

Paying government debt: Then and now

A famous dictum (often attributed to Mark Twain) says, "history doesn't repeat itself, but it often rhymes." By "rhymes," the saying means two different time periods of-

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ten face similar situations. Sometimes it's shocking how much time lies between these similar situations. For instance, today's economic landscape in some ways resembles the economic landscape in France during the late Middle Ages. Then, King Philip IV was in dire need of money. He had waged wars against England and against kingdoms that are now part of Spain and Belgium, leaving France with a substantial debt. To raise money to service this debt, Philip and his government resorted to several tactics. As Dan Jones tells the story in *The Templars*, at Philip's direction, France increased its money supply, drastically and repeatedly, which caused the French currency to lose $\frac{3}{4}$ of its value between 1294 and 1306. While the newly coined money helped alleviate some of Philip's financial troubles, it wasn't enough. Philip needed more money.

Philip then seized money from two groups that he thought were rich enough to pay his debt. In 1306, Philip ordered Jewish people to leave his kingdom and their property behind. Philip's government auctioned off this property, raising some money, but not enough. Philip needed another target and he found one in

the Templars. The Templars were both a monastic and a military order. Their original mission was to protect Christian pilgrims who were visiting the Holy Land. Over time, the Templars grew in power and wealth; soon they owned castles and properties throughout Europe. With their vast reach and numerous strongholds that could safeguard money, the Templars became the first effective international bankers. On October 13, 1307, at Philip's order, government officials arrested Templar Knights throughout France. Philip hoped to seize the Templar's gold. While he did not gain as much wealth as he hoped, Phillip did begin a process that led to the demise of the Templars (but that is another story).

Today, the U.S. government has an acute need for more money. While it didn't accumulate debt by fighting large wars like Philip did, it did accumulate substantial debt – partially by giving households large payments while the economy was mostly shut down due to the coronavirus, and partially by continuing to pay for an expensive social-welfare system. Government debt is now 123 percent of the U.S.'s GDP (St. Louis Federal Reserve).

To meet its financial obligations, the U.S. government is taking some of the same steps that Philip took centuries ago. You can begin to see its first step in the accompanying graph, which plots the amount of currency in circulation (data from the St. Louis Federal Reserve). Clearly, in early 2020, the U.S. government began to print money more rapidly. This extra money is responsible for our current

high inflation rate. While the U.S. inflation rate is often just 2 percent or 3 percent, over the last year it was 7.9%.

The U.S. is likely to take some additional steps. Like King Philip centuries ago, many of today's elected officials in the U.S. government aren't satisfied with the purchasing power their government derived from creating more money. They, like Philip, want to seize wealth. While our government does not have its sights on the Jews or on religious orders, some members of Congress hope to seize money from the wealthy. Senator Elizabeth Warren and others are proposing a wealth tax, hoping to fill the government's coffers with this new tax.

While today's debt problems may remind us of France's debt problems circa 1300, it is important not to overemphasize the lessons from the fourteenth century. Most likely our current government won't print so much money that we see the same inflation rates that France saw, nor will our current government be as ruthless in seizing wealth as France was under Philip. But Medieval France does offer some lessons. Citizens should worry when their governments run up debt. The methods governments use to pay their debts, whether through inflation or through confiscatory taxes (or policies), will create hardship. As voters, we'd be better off putting pressure on our elected officials to reign in government spending now. If successful, we can avoid the consequences that can come with unsavory methods governments use to pay off their debts.