ship or plane.

That hasn't stopped our current government from increasing the already onerous carbon tax to 14c per litre on April 1. Nor has it stopped them from hiring 330 new federal employees to administer the tax. Does that garner trust in the good intentions of government? Then they try to tell us that they have our best interests at heart. Their own Parliamentary Budget Officer says it ain't so!¹

Increasing salaries and benefits of government employees—or hiring more of them—automatically increases either debt or taxes or both. And then there's the “jealousy factor.” Union bosses see any increase in government salaries as an excuse or justification for demanding similar increases for their members (and for them as the negotiators of such increases). When members of a manufacturing union are able to secure an increased rate of pay, the cost of the goods they produce must go up. Shareholders of companies producing such goods are themselves subject to rising costs—be it air travel, groceries or vehicle maintenance. As such, they are unwilling to bear the increased costs of manufacturing themselves; they expect the directors of their company to pass the bill on to the consumer.

Add to this the cost of government borrowing, the inflationary effect of printing money and the politician's temptation to buy votes with your tax dollars . . . and you have a cycle of destructive inflation that devalues every dollar in circulation.

That's where we find ourselves today. Government largesse and the unrealistic expectations of a population that has enjoyed decades of growth and luxury are a combination that will surely lead to a collapse of confidence . . . when the music stops.

We wrote last week about the loss of trust in government institutions and the politicians and bureaucrats who run them. That loss of confidence can easily spill over into the economy—over which they exert inordinate influence. Today's emboldened social engineers seem incapable of understanding the basic human tendencies and economic principles that—if ignored—can suddenly rage out of control. The same forces that powered our economic and technological growth over recent decades—human ingenuity and entrepreneurship—can easily be used to undermine the stability of traditional currencies with new concepts like social engineering and central bank digital currencies (CBDCs).² What is a currency anyway?

It is a measure of trust. The paper that we carry in our wallets or the digital blips in an online bank account only have value because of trust. Fiat currency, created out of thin air, circulated by the click of a mouse and defined in board rooms far from the production floor of a bricks-and-mortar business, is convenient as long as the rules of engagement do not change and as long as public trust is maintained. But what happens when the bank account is suddenly locked and assets are frozen because a citizen has violated political ideology? Public trust can vanish in a heartbeat.

We saw this last year when the government froze over 200 bank accounts worth almost \$8 million dollars of Canadian taxpayers' money . . . money the account holders thought was secure.³

There is a notion in economic theory—promulgated by high-level players in the banking system—that inflation can be corrected by simply raising interest rates.⁴ That's similar to controlling greenhouse gases by raising the price of carbon. It's true that it makes borrowing money more painful; for homebuyers and businesses that rely on bank loans, higher interest rates do foster sober second thought. But do higher interest rates bring down the cost of groceries? Not likely in an international economic community. When businesses, large and small, are forced to tighten their belts, it doesn't necessarily give them more options for maintaining the bottom line. The cost of raw materials that go into production and the cost of labour (the wages of would-be homebuyers struggling to make ends meet), are balance sheet entries over which manufacturers and retailers have little control. If you talk to the man on the street you will find that most people do not expect the cost of living to go back down. The best that can be hoped for is a stabilization of the new realities.

Pandora's box has been opened. The consequences of decisions being made in Ottawa and in Davos are not yet clear to everyone, but they give each of us reason to pay increased attention and to demand that governments take steps to truly balance their books (whatever it takes). All of us need to also let our MPs know that we oppose any transition to digital currency that involves social engineering or a social credit system. In our personal lives, we should take steps to prepare for difficult days ahead. Food shortages and supply chain disruptions are already a fact of life. Prudence and thrift are always in order. Have your lamps filled and trimmed; be ready to help others. There will be plenty of needs.

CHP Canada is committed to legislating balanced budgets and paying down our national debt. That's the only way a strong and vibrant economy can be built. We invite you—if you're not already a member—to join your voice with ours and help us bring sound economic policies to Ottawa in the next federal election. Join or donate today!⁵

Footnotes

¹ www.taxpayer.com/newsroom/trudeau's-five-tax-hikes-will-harm-the-middle-class-in-2023

² www.chp.ca/commentary/central-bank-digital-currencies-cbdc

³ www.cbc.ca/news/politics/emergency-bank-measures-finance-committee-1.6360769

⁴ www.cbc.ca/news/business/bank-of-canada-january-rate-decision-1.6725283

⁵ www.chp.ca/get-involved/

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