Chapter 7
Win-Lose Money

You shall do no wrong in judgment, in measures of length or weight or quantity. You shall have just balances, just weights, a just ephah, and a just hin [*a unit of dry measure*].

—*Leviticus 19:35–36*[1]

What's so important about a "just" measure? In this chapter, we try to figure it out.

And continuing our Bible reading, we find this in Genesis 3:19:

19*By the sweat of your brow will you have food to eat.*[2]

If you want money, in other words, you have to earn it. And earning it means satisfying a customer or a boss. It means giving something to get something.

If you want to get ahead financially, if we were to put it in terms of rules, we could list them as follows:

1. Work hard.
2. Learn as much as you can.
3. Save your money.
4. Invest wisely in things you know.

Or hold up a liquor store.

There are always dishonest ways to get what you want, too. Less violent than robbing a liquor store is printing up counterfeit money. And laying on the ground in front of us like an unexploded bomb in a playground is another Bible quote, this time from Proverbs 21:6:

> 6 *Wealth created by a lying tongue is a vanishing mist and a deadly trap.*[3]

As long-term readers of our daily blog, *Bill Bonner's Diary*, now at Bonner Private Research on Substack, know, we are connoisseurs of financial disaster. Give us a 1922 Deutschmark—an excellent vintage! If you had bought a house in Berlin in 1921, you could have paid off your mortgage in 1923 for the price of a cup of coffee. Or how about a Zimbabwe dollar from 2006? That was a great year. Plenty of liquidity. We used to carry a 10 trillion Zim dollar note in our wallet, and we have a 100,000 Deutschmark note on the wall of our office, too; both remind us not to trust paper money.

But the South American blends are good, too. Both Brazil and Argentina have produced some fine catastrophes. In Argentina, the inflation rate hit about 5,000% in 1989. The Argentines had tried to dodge their just desserts by replacing the discredited peso with a new currency, the austral, in 1985. By 1994, the austral had been discredited, and it was back to the peso. Meanwhile, one of our colleagues recalls what it was like living in Brazil in the 1980s:

> *When Dad got paid, we'd meet him at the office. And then, we'd take the money right over to the grocery store. We had to get there as soon as possible, because they marked the prices up all day long. If you waited, you'd get a lot less for your money. And there might not be anything left to buy.*

There are many different vintages of disaster. There are natural disasters, such as the explosion of Vesuvius, which wiped out the Roman city of Pompeii in the first century. There are military disasters, such as Japan's attack on Pearl Harbor in 1941, or the French attack on Russia in 1812. There are political disasters, too, such as the French Revolution or the *coup d'état* in Russia in 1917. The financial disasters are more amusing. They're more comic than tragic, unless they lead to disasters of the other sort. And fraudulent money, or too much money that you didn't actually earn, is almost always the culprit.

The bolívar—the Venezuelan currency—lost about 99.99% of its value in 2017. In April 2018, the *Financial Times* reported that 5,000 people were leaving Venezuela every day.[4] At that rate, the country would be almost completely empty by 2038.

Financial disaster, often spawned by counterfeit, win-lose money, usually leads to social, political, military, and health disasters. Were it not so, the coming U.S. financial crisis would be merely entertaining.

After all, who cares if rich people lose money?

For poor people, though, the stakes are higher.

As if to demonstrate this, by July 2018, inflation in Venezuela had reached 82,766%. In other words, if you bought a pack of cigarettes for $5 in June, you could expect to pay $4,138 by the end of July. But by the end of the year, new estimates put the rate of inflation at 1,000,000%![5]

When the money goes, everything seems to go with it. The economy, the government, order, morality, right and wrong—all go into a twilight zone, where you don't know who to trust or what is going on.

The 2017 rise in oil prices was supposed to give Venezuela a little breathing room. Oil is the country's biggest asset and its main export. And the state-owned oil giant, PDVSA, was supposed to rescue the nation. But it was too late. The vernacular—the vast web of thoughts and deals that make up everyday life for everyday people—had been so corrupted and distorted that it couldn't react normally. Venezuela could no longer take advantage of opportunities or respond to crises.

Wages could not keep up with inflation. *The New York Times* highlighted the case of a typical rig worker, who stayed on the job for the entire month of May yet earned only enough to buy one chicken. No longer able to feed their children on their earnings, workers walked off the job. Or drove off. Trucks disappeared. So did wrenches and copper pipes.[6] Even with a higher oil price, income fell for the company . . . the state . . . and the remaining employees. What was a man to do? Leave! The newspapers reported that Venezuelans were rushing the borders to escape, often taking little more than the clothes on their backs with them.

More than 1.5 million Venezuelan refugees already live in Colombia. They scrounge for food. They pick through trash for something they can eat . . . or use. They work at pickup jobs or as prostitutes and sleep rough under bridges or in parks.

"We are dying of hunger," said a refugee to the *Financial Times*. "Three members of my family have already died of hunger."[7]

Back in Venezuela, most hospitals had no medicine, and little or no running water. Lack of food, medicine, and sanitation makes people more vulnerable to illness—especially communicable diseases.

After a 40% drop in output, 90% of the Venezuelans still living in the country were said to be impoverished. "Extreme poverty" tripled in the last four years. Law and order were breaking down, too, both in Venezuela and in neighboring countries.

Those who managed to get across the border to Colombia or Brazil often found little hospitality. There were so many of them that local services were overwhelmed. Jobs were scarce. And few people were happy to have so many desperate refugees on their doorsteps.

But how do these crises happen? And why tell you about them? You don't live in Venezuela. Or in Zimbabwe. This isn't Germany in the early 1920s.

And no, we're not predicting that the U.S. is going to turn into Venezuela, Zimbabwe, or the Weimar Republic of Germany. But there are causes and there are effects in the financial world. And traps. And disasters. And they all follow familiar patterns. Everybody wants more money. And they want to get it in the fastest, easiest way possible. For a government, that means taxing, borrowing, and printing it.

At first—a process that can last decades—no harm is visible. Then, the spending continues to increase, and the debts mount up. In an effort to "stimulate" the economy and grow out of debt, governments spend even more. And borrow more. And print more, if they can get away with it. Soon, they are trapped by their own bad faith, bad money, bad debt, and bad spending. Nobody wants a financial disaster. But the easiest way out of the crisis at that point is to print more and more money . . . until the whole economy blows up.

An economic system is a natural thing. Like all natural things, it obeys laws that were never proposed by a legislature and that cannot be repealed by a majority vote. You can tell yourself that a dollar is a dollar, but there's a big difference between the pre-1971 U.S. dollar and the post-1971 buck.

Real money must be a "just" measure of wealth. That is, it must be connected to real things, especially to the least forgiving of real things—time.

Real money is a claim on real things. With it, you can buy the time of others. Or their stuff. It is easiest to think of it as a claim on something specific and tangible. When you give your car to a valet parking service, for example, you are given a ticket. That ticket, like money, is information. It tells the world you have a claim on that car. If the valet service were to print up additional claim tickets and pass them around, the information content of those new tickets would be false. The tickets would say other people had a claim on your car. But while the fraudsters could print more tickets, they couldn't create more autos. So, the whole picture would be distorted and confused by scammy information.

In Venezuela, again we see the consequences of unjust money. In August 2018, it took nearly 200,000 bolívars to buy a single egg. But because of government price-fixing, a liter of gas cost only one bolívar.

With one U.S. dollar trading for 3,500,000 bolívars on the country's black market, it would have been theoretically possible to buy nearly a million gallons of gas for one American greenback.

Nature does not disappear just because you act like a fool. Instead, she sneers and laughs. Nor does truth cease to exist because you deny it. Markets—based on voluntary, win-win exchanges—tell the truth. They don't set prices; they discover them. They provide new information. They surprise you by telling you something you didn't know.

Markets go up and down all the time—sometimes sharply. People never know in advance what things are worth. One person asks; another bids. Where they come together is the market-clearing "price." Collectively, through markets, prices impose order and reveal truth.

Of course, human beings tend to overdo it. They get overly optimistic or overly pessimistic . . . driving prices too high or too low . . . causing mini-booms and panics. In the U.S., between the end of the War Between the States and the Great Depression, there was the Panic of 1873, the Panic of 1884, the Panic of 1893, the Panic of 1901, the Panic of 1907, and the Depression of 1920–1921. The pain and damage caused by these setbacks varied. But generally, they came and went.

Bidders and askers never know in advance what is too high or too low. But markets quickly adjust. Prices rise and fall. Companies flourish . . . and go broke. Entrepreneurs and speculators succeed and fail. And when they fail, others are ready to pick up the pieces . . . and get back to work.

Anyone can make a mistake. But if you want a real catastrophe, you need violence—to force people to do what they otherwise wouldn't and prevent them from discovering the truth or correcting errors. That is, you need government.

Before the stock market crash of 1929, the Coolidge administration cut taxes, ran a budget surplus, and paid off a quarter of the national debt. By the time the crash of 1929 came, Calvin Coolidge was already out of office. But his Treasury secretary, Andrew Mellon, had been picked up by Herbert Hoover, and he brought the spirit of the Coolidge administration with him. So, when the stock market crash came, Mellon knew what to do—let the 'fire' burn itself out. He knew that a limit had been reached . . . and that the crisis was simply getting rid of mistakes—bad debts and bad investments—so the economy could begin again with fresh growth.

In the Depression of 1920–1921, the feds stayed out of it and the economy quickly recovered. But by 1929, instead of letting the markets correct mistakes, the feds intervened. As economist Murray Rothbard demonstrates in his book *America's Great Depression*, the authorities attacked with a barrage of wage, price, trade, and industry controls (aka win-lose deals imposed by force) that prevented the markets from clearing properly. The result was a depression that lasted, off and on, until World War II.[8]

Instinctively, we know that you can't make people rich by giving them pieces of paper with green ink on them. We know that stocks aren't infinitely valuable . . . that we won't live forever . . . and that something always happens to prevent things from getting too far out of whack. Or, to put it another way, things get out of whack . . . but then, they always get back into whack somehow. There are feedback loops . . . corrections . . . and reckonings. There are alarms that go off, bells that sound the hours to tell us when we're staying up too late . . . and headaches to tell us when we've had too much to drink. There are bosses to tell us when we're doing a bad job . . . and priests to tell us when we are bad people. And what else are husbands and wives for? They remind us when we are acting like a damned fool.

There are limits. The biggest of them all is time. Credit is offered by the Fed and the banking system. It is used by Wall Street to run up asset prices. But it is paid back by the Main Street economy, where all the win-win deals are made. Debt is offered in dollars, yuan, yen, or euros. But it is paid back in time.

It's always time we run out of. We meant to save for our retirement . . . We meant to stop eating so much . . . We meant to say something to someone we cared about, but time got away from us . . . We meant to spend more time with our parents when they were still alive . . . or more time with our children when they were still little. But we didn't have enough time. We ran out. We would have . . . we should have . . . we could have . . . But we ran out of time. Even the richest person in the world runs out of time, just like we do.

In a financial system, counterfeiters—including central banks—can put out an almost infinite amount of money . . . like those fraudulent valet parking claim tickets. And once an economy accepts fake money, the feds can keep it supplied, almost indefinitely. So what's the limit? What goes wrong? Where is the brick wall that we know, instinctively, is out there?

As you will see, of course, it's time.

"Can any one of you by worrying add a single hour to your span of life?"[9] Jesus asks in his famous "Lilies of the Field" sermon. Of course, you can't.

Everything you do takes time. It takes time to make a car. It takes time to park a car. So, when money is created "out of thin air," it is a claim on time. Money can be used to buy a car or park a car. But if the money is borrowed, more time is needed to pay the interest on the loan. And it will take time—future time—to pay back the principle, too. So, when you are borrowing money, you are essentially borrowing time.

There is a way to estimate how much time you can borrow . . . before you run into a brick wall. By long tradition—which, remember, distills valuable experience—debtors are generally comfortable bearing debt equal to about 1.5 times their annual income . . . but not much more. Since time is money, a clearer way to put this is: you can afford to borrow one-and-a half hours from the future for every hour you work in the present.

But the ratio in the U.S. today, August 2022, is 1 to 3.7. Taken as a whole, and using GDP as a stand-in for hours worked, the economy owes 3.7 hours of future work for every hour of current employment. Or, assuming a total workforce of 160 million adults earning an average of $25 an hour, and a total debt of $90 trillion, the typical worker will have to put in 22,500 hours—or more than 11 years—to pay off his share of household, corporate, and government debt.

That's why interest rates are so important. If you earn $100,000, net of taxes, and you owe $150,000 at a 2% interest rate, that means you will spend seven-and-a-half days working just to keep up with the interest repayments. But if you make $100,000 after taxes, and you owe $150,000 at 5%, you have to work four weeks just to keep up. You're running out of time.

Time is what gets us all. We run out of it. Everyone in the world is running out of time. And it can't be stretched. It can't be printed. It can't be saved up, stitched up, or revved up.

At higher interest rates, you quickly run out of time . . . and out of luck.

1971 and All That

Now, let's back up and look at the path on which we are now dependent. America's central bank—the Federal Reserve—was set up in 1913. Its ambitions were modest—to protect the currency and make sure the big banks made money. This it did cautiously at first, by, as Fed chief William McChesney Martin described it, "taking away the punch bowl" when the party started to get out of hand, or "leaning into the wind" when the storms blew up. Then, the Fed began making wind itself. And soon, it was the life of the party.

On August 14, 1971, Richard Nixon was worried. He was afraid of interrupting America's favorite TV show, *Bonanza*. But he had something important to say, something completely asinine and thoroughly appalling.

The following day, on the Feast of the Assumption, according to the Catholic calendar, he announced that henceforth, wages and prices would be subject to federal control, and that foreign central banks could no longer go to the "gold window" at the Fed and redeem their U.S. dollars.

It was hard to know which of these acts was the most shameful. Every economist worthy of the *métier* knew that wage and price controls wouldn't really contain inflation—which was running as high as 6%. They would just warp markets and distort prices, leading to shortages and mistakes. Though widely applauded in the popular press, it was such a silly thing to do that it got almost all the coverage. But it was so clearly absurd that the controls were dropped soon after.

The second part of Nixon's announcement was largely ignored. What did it matter? Foreign governments were perfectly happy to take U.S. paper dollars; gold seemed unnecessary and out of date. Besides, the greatest "conservative" economist of the time, Milton Friedman, was all for it. He thought he had cracked the code that would eliminate liquidity crises . . . and inflation, too. He thought it was as simple as controlling the money supply, with a steady rate of increase of 3% per annum. Friedman, a Nobel Prize–winning economist, was right about many things. But he was wrong about the thing he claimed to know best—money. Disastrously wrong.

We remember, vaguely, the argument from the early 1970s, when today's money system was put in place. There were the Hayekians—disciples of Austrian economist Friedrich Hayek—on one side, and the Friedmanites on the other. Simplifying, the "Austrians" thought government should have nothing to do with money. Hayek called the government monopoly over the issue and control of money "the source and root of all monetary evil."[10]

But Friedman, normally so distrustful of government, was willing to trust it with our money:

> *The first and most important lesson that history teaches about what monetary policy can do—and it is a lesson of the most profound importance—is that monetary policy can prevent money itself from being a major source of economic disturbance.*[11]

Friedman was a student of the Great Depression. He and Anna Jacobson Schwartz wrote their great tome, *A Monetary History of the United States, 1867–1960*. In it, they came to the conclusion that the worst of the Depression could have been avoided by manipulating the supply of money.

Writing along the same lines in their memoirs, *Two Lucky People*, Milton and Rose Friedman say:

> *The Fed was largely responsible for converting what might have been a garden-variety recession, although perhaps a fairly severe one, into a major catastrophe. Instead of using its powers to offset the Depression, it presided over a decline in the quantity of money by one-third from 1929 to 1933.* [. . .] *Far from the Depression being a failure of the free-enterprise system, it was a tragic failure of government.*[12]

This view became known as "monetarism," in which government agents keep their eyes on prices, increase the supply of money when they are falling, and decrease it when they are rising.

In a severe downturn, borrowing comes to a halt, bankruptcies and defaults increase, and the money turnover—or the velocity of money—plummets. The correct procedure, said the Friedmanites, was to increase the supply of money so the whole economy didn't get locked in a deflationary, depressionary slump. The hope of monetarism was that a steady increase in the money supply of about 3% per year would eliminate jolts of too much or too little credit.

At least, that was the idea. But during the last 20 years, the U.S. authorities have increased their monetary footings (their assets) at a 30% annual rate—far beyond anything Friedman ever imagined. And this is at the heart of the troubles we examine in this chapter.

We were alive at the time of Nixon's announcement. We were among the millions who saw something ugly afoot. But we didn't know what it was. We presumed it would be higher rates of inflation. Once freed from the golden hutch, we reasoned, the U.S. dollar bunny was free to multiply.

But it took us 30 years to understand (and still only partially and imperfectly) just how pernicious this new money system was. And it would take us more than 30 pages to explain it. So, let's back up, approach it from another perspective, and try to get a good look.

In a discussion with a colleague, we pointed out how the fake money system has robbed the middle and lower classes of trillions of dollars. By feeding the new, counterfeit currency into the asset markets, we explained, the relative wealth of the rich in the U.S. has increased by at least $50 trillion since 1980, while the middle and lower classes, who owned only their own time, have gotten barely a penny.

"Well, if the system were so unfair," came the challenge, "how come it has lasted nearly half a century?"

It was then that we realized the system has endured because it was unfair, not in spite of it. In any government, there are always some people who get control of the coercive power of the state and figure out how to use it for their own benefit. That was true of the

Big Man in prehistoric tribes. It was true of the chiefs, kings, and emperors who dominated governments in early historic times. And it is true of the elites who dominate the U.S. government today. And no more cunning, more elegant, or more effective a flimflam has ever been developed than America's current money system.

Many of the people who gain from the system—probably the majority of them—are not even aware they are participating in a fraudulent conveyance. They go to the best universities. They can talk about the Fed's "demand management." Or they simply invest alongside that great genius from the plains, Warren Buffett. Like everyone else, they come to believe what they must believe when they must believe it. They think they are making money because they are smart, unaware they are really just short-changing ordinary working people with the hidden help of the feds' fake money system.

(We speak with some unaccustomed authority on this. We stumbled into the business of offering alternative investment ideas and economic commentary in 1979. For many years, an investor might have done well simply buying the Dow in 1982 and sitting tight; he didn't need us. Yet our business grew immodestly—far faster than GDP. Now, with offices in 10 countries and thousands of analysts, writers, editors, and researchers working for us, how do we explain this remarkable—perhaps disproportionate—success? Unbeknownst to us at the beginning, we had the wind of the feds' fake money at our back. The more the feds disconnected Wall Street's asset prices from the Main Street economy, the more people wanted to know how to get in on it. The more counterfeit claim tickets the feds issued, in other words, the more people wanted to know how to get one.)

Many people got rich in the period from 1980 to 2021. The stock market, measured by the Dow, rose from under 1,000 to over 36,000. As has been well-documented, this new wealth went overwhelmingly to a small portion of the population—the upper 10%. Or the upper 1%. Or the upper 0.1%. The higher you went, the more disproportionate the gain. The rich got richer. And the richer they were, the richer they got.

But what kind of wealth was this? Was this win-win wealth, with a positive gain for society? Or was it win-lose . . . where the rich only got richer because the poor got poorer?

In the news in 2015 was a report from Princeton economists Anne Case and Angus Deaton, who sounded the alarm about the shocking increase in death rates among middle-aged white men. According to their figures, the death rate for a white man aged between 45 and 54 without a college degree was rising faster than for any other demographic group, while the death rates for Black and Latino men the same age continued to decline.

Forget terrorism, Russia's "brutal aggression" and Mexico's drug cartel murderers. In America, a middle-aged white man is now much more likely to kill himself than to die at the hands of foreigners. "Deaths of despair"—from alcohol, drugs, and suicide—have more than doubled in the U.S. in the last 20 years. The Centers for Disease Control and Prevention tell us that the mortality rate in the U.S. has risen to almost 900 per 100,000. And we recall reading elsewhere that at least one county in West Virginia was so overwhelmed by these deaths that the funeral homes weren't able to keep up; they had to export cadavers to a neighboring county.

In our last visit to our father's hometown—Donora, Pennsylvania . . . a steel town that peaked out in the 1960s—we were shocked. Not that so many people had killed themselves, but that so many were still alive. We'd hit the bottle hard, too, if we had to live there. Empty buildings. Derelict houses. It might as well have been West Baltimore-on-the-Monongahela.

Economists, do-gooders, and social activists argue about the causes. Not enough spent on education and job training, says one. Globalization, charges another. No, it's the unequal distribution of income, announces a third. The decline of unions, guesses another. But we will show the real cause in this chapter. Not capitalism. Not greed. Not too little regulation. The real cause is money itself . . . or, more precisely, the feds' claptrap money. In 1971, the feds changed the money system. Donora has been going downhill ever since. And its time-selling working classes, compared to the asset-owning bourgeoisie, got poorer. And let's look at what has happened to the whole economy since the new, fake money was introduced:

- The Fed's "balance sheet" assets have gone from $84 billion to $9 trillion.
- Stocks, as measured by the Dow, have risen from 839 to over 36,000.
- Productivity growth has declined from 9.3% per year in the 1960s to 2.5% per year in the twenty-first century . . . and recently turned negative.
- U.S. government debt was $397 billion in 1971. Now, it is $31 trillion.
- Total U.S. debt was $1.3 trillion ($786 billion private debt + $397 billion federal government debt + $159 billion state and local government debt) in 1971. Now, it is $90 trillion.

Coincidence? Or causation?

We do not presume to say the change in the economy was the only thing that happened as a result of the new money system. Many other things were going on. But the new, fake money played a large part in what has happened over the last 40 years.

The monied classes—including those who run the show—saw nothing they disliked in the new money system. Donald Trump, who described himself as the "King of Debt" (see more in a subsequent chapter), saw his own net worth go up from barely $200 million in the 1980s to what he claimed was a $10 billion fortune in 2016. Money was available. Those with access to it got it, in great abundance. Leveraged real estate speculators, such as Mr. Trump, used it effectively.

But the trail is so obscured by mythical economics and fake news, it's hard to follow.

Money and the Deep State

Sometimes, a rich person is maligned, as in, "He only cares about money." Or money itself is dissed, as in, "It's only money." But money is more than "just money." It connects us to our fellow humans. It keeps track of our relative status and material accounts; it quantifies a hierarchy; it is a "way of keeping score in life," as American business magnate T. Boone Pickens used to say.

Most important, it tells us who owes what to whom. If the money is honest, it helps us maintain a sense of basic fairness . . . and keeps us "grounded" in the real world of resources, skills, information, and—crucially—time. Money is not something apart from us; it represents who we are . . . what we've done . . . what we know . . . how much we've done for others . . . how we've gotten along in the world so far . . . and what we hope to do in the future. It is choice. It is liberty, independence, and, at times, survival.

Imagine that you spend your entire working life saving money for your retirement. Is that saved-up money "just money"? It is much of your life. It represents the time you've spent working . . . and all the times you decided not to spend your money, but to save it for the future.

Now, imagine how you will feel if that money is taken from you. If you are held up on the street, you will be indignant . . . and want to see the criminal brought to justice. But what if the money itself cheats you? What if inflation turns your $1,000 savings into just $100 . . . or only $10? Or imagine how you will feel when you see someone else . . . perhaps someone who has never worked a day in his life . . . get $1,000 for nothing.

Or imagine that someone is able to borrow $1,000 at no interest. How does that make you feel? What does that make of all your years working, saving, and scraping by? What are your life's savings worth if someone else is able to get the same amount of money for nothing? Does it feel like someone cut in line ahead of you?

In an idealized, honest economy, people give and get in more or less equal measure. You get paid for a day's work. If you put in more effort, you get more money. And if you are able to invent something that helps people save time . . . or if you are able to build a business—like Walmart—that helps them save money . . . don't you deserve to get more?

Money was one of the most important innovations of all time. Like the wheel and fire, it was a technical breakthrough that opened the door to much further technical progress. And like language and writing, it was a social innovation that made the modern, civilized world possible. You could trade with people you didn't know . . . people from different cultures . . . people speaking different languages. Money allowed you to move wealth across space and time. If you were a farmer in the Roman Empire, and you had a ton of wheat you wanted to exchange for a ton of tea from India, it would have been almost impossible—and extremely expensive—to transport your wheat to the Indus Valley and make the exchange.

But commerce got easier with the invention of money. You traded your wheat for a few gold coins . . . which then could be traded for tea from India. The seller didn't have to know anything about you. Or anything about your wheat. All he had to know was that the money was good. It was real money. Just money. It was honest money.

Imagine that you raised a crop of cabbages. These vegetables represented years of preparation, learning, and skill . . . along with many thousands of hours of field work. Your cabbages were your wealth. They were a vegetable form of your time. But in a few days, the cabbages would dry up and rot . . . and the wealth would disappear. Money, however, allowed you to convert your cabbage wealth into financial wealth. And with this new form of wealth—money—you could keep your wealth for weeks, months, and years. You could then enjoy the cabbage crop you raised in Tuscany in 59 CE even after your retirement in 71 CE, perhaps in Spain. But the money had to be real. Otherwise, you would be misled or cheated.

Money is best compared to writing. You can communicate without writing. You can do business without money, too. Both writing and money are ways to pass along information, spanning thousands of years and thousands of miles. Today, we can still read about Diocletian's third-century cabbages, or about Emperor Claudius' proposal to the senate, bidding it proclaim corned beef and cabbage the world's most perfect food. A gold coin minted in Claudius' day will still buy a corned-beef-and-cabbage dinner, too. We don't know precisely, but it may even still cost about the same amount.

Both writing and money helped make modern civilization possible. Exchanging information and ideas across languages, cultures, oceans, and mountains . . . the rate of innovation, learning, and specialization sped up. Trade increased. And so did prosperity.

But as we will see, money and writing can lie, too. So, let's take stock of what we already know . . . Then, we'll move ahead.

Progress is cyclical. Win-win deals add wealth and move the society forward. But they depend on trust. As trust increases, deals are made more efficiently. People specialize. They learn. They become more productive. The society gets richer. And then . . . the temptation to cheat increases. This temptation, perhaps, deserves a fuller explanation. The theory of declining marginal utility means that the first dollar you earn is worth more than every additional dollar. You can easily see why this is so. The first money you earn may keep you from starving. It is extremely important to you. When you have earned a million dollars, on the other hand, an additional dollar makes very little difference. Like everything else in life, the scarcity of money makes it valuable; abundance reduces its value.

Logically, a dollar lost is more valuable than an additional dollar gained (because of the declining marginal utility of money). So, a dollar taken away from someone must also be more of a loss for him than an additional dollar earned by you (assuming you are about equal to begin with). Since it is relative wealth that matters—it is a status marker, after all—you are better off stealing a dollar from a neighbor than earning an extra dollar yourself. And now that the stolen dollar is your property, and not his, it is actually worth twice as much as an additional dollar gotten honestly. He has one less. You have one more. The difference = two dollars.

Wealth cannot be created by win-lose transactions. But it can be taken away by them. To avoid this, walls and security cameras go up. Costs increase. Trust declines. Progress slows . . . or goes backward.

Money, honest money, is just a way of keeping everyone honest. Gold-backed U.S. dollars were trustworthy for nearly 200 years (setting aside Lincoln's phony "greenbacks"). People became so confident in the integrity of the dollar that they hardly noticed when the gold backing, for Americans, was removed by President Johnson in 1968. Nor did many people complain when Nixon followed up by removing the gold backing for foreigners in 1971. But that's the way trust works. The more trusting people become, the easier it is to rip them off. And the more successful they are, the more you want to.

As trust expands and win-win deals proliferate, it is inevitable that some people gain more than others. The typical Chinese day laborer makes seven times as much today as he did in 1999. But the typical American day laborer, in real terms, has gained little or nothing. In 1972, the average hourly wage for an American worker was edging up to $5 an hour. Fast-forward more than 50 years, and that worker now makes $25 an hour. Adjusted for inflation, the typical man has not had a significant raise in over half a century. Value of his time—which he traded for money—has remained almost unchanged.

But the situation is substantially worse than it appears. Because the Bureau of Labor Statistics' figures reflect an abstraction, not the real cost of living. Even as his wages remained stagnant, it took the average working American more time to buy the basic conveniences. For example, the typical man must now spend twice as long working to buy the average pickup truck and the average house as he did in the early 1970s.

International labor competition and fake money made the American feel like a loser. Win-win allowed someone else to win. And now, he wants to go into reverse, to make America great again, with walls and win-lose trade barriers. He wants to turn the positive-sum game of global commerce into a zero-sum game in which he believes he will be a guaranteed winner.

But it wasn't really win-win deals that hurt him. It was win-lose money. Overseas, his competitors used America's cheap money to gain market share and take away his job. At home, the elite used the new, cheap money to pump up its stocks, bonds, and real estate. Meanwhile, the feds imposed their crony boondoggles, regulations, sanctions, and win-lose deals—financed with fake money.

His medical care now costs him nearly 10 times more than it did in 1980. His household debt rose nearly 8 times since 1980. He blamed the Chinese, the Mexicans, the Liberals . . . the media . . . and the government. He wanted a change. But who would have guessed that he had been ripped off by his own government . . . and its untrustworthy money?

Who would have imagined that after 3,000 years, the civilized elite would have come up with a money that betrayed his trust . . . a "bezzle" so subtle he didn't even notice?

Money and Civilization

Before World War II scattered them around the globe, a group of intellectuals met regularly in "kreis"—what we would call "salons"—in Vienna, Austria. Philosophers, economists, mathematicians—the circle was small enough to allow for much cross-discipline discussion.

Out of these conversations, the economists among them—Carl Menger, Ludwig von Mises, Friedrich Hayek, Joseph Schumpeter, and others—developed the "Austrian school." But the Austrian school of economics was not at all like the academic discipline practiced by the modern celebrity economists of our time—Paul Krugman, Janet Yellen, Ben Bernanke, Thomas Piketty, et al. It was a broader view, based on insights about the way the world—and civilization—works. And it resulted in a rather humble view as to what an economist could do to make it better.

There's a reason Alan Greenspan, formerly a partisan of the Austrian school, gave it up when he took the role of head of the Fed. The Austrians tried to understand the economy; they did not pretend to fix or improve it. And if they had seen someone recklessly experimenting on it—such as with Zero Interest Rate Policy (ZIRP), Quantitative Easing (QE), or the Greenspan Put (which assured investors that the Fed would come to their aid if the stock market sold off)—they would have been appalled, quickly pointing out why the experiment would only make things worse.

The Austrians saw that money was just a part of the complex fabric of civilization. It served a purpose beyond simply making people rich or poor. It brought them into the civilized world, where they could truck with people they didn't know . . . exchange vital information with people whose languages they didn't speak . . . and reward people they never met for making their lives better.

Money, real money, brought discipline and forbearance to the economic world, just as the Roman centurions imposed it on their Goth recruits. You could get richer and live better. But you had to submit to the disciplines and limitations of the civilized world. You had to understand that actions have consequences. And you had to respect time.

First, you had to earn money, by exchanging your time in the present for a reward you would receive in the future. Second, if you wanted to make money from your money, you had to forgo the pleasure of immediately spending it. You had to save it. And saving it, you had to learn self-discipline. And you had to develop trust, depending on others not to steal it. Thus, could you create investment capital . . . which you could build up . . . and use to create more capital. This was the foundation for the whole edifice of modern-day capitalism, upon which progress and our standards of living depend.

Real money reflected the reality of the world itself—with its limited quantities of time and resources. Real interest rates on real savings connected the present with the future, compensating for the uncertainties the future inevitably holds, and restraining the desire to "spend it now." Real interest rates not only rewarded forbearance, they discouraged consumption (eating the seed corn that would increase the next year's harvest) . . . and thereby favored capital formation and material progress.

Alas, like some modern-day Vandal tribe unleashed on the civilized world, the feds, aided and abetted by cocksure economists, have been dismantling capitalism and civilization itself with their fake money and fake interest rates. Instead of encouraging saving and civilized restraint, they discourage it by dropping interest rates below the rate of inflation and trying to stimulate the economy with trillions in debt that can never be repaid.

The whole spectacle would be funny if it weren't so dangerous. Without honest, fair, true money, growth rates fall. Bubbles get pumped up . . . and they explode. Debt grows. The rich get richer; the poor fall further behind. Societies are destabilized . . . and people turn savage.

Our guess is that very few of the people involved in policy-making decisions today has even read the Austrians. None takes them seriously. None really understands money. Instead, they all continue along a bumpy road that leads, as Hayek and Schumpeter both predicted, to disaster. This is not just a monetary disaster, by the way. When the money gives way—as it did in Germany after World War I—so do the norms, values, and customs of civilization itself.

Fake Money. Real Money. What's the Difference?

Money is not made money simply because a government says so. It takes more than that. Otherwise, the people of Zimbabwe would still be using their Zim dollars. The government said they were legal tender. They handed out quadrillions of them. But they are worthless.

Real, durable money must be win-win money. It must be accepted by the people who use it. It may or may not be an "official" money, but it must be a vernacular money. It must be true. Or at least true enough. People are used to a little fraud in their money; they put up with it and adapt to it. But too much fraud is unbearable.

When money was first invented, nobody knew for sure what form of money would work best. All sorts of things were tried—shells, stones, beads, and "wampum." In the southern American colonies, tobacco was a favorite form of money. It was transportable, packed into rolling "hogs' heads," and pulled behind oxen to the docks on the Chesapeake. If kept out of the rain, it did not perish. It was divisible; you could take out as many "hands" of tobacco as you needed. And people knew what it was worth. Anglican churches were built in Maryland with "tobacco tithes." Member families contributed a portion of their harvests to pay for their construction. In prisoner-of-war camps during and after World War II, a tobacco derivative, cigarettes, was used as money, too.

But over the centuries, one thing proved exceptionally useful as money—gold. It was not necessarily perfect money. But it was better than anything else people had ever tried. A cryptocurrency may or may not turn out to be an even better form of money. But for now, gold is still the "gold standard" for money.

People recognized long ago that gold worked as real money. There was only so much of it. You could carry it, bury it, lend it, save it . . . and so forth. And it was easy to see that it was real. Of course, there are always people who will try to cheat. Even with gold. Typically, they shave off some of the gold—that is, they "clip" the coins . . . or they substitute other metals. These techniques were fairly primitive and easy to spot. Paper money, on the other hand, provided cheaters with more opportunities. At first, it was "100% backed" by gold. Then came "fractional reserve" banking, in which bankers claimed they had enough gold to cover the usual requests for it, but often had not enough to survive a "run" on their banks. In the Great Depression, for example, 9,000 U.S. banks failed; they were unable to honor the claims they had issued.

After 1968, American citizens could no longer redeem their dollars for gold at a fixed, statutory rate. This was the era of President Lyndon Baines Johnson, with his budget-busting "guns and butter" programs—war in Vietnam and the Great Society at home. Disconnecting the dollar from gold made it easier to increase the number of dollars and keep the spending going. However, the "gold window" remained open for another three years. This allowed foreign central banks to submit their dollars to the U.S. Treasury in exchange for gold. This "window" was slammed shut by Nixon on August 15, 1971. Since then, the U.S. dollar has been phony money. It's money that you can fiddle with—if you control it.

The "Bezzle"

It's easy to see larceny when it is carried out by an armed robber. The loss is sudden . . . and unambiguous. Even inflation does its work right out in the open. Your money loses value day by day. And there's an even-handedness to it: rich and poor are robbed proportionally.

But the larceny of almost unlimited, and almost always underpriced, credit is subtler. It is what economist John K. Galbraith described in his book on the 1929 stock market crash as a "bezzle." He observed that in any economy, there is an element of theft and fraud. But when the credit is flowing and markets are rising, the "rate of embezzlement grows, the rate of discovery falls off, and the bezzle increases rapidly."[13] Not only that; the larceny is welcomed and rewarded. And its worst blackguards are feted as national champions. In 1999, for example, Fed chief Alan Greenspan, Treasury Secretary Robert Rubin, and Deputy Treasury Secretary Larry Summers were put on the cover of *TIME* magazine and heralded as "The Committee to Save the World."[14] What they saved the world from, said *TIME*, was a meltdown from too much debt. But what they really did was add more debt. They goosed up the amount of credit (and debt), making the eventual unwinding worse. That debt began to unwind in the early 2000s . . . which was stopped by Mr. Greenspan on his own. Then, in 2007, the new Fed chief, Ben Bernanke, had to make the save. He, too, was celebrated, this time by *The Atlantic* magazine in April 2012, which dubbed him, simply, "The Hero."[15] Mr. Bernanke seemed to like the description. He stuck with it as the theme for his hagiographic fantasy, *The Courage to Act*.

After the "Black Monday" Crash in October 1987—the worst single-day percentage fall for U.S. stocks in history—Alan Greenspan's Fed slashed interest rates to backstop the market. And since then, the Fed never stopped protecting speculators . . . and boosting stock prices, until it was finally forced (by inflation) to change course in 2022.

In 1987, when Alan Greenspan began backstopping the stock market, the Dow was at 2,200. In October 2018, it was over 26,800. Stockholders were up over 1,000%. Meanwhile, the rate of growth of U.S. industry declined, and the real value of the average worker's time fell. So non-stockowners got nothing. But the gains from owning stocks have increased. How is that possible? How could an economy slow . . . and its consumers lose purchasing power . . . but its enterprises still be more valuable?

This new, post-1971 dollar was like the old one in every respect, except the most important one. The old dollar was weighted down by gold. It could never get off the ground. If you wanted more dollars, you had to earn them the old-fashioned way—by providing goods or services. That was how the Main Street economy worked. It created wealth. Money went to the people who created it. You had to give to get.

The old dollar helped make America the biggest exporter in the world, with an unbroken chain of export surpluses reaching back more than a hundred years. But the new dollar could be gotten without selling anything to anybody. It was not earned on Main Street. Instead, it was created, by the credit industry, on Wall Street. Out on Main Street, people could borrow, too. But they had to pay the money back. Lenders looked to their ability to pay . . . to their output and their collateral . . . and usually gave the money out carefully.

On Wall Street, the game was very different. A large borrower could get money at preferential rates. He had none of the risk of building factories, starting new product lines, or trying to please difficult customers in a competitive market. He was speculating . . . often just by buying risk-free U.S. Treasury bonds. And in many cases, these preferential rates were well below the rate of inflation. Meaning that the "carry"—the cost of maintaining a speculative position—was free for well-connected speculators. Any trade they thought might produce a profit or a trickle of income could be carried at no cost.

In an honest economy, there are only two sources of purchasing power—either you spend your own income (past or present) or you borrow someone else's savings. This naturally limits the amount of spending. People don't earn an infinite amount of money. Nor do they save an infinite amount. Credit (or debt) cannot exceed the amount of savings available (with an allowance for the elasticity of the fractional banking system).

And there is a further limitation. People lend their savings out carefully, at interest rates that give them a decent return on their money and protect them from the risk of loss. Pre-1971, the system was self-regulating. If consumers borrowed too much money, the pool of savings dried up. Interest rates rose. Lenders stiffened their backs. And consumers had to cool it. Internationally, the same feedback loop kept accounts in balance and limited debt. If Americans bought too many goods from overseas, foreign banks showed up at the Treasury demanding gold in exchange for their paper dollars. The Treasury dutifully honored its obligations, as it had done for at least six generations. But this reduced the supply of gold . . . upon which the dollar rested, in effect reducing the available money supply and forcing up interest rates. The resulting correction dampened consumers' appetites, shifted the trade deficit to a surplus, and allowed the money supply to recover.

But the new money system didn't need no stinkin' savings. Or caution. Or market-discovered interest rates. It was estranged from the real world of time and resources . . . and divorced from honest price discovery. The Fed could create as much new credit as it wanted and lend it out at (almost) whatever price it cared to put on it. This was a new, uncivilized money; it didn't respect the limits of the natural world.

This "financialization" yielded "wealth" that the economy could not produce; the banks—aided and abetted by the Fed—could create all the dollars they wanted by lending this new money, which no one ever earned or saved, at EZ rates. Since 1999, the Fed has added some $8 trillion of this new money to the world's monetary footings. And the economy has changed from one that produced wealth and rewarded work with real money to one that used fake money to extract wealth from the working classes.

Ex Nihilo Nilil Fit

The “funny” thing about a fake economy is that it appears so bountiful. Savings that came from nowhere, like manna from Heaven, are available for hire. Capital appears unlimited.

Scarcity—the real nature of things—imposes its own rules and disciplines. Trying to pretend that there is no scarcity—by flooding the system with fake capital—undermines the behavior of consumers, businesses, and the government. All are encouraged to spend money that doesn’t exist and borrow from a future that will never come.

There are only so many hours in a day. Only so many drinks in a bottle of wine. Only so much air in the Earth’s atmosphere . . . and only so many planets orbiting the sun. Without limits, where is your farm? Where is your neighbor’s? Where do we stop and you begin? How much of that pizza are you going to eat? And how much will you leave for others? When was yesterday? Will tomorrow ever come? Without limits, the universe collapses in on itself like a wet cardboard box.

The total deficits, accumulated as federal debt, from 1980 to the present, toted to nearly $30 trillion. Total debt—including household and corporate debt—soared to the rafters . . . and then went through the roof. About $50 trillion of this debt . . . and debt-fueled asset prices . . . would have to disappear to bring the ratio between debt and output (total debt/GDP) back into its traditional balance.

This will have far-reaching effects. Excess debt, made possible by the fake dollar and the Fed’s EZ-money policies, flattered and distorted prices throughout the economy. Corporate profits were favored even more. Typically, corporations earn money and pay wages. Their wages are what consumers use to buy corporate products and services. Wages are usually a major business cost. But this new spending came from neither savings nor wages. It came from borrowed fake money. Corporate profits rose as companies got extra income with no offsetting wage expense increase.

The boom just described—1980 to 2021—was strange, untidy, and unjust. Investors didn't really make money by providing a service—funding America's win-win industries. Instead, their profits were speculative, and came from betting right (unwittingly) on the Fed's massive financialization scheme. Or, to put it differently, the money didn't come from being investors, funding real growth in real businesses. Investors were accomplices in the Fed's flimflam, stealing money from the Main Street economy and transferring it to the moneyed Washington and Wall Street–oriented elites.

The Future in the Past

People do not naturally work, sweat, save their money, and lend it out to someone else for less than nothing. Sidney Homer and Richard Sylla studied the matter. Their book, *A History of Interest Rates*, reaching back some 5,000 years, finds not a single instance where people hired out their money and paid for the privilege.

Five thousand years is a long time. The Ammonites, Sumerians, Hittites, Israelites—imagine the proto-Bernanke's of the first millennium BCE—Ephraimites, Angles, Saxons, Britons, Franks, Vandals, Goths—you'd think that if negative interest rates were such a good idea, surely someone would have thought of them before now.

Negative rates are definitely an outlier. Interest rates signal a fundamental relationship between human material wealth and time. At 20% interest, it takes five years to recover a certain amount of capital. At 10%, it will take 10 years. At 2%, 50 years. And when the rate falls below zero? Then, the future disappears.

The future is *terra incognito* insofar as it is impossible to know what will happen there. But while it is a place you've never been before—that doesn't mean you shouldn't pack your old, familiar toothbrush and a warm sweater; it's usually not so different from home.

Aesop, the ancient Greek storyteller, wrote his *Fables*. The French have added to them with a few of their own. Here's one about the future:

Long ago, an old man decided to turn his farm over to his son and his daughter-in-law. “I have just one condition,” he told them. “You have to let me stay with you as long as I live.”

This was readily agreed. But the son’s wife and the old man didn’t get along. Finally, the wife persuaded her husband to throw him out. And he did.

But taking pity on the old man, the younger man turned to his own son. “Go and get a horse blanket for your grandfather so that at least he’ll have something warm to wrap around him.”

A few minutes later, the young boy came back with a blanket. But his father could see that it was only half a blanket. “Why did you cut the other half off?” he asked. “Oh . . .” replied the boy. “That’s for you when you get old.”

All of a sudden, a pattern comes into view. The future doesn’t seem so unknowable. Like a tall tree, the future casts its shadow backward over the present. If you think it will rain later in the day, you take an umbrella with you in the morning. If you think stocks will go up, you buy now. If you think you have only two years to live, there is no point buying a refrigerator with a 20-year guarantee. Either the evolution of money greatly increased man’s interest in tomorrow, or the evolution of his interest in tomorrow greatly increased his interest in money. Either way, he saw the benefit of preparing for what was to come.

Savings are always a gift to the future. Debt is always a burden on it. Savings are a crop of cabbages your father planted . . . but you can enjoy. Debt is a crop of cabbages you have to plant . . . to pay a loan that may have been taken out by your father or grandfather.

But suppose you were to plant black walnut trees. It could take 50 years for them to mature. It will be a gift to your children. What if a pest kills them? What if, half a century from now, people no longer want natural wood? What if you borrowed the money to plant them and the bank called in the loan before the trees were ready to harvest?

The further ahead you look, the more risks you can’t see. Logically, the further out you go, the more you are likely to run into something that will upset your plans and ruin your cabbage wealth; the longer the debt term . . . the less likely you are to be paid back. Logically, too, the more debt there is outstanding, the more likely it is that some will never be paid back.

In this context—that is to say, the real world—negative interest rates are an absurdity. And yet, even on the last day of 2018, after deep cracks had spread throughout the entire capital structure, approximately $8 trillion of government bonds worldwide still traded at yields below zero. They were made possible only by the meddling of central banks, who presumed to destroy time.

Hayek Was Right

While the idea of managing the money supply seemed coherent and sensible, the people who ended up with their hands on the levers were neither. They had theories to test . . . axes to grind . . . careers to embellish . . . and Nobel Prizes to win. Leaving control of the money supply in their hands was asking for trouble.

We had lunch with Milton Friedman in the mid-1990s. At the time, our own views were so inchoate and callow, we could not hold a proper conversation with him. Besides, nobody had ever won an argument with Friedman; we certainly weren't going to be the first.

We only began thinking about the world of money when we started writing a daily blog in the 1990s. Before that, our brain had been focused on business, family, home repairs, and not much more. We were already over 50 years old when we began taking Friedman, Hayek, et al. seriously.

This was very late in life to begin puzzling out such complicated matters as monetary policy. But coming late to the party probably had some advantages. While most of the revelers were already drunk on Keynesianism or monetarism, we were just getting out of our car, sober as a Baptist schoolteacher in a dry county. They had studied the Phillips Curve in detail. They had invested their time in the Taylor Rule . . . hedonic adjustments to the CPI . . . seasonal gerrymandering of employment numbers . . . and the Paradox of

Savings. Their heads were full of so much theoretical clutter that they couldn't make it across the room without falling down. Ours was nearly empty. All we had was the real-world experience of actually running a business for 20 years . . . the practical training of making payroll and trying to earn money . . . as well as the frontline challenge of raising a family of six children.

And what we saw was that Hayek was right; Friedman was wrong. As clever as they are, economists cannot create real money (for that would mean expanding time). They can only create fake money. And with this fake money, they have misled the entire world economy. That is, this money does not represent new wealth. In this sense, it is not win-win money. It does not arise naturally and honestly.

Instead, it is win-lose money; it is a dishonest claim on wealth that was already created and is now in someone else's hands.

This fake money only came into existence as it was lent out—first, by the central bank, and then, by member banks and other lenders. This meant the money supply itself could only increase as debt increased. Debt—as a form of money—has a particularly serious flaw. Like a sleeper cell, or a doomsday code, it suddenly comes to life in a crisis and triggers a much worse disaster. Real money—along with the real wealth it represents—builds up, like bricks in a wall, each one laid on a firm foundation of real Main Street output . . . and each one contributing to making a solid, useful, and prosperous structure. But the new, fake money stacks up like glasses of champagne at a raucous wedding; it is just a matter of time before some party animal comes along and knocks them down.

Debt is subject to the credit cycle; real wealth is not. As debt increases in quantity, the quality of it declines. The more borrowers owe, the less able they are to pay. Fake money is really nothing more than IOUs—claims on the wealth of others that may never be paid. And like any debt, it goes down in value as the issuer borrows more of them. As a credit-fueled boom develops, more and more marginal borrowers get more and more risky loans to buy more and more overpriced assets. The debt structure totters . . . then collapses. That is what happened in 2008.

When the credit cycle turns . . . and credit contracts—all the delusional claims on future output are marked to market. Stocks sink. Bonds default. The losses ricochet, like pool balls, from debtor to creditor to asset-holder to banks to businesses to employees to merchants . . . until the entire table has been cleared.

The credit cycle turned—we believe—in the summer of 2020, when the bond market topped out.

High Finance for Toddlers

In the summer of 2017, our young grandson James came to visit us in France.

One night, his mother tried to get him to go to bed at 9 p.m. But the little boy's internal clock was still on Baltimore time; it told him it was much too early to go to sleep.

Grandpa took over, drawing out the monetary system like a general spreading out a map on a field table. "Here is the enemy," he said gravely. "They have us completely surrounded. We're doomed."

James has a sunny, optimistic temperament. But now, he squirmed. And he resisted sleep . . . until we explained . . .

"Money is not wealth; it just measures and represents wealth . . ." we began. Then, we laid out the whole win-lose money bamboozle, explaining . . .

. . . that our post-1971 money system is based on fake money that represents no real time or resource, and that it measures wealth unreliably . . .

. . . that this new money enters the economy as credit . . . and the credit industry (Wall Street) has privileged access to it. The working man still has to earn his money, selling his work by the hour. But Wall Street—and elite borrowers connected to the Establishment—get it without breaking a sweat or watching the clock . . .

. . . that a disproportionate share of this new money is concentrated in and around the credit industry—pushing up asset prices, raising salaries and bonuses in the financial sector, and making the rich (those who own financial assets) much richer . . .

. . . that this flood of credit helped the middle class raise its living standards, even as earnings stagnated. But it did so only by increasing debt levels throughout the economy . . .

. . . and that it allowed the average American family to spend money Americans never earned and buy products Americans never made . . . Instead, Walmart's shelves were stocked with goods "Made in China." The middle class lost income as factories, jobs, and earnings moved overseas. Debt stayed at home.

"Okay so far?" we asked James, as his eyeballs rolled backwards and his breathing slowed.

But one thing must still puzzle him. How did the new dollar actually retard growth? Maybe it didn't make people richer . . . after all, how can you expect to make people better off by giving them fake money? But how did it make them worse off?

Why Stimulus Doesn't Work

The Fed added $4 trillion in new money, after 2008, to combat the mortgage finance crisis. The money was used, mostly, to keep the Fed Funds rate—the Fed's key lending rate—below zero, adjusted for inflation, for most of an entire decade. Nevertheless, despite more "stimulus" than ever provided to any economy, the U.S. still ended up with the weakest post-recession expansions in history. How was it possible? What's the matter with "stimulus" anyway?

Try this experiment at home. Tell your teenager he will get $5,000 a month for the rest of his life, and a lifetime supply of marijuana. See how that stimulates him.

We went down to Argentina to study the evidence firsthand. Despite runaway budgets, out-of-control spending, and lusty, gaucho money-printing—that is, despite "stimulus" up the kazoo—in early 2019, the Argentine economy was shrinking at a 6% annual rate, with inflation estimated to be as high as 100%.

Why? Let us return to our formula: $TS = rv\ (w\text{-}w - w\text{-}l)$. Total Satisfaction equals the real value of win-win deals minus the loss from win-lose deals.

Our formula recognizes that money isn't everything. So, it focuses on satisfaction, rather than GDP or raw wealth.

It also recognizes that win-lose deals are negative—they subtract from total satisfaction because they force you to do something you don't want to do. When a stickup man confronts you in an alley, for example, he takes your wallet and greatly reduces your satisfaction.

But the biggest win-lose deals are much more subtle. Most people don't even know they're being robbed. And yet, those hidden win-lose deals greatly reduce net satisfaction, which shows up in lower incomes, less growth, and poorer people.

Remember, win-lose is the opposite of win-win. In a win-win deal, wealth is created as people do things for one another. They work. They learn. They save. They take chances. They trade with one another. Not because they want to . . . but because they have to. And little by little, as they succeed at satisfying each other's wants, progress happens.

In a bakery, for example, the baker gets to work at 4 a.m. . . . kneading his dough in the wee hours so the sweet smell of freshly baked bread will draw in the customers at dawn. He would probably prefer to stay abed. But nobody's going to pay him to sleep in. So, he gets to work, and his customers have bread to eat.

But suppose something strange happened. Imagine that the Bakers' Union hired a particularly powerful lobbyist, who persuaded Congress to pass the Bakers' Income Enhancement Act. This law changed the win-win deal into a win-lose deal, requiring customers to pay the baker whether he baked any bread or not. The baker . . . a nice fellow . . . might still feel an obligation to put out a few loaves. Out of habit, he might fire up his ovens. But after a while, he would probably slack off. He's only human!

Well guess what. Capitalists . . . investors . . . businessmen . . . and speculators are no different. Imagine that, like the lucky bakers or the lucky teenager, they don't have to work so hard. Imagine that they can make a profit without risk. Imagine that someone gives them money without demanding any quid pro quo. Imagine that the feds force a win-lose deal on the whole country . . . in which a few people—the rich, the insiders, the elite—get money without having to give anything in exchange.

Would they still take long-term risks with their money to develop new products and services for consumers? If the stock market were rising at 10% per year, would they still invest their money in new plants, new equipment, and new lines of business that might earn them—if they work out—5%? Is it because they are saints that they do the hard work of capitalism . . . or because they have to produce some real product or service in order to earn a profit?

We have the answer to these questions right in front of us. For the last 30 years, capitalists could take advantage of a special win-lose deal offered by the feds. In effect, the feds took money from the public—via taxes, artificially low interest rates, debt, and future inflation—and gave it to the elite. The insiders could borrow fake money from the Fed at a rate near zero (after inflation). And then, they could buy stocks and watch them go up from Dow 2,600 in 1989 to Dow 36,000 in 2021. Or, they could do even better . . . with buybacks, mergers, bonuses, or special dividends, funded by the Fed's win-lose fake money.

With the feds' fake money available to them, capitalists didn't put their money and talents to work in win-win deals for the benefit of others. Because they didn't have to. Win-lose financial tricks were much more profitable. Corporate borrowing hit new records. So did stock buybacks and stock prices. And startups like Uber, Lyft, Wag, and WeWork hit multibillion-dollar valuations without ever earning a penny.

But net of inflation and depreciation, real capital investment—the essential ingredient in a modern economy—fell.

James was quiet. Monetary theory was taking its toll. We set out in a new direction, opening up a philosophical front:

"As you sow, so shall ye reap," we said. "And when you put a lot of fake money into a society, you end up with a fake economy."

Just look at Argentina in 2001 . . . Zimbabwe in 2006 . . . or Venezuela in 2017 . . . When people discover that their money is fake, both prices and people go feral. It was the same way in Germany during the Weimar hyperinflation. People stopped producing.

You might have had a billion Deutschmarks in your pocket, but you couldn't buy a bar of soap.

"But wait . . . we know what you're thinking . . ." we imagined James pushing back. "Those are all hyperinflation stories. We don't have that now. Instead, we have much less inflation . . . so far."

Yes . . . prices seemed stable in 2017. Inflation then was largely confined to the asset sector . . . not in consumer items. But it was just a matter of time until it leaked over to consumer prices.

Without honest money, real savings, and true interest rates, businesses and investors have nothing to guide them. They are lost in the woods. Few want to do the hard work and take the risks of long-term, capital-heavy ventures. With GDP growth sluggish . . . and consumer incomes stagnant . . . there seems to be little incentive to expand output. Instead, the focus shifts to playing the game for short-term profits.

What's more, artificially low interest rates provide fatal misinformation. They tell the world we have an infinite supply of resources—time, money, energy, and know-how.

Then, without its back to the wall of scarcity, and with no need to make careful choices, capitalism becomes reckless and irresponsible with its most valuable resource—capital itself. It is destroyed, wasted, misallocated, and mal-invested. Growth rates fall because the fuel—real capital—dries up. The world becomes poorer.

And in Japan, there was talk of the ultimate absurdity . . . Look carefully, because we believe this straw may have "final" etched on it in tiny letters.

Japan was said to be considering a perpetual bond issued at negative interest rates.

"How does that work?" we can hear James asking.

"Well, it's very simple. You give your money to the government. And then, you pay the government every year, forever, for taking it from you." James startled awake. Disturbed.

"What kind of a world have I tumbled into . . .?" he seemed to ask.