Can You Have “Too Much Money”?

Suppose that someone has $20,000. We ask that person if he would prefer to have $50,000 instead. His first response is to ask us what he has to do to get the extra money. We say nothing. He quickly smiles and says, "Sure, I'll take the extra money.”

No one, it seems, turns down money for doing nothing in return. More money is always better than less money.

Now what is odd is that even though an individual may never have "too much money," the sum of individuals (the society) may have "too much money.” To understand how, all that is needed are two things: first, a short history lesson, and second, an understanding of the simple quantity theory of money.

In 1923, prices were rising quite rapidly in Germany. Not by 10 percent or 20 percent a year, but by 41 percent a day. In 1946 in Hungary, prices were tripling each day. Both situations are examples of hyperinflation.

To understand what this type of increase means, consider a modern-day example. Suppose a hamburger cost $2 today, but that the price of the hamburger triples every day. In just nine days a hamburger will cost $13,122. Think of what this increase would do to a person with a savings account of $13,122. It would surely reduce the buying power of that savings account.

Ask yourself what would happen in a society that experienced this kind of hyperinflation. History shows us that such societies tend to be composed of fearful, uncertain individuals who cannot predict what tomorrow will bring. One economist argued that the German hyperinflation destroyed much of the wealth of the middle classes in Germany and made it easier for the Nazis to gain power. If he is correct, rapid increases in prices are more destructive than anyone could imagine.

What caused the hyperinflation in Germany? It is simple: too much money. The German government was increasing the money supply at an astronomical rate: that's what caused prices to soar. Prices rose by 854 billion percent in the five-month period from July to November 1923.

You might think that you could never possibly have too much money. But what many of us forget is that when we think that we can never get enough money, we are assuming that the nation's money supply remains constant. In other words, you are assuming that you have $4 million more, and that collectively everyone else has $4 million less.

Think of the difference in effects between (1) your having $4 million more and collectively everyone else having $4 million less; and (2) you and everyone else having $4 million more. In the first case, the nation's money supply stays the same and so do prices. It's just that you have $4 million more to spend for goods whose prices have not changed. In the second case, the nation's money supply increases by $4 million times the population. In the United States, we would multiply $4 million times a population of about 300 million. That means the money supply increases by 12 followed by 14 zeros. You can expect prices to rise so fast and so high that soon you'll be paying hundreds of thousands of dollars for a hamburger.

What is the lesson? For the individual, there may not be such a thing as "too much money.” For the sum of individuals-for a society there is.