



By: *Emre Alkin*

# Is Javier Milei Right? Do Central Banks Need to Be Closed?



According to Milei, who had just come to power in Argentina, it is his government's moral obligation to close the Argentinian Central Bank. Setting aside the absurdity of this statement, we must look at the history to see the reason lying behind his calling.

The Central Bank business caused a lot of trouble for Bolivar (1783-1830), who led revolutions against Spanish rule to create an independent America. Rather than the wearing battles, his resistance to the British, who wanted to manage the country's central bank in exchange for the funds Bolivar took to finance the revolution, had been the death of him.

With its unique personality that tends to "send away what has been tried before" then miss it sorely, Latin America always tried to stop corruption by **electing radical rulers**, but doing so led to worse ones.

Therefore, Milei may not remain in power too long, but there's a great chance that he might return to office after he leaves it.

But, is Milei right? Should central banks be closed?

Central banks, dating centuries back and reinforced by the paradigms of the 20th century, are essential to the capitalist system. But in the 21st century, they tended to lose their vitality, and many of their functions and responsibilities, including money creation, money growth mechanisms, along the interest multiplier, were assumed by other institutions such as regulatory authorities, private banks, and financial institutions.

## Money grows in banks

Today, the ratio of printed money to bank money, is around 1 to 10 in some countries, 30 to 1, and 40 to 1 in others. Again, there is a major gap between the amount of printed dollars and the total number of US-dollar transactions and payments, dollar-denominated, or dollar-indexed, deposits or loans in the world.

So, money actually grows in banks, and central banks are trying to intervene in the market using only interest instruments, or the limited set of other instruments in their hands.

All central banks in the world – except for the Fed because it stands as a serious global power – have strayed away from implementing a national or regional policy. Because they are not as powerful as they used to be.

So, one day, a few wise people wondered: "since central banks are printing unbacked money, can we create a decent medium of exchange like a currency, instead of hoarding unlimited amount of money?" Thus, **Bitcoin was born** in 2008.

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This effort, which started with the aim of transforming the energy of computers and people into a medium of exchange, actually serves as a tool for getting rich, but sadly, it can sometimes be used by fraudsters to scam unsuspecting people today.

The scale of these dishonest schemes has unfortunately grown, including incidents where scammers impersonate the owners of digital and tech companies, especially Elon Musk, who is admired by Generation Z.

No one can deny that such interesting people are highly intelligent, but I have serious doubts whether that they have high morals. What did those people do, you ask? They made a lot of money from cryptocurrencies by manipulating the markets.

They recovered their losses by making the honest taxpayers pay for failed rocket launches, their exploding and crashing rockets. Let's not forget that the rich always use the money of the poor to increase their own wealth.

My doctoral thesis, which I wrote in 1996, explored problems related to the inclusion of the agricultural sector in a monetary economy. Later, I realised that cash money, the thing that central banks protect so heavily, the thing that governments dote upon, also creates informality.

Therefore, I do not exactly agree with arguments claiming that the anonymous nature of cryptocurrencies tends to encourage an informal economy. I think it's the opposite.

Whether the money is stored in a cold wallet or not, cryptocurrency trading can ensure that earnings and transactions are recorded, rather than leading to informality.

The increasing challenges faced by the private sector under the pandemic conditions encouraged some governments to say, "you see? The private sector hung you all out to dry. If it weren't for us, you wouldn't be able to survive. So, it's time to embrace state capitalism. We, as the government, can perform most of the functions of the private sector."

## Tendency towards state capitalism

The fact that Milei was elected President clearly confirms this tendency towards state capitalism. As mentioned, central banks were once seen as strongholds of free market economy and liberalism, even 'imperialism' according to some, but they have lost many of their functions today.

Their power fades gradually in the face of the developing technology. It's almost like "digital giants" are more respected than many central banks.

Today, the digital colonialism of Big Tech giants is engulfing the world. The world's largest technology corporations help governments create their own capitalist systems, that is, state capitalism.

Central banks, on the other hand, have been supporting digital money, not cash, to resist this invasion.

Some people confuse digital assets with crypto assets. Cryptocurrencies are created autonomously and anonymously and are not regulated by any monetary authority. Cryptocurrencies are decentralised.

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Digital currency, on the other hand, is actually an electronic form of money that does not have a physical and tangible form. Today, central banks seem like as if they want to abolish cash and state that they wholeheartedly support digital money, but I seriously doubt that they will actually pull the trigger.

All the money in the world today is already digital because the banking system creates them in intangible form.

Suppose you deposit 1000 units into a savings account with a 20% interest. You would have 1200 units in the account at the end of one-year maturity, which means you do not even need to withdraw this money from the bank, since it would grow in digital form and digitally serve as a medium of exchange for you.

Similarly, the factor that determines the limit of your credit card is actually your financial reputation, rather than the amount of money in your bank account.

Your reputation is defined by what you do in your commercial or financial life, through which your credibility is assessed. And if you are trusted enough, your credibility turns into a medium of exchange.

The government collects taxes as citizens spend money. The tax revenue collected by a

government is greater than the amount of money created by banks. A government dislikes slow growth of bank money with low interest. For this reason, it resorts to backdoor means to increase money creation.

## We are victims of words

The other day, I stumbled upon one of Ronald Reagan's old speeches on Instagram. The former US President, which was also a former actor, explained the following facts:

"Other than taxes, governments use two main methods to raise money:

- Competing with its citizens by operating in the lending and using the interest rate as a weapon.
- Money printing."

Both methods have been tried many times and we saw that both create inflation. As a matter of fact, we are victims of words.

When we think of inflation, the only thing that comes to our minds is rising prices. Naturally, we start to hate those who put the price tag on goods and services that we need to buy. However, we tend to forget that the people who set the pricing are affected by inflation as well.



*Emre Alkin: If Milei abolishes the Central Bank of Argentina and replaces it with a monetary board, other countries might follow Argentina's lead. Then we will be discussing an entirely different world*

Inflation does not only refer to the rate at which prices across an economy are increasing, it is also a decrease in the purchasing power of money. If production does not grow as much as the money supply does, that leads to one outcome: We would be generating too much money for too few goods.

As far as governments that spend heavily go, they should listen to the following warnings by Margaret Thatcher:

"When borrowing, governments should not act like a business which takes out a loan from a bank. When businesses get a loan, they tend to think that the borrowed money is their own. They use that loan to meet their needs, and if they are skilled enough, they make profit. Governments, on the other hand, should borrow to meet the needs of the citizens, not their own needs. Therefore, they should be realistic when determining the needs of citizens and should not seek to pursue their own interests and ambitions. There is no such thing as government debt, that is the debt of citizens. Likewise, there is no such thing as government money, because that it is the money of the citizens".

I do not think that governments will easily give up centralisation and money printing. However, as I said before, excessive money creation increases informal economy.

When central banks stop issuing money, their purpose will be questioned. Once digital money is fully implemented, they will probably become obsolete.

Meanwhile, there are economists who consider it essential to have a 'monetary board' in lieu of a central bank. If Milei abolishes the Central Bank of Argentina and replaces it with a monetary board, other countries might follow Argentina's lead. Then we will be discussing an entirely different world.