A Short Description of Money and Wealth

Like many things in life, sometimes simple concepts get lost in the complexity of modern life.

Other times, as society evolves, basic social systems change and words which once meant one thing come to mean something completely different.

"Money" and "wealth" are both words represent different things to different people … and over history have been represented by different things.

Clam shells, wampum, buckskins, gold, silver, paper certificates, strings of computer code … are all among the many things which have been or are considered "money".

Cattle, farmland, slaves, stock certificates, bonds, buildings … have all been or are still considered "wealth".

So rather than define "money" and "wealth" as things, it's helpful to describe them by FUNCTION. What do they DO in a society?

Simply stated, "money" is a way for one person to store the value of their labor until such time as they are ready to trade it to someone else for the product of the other's labor.

Traditionally, money served as both a "store of value" AND as a "medium of exchange".

"Wealth" is an accumulation of money, property which is either productive or desirable to others (in exchange for their money), or the ongoing productive efforts of people who work and produce something.

Seems simple, right?

Of course, over time simple things become more complicated.

The Role of Money and Wealth in Society

Money and wealth serve to connect and distribute the efforts of individuals in a society through commerce … people producing and trading with each other.

When one person has excess production over their own needs, they create savings (wealth).

Pools of savings can be directed to fund investment in more and better production, creating more abundance, and therefore more savings.

Institutions like banks were established to aggregate and distribute savings.

In a simple society, the majority of people produce more than they need, and the abundance is used to create more abundance … and or provide for those who are unable to produce.

It all sounds so sensible. But …

A Brief History of Money

We'll spare you all the gory details, because the point is really understanding the foundations of what money and wealth are, the role the play in society, and some relatively modern history so you can see where things are today.

There's a whole lot of things that happened in between.

So with few exceptions, for many thousands of years of human history gold has been both money *and* a medium of exchange.

Gold is Money

In fact, as recently as December 18, 1912 no less than J.P Morgan himself testified before Congress and said, "Money is gold, and nothing else."

And it's been less than 90 years, since American citizens walked around with $20 gold coins (today worth over $1300) in their pockets … using them as a medium of exchange to purchase goods and services.

The Creature from Jekyll Island is Born

But in 1913, the United States Federal Reserve was founded, along with the income tax and IRS, was born. This began a long, slow loss of purchasing power through a phenomenon known as inflation.

They had paper currency back then too, but you could take it the bank and trade it in for real money … either gold or silver.

Private Gold Ownership is Outlawed

But in 1933, President Franklin D. Roosevelt signed an executive order[i] outlawing private possession of gold and requiring all Americans to sell their gold to the Federal Reserve for $20.67 an ounce.

Stop right there and think about that …

The Federal Reserve gets to print paper for a fraction of a cent, and trade it to American for their gold under penalty of law in a forced transaction.

Apparently, people really trusted their government.

Americans Savers Lose

Then, less than one year later, the United States government "reset" the price of gold to $35 an ounce[ii] … essentially devaluing the dollars by nearly 70 percent in a single day.

Now it took more dollars to buy the same goods. That's "inflation" … which was the goal of the act … to make prices go UP.

This effectively stole a portion of the value of the people's savings. Now it took $35 to buy the same products which could have previously been purchased for $20.67.

So if someone earned $20.67 per day (a very good sum back then), they'd need to work an extra 5.6 hours to earn the same purchasing power. Ouch.

The Dollar Assumes the Throne

Then came World War II, and the net result was the U.S. emerged as the country with the most gold (savings) and production capacity (earnings), and the most powerful military on earth.

But in 1944, the world gathered at place called Bretton Woods, and decided to replace the British pound with the U.S. dollar as the world's reserve currency.

The U.S. agreed to make dollars redeemable for gold.

So even though American citizens couldn't turn their currency (dollars) in for money (gold) … foreign countries could.

Exorbitant Privilege

One of the primary roles of a reserve currency is to act as the medium of payment to settle international trade balances.

So if Country A buys more than it sells to Country B, Country A needs send Country B dollars to settle the deficit.

This means Country B needs to either sell to the United States and get paid in dollars, or they need to use their own currency to buy dollars (the way you do when you travel internationally), to pay off Country B.

You can see this creates a constant demand for dollars.

But because the United States issues the dollars, they can settle international trade simply by printing more dollars.

This effectively gave Uncle Sam a HUGE credit line.

Going Bankrupt Slowly …

Unsurprisingly, with a new credit card, Uncle Sam became a bit of spendthrift.

Without judging the relative merits of any particular expenditure, some of the biggies were the interstate highway system, the Korean War, the Vietnam War, the space program, and the Great Society welfare programs.

A clue something was amiss came when the U.S. government took the money (silver) out of the coins in 1965, ending a 173 tradition of silver coinage in the United States[iii].

From 1965 forward, coins are merely currency whose intrinsic metallic value is only a fraction of their face (legal tender) value.

"Legal tender" is a term used to describe a currency whose acceptance is mandated by law. A creditor MUST accept legal tender in settlement of debts … even if the currency has no other value.

Then Suddenly …

In one of the most noteworthy days in modern financial history, August 15 1971, President Richard Nixon shocked the world on a Sunday night when we announced the United States would "temporarily" close the "gold window"[iv].

This basically meant the United States was defaulting on the Bretton Woods agreement … and the U.S. dollar was no longer as "good as gold".

This was a watershed moment in the history and future of money and wealth …

A New World Disorder

Unsurprisingly, once the world realized the dollar was not good for gold at the United States "gold window", international dollar holders began divesting.

Long story short, the dollar fell creating price inflation in the United States. The economy stagnated in spite of inflation, and the term "stagflation" was born.

The Dow Jones index fell 50% over 10 years and took another 10 years to just get back to even.

And by 1980, gold had soared from $42 an ounce to $850, and interest rates were up to over TWENTY percent!

Of course, people who understood what was happening became RICH … and those who didn't lost a lot of time and money.

Oil's Well with the Dollar

In an overly simplified account of the roll of oil in global finance, the United States needed to find something other than gold to make the dollar desirable again.

In 1973, the United States made a deal with Saudi Arabia, who was the world's largest producer of oil … and the de facto leader of OPEC, the middle-east oil cartel.

The deal was simple: Sell all Middle East oil for U.S. dollars ONLY … no matter who buys it … and the U.S. military will back the Saudi kingdom.

This arrangement came to be known as the "petro-dollar" system, and it accomplished two important things for the United States …

First, it created global demand for U.S. dollars again. Oil is a must-have consumable commodity for every developed nation in the world.

Second, it effectively re-opened the United States' credit line because once again, the U.S. could simply print dollars to buy oil.

Bank on the Dollar

The petro-dollar system dollar includes another facet … petro-dollar "recycling". The net effect is more global demand for dollars.

In short, when Saudi Arabia generates profits from selling oil, they don't open a savings account with a bank. Instead, they buy U.S. Treasuries, which is effectively loaning money to the United States government. That is, they "recycle" dollars back to the United States.

Oil … and the U.S. military … became two of the most important replacements for gold in backing up the dollar and the United States' ability to print them at will and run perpetual trade deficits.

But the role of U.S. Treasuries as the savings account for the world is MUCH bigger than just oil …

Cheap Labor to the Rescue …

Just a month before shocking the world by defaulting on the gold standard, Richard Nixon shocked the world by opening up trade relations with communist China.

Whatever the alleged political reasons, it opened up the Chinese markets … and in the beginning, the only thing China had to export was cheap labor.

But labor's a big component of a finished product's price, so with inflation so bad that Nixon declared an emergency and made it illegal for privet businesses to increase prices or give their employee's pay raises.

Yes, that actually happened in the land of the free.

It took time, but eventually inexpensive labor … and later technology … lowered cost inputs into products, so inflation (rising prices) was muted by in expensive labor and productivity gains.

Of course, this cause much of American manufacturing to move offshore, which created income issues for American workers.

Give Us Some Credit

As Americans faced lower real wages (prices going up faster than income), more credit was introduced into the system to stimulate continued spending.

Heading into the 70s, the U.S. was the world's largest creditor nation. Other nations owed the United States.

By March of 2018, the U.S. national debt exceeded $21 trillion, much of it owed to foreign nations, with China at the top of the list.

Americans' household debt rose from next to nothing in the 50s to a record $13 trillion by the end of 2017[v].

Corporate debt at the end of 2017 is in well over $6 trillion[vi] … reportedly in excess of $8 trillion in early 2018[vii].

Credit essentially pulls future dollars into the present to be used now. Future productivity is pledged in the form of payments.

As long as debt levels can increase, AND current productivity can support payments, a borrower can keep deferring paying back the debt.

Of course, you can get into trouble if the lender stops extending credit ….

… or if interest rates rise thereby increasing your monthly payment faster than you pay increases or you can cut other expenses …

… or if your income decreases, and along with it your ability to make the payments.

That's true for individuals, corporations, and governments.

The Financial Age

Students of economic history learn about the agrarian age, the industrial age, and the information age.

In agrarian age, production and prosperity revolved around land … primarily farming and ranching. Over time, technology revolutionized farming, and abundant food and prosperity was the result.

The industrial revolution came along, and once again, technology and better organizational processes (Henry Ford's assembly line) resulted in hyper-gains in productivity, creating more abundance and prosperity.

Then, say the history books, came the information age … where technology created hyper-gains in data-processing, information management, and work processes.

But missing in this recounting of events is the financial age. This is where producing paper profits rather than real goods and services became a significant part of human enterprise.

Think of it this way …

When a farmer invests time, money, and resources into growing crops, he produces food for his family and many others. His product provides a DIRECT benefit to the world.

When a paper trader executes a profitable trade, his product is currency. And the currency is only good for purchasing a real product, like the farmer's produce.

So the currency isn't wealth. It's only valuable to the extent the farmer (producer) will accept it. It's the farmer who has the real wealth, because he has the farm and it's produce.

Taken to an extreme, if everyone in the economy only traded paper, there'd be a lot of currency, but no food.

Therefore, any society where economic activity tilts in favor of paper over real goods, real goods become scarcer and real prosperity actually declines … even if there's abundant currency.

This is called financialization of an economy.

At first, financialization enriches paper pushers at the expense of producers. But left unchecked, it eventually impoverishes most of society … burying them under debt and high prices.

It's true society needs a mechanism to allocate excess production (savings) into investment in more and better production methods. This is how wealth is created.

The danger is when society forgets what real wealth is and focuses resources on producing more paper, instead of more products.

And today, technology is potentially making the role of traditional financial institutions as market makers obsolete.

Summary

The future of money and wealth is changing for many reasons.

But because everyone in the global economy is affected by these changes, **it's important for every serious investor to pay attention.**

History has shown technology and changes to monetary systems and polices have a direct impact on the value of currency, interest rates, asset prices, wage, employment, taxes, and the flow of people, businesses and capital and out of geographic regions, industries, and even nations.

Alert investors can be proactive in positioning themselves to front-run or avoid a stampede in or out of investments … thereby avoiding losses or enjoying gains.

Traders need to react quickly.

They're always on high alert, ready to sprint in or out of investments on a moment's notice. They're typically not concerned with long term trends. Their focus is very short.

Conversely, **long term investors focus primarily on trends**, and ignore the ups and downs along the way.

But every once in a while, a long-term trend hits an inflection point, and there's a radical shift … a reset.

It happened in 1913 with the forming of the Federal Reserve, which began a century long decline in the purchasing power of the dollar.

It happened again in 1933, when FDR outlawed gold and subsequently reset the dollar dramatically lower with one executive order.

Nixon's default on the gold-backed dollar in 1971 set off a chain reaction including radically resetting interest rates, shifting the basis of demand for the dollar, and changing the entire course of global finance and geo-politics to this very day.

Today, robotics, blockchain, the rise of China, and the expiration of falling interest rates … all signal the very real possibility of another reset.

Will it happen? When? And if it does, what will it look like? Most importantly, how can you position yourself and your portfolio to prosper … come what may?

These are among the burning questions our experts take on as we explore the Future of Money and Wealth.

To your informed, prepared, and prosperous future!

Russell Gray
Co-Host
The Real Estate Guys™ Radio Show

P.S. For information about viewing all twenty video recordings of *The Future of Money and Wealth Conference* featuring Robert Kiyosaki, Peter Schiff, Simon Black, G. Edward Griffin, Chris Martenson, and MANY others, click here now.

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i http://www.presidency.ucsb.edu/ws/index.php?pid=14611

ii https://en.wikipedia.org/wiki/Gold_Reserve_Act

iii http://www.silvermonthly.com/why-did-silver-coinage-end-in-the-united-states/

iv https://en.wikipedia.org/wiki/Nixon_shock

v https://www.newyorkfed.org/microeconomics/hhdc.html

vi https://fred.stlouisfed.org/series/TDSAMRIAONCUS

vii https://www.marketwatch.com/story/heres-why-default-rates-are-subdued-even-as-corporate-debt-levels-hit-records-2018-03-16