



Why Persistent Money Supply Growth Does Not Create Prosperity

Central banks around the world have been talking a lot about inflation of late. Some market indicators suggest price pressures could prove more persistent than expected. In the UK, CPI inflation rose from 2.0% in May 2024 to 3.8% in August 2025, before easing back to 3.0% in February 2026. In what follows, we distinguish between consumer price inflation and monetary inflation, by which we mean growth in money and credit.

In the short term, geopolitical shocks such as the war in the Middle East can also push inflation higher through energy, shipping and supply-chain disruption. But while such events can aggravate price pressures, they do not alter the longer-run role of money and credit expansion in eroding purchasing power.

The European Central Bank has warned that it will become even harder to keep inflation in check as trade tensions and other “structural shifts” make the world more volatile. Meanwhile, central banks remained substantial gold buyers in 2025, adding 863.3 tonnes globally, albeit below the exceptionally strong pace seen in the previous three years.

The irony, in our view, is that central banks have themselves contributed materially to the conditions for rising prices, even as attention often focuses on more immediate causes such as supply chain disruption or corporate pricing. Together with governments, persistent monetary expansion can erode the purchasing power of the currencies they are supposed to manage.

Historically, the word “inflation” was often used to mean an expansion of the money supply. Today it is more commonly used to describe a sustained rise in the general price level. That distinction matters: our argument is that persistent monetary expansion can, over time, weaken purchasing power and contribute to higher prices, with all the negative repercussions that entails.

Unwise wisdom

Nonetheless, the accepted wisdom in the economics profession is that for an economy to function well, the supply of money must constantly grow – ideally at an annual rate of around 2%.

But accepted wisdom is not always wise. As recent history has shown, the more the money supply grows, the worse the economy tends to function. There is a simple reason for this, says the economist and best-selling author Saifedean Ammous: money is a *sui generis* good in that its quantity is relatively unimportant; it is its purchasing power that matters.



For example, you would rather have 50 US dollars in your possession than 5000 Japanese yen since 50 US dollars buys more goods than 5000 yen. And that is what ultimately matters. Yet we live in a time when the value of money is being constantly and systematically eroded.

Ammous's broader point is that a monetary system designed around persistent debasement risks undermining saving, price discovery and long-term capital allocation.

As we explained in [our article on the Cantillon Effect](#), which formed part of our series on the topic of money, many of the problems we face today, from widening inequality to surging asset prices, to political instability and financial turmoil, can be traced back to the central banks' relentless money printing:

Put simply, money is not neutral. The individuals and institutions closest to the source of the money supply enjoy financial advantages and privileges at the cost of those least connected to the financial system. In Cantillon's day, it was the kings, queens and their courtiers who were closest to the source. Today, it is large banks, hedge funds and private equity firms.

Indeed, the Cantillon effect is arguably more relevant today than it was in Cantillon's time. Since the US dollar's unpegging from gold in 1971 there has been virtually no limit on the amount of new money commercial and central banks can create. Moreover, they have created previously unimaginable sums. Every time a new crisis emerges, often as a result of the boom and bust cycles generated by excessive money printing, central banks print yet more money. And those closest to the central banks get the money first while those furthest away get it last, by which time price rises have eroded all possible benefits.

Booms, busts and distorted price signals

Persistent inflation undermines general economic performance and outcomes in other ways too. This includes the huge disruptions fuelled by the business cycle as the economy waxes and wanes through artificially created booms and busts.

First, the central bank can help to create a boom by artificially lowering interest rates. Then, when the boom reaches bubble proportions, the central bank may eventually starve it of oxygen by hiking rates. The risk is that economic activity then slows sharply as boom turns to bust. Many heavily indebted households may come under severe pressure, and many heavily indebted companies may fail. Unemployment can begin to surge, debts go unpaid and some banks may even end up collapsing, causing yet more chaos.

Another problem is distorted price signals. When central banks create artificially cheap money by lowering interest rates, they are essentially distorting the price of money. This creates fertile ground for bad economic decisions and poorly chosen investments. Think of all the trillions frittered away on the nascent tech sector during the dotcom bubble or squandered on the property market during the years leading up to the Global Financial Crisis – all made possible by loose monetary policy!



Another negative consequence of our inflation-based economic model is greater short-termism as saving is discouraged and debt accumulation incentivised. This results in sliding confidence about the future and lower productivity, both of which are increasingly evident in today's economy. The higher inflation rises, the greater the incentive for people to pursue short-term speculative bets, rather than invest in long-term productive growth, in a bid to beat inflation.

Our inflation-based economic model is also driving the further expansion of the State. As the State grows larger, it has even greater incentive to mislead the public on the scale of the inflation problem and continue to muddy the waters of its primary causes.

Lastly, the aggregation of all these problems—the uncertain price outlook, the lagged effects of all the money printing, the growing opacity and unreliability of economic data, and the unsustainable growth of public and private debt—is eating away at the very foundations upon which our economy was built. If there is one thing businesses and investors loathe, it's persistent economic uncertainty and instability.

Conversely, a fixed-supply money system would at least provide a more solid economic base. This is since all goods and services would be measured against a fixed measuring stick that applies equally and fairly to everyone.

So why does this matter and what can you do about it?

It matters because it helps to explain why our current monetary system is so fragile and prone to periodic panics. To achieve true diversification within an investment portfolio, that systemic fragility may need to be hedged through assets whose supply is constrained and which can be held with limited counterparty risk, such as certain real assets or physical gold.

If you would like to discuss any of these matters further, please get in touch with your usual contact at Cartwright.

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