Twitter Thread by Dinesh Sairam



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1/ Since "liquidity" has been the buzzword these days, here's an anecdote and a powerful lesson from history about printing unlimited amounts of money. Story time. #fintwit

2/ Our story begins with Mansa Musa or Musa I of Mali, an African king who consistently figures in the list of richest people in the world (Inflation-adjusted). One of his given names was 'Lord of the (Gold) Mines of Wangara'. Lest we forget, Gold was the 'Money' in those days.

3/ One fine day in 1324, Musa decided to go on a pilgrimage to Mecca. Of course, it was easier said than done. Mecca was ~8,500 Kms away from Timbuktu, Mali. Ultimately he did make that journey and it has been recorded in the script "The Chronicles of the Seeker" by Mahmud Kati.

4/ Famously, he took a ton of 'money' (Gold) with him to aid in his journey (Well in his defense, it was ~8,500 Kms). About 60,000 laborers and soldiers carried 2 Kgs each and their camels carried 13 Kgs each, bringing the tally to an estimated ~1,30,000 Kgs of Gold.

5/ Being a generous King, he donated Gold left and right to every poor person he saw on the way. Regions of Cairo, Medina and Mecca became instantly 'rich'. The estimated donation is ~32,000 Kgs of Gold or ~$2 Billion in today's estimate.

6/ Do you think Musa's kind-hearted generousness made Cairo, Medina and Mecca flourish? That would be the perfect fairy-tale ending, but Economics and the Law of Unintended Consequences beg to differ. Musa caused a severe hyperinflation in these parts.

7/ Since everyone became 'rich' overnight, they refused to work unless they're paid a hefty salary. So business owners had no choice but to increase prices to support wages. Over a year of two, high prices drained people off their Gold and they became poorer than before.

8/ As Musa returned from his pilgrimage, he saw the damage he'd caused. He tried to remedy the situation, but it was too late. Regions of Cairo, Medina and Mecca would continue to be devastated for years to come.

9/ If you think this story is unrealistic, history repeated itself as recently as in 2006-08. The Zimbabwean government printed gobs of money starting in 2005. This caused, you guessed it, a hyperinflation. At the peak, the inflation was 98%, meaning prices DOUBLED every day.

10/ You might also be aware of the ridiculous denominations of currencies in Zimbabwe in 2008. At the same time this was being printed, meat for daily consumption was priced at ~Z$ 200 Million. Now these kinds of notes sell on eBay, in case you're interested.

11-END/ George Gobel, the Standup Comedian, once said "If inflation continues to soar, you're going to have to work like a dog just to live like one." That's Dark Humor, but we're already in the midst of excess liquidity. What will follow this isn't too difficult to guess.