Money and Prosperity

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Abstract

This paper empirically investigates two fundamental questions: (i) Can money alone cause prosperity? and (ii) Can prosperity exist without money? Using a balanced panel of seven advanced economies (2018–2023), we combine descriptive statistics, panel regressions, and structural controls to evaluate the role of monetary aggregates (M1, M2, M3) in determining prosperity. We find that money alone does not cause prosperity, and prosperity can exist without money, as structural and institutional factors dominate in explaining differences in living standards and growth.

1 Introduction

Money is often associated with prosperity. Larger monetary bases accompany richer nations, but correlation does not imply causation. This paper explores whether monetary aggregates are sufficient to generate prosperity, and whether prosperity can persist without them.

2 Data

We use a panel of seven advanced economies: Australia, Canada, France, Germany, Italy, Japan, and the United Kingdom, covering the years 2018–2023. Variables include:

- Real GDP Growth Rate (%)
- GDP-PPP Per Capita ($ international)
- M1, M2, M3 (billions, local currency)
- L1, L2 (structural indicators)

The dataset is balanced, yielding 42 observations.

3 Methodology

We adopt panel regression methods:

1. Pooled OLS (cross-sectional + time variation)
2. Fixed effects (country and year) controlling for structural and global shocks
3. Granger-style tests with lagged money to test predictive power

We use prosperity levels (log GDP per capita) and prosperity flows (real GDP growth) as dependent variables.

4 Findings

4.1 Money alone and prosperity

Pooled regressions suggest a positive association: richer countries have larger money stocks. However, when controlling for country and year fixed effects, the coefficient on money (M2) becomes small, negative, and statistically weak. Lagged money stocks do not predict future prosperity growth. Thus, money alone does not cause prosperity.

4.2 Prosperity without money

When monetary aggregates are excluded from the models, prosperity remains strongly explained by country and year effects. Log GDP per capita maintains an R^2 of 0.985 without money variables, and GDP growth retains an R^2 of 0.866. Hence, prosperity can exist without money.

5 Vector Illustration

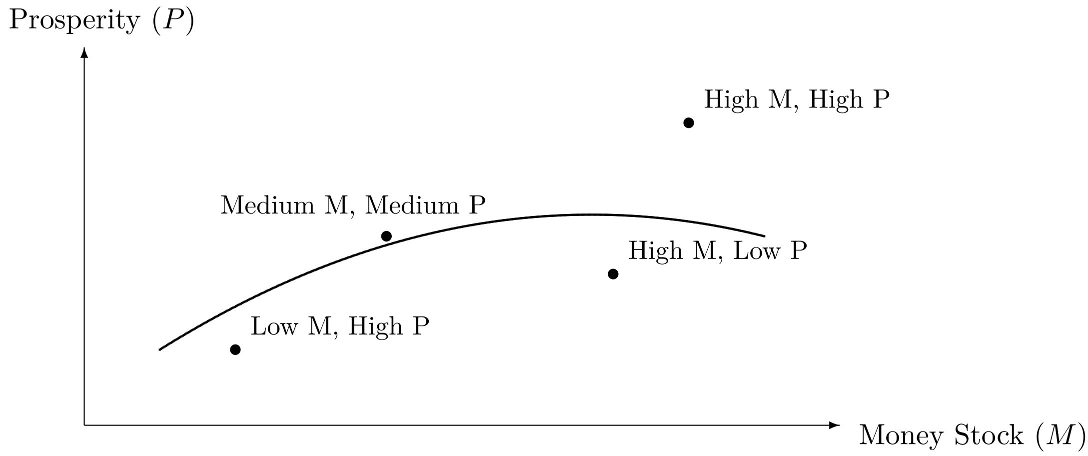

Figure 1: Conceptual relationship between money and prosperity.

Multiple outcomes possible.

6 Conclusion

The evidence suggests that while money correlates with prosperity across countries, money alone does not cause prosperity. More importantly, prosperity can exist without money, being sustained by structural factors such as productivity, institutions, and resilience to shocks. Policymakers should thus view money as a facilitator, not a generator, of prosperity.

References

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